COVER SHEET

34218

AYALA CORPORATION AND SUBSIDIARIES

(Company's Full Name)

32F TO 35F, TOWER ONE AND EXCHANGE PLAZA, AYALA TRIANGLE, AYALA AVENUE, MAKATI CITY

(Business Address: No. Street City / Town / Province)

Josephine G. De Asis

Contact Person

(632) 7908-3000

Company Telephone Number

12	31
Month	*Day*

Fiscal Year

17-A

04	24
Month	*Day*

Annual Meeting

Secondary License Type, if Applicable

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

6431	₱39.9 billion bonds	
Total No. Of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

Certification

I, Josephine G. de Asis, Comptroller, a duly authorized representative of Ayala Corporation (Company) with SEC registration number 34218 with principal office at 32F to 35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, do hereby certify and state that:

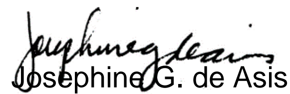
1) In compliance with the guidelines issued by the Securities and Exchange Commission (SEC) for the filing of structured and current reports by publicly listed companies with the SEC in light of the imposition of an Enhanced Community Quarantine and Stringent Social Distancing Measures over the entire region of Luzon to prevent the spread of the 2019 Coronavirus Disease (COVID-2019), the Company is timely filing its SEC Form 17-A by uploading the same through the PSE EDGE in accordance with the relevant PSE rules and procedures.

2) The information contained in SEC Form 17 A dated April 8, 2020 is **true and correct** to the best of my knowledge.

3) On behalf of the Company, I hereby **undertake** to a) submit hard or physical copies of SEC Form 17 A dated April 8, 2020 with proper notarization and certification, b) pay the filing fees (where applicable) c) pay the penalties due (where applicable) d) other impositions (where applicable), within ten (10) calendar days from the date of the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours.

4) I am fully aware that non-submission of hard/physical copies of reports as well as certification that they refer to one and the same document submitted online, within ten (10) calendar days from the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours, shall invalidate the reports, applications, compliance, requests and other documents submitted via email. Hence, the corresponding penalties under existing rules and regulations of the Commission shall apply without prejudice to the imposition of penalties under Section 54 of the Securities Regulation Code and other applicable existing rules and regulations for failure to comply with the orders of the Commission.

5) I am executing this certification this April 8, 2020 to attest to the truthfulness of the foregoing facts and for whatever legal purpose it may serve.



Josephine G. de Asis
Comptroller
Passport No. P0174919B

SEC No. 34218
File No. _____

AYALA CORPORATION

(Company's Full Name)

32F to 35F, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

(Company's Address)

(632) 7908-3000

(Telephone Number)

December 31, 2019

(Fiscal Year Ending)
(Month & Day)

SEC Form 17- A

(Form Type)

SECURITIES AND EXCHANGE COMMISSION (SEC)

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: **December 31, 2019**

2. SEC Identification No.: **34218**

3. BIR Tax Identification No. **000-153-610-000**

4. Exact name of the registrant as specified in its charter: **AYALA CORPORATION**

5. Province, country or other jurisdiction of incorporation or organization: **Makati City, Philippines**

6. Industry Classification Code: _______ (SEC Use Only)

7. Address of principal office: **32F to 35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City** Postal Code: **1226**

8. Registrant's telephone number: **(632) 7908-3000 / 7908-3357**

9. Former name, former address, former fiscal year: **Not applicable**

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA:

Title of each class	Number of shares issued & outstanding As of December 31, 2019
Preferred A	0*
Preferred B Series 1	20,000,000**
Preferred B Series 2	30,000,000
Voting Preferred	200,000,000
Common	626,683,595***

** net of 12,000,000 treasury shares*
*** net of 8,000,000 treasury shares*
**** net of 4,478,644 treasury shares*

Amount of debt outstanding as of December 31, 2019: **₱39,903.4 million in bonds** ****

*****amount represents only debt of Ayala Corporation registered with Philippine SEC. The debt of subsidiaries registered with SEC are reported in their respective SEC17A report.*

11. Are any or all of these securities listed in the Philippine Stock Exchange? Yes [**x**] No [ ]

    As of December 31, 2019, a total of 627,098,147 common shares, 12,000,000 preferred A ("ACPA") shares, 28,000,000 preferred B series 1 ("ACPB1") shares, and 30,000,000 preferred B series 2 ("ACPB2") shares are listed in the Philippine Stock Exchange ("PSE"). A total of 4,478,644 common shares, 12,000,000 ACPA shares and 8,000,000 ACPB1 shares are held in Treasury by the Company.

12. Check whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):
    Yes [**x**] No [ ]

    (b) has been subject to such filing requirements for the past 90 days: Yes [**x**] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: About ₱152.5 billion (based on closing price of Ayala Corporation's common shares as of March 31, 2020 and outstanding shares owned by the public as of December 31, 2019).

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEEDING FIVE YEARS

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. **Not applicable**

Yes [ ] No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

15. Briefly describe documents incorporated by reference and identify the part of the SEC Form 17-A into which the document is incorporated:

    2019 Opinion on and Individual Supplementary Schedules

    2019 Consolidated Financial Statements of Ayala Corporation and Subsidiaries

    2019 Consolidated Financial Statements of Bank of the Philippine Islands and Subsidiaries

    2019 Consolidated Financial Statements of Globe Telecom, Inc. and Subsidiaries

    2019 Financial Statements of Ayala Corporation (with BIR ITR Filing Reference)

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Ayala Corporation (the Company, the Parent Company or Ayala) is the holding company of one of the oldest and largest business groups in the Philippines that traces its history back to the establishment of the Casa Roxas business house in 1834. The Company was incorporated in January 23, 1968, and its Class A Shares and Class B Shares were first listed on the Manila and Makati Stock Exchanges (the predecessors of the PSE) in 1976. In 1997 the Company's Class A and Class B Shares were declassified and unified as Common Shares.

The Company is a limited liability corporation having a renewable term of 50 years. On April 15, 2016 during its annual meeting of stockholders, the stockholders ratified the amendment of the Fourth Article of the Articles of Incorporation to extend the corporate term for 50 years from January 23, 2018. The extension of corporate life was approved by SEC on April 5, 2017.

As of December 31, 2019, the Company is 47.33% owned by Mermac, Inc. and the rest by the public. Mermac, Inc., a private holding company incorporated in the Philippines is the dominant shareholder of Ayala. On the other hand, Mitsubishi Corporation (which held 6.03% of Ayala common shares as at December 31, 2019) is Ayala's long-time strategic shareholder. Its registered office address and principal place of business is 32F to 35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

The Company is organized as a holding company holding equity interests in the Ayala Group (the "Group"), one of the largest and most diversified groups in the Philippines. Ayala's business activities are divided into: (a) real estate, (b) financial services, (c) telecommunications, (d) power, (e) water, (f) industrial technologies, (g) infrastructure, (h) healthcare, and (i) education.

Ayala's real estate business is primarily conducted through its subsidiary, Ayala Land, Inc. ("Ayala Land" or "ALI"), a diversified real estate company in the Philippines. Its involvement in financial services is through an affiliate, the Bank of the Philippine Islands ("BPI"), which, together with its subsidiaries (together, the "BPI Group"), form a universal banking group in the Philippines. Ayala's telecommunications business is carried out through an affiliate, Globe Telecom, Inc. ("Globe"), a leading telecommunications company in the Philippines. Ayala's investments in the power sector are held under AC Energy, Inc. ("AC Energy" or "ACEI"), while its interest in water infrastructure is under Manila Water Company, Inc. ("Manila Water" or "MWC"). Its international business in electronics manufacturing services and vehicle distribution and retail are under AC Industrial Technology Holdings Inc. ("AC Industrials or ACI")., while its investments in transport and logistics infrastructure are housed under AC Infrastructure Holdings Corp. ("AC Infra"). Its business in healthcare is conducted through Ayala Healthcare Holdings ("AC Health"). In May 2, 2019, Ayala finalized the merger of its wholly-owned subsidiary AC Education Inc. ("AC Education" or "AEI") to iPeople Inc. ("iPeople"), with iPeople as the surviving entity. The merger resulted in Ayala owning a 33.5% stake and House of Investments ("HI") a 51.3% stake in iPeople.

Certain members of the Ayala Group, namely ALI, BPI, Globe, MWC, Integrated Micro-Electronics, Inc. ("IMI"), AyalaLand Logistics Holdings ("ALLHC" or formerly known as Prime Orion Philippines Inc.("POPI")), Cebu Holdings, Inc. ("CHI"), AC Energy Philippines ("ACEPH") and ACE Enexor, Inc. ("ACEX") are likewise publicly listed corporations. Some of Ayala's subsidiaries and affiliates have holdings in the equity of other subsidiaries and affiliates.

The lists of subsidiaries and associates and joint ventures are contained in the attached Company's Consolidated Financial Statements for December 31, 2019.

For management purposes, the Group is organized into the following business units:

- Parent Company - represents operations of the Parent Company including its financing entities such as ACIFL, AYCFL, PFIL and MHI.

- Real estate and hotels - planning and development of large-scale fully integrated mixed-used communities that become thriving economic centers in their respective regions. These include development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development

and sale of high-end, upper middle-income and affordable and economic housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

- Financial services and insurance - commercial banking operations with expanded banking license. These include diverse services such as deposit taking and cash management (savings and time deposits in local and foreign currencies, payment services, card products, fund transfers, international trade settlement and remittances from overseas workers); lending (corporate, consumer, mortgage, leasing and agri-business loans); asset management (portfolio management, unit funds, trust administration and estate planning); securities brokerage (on-line stock trading); foreign exchange and capital markets investments (securities dealing); corporate services (corporate finance, consulting services); investment banking (trust and investment services); a fully integrated bancassurance operations (life, non-life, pre-need and reinsurance services); and other services (internet banking, foreign exchange and safety deposit facilities).

- Telecommunications (Telecoms) – provider of digital wireless communications services using a fully digital network; domestic and international long distance communication services or carrier services; broadband internet and wireline voice and data communication services; also licensed to establish, install, operate and maintain a nationwide local exchange carrier (LEC) service, particularly integrated local telephone service with public payphone facilities and public calling stations, and to render and provide international and domestic carrier and leased line services. In recent years, operations include developing, designing, administering, managing and operating software applications and systems, including systems designed for the operations of bill payment and money remittance, payment facilities through various telecommunications systems operated by telecommunications carriers in the Philippines and throughout the world and to supply software and hardware facilities for such purposes.

- Water infrastructure – contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery, sewerage and sanitation, distribution services, pipeworks, used water management and management services. In 2016, a new business initiative was undertaken where the group will exclusively provide water and used water services and facilities to all property development projects of major real estate companies.

  In 2019, investment in MWC was reclassified to "Assets and liabilities and operations of segment under PFRS 5" (see Note 25 of the 2019 Company's Consolidated Financial Statements attached as index to this SEC17A Report).

- Electronics manufacturing – global provider of electronics manufacturing services (EMS) and power semiconductor assembly and test services with manufacturing facilities in Asia, Europe, and North America. It serves diversified markets that include those in the automotive, industrial, medical, telecommunications infrastructure, storage device, and consumer electronics industries. Committed to cost-development to manufacturing and order fulfillment), the company's comprehensive capabilities and global manufacturing presence allow it to take on specific outsourcing needs.

- Power generation – unit that will build a portfolio of power generation assets using renewable and conventional technologies which in turn will operate business of generating, transmission of electricity, distribution of electricity and supply of electricity, including the provision of related services.

- Automotive, Outsourcing and Others – includes operations of Automotive unit's business on manufacturing, distribution and sale and providing repairs and services for passenger cars and commercial vehicles. In 2016, this unit launched initiatives to include industrial manufacturing activity for long-term synergy and integration with automotive business. This segment also includes outsourcing services unit (venture capital for technology businesses and emerging markets; onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, full-service creative and marketing, human capital management solutions, and full-service accounting); International unit (investments in overseas property companies and projects); Aviation (air-chartered services); consultancy, agri-business and other operating companies. This business segment group also includes the companies for Infrastructure (development arm for various types of infrastructure); education, human capital resource management and health services.

Please refer to Note 30 on Operating Segment Information of the Company's Consolidated Financial Statements attached as index to this SEC17A Report (Report) regarding operating segments which

presents assets and liabilities as of December 31, 2019 and 2018 and revenue and profit information for the years ended December 31, 2019, 2018 and 2017.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

For the years ended December 31, 2019, 2018 and 2017, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment results include transfers between operating segments. Those transfers are eliminated in consolidation.

For the detailed discussion on the specific subsidiaries falling under each business unit as well as the major transactions of the Group, please refer to Note 2 on Group Information of the Consolidated Financial Statements for December 31, 2019 which forms part of the Index of this Report. Other major transactions and developments were also disclosed in the Company's previously filed SEC17Q and SEC17-C reports, listing of which also forms part of the Index of this Report.

The consolidated financial statements of the Group as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 were endorsed for approval by the Audit Committee on March 6, 2020 and authorized for issue by the Board of Directors (BOD) on March 12, 2020.

Strategy

Amid the Philippines' economic growth, Ayala's unique portfolio of businesses provides various engines for growth and diversification. The positive domestic environment has served as a catalyst for Ayala to unlock opportunities, develop new ideas, incubate new businesses, and explore prospects for disruptive innovation. Ayala took advantage of this encouraging environment to create a portfolio that creates certain hedges against specific macroeconomic trends that solidified the industry leadership of Ayala Land, Bank of the Philippine Islands, Globe Telecom, and in parallel, built a significant presence in power through AC Energy. These four businesses are Ayala's core value drivers. In addition, Ayala likewise entered new spaces in industrial technologies, infrastructure, healthcare, and education.

Ayala maintains a healthy balance sheet with access to various financing options to meet debt and dividend obligations as well as fund new investments. A robust risk management system allows the Company to maximize opportunities for reinvention, and navigate the challenges faced by its business units.

Future Plans and Prospects

Ayala addresses structural and societal gaps in the Philippines by building impactful businesses and transforming its industry-leading subsidiaries. Our long-term value creation is driven by strategic business development, a robust capital allocation process, active portfolio and balance sheet management, with sustainability at our core. Ayala believes that the Philippines continues to be fundamentally strong, having remained resilient amid the challenges in the global economy. Going forward, the Ayala group will continue to execute on its five-year growth strategy for 2020 as it closely monitors key trends and potential risks in the global and domestic economies as well as in the industries where it operates.

The Company will continue to strengthen its portfolio of emerging businesses, led by AC Energy, which has started to become a significant component of Ayala's earnings and value creation. In addition, the Company will continue to build scale and explore growth areas in industrial technologies, healthcare, and infrastructure.

Based on SEC's parameters, the significant subsidiaries of Ayala Corporation as of December 31, 2019 are Ayala Land, Inc. (ALI - organized in 1988), Manila Water Co, Inc. (MWC – established in 1997), Integrated Micro-Electronics, Inc. (IMI - organized in 1980) and AC Energy, Inc. (ACEI – established in 2005). Except as stated in the succeeding paragraphs and in the discussion for each of the Company's significant subsidiaries, there has been no other business development such as

bankruptcy, receivership or similar proceeding not in the ordinary course of business that affected the registrant for the past three years.

As to the material reclassification, merger, consolidation or purchase or sale of a significant amount of assets
For detailed discussion as to material reclassification, merger, consolidation and purchase transactions with subsidiaries and investees, please refer to Note 2 Group Information, Note 10 Investments in Associates and Joint Ventures and Note 24 on Business Combinations and Transactions with Non-controlling Interests of the Company's Consolidated Financial Statements for December 31, 2019 which forms part of the Index of this Report.

Distribution methods of the company's products and services
This is not applicable to the Company being a holding company. The Company's operating companies, however, have their respective distribution methods of products and services. Please refer to Significant Subsidiaries, Associates and Joint Ventures portion for the discussion on distribution methods.

Competition
The Company is subject to significant competition in each of the industry segments where its subsidiaries and investees operate. Please refer to Significant Subsidiaries, Associates and Joint Ventures portion for the discussion on competition.

Transactions with related parties
The Company, in the regular conduct of business, has entered into transactions consisting of advances, loans and reimbursements of expenses, purchase, lease and sale of real estate properties, and administrative service agreements, with associates and other related parties. Sales and purchases of goods and services to and from related parties are made at arms-length basis fair, and inure to the interest of both parties. Material related party transactions are reviewed by the Risk Management and Related Party Transactions Committee of the Board and properly disclosed in the accompanying audited financial statements. Material transactions involving the Company or its associates and in which any of its directors and executive officers has a direct or indirect material interest are likewise reviewed by the Risk Management and Related Party Transactions Committee of the Board to ensure arms-length and fair terms.

To date, there have been no complaints received by the Company regarding related-party transactions. None of the Company's directors has entered into self-dealing and related party transactions in 2019.

The Company, all publicly-listed companies and certain entities within the Group have approval requirements and limits on the amount and extent of related party transactions in compliance with the requirements under the Revised SRC Rule 68 (refer to Item 12. Certain Relationships and Related Transactions).

Related party transactions are further discussed in the Note 32 of the Consolidated Financial Statements for December 31, 2019 which forms part of the Index of this Report.

Developmental and Other Activities
Being a holding company, the Company has no material patent, trademark, or intellectual property right to a product or any of its direct services. The Company's operating companies, however, may have these material intellectual property rights, but the dates and terms of their expiration or renewal is not perceived to have a material adverse effect on the Company. The Company complies with all existing government regulations and environmental laws, the costs of which are not material. As a holding company, it has no material development activities.

Employees
Ayala is committed to promoting the safety and welfare of the employees. It believes in inspiring the employees, developing their talents, and recognizing their needs as business partners. Strong and open lines of communication are maintained to relay Ayala's concern for their and safety, and deepen their understanding of Ayala's value-creating proposition.

The Company has a total workforce of 156 employees as of December 31, 2019, classified as follows:

Staff	60
Managers and Executives	87
Consultants	9
	156

The Company expects to increase its number of employees in the next 12 months. The Company has an existing Collective Bargaining Agreement (CBA) with the Ayala Corporation Employees Union for a period of 3 years, from January 2017 until December 2019. The CBA generally provides for improvement in compensation and benefits. Union and Management relations continue to be harmonious. The Company's management had not encountered difficulties with its labor force, nor have strikes been staged in the past.

In addition to the basic salary and 13th month pay, other supplemental benefits provided by the Company to its employees include: mid-year bonus, performance bonus, retirement benefit, life and health insurance, medical and dental benefits, and various loan facilities.

Risks Factors

Risk Management has become an increasingly important business driver and part of successful corporate governance. By treating risk as intrinsic to the conduct of business, risk management is elevated from an exercise in risk avoidance to an essential consideration in every decision, initiative and activity. At Ayala, we ensure that our risk management system has the right architecture, strategy, and protocols to support the risk management process. We revisit these three key factors yearly to ensure that we have the right approach in mitigating risks and maximizing opportunities.

The oversight for the operationalization of Ayala's risk management program rests with the Risk Management and Related Party Transactions Committee, a Board-level committee that provides transparency and visibility into the corporate's risk management practices. The Chief Risk Officer (CRO), being a risk management advocate, reports to the Committee any improvement in the design, implementation and maintenance of the enterprise risk management roadmap. The Group Risk Management and Sustainability Unit supports the CRO in the execution of its responsibilities and continues to align Ayala's risk governance with Deloitte's concept of risk intelligent enterprise, espousing a best practice that goes beyond risk avoidance and mitigation to utilize risk-calculated decision-making as a means to create value.

Every year, the corporate conducts an enterprise-wide risk assessment workshop to identify emerging risks, evaluate its impact to the corporate and the business units, and prioritize risks according to both impact and likelihood. For 2019, The Company assessed that key risk exposures include brand and reputation, political and regulatory, and business resiliency. At the group level, key risk exposures are political and regulatory, portfolio management, and operational. The Company and the Group have laid down the objectives to address these exposures.

Risk Policy

For the Company

Risk Exposure	Risk Definition	Objective/ Strategy
Brand and reputation	The inability to maintain our stature as a company of choice may result in significant difficulty in creating and/or maximizing value for all stakeholders	To maintain and improve one of its core values, the strong Ayala brand
Political and regulatory	The inability to anticipate changes in the political and regulatory landscapes may result in the Group being unable to shield our profitability and brand value.	To ensure that the Corporation can adapt to the changes in the political and regulatory landscapes to continue its long-term value creation process for all its stakeholders.
Business resiliency	Being unable to restore normal operations following natural/man-made disasters and/or failure of business contingency processes and systems may cause significant revenue loss and customer trust.	To put measures in place that will allow the continuity of business operations and swift recovery following a natural or man-made disaster

For the Group

Risk Exposure	Risk Definition	Objective
Political and regulatory	The inability to anticipate changes in the political and regulatory landscapes may result in the Group being unable to shield our profitability and our brand value.	To improve the Group's ability to anticipate and adapt to political and regulatory changes, which may impact each business unit's financial models and other value-creation activities
Portfolio management	The inability to align portfolio management strategy with business objectives may result in the failure to provide the right balance of risk and return.	To ensure that the portfolio composition will provide the right balance of risk and return to the organization.
Operational	Failure and/or inefficient operational processes, people and systems may result in inability to meet business objectives.	To ensure that all business units have efficient and effective processes, right talent and appropriate systems to support the achievement of business objectives.

Please refer to significant subsidiaries, associates and joint ventures portion for their detailed discussion on Risk Management.

Financial Risks Management

For detailed discussion, please refer to Note 33 on Financial Instruments – Financial Risk Management of the Company's Consolidated Financial Statements for December 31, 2019 which form part of the Index of this Report.

Other Risks of the Company and the Group

Countries around the world are bracing themselves for unprecedented health, social and economic impact of Covid-19. While the full impact economic and market outlook remain uncertain, we believe there will be opportunity to help society stay resilient and eventually transition to a new normal.
First and foremost, Ayala Corporation is focused on maintaining a healthy balance sheet to weather looming economic headwinds. We face this growing threat with a strong liquidity position and ability to take advantage of market opportunities. Further, we are prepared with scenario-based business continuity plans to ensure the health and safety of our employees, to continue to serve our customers, and to maintain the trust of our investors. Finally, we are pro-active in helping address the health, social and economic needs of the country in line with our shared values of nation-building

The Group is active in many regulated sectors and failure to adequately anticipate and/or address regulatory changes may adversely impact the Group.
The Group, one of the largest conglomerates in the Philippines, engages in the following sectors: real estate, financial services, telecommunications, water, industrial technologies, power, infrastructure, healthcare, education, and others. Some of its business activities are in regulated industries that regularly undergo a significant amount of regulatory and/or political changes. While Ayala and certain member companies of the Ayala Group have dedicated resources and personnel to monitor, study and influence policymaking in their respective industries in the Philippines, Ayala cannot fully ensure the accuracy of such studies or the effectiveness of such attempts in a constantly shifting environment. Any failure to accurately predict or successfully influence or address policy outcomes may have a material adverse effect on the Group's business, financial condition and results of operations.

Ayala is actively monitoring the regulatory landscape for current regulations and any changes that may have an impact on its existing and potential markets. Ayala's Public Policy Unit and the group's Regulatory Council regularly identify, monitor, and evaluate new policy issues across sectors and industries. The unit is also in charge of maintaining and strengthening relationships with all levels of government by conducting policy dialogues and consultations among others.

Ayala is increasing its investments in the industrial technologies, infrastructure, healthcare and other sectors and may not realize short- or long-term gains from these planned investments.
As part of its business strategy, Ayala is rebalancing its portfolio by investing in sectors that it believes are key growth areas in the Philippines, including, but not limited to, industrial technologies, infrastructure, healthcare, education and technology ventures. Additionally, Ayala, through its Subsidiaries, Associates and Joint Ventures has increased and may continue to increase its investments in other businesses. These investments may not realize short- or long-term gains for multiple reasons. As a result, it is possible that the expected benefits of these investments may not

materialize within the time periods or to the extent anticipated or at all, thus affecting Ayala's financial condition.

Ayala's core businesses in real estate, banking, and telecommunications are dominant industry players that will continue to drive a significant component of its earnings and value in the medium term. Over the past decade, Ayala has been establishing a presence in new sectors from which it can derive new sources of growth and value creation. Part of its five-year strategic targets for 2020 is to generate 20% contribution to its equity earnings from emerging businesses, namely power, industrial technologies, education, and healthcare.

While Ayala is always open to new areas of investment, it employs a rigorous gating process at the management level, with final evaluation and approval at the board level. During this process, a thorough discussion of the business plan, strategy for execution, and risks is carried out and responsible persons are identified.

In addition, Ayala has adopted a capital allocation process where the board's Finance Committee, upon recommendation of management, determines the amount of capital assigned to the various business ventures. Capital is allocated and committed over a set time frame (usually three to five years), which ensures that management has the funds to execute their proposed business plan. The Finance Committee endorses the recommended capital allocation to the Board which has final approval over all investments.

Ayala has conducted and may continue to conduct acquisitions, the impact of which could be less favorable than anticipated or which could affect its financial situation.
As part of its business strategy, Ayala has conducted and continues to carry out acquisitions of varying sizes, some of which are significant at the Group level. These acquisitions involve numerous risks, including, without limitation, the following: (a) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected commercial demand; (b) Ayala may not integrate acquired businesses, technologies, products, personnel, and operations effectively; (c) Ayala may fail to retain key employees, customers and suppliers of the companies acquired; (d) Ayala may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavorable terms; and (e) Ayala may increase its indebtedness to finance these acquisitions. As a result, it is possible that the expected benefits of completed or future acquisitions may not materialize within the time periods or to the extent anticipated, or affect Ayala's financial condition.

To mitigate this risk, Ayala, through its Strategic Planning Unit provides market intelligence, compares key metrics with competition, analyzes annual innovation trends and new sectors, and strengthens Ayala's gating process, where all possible business ventures are discussed and monitored. The Chief Financial Officer ("CFO"), through the Financial Planning and Corporate Finance and Asset Management teams, complements these activities with regular deep-dive analysis of portfolio and business unit performance. The Senior Management Team is also expected to strengthen relationships and establish networks with potential partners and advisers.

The Company's subsidiaries and affiliates are subject to specific industry risks.
Ayala operates in several key sectors: real estate, financial services, telecommunications, water, industrial technologies, power, infrastructure, healthcare, education and technology ventures. These various industries have inherent risks, which ultimately exposes the Group. Below are some of the key risks that Ayala's subsidiaries face in their day-to-day operations.

a) High level of competition;
b) Slowdown in business activity due to global financial and local political, socio-economic turmoil, and security concerns;
c) Lack of skilled and properly trained workforce to deploy to its various business operations;
d) Risks associated with information and technology infrastructure;
e) Risks associated with market disruptors and changes or shifts in technology and market preferences;
f) Non-compliance to, or breach of, regulatory limits imposed on some of its highly regulated businesses;
g) Changes in tax policies, government regulations, laws, or the interpretation thereof, and sudden shifts in government policies and initiatives that could adversely affect Ayala's businesses;
h) Loss of key personnel or the inability to attract and retain them;
i) Litigation risks both on business dealings with the private and public sectors, which could result in financial losses or harm its businesses;
j) Natural catastrophes;

k) Shortages in raw materials or feedstock, or the increase in the prices thereof, that can limit the production and operations of some of its subsidiaries and affiliates; and
l) Inability to implement growth strategies across its various business segments, including, but not limited to, realizing value from its various acquisitions and business integrations, securing of business contracts, concessions, and business partnerships, completing its business expansion plans, etc.

To mitigate such risks, Ayala ensures that each of the operating companies has a full management team which is responsible for having their own plan to manage risk which is reviewed by their respective Risk Management Committees and periodically by Ayala.

SIGNIFICANT SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

AYALA LAND, INC.

Background and Business

Ayala Land, Inc. (alternately referred to as ALI, Ayala Land, "the Company" or "the Group" in the entire discussion of Ayala Land, Inc.) is the real estate arm of the Ayala Group. Its defining project was the 1948 development of a planned mixed-use community on 930 hectares of swamp and grassland in the Makati district of Metro Manila. Over the course of the following 25 years, the Ayala Group transformed Makati into the premier central business district of the Philippines and a site of some of Metro Manila's most prestigious residential communities. Ayala Land has become the largest real estate company in the Philippines engaged principally in the planning, development, subdivision and marketing of large-scale communities having a mix of residential, commercial, leisure and other uses.

Ayala Land was organized in 1988 when Ayala Corporation decided to spin off its real estate division into an independent subsidiary to enhance management focus on its real estate business. ALI went public in July 1991 when its Class "B" Common shares were listed both in the Manila and Makati Stock Exchanges (the predecessors of the Philippine Stock Exchange - PSE). On September 12, 1997, the Securities and Exchange Commission (SEC) approved the declassification of the Company's common class "A" and common class "B" shares into common shares.

Ayala Land is the largest and most diversified real estate conglomerate in the Philippines. It is engaged in land acquisition, planning, and development of large scale, integrated, mixed-use, and sustainable estates, industrial estates, development and sale of residential and office condominiums, house and lots, and commercial and industrial lots, development and lease of shopping centers and offices, co-working spaces, and standard factory buildings and warehouses, and the development, management, and operation of hotels and resorts and co-living spaces. The Company is also engaged in construction, property management, retail electricity supply and airline services. It also has investments in AyalaLand Logistics Holdings Corp., Cebu Holdings, Inc., Ortigas Land Corp., MCT Bhd, Qualimed and Merkado Supermarket. Ayala Land has 29 estates, is present in in 57 growth centers nationwide and has a total land bank of 12,192 hectares at the end of 2019.

Products / Business Lines

Property Development

Property Development is composed of the Strategic Land Bank Management Group, Visayas-Mindanao Group, Residential Business Group and MCT Bhd, Ayala Land's listed subsidiary in Malaysia.

The Strategic Land Bank Management Group handles the acquisition, planning and development of large scale, mixed-use, and sustainable estates, and the development and sale, or lease of its commercial lots in its estates in Metro Manila and the Luzon region.

The Visayas-Mindanao Group handles the acquisition, planning and development of large scale, mixed-use, and sustainable estates, and the development and sale, or lease of its commercial lots in its estates in key cities in the Visayas and Mindanao regions.

The Residential Business Group handles the development and sale of residential and office condominiums and house and lots for the luxury, upscale, middle-income, affordable, and socialized housing segments, and the development and sale of commercial lots under the following brands: AyalaLand Premier ("ALP") for luxury lots, residential and office condominiums, Alveo Land Corp. ("Alveo") for upscale lots, residential and office condominiums, Avida Land Corp. ("Avida") for middle-income lots, house and lot packages, and residential and office condominiums, Amaia Land Corp. ("Amaia") for affordable house and lot packages and residential condominiums, and BellaVita Land Corp. ("BellaVita") for socialized house and lot packages.

MCT Bhd. is a publicly-listed property developer in Malaysia engaged in land acquisition, planning, and development of residential condominiums for sale for middle income segment. MCT has a land bank of 417 acres located in Subang Jaya, Cyberjaya and Petaling Jaya. Ayala Land owns 66.3% in MCT Bhd.

Commercial Leasing

Commercial Leasing involves the development and lease of shopping centers through Ayala Malls, and offices, through Ayala Land Offices, co-working spaces through the “Clock In” brand, and standard factory buildings and warehouses under Laguna Technopark, Inc., and the development, management, and operation of hotels and resorts through AyalaLand Hotels and Resorts, Inc. and co-living spaces through “The Flats” brand.

Services

Services include construction, property management, retail electricity supply and airline services.

Construction of Ayala Land and third-party projects and land development is done through Makati Development Corporation (“MDC”). Property Management is done through Ayala Property Management Corporation (“APMC”). Retail electricity supply is done through Direct Power Services, Inc. (DPSI), Ecozone Power Management, Inc. (EPMI), and Philippine Integrated Energy Solutions, Inc. (PhilEnergy). Airline service is done through AirSWIFT for Ayala Land’s tourism estates in Lio, Palawan and Sicogon Island resort through its fleet of four modern turbo-prop aircrafts.

Strategic Investments

Ayala Land’s strategic investments include AyalaLand Logistics Holdings Corp. (71.68%) Cebu Holdings, Inc. (71.13%), OCLP Holdings, Inc. (21.01%), MCT Bhd., (66.3%) Qualimed (40.0%) and Merkado Supermarket (50.0%).

Products / Business Lines (with 10% or more contribution to 2019 consolidated revenues before intercompany adjustments):

Property Development	71%
Commercial Leasing	24%
Services	5%

<u>Distribution Methods of Products</u>

The Company’s residential products are distributed to a wide range of property buyers through various sales groups.

Ayala Land has its own in-house sales team for ALP projects. In addition, it has a wholly-owned subsidiary, Ayala Land Sales, Inc. (“ALSI”), which employs commission-based sales people. Ayala Land uses a sales force of about 15,000 brokers and sales agents guided by a strict Code of Ethics. Separate sales groups have also been formed for Alveo, Avida, Amaia and BellaVita. Ayala Land and its subsidiaries also tap external brokers to complement these sales groups.

Marketing to the Overseas Filipino (“OF”) market is handled by Ayala Land International Sales, Inc. (“ALISI”). Created in March 2005, ALISI leads the marketing, sales and channel development activities and marketing initiatives of the brands abroad through project websites, permanent sales offices or broker networks, and regular roadshows with strong follow-through marketing support in key cities abroad. ALISI has marketing offices in North America (Milpitas and San Francisco), Hong Kong, Singapore, Dubai, Rome, and London. ALISI likewise assumed operations of AyalaLand Int’l. Marketing in Italy and London, in 2014.

In addition, the Ayala Group also developed “One Ayala,” a program which bundles the products and services of Ayala Land, BPI, and Globe Telecom, Inc. and gives access to potential Ayala Land clients overseas through BPI’s 17 overseas offices and 81 tie-ups. An Ayala Land-BPI Dream Deals program was also created to generate additional sales from the local market.

Since 2008, all residential sales support transactions are undertaken by the shared services company Amicassa Process Solutions, Inc. (“APSI”) while all transactional accounting processes across the Ayala Land Group are handled by Aprisa Business Solutions, Inc. (“APRISA”) since 2010.

Bankruptcy, Receivership or Similar Proceedings
None for any of the subsidiaries and affiliates.

<u>Various diversification/ new product lines introduced by the company during the last three years</u>

The Flats
Ayala Land opened its first co-living product, branded as “The Flats” in September 2018. It is located in Amorsolo, Makati and offers a total of 728 beds across 196 multiple occupancy rooms and communal spaces. The second branch was opened in January 2019 at 5th Ave. BGC which has a total of 1,316 beds and 375 rooms.

Clock In
In 2017, Ayala Land launched a co-working space product branded as “Clock In” with three operating branches in Makati and BGC. To date, it now has a total of 1,404 seats across 6,473 sq. meters of GLA with new branches in Vertis North, The 30th , Ayala North Exchange, Lio and Alabang Town Center.

Standard Factory Buildings and Warehouses
In 2018, Ayala Land started to offer standard factory buildings (SFB) and warehouses for lease inside industrial parks to capture the growing opportunities in manufacturing and logistics. Ayala Land has a total of 175,000 sq. meters of SFB and warehouse GLA across various locations such as Laguna Technopark, Cavite Technopark, the Tutuban complex in Manila, the Lepanto Ceramics facility in Laguna, and Alviera Industrial Park in Pampanga.

Hospitals/Clinics
Ayala Land entered into a strategic partnership with the Mercado Group in July 2013 to establish hospitals and clinics located in the Company’s integrated mixed-use developments branded as QualiMed. In 2014, QualiMed opened three (3) clinics in Trinoma, Fairview Terraces, McKinley Exchange Corporate Center, and Qualimed General Hospital in Atria Park, Iloilo while UP Town Center Clinic in Quezon City was opened in the end of 2015. In the 2nd Quarter of 2016, Qualimed opened a hospital in Altaraza San Jose Del Monte Bulacan. In the 3rd Quarter of 2017, Qualimed opened its 102-bed hospital in Nuvali, Sta. Rosa, Laguna.

Supermarkets
ALI Capital Corporation (formerly Varejo Corporation), a subsidiary of Ayala Land, entered into a joint venture agreement with Entenso Equities Incorporated, a wholly-owned entity of Puregold Price Club, Inc., to develop and operate mid-market supermarkets for some of Ayala Land’s mixed-use projects branded as Merkado Supermarket. The first supermarket was opened in the 3rd quarter of 2015 at UP Town Center while its second store was opened in December 2017 at Ayala Malls Vertis North.

<u>Competition</u>
Ayala Land is the only full-line real estate developer in the Philippines with a major presence in almost all sectors of the industry. Ayala Land believes that, at present, there is no other single property company that has a significant presence in all sectors of the property market. Ayala Land has different competitors in each of its principal business lines.

With respect to its shopping center business, Ayala Land’s main competitor is SM which owns numerous shopping centers around the country. Ayala Land is able to effectively compete for tenants given that most of its shopping centers are located inside its mixed-used estates, populated by residents and office workers. The design of Ayala Land’s shopping centers also features green open spaces and parks.

For office rental properties, Ayala Land sees competition in smaller developers such as Kuok Properties (developer of Enterprise Building), Robinsons Land (developer of Robinsons Summit Center) and non-traditional developers such as the AIG Group (developer of Philam Towers) and RCBC (developer of RCBC towers). For BPO office buildings, Ayala Land competes with the likes of Megaworld, SM Prime Holdings and Robinsons Land. Ayala Land is able to effectively compete for tenants primarily based upon the quality and location of its buildings, reputation as a building owner and the quality of support services provided by its property manager, rental and other charges.

With respect to residential lots and condominium products, Ayala Land competes with developers such as Megaworld, DMCI Homes, Robinsons Land, and SM Development Corporation. Ayala Land is able to effectively compete for purchasers primarily on the basis of reputation, price, reliability, and the quality and location of the community in which the relevant site is located.

For the middle-income business, Ayala Land sees the likes of SM Development Corp, Megaworld, Filinvest Land and DMCI Homes as key competitors. Alveo and Avida are able to effectively compete for buyers based on quality and location of the project and availability of attractive in-house financing terms.

For the affordable housing segment, Amaia competes with Camella Homes, DMCI Homes, Filinvest, Robinsons Land and SM Development Corporation.

BellaVita, a player in the socialized housing market, will continue to aggressively expand its geographical footprint with product launches primarily located in provincial areas.

Suppliers
The Company has a broad base of suppliers, both local and foreign. The Company is not dependent on one or a limited number of suppliers.

Customers
Ayala Land has a broad market base including local and foreign individual and institutional clients. The Company does not have a customer that will account for twenty percent (20%) or more of its revenues.

Transactions with related parties
Please refer to Item 12 of this report (“Certain Relationships and Related Transactions).

Government approvals/regulations
The Company secures various government approvals such as the environmental compliance certificate, development permits, license to sell, etc. as part of the normal course of its business.

Employees
Ayala Land has a total workforce of 335 regular employees as of December 31, 2019. The breakdown as follows:

Senior Management	23
Middle Management	218
Staff	94
Total	335

Employees take pride in being an ALI employee because of the company’s long history of bringing high quality developments to the Philippines. With the growth of the business, career advancement opportunities are created for employees. These attributes positively affect employee engagement and retention.

The Company aims that its leadership development program and other learning interventions reinforce ALI’s operating principles and provide participants with a set of tools and frameworks to help them develop skills and desired qualities of an effective leader. The programs are also venues to build positive relations and manage networks within the ALI Group.

ALI has a healthy relation with its employees’ union. Both parties openly discuss employee concerns without necessity of activating the formal grievance procedure.

Further, employees are able to report fraud, violations of laws, rules and regulations, or misconduct in the organization thru reporting channels under the ALI Business Integrity Program.

Ayala Land is subject to significant competition in each of its principal businesses of property development, commercial leasing and services. In property development, Ayala Land competes with other developers to attract condominium and house and lot buyers. In commercial leasing, it competes for shopping center and office space tenants, as well as customers of the retail outlets, restaurants, and hotels and resorts across the country.

However, Ayala Land believes that, at present, there is no single property company that has a significant presence in all sectors of the property market.

Risks
Ayala Land is subject to significant competition in each of its principal businesses. Ayala Land competes with other developers and developments to attract land and condominium buyers, shopping center and office tenants, and customers of retail outlets, restaurants, and hotels and resorts across the country. However, Ayala Land believes that, at present, there is no single property company that has a significant presence in all sectors of the property market.

High-End, Middle-Income, Affordable Residential, and Economic and Socialized Housing Developments
With respect to high-end and middle-income land and condominium sales, Ayala Land competes for buyers primarily on the basis of reputation, reliability, price, quality, and the location of the community in which the relevant site is located. For the affordable, economic and socialized housing markets, Ayala Land competes for buyers based on quality of projects, affordability of units and availability of financing. Ayala Land is also actively tapping the overseas Filipino market. In addition, it has seen demand from foreign buyers both residing in the country and abroad.

Shopping Center, Office Space and Land Rental
For its shopping centers, Ayala Land competes for tenants primarily based on the ability of the shopping center to attract customers. This is typically hinged on the location and the tenant-mix of the retail center, the reputation of the retail center owner, as well as rental and other charges. The market for shopping centers has become competitive and with the growing number of pipeline and new shopping center openings across the country. Some competing shopping centers are located within relatively close proximity of Ayala Land's commercial centers.

With respect to its office rental properties, Ayala Land competes for tenants primarily based on the quality and location of the relevant building, reputation of the building's owner, quality of support services provided by the property manager, and rental and other charges. The Company is addressing the continuing demand from BPOs and corporate by providing fully integrated and well-maintained developments (high rise or campus facility) in key locations in the country.

Hotel and Resort Operations
The local hotel and resort sector is largely driven by foreign and local travel for leisure or business purposes. Any slowdown in tourism and business activity due to global financial and local political turmoil and security concerns could potentially limit growth of the Company's hotels and resorts.

Construction
Ayala Land's construction business, Makati Development Corporation (MDC), is benefiting from the improved performance of the construction industry, particularly from an uptick in development activities mostly from the residential and retail sector. With booming construction across the country, Ayala Land must manage the risk of providing enough skilled workers to deploy to its various projects. Any slowdown in the construction business could potentially cap growth of the Company's construction arm.

Property Management
Ayala Land directly manages its properties as well as other third-party properties through Ayala Property Management Corporation (APMC). Its employees directly interface with customers and must ensure that Ayala Land’s brand, quality and reputation are upheld in the regular upkeep of managed properties. Employees must continuously be trained to be able to provide high-quality service in order to preserve Ayala Land’s brand equity.

Other risks that the company may be exposed to are the following:
- Changes in Philippine and international interest rates
- Changes in the value of the Peso versus other currencies
- Changes in construction material and labor costs, power rates and other costs
- Changes in laws and regulations that apply to the Philippine real estate industry
- Changes in the country's political and economic conditions
- Changes in the country’s liquidity and credit exposures

To mitigate the above-mentioned risks, Ayala Land shall continue to adopt appropriate risk management tools as well as conservative financial and operational controls and policies to manage the various business risks it faces.

<u>Working Capital</u>
Ayala Land finances its working capital requirements through a combination of internally-generated cash, pre-selling, joint ventures agreements, borrowings and issuance of bond proceeds from the sale of non-core assets.

Domestic and Export Sales

The table below illustrates the amounts of revenue, profitability, and identifiable assets attributable to domestic and foreign operations for the years ended December 31, 2019, 2018, 2017: (in ₱'000)

	2019	2018	2017
Consolidated revenues			
Domestic	160,143,686	156,142,062	139,131,909
Foreign	6,561,646	7,604,756	241,432
	166,705,332	163,746,818	139,373,341
Net operating income			
Domestic	61,357,618	52,436,826	43,071,498
Foreign	1,228,417	1,129,534	(90,142)
	62,586,035	53,566,360	42,981,356
Net Income Attributable to Equity Holders of ALI			
Domestic	32,321,166	28,283,472	25,321,099
Foreign	867,233	957,408	(16,134)
Total	33,188,399	29,240,880	25,304,965
Total Assets			
Domestic	678,162,085	636,521,219	564,182,334
Foreign	35,761,193	32,299,263	9,810,000
Total	713,923,278	668,820,482	573,992,334

For further information on ALI, please refer to its 2019 Financial Reports and SEC17A which are available in its website www.ayalaland.com.ph.

MANILA WATER COMPANY, INC.

Background and Business

Manila Water Company, Inc. (alternately referred to as MWC, Manila Water, "the Company" or "the Group" in the entire discussion of Manila Water Company, Inc) holds the right to provide water and used water services to the eastern side of Metro Manila (Manila Concession or East Zone) under a Concession Agreement (CA) entered into between the Company and the Metropolitan Waterworks and Sewerage System (MWSS) in August 1997. The original term of the concession was for a period of 25 years to expire in 2022. The Company's concession was extended by another 15 years by MWSS and the Philippine Government in 2009, thereby extending the term from May 2022 to May 2037.

The Company provides water treatment, water distribution, sewerage and sanitation services to more than six million people in the East Zone, comprising a broad range of residential, semi-business, commercial and industrial customers. The East Zone encompasses 23 cities and municipalities spanning a 1,400- square kilometer area that includes Makati, Mandaluyong, Pasig, Pateros, San Juan, Taguig, Marikina, most parts of Quezon City, portions of Manila, as well as the following towns of Rizal: Angono, Antipolo, Baras, Binangonan, Cainta, Cardona, Jala-Jala, Morong, Pililia, Rodriguez, San Mateo, Tanay, Taytay, and Teresa.

Under the terms of the CA, the Company has the right to the use of land and operational fixed assets, and the right, as agent and concessionaire of MWSS, to extract and treat raw water, distribute and sell water, and collect, transport, treat and dispose used water, including reusable industrial effluent discharged by the sewerage system in the East Zone. The Company is entitled to recover over the concession period its operating, capital maintenance and investment expenditures, business taxes, and concession fee payments, and to earn a rate of return on these expenditures for the remaining term of the concession.

Aside from the Manila Concession, the Group has a holding company for all its domestic operating subsidiaries in Manila Water Philippine Ventures, Inc. (MWPV). Currently under MWPV are (1) bulk water supply businesses Manila Water Consortium, Inc. (MW Consortium), a subsidiary of MW Consortium - Cebu Manila Water Development, Inc. (Cebu Water), Davao del Norte Water Infrastructure Company, Inc. (Davao Water), a subsidiary of Davao Water - Tagum Water Company, Inc. (Tagum Water); (2) Water distribution and used water services businesses namely, Boracay Island Water Company (Boracay Water), Clark Water Corporation (Clark Water), Laguna AAAWater Corporation (Laguna Water), Filipinas Water Consortium Holdings Corp. (Filipinas Water), subsidiaries of Filipinas Water - Obando Water Company, Inc. (Obando Water), Metro Ilagan Water Company, Inc. (Ilagan Water), MWPV South Luzon Water Corp. (South Luzon Water) and Bulakan Water Company, Inc. (Bulakan Water), Calbayog Water Company, Inc. (Calbayog Water), North Luzon Water Company, Inc. (North Luzon Water) and Leyte Water Company, Inc. (Leyte Water). Another subsidiary of Manila Water is Calasiao Water Company, Inc. (Calasiao Water), a water supply project for the Calasiao Water District; (3) Business-to-business water and used water service businesses are comprised of Aqua Centro MWPV Corp. (Aqua Centro), Bulacan MWPV Development Corporation (BMDC), Manila Water Technical Ventures, Inc. (MWTV), and EcoWater MWPV Corp. (EcoWater); and (4) performance-based leakage reduction services are provided by Zamboanga Water Company, Inc. (Zamboanga Water) to the city of Zamboanga. Under MWPV is Estate Water, a division that operates and manages the water systems of townships developed by Ayala Land, Inc.

The holding company for Manila Water's international ventures is Manila Water Asia Pacific Pte. Ltd. (MWAP). Under MWAP are two affiliated companies in Vietnam, namely Thu Duc Water B.0.0. Corporation (Thu Duc Water) and Kenh Dong Water Supply Joint Stock Company (Kenh Dong Water), both supplying treated water to Saigon Water Corporation (SAWAC0) under a take-or-pay arrangement. Also under MWAP are Saigon Water Infrastructure Corporation (Saigon Water), a holding company listed in the Ho Chi Minh City Stock Exchange, and Cu Chi Water Supply Sewerage Company, Ltd. (Cu Chi Water). Apart from its operations in Vietnam, MWAP has associates in Thailand and Indonesia through Eastern Water Resources Development and Management Public Company Limited (East Water), a fully integrated water supply and distribution company listed in the Stock Exchange of Thailand (SET), and PT Sarana Tirta Ungaran (PT STU), an industrial water supply operation in Indonesia, respectively.

Lastly, Manila Water Total Solutions Corp. (MWTS), a wholly-owned subsidiary, handles after-the-meter products and services including pipe-laying, integrated used water services, the incubation of new sector businesses and the sale of Healthy Family Purified Water in five-gallon, 500-ml and 350-ml bottles in selected areas in Metro Manila.

Manila Water Foundation, Inc. ("Manila Water Foundation") is the corporate social responsibility arm of the enterprise. It aims to be the enabler of change that will uplift the quality of life of the base of the pyramid (BOP) communities through the provision of sustainable water and wastewater services.

Please refer to the supplementary schedules on the relationships of the entities within the Group.

The Concession

The following are some of the key terms of the Concession Agreement with the MWSS:

- Term and Service Area of Concession. The Concession Agreement took effect on August 1, 1997 ("Commencement Date") and will expire on May 6, 2037 or on an early termination date as provided therein. By virtue of the Concession Agreement, MWSS grants to the Company (as contractor to perform certain functions and as agent for the exercise of certain rights and power under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone.

- O*wnership of Assets.* While the Company has the right to manage, operate, repair, decommission and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to the existing MWSS System by the Company during the concession remains with the Company until the expiration date (or the early termination date), at which time, all rights, titles and interests in such assets will automatically vest in MWSS.

- Ownership of the Company. Under the Concession Agreement, MWSS granted concessions to operate the system of waterworks and sewerage services referred to under RA No. 6234 to private-sector corporations at least 60% of the outstanding capital stock of which is owned and controlled by Philippine nationals. For this purpose, the Company monitors its foreign ownership to ensure that its outstanding voting capital is at least 60% owned by citizens of the Philippines or by corporations that are themselves at least 60% owned by citizens of the Philippines.

- *Sponsor Commitment.* Unless waived in writing by the MWSS-Regulatory Office, Ayala, as local sponsor, and United Utilities PLC, as international operator, are each required to own, directly or through a subsidiary that is at least 51% owned or controlled, at least 20% of the outstanding capital stock of the Company for the first five years (through December 31, 2002), and thereafter at least 10% each. At present, United Utilities PLC no longer holds any equity in the Company, whether direct or indirect.

- *Operations and Performance.* The Company has the right to bill and collect for water and sewerage services supplied in the East Zone. In return, the Company is responsible for the management, operation, repair and refurbishment of MWSS facilities in the East Zone and must provide service in accordance with specific operating and performance targets described in the Concession Agreement.

- *Concession Fees.* The Company is required to pay MWSS the following:

    - Concession fees consisting of the peso equivalent of (i) 10% of the payments due under any MWSS loan that was disbursed prior to the Commencement Date; (ii) 10% of payments due under any MWSS loan designated for the Umiray-Angat Transbasin Project (UATP) that was not disbursed prior to the Commencement Date; (iii) 10% of the local component costs and cost overruns related to the UATP; (iv) 100% of the payments due under any MWSS designated loans for existing projects in the East Zone that were not disbursed prior to the Commencement Date and were awarded to third party bidders or elected by the Company for continuation; and (v) 100% of the local component costs and cost overruns related to existing projects in the East Zone; and

    - Share in the annual operating budget of MWSS amounting to Php396 million each year subject to annual inflation adjustments.

      MWSS is required to provide the Company with a schedule of concession fees payable during any year by January 15 of that year and a written notice of amounts due no later than 14 days prior to the scheduled payment date of principal, interest, fees and other amounts due. Currently, MWSS gives monthly invoices to the Company for these fees.

- *Appropriate Discount Rate.* The Company is entitled to earn a rate of return equal to the Appropriate Discount Rate (ADR) on its expenditures prudently and efficiently incurred for the remaining term of the concession. The ADR is the real (i.e. not inflation adjusted) weighted average cost of capital after taxes as determined by the MWSS Regulatory Office based on conventionally and internationally accepted methods, using estimates of the cost of debt in domestic and international markets, the cost of equity for utility business in the Philippines and abroad with adjustments to reflect country risk, exchange rate risk and any other project risk.

- *Tariff Adjustments and Rate Regulation.* Water tariff rates are adjusted according to mechanisms that relate to inflation, extraordinary events, foreign currency differentials and Rate Rebasing exercises.

- *Early Termination.* MWSS has a right to terminate the concession under certain circumstances which include insolvency of the Company or failure to perform an obligation under the Concession Agreement, which, in the reasonable opinion of the MWSS-Regulatory Office, jeopardizes the provision of essential water and sewerage supply services to all or any significant part of the East Zone.

  The Company also has the right to terminate the concession for the failure of MWSS to perform an obligation under the Concession Agreement, which prevents the Company from carrying out its responsibilities or upon occurrence of certain events that would impair the rights of the Company.

- *Reversion.* On the expiration of the Concession Agreement, all the rights, duties and powers of the Company automatically revert to MWSS or its successors or assigns. MWSS has the option to rebid the concession or renew the agreement with the express written consent of the government.

- *Joint Venture.* Under the Concession Agreement, the Company and the concessionaire of the West Zone of Metro Manila, Maynilad Water Services, Inc. ("Maynilad"), were required to enter into a joint venture or other arrangement that identifies the responsibilities and liabilities of each with regard to the operation, maintenance, renewal and decommissioning of Common Purpose Facilities (CPF), as well as an interconnection agreement which governs such matters as water supply transfers between the East and West Zones and boundary definitions and identifies the responsibilities and liabilities of parties with regard to the management, operation and maintenance of certain interconnection facilities. Pursuant to this, the Concessionaires entered into the Common Purpose Facilities Agreement and the Interconnection Agreement in July 1997.

The Regulatory Office of MWSS

The Concession Agreement also provided for the establishment of the MWSS Regulatory Office (MWSS –RO) under the jurisdiction of the MWSS Board of Trustees (MWSS-BOT), to monitor the operations of the Concessionaires. The MWSS-Regulatory Office is composed of five members with five-year term, and no member of the MWSS-Regulatory Office may have any present or prior affiliation with MWSS, the Company, or Maynilad. The MWSS-Regulatory Office is funded by MWSS through the Concession Fee payments of the Concessionaires based on a fixed amount as agreed in the Concession Agreement (CA).

In the case of disagreement or disputes, the CA provides that major disputes between the Company and the MWSS-Regulatory Office be referred to an appeals panel consisting of two (2) members appointed by each of the MWSS-Regulatory Office and the Company and a third member appointed by the Chairman of the International Chamber of Commerce. Under the Concession Agreement, both parties waive their right to contest decisions of the appeals panel through the courts.

Key Performance Indicators and Business Efficiency Measures

The Concession Agreement initially set service targets relating to the delivery of services by the Company. As part of the Rate Rebasing exercise that ended on December 31, 2002, the Company and MWSS mutually agreed to amend these targets based on the Company's business and capital investment plan accepted by the MWSS-Regulatory Office. In addition, the Company and MWSS adopted a new performance-based framework. This performance-based framework, designed to mimic the characteristics of a competitive market and help the MWSS-Regulatory Office determine prudent and efficient expenditures, utilizes Key Performance Indicators (KPI) and Business Efficiency Measures (BEM) to monitor the implementation of the Company's business plan and will be the basis for certain rewards and penalties in every Rate Rebasing exercise.
Fourteen KPIs, representing critical performance levels for the range of activities the Company is responsible for, relate to water service, sewerage and sanitation service and customer service. The

BEMs are intended to enable the MWSS-Regulatory Office to evaluate the efficiency of the management and operation of the concessions and gauge progress toward the efficient fulfillment of the Concessionaire's business plans. There are seven (7) BEMs relating to income, operating expenses, capital expenditures and NRW. The BEMs are evaluated for trends and annual forecasts.

Amendments to the Concession Agreement

The Concession Agreement was amended under *Amendment No. 1 to the Concession Agreement* executed on October 26, 2001 ("Amendment No. 1"). Amendment No. 1 adjusted water tariffs to permit adjustment for foreign exchange losses and reversal of such losses, which under the original Concession Agreement were recovered only when the concessionaire petitioned for an Extraordinary Price Adjustment (EPA).

The Concession Agreement was further amended under the Memorandum of Agreement and Confirmation executed on October 23, 2009 wherein the Company and the MWSS agree to renew and extend the Concession Agreement for an additional period of fifteen (15) years from the year 2022 or until 2037, under the same terms and conditions.

Organization

The Organizational structure of the Company has the objective of decentralizing the locus of operating control to the Senior Leadership Team composed of the President, Chief Executive Officer and Chief Sustainability Officer, the Chief Operating Officer for Manila Water Operations, the Chief Operating Officer for New Business Operations, and the Chief Finance Officer, Treasurer, Compliance Officer and Group Director for Corporate Finance and Strategy.

A. The Manila Water Operations

Manila Water Operations (MWO) is responsible for the East Zone Business Operations and the Company's Corporate Support Functions. It is headed by the Chief Operating Officer for Manila Water Operations.

The **East Zone Business Operations** (EZBO) is responsible for ensuring that the Company meets the demand of all the customers in the East Zone, managing the drivers for revenue growth, delivering customer service, and building and maintaining community and stakeholder relationships. It is composed of the East Zone Business Area Operations, and East Zone Business Support.

- The **East Zone Business Area Operations** consists of the six (6) Business Areas (BAs) – Quezon City, Mandaluyong-Makati, Marikina, Pasig, Rizal, and Taguig. The area of operations of this Division covers the major business districts in Quezon City, Makati, Ortigas and Taguig, as well as the entire province of Rizal. The BAs are directly responsible for the processing of application for new water service connections, management of meter reading, billing and collection activities, and facilitation of complaints resolution and other after sales services, which form part of the end-to-end process of account management. They are also tasked to find specific business opportunities from different market segments. Their key mandates, as such, include the management of customer demand, differentiating touchpoints per customer type aligned with the specific needs of the customers and key accounts, geared towards achieving company targets on billed volume, revenue and customer centricity.

- The **East Zone Business Support Division** is composed of four (4) departments: Demand Forecasting and Total Management System (TMS) Management, Billing and Collection, Customer Service and Stakeholder Management, and Program and Policy Development.

    i. The Demand Forecasting and TMS Management Department is responsible for revenue management, demand forecasting, provision of systems and analytical tools and performance management of all EZBO employees.

    ii. The Billing and Collection Department ensures efficient meter reading to deliver quality customer bills. It also provides collection support to the business areas through service provider management and payment facilities sourcing.

    iii. The Customer Service and Stakeholder Management Department reviews and enhances customer service processes and standards aimed to drive customer satisfaction. It regularly monitors customer centricity metrics to ensure that all customers' concerns are attended to efficiently and effectively.

iv. The Program and Policy Development Department handles policy development and compliance as well as various engagement initiatives for the Group such as the EZBO rewards and recognition programs.

- The Business Areas and HQ departments aim towards driving the growth of the business, providing customer service at the grassroots, and building relationships with the community to ensure achievement of regulatory targets in terms of delivery of quality service to Manila Water customers.

The **Corporate Support Functions** are responsible for providing support to the entire organization. It leads in the development of enterprise-wide policies, plans, and programs. The following are the Corporate Support Functions:

a. The **Corporate Operations Group** (COG) operates and maintains all of Manila Water's water and used water facilities. It constantly seeks ways to further improve the efficiency and reliability in managing all of Manila Water's facilities by developing high quality operating standards, delivering innovative technology solutions and support, exploring new technologies and promoting a culture of a safe work environment while remaining compliant to environmental and regulatory standards. The COG is composed of Water Supply Operations, Used Water Operations, Corporate Business Resiliency, Operations Services, Technical Services and Concession Management System.

- From the La Mesa Dam, **Water Supply Operations** manages the water treatment facilities, pumping stations, service reservoirs, and the primary and distribution lines to provide 24/7 water supply at a reliability level of, at least, 99.99% while maintaining 100% compliance in water quality as defined in the Philippine National Standards for Drinking Water. It is also responsible for ensuring that water supply meets demand by means of accurate forecasting from source to production, despite variability in consumer demand or environmental pressures.

  The Water Supply Operations, in cooperation with counterparts from Maynilad, manages the **Water Source or the Common Purpose Facilities (CPF)**, which includes headworks upstream of the La Mesa Dam (Angat Dam, Ipo Dam and the Novaliches portals). Water Source ensures that sufficient raw water allocation is maintained throughout the year.

- **Used Water Operations** manages the used water treatment facilities and lift stations to ensure that treated used water discharge is consistently compliant to environmental standards and is responsible for implementing the used water service expansion plan.

- The **Corporate Business Resiliency** (CBR) function is committed to developing a culture of preparedness, resiliency and continual improvement towards a world-class water service company, thus ensuring coordination, integration and alignment of national, local and company emergency plans and protocols. CBR enables Manila Water to immediately respond to emergencies, especially when there is a need to provide potable water to disaster-stricken areas. Through CBR, Manila Water is able to extend help even beyond its concession area by providing mobile water treatment assistance to various areas in the country. Moreover, since Manila Water operates a regulated business and by the nature of its business, it is exposed to threats that may disrupt major services, the Company adapted the ISO 22301:2012 – Societal Security – Business Continuity Management System. Under this system, Manila Water plans, establishes, implements, operates, monitors, reviews, maintains and continually improves a documented management system to protect against, reduce the likelihood of occurrence, prepare for, respond to, and recover from disruptive incidents when they arise.

- **Technical Services** is composed of four (4) departments: the Laboratory Services, Systems Analytics, Energy and Innovations, and Telemetry and Process Automation Departments.

  (1) The **Laboratory Services** collects water samples daily from strategically located sampling points all over the East Zone from water treatment facilities to the distribution and effluent samples from all used water facilities. The samples are tested for physical, chemical and microbiological parameters to ensure true world-class standards. Aside from being recognized by the Department of Health (DOH) and the Department of Environment and Natural Resources (DENR), the Laboratory is also ISO standards certified (ISO 17025, ISO 9001, ISO 14001, and OHSAS 18001). The department also actively contributes to process optimization towards improved operational control and efficiency.

  (2) **System Analytics Department** facilitates operational data flow, consolidation, analytics and general information architecture and provides relevant and timely notification,

reporting, and escalation of operational information through the Operations Communications Center.

(3) The **Energy and Innovations Department** monitors power consumption, recommends power-efficiency measures, and develops and implements strategies for the Company to avail of advantageous power rates in all its facilities. It also drives the enhancement of an innovative culture and the delivery of new or higher gains from core innovations or innovations related to water and used water operations towards better, more efficient delivery of outputs and services.

(4) The **Telemetry and Process Automation Department is** responsible for developing and maintaining the operating facilities instrumentation, control and automation based on the operating philosophy. It also oversees the accurate, reliable and secured integration of vital operational data to a central repository with 24/7 remote access.

- Under **Operations Services** are four (4) departments: The Operations Management, Inventory Management, Maintenance Services and Fleet Management Departments:

(1) The **Operations Management Department** strategizes a unified management system to ensure the effectiveness and efficiency of group targets and programs. Operations Management is accountable for the ISO certifications (Quality, Environment, Health and Safety) and serves as a framework in order to produce and promote well-balanced implementation of all policies and processes across the Corporate Operations Group including specific requirements of international standards (ISO 9001,ISO 14001, and OHSAS 18001). The department also ensures efficiency through continuous process improvement as well as financial and operational performance management.

(2) The **Inventory Management Department** is responsible for the strategic supply/inventory planning and inventory management to ensure the adequate and timely provision of critical supplies and materials for the Company's operations and project requirements. The department has established policies and procedures to respond to the requirements in a fast-paced environment aligned with the corporate goals and business needs with due regard to good governance.

(3) **Maintenance Services** is responsible for ensuring that assets of Manila Water are working efficiently. This includes the monitoring, maintenance, repair, and/or replacement of assets and components that sustain the efficient operation of all operational, ancillary and office facilities. MSD efforts seek to enable the company to maintain efficient costs of Repair and Maintenance while maximizing the life expectancy and intended functionality of assets.

(4) The **Fleet Management** is responsible for the dispatch and maintenance of Company vehicles and equipment. It also provides vehicle assistance during incidents / emergencies and special events of the Company.

- **Concession Management System Department** leads and drives the integration of MWO end to end processes and alignment of cross-functional policies and procedures aligned to business objectives. It also creates the standard for the development, management and compliance to processes, in accordance with internal/local policies, rules and regulations, and international standards (ISO).

b. The **Corporate Human Resources Group (CHRG)** is organized into four (4) core functions which focus on talent attraction, development, engagement and retention, and group partnership:

- **Talent Acquisition, Organization Development and Succession Management** Department is responsible for organization and job design, workforce planning, recruitment, succession and competency management

- **People Engagement and Development** Department drives programs that focus on people experience and connection, capability development, communication and change management, and performance management

- **Total Rewards Management** Department handles the design of rewards programs including employee recognition, and manages manpower cost

- **HR Business Partnership** Department provides business-focused HR solutions to stakeholders, and handles labor relations, union management and employee discipline

c. The **Corporate Project Management Group** (CPMG) is tasked with the planning, design and construction of all water, used water and network capital projects that are crucial for the Company to achieve regulatory commitments as stipulated in the Concession Agreement and Rate Rebasing plans. The careful delivery of projects, strict adherence to the target timelines, prudent and efficient cost and highest standards of quality and safety, is the basis for the achievement of corporate business objectives aligned with the sustainable expansion of services that improve people's lives and support regional economic growth. CPMG is organized for an integrated, collaborative approach to project execution. It is composed of seven (7) departments namely: Project Management, Construction Management, Engineering, Project Management Office, Project Stakeholder Engagement, Quality Assurance, and Safety Solutions.

- The **Project Management Department** is entrusted to manage the whole project-life cycle of capital expenditure programs of the Company. The department ensures timely, cost-efficient and quality delivery of all planned infrastructure projects.

- The **Construction Management Department** is tasked with managing the multi-billion project portfolio of the Company. Construction Managers (CMs) are accountable for keeping the project in line with time, cost and quality, safety and environmental standards by leading a cross-functional team that manages the numerous interconnected components of execution.

- The **Engineering Department** ensures the compliance of projects to established engineering standards by reviewing design concepts and cost estimates; conducting preliminary and detailed design, as necessary; spearheading the technical evaluation of technical proposals during bidding; design submissions during execution; and developing high-quality and cost-effective engineering standards that are used across the business. It is also at the forefront of studying the latest construction technologies and methodologies in view of value-engineering.

- The **Project Management Office** is responsible for (1) project control functions to support construction projects, (2) implementation of integrated project management system and facilitation of continuous improvement initiatives, (3) strengthening of project information and analytics, and (4) building systems to ensure project construction documentation and control.

- The **Project Stakeholder Engagement** Department ensures that the projects have the support of critical stakeholders such as local governments, national agencies and the public through proactive project pre-selling and relationship building that ensure timely and smooth resolution of any project concerns.

- The **Quality Assurance Department i**s in charge of the development and implementation of quality management procedures and system across CPMG through (1) process documentation, including policy formulation and system rollout, (2) management of the Quality Execution Academy and, (3) review/analysis of quality execution metrics/statistics for continuous improvement of CMs.

- The **Safety Solutions** Department performs a vital role in ensuring that not only are Manila Water employees empowered to work safely, but also ensures that vendors and contractors are well-trained in keeping worksites safe for employees and the general public, especially during construction activities. This utmost regard for a safety environment and mindset has top management support and carried-out by its employees and contractors/vendors.

d. The **Strategic Asset Management Group** (SAMG) was formed to help the Company achieve the optimal and sustainable delivery of services and profitability through the efficient and effective management and development of assets. The group is mandated to provide a comprehensive, holistic and integrated master plan that will address capital investments both for water and used water systems, the operation and maintenance of existing and new assets, and the rationalization and disposal of surplus assets.

To deliver these services, SAMG is organized into six (6) departments namely, Value Assurance, Portfolio Management, Strategic Asset Planning, Asset Management Asset Investment and Management Support, and Water Sources and Environmental Planning.

- The **Value Assurance** Department provides a holistic approach that will help ensure the delivery of the programs/projects' ultimate goals through value analysis and risk assessment

that facilitate faster decision-making and thus optimize capital expenditures/life cycle costs and satisfy stakeholders.

- The **Portfolio Management** Department is tasked to deliver the overall corporate capital expenditure portfolio according to the approved corporate master plan. The department manages the overall portfolio performance, identifies the right mix of projects to maximize overall benefits, and meets regulatory and business goals. The department provides comprehensive analysis for portfolio impact assessment and investment, recommending changes and adjustments required to meet the objectives. It ensures that project-related issues are corrected in a timely manner.
- The **Strategic Asset Planning** Department is entrusted to strategically plan, develop and calibrate the water and used water master plan, and capital and operational expenditure programs for all the businesses of the entire enterprise through conducting concept studies to determine the annual project list and providing technical justification for the approval of the corporate master plan.

- The **Asset Management** Department is in charge of optimizing financial and operational performance of assets at the least cost through risk-based, data driven strategies to deliver the Company's service obligations.

- The **Asset Investment and Management Support** Department provides assistance to the whole group on policy development, process improvement and implementation of programs to enhance project life cycle and asset management principles. It also provides comprehensive analysis for capital investments to aid in the attainment of the Company's business and regulatory commitments.

- The **Water Sources and Environmental Planning** Department is responsible for the development of new water resources and environmental master plan for all the businesses of the entire enterprise.

e. The **Enterprise Stakeholder Engagement Group** (ESEG) is the group that has the mandate in the Company to: (1) provide strategies, guidance and advisories for regulatory purposes; (2) lead the implementation of best practices, policies and processes to ensure compliance and performance; (3) lead strategic business, technical and financial management for regulatory compliance; and (4) manage the relationship with stakeholders.

   The above mandates are carried out through the following four (4) departments: 1. Business Operations Regulation (BOR) Department; 2. Financial Regulation (FR) Department; 3. Technical Regulation (TR) Department; and 4. Public Policy Department. The Group, through its head and members, leads and monitors compliance particularly to the Concession Agreement and leads the Company's interface with the MWSS. Necessary actions to fulfill the mandates include but are not limited to the following: 1. submission of reports, requirements and disclosures relating to compliance; 2. leading the discussions with the MWSS relating to the Company's service obligations and targets; 3. producing and periodically updating business, technical and financial projections specifically used as bases for petitions submitted to the MWSS for quarterly, annual, and five-year tariff adjustments; 4. collaborating with the Company's other groups for collation and analysis of data and vital information for the Company's strategic guidance and direction; and 5. leading engagement on matters relating to the Company's position on public policy issues, including but not limited to preparation of position papers, attendance in various policy fora/dialogues, hearings and establishing good will and relations with key government and non-government stakeholders.

f. The **Corporate Strategic Affairs Group** (CSAG) is responsible for creating consistent corporate messaging and harmonizing communication channels that are aligned with the Company's objectives in order to enhance its image and reputation and effectively connect with various customers and stakeholders. The group is composed of two (2) departments: The Advocacy and Research Department, and the Corporate Communications Department.

   - The Advocacy and Research Department handles the 'Lakbayan' or Water Trail program as the Company's information, education and communication program on water and used water appreciation. It also handles environmental advocacy programs such as 'Toka Toka" which is the country's first and only environmental movement focused on used water management. It is also in charge of building and differentiating the Manila Water brand through strategic communications research and development, and visual standards management.

- The Corporate Communications Department handles the execution of the Company's strategic as well as tactical and crisis communication programs through publicity, events and other stakeholder services. The department handles all Company publicity in the media (TV, radio, print and below-the-line), as well as media planning, relations and engagement. It is also responsible for ensuring a well-informed workforce through the development and implementation of relevant internal communications. Lastly, it handles the company's digital media platforms on social media and web.

B. The New Business Operations and New Business Development Group

The New Business Operations Group focuses on operating new subsidiaries and promoting organic growth in existing service areas while the New Business Development Group focuses on expanding services to unserved and underserved areas and market segments. Both groups leverage on existing products and services to create value and strategically expand to new geographies in the Philippines and in Southeast Asia, specifically in Vietnam, Indonesia, Myanmar, and Thailand.

Products and services are intended to be delivered through the Manila Water Group's wholly-owned subsidiaries, Manila Water Philippine Ventures, Inc. (MWPV), Manila Water Asia Pacific Pte. Ltd. (MWAP), and Manila Water Total Solutions Corporation (MWTS) to ensure sustained growth beyond the East Zone Concession.

MWPV and MWAP are mandated to expand the business in the Philippines and in Southeast Asia, respectively. These geographical expansions are anchored on the core competencies of the Company developed and nurtured in the East Zone Concession and MWPV's subsidiaries, Laguna AAAWater Corporation, Clark Water Corporation, Boracay Island Water Company, Inc., and Cebu Manila Water Development, Inc., among others. In 2016, MWPV has started to develop its own capability through the establishment of its operating division, Estate Water. Borne out of a strategic partnership with Ayala Land, Inc., Estate Water serves as MWPV's vehicle to provide service to the non-municipal market segments.

Outside the Philippines, the Manila Water Group has significantly gained traction in Vietnam, Indonesia, and Thailand, through MWAP and its Singapore subsidiaries, Manila Water South Asia Holdings Pte. Ltd., Kenh Dong Water Holdings Pte. Ltd., Thu Duc Water Holdings Pte. Ltd., Manila South East Asia Holdings Pte. Ltd., and Manila Water Thailand Holdings Pte. Ltd. The Manila Water Group remains the largest foreign investor in the Vietnam Water Sector through its affiliates/associates, Kenh Dong Water Supply Joint Stock Company, Thu Duc Water B.O.O. Corporation, Saigon Water Infrastructure Corporation, Asia Water Network Solutions Joint Stock Company, and Cu Chi Water Supply Sewerage Company Limited.

MWPV has expanded its footprint in the Philippines through the addition of eleven (11) new projects in its portfolio. This includes a bulk water and septage management project with the City of Ilagan Water District (Isabela) and new concession projects in San Jose City (Nueva Ecija), Tanauan City (Batangas), Calbayog City (Samar), and Municipalities of Calinog and Lambunao (Iloilo). We have expanded our existing businesses and secured Pagsanjan and Victoria in Laguna, Bulakan and Balagtas in Bulacan, and Malasiqui, San Fabian, Manaoag, and Sta. Barbara in Pangasinan.

Outside the Philippines, our Thailand (Eastern Water Resources Development and Management PCL or East Water) and Indonesia (PT Sarana Tirta Utama) investments started to contribute to the improved performance of our businesses.

Lastly, MWTS handles after-the-meter products and environmental service offerings outside the conventional water value chain, and is in the business of producing and marketing the company's packaged water business in Metro Manila under the Healthy Family Purified Drinking Water brand.

C. The Corporate Finance and Strategy Group

The **Corporate Finance and Strategy Group** (CFSG) is headed by the Chief Finance Officer and Treasurer. The Group is composed of four (4) divisions – Controllership, Accounting and Planning Division, Treasury and Enterprise Risk Management Division, Finance and Governance for Manila Water Asia Pacific Division, and Finance and Governance for Manila Water Philippine Ventures and Manila Water Total Solutions Division – and three (3) departments, Corporate Planning and Investor Relations, Tax Management, and Sustainability Development.

- The Controllership, Accounting and Planning Division is composed of the Controllership and Analysis Department, the Financial Accounting Department, the Concession Investment

Accounting Department, and the Financial Planning Department. The division provides controllership and management reporting, financial and regulatory accounting, and financial planning services.

i. The Controllership and Analysis Department supports top management's decision-making processes through the provision of timely financial information and analysis, coordinated budget planning activities, and periodic review against plans of the Manila Water Operations and the Parent Company. The department is also responsible for the setting and management of financial related policies and performance management of the CFSG as well as handling special projects involving process and systems improvements.

ii. The Financial Accounting Department maintains and safeguards the integrity of the Company's computerized accounting system, books of accounts and processes to ensure the preparation of accurate and timely financial reports for the purpose of providing management, regulators and other stakeholders with financial information reflective of the Company's true financial performance and condition. The department is ISO 9001:2015 certified and implements a Quality Management System which assures the consistent application of relevant accounting standards, policies, regulations and rules aimed at the continuous improvement of its processes.

iii. The Concession Investment Accounting Department is a multi-disciplinary group playing a key role in the Company's regulatory compliance with MWSS. It is responsible for providing management and regulators with timely reports that are compliant with all applicable accounting and regulatory standards. In line with the Company's obligations as concessionaire of the East Zone, it maintains records of the acquisition, status, and disposal/transfer of all fixed and movable assets of the Company. The department provides appropriate safeguards on capital disbursements of the Company and ensures that payments are carried out in accordance with contractual requirements, and consistent with internal policies and tax requirements. It is also responsible for the financial monitoring of capital projects as well as the secretariat function of the Capital Investment Committee.

iv. The Financial Planning Department is responsible for the overall budget preparation and monitoring of the Manila Water Group. It provides financial analysis and reporting of the financial and operating performance of the enterprise and its subsidiaries. The Department is responsible for the preparation of the long-term financial plans of the Metro-Manila East Zone concession and the consolidated Manila Water Group. The Department monitors the performance of the various businesses of Manila Water and their contribution to the enterprise. It also provides financial advisory support to business development, capital investments, and other corporate initiatives. It handles the secretariat function of the New Business Investment Committee.

- The Treasury and Enterprise Risk Management Division, headed by the Deputy Group Treasurer and Chief Risk Officer, is composed of two (2) departments: Treasury Department, and Enterprise Risk Management Department. The division is responsible for the effective management of the Company's cash resources and financing activities, and sustained implementation of enterprise risk and insurance programs. The division also provides treasury and risk advisory services across the Manila Water Enterprise.

i. The Treasury Department is responsible for the effective management of the Parent Company's cash resources, including collections and disbursements, through efficient liquidity planning and maximization of cash investments. It is also responsible in the capital raising activities of the Enterprise ensuring cost-efficient and timely closing of financing transactions. For the Parent Company, the Department also manages Manila Water's concession fee obligations with MWSS and ensures compliance with loan reportorial requirements and covenants. For new businesses, the Department provides strategic advisory in terms of financing strategies and treasury operations, and support for subsidiaries' banking requirements. In carrying out its functions, the Department maintains a sustainable and mutually beneficial relationship with its lenders and banking partners. It also maintains its ISO 9001:2015 Certification for Quality Management System ensuring transparency of operations and adherence with its risk-based policies. It is headed by the Treasury Department Head who directly reports to the Deputy Group Treasurer and Chief Risk Officer.

ii. The Enterprise Risk Management Department is responsible for developing risk management tools, methodologies, and processes and leads the implementation and dissemination of ERM programs across the Manila Water Enterprise in coordination with the risk owners, the CRO

and ERM Champions/ Partners/ Risk Officers of the business units. It is also responsible for managing the insurance programs of the Enterprise and for providing oversight of the insurance programs of the subsidiaries with the objective of making the programs cost-effective, risk-based and responsive to the Group's needs. The integration of risk management with insurance ensures the effective development and application of risk transfer strategies for the Enterprise and its projects. The Insurance Management Section has successfully obtained its ISO 9001:2015 certification for Quality Management System (QMS) in 2018. The QMS certification is an affirmation of compliance to global best standards for insurance management. The Department is headed by the Chief Risk Officer and reports functionally to the Board Risk Oversight Committee and administratively to the Chief Finance Officer and Treasurer.

- The Finance and Governance for Manila Water Asia Pacific Pte. Ltd. (MWAP F&G) is responsible for the statutory reporting of the companies under the group as well as the management reporting and analysis of performance of investee companies. The division also ensures compliance with the taxation and financial reporting requirements of the regulatory agencies. MWAP F&G handles controllership functions which includes development and implementation of financial policies as well as the formulation of the budget and forward plans and monitoring the utilization of the budget. The division also provides corporate finance support to new business development activities and ensures the smooth and efficient operationalization of the finance and governance function in new entities.

- The Finance and Governance for Manila Water Philippine Ventures and Manila Water Total Solutions leads the finance and accounting operations of all local subsidiaries of Manila Water Company, Inc. The division ensures the preparation of accurate and timely financial reports to aid in top management's decision-making process, as well as the implementation of effective financial systems and controls in all local subsidiaries. The division also leads the coordinated budget planning activities, and periodic review against plans of all local subsidiaries to ensure that over-all corporate goals are met. It is also responsible for building the capability of the new businesses to be able to manage and perform all finance-related operations such as, but not limited to, accounting, treasury, procurement, policy development, risk management and tax management.

The Corporate Planning and Investor Relations Department is responsible for supporting the Enterprise in crafting the organization's strategic roadmap and driving the investor communication strategy. It has two main functional units, namely, Corporate Planning and Investor Relations.

Corporate Planning supports top management in charting the strategic roadmap of the Enterprise, and in aligning the execution of its various initiatives. This support is extended to the rest of the organization through the development and provision of market and industry information; coupled with the prioritization and alignment of strategic actions. Equally important, Corporate Planning aims to provide support to the actual execution of Enterprise strategies, through the Enterprise Program Management Office (EPMO) – which oversees execution inter-dependencies of Enterprise projects; and correspondingly through implementation of an enterprise-wide Performance Management System.

Investor Relations (IR) supports top management in driving the organization's investor communication strategy through timely investor and market analysis, efficient coordination of Enterprise information and effective key message development and delivery. For this purpose, IR conducts regular analysts' briefings, meetings and roadshows with shareholders, fund managers and analysts to keep them updated on the financial and operating performance of the Company, as well as other relevant material information.

- The Tax Management Department provides strategic assistance to the different business and support units of the Company on matters relating to all taxes and tax incentives applicable in the Company's operations and growth initiatives. The department also provides a focused analysis, interpretation, and application of relevant tax laws, rules and regulations, and advocates for process and policy improvements to ensure compliance with all reportorial requirements of the Bureau of Internal Revenue, Board of Investments, and pertinent local government units and government agencies.

- The Sustainability Department ensures that Manila Water's implementation of projects and operations of facilities are compliant with current environmental regulations and aligned with the Company's sustainability commitments. It incubates sustainability programs such as resource efficiency, communications and advocacy initiatives that are intended for institutionalization among the responsible business units. The department keeps track of the material sustainability indicators of the enterprise and in coordination with Investor Relations, is responsible for the preparation of the Company's annual Integrated Report.

D. Business and Technology Services

The **Business and Technology Services Group** (BTS) is responsible for providing core support to Manila Water enterprise initiatives towards greater efficiency and growth. It is accountable for the delivery of IT solutions, infrastructure and information security, and for the provision of shared services including HR operations, accounts payable, general ledger and procurement.

- The **BTS Governance Department** is responsible for strategic planning and performance management, transition and service delivery support, and business relationship and stakeholder management functions. It also handles the oversight functions on program management, risk and compliance management, and other IT processes.

- The **HR Operations Domain** oversees payroll processing, benefits administration and the HR integrated system. Its duties include the delivery of timely, accurate and complete compensation and benefits, as well as up-to-date employee profile and information.

- The **Supply Chain Domain** provides sourcing, procurement, contract drafting, and vendor management services. It is responsible for procuring services, materials and supplies with due consideration to quality, efficiency and cost-effectiveness. It also employs strategic sourcing and category management approach to adapt to changing market conditions and address the growing needs of the business.

- The **Finance Domain** provides accounts payable and general ledger processing enabled by technology to deliver a high quality of standard-based finance services. It supports the provision of appropriate safeguards on disbursements ensuring that payments for goods and services are carried out in accordance with the applicable internal policies and tax requirements. It also supports the preparation of timely and accurate financial reports consistent with the application of relevant standards and policies.

- The **IT Service Management Domain** oversees the day-to-day operations of IT services including the availability, performance, and capacity of IT resources. It is responsible for the development of tactical plans in the deployment of hardware, operating systems, and data networks, in order to meet business-driven service levels and business continuity requirements.

- The **Information Security Department** is in charge of developing and enforcing the enterprise-wide IT security strategies, policies, standards, procedures and awareness program, and ensuring compliance with relevant information security standards. It also implements and maintains technical and procedural controls to protect information flow across networks.

- The **Infrastructure Planning and Delivery Department l**ooks after the infrastructure planning and design, infrastructure deployment, and data network connectivity, and carries out demand management, project management and delivery of IT infrastructure projects.

- The **Systems and Solutions Department** is responsible for the development and maintenance of all projects and systems supporting the business. It is in charge of identifying, designing, and delivering technology solutions and applications that support the success of the business.

E. Legal

The **Legal and Corporate Governance Department ("Legal")** provides legal services, advice and support across the entire organization. It proactively ensures that the Company is fully compliant with all the applicable laws, rules and regulations, and defends and protects the Company's interests in the courts, administrative agencies and other tribunals. It is also responsible for the drafting and reviewing of contracts and other legal documents to ensure that they are advantageous to the Company and do not infringe any law, domestic or foreign, or any government rules and regulations. Its functions likewise include the provision of guidance and assistance through the entire process of acquiring properties, maintenance of existing rights-of-way, and acquisition of rights-of-way required for the implementation of water and used water projects. In matters of corporate governance, the Legal Department ensures that the Company adheres to the compliance, reporting and disclosure requirements of the Securities and Exchange Commission and the Philippine Stock Exchange for publicly listed companies, and to international standards of good corporate governance and practices. The department continuously orients all employees and business partners regarding the Company's governance policies, particularly on matters relating to fair business dealings as well as the prompt and adequate disclosure of material information. It also provides corporate secretarial services to the Board of Directors and the Board

Committees and assistance to the Office of the Corporate Secretary in the preparation and conduct of the stockholders' meeting and board meetings.

F. Internal Audit

The Internal Audit (IA) team conducts an independent, objective assurance and consulting activity designed to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The IA reports to and supports the Audit Committee in the effective discharge of the Committee's oversight roles and responsibilities. The IA conducts its activities guided by the Institute of Internal Auditors' (IIA) Professional Practices Framework consisting of the International Standards for the Professional Practice of Internal Auditing (Standards), the Definition of Internal Auditing and the Code of Ethics. In December 2017, the external auditing firm Punongbayan & Araullo conducted an independent validation of the internal audit function's Quality Assessment Review (QAR) and concurred that the internal audit activity "Generally Conforms" to the International Professional Practice Framework (IPPF) and its mandatory elements namely: (1) Core Principles for the Professional Practice of Internal Auditing; (2) Definition of Internal Auditing; (3) Code of Ethics; and, (4) International Standards for the Professional Practice of Internal Auditing (Standards). The rating is considered the highest possible rating per Institute of Internal Auditors (IIA) methodology.

Water Operations

The whole water supply chain generally involves the abstraction of water from water sources, treated subsequently through the water treatment facilities, and conveyed and distributed to customers through the Company's network of pipelines, reservoirs, and pump stations. In 2019, the Manila concession supplied an average of 1,514.55 million liters per day (MLD) of clean and potable water to its customers and billed a corresponding volume of 493.94 million cubic meters (MCM). This is equivalent to a total of 1.075 million water service connections or approximately 6.7 million served population.

Water Source

Under the Concession Agreement, MWSS is responsible for the supply of raw water to the Company's distribution system and is required to supply to the Company a maximum quantity of water, currently pegged at 1,600 MLD. In case MWSS fails to supply the required quantity, the Company is required to distribute available water equitably.

The Company substantially relies on surface waters coming from the Angat River System. The principal river, Angat River, originates from the Sierra Madre Mountains. It has three major tributaries namely the Talaguio, Catmon and Matulid Rivers. The surface waters from these sources are collected and impounded through the Angat Dam, conveyed subsequently through the Ipo Dam where water is diverted through tunnels to Bicti and Aqueducts to La Mesa.

Meanwhile, the Company's Treatment Plant in Cardona, Rizal sources water from the Laguna Lake.

To date, ground-source water supply increased to an average of 34 MLD with a max of 58 MLD at the height of dry season. These deep wells are part of the companies' contingency plan to alleviate the water shortage. These wells are a combination of old rehabilitated wells scattered across the east zone and new drilled wells situated near our reservoirs.

Water Treatment

Raw water is stored at the La Mesa reservoir located immediately downstream of the Novaliches portal interconnection before going to the three (3) major treatment plants - two (2) of which are in Balara located seven (7) kilometers away from the reservoir and the third is nestled just at the northeast of La Mesa Dam.

The Balara treatment plants have a total design capacity of 1,600 MLD and consist of two (2) separate treatment systems: Balara Treatment Plant 1 (BTP1) which was commissioned in 1935 having a design capacity of 470 MLD and Balara Treatment Plant 2 (BTP2) which was commissioned in 1958 with another 1,130 MLD.

The East La Mesa Treatment Plant (ELMTP), on the other hand, is located in Payatas, Quezon City. Relatively new to the system, the facility began its operation in June 2012. It has a capacity of treating

150 MLD of water. It supplies water to far-flung expansion areas in the Rizal province, improving the supply balance of the entire network.

The above treatment plants use a conventional treatment process which involves coagulation, flocculation, sedimentation, filtration and chlorination. The facilities consume higher quantities of chemicals during the rainy season when the turbidity of raw water increases, which consequentially leads to increased costs of treatment operations.

The Company's Treatment Plant in Cardona became operational in March 2019 and as of December 2019 provides 98 MLD of water to the towns of Taytay, Angono, Binangonan, Cardona, Baras, Pililia and Jalajala in the Rizal province. The Cardona Treament Plant uses several advanced technical processes to ensure safe treated water given that it extracts raw water from Laguna Lake. Based on raw water data, raw water characteristics are **"difficult"** with high variation and fluctuations in the various parameters like salinity, organic matters and turbidity, making the water treatment process much more complex than a typical surface water. These techniques include pre-ozonation, Actiflo® settlers and Actiflo® CARB, dual media filters, reverse osmosis and post chlorination. It also includes raw water intake structures, raw water pump station, waste treatment facility, process optimization research facility as well as storage reservoir and distribution pipelines.

Another treatment plant was constructed and put into operation in June 2019 to cater to the needs of the upper barangays of Quezon City affected by the water supply deficit experienced in Q1. This is the Luzon Water Treatment Plant which gets water from AQ2, one of the aqueducts from Lamesa Dam going to the Balara Treatment Plants. The treatment process used is an ultrafiltration system, which is different from the conventional treatment employed by BTP 1, BTP 2, and ELMTP. Ultrafiltration is a type of membrane filtration process wherein pressure-driven raw water passes through a semi-permeable membrane, of very small pore size, enough to separate suspended solids, endotoxins, bacteria, viruses, and other pathogens. The filtered water has most turbidity removed, thus it has high purity and low silt density.

Water Distribution

After treatment, water is conveyed through the Company's network of pipelines, pumping stations and reservoirs, and mini-boosters to bring potable water to its customers conveniently at set pressure standards. As of December 31, 2019, 78.61% percent of currently served areas have a water supply pressure of 7 psi and above. The lower than target of 98% water availability at 7psi was the result of the reduction in raw water allocation from Angat that necessitates scheduled water interruption for the entire East Zone and also to protect whatever raw water is available for next year.

As of December 31, 2019, the Company's network consisted of approximately more than 5,116 km of total pipeline, comprising of primary, secondary and tertiary mains ranging in diameter from 50 to 2,200 mm. The pipes are made of steel, cast iron, high-density polyethylene (HDPE), polyvinyl chloride (PVC) and other materials. From the start of the concession in 1997 until the end of 2019, the Company has laid almost 4,892 km of pipeline for service expansion or pipe replacement or rehabilitation.

Pumping stations also play a critical part in water distribution. Approximately 66% of the treated water supplied by the Company is pumped to ensure pressure compliance especially for the highly elevated areas. Currently, the Company operates twenty one (21) pumping stations with a combined maximum pumping capacity of 3,100 MLD and an average plant output of around 1270 MLD. Most of the major pumping stations have reservoirs with a combined capacity of almost 550 ML.

The Company operates forty six (46) line boosters to reach the fringe areas, which are quite distant from the treatment plants and pumping stations. At the height of the water supply shortage, a total of 68 line boosters were operated by the Company. Line boosters typically are small facilities aimed at augmenting water supply for areas that are not sufficiently supplied during the regular pumping operations of the pump stations.

Non-Revenue Water (NRW)

NRW refers to the volume of water lost in the Company's distribution system due to leakage, pilferage, illegal connections and metering errors. As determined by the MWSS-Regulatory Office, NRW is calculated as the percentage of water lost against the net volume of water supplied by the Company.

Over the years, the Company has delivered remarkable strides in managing its NRW. The concession started with a high system loss of 63% in 1997. In 2010, its NRW level is reduced to and maintained at just 11%. Year-end figure for 2019 was recorded at 10.37%. Continuous improvements of water supply

management coupled with massive pipe replacement projects were done to maintain and improve the reduction of Company's system losses.

Water Quality

Raw water quality from Angat, Bicti, Ipo and La Mesa as well as Laguna Lake is regularly tested by the laboratory to assess any changes to raw water quality over time. This source monitoring provides early warning of potential raw water quality problems in terms of Microbiological and Physico-chemical (Inorganic and Organic constituents). Aside from source monitoring, routine monitoring of raw water at the treatment plant inlet is conducted on a daily to weekly basis for operational control to effectively and efficiently manage treatment process operation. These routine monitoring include Microbiological and selected Physico-chemical parameters.

Raw water from Laguna that is treated at the Cardona Water Treatment Plant is also monitored.

The Company's water quality consistently meets the Philippine National Standards for Drinking Water (PNSDW) set by the Department of Health (DOH) and based on World Health Organization (WHO) water quality guidelines. To ensure that water supplied at the tap is safe to drink, stringent water quality monitoring is also continuously implemented at the treatment plants and throughout the distribution system. From the results of analysis conducted, water quality has always been maintained compliant based on the Microbiological, Physical and Chemical standards at the customers taps. In 2019, the Company surpassed the required tests for Microbiological and Physico-chemical quality at the treatment plant outlet, facilities and reservoirs annually.

Continuous monitoring of water quality indicators throughout the network is also conducted at the customers taps by with more than 40,000 tests annually are tested from samples collected at the 886 pre-identified sampling points located at various influence area. Regulatory sampling points are designated at strategic locations across the distribution system - where sampling is conducted daily by the Company. The MWSS-Regulatory Office, Local Government Units (LGUs) and DOH likewise collect random samples from these designated sampling points and have them tested by third party laboratories and designated government laboratories. The Company's water samples scored an average water quality compliance of 100%, surpassing the threshold of 95% set in the PNSDW. In 1997, when the concession began, only 87% of water samples complied with these quality standards. The Company's rating is based on a series of tests conducted regularly at these points within the East Zone.

The samples collected are tested at Manila Water's own Laboratory, which is accredited by the DOH and a recognized EMB-DENR testing laboratory. The Laboratory has also gained its recognition as an ISO/IEC 17025:2005 accredited laboratory, granted by the Philippine Accreditation Office, Department of Trade and Industry (DTI). These recognition and accreditations subject the laboratory to regular surveillance audits. Consistently, the Laboratory has gained excellent and satisfactory ratings on most proficiency testing programs it has participated through local and international proficiency testing program providers. In 2010, the Laboratory also gained IMS certifications for ISO 9001:2008, ISO 14001:2004 and OSHAS 18001:2007. These recognitions have gained the confidence of the MWSS-Regulatory Office, the DOH and DENR in the tests results that are regularly provided to them.

Sewerage Operations

The Company is responsible for the provision of sewerage and sanitation services through the operation of new and existing sewerage systems and a program of regular desludging of household septic tanks in the East Zone.

Sewerage and Sanitation System

Since 1997, the Company has significantly improved and expanded the limited used water infrastructure originally operated and maintained by the MWSS. Sewerage services are provided in areas where treatment facilities are available. Sewered areas currently include Quezon City and Makati. Parts of Manila, Taguig, Cainta, Pasig and Mandaluyong are also connected to sewer networks.

The Company had few facilities for sewerage services in 1997. The Sewage Treatment Plant (STP) in Magallanes Village was then the largest treatment facility in the country with a 40 MLD capacity. The STP in Magallanes provides sewerage services to the Makati central business district and some residential villages. Prior to privatization, this facility had poor treatment efficiency and did not meet effluent quality standards. The Karangalan Bio-module in Karangalan Village was serving approximately 100 households but also produced substandard effluent quality before 1997. In addition

to these facilities, an Imhoff tank in Phil-Am Village and thirty-one communal septic tanks (CSTs) in Quezon City were also turned-over by the MWSS to Manila Water in 1997. These facilities were then serving approximately 19,000 households only. Manila Water upgraded these facilities to meet the effluent standards set by the DENR.

In 2001, the Company constructed two (2) pilot package plants to determine if they were feasible in terms of social, financial, and environmental aspects. These are located in Valle Verde Homes, Pasig, one of which serves approximately 100 households and another serves some 400 households of the housing project in Makati together with approximately 4,000 students and employees in Rizal Elementary School.

With the success of the two (2) pilot STPs, the Company implemented the Manila Second Sewerage Project (MSSP) funded by World Bank. Under the MSSP, twenty-six (26) STPs were constructed. Sixteen (16) of these STPs were formerly CSTs and the rest are on-site STPs for medium and high rise housing establishments and for the University of the Philippines campus. Takeover and upgrade of the STP in Diego Silang, Taguig was also part of the MSSP.

As part of its commitment to expand this service, the Company constructed and subsequently operated in 2008 under the Manila Third Sewerage Project (MTSP) two (2) Septage Treatment Plans (SpTPs) aimed at managing septic tank materials siphoned from the East Concession customers. A total of 77 desludging trucks are available daily for deployment to ensure the desludging service is rendered to the entire East Zone population over the next five (5) years. Since 1997, the Company has already provided desludging service to more than 1,000,000 households.

The MTSP is a follow-up to the MSSP and has the ultimate objective of improving sewerage and sanitation conditions in the East Zone. It was developed as a means of achieving the Company's sewerage and sanitation service targets. The remaining components of the MTSP include the construction of sewer networks and treatment plants in several locations in the East Zone including upgrading of existing communal septic tanks with secondary treatment levels. There were six (6) sewage and septage treatment plants that were constructed under MTSP. It was in this project that combined sewer and drainage system was implemented. Out of the six (6) facilities, four (4) employed this approach.

In 2015, the Marikina North Sewage Treatment Plant and Liwasan ng Kagitingan at Kalikasan Sewage Treatment Plant became operational. These two facilities have a combined capacity of 175 MLD and are by far, the two biggest STPs of the Company. Another remarkable feature of the two (2) STPs is that both have the same treatment technology known as the Sequencing Batch Reactor (SBR) whereas the thirty-eight (38) facilities that were constructed under MSSP, MTSP and the take-over projects all employ the Conventional Activated Sludge treatment. As of end of 2019, the Company operates forty (40) used water facilities including the Marikina North and Liwasan ng Kagitingan at Kalikasan STPs, with a total capacity of 310MLD, compared to 40MLD in 1997.

Customers who are not connected to the sewer network are provided with septic tank maintenance services through the "Sanitasyon Para Sa Barangay" (SPSB) program. Through cooperation with the barangays, the program aims to desludge all septic tanks in a barangay over a specified, set schedule. The environmental fees paid by customers cover the cost of desludging household septic tanks.

For 2019, the Company has provided the service to 212,125 households which is equivalent to 117,441 septic tanks emptied. For the years covering 2017-2019, the total households provided with the desludging service were 597,172 equivalent to 334,447 septic tanks desludged. Furthermore, the average availment rate of the program has significantly increased through a more intensive Information, Education and Communication (IEC) program per barangay to educate customers of the East Zone about the importance of a properly maintained septic tanks.
The technical assistance component focus on information and education campaigns on proper liquid waste disposal and environment preservation and the preparation of follow-up programs on sewerage and sanitation, with emphasis on low-cost sanitation systems.

New Business and Investments

The Manila Water Group further brings its expertise in water and used water services outside the East Zone Concession through partnerships with private companies, local water districts and local government units of major cities and municipalities in the Philippines, and emerging cities in Southeast Asia. Manila Water offers value-added services across the water value chain from source development

to used water and sanitation services anchored on Public-Private Partnership (PPP) and Business-to-Business (B2B) models.

Manila Water Group also execute several contracts related to the water business such as Performance-Based Contracts (PBCs) for NRW reduction, Bulk Water Supply arrangements, Property Management and Operation (Estate Water) models, Lease Agreements, and Operations and Maintenance Contracts. Furthermore, Merger and Acquisition (M&A) is extensively and aggressively used to support growth especially in the Southeast Asian Region. Towards this end, the Manila Water Group has signed joint venture agreements and/or investment agreements with local and international partners in the last few years.

Laguna Water's Concession Agreement with the Provincial Government of Laguna

Laguna AAAWater Corporation (Laguna Water) is a Joint Venture (JV) between the Provincial Government of Laguna (PGL) and Manila Water Philippine Ventures, Inc. (MWPV) with shareholdings of 30% and 70%, respectively.

On April 09, 2002, Laguna Water and PGL have entered into a Concession Agreement which grants Laguna Water (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive rights and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission, and refurbish the identified facilities required to provide water services to specific areas for an operational period of twenty-five (25) years which commenced on October 20, 2004.

In December 2013, Laguna Water signed an Asset Purchase Agreement with the Laguna Technopark, Inc. (LTI) for the acquisition of the water reticulation system of LTI in Laguna Technopark, a premier industrial park located in Sta. Rosa and Binan, Laguna, which houses the region's largest and more successful light to medium non-polluting industries.

On June 30, 2015, Laguna Water and the PGL signed an amendment to the concession agreement which expands the concession area to cover all cities and municipalities in the province of Laguna, as well as the service obligation to include the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

In connection with the amendment to the concession agreement, the Sangguniang Bayan of the Municipality of Calauan, Laguna approved the resolution allowing Laguna Water to provide water and wastewater services to the municipality of Calauan. The provision of services by Laguna Water in the municipality of Calauan is being implemented in phases, with full coverage of the area targeted by the first quarter of 2020. Furthermore, the concession period's commencement date was amended to have commenced on September 30, 2010 and shall end on September 30, 2035.

On August 23, 2017, the Sangguniang Bayan of Victoria, Laguna has approved the inclusion of its municipality within the service area of Laguna Water.

On July 12, 2018, Laguna Water received the Notice of Award from Pagsanjan Water District (PAGWAD) for the implementation of the contractual JV project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of the PAGWAD, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in the PAGWAD's service area.

On December 11, 2018, Laguna Water entered into four (4) Asset Purchase Agreements (APAs) with Extraordinary Development Corporate Group (EDCG)'s subsidiaries to acquire the subsidiaries' assets related to or used in its water service provision operations in Biñan, Laguna. The APAs are with the following EDCG subsidiaries, namely, Earth Aspire Corporation, Earth Prosper Corporation, Earth and Style Corporation and Extraordinary Development Corp.

Boracay Water's Concession Agreement with Tourism Infrastructure and Enterprise Zone Authority

Boracay Island Water Company, Inc. (Boracay Water) is a JV between Manila Water and Tourism Infrastructure and Enterprise Zone Authority (TIEZA), formerly Philippine Tourism Authority (PTA) with shareholdings of 80% and 20%, respectively.

On December 17, 2009, Boracay Water entered into a concession agreement with TIEZA. The concession agreement grants Boracay Water the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services to the entire Boracay Island for a period of twenty-five (25) years commencing on January 1, 2010 until December 31, 2035.

Clark Water's Concession Agreement with Clark Development Corporation

Clark Water Corporation (Clark Water) is the water and used water concessionaire of Clark Development Corporation (CDC) in the Clark Freeport Zone in Angeles, Pampanga. By virtue of an amendment agreement executed on August 15, 2014, the 25-year concession agreement with CDC was extended by another fifteen (15) years until October 1, 2040. In November 2011, Manila Water acquired 100% ownership of Clark Water through a Sale and Purchase Agreement with Veolia Water Philippines, Inc. and Philippine Water Holdings, Inc.

MW Consortium Agreement with the Provincial Government of Cebu

On March 21, 2012, Manila Water Consortium, Inc. (formerly, Northern Waterworks and Rivers of Cebu, Inc.) (MW Consortium), a consortium of Manila Water (51%), MetroPac Water Investments Corporation (39%) and Vicsal Development Corporation (10%), signed a Joint Investment Agreement (JIA) with the Provincial Government of Cebu (PGC) for the formation of a joint venture company.

Under the JIA, the parties agreed to develop and operate a bulk water supply system that will supply 35 million liters of water per day to target areas in the province of Cebu with the joint venture company serving as a bulk water supplier. The term of the agreement is thirty (30) years starting March 2012 and renewable for another twenty-five (25) years. MW Consortium and the PGC incorporated Cebu Manila Water Development, Inc. (Cebu Water) with an ownership of 51% and 49%, respectively, pursuant to the JIA.

On December 13, 2013, Cebu Water signed a 20-year Bulk Water Supply Contract with the Metropolitan Cebu Water District for the supply of 18 million liters per day of bulk water for the first year and 35 million liters per day of bulk water for years two (2) to twenty (20).

Non-revenue Water (NRW) Reduction Activities in Zamboanga City

On December 19, 2014, Manila Water received a notice from Zamboanga City Water District (ZCWD) awarding the project for NRW reduction in Zamboanga City. On January 30, 2015, Manila Water and ZCWD signed and executed a Joint Venture Agreement (JVA) in relation to the NRW reduction project in Zamboanga City. On April 10, 2015, Manila Water and ZCWD incorporated Zamboanga Water Company (Zamboanga Water) with an ownership of 70% and 30%, respectively, to implement the NRW project.

On June 2, 2015, Zamboanga Water entered into an NRW Service Agreement (NRWSA) with ZCWD. Under the NRWSA, ZCWD grants Zamboanga Water the right to implement Network Restructuring and NRW Reduction Programs for ZCWD's water distribution system.

On July 2, 2018, through a Deed of Absolute Sale of Shares, the Parent Company sold to MWPV, its wholly owned subsidiary, its shares in Zamboanga Water.

Bulk Water Supply Agreements between Davao Water and Tagum City Water District

On July 28, 2015, Tagum Water District (TCWD) awarded the Tagum City Bulk Water Supply Project to Davao del Norte Water Infrastructure Company, Inc. (Davao Water), a consortium of Manila Water and iWater, Inc.

On October 15, 2015, Davao Water has signed and executed a JVA with TCWD. The JVA governs the relationship of Davao Water and TCWD as joint venture partners in the Tagum Bulk Water Project. Pursuant to the JVA, Davao Water and the TCWD caused the incorporation of a joint venture company, namely, Tagum Water Company, Inc. (Tagum Water), which shall implement the Tagum Bulk Water Project for fifteen (15) years from the Operations Start Date as defined in the JVA. The Davao Water owns 90.00% while TCWD owns 10.00% of Tagum Water's outstanding capital stock.

Tagum Water was registered with the SEC on December 15, 2015 and its primary purpose is to develop, construct, operate and maintain the bulk water supply facilities, including the development of raw surface water sources, water treatment, delivery and sale of treated bulk water exclusively to TCWD.

On February 26, 2016, Tagum Water and TCWD signed and executed a Bulk Water Sales and Purchase Agreement for the supply of bulk water to TCWD for a period of fifteen (15) years from the Operations start date.

On May 23, 2018, through a Deed of Absolute Sale of Shares, the Parent Company sold to MWPV its shares in Davao Water.

Estate Water, Aqua Centro MWPV Corporation and EcoWater MWPV Corporation
On January 15, 2016, MWPV entered into a MOA with Ayala Land, Inc. (ALI) and its subsidiaries (collectively, the ALI Group), whereby MWPV shall exclusively provide water and used water services and facilities to all property development projects of the ALI Group. This MOA is implemented through Estate Water, a division of MWPV.

On December 8, 2016, MWPV entered into MOAs with each of SM Prime Holdings Inc.'s and the latter's affiliates and subsidiaries, SM Development Corporation and SM Residences Corp. (collectively, the SM Group). Pursuant to the MOA, MWPV will provide the water and/or used water services and facilities to the property development projects of the SM Group identified in each of the MOA.

On October 5, 2017, Aqua Centro MWPV Corporation (Aqua Centro) was incorporated to handle property development projects, other than those within the ALI Group, by engaging in the development, improvement, maintenance, and expansion of water, sewerage, wastewater, and drainage facilities, and provide services necessary or incidental thereto.

December 28, 2017, MWPV entered into a Novation Agreement with the SM Group and Aqua Centro to transfer its rights, duties and obligations to provide water and/or used water services and facilities to the property development projects of the SM Group to Aqua Centro, effective from the inception of the MOA. As of December 31, 2018 and 2017, Aqua Centro has six (6) and four (4) signed MOAs with the SM Group, respectively. MWPV has one (1) signed MOA with SM Group as of December 31, 2018 and 2017.

On December 18, 2017, MWPV signed a twenty-five (25) year lease agreement with the Philippine Economic Zone Authority (PEZA). Pursuant to the agreement, MWPV will lease, operate, and manage the water and used water facilities of PEZA in the Cavite Special Economic Zone (CEZ) for the provision of water and used water services to the locators therein. MWPV shall apply its expertise in the industrial zones operations and shall provide capital expenditures for the duration of the agreement.

On July 27, 2018, MWPV incorporated EcoWater MWPV Corporation (EcoWater) which will eventually handle the Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in CEZ.

On December 11, 2018, Aqua Centro entered into seven (7) Asset Purchase Agreements (APAs) with Extraordinary Development Corporate Group (EDCG)'s subsidiaries to acquire the subsidiaries' assets related to the provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic in the province of Cavite. These subsidiaries are Earth Aspire Corporation, First Advance Development Corporation, Ambition Land Inc., Prosperity Builders Resources Inc., Tahanang Yaman Homes Corporation, Extraordinary Development Corp., and Earth + Style Corporation. As of December 31, 2018, Aqua Centro has already started operations in six (6) out of the ten (10) subdivisions. Aqua Centro shall operate in the remaining subdivisions once all the conditions precedent under the APAs have been fulfilled.

Bulacan MWPV Development Corporation and its Asset Purchase Agreements
On January 4, 2017, MWPV entered into an Asset Purchase Agreement (APA) with Asian Land Strategies Corporation (Asian Land) to acquire and operate the latter's assets used in the water business operations in Asian Land's developments in the province of Bulacan. The intention of MWPV was to assign the rights under the APA to its wholly owned subsidiary upon its incorporation.

On April 11, 2017, Bulacan MWPV Development Corporation (BMDC) was incorporated to design, construct, rehabilitate, maintain, operate, finance, expand, and manage water supply system and sanitation facilities. BMDC is the ultimate entity that will own and operate the assets acquired from Asian Land.

On July 31, 2017, MWPV assigned all its rights and obligations on the APA to BMDC, a wholly-owned subsidiary of MWPV, under a Deed of Assignment. On the same day, the Deed of Absolute Sale was also executed between Asian Land and BMDC.

On July 26, 2017, BMDC entered into an APA with Solar Resources, Inc. (Solar Resources) to acquire and operate the latter's assets used in the water business operations in Solar Resources developments in the province of Bulacan. On the same day, Solar Resources executed a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC.

On December 14, 2017, BMDC and Borland Development Corporation (Borland) executed the APA, Deed of Assignment, and Deed of Absolute Sale between the parties for the sale, assignment, transfer, and conveyance of Borland's assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan.

Calasiao Water's Concession Agreement with Calasiao Water District

On December 9, 2016, the Manila Water received a Notice of Award from Calasiao Water District (CWD) for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system of CWD in Calasiao, Pangasinan.

On June 19, 2017, Manila Water signed a JVA with CWD which will govern the relationship of the two in undertaking the joint venture project. Under the JVA, Manila Water and CWD shall cause the incorporation of a joint venture company where Manila Water and CWD shall own 90% and 10%, respectively, of the outstanding capital stock. On August 2, 2017, the SEC approved the incorporation of Calasiao Water Company, Inc. (Calasiao Water)

On October 23, 2017, Calasiao Water and CWD signed and executed a concession agreement that grants Calasiao Water, the sole right to develop, manage, operate, maintain, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery in the entire Municipality of Calasiao for a period of twenty-five (25) years commencing on December 29, 2017.

Filipinas Water Consortium Holdings Corp. and Its Partnerships

On January 24, 2017, the consortium of Manila Water and MWPV received the Notice of Award from Obando Water District (OWD) for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of OWD.

February 2, 2017, Obando Water Consortium Holdings Corp. (now Filipinas Water Consortium Holdings Corporation, or Filipinas Water) was registered with the SEC. Filipinas Water is the consortium between the Parent Company and MWPV with an equity share of 49% and 51%, respectively. The primary purpose of Filipinas Water is to engage in the business of a holding company without acting as stockbroker or dealer in securities.

On July 26, 2017, Filipinas Water signed and executed a JVA with OWD for the implementation of the project. Subsequently, on October 10, 2017, Obando Water Company, Inc. (Obando Water) was incorporated. Obando Water is 90% and 10% owned by Filipinas Water and OWD, respectively. The project includes a Concession Agreement (CA) which was executed on October 12, 2017 for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of OWD in Obando, Bulacan for a period of twenty-five (25) years from the commencement date.

On January 26, 2018, the consortium of Manila Water and MWPV received the Notice of Award from the City of Ilagan Water District (CIWD) for the implementation of a joint venture project for the development, financing, operation, and management of a raw water source, provision of bulk water supply with system expansion, and the development of septage management in the City of Ilagan, Isabela.

On April 26, 2018, the consortium of Manila Water and MWPV received the Notice of Award from Bulakan Water District (BWD) for the joint venture project for the development, financing, design, engineering, construction, rehabilitation, upgrade, testing, commissioning, operation, management, and maintenance of water facilities and the provision of water and sanitation services in the Municipality of Bulakan.

On August 16, 2018, Filipinas Water and the BWD entered into a JVA for the implementation of the project. On October 16, 2018, the joint venture company was incorporated and was registered with SEC under the name of Bulakan Water Company, Inc. (Bulakan Water). Bulakan Water is owned by Filipinas Water and BWD having an equity share of 90% and 10%, respectively.

On November 16, 2018, Filipinas Water entered into a Joint Venture Agreement with CIWD for the implementation of the project. Upon completion of conditions precedent in the JVA, a JV Company will consequently enter into a Bulk Water Sales and Purchase Agreement and Septage Management Agreement with CIWD for the implementation of the Ilagan Project for twenty-five (25) years from the commencement date.

MWPV JVA with Tubig Pilipinas Group, Inc. (TPGI)

On December 11, 2017, the Municipality of Malasiqui granted a franchise to MWPV and Tubig Pilipinas Group, Inc. (TPGI) for the implementation of a joint venture project to establish, construct, operate, manage, repair, and maintain water supply and wastewater system and facilities in the municipality of Malasiqui, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date. On February 20, 2018, the board of directors of MWPV approved the creation of a SPV for this project.

On November 16, 2018, MWPV has signed and executed a JVA with TPGI. Under the agreement, MWPV and TPGI shall incorporate a joint venture company, with 50% and 50% ownership, respectively, which shall implement the project.

On December 21, 2018, the consortium of MWPV and TPGI received a Notice of Award from San Jose City Water District (SJCWD) for the implementation of the joint venture project for the design, construction, improvement, upgrade, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and the provision of water and sanitation services of SJCWD in San Jose City, Nueva Ecija.

Upon the completion of the conditions precedent specified in the notice of award, the consortium partners and the water district would enter into a JVA that will grant them as contractor to perform certain functions and as agent for the exercise of its right and powers, the sole right to develop, manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities in the service area, including the right to bill and collect tariff for water and sanitation services supplied in the service area of SJCWD.

Notice to Proceed from the Municipality of Sta. Barbara, Pangasinan

On June 14, 2018, MWPV received a Notice to Proceed from the municipality of Sta. Barbara, Pangasinan following the enactment of the municipality's ordinance granting a franchise to MWPV for the provision of water supply and the improvement, operation, maintenance, management, financing, and expansion of water supply facilities, and the provision of septage management in Sta. Barbara.

The franchise shall be for a term of twenty-five (25) years and is expected to be operational by 2019.

Notice to Proceed from the Municipality of San Fabian, Pangasinan

On October 15, 2018, MWPV received a Notice to Proceed from the municipality of San Fabian, Pangasinan following the enactment of the municipality's ordinance granting a franchise to MWPV to establish, construct, operate, manage, repair, and maintain water supply system and facilities, and the provision of septage management in the municipality of San Fabian, Pangasinan.

The franchise shall be for a term of twenty-five (25) years and is expected to be operational by 2019.

Notice of Award from Leyte Metropolitan Water District (LMWD)

On December 6, 2017, the Manila Water received the Notice of Award from Leyte Metropolitan Water District (LMWD) for the implementation of the joint venture project (the Leyte Project) for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of LMWD in the Province of Leyte.

The conditions precedent specified in the Notice of Award include the incorporation of a special purpose vehicle (SPV) which will implement the Leyte Project under a contractual joint venture with LMWD.

Upon completion of the conditions precedent specified in the Notice of Award, the SPV and LMWD shall enter into a JVA that will grant the SPV, as contractor, to perform certain functions and as agent for the exercise of, the sole and exclusive right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities of LMWD in its Service Area, including the right to bill and collect tariff for the provision of water supply and sanitation services in the Service Area of LMWD.

LMWD's service area covers the City of Tacloban and seven other municipalities namely Palo, Tanauan, Dagami, Tolosa, Pastrana, TabonTabon, and Santa Fe.

Notice of Award from Balagtas Water District

On April 25, 2018, a consortium of Manila Water and MWPV received the Notice of Award from Balagtas Water District (BWD) for the implementation of a joint venture project for the design, construction,

rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of BWD in the municipality of Balagtas, Bulacan.

Notice of Award from Tanauan Water District

On October 12, 2018, the Consortium of Manila Water and MWPV received the Notice of Award from Tanauan Water District (TWD) for the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services in the service area of TWD in the City of Tanauan.

On February 4, 2019, the Consortium and the Tanuaan Water District entered into a JVA for the implementation of the Project.

Notice of Award from Lambunao Water District

On November 27, 2018, the Parent Company received a Notice of Award from Lambunao Water District for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of Lambunao Water District in the Municipality of Lambunao, Iloilo.

Upon completion of conditions precedent specified in the notice, Manila Water and Lambunao Water District shall enter into a JVA, the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

Notice of Award from Calinog Water District

On November 27, 2018, the Parent Company received a Notice of Award from Calinog Water District for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of Calinog Water District in the Municipality of Calinog, Iloilo.

Upon completion of conditions precedent specified in the notice, the Parent Company and Calinog Water District shall enter into a JVA, the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

Notice of Award from Calbayog City Water District

On December 27, 2018, the Parent Company received the Notice of Award from Calbayog City Water District for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water and wastewater systems of Calbayog City Water District in the Calbayog City, as well as other areas which may eventually form part of the service coverage of the Calbayog City Water District in the Province of Samar.

Upon completion of the conditions precedent specified in the notice, the Parent Company shall enter into a JVA with the Calbayog City Water District for the implementation of the joint venture project over a twenty five (25) year contract period.

International New Business and Investments

International new business investments of the Manila Water Group are generally undertaken through its wholly-owned Singapore subsidiary, Manila Water Asia Pacific Pte. Ltd (MWAP), and its direct subsidiaries, Manila Water South Asia Holdings Pte. Ltd. (MWSAH), Thu Duc Water Holdings Pte. Ltd. (TDWH), Kenh Dong Water Holdings Pte. Ltd. (KDWH), Manila South East Asia Water Holdings Pte. Ltd (MSEA), and Manila Water Thailand Holdings Pte. Ltd. (MWTC).

In December 2011, TDWH purchased a 49% share ownership in Thu Duc Water B.O.O. Corporation (Thu Duc Water) which owns the second largest water treatment plant in Ho Chi Minh City. Thu Duc Water has a bulk water supply contract with Saigon Water Corporation (SAWACO) for a minimum consumption of 300 MLD on a take-or-pay arrangement.

In July 2012, KDWH completed the acquisition of a 47.35% stake in Kenh Dong Water Supply Joint Stock Company (Kenh Dong Water), a Vietnamese company established in 2003 to build, own, and operate major water infrastructure facilities in Ho Chi Minh City.

In October 2013, MWSAH completed the acquisition of 31.47% stake in Saigon Water Infrastructure Corporation (Saigon Water), a listed company in Vietnam. In 2017, MWSAH infused an additional equity of 103B VND, and increased its shareholding percentage to 38%.

In 2015, MWSAH also entered into a Capital Transfer Agreement with Saigon Water Infrastructure Corporation and Vietnam-Oman Investment Company to develop and operate the water network in Cu

Chi, a district in Ho Chi Minh City. The project will be undertaken with Cu Chi Water Supply Sewerage Company Limited (Cu Chi Water), a Vietnam limited company. Through this agreement, MWSAH holds 24.5% share in the charter capital of Cu Chi Water.

On November 6, 2015, MWAP signed an MOU with PDAM Tirtawening Bandung City for a non-revenue water reduction demonstration project in Bandung City, Indonesia. PDAM Bandung is a water utility company owned and controlled by the Regional Government of Bandung City in West Java, Indonesia.

On June 21, 2017, MWSAH subscribed to an additional 6.15 million primary shares of Saigon Water at a subscription price of VND16,900.00 per share for a total amount of ₱229.16 million (VND103.87 billion). As a result of this additional subscription, MWSAH now holds 37.99% of the outstanding capital stock of Saigon Water.

On February 19, 2018, the Manila Water signed a SPA with EGCO to acquire EGCO's 18.72% equity in Eastern Water Resources Development and Management Public Company Limited (East Water). East Water is a publicly listed company whose shares are traded in the Stock Exchange of Thailand. It is engaged in the provision of raw water and tap water since 1992 in the eastern seaboard of Thailand.

On March 5, 2018, MWTC entered into a one-year term facility agreement with Mizuho Bank, Ltd., Bangkok Branch (Mizuho Bangkok), whereby Mizuho Bangkok extended credit to MWTC for THB5.30 billion to finance MWTC's acquisition of shares in East Water

On March 14, 2018, MWTC acquired 311,443,190 ordinary shares in East Water representing 18.72% equity of East Water

On March 6, 2018, PT Manila Water Indonesia (PTMWI), a wholly-owned subsidiary of MSEA signed a SPA with PT Triguna Rapindo Mandiri to acquire 4,478 shares of PT Sarana Tirta Ungaran (PT STU) which allowed PT MWI to own twenty percent (20%) of the outstanding capital stock of PT STU.

PT STU is a bulk water supply company servicing PDAM Kabupaten Semarang and industrial customers in Bawen, located in Ungaran area of Semarang Regency, Central Java Province, with a capacity of 21.5 million liters per day.

Environmental Compliance

The Company's water and used water facilities must comply with Philippine environmental standards set by the Department of Environment and Natural Resources (DENR) on water quality, air quality, hazardous and solid wastes, and environmental impacts. In keeping with the Company's commitment to sustainable development, all projects are assessed for their environmental impact and where applicable, must obtain an Environmental Compliance Certificate (ECC) from the DENR prior to construction or expansion and the conditions complied with, along with all other existing environmental regulations. During and subsequent to construction, ambient conditions and facility-specific emissions (e.g. air, water, hazardous wastes, treatment by-products) from water and used water facilities are routinely sampled and tested against DENR environmental quality standards using international sampling, testing and reporting procedures.

The Company has made efforts to meet and exceed all statutory and regulatory standards. The Company employs the appropriate environmental management systems and communicates to its employees, business partners and customers the need to take environmental responsibility seriously. The Company uses controlled work practices and preventive measures to minimize risk to the water supply, public health and the environment. The Company's regular maintenance procedures involve regular disinfection of service reservoirs and mains and replacement of corroded pipes. Implementation and effectiveness of established operations and maintenance procedures is being monitored and checked for continual improvement through the Operations Management System (OMS). Monitoring of environmental compliance for operating facilities and on-going projects is being carried out proactively using risk-based assessment checklist in order to internally address compliance risks before it resulted into legal non-compliances. The Company's water and used water treatment processes meet the current standards of the PNSDW, DOH, DENR and Laguna Lake Development Authority (LLDA). The Company continues to undertake improvements in the way it manages both treated water and used water as well as treatment of by-products such as backwash water, sludge and biosolids.

The Company has contingency plans in the event of unforeseen failures in the water and used water treatment or chemical leakage and accidental discharge of septage and sewage. The Company's Customer Care Center is trained to ensure that environmental incidents are tracked, monitored and resolved.

A policy on climate change was formulated to define the Company's commitment to the National Framework Strategy for Climate Change. While the company is undertaking climate change mitigating measures such as greenhouse gas accounting and reporting along with initiatives to optimize consumption of fuel and electricity to reduce its carbon footprint, there is a current emphasis towards climate change adaptation such as intensifying watershed rehabilitation work, vulnerability assessment of water sources and assets, improving the climate-resiliency of existing and future water and used water facilities, strengthening risk reduction and management systems with a business continuity plan, and development of new water sources.

Sustainable Development Projects

Manila Water has always committed to value creation, recognizing that there is a mission to fulfill, not just a business to run. The company believes that long term viability is very much dependent on alignment with social, economic and environmental goals - the ability to empower employees and business partners in improving the lives of the customers through the provision of safe and affordable water and wastewater services, and the manner with how natural capitals are managed as the business is uniquely reliant upon the environment, and vice versa.

Manila Water's sustainability framework pillars are: 1) Developing Employees; 2) Helping Build Communities; 3) Protecting the Environment; 4) Safeguarding Health and Safety and 5) Contributing to Local and National Economies.

Developing Employees

Manila Water regards its employees as the most important resource and partner in creating lasting value, and always keeps the welfare of all its workforce as a primary concern. Manila Water provides talents access to various learning and development opportunities composed of in-house and external trainings as well as accelerated development programs under the Manila Water University. In 2019, there were a total of 42,332 training hours for 2,167 employees.

In response to challenging city conditions and to exploit available technology solutions, the company provides flexible time and work arrangements for its employees to encourage productivity and collaboration while meeting the changing talent profile. Five work hubs with adjunct support facilities can be accessed across Metro Manila East Zone, while simultaneously acting as contingency sites to ensure quick business recovery in the case of natural disasters and emergencies.

Opportunities are provided for employees to promote teamwork and camaraderie, such as volunteer-driven calamity response, sports and fitness programs as well as corporate events. Corporate award mechanisms are in place for employees who exemplify excellent performance and work ethic. These recognition programs are the Huwarang Manggagawa Awards for rank and file employees, the President's Pride due to Performance Awards for middle managers, and the Chairman's Circle Awards for the senior managers.

Helping Build Communities

Access to water and sanitation is a universally acknowledged fundamental human right, and consequently is a basic lifeline in any community that ensures healthy and productive inhabitants and a thriving economy. The company has aligned its vision and mission with, best articulated in the United Nation's Sustainable Development Goal 6 that seeks to increase the proportion of the population that has no access to clean water and sanitation. Manila Water provides potable water to a total of 8,167,319 population across the Philippines through 1,241,155 water service connections.

Manila Water believes that inclusivity is fundamental in its service expansion plans, making sure that no one gets left behind, especially the marginalized communities, also known as the base of the pyramid. The "Tubig Para Sa Barangay" (TPSB) program addresses the needs of low-income communities of having clean and affordable water. Complementing the TPSB program is the Lingap program which provides clean water to public service institutions such as schools, public markets, and hospitals, making sure that families have clean and safe water beyond their dwellings. Both TPSB and Lingap have been replicated and adapted to local conditions in Boracay and Laguna, in partnership with the Manila Water Foundation.

Protecting the Environment

Manila Water's service obligations include the collection and treatment of wastewater of customers

prior to proper discharge to receiving bodies of water. In 2019, Manila Water treated a total of 63.69 million cubic meter of wastewater which resulted in the diversion of 13,304 tons of organic pollutants from waterways through the 61 wastewater treatment facilities. The company meets effluent water quality standards set by the Department of Environment and Natural Resources (DENR).

Opportunities to reduce negative environmental impacts and provide continuous services includes optimizing water efficiency through non-revenue water (NRW) program, reducing wastes and emissions, and educating the consumers.

Non-revenue water is the total amount of treated water which do not reach the customer taps, usually due to pilferage, pipe leaks and metering error. Through the NRW program, the Manila Concession recovers 750 million liters per day - volume that is equivalent to the output of a medium-sized dam.
The company's Climate Change Policy, while putting more emphasis on adaptation measures and resiliency, makes a commitment to help mitigate carbon emissions primarily through energy efficiency efforts such as demand-based network management, system load balancing, pump efficiency testing and refurbishment, wastewater 'Project Zero', and 'Biggest Loser: Trimming the Energy Bulge' competition and clean fleet initiatives.

The 1,166,786 trees planted and nurtured in watersheds and surrounding areas offset some carbon emissions. Manila Water continues to protect 9,263 hectares of watersheds particularly Ipo Watershed and La Mesa Watershed through the Bantay Gubat and ABS-CBN Foundation, respectively.

The total organic pollution removed in wastewater treatment in 2019 translates to 83,816 tons of carbon dioxide equivalent of avoided methane formation, using the latest updated factors generated by the Intergovernmental Panel on Climate Change.

Environmental education and engagement program is an integral part of Manila Water's environmental sustainability. Manila Water has been educating and engaging its customers, communities and employees through its Lakbayan tour, Toka Toka program, Bawat Patak, Tumatak Goes to School and various environmental seminars and trainings.

The Lakbayan Tour, whose objective is to provide an opportunity for members of the public to experience the water trail and foster an in-depth understanding of the value of water conservation and managing water after it is used. Since the program's inception in 2006, 102, 753 individuals from various sectors have benefitted from the Lakbayan experience.

The Toka Toka Movement is Manila Water's advocacy program that aims to inform and educate people on the need for wastewater management in communities, the value of personal commitment and the collective impact of individual actions for the environment such as having septic tanks desludged, connecting houses to sewer lines where available, segregating solid waste and spreading the gospel of environmental sustainability among one's family and friends. The Manila Concession has partnered with a total of 34 government and non-government organizations to sustain the campaign. Boracay Water developed its own local version called Amot Amot Para Sa Malimpyong Boracay, and Laguna Water also launched its TSEK ng Bayan (Tamang Sanitasyon Equals Kalusugan, Kalinisan, at Kaunlaran ng Bayan). All three programs have received awards for excellence in communications.

Launched in 2015, 'Bawat Patak Tumatatak' Goes to School, is a sub-program of the Bawat Patak Tumatatak ("every drop makes a mark") employee engagement program, which gives volunteer employees an opportunity to communicate the importance of proper environmental practices to elementary school students. As of end of 2019, the program has partnered with 36 elementary schools, reached 3,658 grade school students and tapped the assistance of 398 Manila Water volunteer employees.

Safeguarding Health and Safety

Manila Water ensures that the water it supplies to its customers are compliant to the Philippine National Standards for Drinking Water. Water quality risks are continuously addressed across the water value chain, minimizing the contamination of raw water at the source, ensuring treatment complies with allowable limits, and providing protection at reservoir storage and during distribution. All potential risks are assessed, and appropriate control measures are incorporated in all parts of operations, control measures are identified and implemented, and policies and procedures are always upgraded as part of continuing improvement.

In 2019, the Manila Concession collected 77,834 water samples of raw and treated water at the facilities and drinking water from customers' taps. In a similar manner, the other Philippine subsidiaries collected

2,686 water samples in world-class laboratories accredited by the Department of Health, recognized by the Philippine Department of Environment and Natural Resources, and certified against ISO standards.

The Manila Concession's revised and expanded Water Safety Plan (WSP) has been approved by the Department of Health in November 2019. The other Philippine subsidiaries are in various stages of WSP preparation, review and regulator approval, in accordance with the Department of Health directive to develop and implement plans to ensure delivery of safe drinking water.

Manila Water also commits to strengthening a culture of health and safety across its workforce, supply chain, and the general public, and continually assesses, implements, and improves business processes by adapting best practices in safety communications, procedures and compliance. Manila Water is certified according to OHSAS 18000: 2007 Occupational Safety and Health Management Systems which is also integrated with other management systems. Policies and procedures for compliance on occupational health standards of the country are well established.

In response to the recently approved implementing rules and regulations of Republic Act 11058 covering Occupational Safety and Health, the safety programs of the company were re-scoped to include and/or strengthen drug free workplace, healthy lifestyle, HIV program, tuberculosis and Hepatitis B program and mental health services.

Contributing to Local and National Economies

As of the end of 2019, Manila Water has provided direct employment to 2,288 individuals in the Metro Manila's East Zone and its subsidiaries across the Philippines and in Vietnam. Out of its pool of business partners, the company has in 2019 provided business opportunities to 289 vendors including material suppliers, contractors, consulting firms, and service providers. A total of Php12.6 billion capital expenditure was used in 2019 for the improvement of water and wastewater services across the Philippine and Manila Water Asia Pacific operations.

Employees

As of December 31, 2019, MWCI had 1,994 employees. Approximately 22% were non-management employees and 78% held management positions.

The following table presents the number of employees as of December 31, 2019:

Year	Former MWSS	Direct Hires	Subsidiaries	Total
2019	443	998	553	1,994

The following table presents the number of employees by function as of December 31, 2019:

Group	Management	Non-Management	Total
Office of the President	3	0	3
Corprate Finance & Strategy	74	6	80
Office of the MWO-COO	2	0	2
Corporate Operations	395	150	545
Strategic Asset Management	49	5	54
Corporate Human Resources	28	3	31
East Zone Business Operations	282	57	339
Business & Technology Services	73	16	89
Corporate Project Management	141	31	172
Corporate Regulatory Affairs	12	2	14
Corporate Strategic Affairs	17	7	24
Legal	11	0	11
Internal Audit	7	0	7
MWF	1	0	1
Subsdiaries	470	152	622
	1,565	**429**	**1,994**

Before privatization, the MWSS had 8.4 employees per 1,000 service connections. Manila Water Company has improved this ratio to 1.4 employees per 1,000 service connections as of December 31, 2019. This was accomplished through improvements in productivity achieved through, among other initiatives, value enhancement programs, improvements in work processes, employee coaching and mentoring, transformation of employees into knowledge workers, and various training programs. Manila Water's organizational structure has been streamlined, and has empowered employees through decentralized teams with responsibility for managing territories. In addition, the Company formed multi-functional working teams which are composed of members of the management team tasked with addressing corporate issues such as quality and risk, and crisis management.

As of December 31, 2019, 182 or 13.2% of the employees of the Company are members of the Manila Water Employees Union (MWEU). In 2013, the company and the MWEU concluded negotiations on a new collective bargaining agreement (CBA). MWEU has the option under the law to renegotiate the non-representation provisions of the CBA by the third quarter of 2016. The management of the Company maintains a strong partnership with union officials and members and there has never been any strike since its inception. Grievances are handled in management-led labor councils. The CBA also provides for a mechanism for the settlement of grievances.

The Company has a two-pronged strategy in talent development – strengthening leadership capabilities, and building and strengthening technical expertise to maintain its leadership in the water industry and contribute to national development. Programs were implemented in partnership with the line managers with the aim of ensuring an agile, enabled, mobile and highly engaged workforce that will support the corporate growth strategy.

On the Talent Management and Leadership development front, several initiatives were undertaken to ensure a strategic and holistic approach to talent development.

Cadetship Training Program: The Cadetship Training Program is a 6-month program that provides qualified fresh graduates the opportunities for specialized training and work experience that aim for excellence in business and technical skills. The end in mind is to ensure that the cadets will have strong understanding of business operations, water and used water processes and project management. Their functional competencies are honed through a 4-month immersion in their actual job assignment where they are paired with a mentor who will teach them the ropes of the business. Mentors are provided with competency learning checklist to ensure that every cadet is evaluated the same way and regular checkpoints happen monthly. A revalida with the SLT and Mancom serves as the culminating learning check for the cadets before they are fully deployed to their line functions.

Business Zone Leadership School (BZLS): This is a competency-based training to ensure a steady supply of competent talents in the East Zone Business Operations who can assume the Business Zone Manager (BZM) role as needed by the business.

Succession Management: Manila Water has strengthen its succession management process to further strengthen the senior management pool of the organization. Talents are assessed, received deliberate development interventions such as Individual Development Plan (IDP), stretched assignments and coaching to accelerate their development. Talent Reviews are conducted annually with line managers across the organization to identify and develop talents to assume current and emerging roles. This process has been integrated with the New Business Operations, in the aim that they may become a talent source for the Group.

Complementing the efforts on leadership development, the same level of focus is given to technical roles where talents occupying highly technical positions are likewise given technical development through the Manila Water University's Center for Technical Excellence. It aims to ensure that the Company strengthens the technical competencies of its talents in its fields of operations.

The Company ensures that its reward system is market competitive, performance-based, aligned with business strategies and results, and within regulatory parameters. In 2005, the Company extended an equal cash incentive to each employee covered by the reward system. In succeeding years, the Company further improved the system by taking care of the gaps in the distribution system and aligning the reward system with the yearend goals of the Company, which are anchored on the KPI/ BEM targets. In 2013, the Company updated its guaranteed pay structure to ensure alignment with industry practices. Also in 2013, the company enhanced its variable pay program to increase the alignment of bonus scheme with business results. The Company continues to monitor pay competitiveness and reward talents according to their achievements and contributions to the business objectives.

In 2014, the Company implemented the Talent Mobility Program which is a talent management and reward platform that allows the seamless transition of talents from one Manila Water business unit to another. The program ensures a reasonable, engaging, and competitive secondment process to Manila Water businesses covering pre-deployment, actual deployment, and repatriation benefits and support for secondees.

In 2001, pursuant to the concession agreement (CA), the Company adopted the Employee Stock Option Plan (ESOP). The ESOP was instituted to allow employees to participate directly in the growth of the company and enhance the employees' commitment toward its long-term profitability. In 2005, the company adopted an Employee Stock Ownership (ESOWN) Plan as part of its incentives and rewards system.

Also in 2005, the company's Board of Directors approved the establishment of an enhanced retirement and welfare plan. The plan is being administered by a Retirement and Welfare Plan Committee, which also has the authority to make decisions on the investment parameters to be used by the trustee bank.

Over and above these benefit and reward schemes, the Company gives recognition for employees who best exemplify the Company's culture of excellence through the Chairman's Circle (C2) Awards for senior managers, the President's Pride due to Performance (P3) honors for middle managers and the Huwarang Manggagawa (Model Employee) Awards for the rank-and-file employees. Eight (8) of the Company's model employee awardees have also been awarded 'The Outstanding Workers of the Republic' (TOWER) Award by the Rotary Club of Manila from 1999 to 2009, by far the most number of awards won by any single company over that period.

The exemplary performance of its employees has earned for Manila Water several awards and recognitions. Over the past seventeen years, the Company has been the recipient of numerous awards. A landmark recognition was earned by Company when it was cited the 2006 Employer of the Year by the People Management Association of the Philippines. Another prestigious award earned by the Company was the Asian Human Capital Award given by the Singaporean government in 2012. The 2006 Employer of the Year honors were bestowed upon Manila Water for providing a remarkable example of how a group of much-maligned government workers was transformed into a thoroughly efficient organization that is now a leader in its industry. The Asian Human Capital Award, is one of the biggest recognition earned by the Company as an employer and is an award that is so difficult to obtain due the stringent standards of its giver, the Singaporean Ministry of Manpower. However, the comprehensive selection process did not prevent Manila Water from becoming the first-ever Filipino company to capture the elite honors when the Singaporean government deemed the Company worthy of the award for harnessing its people in transforming from a languishing water service provider into a world-class water and used water company, citing not only its accomplishments but also the way it turned around its business using its human resource.

In 2014, the Company bagged the following awards and recognitions: One of 20 Global Growth Companies (GGC) in East Asia – World Economic Forum (May 2014); No. 2 in the 2014 Sustainability Ranking – Channel NewsAsia (November 2014); Asia's Icon on Corporate Governance – Corporate Governance Asia (November 2014); 1st in Innovation in Water, Wastewater and Stormwater Network Modelling and Analysis for the Marikina North STP Project - Bentley Systems, Inc.'s Be Inspired Awards (November 2014); PSE Bell Award for Corporate Governance, Hall of Fame – Philippine Stock Exchange (November 2014); Asia Geospatial Excellence Award – Asia Geospatial Forum (November 2014); Philippine Esri Best Overall Map Award for 'The Business Risk Exposure Assessment of Manila Water Network Asset Project Map' – Philippine Esri User Conference and 2nd Philippine Esri Education GIS Conference (September 2014); First Don Emilio Abello Energy Efficiency Award for the San Juan Pumping Station – Department of Energy (October 2014); IABC Quill Awards, Awards of Excellence and Awards of Merit for various business communication programs – International Association of Business Communicators (IABC) Philippines (2014).

In April 2014, the Laguna Lake Development Authority cited the following employees as Outstanding Pollution Control Officers – Blue Ratee for the 7 Sewage Treatment Plants of Manila Water: Sharon B. Cerbito - North Septage Treatment Plant (San Mateo); Jimaima M. Hoque - Sikatuna STP; Jocelyn M. General (PCO), Johannes Paulus O. Costales (Plant Manager) - Fisheries STP; John Von Wernher C. Dela Cruz - Pagasa STP, Heroes' Hill STP; Ninya Kristina L. Cabico - Belarmino Stp, Palosapis STP; and Jeremaine V. Esguerra - East Ave STP. In August 2014, the Department of Health also gave the Typhoon Yolanda 'Unsung Heroes' Plaque of Recognition for Manila Water's Mobile Treatment Plant Operations.

In 2014, Manila Water was given the ISO 50001 Certification for Energy Management System (April 2014). Manila Water was the first Philippine company to receive this certification. As of 2015, Manila

Water has the following ISO Certifications: ISO 50001: 2011 Energy Management System (ENMS) for five (5) water supply and five (5) used water facilities; ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System, and OHSAS 18001:2007 Occupational Health and Safety Management System (QEHSMS) for nine (9) water supply and six (6) used water facilities, and two (2) support departments (Laboratory and Maintenance Services); and ISO/IEC 17025:2005 for the Company's Laboratory Management System.

In 2015, the awards and recognitions received by the Company include the following: Awards and Citations for Corporate Governance and Management (2015 One of ASEAN Top 50 Publicly Listed Companies, ASEAN Corporate Governance Conference and Awards; 2015 9th ING-FINEX CFO of the Year for Mr. Luis Juan B. Oreta); Awards and Citations for Corporate Social Responsibility and Sustainability (2015 Change the World List (Ranked No. 29 out of 51), Fortune; 2015 One of Top Corporate Social Responsibility (CSR) Advocates in Asia, Asia Corporate Excellence and Sustainability (ACES) Awards; 2015 Winner, Sustainability Strategy and Resource Efficiency Category, ASEAN Corporate Sustainability Summit and Awards (ACSSA); 2015 Runner-up, Supply Chain Sustainability Category, ASEAN Corporate Sustainability Summit and Awards (ACSSA)); Awards and Citations for Operations and Technical Management (2015 Asia Geospatial Excellence Award for the Critical Activity Review and Geographic Information System (GIS) Integration, Asia Geospatial Forum; 2015 Special Award for Performance in Energy Efficiency and Conservation for Siruna Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Award of Recognition for ASEAN Energy Awards Competition for Balara Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Outstanding Award for Performance in Energy Efficiency and Conservation for San Juan Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Outstanding Energy Manager Award (Mr. Rolando Mosqueda, San Juan Pumping Station), Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Special Award for Performance in Energy Efficiency and Conservation for Kingsville Pumping Station), Don Emilio Abello Energy Efficiency Awards, Department of Energy); Awards and Citations for Communications (2015 Gold Anvil Award and Silver Anvil Awards, 50th Anvil Awards, Public Relations Society of the Philippines (PRSP); 2015 Awards of Excellence and Awards of Merit, Quill Awards, International Association of Business Communicators (IABC) Philippines); Others (Subsidiaries) (2015 Case Study Category Winner of the Public-Private Partnerships (PPP) Short Stories Competition for Laguna Water's Alternative PPP Model: The Laguna Water Story, World Bank Group and the Public-Private Infrastructure Advisory Facility (PPIAF)).

In 2016, the awards and citations received by the Company include the following: Awards and Citations for Corporate Governance and Management (2016 PSE Bell Award for Corporate Governance, Philippine Stock Exchange; 2016 Governance Awardee, Investors' Forum, Institute of Corporate Directors (ICD) in partnership with Fund Managers Association of the Philippines, Philippine Investment Funds Association, Trust Officers Association of the Philippines and PJS Corporate Support Inc.; 2016 Risk Management Professional of the Year Award for Ms. Ma. Victoria P. Sugapong, Ayala Risk Awards; 2016 Delivering Value through Risk Management Award for "The Big One: The East Zone Earthquake Impact and Risk Reduction (EZEIRR) Study," Ayala Risk Awards); Awards and Citations for Operations and Technical Management (2017 Computerworld Premier 100 Technology Leader for Mr. Rodell A. Garcia; 2016 Certified National Expert for Pumping System Optimization for Mr. William Alcantara Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Citation Award for Kingsville Pumping Station Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Special Award for Siruna Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Special Award for San Juan Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Chairman's Prize for Healthy Family Purified Water, Ayala Innovation Excellence Awards; 2016 Innovation Excellence Award for the Demand-Based Network Management (DBNM) System, Ayala Innovation Excellence Awards; 2016 CIO 100 (US) Awardee for the Enterprise Asset Management – Asset Management Information System (EAM-AMIS) Project, CIO 100 Awards, CIO Asia; 2016 CIO 100 Index (Asia) for the Enterprise Asset Management – Asset Management Information System (EAM-AMIS) Project, 15th Annual CIO Asia Awards, CIO Asia; 2016 People's Choice Award and Best Overall Map for Cartographic Design and Analytic Presentation, ESRI Philippines GIS User Conference Map Gallery Competition); Awards and Citations for Corporate Social Responsibility and Sustainability (2016 One of Top 3 Most Sustainable Corporations, Channel NewsAsia Sustainability Ranking; 2016 Unilever Global Development Award for "Tubig Para Sa Barangay", Annual Responsible Business Awards, Business in the Community (BITC) Network of the United Kingdom; Awards and Citations for Communications (2016 Top Award in Communication Management for Boracay Water's "Lingap Para Sa Katutubo," Philippine Quill Awards, International Association of Business Communicators (IABC) Philippines; 2016 Special Award for Excellence in PR for Social Good for "Toka Toka: The First and Only Used Water Advocacy in the Philippines," Anvil Awards, Public Relations Society of the Philippines (PRSP); 2016 Gold Anvil Awards and Silver Anvil Awards, Anvil Awards, Public Relations Society of the Philippines (PRSP); 2016 Quill Awards of

Excellence and Awards of Merit, Philippine Quill Awards, International Association of Business Communicators (IABC) Philippines)

In 2017, the Company was awarded with the following: 52nd Anvil Awards (Public Relations Society of the Phils.): Gold Anvil Award - Manila Water's 2016 Corporate Video; Gold Anvil Award - Clark Water's Ahon Pinoy Program in Sitio Monicayo; Silver Anvil Award - Boracay Water's Amot Amot (Toka Toka) Sa Malimpyong Boracay; Silver Anvil Award - Laguna Water's Inauguration of the Laguna Wellfield; Silver Anvil Award - The Laguna Water Story Video; Silver Anvil Award - The Month-Long and Nationwide Celebration of the 2016 Global Handwashing Day; Rodell Garcia, Named one of 2017 Computerworld Premier 100 Technology Leaders; 'Kampeon ng Katubigan' Award, 2017 World Water Day Awards (organized by Maynilad and the National Water Resources Board); No. 1 Best Managed Utilities Company in Asia, 17th Annual Asia's Best Companies, Finance Asia; 15th Philippine Quill Awards (International Association of Business Communicators): Quill Award of Excellence – Si Rungis at Si Linis: Ang Kwento ng Dalawang Patak ng Tubig; Quill Award of Excellence - Manila Water's 2016 Corporate Video; Quill Award of Merit – Gawad Iwas-Lunas Risk Management Excellence Awards, Best Corporate Investor Relations (by Country) Award, 7th Asian Excellence Awards, Corporate Governance Asia; Luis Juan Oreta, Asia's Best CFO (Investor Relations) Award, 7th Asian Excellence Awards, Corporate Governance Asia; Outstanding Blood Services Partner of the Year Award, Blood Donors Recognition Ceremony, Philippine Red Cross; Ferdinand Dela Cruz, 2017 Most Distinguished Alumnus Award, University of the Philippines Alumni Engineers (UPAE); Clark Water, One of Top Community Care Companies in Asia, Asia Corporate Excellence and Sustainability (ACES) Awards; Award of Excellence for 10 Million Safe Man-Hours, Safety Organization of the Philippines Inc. (SOPI); 2017 Don Emilio Abello Energy Efficiency Awards (Department of Energy): Special Award - Balara Pumping Station, Special Award - San Juan Pumping Station, Outstanding Award - Lucban Pumping Station, and Outstanding Energy Manager Award - John Paul Galman.

For 2018, Manila Water was awarded with the following: The Asset Platinum Award (Excellence in Environmental, Social and Governance Practices), Top 50 ASEAN Publicly Listed Companies (PLC) during the 2nd ASEAN Corporate Governance (CG) Awards, 2017 Top 10 PLC, Top 5 PLC – Industrial Sector – by the Institute of Corporate Directors for the ASEAN CG Scorecard, ASEAN Energy Awards – First Runner-up for Energy Management – Building and Industries, Small and Medium Industry Category for “Project Lights-Out” at N. Domingo Pumping Station, Award of Excellence for 12.7 Million Safe Man-Hours without Lost-Time Accident Safety Organization of the Philippines Inc., Chairman’s Prize for Emergency Reservoirs at the Ayala Innovation Excellence Awards, Enterprise Risk Programme of the Year Award during the StrategicRISK Asia-Pacific Risk Management Awards, Gold Anvil Awards – Public Relations Society of the Philippines for the 2016 Integrated Annual and Sustainability Report (PR Tools – Publications), The Marikina North Sewerage System Project Story (PR Tools – Multimedia/ Audio-Visual Presentation), Silver Anvil Awards, Public Relations Society of the Philippines for Kasangga Day: Manila Water’s Customer Appreciation Program (PR Program – Consumers/ Communities), Manila Water’s 20th Anniversary Corporate Video and Mural (PR Tool – Multimedia/ Audio-Visual Presentation), Clark Water’s Sitio Haduan Water Project (PR Program – Indigenous People) Boracay Water’s Lingap Eskwela (PR Program – Communities/Schools) Laguna Water TSEK ng Bayan!: Tamang Sanitasyon Equals Kalinisan, Kalusugan at Kaunlaran ng Bayan (PR Program – Consumers/Communities), Quill Award of Excellence by the International Association of Business Communicators Philippines for the 2016 Integrated Annual and Sustainability Report (Communication Skills – Publications), and Quill Award of Merit by the International Association of Business Communicators Philippines for Manila Water’s 20th Anniversary Corporate Video (Communication Skills – Audio-Visual Category).

In 2019, Manila Water received the following awards: 2019 Top-Performing Publicly Listed Companies (PLCs) against the ASEAN Corporate Governance Scorecard, 3-Star Arrow Recognition from the Institute of Corporate Directors (ICD) for its performance rating against the 2018 ASEAN Corporate Governance Scorecard; 2019 Ayala Innovation Award for the Plug and Play Hybrid Water Treatment System developed by Manila Water Total Solutions and Manila Water Philippine Ventures – Bulacan Aqua Estates; 2019 Asia’s Community Care Company of the Year awarded to Manila Water Foundation by the Asia Corporate Excellence and Sustainability (ACES) Awards; Gold Anvil Award to Laguna Water for its TSEK! (Tamang Sanitasyon Equals Kalinisan, Kalusugan at Kaunlaran ng Bayan) Campaign during the 54th Anvil Awards of the Public Relations Society of the Philippines (PRSP); Silver Anvil Award awarded to Manila Water for QX Academy: Creating Share Value and Sustainable Quality through Skills and Training Development for Partner Vendors during the 54th Anvil Awards of the Public Relations Society of the Philippines; Mr. Benigno Acacio, a Fleet Heavy Equipment Officer from the Corporate Operations Group awarded the 2019 The Outstanding Workers of the Republic (TOWER)

award by the Rotary Club of Manila, People Management Association of the Philippines (PMAP), Petron Foundation Inc., and the Department of Labor and Employment (DOLE).

Related Party Transactions

To further instill the Company's policies on related party transactions, the Board adopted the Policy on Related Party Transactions (the "RPT Policy"). The RPT Policy confirms that the Company and its subsidiaries shall enter into any related party transactions solely in the ordinary course of business, on ordinary commercial terms, and on the basis of arm's length arrangements, which shall be subject to appropriate corporate approvals and actions of the Company or the related parties, as the case may be.

Any related party transactions entered into by the Company or its affiliates shall be in accordance with applicable law, rules and regulations, and the RPT Policy. Related party transactions entered into by the Company with one or more of its directors or officers are voidable at the option of the Company, unless the transaction is deemed fair and reasonable under the circumstances and at arm's length, and the procedure for the procurement and approval for similar transactions was strictly complied with.

The RPT Policy provides for the process of approving related party transactions, as well as the implications for violations. In addition, the RPT Policy prohibits related party transactions involving loans and/or financial assistance to a director and loans and/ or financial assistance to members of the Management, except when allowed pursuant to an established Company benefit or plan. Under the RPT Policy, the approval of the Related Party Transactions Committee is required for material related party transactions.

On October 28, 2019, the Related Party Transactions Committee approved the amendments to the Company's Policy on Related Party Transactions in order to comply with the provisions of the Rules on Material Party Transactions for Publicly Listed Companies of the SEC. The amendments to the Company's Policy were ratified by the Board of Directors during its Regular Meeting on November 26, 2019

Risks Disclosure

2019 TOP ENTERPRISE RISKS	MITIGATION STRATEGIES
POLITICAL AND REGULATORY Failure to manage political and regulatory stakeholders which can lead to revision or termination of the Concession Agreement.	Manila Water proactively participated and advocated with the MWSS for the passage of Concession Accounting and Auditing Guidelines (CAAGs) and Technical Audit Guidelines (TAGs). A more stringent monitoring was done on the delivery of service obligations among groups internally to ensure compliance and prevent issues. Kept open lines of communications and engaged with various Stakeholders to provide clarifications on compliance to service obligations, strengthen relationship, and advocate for matters relating to the validity and protection of the Concession Agreement & its financial viability. Proactively prepared and participated in legislative proceedings and various fora and conferences of industry organizations to stand for the truth on the operational efficiency & performance of Manila Water and avert its being muddled with fake news and false information.
LEGAL RISK Failure to secure a favorable Supreme Court resolution regarding the Clean Water Act issue which can lead to termination of the Concession Agreement.	Filed the Motion for Reconsideration (MR) for the unfavorable Supreme Court Decision imposing penalties. Coordinated and aligned with MWSS and Maynilad on arguments and issues to raise prior to the filing of the MR. Strong and responsive information/clarification and communication initiative (social media) with due consideration to the *sub judice* rule (which means that when a matter is before the court, it should not be discussed in other fora)

WATER SUPPLY • Failure to ensure adequacy, security, quality and reliability of water supply. • Inability to provide East Zone customers with 24-hour water with at least 7psi	All existing sources are maximized including Cardona Treatment Plant. Continuous effort to secure the 40% allocation at the portal. Building additional capacity from immediate new term water sources. For 2019, MWC built additional capacity at 92.17 mld. Extensive pressure management and network reconfiguration practiced to equitably distribute limited supply of water.
CAPEX EXECUTION Failure to execute Capex plan per Approved Business Plan on a timely manner and cost basis leading to MWSS Regulatory Office (RO) tariff claw back and non-recoverability of expenses.	Initiated and implemented **Project Ark**. Project ARK is a cross-functional and comprehensive program aimed at identifying gaps and implementing critical changes targeted to improve CAPEX delivery. The program targeted core CAPEX processes, policies, tools, and structures critical to being able to fast-track our water supply and used water commitments and meet the **2019-2022 CAPEX target of P86 Billion**. **Ark 1.0 (Phase 1)** includes improvement in the CAPEX organizational structure and delivery strategy by (a) creating a more aligned and streamlined project team structure within Corporate Project Management Group (CPMG), (b) maximizing technical talents in the organization by decentralizing project execution, (c) establishing the Strategic Procurement and Supply Chain Group to allow for a more flexible and targeted approach to procurement, (d) implementing a more structured and holistic approach to land acquisition, and (e) applying a more efficient revised approval process. **Ark 2.0 (Phase 2)** specifically targets process improvements, aimed at further improving end to end CAPEX delivery by reducing touch points and cycle times across all critical processes. This sub-program aims to improve CAPEX throughput by utilizing workflows, automation, reports, and dashboards to improve visibility and streamline coordination across all units. Ark 2.0 is currently ongoing and is expected to be completed by June 2020. Continued to embed more effective risk identification and management in all processes, standardizing to the appropriate measure to deliver projects aligned with targeted timeliness, cost, safety and quality, and documented effectively to align with the CPMG Quality Management System and MWSS RO guidelines.
FINANCIAL RISKS ***Liquidity Risk*** • Failure to pay obligations in a timely manner resulting to fines and penalties or loan default. ***Loan Default Risk*** • Failure to make the required payment on debt obligation	 Various initiatives have been implemented to ensure that the company is able to mitigate liquidity risk. Reduction in OPEX and streamlining of CAPEX are some of the cash conservation strategies that the company undertook. Focus was likewise given to tighter and more efficient liquidity planning and monitoring which includes better disbursement oversight and raising new sources of funds. Proactively managed relationship with lenders by ensuring that they are updated on the various corporate developments in Manila Water. The company held several lenders' briefings where Manila Water's management discussed and

	clarified various news reports and updated partner banks on the status of its operations and other legal matters (e.g. review of the Concession Agreement). Timely payment of debt maturities and submission of loan compliance requirements are also strictly observed to ensure compliance with loan provisions/covenants.
BUSINESS CONTINUITY Failure to ensure immediate recovery and continuity of business operations through execution of a comprehensive business continuity management plan.	Continuous improvement of MWC Business Continuity Management, which is composed of risk reduction and management, incident management, business continuity planning Completed resiliency and business interruption study and implemented projects covering earthquake, typhoon, flooding and fire. This includes retrofitting facilities and activating emergency online reservoirs and deep wells. Improve monitoring and alert systems through the strengthening of the Operations Monitoring and Control Center. For incident management, acquired contingency vehicles and 40 business continuity responders.

COMPLIANCE RISKS
 	
Regulations Compliance
• Water Supply Quality
    • Failure to ensure quality of water based on PNSDW Standards
 	
• Wastewater Operational Compliance
    • Failure to meet regulatory commitments particularly on effluent compliance to DENR standards
	For existing water sources, adherence to Water Safety Plan is practiced.
	
	For Deep well (as new water source), its operations and maintenance are further established and is augmented by partner service providers
	
	To address root cause of the risk which is the lack of control over the quality of the influent received at the plants, MWC:
	▪ Exercises ongoing effort to influence MWSS on pre-treatment standards
	▪ Continues to lobby for laws and ordinances, leveraging on the Manila Bay Rehabilitation Plan. Traction was gained in 2019 as evidenced by MWC's active participation in the Manila Bay Task Force Regional/Cluster Meetings
	
	Timely submission of reports and responses to letters of inquiries from MWSS (RO, CO and Board of Trustees)

Rate Rebasing Commitments Compliance • Failure to deliver rate rebasing commitments leading to claw back in tariff and non-recoverability of expenses.	Strict implementation of Asset Management Plan for asset renewal or asset improvement to avoid non-conformance in operating results particularly in Wastewater Facilities. Stringent review of the KPI+BEMs. Internally assessed the alignment of CAPEX accomplishment using the Technical Audit Guidelines and the components of Opening Cash Position using Concession Accounting and Auditing Guidelines.
BRAND AND REPUTATION Failure to maintain our stature as a company which may result in significant difficulty in creating and/or maximizing value for all stakeholders and may affect our ability to execute growth plans, affect employee morale and our ability to attract talents.	Brand-building initiatives are in place to strengthen internal and external stakeholder engagement. A steady stream of positive news in traditional and non-traditional media channels are published regularly to highlight company accomplishments, alongside goodwill programs and partnerships with

	TV, radio and print media. Equal attention is also given to maximizing online presence through social media channels and website. Programs promoting Information, Education and Communication (IEC) of the company's advocacies as well as collaboration with key stakeholders on agreed areas of synergy are also implemented.
TALENT MANAGEMENT ***Talent Capacity*** • Failure to provide ready succession into critical roles and retention of critical people and teams. • Failure to maintain organization size required and to define clear accountabilities required to deliver. ***Team and Organizational Connection*** • Failure to apply big picture thinking to support organizational success – seeing the impact of one's action, output and behavior to peers, other teams, and the bigger organization; siloed thinking • Failure to recognize the changing workforce profile and values	A robust succession plan is in place to ensure a strong pipeline for critical roles. The Technical Development Curriculum has been developed in partnership with the Operations Subject Matter Experts to ensure that we further strengthen and sustain the technical capabilities within the organization. This is complemented by the Core and Leadership Development Programs offered to talents to foster a values-based and institutionalized ways of working across all levels and roles.
NEW BUSINESS OPERATIONS Failure to operate new businesses properly as a result of poor integration, planning and execution.	The Subsidiary Operations Group (SOG) was created to oversee all operating subsidiaries. It is headed by a Group Director who directly supervises the General Managers of the subsidiaries to enforce functional standards across the business units. Under SOG supervision, transition teams are created to properly implement integration activities as new businesses transition from development phase to operating stage.
NEW BUSINESS DEVELOPMENT Failure to launch significant new businesses to meet current and future business objectives.	Regional Business Development with different leadership teams are in place to handle business development and look for business expansion opportunities in their respective areas. Manila Water's review framework of new business projects includes risk assessment and is a critical component in the business development and approval process. The risk profile of the project is considered in the determination of the cost of capital.

In order to achieve its corporate objectives, Manila Water acknowledges the need for the active management of the risks inherent in its business which should involve the entire enterprise. For this reason, Manila Water has established an Enterprise Risk Management (ERM) Program which aims to use a globally accepted approach in managing imminent and emerging risks in its internal and external operating environments. Under the ERM Program, Manila Water shall appropriately respond to risks and manage them in order to increase shareholder value and enhance its competitive advantage.

Manila Water, through its Enterprise Risk Management Department (ERIM Department), seeks to integrate risk awareness and responsibility into each level of management activities, and into all strategic planning and decision-making processes within Manila Water and its subsidiaries to support the achievement of strategies and objectives.

In its report to the Board of Directors adopted in its meeting held on February 20, 2020, the Audit Committee confirmed that:

- The Committee reviewed and approved annual Audited Consolidated Financial Statements of Manila Water Company, Inc. and subsidiaries, including Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2019, Management's Representation Letter with the Company's Management, internal auditors, and SGV & Co. These activities were conducted in the following context:

- Management has the primary responsibility for the financial statements and the reporting process.
- SGV & Co. is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with the Philippine Financial Reporting Standards.

- The Committee reviewed and approved the Management representation letter before submission to the Company's independent external auditors.
- The Committee recommended to the Board of Directors the re-appointment of SGV & Co. as independent external auditors of Manila Water Company and all domestic subsidiaries except for Laguna AAA Water Corporation for 2019 based on its review of SGV's performance and qualifications, including consideration of Management's recommendation.
- The Committee recommended to the Board of Directors the re-appointment of Punongbayan & Araullo as the external auditor of Laguna AAA Water Corporation.
- The Committee also recommended the delegation of the 2020 Audit Fee approval of the Company's external auditors for the year 2020 to Management subject to the terms discussed during the Audit Committee Meeting held on February 17, 2020.
- The Committee reviewed and approved all audit and audit-related services provided by SGV & Co. to the Company and the related fees for such services.
- The Committee discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and of SGV & Co., the results of their audits and their assessment of the Company's internal controls, and the overall quality of the financial reporting process.
- The Committee discussed the reports of the internal auditors and ensured that Management is taking appropriate actions in a timely manner, including addressing internal control and compliance issues. All the activities performed by Internal Audit were conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.
- The Committee, through the audits conducted by SGV & Co. and Internal Audit, has reviewed Management's system of internal controls and the Committee found the internal control system to be adequate and effective.
- The Committee discussed with Management the adequacy and effectiveness of the Enterprise Risk Management process, including significant risk exposures, the related risk-mitigation efforts and initiatives, and the status of the mitigation plans. The review was undertaken in the context that Management is primarily responsible for the risk management process.
- The Committee reviewed and confirmed that the existing Audit and Internal Audit Charters are sufficient to accomplish the Committee's and Internal Audit's objectives. The Audit Committee Charter is in compliance with the Securities and Exchange Commission Memo Circular No. 04 (2012).
- The Committee conducted a self-assessment of its performance to confirm that the Committee continues to meet the expectations of the Board, Management and shareholders.

Government Regulations

Through the Company's Integrated Management System which include Quality, Environment, Health and Safety and Energy Management Systems, the company meets the requirements of environmental laws and other regulations which include:

General Environmental Safeguards

- Presidential Decree No. 1586 (Philippine Environmental Impact Statement System)
- Republic Act No. 7586 – National Integrated Protected Areas System (NIPAS)
- DENR Administrative Order No. 30, Series of 2003 (Implementing Rules and Regulations for the Philippine Environmental Impact Statement System)
- DENR Administrative Order No. 2000-08 (Implementing Guidelines on Engineering Geological and Geohazard Assessment as Additional Requirement for ECC Applications)
- DENR Administrative Order No. 02, Series of 2014 (Appointment/Designation of Pollution Control Officers)
- DENR Administrative Order No. 27, Series of 2003 (Self-Monitoring Report System)
- DENR Administrative Order No. 2017-15 (Guidelines on Public Participation under the Philippine Environmental Impact Statement (EIS) System)
- EMB MC 2014-005 (Revised Guidelines for Coverage Screening and Standard Requirements under PEISS)

Water

- Republic Act No. 9275 or the Philippine Clean Water Act of 2004
- DENR Administrative Order No. 10, Series of 2005 (Implementing Rules and Regulations of R.A. No. 9275)
- DENR Administrative Order No. 35, Series of 1990 (General Effluent Standards)
- DENR Administrative Order No. 39, Series of 2003 (Environmental Users Fees)
- DENR Administrative Order 2016-08 (Water Quality Guidelines & General Effluent Standards)
- DOH Operations Manual on the Rules and Regulations Governing Domestic Sludge and Septage

Air

- Republic Act No. 8749 or the Philippine Clean Air Act of 1999
- DENR Administrative Order No. 81, Series of 2000 (Implementing Rules and Regulations of R.A. 8749)
- EMB Memorandum Circular 2007-003 (Policy on Compliance and Permitting for Industrial Facilities Relating to Air Quality)

Solid Waste

- Republic Act No. 9003 or the Ecological Solid Waste Management Act of 2000
- DENR Administrative Order No. 34, Series of 2001 (Implementing Rules and Regulations of R.A. No. 9003)

Hazardous Wastes and Chemicals

- Republic Act No. 6969 or the Toxic Substances, and Hazardous and Nuclear Waste Control Act of 1990
- Philippine Drug Enforcement Agency – Republic Act 9165- Regulatory Controls in Licit Trade of Controlled Precursors and Essential Chemicals
- Philippine National Police – License to Possess/Purchase Explosives (Chemical used in the laboratory that are ingredients/kind of explosives)
- DENR Administrative Order No. 29, Series of 1992 (Implementing Rules and Regulations of R.A. No. 6969)
- DENR Administrative Order 2004-36 (Revised Procedural Manual on Hazardous Waste Management)
- DENR Administrative Order No. 22, Series of 2013 (Revised Procedures and Standards for the Management of Hazardous Waste)
- DENR Administrative Order 2005-27 (Revised Priority Chemical List)
- DENR Administrative Order 2007-23 (Prescribing additional Requirements for the Issuance of the Priority Chemical List Compliance Certificate)
- DENR Administrative Order for all Chemical Control Orders
- DENR Administrative Order 2013-24 Chemical Control Order for Lead
- DENR Administrative Order 1997-38 Chemical Control Order for Mercury & Mercury Compounds
- DENR Administrative Order 1997-39 Chemical Control Order for Cyanide & its Compound
- DENR Administrative Order 2004-08 Revised Regulations on the Chemical Control Order for Ozone Depleting Substances (ODS)
- DENR Administrative Order 2000-02 Chemical Control Order for Asbestos
- DENR Administrative Order 2004-01 Chemical Control Order for Polychlorinated Biphenyls (PCB)

LLDA

- Board Resolution No. 408, Series of 2011 (Approving Revised Definition of Developmental Activities Required to Secure LLDA Clearance and Its Implementing Rules and Regulations)
- Board Resolution No. 408, Series of 2011 (Approving Revised Definition of Developmental Activities Required to Secure LLDA Clearance and Its Implementing Rules and Regulations)
- Board Resolution No. 248, Series of 2005 (Providing Guidelines on the Use of Shoreland Areas Surrounding the Laguna De Bay)
- Board Resolution No. 283, Series of 2006 (Resolution Providing Guidelines on Reclamation within the Shoreland of Laguna De Bay)
- Board Resolution No. 113, Series of 1999 (Adding the Implementing Guidelines Governing the Lease of the Laguna De Bay Shoreland Areas)
- Board Resolution No. 523, series of 2017, Adoption of Department Administrative Order 2016-08 of the DENR as the New Effluent Standards for the Continuous Implementation of the

Environmental Users Fee System and Water Quality Guidelines for Surface Waters within the Laguna de Bay Region and for Other Purposes

Others

- Republic Act No. 4850 or the Act Creating the LLDA
- Relevant LLDA Board Resolutions and Memorandum Circulars, including but not limited to Resolution No. 25, Series of 1996 (Environmental User Fee System in the Laguna de Bay Region) and Resolution No. 33, Series of 1996 (Approving the Rules and Regulations Implementing the Environmental User Fee System in the Laguna de Bay Region)
- Presidential Decree No. 856 or the Philippine Sanitation Code
- Implementing Rules and Regulations of the Philippine Sanitation Code
- RA 9514 Fire Code of the Philippines
- DOLE Dept. Order 198, Series of 2018, An Act Strengthening Compliance with OSH Standards
- RA 9136, Electric Power Industry Reform Act of 2001
- Philippine National Standards for Drinking Water 2007
- NWRB Resolution No. 03-0715 0f 2015 (Approval of the revised 2015 NWRB Fees & Charges
- PD 1067 Water Code of the Philippines
- IRR of Water Code of the Philippines 1979

Social

- Republic Act 8371 - The Indigenous Peoples Rights Act of 1997.

Other Matters

The Group has not been involved in any bankruptcy, receivership or similar proceeding as of December 31, 2019.

Further, except as discussed above, the Group has not been involved in any material reclassification, consolidation or purchase or sale of a significant amount of assets not in the ordinary course of business. The Group is not dependent on a single customer or a few customers, the loss of any or more of which would have a material adverse effect on the Group.

For further information on MWC, please refer to its 2019 Financial Reports and SEC17A which are available in its website www.manilawater.com.ph.

INTEGRATED MICRO-ELECTRONICS, INC.

Background and Business

Established in 1980, Integrated Micro-Electronics, Inc. (alternately referred to as IMI, "the Company", "the Parent Company" or "the Group" in the entire discussion of Integrated Micro-Electronics, Inc), has grown into a global company offering core manufacturing capabilities as well as higher value competencies in design, engineering, prototyping and supply chain management. IMI is a vertically integrated EMS provider to leading global original equipment manufacturers ("OEMs") across industries including computing, communications, consumer, automotive, industrial and medical electronics segments, as well as emerging industries like renewable energy. IMI also provides power semiconductor assembly and test services.

Business Development

Integrated Micro-Electronics, Inc., a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four wholly-owned subsidiaries, namely: IMI International (Singapore) Pte. Ltd. (IMI Singapore), IMI USA, Inc. (IMI USA), IMI Japan, Inc. (IMI Japan) and PSi Technologies, Inc. (PSi) (collectively referred to as the Group). The Parent Company is 52.03% owned by AC Industrial Technology Holdings, Inc. (AC Industrials), a wholly-owned subsidiary of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE). AC is 47.33% owned by Mermac, Inc. (Ultimate Parent Company) and the rest by the public.

The registered office address of the Parent Company is at North Science Avenue, Laguna Technopark-Special Economic Zone (LT-SEZ), Bo. Biñan, Biñan, Laguna.

The Parent Company was listed by way of introduction in the PSE on January 21, 2010. It has completed its follow-on offering and listing of 215,000,000 common shares on December 5, 2014.

On March 2, 2018, the Parent Company completed the stock rights offer and listing of 350,000,000 common shares to all eligible stockholders.

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assemblies (PCBA), flip chip assemblies, electronic sub-assemblies, box build products and enclosure systems. It also provides the following solutions: product design and development, test and systems development, automation, advanced manufacturing engineering, and power module assembly, among others. It serves diversified markets that include those in the automotive, industrial, medical, storage device, and consumer electronics industries, and non-electronic products (including among others, automobiles, motorcycles, solar panels) or parts, components or materials of non-electronic products, as well as to perform and provide information technology services such as but not limited to data labeling/encoding or image annotation services.

IMI Singapore is a strategic management, investment and holding entity that owns operating subsidiaries of the Group and was incorporated and domiciled in Singapore. Its wholly-owned subsidiary, Speedy-Tech Electronics Ltd. (STEL), was incorporated and domiciled also in Singapore. STEL, on its own, has subsidiaries located in Hong Kong and China. STEL and its subsidiaries (collectively referred to as the STEL Group) are principally engaged in the provision of electronic manufacturing services (EMS) and power electronics solutions to original equipment manufacturers (OEMs) in the automotive, consumer electronics, telecommunications, industrial equipment, and medical device sectors, among others.

In 2009, IMI Singapore established its Philippine Regional Operating Headquarters (IMI International ROHQ or IMI ROHQ). It serves as an administrative, communications and coordinating center for the affiliates and subsidiaries of the Group.

In 2011, the Parent Company, through its indirect subsidiary, Cooperatief IMI Europe U.A. (Cooperatief) acquired Integrated Micro-Electronics Bulgaria EOOD (formerly EPIQ Electronic Assembly EOOD) (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (formerly EPIQ CZ s.r.o.) (IMI CZ) and Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (formerly EPIQ MX, S.A.P.I. de C.V.) (IMI MX) (collectively referred to as the IMI EU/MX Subsidiaries). IMI EU/MX Subsidiaries design and produce PCBA, engage in plastic injection, embedded toolshop, supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, and industrial equipment, among others. IMI EU/MX Subsidiaries also provide engineering, test and system development and logistics management services.

In 2016, Cooperatief acquired a 76.01% ownership interest in VIA Optronics GmbH (VIA), a Germany-based company with operations in Germany and China and sales offices in the USA and Taiwan. VIA is a leading provider of enhanced display solutions for multiple end markets in which superior functionality or durability is a critical differentiating factor. The acquisition allows the Group to strengthen its partnerships with customers by offering complementary automotive camera and display monitor solutions for advanced driver assistance systems. The Group together with VIA enables the scale to introduce patented technology into automotive camera monitor systems for increased safety.

In 2018, VIA acquired 65% ownership interest in VTS-Touchsensor Co., Ltd. (VTS), a Japanese entity that develops and manufactures metal mesh touch sensor technologies and electrode base film.

In 2018, the Group opened its 21st manufacturing site in Niš, Republic of Serbia in line with the IMI's strategy to strengthen its global footprint and support the growing market for automotive components in the European region.

In 2019, VIA formed VIA Optronics AG (VIA AG) by way of a contribution in kind against issuance of new shares making VIA AG the sole shareholder of VIA Optronics GmbH. The contribution in kind and resulting re-organization was recognized as a business combination under common control. In the same year, VIA Optronics (Taiwan) Ltd was also founded as a new subsidiary with the purpose of conducting sales activities.

In 2017, IMI, through its indirect subsidiary Integrated Micro-electronics UK Limited (IMI UK), acquired an 80% stake in Surface Technology International Enterprises Limited (STI), an EMS company based in the United Kingdom (UK). STI has factories in the UK and Cebu, Philippines. STI provides electronics design and manufacturing solutions in both PCBA and full box-build manufacturing for high-reliability industries. The acquisition of STI strengthens the Group's industrial and automotive manufacturing competencies, broaden its customer base, and also provides access to the UK market. Further, the partnership allows the Group's entry into the aerospace, security and defense sectors.

IMI USA acts as direct support to the Group's customers by providing program management, customer service, engineering development and prototype manufacturing services to customers, especially for processes using direct die attach to various electronics substrates. It specializes in prototyping low to medium PCBA and sub-assembly and is at the forefront of technology with regard to precision assembly capabilities including, but not limited to, surface mount technology (SMT), chip on flex, chip on board and flip chip on flex. IMI USA is also engaged in advanced manufacturing process development, engineering development, prototype manufacturing and small precision assemblies.

IMI Japan was registered and is domiciled in Japan to serve as IMI's front-end design and product development and sales support center. IMI Japan was established to attract more Japanese OEMs to outsource their product development to IMI.

PSi is a power semiconductor assembly and test services company serving niche markets in the global power semiconductor market. PSi provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices.

IMI France serves as a support entity which provides manufacturing support services, market research and analysis, sales promotional activity support, strategic planning advisory, and general corporate marketing support.

Product Capabilities

IMI has experience in working with some of the world's leading companies in the following products:

Automotive Electronics
Safety
- Electronic Power Steering
- Communication Power
- Electronic Stability Program (ESP)
- Body Control Module (BCM)
- Headlight
- Backlight
- Switch and Fan Controller
- HVAC control panel

Advanced Driver Assistance Systems
- Front Vision
- Surround View
- Rear View Camera
- Mirror Replacement Systems
- ADAS ECUs

Sensors
- Tire Pressure Sensor
- Temperature and Humidity Sensor
- Rotor Position Sensor (RPS)
- Gasoline System sensor
- Transmission sensor
- Speed sensor
- Connector sensor
- Engine sensor

Others
- Anti-fogging system
- Wiper
- Gear box shift
- Window lifter
- Head rest

Industrial Electronics
Security
- Electronic Door Access System
- Biometrics
- Asset tracking
- Radiation detector
- Security alarm

Automation
- System Integration (Robotics)
- Automated Meter Readers

Power Management and Smart Grid
- Modules for Renewable Energy Generation, Transmission and Conversion
- Solar Panel
- Solar Inverters
- EV Charging Systems
- Power module
- Building and lighting control
- Thermostat
- Charger for agricultural machine
- Energy management
- Timer
- Monitoring and control system

Controls and Sensors
- Printer Control
- Power Amplifier
- DC-DC Power Converter
- Engine Controllers
- Mirror Controls
- Industrial system and switch
- Anti-pitch sensors
- Luminaire Controller

Others
- LED lighting
- Aircon damper
- Accelerometer
- UPS
- Industrial power

- Power supply
- Industrial tooling

Medical Electronics
Diagnostics
- Static detectors for fix and mobile RAD exams
- Auto Body Contouring Imaging Equipment
- Defibrillator Component
- Biomedical and Laboratory Equipment
- Centrifuge Control
- Fitness Equipment Control

Others
- Dental Imaging System
- Hearing Aids

Communications Electronics
Telecom Equipment and Devices
- Cellular alarm communicators for LTE networks
- Back Panel
- Fiber to "X" (FFTx) systems
- Booster Amplifier
- GPON (Gigabit Passive Optical Network) Systems
- Base Station Power Supply
- Digital Station Control
- Power Transistors for amplifiers in cellular base stations
- Power Conversion ICs in adapters and chargers for cell phones and cordless phones
- DC Port and USB Port Protection for cell phones and satellite radio peripherals
- RF Signal Analyzer
- RF Meter

Consumer Electronics
White goods
- Gas Ignitor and Re-Ignitor
- Air-Conditioning (HVAC) Controller
- Refrigerator and Cooker Hood Control
- Power Management & Home Appliance
- Household Metering Device
- Electric Drive Control for Home Appliances
- Programmable Timer
- Pressure Cookers
- Washing Machine controllers
- Coffee Machines

Personal devices and lighting
- Ultrasonic Toothbrush
- Projector Lamp Drivers
- Bluetooth Headset
- Main Power Supply for Flat-panel TV
- Power Supply for Game Consoles and Entertainment Electronics
- High Voltage Power Conversion ICs in Adapters and Chargers for Personal Electronics

Power Semiconductor
- Low-Medium Power Packages
- Medium-High Power Packages
- Small Signal Packages

Optical Bonding, Enhanced Display Solutions and Metal Mesh Touch Sensor Technology (VIA/VTS)
- Fully customized Interactive Display Systems (mirror replacement, driver monitoring systems, camera management systems, etc.)
- High reliable, sunlight readable enhanced display solutions
- Metal mesh touch sensor technology and image processing
- Camera solutions (Minicube, MicroCube, Configurable Standard Camera Modules)

Precision Machining
- Conventional machines
- CNC Turning with Milling function
- CNC Vertical Machining center (3 axis, 5 axis)
- Coordinate Measuring Machine (CMM)
- Hydraulic Press Brake and Hydraulic Shear

Aviation
- Fuel Computers
- Brake by Wire
- Entertainment Controls
- Satellite Communications
- Inflight internet systems
- Lighting Retro-fit
- Safety equipment
- Captor Radar
- Navigation and Communications Systems
- Cockpit Displays

Except as otherwise disclosed as above, there are no other publicly-announced new products or services during the year.

Other Capabilities and Services

Design and Development (D&D) Group

Our Product Design and Development or D&D team has extensive competencies in electronic design, mechanical design, software and product development, and building platforms in the areas of automotive cameras, motor drives, and power modules. The team has developed platforms that can be customized to the requirements of our customers as well.

The D&D team also provides full design services from concept to product validation and can be involved in full design or in co-design level depending on the customer's needs.

Test and Systems Development (TSD)

IMI Test and Systems Development expanded its portfolio of tester solutions for automotive applications and power module manufacturing in 2019. Most projects were executed through cross-site collaboration of TSD teams from different IMI global locations. Two new fully automated test platforms for automotive electronic products (power tailgate and window lifter controllers) were built for IMI China and Mexico plants. These platforms integrated high speed automation for device under test (DUT) handling to maximize throughput and efficiency. The TSD team in China also introduced a new line of testers for high end ambient lighting systems based on LIN-RGB technology.

For IMI PH operations, a new tester platform which includes an automated focusing and alignment station and an end of line tester for a driver monitoring system camera was designed and built for a major OEM. This is now utilized for samples build. The team also supported the ramp of existing automotive camera customers with replications of camera testers running in mass production as well as the development of new prototype testers for new projects and customers. The TSD PH team also introduced a tester-handler system solution for power modules which demonstrates capability for testing at >150C. This solution will be integrated in new projects for high power IGBT and silicon carbide power modules. Development of mass production testers solutions for next generation power module products, in particular for silicon carbide technology products, kicked off during the last quarter of 2019.

Analytical Testing and Calibration (ATC) Laboratory
Analytical Testing and Calibration (ATC) Laboratory continues to develop its testing and calibration services to both IMI internal and external customers from various industries such as automotive, medical and aerospace.

In 2019, the vibration test system with climatic chamber located in the ATC Lab Extension Building is on full operations accommodating job requests from IMI Automotive and Power Module business as well as External Customers. The laboratory is able to expand its nano scale capabilities and capacity through established partnership with top internationally known ISO17025 accredited laboratories with frontier technological capabilities.

ATCOS, the ATC Online System made its debut launch for Phase 1 last Q2 of 2019. The said laboratory information management system effectively manages work activities and associated data to improve laboratory efficiency.

Advanced Manufacturing Engineering (AME)

IMI's global AME team in the Philippines and Asia focused on developing a new production line for an industrial grade fingerprint sensor module assembly of bare sensors with thin cover glass and fine trace ACF (anisotropic conductive film) interconnects to supplement an existing fingerprint ID box build assembly and test operation previously utilizing pre-built sensor module assemblies in IMI Laguna. In parallel, the AME team worked on enhancing process and mechanical component DFM (design for manufacturability), as well as Value Engineering capability in preparatory and early collaboration activities for products such as automotive ECU (electronic control unit) and ADAS (advanced driver-assistance system) sensor modules - including projects based on IMI minicube platform, modules utilizing BSI (backside illumination) bare imagers, and LIDAR (light imaging, detection, and ranging) modules; also lighting modules, RF (radio frequency) exposure test modules, EV (electric vehicle) scooters, industrial security access interface modules, and even educational programming robots.

AME teams in the Philippines and China also continued to share engineering expertise during ramp-up of the modular automated lines manufacturing complex electro-mechanical ECU assemblies in IMI Jiaxing and IMI Mexico with two lines developed, completed, and commissioned together with IMI Automation Backend (ABE), and the local plant Manufacturing Engineering, CFT, Quality and Production teams, including on resolving strict cleanliness, selective conformal coating, thermal operating validation test findings resolution, and general line optimization. The AME team in China also extended technical support and operational expertise at the Power Module New Product Introduction (NPI) and Operations at IMI Laguna for the power modules supplied to the IMI Jiaxing plant.

AME team in China (in coordination with China Regional Engineering) efforts are focusing and anticipating the development of H2 & H3 processes that are aligned to IMI's new specialized electronics manufacturing service (EMS) segment and direction. In-demand processes were already identified and are on the way to development.

The AME team in the Philippines also expanded engineering personnel rotation to IMI USA operations to enhance learning and synergies as well as supporting early collaboration work with industrial, medical and other US based customers while preparing to set-up the local prototyping line in Laguna.

AME also collaborates with D&D on a low cost automotive camera using Himax and flip chip technologies, and also works with D&D Europe on the power module – which are used primarily in power management platforms for partial to full vehicle electrification.

Automation

IMI's global Automation Back End (ABE) group has successfully set-up a full Automation Line for ECU Assembly at its Factory in Jiaxing, PRC. This 3rd Automated Back-End Line is by far the best version of the previous 2 Lines. This was achieved by carefully going through Design FMEA, rectifying all the flaws and lessons learned, detailed and crisp execution of the Project Plan, and better collaboration with the new professional Integrator.

It is also the Year where IMI Automation Group has demonstrated its capability to set-up on its own a fully automated Cell for its plastic Injection factory in IMI Mexico, serving another big Automotive Customer who appreciated highly and commended the successful deployment of the project.

Camera Vision Technology (CVT)

IMI continually work with both Automotive Tier 1 and Tier 2 in areas where high levels of innovation happen such as mirror replacement, driver monitoring, and autonomous driving. VIA Optronics, IMI's subsidiary in Germany that manufactures advanced display solutions, oversees the camera vision technology services to support the various ADAS application requirements in automotive. Equipped with ten years of camera and extreme vision technology development experience, the group develops platform designs that can be customized to reduce total development time.

Segment Information

Management monitors operating results per geographical area for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, interest income and expense and net income before and after tax of its major manufacturing sites. The Parent Company and PSi are combined under Philippine segment, STEL Group is categorized under China segment, IMI BG, IMI CZ and IMI Serbia are combined under Europe based on the industry segment and customers served, IMI Mexico is presented under Mexico segment, VIA and STI are combined under Germany/UK segment representing non-wholly owned subsidiaries, IMI USA, IMI Japan, IMI UK and IMI Singapore/ROHQ are combined being the holding and support facilities for strategic management, research and development, engineering development and sales and marketing.

Prior period information is consistent with the current year basis of segmentation.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.

Revenue Contribution by Industry Segment (in US$)

	2019	2018	2017
Automotive	**$599,518,201**	$541,859,546	$446,460,645
Industrial	**315,327,149**	334,634,178	221,670,425
Consumer	**127,298,191**	176,176,123	188,760,154
Telecommunication	**94,873,717**	134,078,546	121,639,521
Aerospace/defense	**52,919,112**	56,827,484	24,973,446
Medical	**15,980,478**	12,954,240	19,303,996
Multiple market/others	**44,449,066**	92,870,328	67,780,002
	$1,250,365,914	$1,349,400,445	$1,090,588,189

Revenue Contribution by Customer Nationality (in US$)

	2019	2018	2017
Europe	**$639,508,462**	$670,603,567	$519,149,422
America	**218,518,165**	292,610,530	240,888,727
Japan	**39,191,710**	45,241,436	42,842,182
Rest of Asia/Others	**353,147,577**	340,944,912	287,707,858
	$1,250,365,914	$1,349,400,445	$1,090,588,189

Foreign Subsidiaries' Contribution

	2019		**2018**		**2017**	
	Revenue	**Net Income***	**Revenue**	**Net Income***	**Revenue**	**Net Income***
Foreign Subsidiaries:						
China/SG	22%	15%	25%	36%	25%	9%
Europe/Mexico	39%	(86%)	31%	14%	33%	76%
Germany/UK (VIA/STI)	20%	137%	23%	21%	18%	15%
TOTAL	**81%**	**66%**	**79%**	**71%**	**76%**	**101%**

* *Attributable to equity holders of the Parent Company*

Revenues are attributed to countries on the basis of the customer's location. Certain customers that are independent of each other, but within the same company group, account for 9.94%, 10.55% and 12.58% of the Group's total revenue in 2019, 2018 and 2017, respectively.

Sales and Distribution

The Company's global presence allows it to provide solutions to OEMs thru its Tier 1 customers catering to regional and international markets. Given the Company's presence worldwide, it is able to provide its customers access to a number of services and resources through its manufacturing facilities, engineering and design centers, and sales networks in Asia (China, Singapore, Taiwan, Japan, and the Philippines), North America (U.S. and Mexico), and Europe (Bulgaria, Czech Republic, France, and Germany).

IMI Japan was registered and is domiciled in Japan to serve as IMI's front-end design and development and sales support center. IMI Japan was established to attract more Japanese OEMs thru Tier 1 customers to outsource the design and development and manufacturing to IMI.

In 2019, IMI continued to pursue opportunities in segments with the highest potential for growth and customer impact. The company's core business pipeline expanded by US$283 million in new project awards, 74 percent of which are for automotive applications. By location, new program wins derived from Philippines and China accounted for 36 percent while 64 percent were awarded to Europe and Mexico. Meanwhile, STI Enterprises continued to strengthen its industrial and mil-aero capabilities with £81.9 million (US$104.3 million) major projects closed as of 2019.

Mergers and Acquisition

On April 9, 2018, VIA and Toppan Printing Co., Ltd. (Toppan) entered into an agreement to serve the market for copper-based metal mesh touch sensors. The agreement provides that Toppan transfer 65% of its shares in VTS to VIA. VTS is a newly formed spin-off company of Toppan.

VTS develops and manufactures the metal mesh touch sensors in Japan on the existing premises of Toppan. The new setup strengthens VIA's portfolio of differentiated and value-added sensor technology for touch panels, touch-display modules, display head assemblies, and interactive display systems across multiple markets and segments.

As part of our strategic initiatives, IMI acquired an 80% stake in STI Enterprise Ltd., a private limited company based in the United Kingdom which provides electronics design and manufacturing solutions in both printed circuit board assembly and full box-build manufacturing for high-reliability industries. The company currently has two factories in the United Kingdom in Hook and Poynton as well as one in Cebu, Philippines and operates a design center in London. The acquisition will enable IMI to expand into the aerospace and defense markets while strengthening the industrial segment in manufacturing as well as in technology development and engineering.

Competition

IMI is now a global technology solutions company with 22 manufacturing facilities with presence in more than 10 countries, spanning through the continents of Asia, Americas, and Europe. The company has technology expertise and offerings in the whole breadth of electronics manufacturing services (EMS), power semiconductor assembly tests and services and vehicle assembly.

IMI currently ranks 17th in the list of top 50 EMS providers in the world by the Manufacturing Market Insider (March 2019 edition), based on 2018 revenues. In the automotive market, it is now the 5th largest EMS provider in the world per New Venture Research.

For almost 40 years, the company has developed its competence and value through cutting-edge engineering, design, innovation, and collaboration with partners. From being largely product-centric, IMI is now moving towards a technology-solutions approach by addressing efficiency, cost, quality, and productivity, while closely working with customers in research and development.

IMI continues to leverage on its geographical footprint in providing services closer to our target markets. This in turn strengthens its ability to mitigate risks over market volatilities and geo-political trends in the global environment. IMI competes worldwide with focus on Europe, North America and Asia.

IMI specializes in highly reliable and quality electronic solutions for long product life cycle segments such as automotive, industrial electronics and more recently, the aerospace market.

In the automotive segment, IMI designs and manufacture next-generation automotive camera systems, displays, ADAS controllers, sensors, steering modules, and telematics. IMI also aims to accommodate more Internet-of-Things (IoT) opportunities in the pipeline that will enhance its current capabilities. It is involved in this sphere specifically in the areas of security, asset tracking, next generation displays, wireless monitoring, smart meters, and communication systems in aerospace and defense. IMI also continues to thrive in the production of various electronic systems that manage and control power in automotive and industrial markets.

The Company's performance is affected by its ability to compete and by the competition it faces from other global EMS companies. While it is unlikely for EMS companies to pursue identical business activities, the industry remains competitive. Competitive factors that influence the market for the Company's products and services include: product quality, pricing and timely delivery.

The Company is further dependent on its customers' ability to compete and succeed in their respective markets for the products that the Company manufactures.

There are two methods of competition: a) price competitiveness; and b) robustness of total solution (service, price, quality, special capabilities or technology). IMI competes with EMS companies original design manufacturer (ODM) manufacturers all over the world. Some of its fierce EMS provider competitors include Flex, Plexus and Kimball.

Flextronics is a Singapore-headquartered company with annual revenues of US$26.2 billion in 2019; its cost structure is very competitive it is vertically integrated as well. Flextronics poses competition to IMI in the consumer and industrial segment.

Plexus, a U.S.-based EMS, recorded US$3.2billion revenues in 2019. Plexus is a key EMS player in industrial, medical, communication and military sectors, which IMI play in this market.

Kimball Electronics as a manufacturing facility located in Jasper, Indian with revenues of US$1.2 billion in 2019. Kimball is a competitor of IMI in the automotive, industrial and medical market

Principal Suppliers

IMI's suppliers are situated globally and are managed by the Global Procurement organization. The Company's top 10 suppliers in 2019 comprise about 24% of global purchases. Purchases from suppliers generally comprise of electronic components processed by our facilities. The Company strives to manage the quality of the products supplied to ensure strict adherence to quality standards and only purchase from suppliers whose product meet all applicable health and safety standards.

Transactions with Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

The Group, in its regular conduct of business, has entered into transactions with subsidiaries, affiliate, and other related parties principally consisting of advances, loans and reimbursement of expenses. Sales and purchases of goods and services as well as other income and expenses to and from related parties are made at normal commercial prices and terms.

Terms and Conditions of Transactions with Related Parties
The Group has a Related Party Transactions (RPT) Committee that evaluates and governs related party transactions. Prior to finalization of any related party agreement, the management shall report for review and approval to the RPT Committee all new and proposed significant related party transaction above the threshold set by the RPT Committee.

Outstanding balances at year-end are unsecured and settlement occurs in cash unless otherwise stated. For the years ended December 31, 2019, 2018 and 2017, the Group has not recorded any impairment on receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

Intellectual Property

The table below summarizes the intellectual properties registered with the Patent and Trademark Offices in the United States, Europe and Asia:

- Auto camera – Minicube filed in December 2013
- In addition to certain patents, know-how and expertise is critical
- IMI is able to leverage its extensive experience in unique applications to other relevant products

Existing / Pending Patents	Descriptions	Location / Filing Date	Expiration Date
United States Patent 9,839,142	Vacuum Pallet Reflow, a soldering device and method of soldering enabling vacuum reflow while using a standard reflow oven conveyor.	Dec 2017	

Pending USPTO 13457670	Used for die attach of power devices that require very minimal voiding between device and substrate to avoid localized heating and potential failure. Describes a new process to perform soldering in a vacuum environment to promote minimal voiding without the use of specialized and expensive equipment, solder preform and gas atmospheres, but with the efficiency of a standard reflow soldering process.	April 2012	In Process
Pending PCT/US12/51573	A flip chip video camera mounted on a flexible substrate with glass stiffener	August 2012	In Process
Pending USPTO 14109918	Unique construction of camera module that enhances the dissipation of heat generated by the image sensor while being easy to manufacture.	December 2013	In Process
United States Patent 6,571,468 6,846,701	A method for forming a fine-pitch flip chip assembly interconnects fine pitch devices after they have been connected to a carrier substrate.	California, USA, 2001	2021
United States Patent 6,776,859	An improved anisotropic bonding system and method connects two conductive surfaces together using an anisotropic material having elastic conductive particles dispersed in an insulating heat-curable carrier.	California, USA, 2000	2020
United States Patent 6,648,213	A method for manufacturing a chip assembly that includes the steps of applying a controlled amount of flux to plurality of solder balls on a die, applying a non-fluxing underfill material to a substrate, and assembling the die and substrate together to form the chip assembly such that the non-fluxing underfill material is trapped between the die and the substrate.	California, USA and Singapore, 2001	2021
United States Patent 6,414,859	A passive component circuit comprising a bridge rectifier that is coupled in parallel to three capacitors.	Singapore, 2000	2020
United States Patent 7,787,265 B2	A dual switch forward power converter, and a method of operating the same, employs a self-coupled driver to achieve among other advantages higher efficiency, lower part count and component cost.	Singapore, 2007	2027
United States Patent 8,937,432 B2	Light Source Having LED Arrays for Direct Operation in Alternating Current Network and Production Method Thereof.	USA, 2015	2031
Japan - 6 267 665	Bezelless display system	January 5, 2018	
Taiwan - I 444 942		July 2014	
USA - US7924362		April 2011	
China - ZL 2013 1 0446342.1	Nozzle to apply dry bonding preform	April 2018	
Germany – 102013219628B4		August 2016	
South Korea – 10-1 703 383		January 2017	
Taiwan – I 530 330		April 2016	
Japan - JP 5513136	Enhanced liquid crystal display system and methods	April 2014	
Taiwan - I 437 068		May 2014	
USA – 9 348 167		May 2016	
Germany – 600 42 590.8-08	SBLR (Super Bright Low Reflectance	July 2009	
Canada – 2 359 228		August 2005	
Taiwan – I 280 443		May 2007	
USA – 7 405 779		July 2008	
USA – 6 933 991		August 2005	
USA – 7 649 577		January 2010	
Taiwan – I 601 801	Partial curing of the bond layer through temperature control	October 2017	
China – ZL 2016 8 0016748.8	Bonding for large displays	October 2019	
China – ZL 2016 1 0749648.8	Curved screen and flat panel display module full-lamination method and integrated screen	August 2018	

Government Regulations and Approvals

IMI complies with all existing government regulations applicable to the company and secures all government approvals for its registered activities. Currently, there are no known probable governmental regulations that may significantly affect the business of the Company.

IMI is subject to various national and local environmental laws and regulations in the areas where it operates, including those governing the use, storage, discharge, and disposal of hazardous substances in the ordinary course of its manufacturing processes. If more stringent compliance or cleanup standards under environmental laws or regulations are imposed, or the results of future testing and analyses at IMI's manufacturing plants indicate that it is responsible for the release of hazardous substances, IMI may be exposed to liability. Further, additional environmental matters may arise in the future at sites where no problem is currently known or at sites that IMI may acquire in the future.

IMI closely coordinates with various government agencies and customers to comply with existing regulations and continuously looks for ways to improve its environmental and safety standards.

Below is the detailed enumeration of its permits and licenses together with its pertinent details:

License/Permit Name	Regulatory Body
SEC Certificate of Registration	Securities and Exchange Commission
PEZA Certificate of Registration - Export Enterprise	Philippine Economic Zone Authority
PEZA Certificate of Registration - Facilities Enterprise	Philippine Economic Zone Authority
BIR Form 2303 - Certificate of Registration	Bureau of Internal Revenue
Permit to Use Computerized Accounting System	Bureau of Internal Revenue
Permit to Use Loose-leaf Invoices	Bureau of Internal Revenue
Authority to Print Invoices	Bureau of Internal Revenue 1. Sales Invoice; Official Receipt (back up invoices during system downtime 2. Billing Invoice; Collection Receipt (back up invoices during system downtime) 3. Official Receipt; Service Invoice; Acknowledgement Receipt 4. Debit Memo; Credit Memo
Barangay Business Clearance	Barangay Binan
Business Permit	City of Binan
Environmental Clearance (for Business Permit)	City of Binan
Engineering Clearance (for Business Permit)	City of Binan
Zoning Clearance (for Business Permit)	City of Binan
Sanitary Permit (For Business Permit)	City of Binan
Environmental Compliance Certficate	Department of Environment and Natural Resources
Laguna Lake Development Authority Discharge Permit	Laguna Lake Development Authority
Permit To Operate - Emission Source Installation	Department of Environment and Natural Resources
CG	
SSCG	
Philippine Drug Enforcement Agency Permit	Philippine Drug Enforcement Agency
License to Operate and X-Ray Facility	Department of Health - Food and Drug Administration
License to Handle Controlled Precursors & Essential Chemicals	Philippine Drug Enforcement Agency
License-to-Possess Explosives (Nitric Acid)	Philippine National Police
CG	
SSCG	
Radioactive Material License	Philippine Nuclear Research Institute
Fire Safety Inspection Certificate	Bureau of Fire Protection

License/Permit Name	Location	Integrated Micro-Electronics, Inc.		
		License/Permit No.	Issue Date	Expiry Date
SEC Certificate of Registration		94419	8/8/1980	
PEZA Certificate of Registration - Export and IT Enterprise	Laguna and Cavite	94-59 (Amended)	6/11/2019	
PEZA Certificate of Registration - Facilities Enterprise	Laguna	11-19-F	11/29/2011	
BIR Form 2303 - Certificate of Registration				
Laguna		OCN 8RC0001459939E	2/28/2018	
Cavite		OCN 8RC0000039988	12/12/2012	

Permit to Use Computerized Accounting System	Laguna and Cavite	1214-116-00171CAS	1/1/2015	
Permit to Use Loose-leaf Invoices	Laguna and Cavite	LTAD-LL-09-769-14	9/5/2014	
Authority to Print Invoices				
Laguna		OCN 8AU0000356125	8/28/2019	8/27/2024
		OCN 8AU0000356126	8/28/2019	8/27/2024
Cavite		OCN 8AU0000356508	8/30/2019	8/29/2024
		OCN 8AU0000356509	8/30/2019	8/29/2024
Business Permit	Laguna	2020-06430	3/9/2020	12/31/2020
Barangay Business Clearance	Laguna	2020-01	1/22/2020	12/31/2020
Environmental Clearance (for Business Permit)		N/A		
Engineering Clearance (for Business Permit)		N/A		
Zoning Clearance (for Business Permit)		N/A		
Sanitary Permit (For Business Permit)		N/A		

License/Permit Name	IMI ROHQ		
	License No.	Issue Date	Expiry Date
SEC Certificate of Registration	FS200905182	4/16/2009	
BIR Form 2303 - Certificate of Registration	OCN 1RC000634390	6/25/2013	
Authority to Print Invoices	OCN 1AU0001692572	9/22/2017	9/21/2022
	OCN 1AU0001802502	5/21/2018	5/20/2023
Barangay Business Clearance	2020-01	1/10/2020	12/31/2020
Business Permit	2020-00975	1/10/2020	12/31/2020
Environmental Clearance (for Business Permit)	N/A		
Engineering Clearance (for Business Permit)	N/A		
Zoning Clearance (for Business Permit)	N/A		
Sanitary Permit (For Business Permit)	N/A		

IMI paid nominal fees required for the submission of applications for the above-mentioned environmental laws.

Research and Development Activities

New capabilities for Power Module packages using transfer mold technology have been set up and will be ready for production in 2020 for automotive applications. This now gives IMI ability to develop and manufacture medium-power applications for high reliability and safety critical automotive applications. The design and development of the hybrid version of a pin-fin baseplate and heatsink for a full Silicon Carbide power module for electric vehicles is nearing completion. It will be ready for production by 2021. Also in full swing are the design and development of a medium power module using transfer molding process for aerospace application, and a complex power module with integrated control driver IC. This will pave the way for a new intelligent power package platform for automotive application.

D&D Laguna is also developing an automotive grade camera lens heater and illumination module that supplements IMI's automotive camera platform. This showcases its capabilities in CAN communication, LED light control, mechanical design for efficient thermal transfer, ingress protection and design in accordance to functional safety.

IMI spent the following for research and development activities in the last three years:

		% to Revenues
2019	$4,645,409	0.37
2018	$6,287,175	0.47
2017	$3,506,223	0.32

Human Resources

The Company has a total workforce of 17,215 employees as of December 31, 2019, shown in the following table:

	2018	2019
Managers	473	497
Supervisors	1,622	2,148
Rank-and-File	3,064	3,079
Technicians/Operators	11,989	11,491
TOTAL	17,148	17,215

IMI's projected headcount for 2020 is 18,325.

The relationship between management and employees has always been of solidarity and collaboration from the beginning of its operations up to the present. The Company believes that open communication and direct engagement between management and employees are the most effective ways to resolve workplace issues.

IMI has existing supplemental benefits for its employees such as transportation and meal subsidy, group hospitalization insurance coverage and non-contributory retirement plan.

The Company has or will have no supplemental benefits or incentive arrangements with its employees other than those mentioned above.

Risk Factors

The Company's business, financial condition and results of operation could be materially and adversely affected by risks relating to the Company and the Philippines.

IMI's operating results may significantly fluctuate from period to period
There is a risk that the Company's operating results may fluctuate significantly due to various factors including but not limited to geopolitical issues, macro-economic factors, changes in demand for its products and services, customers' sales outlook, purchasing patterns, and inventory adjustments, changes in the types of services provided to customers, variations in the, volume of products, adjustments in the processes and manner of delivery of services, as well as alterations to product specifications on account of complexity of product maturity, the extent to which the Company can provide vertically integrated services for a product. The result is also affected by the Company's effectiveness in managing its manufacturing processes, controlling costs, and integrating any potential future acquisitions, the Company's ability to make optimal use of its available manufacturing capacity, changes in the cost and availability of labor, raw materials, and components, which affect its margins and its ability to meet delivery schedules, and the ability to manage the timing of its component purchases so that components are available when needed for production while avoiding the risks of accumulating inventory in excess of immediate production needs. Fluctuations in operating results may also be experienced by the Company on account of the advent of new technology and customer qualification of technology employed in the production, and the occurrence of any changes in local conditions or occurrence of events that may affect production volumes and costs of production, such as, but not limited to labor conditions, political instability, changes in law and regulation, economic disruptions or changes in economic policies affecting flow of capital, entry of competition, substantial rate hikes of utilities required for production. The Company may also experience possible business disruptions as a result of natural events such as fire and explosion due to presence and use of flammable materials in the operations, or force majeure.

The factors identified above and other risks discussed in this section affect the Company's operating results from time to time.

Some of these factors are beyond the Company's control. The Company may not be able to effectively sustain its growth due to restraining factors concerning corporate competencies, competition, global economies, and market and customer requirements. To meet the needs of its customers, the Company has expanded its operations in recent years and, in conjunction with the execution of its strategic plans, the Company expects to continue expanding in terms of geographical reach, customers served, products, and services. To manage its growth, the Company must continue to enhance its managerial, technical, operational, and other resources.

The Company's ongoing operations and future growth may also require funding either through internal or external sources. There can also be no assurance that any future expansion plans will not adversely affect the Company's existing operations since execution of said plans may involve challenges. For instance, the Company may be required to be confronted with such issues as shortages of production equipment and raw materials or components, capacity constraints, difficulties in ramping up production at new facilities or upgrading or expanding existing facilities, and training an increasing number of personnel to manage and operate those facilities. Compounding these issues are other restraining factors such as more aggressive efforts of competition in expanding business, volatility in global economies and market and customer requirements. All these challenges could make it difficult for the Company to implement any expansion plans successfully and in a timely manner.

In response to a very dynamic operating environment and intense industry competition, the Company focuses on high-growth/high-margin specialized product niches, diversifies its markets and products, engages in higher value add services, improves its cost structure, and pursues strategies to grow existing accounts.

IMI is highly dependent on an industry that is characterized by rapid technological changes

The demand for the Company's solutions is derived from the demand of end customers particularly for end-use applications in the automotive, industrial, communications, consumer, and medical electronics industries. These industries have historically been characterized by rapid technological changes, evolving industry standards, and changing customer needs. Original Equipment Manufacturers (OEMS) continues to make adjustments to the design, and the choice of components, for their PCBAs, therefore requiring the Company to maintain regular communication with OEM customers and share forecast information with suppliers. The sudden change of demand may also create inventory buildup and may affect the supply chain flexibilities of IMI and abilities to adapt to the market change.

New services or technologies may also render the Company's existing services or technologies less competitive. If the Company does not promptly make measures to respond to technological developments and industry standard changes, the eventual integration of new technology or industry standards or the eventual upgrading of its facilities and production capabilities may require substantial time, effort, and capital investment.

The Company is focusing on longer life cycle industries such as automotive, industrial and telecommunication infrastructure to reduce the volatility of model and design changes. The Company also keeps itself abreast of trends and technology development the electronics industry and is continuously conducting studies to enhance its technologies, capabilities and value proposition to its customers. It defines and executes technology road maps that are aligned with market and customer requirements.

With rapid technological changes comes increasingly sophisticated methods to infiltrate information and communication systems. IMI's maybe vulnerable to cybersecurity, information security, and data privacy breach.

Information and cybersecurity risks, DDoS, ransomware, data breach, sabotage of production systems, penalties resulting from data privacy violations, reputation loss are important risk factors that the company needs to be able to manage and ensure sufficient and appropriate controls are in place. In this regard, we ensure strong and adequate information security controls are implemented to safeguard confidentiality, integrity, and prevent loss of our critical information.

Automation, analytics and machine-learning algorithms have taken its step to a number of factories for quicker, more efficient production, with human operators monitoring and maintaining the systems. Understanding the role of our employees as resilient participants in this digital age, our cybersecurity awareness program is continuously running. We engaged a third-party online security training provider to support this initiative.

Secure Email Gateway (SEG), Security Incident & Event Management (SIEM) and Security Operations (SOC) are in place to enhance security controls and mitigate existing risks at the same time.
The company also complies with the Data Privacy Act (DPA) to protect all forms of information that are personal, private, or privileged. IMI has also as a global company IMI also maintains strict compliance to General Data Protection Regulations (GDPR).

The industry where IMI operates in does not serve, generally, firm or long-term volume purchase commitments

Save for specific engagements peculiar to certain products and services required, the Company's customers do not generally contract for firm and long-term volume purchase. Customers may place

lower-than-expected orders, cancel existing or future orders or change production quantities. There are no guaranteed or fixed volume orders that are committed on a monthly or periodic basis.
In addition, the Company makes significant investment decisions, including determining the levels of business that it will seek and accept capacity expansion, personnel needs, and other resource requirements. These key decisions are ultimately based on estimates of customer long-term requirements. The rapid changes in demand for its products reduce its ability to estimate accurately long-term future customer requirements. Thus, there is the risk that resource investments are not optimized at a certain period.

In order to manage the effects of these uncertainties, customers are required to place firm orders within the manufacturing lead time to ensure delivery. The Company does not solely rely on the forecast provided by the clients. By focusing on the longer cycle industry segments, the volatility that comes with rapid model changes is reduced and the Company is able to have a more accurate production planning and inventory management process.

Buy-back agreements are also negotiated by the Company in the event there are excess inventory when customer products reach their end-of-life .To the extent possible, the Company's contract include volume break pricing, and materials buy-back conditions to taper the impact of sudden cancellations, reductions, and delays in customer requirements.

IMI may encounter difficulties in connection with its global expansion
The Company's globalization strategy has transformed it from a Philippines-centric company into a global network with manufacturing and engineering facilities as well as sales offices in Asia, Europe, and North America. This global expansion may expose the Company to potential difficulties that include diversion of management's attention from the normal operations of the Company's business, potential loss of key employees and customers of the acquired companies, physical, legal, cultural, and social impediments in managing and integrating operations in geographically dispersed locations, lack of experience operating in the geographic market of the acquired business, reduction in cash balance and increases in expenses and working capital requirements, which may reduce return on invested capital, potential increases in debt, which may increase operating costs as a result of higher interest payments, and complexities in integrating acquired businesses into existing operations, which may prevent it from achieving, or may reduce the anticipated synergy.

The Company's acquisitions of new companies or creation of new units, whether onshore or offshore, may also have an immediate financial impact to the Company due to the dilution of the percentage of ownership of current stockholders if the acquisition requires any payment in the form of equity of the Company, the periodic impairment of goodwill and other intangible assets, and liabilities, litigations, and/or unanticipated contingent liabilities assumed from the acquired companies.

If the Company is not able to successfully manage these potential difficulties, any such acquisitions may not result in material revenue enhancement or other anticipated benefits or even adversely affect its financial and/or operating condition.

To limit its exposure, the Company performs a thorough assessment of the upside and downside of any merger or acquisition. Supported by a team which focuses on business development, finance, legal, and engineering units, the vision, long-term strategy, compatibility with the culture, customer relationship, technology, and financial stability of the company to be acquired is carefully examined thorough due diligence to ensure exposures are mitigated through proper warranties. In addition, the Company looks at acquisitions that are immediately accretive to the P&L of the Company. The decision is then reviewed and endorsed by the Finance Committee, and approved by the Board. The Company carefully plans any merger or acquisition for a substantial period prior to closing date. Prior to closing of transactions, the Company forms an integration team and formulates detailed execution plans to integrate the key functions of the acquired entity into the Company.

IMI may not be able to mitigate the effects of declining prices of goods over the life cycles of its products or as a result of changes in its mix of new and mature products, mix of turnkey and consignment business arrangements, and lower prices offered by competition
The price of the Company's products tends to decline over the later years of the product life cycle, reflecting decreased costs of input components, improved efficiency, decreased demand, and increased competition as more manufacturers are able to produce similar or alternative products. The gross margin for manufacturing services is highest when a product is first developed but as products mature, average selling prices of a product drop due to various market forces resulting in gross margin erosion. The Company may be constrained to reduce the price of its service for more mature products in order to remain competitive against other manufacturing services providers. This is most apparent in the automotive segment, where the reduction has historically been observed to occur between the first

two to three years. The Company's gross margin may further decline to be competitive with the lower prices offered by competition or to absorb excess capacity, liquidate excess inventories, or restructure or attempt to gain market share.

The Company is moving towards a higher proportion of contracting under a turnkey production (with the Company providing labor, materials and overhead support), as compared to those under a consignment model, indicating a possible deterioration in its margins. The Company will also need to deploy larger amounts of working capital for turnkey engagements.

To mitigate the effects of price declines in the Company's existing products and to sustain margins, the Company continues to improve its production efficiency by increasing yields, increasing throughputs through LEAN and six sigma manufacturing process. In addition, the Company continues to leverage on its purchase base and supplier programs to avail of discounts and reduced costs in component prices. It also utilizes its global procurement network and supply chain capabilities to reduce logistics costs for components including inventory levels. The Company also intensifies its effort to contract with customers with higher-margin products most of which involve higher engineering value add and more complex box build or system integration requirements.

IMI operates in a highly competitive industry
Some of the Company's competitors in the industry may have greater design, engineering, manufacturing, financial capabilities, or superior resources than the Company. Customers evaluate EMS and ODMs based on, among other things, global manufacturing capabilities, speed, quality, engineering services, flexibility, and costs. In outsourcing, OEMs seek to reduce cost. In addition, major OEMs typically outsource the same type of products to at least two or three outsourcing partners in order to diversify their supply risks. The competitive nature of the industry may result in substantial price competition. The Company faces increasing challenges from competitors who are able to put in place a competitive cost structure by consolidating with or acquiring other competitors, relocating to lower cost areas, strengthening supply chain partnerships, or enhancing solutions through vertical integration, among others. The Company's customers may opt to transact with the Company's competitors instead of the Company or if the Company fails to develop and provide the technology and skills required by its customers at a rate comparable to its competitors. There can be no assurance that the Company will be able to competitively develop the higher value add solutions necessary to retain business or attract new customers. There can also be no assurance that it will be able to establish a compelling advantage over its competitors.

The industry could become even more competitive if OEMs fail to significantly increase their overall levels of outsourcing. Increased competition could result in significant price competition, reduced revenues, lower profit margins, or loss of market share, any of which would have a material adverse effect on the Company's business, financial condition, and results of operations.
The Company regularly assesses the appropriate pricing model (so as to ensure that it is strategic/value based or demand based, among others) to be applied on its quotation to existing or prospective customers. The Company is also strengthening its risk management capabilities to be able to turn some of the risks (e.g., credit risks) into opportunities to gain or maintain new or existing customers, respectively. The Company also continues to develop high value-add services that fit the dynamic markets it serves. It continues to enhance capabilities in design and development, advanced manufacturing engineering, test and systems development, value engineering, and supply chain management to ensure an efficient product realization experience for its customers.
In addition, the Company's size, stability and geographical reach allow it to attract global OEMs customers that look for stable partners that can service them in multiple locations. This is evidenced by increasing number of global contracts that the Company is able to develop and have multiple sites serving single customers.

Focusing on high value automotive (such as those for ADAS and safety-related, power modules and electronic control units, among others), industrial, aerospace/defense and medical segments where strict performance and stringent certification processes are required, the Company is able to establish a high barrier of entry, business sustainability and better pricing. Generally, the Company has observed that it is usually difficult for customers in these industries to shift production as they would have to go through a long lead time in the certification process. The direction the Company has taken resulted in the rise of the Company's ranking in the global and automotive EMS spaces.

IMI may be subject to reputation and financial risks due to product quality and liability issues
The contracts the Company enters into with its customers, especially customers from the automotive and medical industry, typically include warranties that its products will be free from defects and will perform in accordance with agreed specifications. To the extent that products delivered by the Company to its customers do not, or are not deemed to, satisfy such warranties, the Company could be

responsible for repairing or replacing any defective products, or, in certain circumstances, for the cost of effecting a recall of all products which might contain a similar defect in an occurrence of an epidemic failure, as well as for consequential damages. Defects in the products manufactured by the Company adversely affect its customer relations, standing and reputation in the marketplace, result in monetary losses, and have a material adverse effect on its business, financial condition, and results of operations. There can be no assurance that the Company will be able to recover any losses incurred as a result of product liability in the future from any third party.

In order to prevent or avoid a potential breach of warranties which may expose the Company to liability, the Company's quality assurance focused on defect prevention, globalizing the culture of early detection and reaction to internal issues. The Company also refined its Advanced Product Quality Planning (APQP) procedure to ensure customer specific requirements on process and product quality are met early on the design and development phase before the product gets launched into production.
The Company performs a detailed review and documentation of the manufacturing process that is verified, audited and signed-off by the customers. In addition, customers are encouraged, and in some cases, required to perform official audits of the Company's manufacturing and quality assurance processes, to ensure compliance with specifications. The Company works closely with customers to define customer specifications and quality requirements and follow closely these requirements to mitigate future product liability claims. The Company also insures itself on product liability and recall on a global basis.

IMI's production capacity may not correspond precisely to its production demand
The Company's customers may require it to have a certain percentage of excess capacity that would allow the Company to meet unexpected increases in purchase orders. On occasion, however, customers may require rapid increases in production beyond the Company's production capacity, and the Company may not have sufficient capacity at any given time to meet sharp increases in these requirements. On the other hand, there is also a risk of the underutilization of the production line, which may slightly lower the Company's profit margins. In response, the Company makes the necessary adjustments in order to have a match between demand and supply. In the case of a lack in supply, the Company equips itself with flexible systems that allow it to temporarily expand its production lines in order to lower the overhead costs, and then make corresponding increases in its capacity when there is a need for it as well.

To soften the impact of this, the Company closely coordinates with customers to provide the parties with regular capacity reports and action plan/s for common reference and future capacity utilizations. The Company also closely collaborates with its customers to understand the required technology roadmaps, anticipate changes in technological requirements, and discuss possible future solutions.

IMI may be involved in intellectual property disputes
The Company's business depends in part on its ability to provide customers with technologically sophisticated products. The Company's failure to protect its intellectual property or the intellectual property of its customers exposes it to legal liability, loss of business to competition and could hurt customer relationships and affect its ability to obtain future business. It could incur costs in either defending or settling any intellectual property disputes. Customers typically require that the Company indemnify them against claims of intellectual property infringement. If any claims are brought against the Company's customers for such infringement, whether these have merit or not, it could be required to expend significant resources in defending such claims. In the event the Company is subjected to any infringement claims, it may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. The Company may not be successful in developing such alternatives or in obtaining such licenses on reasonable terms or at all, which could disrupt manufacturing processes, damage its reputation, and affect its profitability.

Since the Company is not positioned as an ODM, the likelihood of the Company infringing upon product-related intellectual property of third parties is significantly reduced. Product designs are prescribed by and ultimately owned by the customer.

The Company observes strict adherence to approved processes and specifications and adopts appropriate controls to ensure that the Company's intellectual property and that of its customers are protected and respected. It continuously monitors compliance with confidentiality undertakings of the Company and management. As of the date of this Prospectus, there has been no claim or disputes involving the Company or between the Company and its customers involving any intellectual property.

Demand for services in the EMS industry depends on the performance and business of the industry's customers as well as the demand from end consumers of electronic products

The performance and profitability of the Company's customers' industries are partly driven by the demand for electronic products and equipment by end-consumers. If the end-user demand is low for the industry's customers' products, companies in the Company's industry may see significant changes in orders from customers and may experience greater pricing pressures. Therefore, risks that could harm the customers of its industry could, as a result, adversely affect the Company as well. These risks include the customer's inability to manage their operations efficiently and effectively, the reduced consumer spending in key customers' markets, the seasonality demand for their products, and failure of the customer's products to gain widespread commercial acceptance.

The impact of these risks was very evident in the aftermath of the global financial crisis which resulted in global reduction of demand for electronics products by end-customers. The Company mitigates the impact of industry downturns on demand by rationalizing excess labor and capacity to geographical areas that are most optimal, and by initiating cost containment programs. With indications of global financial recovery already in place, the Company has been able to re-hire some of its employees. There are also electronics requirements resulting from global regulations, such as those for improving vehicle safety and promoting energy-efficient technologies that would increase the demand for electronic products and equipment.

The Company continuously addresses its concentration risks. There is no single customer that the Company is dependent on or accounts for more than 15% of the Company's revenues. The Company also serves global customers which are not concentrated on a specific geographic market.

IMI's industry is dependent on the continuous growth of outsourcing by OEMs

The Company belongs to an industry that is dependent on the strong and continuous growth of outsourcing in the communications, consumer automotive, industrial, and medical electronics industries where customers choose to outsource production of certain components and parts, as well as functions in the production process. A customer's decision to outsource is affected by its ability and capacity for internal manufacturing and the competitive advantages of outsourcing.

The Company's industry depends on the continuing trend of increased outsourcing by its customers. Future growth in its revenue depends on new outsourcing opportunities in which it assumes additional manufacturing and supply chain management responsibilities from its customers. To the extent that these opportunities do not materialize, either because the customers decide to perform these functions internally or because they use other providers of these services, the Company's future growth could be limited.

The Company believes that its global footprint with manufacturing operations in Asia, Europe, and North America, its global supply chain systems and capabilities, and its design services will continue to provide strategic advantages for customers to outsource parts of their product development and manufacturing processes to the Company.

IMI's industry may experience shortages in, or rises in the prices of components, which may adversely affect business

There is a risk that the Company will be unable to acquire necessary components for its business as a result of strong demand in the industry for those components or if suppliers experience any problems with production or delivery. The Company is also exposed to challenges surrounding lead-times within the electronic component market.

The Company is often required by its customers to source certain key components from customer-nominated and accredited suppliers only, and it may not be able to obtain alternative sources of supply should such suppliers be unable to meet the supply of key components in the future. Shortages of components could limit its production capabilities or cause delays in production, which could prevent it from making scheduled shipments to customers.

If the Company is unable to make scheduled shipments, it may experience a reduction in its sales, an increase in costs, and adverse effects on its business. Component shortages may also increase costs of goods sold because it may be required to pay higher prices for components in short supply and redesign or reconfigure products to accommodate substitute components.

To the extent possible, the Company works closely with customers to ensure that there are back up suppliers or manufacturers for customer-supplied components or components supplied by customer-nominated suppliers to mitigate uncertainties in the supply chain. The changes in market also allows opportunities for the Company to consolidate strategic suppliers and improve supply chain cost,

efficiencies and flexibilities, especially in passive and discrete components, and consolidate the global spend for global supplier management and negotiation instead of regional negotiation. In addition, the Company has established supplier certification and development programs designed to assess and improve suppliers' capability in ensuring uninterrupted supply of components to the Company.

Any shortage of raw materials or components could impair IMI's ability to ship orders of its products in a cost-efficient manner or could cause IMI to miss its delivery requirements of its retailers or distributors, which could harm IMI's business

The ability of the Company's manufacturers to supply its products is dependent, in part, upon the availability of raw materials and certain components. The Company's manufacturers may experience shortages in the availability of raw materials or components, which could result in delayed delivery of products to the Company or in increased costs to it. Any shortage of raw materials or components or inability to control costs associated with manufacturing could increase the costs for the Company's products or impair its ability to ship orders in a timely cost-efficient manner. As a result, it could experience cancellation of orders, refusal to accept deliveries, or a reduction in the Company's prices and margins, any of which could harm the Company's financial performance and results of operations. Other than for customer-nominated suppliers or specialty components for the manufacture of specific products, the Company is not dependent on a single supplier for its raw materials.

IMI may be exposed to risk of inventory obsolescence and working capital tied up in inventories

As an EMS provider, the Company may be exposed to a risk of inventory obsolescence because of rapidly changing technology and customer requirements. Delays in ramp up of new projects may result to inventory buildup therefore giving the Company exposure to potential inventory obsolescence which may require it to make adjustments to write down inventory to the lower of cost or net realizable value, and its operating results could be adversely affected. The Company is cognizant of these risks and accordingly exercises due diligence in materials planning.

The Company works with key suppliers to establish supplier-managed inventory arrangements that will mutually reduce the risk. The Company also puts tight control in the inventory with regular negotiation with customers on demand change and suppliers on the pushout and cancellation of deliveries. In addition, the Company often negotiates buy back arrangements with customers where, in the event the customers' purchase orders are delayed, canceled, or enter in the end-of-life phase, the customers assume the risk and compensate the Company for the excess inventory.

IMI may, from time to time, be involved in legal and other proceedings arising out of its operations.

The Company's expanding global activities while continuing to present a myriad of growth opportunities, may tend to increase exposure to potential disputes with its employees and various parties involved in its manufacturing operations, including contractual disputes with customers or suppliers, labor disputes with workers or be exposed to damage or personal liability claims. Regardless of the outcome, these disputes may lead to legal or other proceedings that may affect the ability of the Company to realize its short and long-term target revenues and margins, and may result in substantial costs, delays in the Company's development schedule, and the diversion of resources and management's attention.

The Company may also have disagreements with regulatory bodies in the course of its operations, which may subject it to administrative proceedings and unfavorable decisions that result in penalties and/or delay the development of its projects. In such cases, the Company's business, financial condition, results of operations and cash flows could be materially and adversely affected.

IMI is highly dependent on the continued service of its directors, members of senior management and other key officers

The Company's directors, members of its senior management, and other key officers have been an integral part of its success, and the experience, knowledge, business relationships and expertise that would be lost should any such persons depart could be difficult to replace and may result in a decrease in the Company's operating efficiency and financial performance. Key executives and members of management of the Company include CEO, President and COO, CFO, Chief Procurement Officer, Leaders of Strategic Business Development and Mergers and Acquisitions, Global Sales and Marketing, Global HR, Global Design and Development, Global Advanced Manufacturing Engineering, and Global Quality, and Plant General Managers (GMs). In the event that the Company loses the services of any such person and is unable to fill any vacant key executive or management positions with qualified candidates, or if the qualified individual takes time to learn the details of the Company, the Company's business and results of operations may be adversely affected.

Any deterioration in IMI's employee relations could materially and adversely affect the Company's operations

The Company's success depends partially on the ability of the Company, its contractors, and its third party marketing agents to maintain productive workforces. Any strikes, work stoppages, work

slowdowns, grievances, complaints or claims of unfair practices or other deterioration in the Company's, its contractors' or its third party marketing agents' employee relations could have a material and adverse effect on the Company's financial condition and results of operations.

The Company conducts Employee Engagement Survey to better understand the diverse needs and aspiration of its workforce, and ultimately contribute to their professional and personal goals. It also aims to instill corporate values and institutionalize an employee-centric and high impact working culture. There have been no historical events related to strikes or protests from its employees or unions, despite having higher labor unrest risk due to growing population, given the well-established employee relations programs of the Company.

IMI's success depends on attracting, engaging, and retaining key talents, including skilled research and development engineers

In order to sustain its ability to complete contracted services and deliver on commitments and promote growth, the Company will have to continuously attract, develop, engage and retain skilled workforce highly capable to achieve business goals. The Company recognizes that its competitiveness is dependent on its key talent pipeline, including leadership, talent and skill pool, and succession plan.

The Company continuously identifies top-caliber candidates and keeps the pipeline full to be ready to assume new roles and fuel growth. The Company has a strong ability to hire in terms of the quality of recruits as well as in scale. Specifically, there is strong recruitment in Philippines and in China, having been able to tie up with universities. In the case of an immediate need for to provide manpower, there are contractual agreements at hand to meet the demand. They have the ability to rapidly organize and train skilled workers for new products and services and retain qualified personnel.

The Company also leverages on its global reach to identify, recruit and develop the right employees who can be deployed to the various operating units or divisions of the Company. It also implements on a regular basis pertinent employee training and development programs, including a cadetship program that enables it to tap and employ capable graduates from different leading universities. The Company has implemented proactive measures to retain employees through sound retention programs, encouraging work-life balance among its employees, and providing structured career development paths to promote career growth within the organization and loyalty to the Company.

RISKS RELATING TO COUNTRIES WHERE THE COMPANY OPERATES (INCLUDING THE PHILIPPINES)

IMI conducts business in various jurisdictions, exposing it to business, political, operational, financial, and economic risks due to its operations in these jurisdictions

There is no assurance that there will be no occurrence of an economic slowdown in the countries where the Company operates, including the Philippines. Factors that may adversely affect an economy include but are not limited to:

- decreases in business, industrial, manufacturing or financial activity in the Philippines or in the global market,
- scarcity of credit or other financing, resulting in lower demand for products and services
- the sovereign credit ratings of the country,
- exchange rate fluctuations,
- a prolonged period of inflation or increase in interest rates,
- changes in the relevant government's taxation policies,
- natural disasters, including typhoons, earthquakes, fires, floods and similar events,
- political instability, terrorism or military conflict, and
- other regulatory, political or economic developments in or affecting the Company

Notwithstanding the foregoing, the global operations, marketing, and distribution of the Company's products inherently integrate the impact of any economic downturn affecting a single country where the Company operates, and enables the Company to shift the focus of its operations to other jurisdictions. The Company's manufacturing and sales operations are located in a number of countries throughout Asia, Europe, and North America. As a result, it is affected by business, political, operational, financial, and economic risks inherent in international business, many of which are beyond the Company's control, including difficulties in obtaining domestic and foreign export, import, and other governmental approvals, permits, and licenses, and compliance with foreign laws, which could halt, interrupt, or delay the Company's operations if it is unable to obtain such approvals, permits, and licenses, and could have a material adverse effect on the Company's results of operations.

Changes in law including unexpected changes in regulatory requirements affect the Company's business plans, such as those relating to labor, environmental compliance and product safety. Delays

or difficulties, burdens, and costs of compliance with a variety of foreign laws, including often conflicting and highly prescriptive regulations also directly affect the Company's business plans and operations, cross-border arrangements and the inter-company systems.

Increases in duties and taxation and a potential reversal of current tax or other currently favorable policies encouraging foreign investment or foreign trade by host countries leading to the imposition of government controls, changes in tariffs, or trade restrictions on component or assembled products may result in adverse tax consequences, including tax consequences which may arise in connection with inter-company pricing for transactions between separate legal entities within a group operating in different tax jurisdictions, also result in increases in cost of duties and taxation.

Actions which may be taken by foreign governments pursuant to any trade restrictions, such as "most favored nation" status and trade preferences, as well as potential foreign exchange and repatriation controls on foreign earnings, exchange rate fluctuations, and currency conversion restrictions may adversely affect the Company's business and financial condition.

Under existing foreign exchange controls in the Philippines, as a general rule, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. Restrictions exist on the sale and purchase of foreign exchange in the Philippine banking system. In the past, the Government has instituted restrictions on the ability of foreign companies to use foreign exchange revenues or to convert Philippine pesos into foreign currencies to satisfy foreign currency- denominated obligations, and no assurance can be given that the Government will not institute such or other restrictive exchange policies in the future.

A substantial portion of the Company's manufacturing operations is located in China, which has regulated financial and foreign exchange regime. The Company continuously evaluates the options available to the organization to ensure maximum usage of excess liquidity. Among others, excess liquidity may be repatriated out of China through dividend payments, payment of management service or royalty fees, use of leading and lagging payment, and transfer pricing.

Also, because of China's role in many important supply chains, its exports contain a large amount of value added applied in other Asian economies. At least as importantly, China has become a principal final destination for Asian exports. As China, is hit by US trade tariffs, the spill-over into other APAC economies takes place via international supply chains and changes in China's domestic demand.

Environmental laws applicable to IMI's projects could have a material adverse effect on its business, financial condition or results of operations

The Company cannot predict what environmental legislation or regulations will be amended or enacted in the future, how existing or future laws or regulations will be enforced, administered or interpreted, or the amount of future expenditures that may be required to comply with these environmental laws or regulations or to respond to environmental claims. The introduction or inconsistent application of, or changes in, laws and regulations applicable to the Company's business could have a material adverse effect on its business, financial condition and results of operations.

There can be no assurance that current or future environmental laws and regulations applicable to the Company will not increase the costs of conducting its business above currently projected levels or require future capital expenditures. In addition, if a violation of any environmental law or regulation occurs or if environmental hazards on land where the Company's projects are located cause damage or injury to buyers or any third party, the Company may be required to pay a fine, to incur costs in order to cure the violation and to compensate its buyers and any affected third parties.

Any political instability in the Philippines and the countries where IMI operates may adversely affect the business operations, plans, and prospects of the Company

The Philippines has from time to time experienced severe political and social instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business.

The impact of the Brexit upon the technology and innovation sector largely depends upon what model the UK adopts for its relationship with the EU. If the UK remains in the European Economic Area then the changes may be minimal. If the UK joins the European Free Trade Association and negotiates sector specific access to the single market then the landscape depends on the exact nature of that relationship. If the UK distances itself further from the EU then the changes may be more extensive.

Macro-economic conditions of different countries where IMI operates may adversely affect the Company's business and prospectus

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. Although the Philippines' long-term foreign currency-denominated debt was recently upgraded by each of Standard & Poor's, and Moody's to investment-grade, no assurance can be given that Standard & Poor's, or Moody's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, Philippine companies. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Parent Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available

In addition, some countries in which the Company operates, such as China, Czech Republic and Mexico, have experienced periods of slow or negative growth, high inflation, significant currency devaluations, or limited liability of foreign exchange. In countries such as UK, China and Mexico, governmental authorities exercise significant influence over many aspects of the economy which may significantly affect the Company.

Furthermore, the risk of imposing big border tax to US manufacturers that move jobs outside the country will have impact to where the company operates, particularly Mexico. In January 2017, US President Donald Trump has met with executives of the Big Three U.S. automakers and told the executives of General Motors, Ford and Fiat Chrysler that he was going to make it easier for them to invest in the country. He will reduce the taxes and unnecessary regulations to those manufacturing in the United States. Trump began singling out companies that were planning investments in Mexico that involved moving American jobs. Trump promised a big border tax on cars shipped from Mexico into the United States.

On an as-need basis, the Company seeks the help of consultants and subject matter experts for changes in laws and regulations that may have a significant impact in the Company's business operations. It also maintains good relationship with local government, customs, and tax authorities through business transparency and compliance and/or payment of all government-related assessments in a timely manner. The Company has been able to overcome major crises brought about by economic and political factors affecting the countries where it operates. The strong corporate governance structure of the Company and its prudent management team are the foundations for its continued success. The Company also constantly monitors its macroeconomic risk exposure, identifies unwanted risk concentration, and modifies its business policies and activities to navigate such risks.

There is no single customer that the Company is dependent on or accounts for more than 15% of the Company's revenues. The Company also serves global customers which are not concentrated on a specific geographic market.

Severe macroeconomic contractions may conceivably lead the Company to tweak or modify its investment decisions to meet the downturn. As a holding company, the Company affirms the principles of fiscal prudence and efficiency in the operations to its subsidiaries operating in various countries.

IMI faces risks of international expansion and operation in multiple jurisdictions

The Company expects to have an international customer base which may require worldwide service and support. The Company may expand its operations internationally and enter additional markets, which will require significant management attention. Any such expansion may cause a strain in existing management resources.

The distances between the Company, the customers, and the suppliers globally, create a number of logistical and communications challenges, including managing operations across multiple time zones, directing the manufacture and delivery of products across significant distances, coordinating the procurement of raw materials and their delivery to multiple locations, and coordinating the activities and decisions of the Company's management team, the members of which are spread out internationally.
While the Company tries to keep its local expertise, it established global functions to ensure that there is adequate coordination of activities. In addition, the availability and use of cell phones, e-mails, and internet-based communication tools by the Company resulted in more efficient and timely coordination of activities and decision making by management from different sites and countries.

The Company aggressively pursues hiring of experienced international managers and staff globally. This enables the Company to ensure that it has sufficient manpower complement possessed with the required skills and experience to work with customers, vendors, and other partners in and out of the relevant country where it operates.

Natural or other catastrophes, including severe weather conditions and epidemics, that may materially disrupt IMI's operations, affect its ability to complete projects and result in losses not covered by its insurance

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. In October 2013, a 7.2 magnitude earthquake affected Cebu and the island of Bohol, and in November 2013, Super Typhoon Haiyan (called Yolanda in the Philippines) caused destruction and casualties of an as yet undetermined amount, in Tacloban, certain parts of Samar, and certain parts of Cebu City, all of which are located in the Visayas, the southern part of the Philippines. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Company's operations. These factors, which are not within the Company's control, could potentially have significant effects on the Company's manufacturing facilities. As a result, the occurrence of natural or other catastrophes or severe weather conditions may adversely affect the Company's business, financial condition and results of operations.

Natural disasters, such as the 2008 earthquake in China, where most of the Company's manufacturing operations are located, could severely disrupt the Company's manufacturing operations and increase the Company's supply chain costs. These events, over which we have little or no control, could cause a decrease in demand for the Company's services, make it difficult or impossible for the Company to manufacture and deliver products and for the Company's suppliers to deliver components allowing it to manufacture those products, require large expenditures to repair or replace the Company's facilities, or create delays and inefficiencies in the Company's supply chain.

In addition, epidemic or pandemic such as Severe Acute Respiratory Syndrome (SARS) of 2003, H1N1 Influenza virus of 2009, Middle East Respiratory Syndrome (MERS) of 2012. May have severe effects on global supply chain affecting company's employees, and business.

Any escalation in these events or similar future events may disrupt the Company's operations and the operations of the Company's customers and suppliers, and may affect the availability of materials needed for the Company's manufacturing services. Such events may also disrupt the transportation of materials to the Company's manufacturing facilities and finished products to the Company's customers.

There can be no assurance that the Company is fully capable to deal with these situations and that the insurance coverage it maintains will fully compensate it for all the damages and economic losses resulting from these catastrophes.

Political instability or threats that may disrupt IMI's operations could result in losses not covered by the Company's insurance

No assurance can be given that the political environment in the Philippines will remain stable and any political instability in the future could reduce consumer demand, or result in inconsistent or sudden changes in regulations and policies that affect the Company's business operations, which could have an adverse effect on the results of operations and the financial condition of the Company.

Increased political instability threats or occurrence of terrorist attacks, enhanced national security measures, and conflicts, as well as territorial and other disputes, which strain international relations, may reduce consumer confidence and economic weakness.

Any impact on the following cases in countries in which the Company has operations could materially and adversely affect the Company's business plans and prospects, financial condition and results of operations.

The Philippines, China, and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. Moreover, In January 2017, President Donald Trump's nominee at that time for Secretary of State Rex Tillerson said China must be denied access to artificial islands it has built in the disputed waters. Trump had previously accused China of building a military fortress in the South China Sea. China claims more than 80 percent of the South China Sea, where it has built up its military presence as well as constructing the islands. Vietnam, the Philippines, Brunei, Malaysia and Taiwan claim parts of the same maritime area, a thriving fishing zone through which more than $5 trillion of trade passes each year. In July 2016, an international tribunal in The Hague ruled against China in a case brought by the Philippines, saying it had no historic rights to the resources within a dashed line drawn on a 1940s map that had formed the basis of its claims. While the court said the ruling was binding, China said the 29 tribunal had no jurisdiction. China is also in dispute with Japan and India over claims to a separate set of islands.

President Donald Trump signed an executive order on January 27, 2017 that indefinitely suspends admissions for Syrian refugees and limits the flow of other refugees into the United States by instituting what the President has called "extreme vetting" of immigrants. The executive order on Protection of the Nation from Foreign Terrorist Entry into The United States is the start of tightening borders and halting certain refugees from entering the United States. The order bars all persons from certain "terror-prone" countries from entering the United States for 90 days and suspends the US Refugee Admissions Program for 120 days until it is reinstated "only for nationals of countries for whom" members of Trump's Cabinet deem can be properly vetted.

The “British exit of the European Union (EU)," or known as Brexit on June 23, 2016 is considered the most significant economic demerger between major economies since the Second World War. British vote to leave the European Union is likely to impose major instability on top of economic fragility and artificial financial markets. The Brexit referendum roiled global markets, including currencies, causing the British pound to fall to its lowest level in decades. In November 2016, the British High Court ruled that the government needs the Parliament's approval to trigger Article 50 of the Lisbon Treaty and begin the two-year process of withdrawing the UK from the EU. On February 1, 2017, Prime Minister Theresa May won votes from Members of Parliament in the House of Commons for the bill to invoke Article 50 and start the Brexit process in March 2017. In March 19, 2018, the EU and UK agree on a transition phase, and by 25th of November 2018, Draft withdrawal deal was agreed. After an intense political battle new Prime Minister Boris Jonson was elected in parliament July 2019. In September 2019 the European Union (Withdrawal) Act 2019 also known as “Benn Act” which required the British Prime Minister to the Brexit withdrawal date-then scheduled 31 October 2019. Subsequently, 28th of the same month, EU heads of state and government approved the new and final extension date of 31 January 2020.

Investors may face difficulties enforcing judgments against IMI
It may be difficult for investors to enforce judgments against the Company owing to its global operations, diverse residencies of its different officers, and assets located in different jurisdictions. It may particularly be difficult for investors to effect service of process upon any officer who is not a resident of the country where judgments from courts or arbitral tribunals are obtained outside or within the Philippines if these are predicated upon the laws of jurisdictions other than the country where such judgments are obtained.

The Philippines is party to the United Nations Convention on the Enforcement and Recognition of Arbitral Awards, though it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, the Philippine Rules of Civil Procedure provide that a judgment or final order of a foreign court is, through the institution of an independent action, enforceable in the Philippines as a general matter, unless there is evidence that: (i) the foreign court rendering judgment did not have jurisdiction, (ii) the judgment is contrary to the laws, public policy, customs or public order of the Philippines, (iii) the party against whom enforcement is sought did not receive notice, or (iv) the rendering of the judgment entailed collusion, fraud, or a clear mistake of law or fact.

For further information on IMI, please refer to its 2019 Financial Reports and SEC17A which are available in its website www.global-imi.com.

AC ENERGY, INC.

AC Energy, Inc. (alternately referred to as “AC Energy”, “the AC Energy Group”, “the Company” or “the Group” in the entire discussion of AC Energy) is a Philippine corporation that manages a diversified portfolio of renewable and conventional power generation projects and engages primarily in power project development operations and in other businesses located in the Philippines, Indonesia, Vietnam, and Australia.

AC Energy was designated in 2011 as Ayala Corporation’s vehicle for investments in the power sector to pursue greenfield, as well as currently operating, power-related projects for both renewable and conventional technologies in various parts of the Philippines. In 2016, the Company expanded its business purpose to include the purchase, retail, supply and delivery of electricity and in 2017, the business purposes were expanded further to include the development, operation and maintenance of power projects.

AC Energy is in the process of transitioning from a Philippine-focused energy investment holding company into a regional player with investment, development and operation capabilities, and is actively scaling up its renewable energy platform through partnerships and expected investments in various projects in the pipeline in the Philippines, Indonesia, and Vietnam, and in markets where it is a new participant such as Australia and other countries in the Asia Pacific region. The Company has a target to reach 5,000MW of renewables capacity and generate at least 50 per cent of energy output from renewables by 2025.

As of December 31, 2019, the Company had a total net attributable capacity of 1,159MW in operation and under construction across the region, which includes strategic investments in renewable and conventional power generation projects. As of the same period, the Company’s Philippine operating projects has over 90% contracted capacity (excluding GN power related assets) while its international operating projects has 100% contracted capacity.

The table below shows the net attributable capacity per country for operating projects and projects under construction (based on net attributable capacity in MW):

	Operating	Under Construction	Total
Philippines	445	270	715
Indonesia	184	Nil	184
Vietnam	229	32	261
Total	857	667	1,159

** Note: Excludes 710MW attributable capacity in operation and under construction in respect of the GN Power related assets.*

As of December 31, 2019, 54% of the Company’s net attributable capacity is sourced from renewable energy assuming completion of the Company’s transfer of its interests in GN Power assets.

Philippines

Since 2011, the Company has made strategic investments in the power sector in the Philippines, including in greenfield and brownfield projects. These include the following, as of December 31, 2019:

- 52MW wind farm in Ilocos Norte, Philippines (the “NorthWind Project”);
- 81MW wind farm in Ilocos Norte, Philippines (the “North Luzon Renewables Project”);
- 2 x 122MW CFB thermal project located in Batangas, Philippines (the “SLTEC Project”);
- 2 x 668MW supercritical coal-fired plant in Bataan, Philippines (the “GNPD Project”);
- 2 x 316MW coal-fired plant in Bataan, Philippines (the “GNPower Mariveles Project”);
- 4 x 138MW coal-fired plant in Lanao del Norte, Philippines (the “GNPK Project”); and
- 18MW solar power farm in Negros Occidental, Philippines (the “Montesol Project”).

Significantly, in June 2019, the Company completed its acquisition of 51.48% combined stake in PHINMA Energy Corp. (“PHINMA Energy” now known as AC Energy Philippines, Inc. or “ACEPH”, a company listed on the PSE) from, Phinma Corporation and Phinma, Inc. (the “ACEPH Acquisition”). Following an equity infusion and a mandatory tender offer for the publicly listed company’s shares, the Company increased its ownership to 66.34% of ACEPH’s outstanding voting shares, which is the Company’s current ownership as of December 31, 2019 (see Notes 2, 10 and 24 of the 2019 Ayala Corporation’s Consolidated Financial Statements attached as index to this Report).

As a result of the ACEPH Acquisition, a portfolio of operating renewable and conventional power plants were added to AC Energy’s portfolio. ACEPH is engaged in the business of providing integrated power solutions, power generation and electricity supply, renewable energy, and resource exploration and development and is a pioneer in electricity supply and trading in the WESM. As part of its energy

resource and exploration activities, ACEPH, through its subsidiary, ACE Enexor, Inc. ("ACE Enexor", formerly PHINMA Petroleum and Geothermal, Inc) is engaged in oil and gas exploration and development. ACEPH is also actively pursuing clean and sustainable power projects and renewable energy supply, with a focus on wind and solar energy. ACE Enexor is also a public company listed on the PSE.

As a power generator and electricity supplier, ACEPH manages the following portfolio of renewable and conventional power generation projects as of December 31, 2019:

- 116MW (110MW net) diesel plant in Pampanga, Philippines (the "One Subic Plant");
- 52MW (48MW net) diesel plant in Bulacan, Philippines (the "PPGC Plant");
- 21MW (20MW net) diesel bunker C-fired power plant in La Union, Philippines (the "CIP Plant");
- 66MW in aggregate net capacity for three diesel power barges located in Iloilo and in Cebu, Philippines (each, a "Power Barge");
- 45% economic ownership of ACEPH in the SLTEC project;
- 32MW geothermal plant in Maibarara, Santo Tomas, Batangas, Philippines (the "Maibarara Geothermal Plant"); and
- 54MW wind farm in Guimaras, Philippines (the "Guimaras Wind Farm").

As part of its strategy to develop, grow and streamline its Philippine energy platform, AC Energy entered into an agreement with ACEPH for the transfer of certain onshore operating and development companies owned by AC Energy to ACEPH in exchange for ACEPH shares (the "AC Energy-ACEPH Exchange"). Upon completion of conditions and other requirements of the AC Energy-ACEPH Exchange, the Company's ownership of ACEPH will increase to 81.5%.

AC Energy has also made strategic dispositions of certain investments. In June 2019, the Company completed the sale of a 49% voting stake and 60% economic stake in AA Thermal, Inc. ("AA Thermal"). AA Thermal holds the Company's interests in the GNPower Mariveles Project and in a 2 x 668MW supercritical coal-fired plant in Bataan (the "GNPD Project"), which is currently under construction (see Notes 2, 23 and 25 of the 2019 Ayala Corporation's Consolidated Financial Statements attached as index to this Report). In July 2019, the Company entered into an agreement for the transfer of its interests in the GNPK Project to Power Partners Ltd. Co. ("Power Partners", and such transfer, the "GNPK Disposition"). The transfer will be implemented in tranches and is pending certain conditions precedent (see Notes 2 and 25 of the 2019 Ayala Corporation's Consolidated Financial Statements attached as index to this Report).

Indonesia

In January 2017, AC Renewables International Pte. Ltd. ("AC Renewables International", formerly AC Energy International Holdings Pte Ltd.), in partnership with UPC Renewables, invested in the development of a 75MW wind farm in Sidrap, South Sulawesi, Indonesia (the "Sidrap Wind Project"). The Sidrap Wind Project commenced commercial operations in April 2018. This was AC Energy's first greenfield offshore investment and it is the first utility-scale wind farm project in Indonesia.

In April 2017, the Company, as part of a consortium with Star Energy Group Holdings Pte. Ltd, Star Energy Geothermal Pte. Ltd. of Indonesia (collectively "Star Energy") and The Electricity Generating Company ("EGCO") of Thailand completed the acquisition of the Salak and Darajat geothermal projects (the "Salak-Darajat Geothermal Projects") in West Java, Indonesia with a combined capacity of 637MW of steam and power.

Vietnam

In December 2017, AC Energy Vietnam Investments Pte. Ltd. ("ACEV"), a wholly-owned subsidiary of AC Renewables International, entered into a 50:50 joint venture with AMI Renewables Energy Joint Stock Company ("AMI Renewables"), a joint stock company incorporated in Vietnam to invest in AMI AC Renewables Corporation ("AMI AC Renewables", formerly New Energy Investments Corporation), a joint stock company with 100% ownership over the shares of the following entities situated in Vietnam: (i) AMI Energy Khanh Hoa Joint Stock Company ("AMI Khanh Hoa"), which owns a 50MW solar farm in Khanh Hoa province (the "Khanh Hoa Solar Plant"), (ii) BMT Renewable Energy Joint Stock Company ("BMT Dak Lak"), which owns a 30MW solar farm located in Dak Lak province (the "Dak Lak Solar Plant"), and (iii) B&T Windfarm Joint Stock Company ("B&T Quang Binh"), which has entered into an agreement with the government of Quang Binh province for the development of an up to 200MW wind farm located in Quang Binh province. The Khanh Hoa and Dak Lak Solar Plants commenced commercial operations in the second quarter of 2019 with a total net capacity of 80MW.

In addition, as of June 2018, the Company, through ACEV, entered into a partnership with the BIM Group of Vietnam for the development of an aggregate of 330MW of solar power plants located in the province of Ninh Thuan, Vietnam (the "Ninh Thuan Solar Plants"). The Ninh Thuan Solar Plants commenced commercial operations in the second quarter of 2019.

In April 2018, AC Renewables International and Jetfly Asia Pte. Ltd. entered into an agreement for the acquisition by AC Renewables International of 25.0% interest in The Blue Circle Pte. Ltd. ("The Blue Circle") as well as co-investment rights in The Blue Circle's projects in Southeast Asia. The Blue Circle is an international renewable energy developer which has a pipeline of projects in Southeast Asia, over which the Company has certain investment rights. In May 2019, construction of a 40MW wind farm located in the Binh Thuan Province (the "Dai Phong Project") commenced with project completion expected by 2020, before the wind FIT deadline of November 2021.

Australia

In May 2018, the Company, through its subsidiary AC Renewables International, entered the Australian renewable energy market through a joint venture with international renewable energy developer, UPC Renewable Asia Pacific Holdings Limited ("UPC Renewables"). AC Renewables International invested U.S.$30 million for 50.0% ownership in UPC-AC Energy Renewables Australia (HK) Limited ("UPC-AC Energy Renewables Australia"). AC Energy also extended a U.S.$200 million revolver facility to partially fund the Australia projects. UPC-AC Energy Renewables Australia has certain projects in the pipeline, including the New England Solar Farm (the "NE Solar Farm") currently under development located near Uralla in New South Wales with an expected net capacity of up to 700MWac. The first phase of the NE Solar Farm will have a capacity of 400MWac and expects commercial operations by early 2022. UPC-AC Energy Renewables Australia is also developing wind farms on Robbins Island and Jim's Plain in North West Tasmania with a targeted net capacity of up to 1,000MW. In addition to the revolver facility, AC Energy has investment rights to invest equity directly into the projects. UPC-AC Energy Renewables Australia continues to assess potential investments into additional renewable energy projects across Australia in various stages of development.

Retail Electricity Supply Business

The retail electricity supply business continues its active participation in the WESM through buying the electricity requirements of customers and selling the excess output of the Company's generation supply portfolio.

On September 8, 2016, AC Energy obtained a Retail Electricity Supplier ("RES") license allowing it to sell electricity to the end-users in the contestable market.

As a result of the ACEPH acquisition, a portfolio of additional renewable and conventional power businesses was added to AC Energy's portfolio, including retail electricity supply and trading in the WESM, in which PHINMA Energy is a pioneer. PHINMA Energy secured its RES license on November 19, 2012. On September 8, 2017, PHINMA Energy timely filed its application for renewal of its RES license, and upon directives of the ERC, made supplemental submissions on 9 October 2019. On 21 November 2019, the Company received notice from the ERC of the approval of the application for renewal of the Company's RES license. The RES license of the Company shall subsequently be issued by the ERC.

As of December 31, 2019, the AC Energy group's RES business has contracted capacity of over 300MW from several contestable customers across a mix of industries including manufacturing, office, and mall operators.

Risks relating to the Company and its Businesses

Increased competition in the power industry, including competition resulting from legislative, regulatory and industry restructuring efforts could have a material adverse effect on the Company's operations and financial performance.

The Company's success depends on its ability to identify, invest in and develop new power projects, and the Company faces competition to acquire future rights to develop power projects and to generate and sell power. No assurance can be given that the Company will be able to acquire or invest in new power projects successfully.

The Philippine government has sought to implement measures designed to establish a competitive power market. These measures include the ongoing privatization of at least 70% of the NPC-owned-and-controlled power generation facilities and the grant of a concession to operate transmission

facilities, as well as the implementation of retail competition and open access. The move towards a more competitive environment could result in the emergence of new and numerous competitors. These competitors may have greater financial resources, and have more extensive experience than the Company, giving them the ability to respond to operational, technological, financial and other challenges more quickly than AC Energy. These competitors may therefore be more successful than the Company in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities. The type of fuel that competitors use for their generation facilities may also allow them to produce electricity at a lower cost and to sell electricity at a lower price. The Company may therefore be unable to meet the competitive challenges it will face.

The impact of the restructuring of the Philippine power industry changes the competitive landscape of the industry and such changes affect the Company's financial position, results of operations and cash flows in various ways.

In addition, any decision to develop and construct power projects in various jurisdictions, including, but not limited to, the Philippines, Indonesia, Vietnam, and Australia is made after careful consideration of regulatory requirements, availability of fiscal incentives, market conditions (including the demand and supply conditions), land availability, and other considerations. For those jurisdictions that require participation through a competitive bidding process or through the submission of a formal proposal, in which the Company will need to compete for projects based on pricing, technical and engineering qualifications, the financial condition of the Company, availability of land, access to financings, track record and other specifications of the proposed project, the bidding or proposal submission process and selection process may be affected by a number of factors, including factors which may be beyond the Company's control, such as market conditions or government incentive programs. In such cases, the Company may not acquire the rights to develop new power projects in the event that the Company misjudges its competitiveness when submitting its bids or proposals or, where bidding includes price competition, if the Company's competitors have more competitive pricing. The ability of the Company's competitors to access resources that it does not have access to, including labor and capital, may prevent the Company from acquiring additional power projects in strategic locations or from increasing its generating capacity, and the Company may not be able to expand its business as a result.

AC Energy may not successfully implement its growth strategy and the impact of acquisitions, investments and value realization initiatives could be less favorable than anticipated.
As part of its business strategy, AC Energy seeks to actively manage its portfolio of power projects to maximize its capital base and has conducted and continues to carry out acquisitions and investments of varying sizes as well as value realization through certain dispositions, some of which are significant, as well as develop additional power projects in both the Philippines and in international markets. This strategy may require entering into strategic alliances and partnerships and will involve substantial investments. The Company's success in implementing this strategy will depend on, among other things, its ability to identify and assess potential partners, investments and acquisitions, opportunities for value realization and redeployment of capital, and to successfully finance, close and integrate such investments and acquisitions, control costs and maintain sufficient operational and financial controls.
This growth strategy could place significant demands on AC Energy's management and other resources. AC Energy's future growth may be adversely affected if it is unable to make these investments, value realization and capital recycling initiatives or form these partnerships, or if these investments, value realization and capital recycling initiatives and partnerships prove unsuccessful. Further, acquisitions and investments involve numerous risks, including, without limitation, the following: (i) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected demand; (ii) the Company may not be able to integrate acquired businesses, technologies, products, personnel, and operations effectively; (iii) the Company may fail to retain key employees, customers, and suppliers of the companies acquired; (iv) the Company may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavorable terms; and (v) the Company may increase its indebtedness to finance these acquisitions. As a result, it is possible that the expected benefits of completed or future acquisitions, investments and value realization and capital recycling initiatives may not materialize within the time periods or to the extent anticipated or affect the Company's financial condition.

Further, the Company may not be able to identify suitable acquisition and investment opportunities or make acquisitions and investment, on beneficial terms, or obtain financing necessary to complete and support such acquisitions. Regulation of merger and acquisition activity by relevant authorities or other national regulators may also limit the Company's ability to make future acquisitions, mergers or dispositions. The impact on the Company of any future acquisitions or investments and dispositions cannot be fully predicted and any of the risks outlined above, should they materialize, could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Moreover, the Company's growth to date, in particular driven by acquisitions and investments, has placed, and the anticipated further expansion of the Company's operations will continue to place, a significant strain on the Company's management, systems and resources. In addition to training, managing and integrating the Company's workforce, the Company will need to continue to develop the Company's financial and management controls. The Company can provide no assurance that the Company will be able to efficiently or effectively manage the growth and integration of the Company's operations and internationally dispersed businesses and any failure to do so may materially and adversely affect the Company's business, financial condition, results of operations and prospects. In addition, if general economic and regulatory conditions or market and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, AC Energy may decide to delay, modify or forego some aspects of its growth strategies, and its future growth prospects could be adversely affected.

The operations of the Company's power projects are subject to significant government regulation, including regulated tariffs such as FIT, and AC Energy's margins and results of operations could be adversely affected by changes in the law or regulatory schemes.
The inability of the Company and the applicable power projects to predict, influence or respond appropriately to changes in law or regulatory schemes, including any inability or delay in obtaining expected or contracted increases in electricity tariff rates or tariff adjustments for increased expenses, or any inability or delay in obtaining or renewing permits for any facilities, could adversely impact the Company's results of operations and cash flow. Furthermore, changes in laws or regulations or changes in the application or interpretation of laws or regulations in jurisdictions where power projects are located, (particularly utilities where electricity tariffs are subject to regulatory review or approval) could adversely affect the Company's business, including, but not limited to:

- adverse changes in tax law;
- changes in the timing of tariff increases or in the calculation of tariff incentives;
- change in existing subsidies and other changes in the regulatory determinations under the relevant concessions;
- other changes related to licensing or permitting which increase capital or operating costs or otherwise affect the ability to conduct business; or
- other changes that have retroactive effect and/or take account of revenues previously received and expose power projects to additional compliance costs or interfere with the Company's existing financial and business planning.

Any of the above events may result in lower margins for the affected businesses, which could adversely affect the Company's results of operations.

For renewable assets, pricing is either fixed by regulatory arrangements which operate instead of, or in addition to, contractual arrangements or is based on market prices. To the extent that costs rise above the level approved in the tariff, the power projects that are subject to regulated tariffs would bear the risk. During the life of a project, the relevant government authority may unilaterally impose additional restrictions on the project's tariff rates, subject to the regulatory frameworks applicable in each jurisdiction. Future tariffs may not permit the project to maintain current operating margins, which could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Failure to obtain financing on reasonable terms or at all could adversely impact the execution of the Company's expansion and growth plans.
The Company's expansion and growth plans are expected to require significant fund raising. The Company is targeting to develop at least 5,000MW of renewable energy capacity by 2025. The Company's continued access to debt and equity financing as a source of funding for new projects, acquisitions and investments, and for refinancing maturing debt is subject to many factors, including: (i) laws, regulations, and internal bank policies limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers; (ii) the Company's compliance with existing debt covenants; (iii) the ability of the Company to service new debt; (iv) the macroeconomic fundamentals driving credit ratings of the Philippines and other countries where the Company has significant exposure; and (v) perceptions in the capital markets regarding the Company and the industries and regions in which it operates and other factors, some of which may be outside of its control, including general conditions in the debt and equity capital markets, political instability, an economic downturn, social unrest, changes in the regulatory environments where any power projects are located or the bankruptcy of an unrelated company operating in one or more of the same industries as the Company, any of which could increase borrowing costs or restrict the Company's ability to obtain debt or equity financing. There is no assurance that the Company will be able to arrange financing on acceptable

terms, if at all. Any inability of the Company to obtain financing from banks and other financial institutions or from capital markets would adversely affect the Company's ability to execute its expansion and growth strategies.

The Company's international businesses and results of operations are subject to the macroeconomic, social and political developments and conditions of the countries where the Company's portfolio of projects are located.
In addition to the Philippines, the Company's portfolio of power projects in operation and under construction are currently located in Australia, Indonesia, and Vietnam, with plans for further international expansion in other countries such as India and Myanmar. International operations and plans for further international expansion may be affected by the respective domestic economic and market conditions as well as social and political developments in these countries, government interference in the economy in certain countries and changes in regulatory conditions, and there is no guarantee that the Company's existing operations as well as expansion plans will be successful in those countries. The Company's financial condition, prospects and results of operations could be adversely affected if it is not successful internationally or if these international markets are affected by changes in political, economic and other factors, over which the Company has no control.

Changes in tax policies, affecting tax exemptions and tax incentives could adversely affect the Company's results of operations.
Certain subsidiaries, affiliates and joint ventures of AC Energy are registered with the Board of Investments (the "BOI") and the Philippine Economic Zone Authority ("PEZA") and benefit from certain incentives including, among others, income tax holidays ("ITH") for a certain period and lower corporate income tax upon expiry of the applicable ITH, and duty-free importation of capital equipment, spare parts and accessories.

On September 13, 2019, House Bill No. 4157, otherwise known as the Corporate Income Tax and Incentive Rationalization Act ("CITIRA Bill") was passed on the 3rd and final reading. The CITIRA Bill is the renamed version of the TRABAHO Bill which is the second package of the Comprehensive Tax Reform Program ("CTRP") of the Duterte administration. The second package of the CTRP reportedly aims to lower corporate income taxes while rationalising fiscal incentives for corporations, such as income tax holidays, special rates, and custom duty exemptions. If passed into law, the fiscal incentives enjoyed by specific members of the Group may be affected.

If the CITIRA Bill is passed into law, or if these tax exemptions or tax incentives expire, are revoked, or are repealed or other new laws are enacted, the income from these sources will be subject to the corporate income tax rate, which is 30.0% of net taxable income as of 30 September 2019 or the new tax rates as per any new laws enacted. As a result, the Company's tax expense would increase and its profitability would decrease. The expiration, non-renewal, revocation or repeal of these tax exemptions and tax incentives, the enactment of any new laws, and any associated impact on the Company, could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's long term success is dependent upon its ability to attract and retain key personnel and in sufficient numbers.
The Company depends on its senior executives and key management members to implement the Company's projects and business strategies. If any of these individuals resigns or discontinues his or her service, it is possible that a suitable replacement may not be found in a timely manner or at all. If this were to happen, there could be a material adverse effect on the Company's ability to successfully operate its power projects and implement its business strategies.

Power generation involves the use of highly complex machinery and processes and the Company's success depends on the effective operation and maintenance of equipment for its power generation assets. Technical partners and third-party operators are responsible for the operation and maintenance of certain power projects. Any failure on the part of such technical partners and third-party operators to properly operate and/or adequately maintain these power projects could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company's growth to date has placed, and the anticipated further expansion of the Company's operations may continue to place, a significant strain on the Company's management, systems and resources. In addition to training, managing and integrating the Company's workforce, the Company will need to continue to develop the Company's financial and management controls. The Company can provide no assurance that the Company will be able to efficiently or effectively manage the growth and integration of the Company's operations dispersed businesses and any failure to do so may materially and adversely affect the Company's business, financial condition, results of operations and prospects. In addition, if general economic and regulatory conditions or market and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, the Company may

decide to delay, modify or forego some aspects of its growth strategies, and its future growth prospects could be adversely affected.

The Company's business depends on commitments to the promotion of renewable energy.

The countries in which the Company has investments have demonstrated a commitment to renewable energy. As a result, these countries have created favorable regulatory and tax regimes and financial incentives, as well as renewable portfolio standards that require distributors to source a certain percentage of their power requirements from renewable energy sources. For example, Vietnam's FIT programme provides for a FIT rate of U.S.$0.0935 / kWh for 20 years for solar plants completed by June 2019 and U.S.$0.0850 /kWh for wind projects completed by November 2021. These commitments are, however, generally matters of domestic public policy and are subject to the execution of the relevant power purchase agreement ("PPA"). Should these commitments to renewable energy be reduced for any reason, it could affect the Company's ability to operate or renew the Company's permits and licenses and reduce the financial incentives available to the Company, which could, in turn, have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

AC Energy may not be able to adequately influence the operations of its associates and joint ventures and the failure of one or more of its strategic partnerships may negatively impacts its business, financial condition, results of operations and prospects.

AC Energy derives a portion of its income from investments in associates and joint ventures in which it does not have majority voting control. These relationships involve certain risks including the possibility that these partners:

- may have economic interests or business goals that are different from the Company;
- may be unable or unwilling to fulfill their obligations under relevant agreements, including shareholder agreements under which the Company has certain voting rights in respect of key strategic, operating, and financial matters;
- may take actions or omit to take any actions contrary to, or inconsistent with, the Company's policies or objectives or prevailing laws;
- may have disputes with the Company as to the scope of their responsibilities and obligations; and/or
- may have difficulties in respect of seeking funds for the development or construction of projects.

The success of these partnerships depends significantly on the satisfactory performance by the partners and the fulfillment of their obligations. If the Company or a strategic partner fails to perform its obligations satisfactorily, or at all, the partnership may be unable to perform adequately. As a result, cooperation among its partners or consensus with other shareholders in these entities is crucial to these businesses' sound operation and financial success. The Company's business, financial condition, results of operations and prospects may be materially adversely affected if disagreements develop with its strategic partners and are not resolved in a timely manner.

In addition, if any of the Company's strategic partners discontinues its arrangement with the Company, is unable to provide expected resources or assistance, or competes with the Company on business opportunities, the Company may not be able to find a substitute for such strategic partner. Failure of one or more of the Company's strategic partners to perform their obligations may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Risks and delays relating to the development of greenfield power projects could have a material adverse effect on the Company's operations and financial performance.

The development of greenfield power projects involves substantial risks that could give rise to delays, cost overruns, unsatisfactory construction or development in the projects. Such risks include the inability to secure adequate financing, inability to negotiate acceptable offtake agreements, and unforeseen engineering and environmental problems, among others. Any such delays, cost overruns, unsatisfactory construction or development could have a material adverse effect on the business, financial condition, results of operations and growth prospects of the Company.

For the Company's projects under development, the estimated time frame and budget for the completion of critical tasks may be materially different from the actual completion date and costs, which may delay the date of commercial operations of the projects or result in cost overruns.

The Company is expanding its power generation operations and there are a number of projects in its energy portfolio under construction. These projects involve environmental, engineering, construction and commission risks, which may result in cost overruns, delays or performance that is below expected levels of output or efficiency. In addition, projects under construction may be affected by the timing of the issuance of permits and licenses by government agencies, any litigation or disputes, inclement

weather, natural disasters, accidents or unforeseen circumstances, manufacturing and delivery schedules for key equipment, defect in design or construction, and supply and cost of equipment and materials. Further, project delays or cancelations or adjustments to the scope of work may occur from time to time due to incidents of force majeure or legal impediments.

Depending on the severity and duration of the relevant events or circumstances, these risks may significantly delay the commencement of new projects, reduce the economic benefit from such projects, including higher capital expenditure requirements and loss of revenues, which in turn could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Any restriction or prohibition on the Company's ability to receive dividends, interest income, and other distributions from its subsidiaries, associates or joint ventures would have a negative effect on its financial condition, results of operations, and its ability to fulfill its guarantee obligations under the Notes.
The Company, as a holding company, conducts its operations through its subsidiaries, associates, and joint ventures. As a holding company, the Company's income is derived primarily from dividends, interest income, and other distributions paid to the Company by its subsidiaries, associates and joint ventures.

The Company is reliant on these sources of funds with respect to its obligations and in order to finance its subsidiaries. The ability of the Company's direct and indirect subsidiaries, associates and joint ventures to pay dividends, interest income, and other distributions to the Company (and their shareholders in general) is subject to applicable law and may be subject to deduction of taxes and/or restrictions contained in loans and/or debt instruments of such subsidiaries. Currently, the payment of dividends by a Philippine corporation to another Philippine corporation is not subject to tax.
In addition, certain subsidiaries are subject to debt covenants for their respective existing debt. Failure to comply with these covenants may result in an event of default, which if not waived, could result in debt becoming immediately due and payable. This could affect the relevant company's liquidity and ability to generally fund its day-to-day operations. In the event this occurs, it may be difficult to repay or refinance such debt on acceptable terms or at all. Furthermore, such restrictions could likewise impact the Company's ability to fulfill its guarantee obligations under the Notes.
Any restriction or prohibition on the ability of some or all of the Company's subsidiaries, associates and/or joint ventures to distribute dividends or make other distributions to the Company, either due to regulatory restrictions, debt covenants, operating or financial difficulties or other limitations, could have a negative effect on the Company's cash flow and therefore, its financial condition.

The administration and operation of power generation projects by project companies involve significant risks.
The administration and/or operation of power generation projects by project companies involve significant risks, including:

- breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes, leading to unplanned outages and operational issues;
- flaws in the equipment design or in power plant construction;
- issues with the quality or interruptions in the supply of key inputs, including fuel or water;
- material changes in legal, regulatory or licensing requirements;
- human errors in the operation of equipment or operator error;
- performance below expected levels of output or efficiency;
- actions affecting power generation assets owned or managed by the Company, its joint ventures, affiliates or its contractual counterparties;
- pollution or environmental contamination affecting the operation of power generation assets;
- force majeure and catastrophic events including fires, explosions, earthquakes, volcanic eruptions, floods and terrorist acts that could cause forced outages, suspension of operations, loss of life, severe damage and plant destruction;
- planned and unplanned power outages due to maintenance, expansion and refurbishment;
- inability to obtain or the cancelation of required regulatory permits and approvals; and
- opposition from local communities and special interest groups.

For example, Unit 2 of the SLTEC Project has been on forced outage since June 2018 to March 2019 due to a complication with the turbine rotor problem. The rotor has been tested and commissioned in March 2019 and has been running since then. SLTEC invested in a spare rotor which is now being manufactured and expected delivery at site is in June 2020.

There is no assurance that any event similar or dissimilar to those listed above will not occur or will not significantly increase costs or decrease or eliminate revenues derived by the Company, its joint ventures and affiliates from their power projects.

Climate change policies may adversely affect the Company's business and prospects.
The Company is currently invested in certain coal-fired power plants in the Philippines. Policy and regulatory changes, technological developments and market and economic responses relating to climate change may affect the Company's business and the markets in which it operates. The enactment of an international agreement on climate change or other comprehensive legislation focusing on greenhouse gas emissions could have the effect of restricting the use of coal. Other efforts to reduce greenhouse gas emissions and initiatives in various countries to use cleaner alternatives to coal such as natural gas may also affect the use of coal as an energy source.

In addition, technological developments may increase the competitiveness of alternative energy sources, such as renewable energy, which may decrease demand for coal generated power. Other efforts to reduce emissions of greenhouse gases and initiatives in various countries to encourage the use of natural gas or renewable energy may also discourage the use of coal as an energy source. The physical effects of climate change, such as changes in rainfall, water shortages, rising sea levels, increased storm intensities and higher temperatures, may also disrupt the Company's operations. As a result of the above, the Company's business, financial condition, results of operations and prospects may be materially and adversely affected.

Environmental regulations may cause the relevant project companies to incur significant costs and liabilities.
The operations of the Company's project companies are subject to environmental laws and regulations by central and local authorities in the countries in which the projects operate. These include laws and regulations pertaining to pollution, the protection of human health and the environment, air emissions, wastewater discharges, occupational safety and health, and the generation, handling, treatment, remediation, use, storage, release and exposure to hazardous substances and wastes. These requirements are complex, subject to frequent change and have tended to become more stringent over time. The project companies have incurred, and will continue to incur, costs and capital expenditures in complying with these laws and regulations and in obtaining and maintaining all necessary permits. While the project companies have procedures in place to allow it to comply with environmental laws and regulations, there can be no assurance that these will at all times be in compliance with all of their respective obligations in the future or that they will be able to obtain or renew all licenses, consents or other permits necessary to continue operations. Any failure to comply with such laws and regulations could subject the relevant project company to significant fines, penalties and other liabilities, which could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

In addition, environmental laws and regulations, and their interpretations, are constantly evolving and it is impossible to predict accurately the effect that changes in these laws and regulations, or their interpretation, may have upon the Company's business, financial condition, results of operations or prospects. If environmental laws and regulations, or their interpretation, become more stringent, the costs of compliance could increase. If the Company cannot pass along future costs to customers, any increases could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

The Company's power project development operations and the operations of the power projects are subject to inherent operational risks and occupational hazards, which could cause an unexpected suspension of operations and/or incur substantial costs.
Due to the nature of the business of power project development and operations, the Company and its project companies engage or may engage in certain inherently hazardous activities, including operations at height, use of heavy machinery and working with flammable and explosive materials. These operations involve many risks and hazards, including the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment, labor disturbances, natural disasters, environmental hazards and industrial accidents. These hazards can cause personal injury and loss of life, damage to or destruction of property and equipment, and environmental damage and pollution, any of which could result in suspension of the development or operations of any of the power projects or even imposition of civil or criminal penalties, which could in turn cause the Company or any of the project companies to incur substantial costs and damage its reputation and may have a material adverse effect on the Company's business, financial condition and results of operations.

Grid curtailments may limit the generation capacity of power projects.

From time to time, national grid operators curtail the energy generation for a number of reasons, including line congestions and during the instances that dispatch schedules of power plants are not implementable (i.e. if the grid operators foresee that the dispatch schedules may place the grid system at risk). In such circumstances, a power project's access to the grid and thus its generation dispatch can be reduced. Such reductions result in a corresponding reduction in revenue, which, if prolonged or numerous could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

The Company enters into transactions with related parties.

In the ordinary course of business, the Company transacts with its related parties, such as its subsidiaries and certain of its associates and joint ventures, and affiliates enter into transactions with each other. These transactions have principally consisted of advances, loans, bank deposits, reimbursement of expenses, purchase and sale of real estate and other properties and services, sale of electricity, management, marketing and administrative service agreements.

The Company has instituted internal policies with respect to related party transactions and the related party transaction committee of Ayala Corporation oversees such matters. These related party transactions may involve conflicts of interest, which, although not contrary to law, may be detrimental to the Company.

The Company is exposed to credit and collection risks.

As in other businesses, the power business, including the Company's RES business in the Philippines, is exposed to credit and collection risks related to its customers. These include the National Transmission Corporation ("TransCo"), contestable customers as well as electric cooperatives that have varying credit ratings and private distribution utilities including the Manila Electric Company ("Meralco"). In addition, the power projects in Indonesia and in Vietnam are exposed to collection risks from the Perusahaan Listrik Negara ("PLN") as the sole electricity business authority in Indonesia and Vietnam Electricity ("EVN"), which has total control of the national power transmission and distribution market in Vietnam, respectively. There can, however, be no assurance that all customers will pay the Company in a timely manner or at all. In such circumstances, the Company's working capital needs would increase, which could, in turn, divert resources away from the Company's other projects. If a large amount of its customers were unable or unwilling to pay AC Energy, its financial condition could be negatively affected.

Exchange rate and/or interest rate fluctuations may have a significant adverse impact on the Company's business, financial condition, results of operations and prospects.

As a result of the international nature of the Company's business, changes in foreign currency rates could have an adverse impact on the Company's business, financial condition, results of operations and prospects. Currency fluctuations affect the Company because of mismatches between the currencies in which operating costs are incurred and those in which revenues are received. The Company's functional currency is the Philippine Peso, and the Company has and may have assets, income streams and liabilities denominated in a number of currencies, including the U.S. Dollars, Indonesian Rupiah, Vietnamese Dong, and Australian Dollars.

The insurance coverage of the power projects may not be adequate.

The power projects maintain levels of insurance, which the Company believes are typical with the respective business structures and in amounts that it believes to be commercially appropriate. However, a power project may become subject to liabilities against which it has not insured adequately or at all, or is unable to insure. In addition, insurance policies contain certain exclusions and limitations on coverage, which may result in claims not being honored to the extent of losses or damages suffered. Further, such insurance policies may not continue to be available at economically acceptable premiums, or at all. The occurrence of a significant adverse event, the risks of which are not fully covered or honored by such insurers, could have a material adverse effect on a power project's business, financial condition, results of operations and prospects. In addition, under some of the power project's debt agreements, the power project is required to name the lenders under such debt agreements as a beneficiary or a loss payee under some of its insurance policies, or assign the benefit of various insurance policies to the lenders. Therefore, even if insurance proceeds were to be payable under such policies, any such insurance proceeds may be paid directly to the relevant lenders instead of to the power project. If an insurable loss has a material effect on a power project's operations, the power project's lenders may not be required to pay any insurance proceeds or to compensate the power project for loss of profits or for liabilities resulting from business interruption, and this could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Competitive Strengths

The Company believes that it has the following strengths:

Well-positioned to benefit from a rapidly growing region that is increasingly embracing renewable energy to address its long-term energy needs

AC Energy has selected highly attractive markets in the Asia Pacific region in which to pursue growth, particularly in the renewable energy space.

The Philippine power sector is underpinned by robust economic fundamentals and attractive demographics. Based on information from the Philippine Statistics Authority, the Philippines' nominal GDP has been growing at 6.6% CAGR from 2008 to 2018 (U.S.$331 billion in 2018). Over the same period, power consumption grew by 5.3% CAGR to reach 99,765GWh based on the DOE. To meet increasing demand, the Philippine government encouraged expansion in renewable energy capacity. The National Renewable Energy Board ("NREB") has set a target of reaching 15GW and 20 GW of installed renewable capacity by 2030 and 2040, respectively, compared to currently installed renewable capacity of c.7.2GW in 2018. Renewable initiatives are also currently in place which include (i) income tax holiday, (ii) lower corporate income tax rate and (iii) tax-free importation. Additionally, the NREB launched the Renewable Portfolio Standards ("RPS"), which mandates distribution utilities to source a portion of their power supply from renewable energy and requires 35% of power demand to come from renewable energy by 2030.

Similar to the Philippines, Indonesia's nominal GDP growth has been driving activity in the country, with GDP growing at 7.4% CAGR from 2008 to 2018 (U.S.$1,042 billion in 2018), according to the World Bank. Over the same period, power generation grew by 6.6% CAGR to 283,815GWh based on information from the *Perusahaan Listrik Negara* ("PLN", Indonesia's sole electricity business authority), underpinned by strong economic growth and the government's electrification efforts. Renewable power is expected to play a significant role in further supply expansion as the government targets new and renewable energy sources to account for 23% of total energy generation by 2025 and 31% by 2050 based on the 2018 *Rencana Umum Penyediaan Tenaga Listrik* or General Plan for Electric Supply ("RUPTL") issued by the Ministry of Energy and Mineral Resources of Indonesia. To support this growth, several renewable initiatives have been introduced or are under review, such as favourable tariff for solar and wind, income tax and importation incentives.

Vietnam offers one of the most attractive renewable energy markets in the region due to its large population and rapid nominal GDP growth of 9.5% CAGR from 2008 to 2018 (U.S.$245 billion in 2018), according to the World Bank. From 2007 to 2017, electricity consumption grew by 10.7% CAGR driven by strong economic growth and the country's rapidly expanding manufacturing sector, based on information from the Ministry of Industry and Trade of Vietnam. According to Revised National Development Master Plan for 2011-2020 ("PDP 7"), the Vietnam government is targeting power generation of over 265TWh by 2020 and over 572TWh by 2030, which are significantly higher than the aggregate electricity generated in 2018 of 183TWh. Further, the government is targeting to increase the share of electricity produced from renewable sources to 7% by 2020 and over 10% by 2030. Total capacity of hydropower sources is targeted to increase to 21.6GW by 2020 and 27.8GW by 2030. Wind and solar are targeted to have total capacities of 6GW and 12GW, respectively, by 2030. In addition, renewable initiatives are currently in-place to support this renewable target: for example, a 20-year FIT for solar and wind import tax exemptions and corporate income tax reductions.

Australia continues to be one of the world's most stable economies due to its consistent output and activity. In 2018, the World Bank reports the country's GDP to reach U.S.$1.4Tn, representing a CAGR of 3.1% from 2008 to 2018. GDP performance continued to be driven by a low unemployment rate, and constant infrastructure investments. During the same period, Australia's population increased by a CAGR of 1.6% to reach 25 million people. In line with the economic statistics, Australia's power generation capacity has increased by a CAGR of 1% from 2008 to 2018 to reach 48,247MW. Being a mature and developed market, Australia offers stability with growth driven by the national directive to shift towards renewable energy sources and the increasing cost competitiveness of renewable technology. Australia has an established renewable market underpinned by the Renewable Energy Act 2000. With the support of positive regulatory framework and the country's strong renewable projects pipeline, Australia's non-hydroelectric renewable market capacity is expected to grow 7.2% annually during 2018 to 2027 especially with the decommissioning of coal-fired power plants that begun in 2012. From 2012 to 2016, there were nine coal-fired power plant closures across Queensland, New South Wales, Victoria, and South Australia with a total capacity of 3,559MW. Further, according to the Australian Energy Market Operator's ("AEMO") Integrated System Plan, it is expected that 14 GW of coal-fired generation will reach the end of its technical life and retire by 2040. In addition, the Government of Australia has set a Renewable Energy Target ("RET") that aims to achieve a minimum

of 20% of energy generated from renewable sources by 2020. The RET is made up of two schemes: (1) The Largescale Renewable Energy Target and (2) The Small-scale Renewable Energy Scheme. The first scheme provides the creation and expansion of renewable energy power stations while the second scheme creates financial incentives for individuals and small businesses to install eligible small-scale renewable energy sources. The Largescale Renewable Energy Target was set at 33TWh renewable electricity generation by 2020. The Clean Energy Finance Corporation ("CEFC") was established by the Australian Government under the Clean Energy Finance Corporation Act 2012, CEFC co-finances and invests, directly and indirectly in renewable energy and energy efficiency projects. After two years of large scale investment in renewable energy of aggregate 15,700MW of new capacity, predominantly in wind and solar projects, the Clean Energy Council reported in September 2019 that it has achieved its 20% renewable energy composition goal.
In addition the markets set out above, AC Energy continues to evaluate and assess opportunities in other markets in Asia Pacific that meet the Company's strategic framework and financial criteria. The Company continues to explore additional opportunities in other attractive locations including India, Myanmar, Korea, and Taiwan.

Proven track record of delivering growth, execution speed, asset performance and value realization
In 2011, Ayala Corporation designated AC Energy, (formerly AC Energy Holdings, Inc.), as the group's platform for its investments in the power sector. In view of the Company's desire to be responsive to the rapidly growing power supply needs of the Philippines and to its commitment to sustainability, it assembled a portfolio and pipeline of projects from both conventional and renewable energy sources.

Delivering Growth
To deliver on its objectives, AC Energy made its initial foray in 2011 into the renewables space with its acquisition of a 50.0% stake in NorthWind Power Development Corporation ("NorthWind"), which currently operates a wind farm operating in Ilocos Norte, for a 16MW attributable capacity. At the time of the investment, it was the only wind farm in the country and considered the largest in Southeast Asia. AC Energy also signed a 50:50 JV agreement in 2011 with the PHINMA Group, a leading diversified business group in the Philippines, to develop a 2 x 122MW CFB thermal project located in Batangas, Philippines through South Luzon Thermal Energy Corporation ("SLTEC"), the Company's first investment in conventional energy. The project was subsequently expanded to include a second unit.
Having established its foothold in the Philippine power sector, AC Energy embarked on a series of strategic power sector investments over the succeeding years.

In 2012, AC Energy announced that it was entering into a joint venture with Power Partners, Ltd. Co. ("Power Partners"), a private partnership with a long history of power plant development in the Philippines and founded in 2001, and Sithe Global Power, a company affiliated with the Blackstone Group, as sponsors of GMCP which was undergoing commissioning at the time.

In 2013, the Company announced that it entered into an Investment Framework Agreement with UPC Renewables Partners, and the Philippine Investment Alliance for Infrastructure ("PINAI"), a fund financed by the Government Service Insurance System, Dutch pension fund asset manager APG Asset Management, the Macquarie Group and the Asian Development Bank. The agreement saw the launch of the North Luzon Renewables Project, an 81MW wind farm in Ilocos Norte, the PINAI consortium's first-ever investment in the country. In the same year, AC Energy and Power Partners also established a JV to develop a thermal power plant in Lanao del Norte which would later become the GNPower Kauswagan Project.

The period from 2014 to 2016 saw AC Energy further growing its attributable capacity and network of partnerships, in the course of which the Company achieved several key milestones. In addition to the acquisition of a 50% stake in GNPD, and the start of SLTEC Project's Unit 1 and 2's commercial operations, in 2016 the Company announced its first geothermal investment and first international investment in partnership with Star Energy and EGCO of Thailand to acquire a stake in the Salak-Darajat Geothermal Project, Chevron's geothermal operations in Indonesia.

Execution Speed and Asset Performance
In 2016, AC Energy was granted a RES license by the Energy Regulatory Commission, enabling it to supply electricity to end-users in contestable markets, after successfully demonstrating its technical, financial and managerial capability to procure electricity and establish a system and the infrastructure needed to ensure the supply of electricity to contestable customers. The Company also began commercial operations of the Montesol Project, its first solar farm project, expanding AC Energy's portfolio and renewables technology capabilities to include solar, in addition to thermal, wind and geothermal.

In 2017, AC Energy acquired 100.0% of Bronzeoak Clean Energy (now Visayas Renewables Corporation, "VRC"), a Philippines-based renewable energy developer, further expanding AC Energy's in-house renewable energy developmental and operational capability. To date, the AC Energy group intends to consolidate all its project development, management, and operations under AC Energy Development, Inc. ("AC Energy DevCo") as its development platform. AC Energy DevCo has been transferred to ACEPH as of October 9, 2019 subject to certain conditions and requirements.

For its international operations, AC Energy broadened its international footprint with an investment in Indonesia, with the inauguration of the Sidrap Wind Project in 2018. The Sidrap Wind Project was AC Energy's first offshore utility-scale wind farm and Indonesia's first commercial-scale wind farm. Through its partnership with the BIM Group and the AMI Group, the acquisition of The Blue Circle, and establishment of a joint venture with UPC Renewables in Australia, the Company has expanded its international presence and on-the-ground expertise to include the rapidly developing renewable energy markets of Vietnam and Australia, respectively.

With sustained strong growth in revenue, net income, and attributable capacity, AC Energy has demonstrated its ability to identify and deliver attractive projects, attract world-class partners that complement its capabilities and create growth particularly in the renewable energy space.
Further to its achievements, to date, the company has also achieved several awards among which are:

- 2019 Best New Green Bond Issuer by London-based International Finance and 2019 Renewable Energy Deal of the Year by The Asset for the Ninh Thuan Solar Plants
- Fastest Growing Energy Platform in IFM Awards 2017—Philippines by London-based International Finance Magazine
- 2017 Smart Project Award by Project Finance International during the Asia Best Practice Citations
- Recognized as the Fastest Growing Energy Platform in the Philippines by London-based International Finance Magazine in 2017
- Recognized by several regional and international organizations including The Asset, Alpha Southeast Asia, Project Finance International, International Financing Review Asia and IJGlobal for the acquisition of the geothermal and power business of Chevron Global Energy in Indonesia in 2017

Value Realisation

Starting 2015, AC Energy began to realize value from its earlier investments. Mitsubishi Corporation ("Mitsubishi") and Marubeni Corporation ("Marubeni"), among Japan's largest trading houses and among the most active Japanese business groups in the country, partnered with AC Energy by acquiring equity interest in the North Luzon Renewables Project (in 2015) and SLTEC (in 2016), respectively.

In June 2019, AC Energy completed the sale of a 60% economic stake in its thermal platform, AA Thermal, to Aboitiz Power for U.S.$574.2 million, providing the Company with significant realized value and allowing it to focus on its renewable energy objectives.

In July 2019, AC Energy and Power Partners Ltd. Co. ("Power Partners") signed a binding agreement for the transfer of AC Energy's economic interest in the 4x135MW coal-fired power project in Kauswagan, Lanao del Norte (the "GNPK Project") in favor of Power Partners. Power Partners is AC Energy's existing developer-partner in the GNPK Project. The transfer of AC Energy's economic ownership will be implemented in tranches, with the final transfer price to be agreed upon by the parties at a later date after taking into account agreed adjustments. The completion of the transfer is subject to satisfaction of certain conditions precedent, including approvals by the lenders of the GNPK Project. The Company received the approval for the transaction from the Philippine Competition Commission last September 30, 2019.

With fresh capital from the sale of its strategic stakes in its portfolio, a larger balance sheet, and the improved cost efficiency of emerging solar and wind technologies, AC Energy was able to reinvest the proceeds from the value realization in the expansion of its renewable energy and international capabilities.

Portfolio of projects across geographies, technologies and regulatory regimes provides stable cashflows, diversification and a strong platform for growth

AC Energy benefits from a portfolio approach to its investments, providing the Company with a blend of seasoned and new operating projects that provide stable cashflows underpinned by attractive, long-term contractual arrangements. This diversity in business model (combination of bilateral contracts, spot sales and FIT contracts), fuel types, geographies and regulatory regimes provides a stable platform which the Company is able to leverage for renewable capacity expansion and international growth.

The NorthWind Project, Southeast Asia's first commercial wind farm, is a 52MW wind farm in the Ilocos Norte province. Phases 1 and 2, with combined capacity of 33MW and began commercial operations in 2005 and 2008 respectively, benefit from a FIT rate of ₱5.76/KWh for 20 years beginning from June 2014. Phase 3 has a FIT rate of ₱8.53/KWh and is valid for 20 years. Phases 1 and 2, and Phase 3 have demonstrated strong availability factors at 88% and 90% respectively in the first nine months of 2019, owing to the attractive wind energy potential of the country's northern region.

The North Luzon Renewables Project, an 81MW wind farm in the Ilocos Norte province, was awarded a FIT rate of ₱8.53/KWh from November 2014 and until 20 years thereafter. In the first nine months of 2019, it registered an availability factor of 94%.

AC Energy's initial foray into solar energy, the Montesol Project, is an 18MW solar farm in Negros Oriental in the Visayas region of the Philippines. It is entitled to a FIT rate of ₱8.69/KWh valid for 20 years from March 2016.

In Indonesia, the Salak-Darajat Geothermal Projects and Sidrap Wind Project, similarly enjoy attractive commercial arrangements. The Salak- Darajat Geothermal Projects has PLN, the national electricity distributor and the Indonesia market's primary power purchaser, as its offtaker having granted the project with a take-or-pay contract. The Sidrap Wind Project, on the other hand, has a 30-year PPA with the PLN at a US dollar-linked, levelized tariff of U.S.$0.1141/KWh, providing AC Energy with a hedge against any potential volatility in the Indonesia Rupiah.

In Vietnam, the Khanh Hoa Solar Plant, the Dak Lak Solar Plant, and the Ninh Thuan Solar Plants each have respective 20-year PPAs with EVN with a FIT rate of U.S.$0.0935/KWh. The contract is paid in the Vietnamese Dong but the amount received is indexed to the U.S. Dollar on a monthly basis, preserving the U.S. Dollar FIT rate under the PPA.

The GNPower Mariveles Project, one of AC Energy's largest operating power asset in its portfolio to-date in partnership with Power Partners and Aboitiz Power, provides the Company with access to a highly attractive 2 x 316MW clean pulverized coal-fired power generation facility. Located in the Luzon island, the country's population and industrial base, over 95% of GNPower Mariveles Project's offtake is contracted by electric cooperatives, with PPSAs with various tenors until 2029. Most of the electric cooperatives that are off-takers of the GNPower Mariveles Project are rated AAA by the National Electrification Administration as of end-2017 GMCP began commercial operations in February 2014.
The SLTEC project similarly benefits from its proximity Metro Manila, Central Luzon, and the CALABARZON area in the Philippines. SLTEC's capacity is substantially contracted with the Manila Electric Company ("Meralco") under an Administration and Management Agreement with ACEPH. Units 1 and 2 of SLTEC began commercial operations in April 2015 and February 2016, respectively.

Visible path to growth based on strong pipeline of projects in partnership with recognized and accomplished power industry developers, operators and investors

Among AC Energy's partners in its domestic and international operations are some of the most established developers and operators of conventional and renewable assets. In addition to pursuing attractive investment opportunities together with the sector's most established names, AC Energy's commitment to its objectives, visible track record of success in achieving growth and the ability to forge partnerships in various market segments has made it a partner of choice.
In the conventional energy business in the Philippines, key partnerships have included the cooperation with Power Partners (a private limited partnership organized and established in the Philippines in 2001 and formed by principals having extensive backgrounds in power development both in the Philippines and around the world), PINAI, and Aboitiz Power Corporation.

Aboitiz Power Corporation, one of the country's largest power generation companies by gross installed capacity, has been a long-term partner of the Company in the GNPower Mariveles and the GNPower Dinginin Projects, and the cooperation has been deepened further by the sale of 60% stake in the overall AA Thermal platform.

PINAI, an infrastructure-focused fund whose investors include the Macquarie Group, and the Asian Development Fund, has also been a repeat partner of the group. Initially a partner for the North Luzon Renewables Project, PINAI subsequently co-invested in the GNPower Kauswagan Project, joining AC Energy and Power Partners as an additional limited partner.

In the international space, the Company has partnered with UPC Renewables, a US-based renewable energy developer with over 20 years of global experience in the construction and operations of wind and solar energy projects. UPC Renewables has developed over 3,500MW of wind and solar projects,

has presence across 12 countries and has built 70 projects with approximately U.S.$5.0 billion of project debt and equity deployed.
AC Energy began its partnership with UPC Renewables in 2013 in the North Luzon Renewables Project. Subsequent to this, AC Energy and UPC Renewables expanded their partnership by developing and constructing the Sidrap Wind Project.

In 2018, UPC Renewables and AC Energy, through AC Renewables International, established a joint venture, UPC-AC Energy Renewables Australia, which saw AC Energy invest U.S.$30 million for a 50% equity stake and provide a U.S.$200 million facility to fund the partnership's equity needs. UPC-AC Energy Renewables Australia is developing the Robbins Island and Jim's Plain wind projects and the NE Solar Farm located in Australia, which in total potentially combine for up to 1,700MW of renewable energy capacity.

In 2019, UPC-AC Energy Renewables Australia also acquired the 2x125MW Baroota Pump Hydro project and the 300MW Bridle Solar Farm. Also in 2019, UPC Renewables and AC Renewables International established a new joint venture, UPC-AC Energy Solar Limited, for the construction of over 1,000MW in the next few years, with initial focus on India, South Korea, and Taiwan.

In Southeast Asia, AC Energy has forged ties with The Blue Circle, the BIM Group, the AMI Group, Star Energy, EGCO, and the Yoma Group for various wind, solar, and geothermal projects. Through The Blue Circle, AC Energy is participating in the development of The Blue Circle's pipeline of projects across Southeast Asia. Through the partnerships with BIM Group and AMI group, AC Energy is participating in several solar and wind projects in Vietnam. Through Star Energy and EGCO, AC Energy is participating in the operation of the 637MW Salak-Darajat Geothermal Projects in West Java, Indonesia. Through its joint venture with the Yoma Group, AC Energy intends to participate in the development of micro power plants and mini-grids that provide electricity to off-grid rural communities and telecommunications towers in Myanmar.

AC Energy's various partnerships provide it with the ability to source high quality projects efficiently and with local market expertise. Collectively, the Company's current partnerships provide visibility to over 5GW of expected gross capacity across wind, solar and geothermal in the Philippines, Indonesia, Vietnam, Australia, and other countries, helping drive the Company towards its goal of achieving 5GW of attributable capacity from renewable energy sources by 2025.

Strong balance sheet and good credit history
AC Energy has prudent standards with regards to financing and risk management, in which to-date, AC Energy has retained a strong balance sheet with low leverage. As of 30 September 2019, the Company has U.S.$431.5 million net debt, with net debt computed as total bonds and loans payable (inclusive of non recourse loans) less cash and cash equivalents, and U.S.$1,603.3 million equity.

The Company's financial prudence starts with the assessment of any proposed investment or project. The Company sets certain criteria that need to be met among which are the fundamental soundness of the proposed investment or project and its business case, the sound reputation and capability of the partners, and the long-term sustainability of the investment or project. When debt is required to fund new investments, the company ensures that cash inflows are adequate to cover operations, capital expenditure, and loan repayment requirements as well as meet relevant loan covenants.

In 2019, AC Energy successfully issued two senior CBI certified Green Bonds: (i) U.S.$ 300 million senior Green Bond with a 5-year tenor and a coupon of 4.75% p.a., with International Finance Corporation as one of the investors, and (ii) U.S.$ 110 million senior Green Bond with a coupon of 5.25%, with the Asian Development Bank as one of the investors. In the 4th quarter of the same year, the Company issued the its senior first perpetual fixed-for-life green bond issuance at U.S.$400 million with a fixed coupon of 5.65% with no step-up and no reset.

The Company's good credit history and strong relationship with its Philippine and international bank partners, institutional investors, and its parent provides AC Energy with the capability to mobilize and deploy financial resources as needed in both the domestic and international space.

Supported by a strong shareholder fully committed to delivering AC Energy's vision
AC Energy benefits from having a shareholder in Ayala Corporation which is fully committed to seeing AC Energy's vision of providing low-cost energy to Filipinos and becoming a leading renewable energy player in the Asia Pacific.

Ayala Corporation, founded in 1834, is among Southeast Asia's most respected business groups (the "Ayala Group"). Led by the Zobel de Ayala Family, Ayala Corporation has a market capitalization of

U.S.$10.0 billion as of 15 November 2019. Under the Ayala Group is a portfolio of market leading businesses in the country with their respective market capitalisation as of the same date as follows:

- Ayala Land, Inc.— Leading and most diversified property developer in the country with the largest landbank and holds several of the country's most premium commercial and residential properties;
- Bank of the Philippine Islands: Founded in 1851, it is the oldest bank in Southeast Asia and the third largest bank in the country by assets;
- Globe Telecom, Inc. —Largest telecommunications provider in the country by subscriber base; and
- Manila Water Company, Inc.— the sole water and wastewater services provider in the east zone of Metro Manila, Philippines, serving over 6 million residents across 23 cities and municipalities.

In addition, the Ayala Group has set for itself nation-building as a core commitment, and has a portfolio of rapidly growing verticals devoted to each of infrastructure, healthcare, education, industrials and strategic ventures.

Ayala Corporation's most recent recognitions, particularly in the area of sustainability and governance, are a testament to the alignment between the Ayala Group and AC Energy with regard to leadership, sustainability and advocacy for the environment:

- "Top Performing Companies" (2018) by Institute of Corporate Directors
- "Top 50 ASEAN PLCs" (2018) by ASEAN Corporate Governance
- Ranked 3rd "Best CEO" (2018) awarded by the Institutional Investor
- "Asia's Best Integrated Report" (2018) by Asia Sustainability Reporting Awards
- Ranked 1st (2016) and 2nd (2017) "Best Managed Companies" by *Finance Asia*
- Ranked 3rd, "Best CEO" (2017) by *Finance Asia*
- Ranked 1st (2016) and 2nd (2017) "Most Committed to Corporate Governance" by *Finance Asia*
- "United Nations SDG Pioneer" (2017) recognition for Chairman and CEO Jaime Augusto Zobel de Ayala
- Ranked 18th, "Global 2000: World's Best Employers" (2017) by *Forbes Magazine*
- "Best at Corporate Social Responsibility" (2016) by *Finance Asia*
- Among Top 3 CSR Advocates in Asia, by Asia Corporate Excellence and Sustainability Awards (2016)

Since AC Energy's founding, it has enjoyed the full support of the Ayala Group and has had access to the Ayala Group's experience in governance, network, management and financial resources. Among AC Energy's board members are the Ayala Corporation's Chairman, CEO and CFO with several of AC Energy's key management having been officers at Ayala Corporation. From 2011, Ayala Corporation has invested/committed over U.S.$800 million to support the Company's expansion. Going forward, Ayala Corporation remains committed to furthering its support for the Company and its objectives to expand beyond the Philippines and become a recognized leader in the regional renewable energy space.

Led by a reputable and experienced board and management team

AC Energy has assembled a strong management team with the right combination of management experience, project management expertise, international exposure and entrepreneurship.

The Company is led by John Eric T. Francia, President and CEO who joined the company in 2011 for the Ayala Corporation with a four-man team. Previously a management consultant at the Monitor Group based in Cambridge, Massachusetts in the U.S. he joined the Ayala Group in 2009 as Head of Corporate Strategy before eventually leading the infrastructure and power businesses concurrently. Eric's vision for the business has driven the very rapid growth that AC Energy has achieved in the last 7 years. To date, he leads over 650 employees and applies his international experience derived from management consulting, strategy and building infrastructure and utilities businesses in emerging markets.

Supporting Mr. Francia is a highly experienced management team: Maria Corazon G. Dizon, seasoned finance and business development professional from the Ayala Group, and Jose Maria P. Zabaleta, founder and CEO of Bronzeoak Clean Energy (now Visayas Renewables Corp.) and chairman of AC Energy DevCo, who has developed hundreds of MWs of renewable projects, respectively the Chief Financial Officer and Treasurer and Chief Development Officer of AC Energy. The management team is supported by a highly-engaged employee force developed and accumulated by the Company since its founding. Based on a Willis Towers Watson Employee Engagement Survey completed in 2019, AC Energy enjoys an employee engagement score of 95% which is above the Philippine national average and energy and utilities industry norm for the same year.

Ayala Corporation is involved in the governance of AC Energy, with several of the Ayala Group's most senior leaders participating in its board of directors. Fernando Zobel de Ayala is the Chairman of the board of directors of the Company. He is the President and Chief Operating Officer of Ayala Corporation since April 2006. He holds various positions in the following publicly-listed companies: Chairman of Ayala Land, Inc. and Manila Water Company, Inc.; Director of Bank of the Philippine Islands, Globe Telecom, Inc., and Integrated Micro-Electronics, Inc.; and Independent Director of Pilipinas Shell Petroleum Corporation. He graduated with a B.A. in Liberal Arts at Harvard College in 1982 and holds a CIM from INSEAD, France.

One of the Directors is Jaime Augusto Zobel de Ayala, the Chairman and CEO of the Ayala Corporation since 2006. He is one of the Philippines' most pre-eminent leaders, and has received multiple recognitions for his leadership, such as the Harvard Business School's Alumni Achievement Award, the Presidential Medal of Merit, and recognition into the Philippines' Legion of Honor. He is also a member of the JP Morgan International Council and the Mitsubishi Corporation International Advisory Committee.

Good corporate governance is a key component of the Company's culture
As part of Ayala Group, the Company aligns its Corporate Governance with that of the Ayala Corporation.

Ayala Corporation believes that good corporate governance is essential for the achievement of its strategic goals. Ayala Corporation pursues measures that bring up the level of awareness and practices in the organization to help drive value creation and long-term growth. To this end, Ayala has set in place a comprehensive set of oversight controls to put management decisions in check and ensure that it conforms to regulatory requirements and global best practices.

AC Energy's management reports to the board of directors, among which are Ayala Corporations' Chairman, CEO and CFO. The board convenes at least quarterly and where necessary special meetings are convened to ensure that strategic directions are properly aligned and that appropriate approvals are secured prior to implementing initiatives.

Internally, AC Energy has established committees to assist the management in exercising its authority and monitoring the performance of the Company. Among such Committees are the Strategic Management Committee, Investment Committee, Organizational Development Committee, Compensation and Promotion Committee and the Finance Committee.

The Strategic Management Committee is headed by the CEO with the key officers of the company as members. Such committee regularly meets to determine the strategic plans, key results areas and business plans of the company. The Investment Committee reviews, provides direction, sets the investment policies, approves investments, prioritizes projects and allocates appropriate resources and endorses projects for board approval. The Compensation and Promotion Committee is tasked to establish, review and as needed make changes to the Company's compensation policies and package. The Finance Committee reviews financial performance, approves financial initiatives, sets financing policies, prioritizes financing initiatives and endorse financing initiatives board approval.

A strong independent internal audit team directly reporting to the Audit and Risk Committee is in place and conducts regular review of key identified areas including relevant policies, internal controls, corporate governance, operations and security of the various subsidiaries and affiliates under the AC Energy group. Results of the audits including tracking of the completion of remedial measures are reported quarterly to the Audit and Risk Committee.

The Company regularly reports its results of operations initially to the Audit and Risk Committee which endorses the results to the board. The Company also participates in various other initiatives driven by Ayala Corporation among which are Enterprise Risk Management and Sustainability, Corporate Social Responsibility and group-wide insurance optimization.

Highly motivated organization with capabilities to anticipate and react to developing market thematics and trends rapidly
While the Company started as an investment holding company with a portfolio of conventional and renewable energy assets through partnerships and acquisitions, the Company has been able to develop and acquire investment, development and operational competencies transforming it into one of the leading energy companies in renewable and thermal energy in the Philippines and around the region.
The Company strengthens its capabilities by developing home-grown resources through training and project assignments, attracting high potential talents in the market, actively participating in employee

engagement activities, linking rewards to performance and practicing sound compensation policies which are on par with the market. Strategically, the Company's acquisition of BCE's development platform in 2017 enabled it to add organic project development capability in its competency index. Such acquisition enables the Company to develop projects end-to-end, from permits and feasibility studies all the way to construction and operations.

Based on a Willis Towers Watson Employee Engagement Survey completed in 2019, AC Energy enjoys an employee engagement score of 95% which is above the Philippine national average and energy and utilities industry norm for the same year. This survey is conducted every two years with employee participation rate achieving 100% in the last two surveys conducted.

The foregoing, allows the company to retain and continuously augment its pool of talents and competencies enabling the company to easily tap and deploy resources to address growth opportunities and market changes, as well as to ensure excellent project execution even in new markets and partnerships.

Invests in accordance with globally-accepted sustainability norms and frameworks
The AC Energy group aligns itself with the United Nations Framework Convention on Climate Change and the Paris Agreement on reducing global carbon emissions to limit global temperature increase to well below two degrees Celsius. Consistent with the Ayala group's commitment to the UN Sustainable Development Goals, AC Energy is additionally focused on protecting the wider environment and creating value for the communities it serves. As such, the AC Energy group launched its maiden Green Bond in early 2019, and along with it, the development of its Environment and Social (E&S) Policy and management system.
This policy statement serves to guide AC Energy's and its subsidiaries' priority environmental and social goals:

1. Achieving a Low Carbon Portfolio by 2030
2. Aspiring for excellence in environmental management
3. Fulfilling our commitment to the community

Regulatory

Downstream Oil Industry Deregulation Law

Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the "Oil Deregulation Law"), provides the regulatory framework for the downstream oil industry in the Philippines.

Under the Oil Deregulation Law, any person may import or purchase any quantity of crude oil and petroleum products from foreign and domestic sources, lease or own and operate refineries and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high-quality petroleum products.

To ensure the attainment of these objectives, the DOE, in consultation with relevant government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Law in March 1998 through Department Circular No. 98-03-004 and the Supplementing Rules and Regulations of the Oil Deregulation Law in June 1998 through Department Circular No. 98-06-009. The rules require any person or entity engaged in any activity in the downstream oil industry to comply with the notice, reportorial, quality, health, safety and environmental requirements set forth therein.

The DOE is the lead government agency overseeing the oil sector. With the enactment of the Oil Deregulation Law, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory Board, leaving price-setting to market forces. DOE's current function is solely to monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Law include the following:

a. monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;

b. monitoring the refining and manufacturing processes of local petroleum products to ensure that clean and safe technologies are applied;
c. maintaining a periodic schedule of present and future total industry inventory of petroleum products to determine the level of supply;
d. immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and
e. in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person or entity engaged in the industry.

Promotion of Retail Competition

Pursuant to the Oil Deregulation Law's objective to promote a competitive petroleum product market at the retail level, the DOE is mandated to promote and encourage the active and direct participation of the private sector and cooperatives in the retailing of petroleum products through joint venture or supply agreements with new industry participants for the establishment and operation of gasoline stations. Under prevailing rules and regulations, new industry participants are given preference in the (i) formulation and implementation on management and skills training for the establishment, operation, management and maintenance of gasoline stations and (ii) grant of gasoline station training and loans to be used as capital for the establishment and operation of gasoline stations.

Rules Relating to Retailing of Liquid Petroleum Products

In November 2017, the DOE promulgated Department Circular No. 2017-11-0011 or the Revised Rules and Regulations Governing the Business of Retailing Liquid Fuels (the "Revised Retail Rules"). The Revised Retail Rules apply to all persons engaged or intending to engage in the business of Retailing Liquid Fuels. Liquid Fuels refer to gasoline, diesel, and kerosene.

A person intending to engage in the business of retailing liquid petroleum products must notify the Oil Industry Management Bureau ("OIMB") of its intention to engage in such activity and, upon compliance with the requirements under the Liquid Petroleum Products Retail Rules, secure a certificate of compliance ("Certificate of Compliance") from the OIMB. The certificate shall be valid for a period of five (5) years. The owner or operator of a retail outlet shall be deemed to be engaged in illegal trading of liquid petroleum products if such owner or operator operates a retail outlet without a Certificate of Compliance. Storage and dispensing of liquid fuels that are for own-use operation shall not be covered by the Revised Retail Rules only upon issuance of a CNC by the DOE.

The Revised Retail Rules likewise imposes: (a) mandatory standards and requirements for new retail outlets and minimum facility requirements for existing retail outlets; (b) rules and procedures relating to fuel storage, handling, transfer and/or dispensing of liquid fuels; (c) requirements of other types of retail outlets; (d) the conduct of inspection and monitoring by the OIMB; (e) rules and procedures relating to liquid fuels quantity and quality; and (f) fines and/or sanctions against prohibited acts.

Liquid petroleum products dispensed at retail outlets must comply with the Philippine National Standards. The Prohibited Acts include illegal trading, adulteration, underdelivering, refusal/obstruction of inspection and sampling, hoarding, and continuing to operate after an order or notice of cessation of operation has been issued by the DOE. The refusal of inspection shall constitute prima facie evidence of the commission of Prohibited Acts under the Revised Retail Rules.

The Biofuels Act of 2006

Republic Act No. 9367, also known as "The Biofuels Act of 2006", aims to reduce the dependence of the transport sector on imported fuel and, pursuant to such law, regulations mandate that all premium gasoline fuel sold by every oil company in the Philippines should contain a minimum 10% blend of bioethanol starting August 6, 2011. For diesel engines, the mandated biodiesel blend in the country was increased from 1% to 2% starting February 2009.

In June 2015, the DOE issued Department Circular No. DC 2015-06-005, or the Amended Guidelines on E-10 Implementation, which temporarily waives compliance by oil companies with the required bioethanol blend for premium plus grade gasoline products when supply of locally produced bioethanol products are insufficient to meet demand.

In 2008, a Joint Administrative Order known as the "Guidelines Governing the Biofuel Feedstock Production and Biofuel Blends Production, Distribution and Sale" (the "Guidelines") was issued by various Philippine government agencies. The Guidelines mandate oil companies to blend biodiesel with

diesel and bioethanol with gasoline. The Guidelines further require oil companies to source biofuels only from biofuel producers accredited by the DOE or from biofuel distributors registered with the DOE. Moreover, unless authorized by DOE to import in case of shortage of supply of locally produced bioethanol as provided for under the Act, an oil company's failure to source its biofuels from accredited biofuels producers and/or registered biofuel distributors would constitute a prohibited act.

In June 2015, the DOE issued Department Circular No. DC 2015-06-007, or the Revised Guidelines on the Utilization of Locally-Produced Bioethanol ("Revised Guidelines"), which repealed Department Circular No. 2011-12-0013, or the "Guidelines on the Utilization of Locally-Produced Bioethanol in the Production of E-Gasoline Consistent with the Biofuels Act of 2006". The Revised Guidelines require oil companies operating within the Philippines to secure and maintain a DOE accreditation as an "Oil Industry Participant in the Fuel Bioethanol Program" and submit to the OIMB certain reports in order for the OIMB to monitor the oil companies' compliance with the Revised Guidelines, including an annual performance compliance report relating to the oil companies' compliance with the minimum biofuel blends and monthly reports on compliance with local monthly allocations for the use of locally-sourced bioethanol. The Revised Guidelines further require oil companies to strictly comply with the Local Monthly Allocation ("LMA"). The LMA refers to the local bioethanol volume imposed on oil companies based on the committed volume by the local bioethanol producers of bioethanol available for lifting by the oil companies and computed and circulated by the OIMB.

In February 2016, the Congress of the Philippines promulgated Republic Act No. 10745, amending The Biofuels Act of 2006. The law allows natural gas power generation plants to use neat diesel (instead of the mandated biofuel blend) as alternative fuel during shortages of natural gas supply. The DOE issued Department Order No. 2016-07-0012 or the implementing rules and regulations for Republic Act No. 10745. This provides that the natural gas power generating plants with duly issued Certificate of Compliance from the ERC can avail of the use of neat diesel in the following instances:

a. During maintenance and/or shutdown of facilities used for the supply of natural gas such as pipelines, terminal, etc.
b. During force majeure which adversely affect the supply of natural gas to natural gas power plants, or
c. Other analogous instances.

All suppliers of natural gas shall submit to the DOE their preventive maintenance schedule indicating the dates when the suppliers of natural gas would be critical. During force majeure events, the DOE shall determine the affected facilities for proper issuance of certification of the shortage of natural gas supplies.

LPG Laws and Regulations

B.P. 33

B.P. 33, as amended by PD 1865, provides for certain prohibited acts inimical to public interest and national security involving petroleum and/or petroleum products. These prohibited acts include, among others, (a) illegal trading in petroleum and/or petroleum products, and (b) under delivery or underfilling beyond authorized limits in the sale of petroleum products or possession of underfilled liquefied petroleum gas cylinder for the purpose of sale, distribution, transportation, exchange or barter. For this purpose, the existence of the facts hereunder gives rise to the following presumptions:

a. That cylinders containing less than the required quantity of liquefied petroleum gas which are not property identified, tagged and set apart and removed or taken out from the display area and made accessible to the public by marketers, dealers, sub-dealers or retail outlets are presumed to be for sale;
b. In the case of a dispensing pump in a petroleum products retail outlet selling such products to the public, the absence of an out-of-order sign, or padlocks, attached or affixed to the pump to prevent delivery of petroleum products therefrom shall constitute a presumption of the actual use of the pump in the sale or delivery of such petroleum products; and
c. When the seal, whether official or of the oil company, affixed to the dispensing pump, tank truck or liquefied petroleum gas cylinder, is broken or is absent or removed, it shall give rise to the presumption that the dispensing pump is underdelivering, or that the liquefied petroleum gas cylinder is underfilled, or that the tank truck contains adulterated finished petroleum products or is underfilled.

The use of such pumps, cylinders or containers referred to above, to deliver products for sale or distribution shall constitute prima facie evidence of intent of the hauler, marketer, refiller, dealer or retailer outlet operator to defraud.

Under the said law, “illegal trading in petroleum and/or petroleum products” is understood to mean, among others, (a) the sale or distribution of petroleum products without license or authority from the OIMB, (b) non-issuance of receipts by licensed oil companies, marketers, distributors, dealers, subdealers and other retail outlets, to final consumers; provided: that such receipts, in the case of gas cylinders, shall indicate therein the brand name, tare weight, gross weight, and price thereof, (c) refilling of liquefied petroleum gas cylinders without authority from the OIMB, or refilling of another company’s or firm’s cylinders without such company’s or firm’s written authorization, and (d) marking or using in such cylinders a tare weight other than the actual or true tare weight thereof.

“Underfilling” or “under delivery” refers to a sale, transfer, delivery or filling of petroleum products of a quantity that is actually beyond authorized limits than the quantity indicated or registered on the metering device of container. This refers, among others, to the quantity of petroleum retail outlets or to liquefied petroleum gas in cylinder or to lube oils in packages.

R.A. 9514 - IRR

The Implementing Rules and Regulations of Republic Act No. 9514 or the Fire Code of 2008 also outlines requirements for storage and handling of LPG by outside bulk LPG stores and filling stations and the transportation of LPG which require among others, that during the unloading or transfer of LPG, the tank truck shall be located or parked clear of a public thoroughfare, unless the failure to transfer would create a hazard or it is impossible due to topography.

LPG Industry Rules

In January 2014, the DOE issued Department Circular 2014-01-0001, or the Rules and Regulations Governing the Liquefied Petroleum Gas Industry (the “LPG Industry Rules”). The LPG Industry Rules apply to all persons engaged or intending to engage in the business of importing, refining, refilling, marketing, distributing, handling, storing, retailing, selling and/or trading of LPG.

A Standards Compliance Certificate (“SCC”) from the OIMB is required before engaging in any LPG Industry Activity. The SCC is valid for a maximum of three calendar years from date of issue and may be renewed. LPG Industry participants must also submit certain reports to the OIMB.

The LPG Industry Rules also imposes (a) minimum standards and requirements for refilling and transportation of LPG; (b) qualifications and responsibilities for LPG Industry participants such as bulk suppliers, refillers, marketers, dealers, and retail outlets.

Brand owners whose permanent mark appear on the LPG cylinder are presumed under the rules as the owner thereof, irrespective of their custody, and shall ensure that their cylinders comply with all required quality and safety standards. The owner of the cylinders is also required to secure product liability insurance for any liability that may result from an unsafe condition of LPG cylinders.

Rules Pertinent to Auto-LPG Motor Vehicles

On February 13, 2007, the DOE issued DOE Circular No. DC 2007-02-0002 entitled “Providing for the Rules and Regulations Governing the Business of Supplying, Hauling, Storage, Handling, Marketing and Distribution of Liquefied Petroleum Gas for Automotive Use” (the “Auto-LPG Rules”). The Auto-LPG Rules govern the business of supplying, hauling, storage, handling, marketing and distribution of LPG for automotive use.

Under the Auto-LPG Rules, an Auto-LPG Industry Participant is required to secure from the DOE through the OIMB an SCC before it can operate. The Auto-LPG Rules also mandate all participants to observe a code of practice consisting of operational guidelines and procedures to ensure the safe operation in the auto LPG business. Illegal trading, adulteration and hoarding are likewise prohibited. Under the Auto-LPG Rules, the following shall constitute prima facie evidence of hoarding: (a) the refusal of Auto-LPG Dispensing Stations to sell LPG products for automotive use shortly before a price increase or in times of tight supply, and in both instances if the buyer or consumer has the ability to pay in cash for the product; and (b) the undue accumulation of Auto-LPG Dispensing Stations of LPG products for automotive use in times of tight supply or shortly before a price increase. For purposes of the Auto LPG Rules, “undue accumulation” means the keeping or stocking of quantities of LPG products for automotive use beyond the inventory levels as required to be maintained by the Auto-LPG

Dispensing Stations, for a period of thirty (30) days immediately preceding the period of tight supply or price increase.

The Land Transportation Office ("LTO") also issued Memorandum Circular No. RIB-2007-891 or the "Implementing Rules and Regulations in the Inspection and Registration of Auto-LPG Motor Vehicles." The Circular requires the device for the use of LPG as fuel by any motor vehicle to be installed only by the conversion/installing shop duly certified by the Bureau of Product and Standards ("BPS") of the DTI under its Philippine Standards Certification Mark scheme. The converted vehicle shall be subjected to an annual maintenance and inspection by the BPS certified conversion/installing shop. The BPS certified conversion/installing shop shall issue a corresponding Certificate of Inspection and Maintenance Compliance.

Governmental approval of AC Energy's products and services is generally not required. However, petroleum products refined at the Limay Refinery are subject to Philippine National Standards ("PNS") specifications. The DTI, through the Bureau of Products Standards, ensures that all products comply with the specifications of the PNS. The Oil Deregulation Law also requires the registration with the DOE of any fuel additive prior to its use in a product.

On September 7, 2010, the DENR issued Department Order No. 2010-23 on the Revised Emission Standards for Motor Vehicles Equipped with Compression Ignition and Spark Ignition Engines, mandating compliance of all new passenger and light duty motor vehicles with Euro IV (PH) emission limits subject to fuel availability, starting on January 1, 2016. Euro IV vehicle emission technology requires a more stringent fuel quality of 0.005% sulfur content for both diesel and gasoline.

Philippine government regulations also require the following: fire safety inspection certificates; certificates of conformance of facilities to national or accepted international standards on health, safety and environment; product liability insurance certificates or product certificate of quality; and the ECC issued by the DENR for service stations and for environmentally-critical projects. These certificates have to be submitted to the DOE for monitoring (not regulation) purposes. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining, processing, including recycling and blending; (b) storing/ transshipment; (c) distribution/operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plant; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper governmental authorities.

Oil Pollution Compensation Act of 2007

Republic Act No. 9483, otherwise known as the Oil Pollution Compensation Act of 2007, imposes strict liability on the owner of the ship for any pollution damage caused within the Philippine territory. Pollution damage is the damage caused outside the ship by contamination due to the discharge of oil from the ship, as well as the cost of preventive measures to protect it from further damage.

The law also provides that any person who has received more than 150,000 tons of "contributing oil" (as explained below) in a calendar year in all ports or terminal installations in the Philippines through carriage by sea shall pay contributions to the International Oil Pollution Compensation Fund in accordance with the provisions of the 1992 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage. For this purpose, "oil" includes any persistent hydrocarbon mineral oil such as crude oil, fuel oil, heavy diesel oil and lubricating oil, whether carried on board a ship as cargo or in bunkers of such a ship.

A person shall be deemed to have received "contributing oil," for purposes of determining required contributions, if he received such oil from another country or from another port or terminal installation within the Philippines, notwithstanding that this oil had already been previously received by him. Where the quantity of contributing oil received by any person in the Philippines in a calendar year, when aggregated with the quantity of contributing oil received in the Philippines in that year by such person's subsidiaries or affiliates, exceeds 150,000 tons, such person, including its subsidiaries and affiliates, shall pay contributions in respect of the actual quantity received by each, notwithstanding that the actual quantity received by each did not exceed 150,000 tons. Persons who received contributing oil are required to report to the DOE. Contributing oil means crude oil and fuel oil as defined under Republic Act No. 9483.

Republic Act No. 9483 provides for the establishment of a fund to be constituted from, among others, an impost amounting to ten centavos per liter levied on owners and operators and tankers and barges hauling oil and/or petroleum products in Philippine waterways and coast wise shipping routes. This new fund, named the Oil Pollution Management Fund, will be in addition to the requirement under the 1992

Civil Liability Convention and 1992 Fund Convention and will be administered by the Maritime Industry Authority ("MARINA").

In April 2016, the DOTr (then the DOTC) promulgated the implementing rules and regulations of Republic Act No. 9483. Under the rules, oil companies are required to submit (a) reports on the amount of contributing oil received and (b) sales and delivery reports of persistent oil.

Other Regulations on Water Pollution

Philippine maritime laws and regulations are enforced by two Philippine government agencies: the MARINA and the Philippine Coast Guard. Both are agencies under the DOTr.

The MARINA is responsible for integrating the development, promotion, and regulation of the maritime industry in the Philippines. It exercises jurisdiction over the development, promotion, and regulation of all enterprises engaged in the business of designing, constructing, manufacturing, acquiring, operating, supplying, repairing, and/or maintaining vessels, or component parts thereof, of managing and/or operating shipping lines, shipyards, dry docks, marine railways, marine repair ships, shipping and freight forwarding agencies, and similar enterprises.

To address issues on marine pollution and oil spillage, the MARINA issued: (a) Circular No. 2007-01 which mandated the use of double-hull vessels including those below 500 tons deadweight tonnage by the end of 2008 for transporting Black Products; and (b) Circular No. 2010-01 for transporting White Products in certain circumstances by 2011.

The Philippine Coast Guard, in a 2005 Memorandum Circular, provided implementing guidelines based on the International Convention for the Prevention of Pollution from Ships, MARPOL 73/78. The guidelines provide that oil companies in major ports or terminals/depots are required to inform the Philippine Coast Guard through its nearest station of all transfer operations of oil cargoes in their respective areas. Furthermore, oil companies and tanker owners are required to conduct regular team trainings on managing oil spill operations including the handling and operations of MARPOL combating equipment. A dedicated oil spill response team is required to be organized to react to land and ship-originated oil spills. Oil companies, oil explorers, natural gas explorers, power plants/barges and tanker owners are also required to develop shipboard oil pollution emergency plans to be approved by the Philippine Coast Guard.

Moreover, both the Clean Water Act and the Philippine Coast Guard Guidelines provide that the spiller or the person who causes the pollution has the primary responsibility of conducting clean-up operations at its own expense.

Renewable Energy Act

Republic Act No. 9513, otherwise known as the Renewable Energy Act of 2008 (the "RE Law") was signed into law by former President Gloria Macapagal-Arroyo on December 16, 2008 and became effective on January 31, 2009. The RE Law provides for the acceleration and development of renewable resources. It aims to increase the utilization of renewable energy which will provide enhanced market and business opportunities for the renewable energy generation subsidiaries.

Among the RE Law's declared policies is to accelerate and develop the use of the country's renewable energy ("RE") resources to (a) reduce the country's dependence on fossil fuels, thereby minimizing exposure to price fluctuations in the international markets, and (b) reduce or prevent harmful emissions and promote a healthy and sustainable environment.

The RE Law imposes a government share on existing and new RE development projects at a rate of 1% of the gross income from the sale of renewable energy and other incidental income from generation, transmission and sale of electric power, except for indigenous geothermal energy which shall be at a rate of 1.50% of gross income. Proceeds from micro-scale projects for communal purposes and non-commercial operations, not exceeding 100 kW, and proceeds from the development of biomass resources will not be subject to the said government share.

The RE Law offers fiscal and non-fiscal incentives to RE developers, including developers of hybrid systems, subject to certification by the DOE in consultation with the BOI. These incentives include an ITH for the first seven years of commercial operations; duty-free importations of RE machinery, equipment and materials effective within ten years upon issuance of certification, provided, said machinery, equipment and materials are directly and actually needed and exclusively used in RE facilities; special realty tax rates on civil works, equipment, machinery and other improvements of a

registered RE developer not exceeding 1.50% of the net book value; net operating loss carry-over; corporate tax rate of 10% after the seventh year; accelerated depreciation; zero-percent VAT on sale of fuel or power generated from RE sources and other emerging sources using technologies such as fuel cells and hydrogen fuels and on purchases of local supply of goods, properties and services needed for the development, construction and installation of RE facilities; cash incentives for missionary electrification; tax exemption on the sale of carbon emission credits; and tax credit on domestic purchases of capital equipment and services.

All fiscal incentives apply to all RE capacities upon the effectivity of the RE Law. RE producers from intermittent RE resources are given the option to pay transmission and wheeling charges on a per kilowatt-hour basis at a cost equivalent to the average per kilowatt-hour rate of all other electricity transmitted through the grid. Qualified and registered RE generators with intermittent RE resources shall be considered "must dispatch" based on available energy and shall enjoy the benefit of priority dispatch. Electricity generated from RE resources for the generator's own consumption and/or for free distribution to off-grid areas is exempt from the universal charge. The RE Law further provides financial assistance from government financial institutions for the development, utilization and commercialization of renewable energy projects, as may be recommended and endorsed by the DOE.

Pursuant to Department Circular No. DO2009-05-008 dated May 25, 2009 (Rules and Regulations Implementing the Renewable Energy Act of 2008), the DOE, the BIR and the Department of Finance shall, within six months from its issuance, formulate the necessary mechanism and/or guidelines to implement the entitlement to the general incentives and privileges of qualified RE developers. However, to fully implement the RE Law, the Renewable Portfolio Standards, the RE Market and the changes in the WESM Rules for intermittent generation should still be implemented.

Further, the RE Law provides a policy on FIT. The FIT scheme mandates electric power industry participants to source RE-derived electricity at a guaranteed fixed price (the "FIT Rate"). This scheme was primarily viewed as a way to entice the private sector players to hasten investment into the renewable power generation sector due to the urgent need of the Philippines to deploy additional capacity.

RE projects are governed by an RE Contract, a service agreement between the Philippine Government and an RE developer over an appropriate period of time as determined by the DOE in which the RE developer will have the exclusive right to explore, develop or utilize a particular RE area.

Feed-In Tariff

The ERC issued Resolution No. 16, Series of 2010 ("ERC Resolution No. 16-2010" or the "FIT Rules"), otherwise known as "Resolution Adopting the Feed-In Tariff Rules", which establishes the FIT system and regulates the method of establishing and approving the FITs and the FIT Allowance ("FIT-All").

The FIT Rules are specific for each emerging renewable energy technology and to be applied only to generation facilities which enter into commercial operation after effectivity of the FIT Rules or to such parts of such existing facilities which have been substantially modified or expanded as provided under the FIT Rules.

Under the FIT Rules, the FITs are specific for each eligible renewable energy plants ("Eligible RE Plants"), which are those power facilities with COCs issued to them that utilize emerging renewable energy resources or to such parts of such existing facilities that have been substantially modified or expanded, which enter into commercial operation after effectivity of the FIT Rules. These include facilities intended for their owners' use, which are connected to the transmission or distribution networks and are able to deliver to such networks their generation or parts thereof.

The renewable energy plants which have started commercial operations after the effectivity of the RE Law and are not bound under any contract to supply the energy they generate to any distribution utility or consumer, may avail of the FITs from time to time they are certified by the ERC as eligible through an amendment of the COC issued to them and for a period of 20 years less the number of years they have been in operation.

FITs shall be established for each generation plant using: (a) wind energy resources; (b) solar energy resources; (c) ocean energy resources; (d) run-of-river hydroelectric power resources; (e) biomass energy resources; and (f) renewable energy components of technologies listed above of hybrid systems under the RE Law.

The FIT System applicable to renewable energy plants in on-grid areas are: (a) Technology-specific FITs; (b) Fixed FITs; and (c) Time-of-Use FITs.

Eligible RE Plants shall be entitled to the applicable FITs to them for a period of 20 years. After this period, should these plants continue to operate, their tariffs will be based on prevailing market prices or whatever prices they should agree with an offtaker.

Electricity consumers who are supplied with electricity through the distribution of transmission network shall share in the cost of the FITs in part through a uniform charge (in P/kWh) referred to as the FIT-All and applied to all billed kWh. NGCP ensures that the FIT-All fund is sufficient to pay all renewable energy producers regularly.

For further information on AC Energy, please refer to its website www.acenergy.com.ph.

Ayala Group also conducts business in the areas of automotive/ motors, infrastructure and healthcare.

AC Industrials

Re-established in 2016, AC Industrial Technology Holdings, Inc. ("AC Industrials") is the Ayala group's industrial technology arm. AC Industrials operates and manages a global portfolio composed of operating units and high technology, developmental platforms. Its business lines include global electronics manufacturing solutions, automotive design and engineering, specialty solar, and automotive distribution and retail.

The company is founded on Integrated Micro-Electronics, Inc., one of the Philippines's EMS (Electronics manufacturing services) pioneers and now a globally leading manufacturing and technology solutions partner, and AC Motors, one of the country's largest multi-brand automotive distribution & retail groups. AC Industrials operates in twelve countries around the world, with the capacity to tap markets in North America, Europe, and Asia.

It is Ayala's platform to boost its presence in the global and domestic industrial technologies spaces by capitalizing on opportunities opened by disruptive technological shifts, changing industry landscapes, and increasing demand from end-users.

AC Motors

AC Motors is a group of companies that are directly owned by AC Industrials and active across the downstream vehicle value chain. AC Motors is one of the largest vehicle businesses in the Philippines with operations in vehicle assembly and manufacturing, vehicle distribution and vehicle retail. From a primarily Honda and Isuzu-based dealership business, it has since grown its portfolio to offer a total of six (6) vehicle brands.

AC Motors started its operations in 1990 when Ayala decided to invest in and retail Honda vehicles. Through AC Motors, AC Industrials owns the largest Honda and Isuzu dealership networks in the country in terms of vehicle sales. AC Motors owns and manages eleven Honda dealerships through Honda Cars Makati, Inc. and ten Isuzu dealerships through Isuzu Automotive Dealership, Inc. In addition, AC Industrials has a 12.5% stake in Honda Cars Philippines, Inc. ("HCPI") and a 15% share in Isuzu Philippines Corporation ("IPC"). HCPI is a joint venture with Honda Motors Co. Ltd. and RCBC while IPC is a joint venture with Isuzu Motors, Ltd., Mitsubishi Corporation and RCBC.

In 2012, AC Motors marked its foray into automotive distribution when it was appointed as the distributor of Volkswagen vehicles in the Philippines. Volkswagen is currently sold across the country through eight dealerships. In 2018, AC Motors expanded its distribution arm when it acquired the national distributorships of the Kia and Maxus brands. The Volkswagen and Maxus businesses are housed under Automobile Central Enterprise, Inc. AC Motors also actively retails its vehicles through Iconic Dealership, Inc., which owns and operates four Volkswagen dealerships, one Kia dealership and one Maxus dealership.

AC Motors invested in its first two-wheel vehicle brand in 2016 when it formed a strategic partnership with KTM AG, one of Europe's leading motorcycle companies. AC Motors, through Adventure Cycle Philippines Inc. (ACPI) is the official distributor of KTM motorcycles in the Philippines. In addition, ACPI holds a 66% share in KTM Asia Motorcycle Manufacturing, Inc. (KAMMI), a joint venture with KTM AG that assembles and manufactures KTM motorcycles in the Philippines. ACPI serves 40 KTM dedicated dealerships throughout the Philippines, and through KAMMI, supplies motorcycles for both local and export markets.

The Kia distributorship business operates for the time being under ACPI, while KP Motors Corporation, a 65% joint venture with Roadworthy Cars, Inc., the brand's previous Philippine distributor, is operationalized. Operationalization of KP Motors is expected to be complete by the second quarter of 2020.

The full year 2019 growth of the Philippine automotive market was 4%. This represents a modest but emerging recovery from the 15% drop posted by the industry in 2018. The weakness in 2018 was caused by the implementation of a new excise tax regime, which softened demand during the year, but accelerated purchases in 2017 in anticipation of the new excise taxes. Prior to this, the automotive sector had grown at a compounded annual growth rate of 17% from 2009 to 2016.

AC Motors continues to weather internal and external challenges, which include flattish industry growth and intensifying competition. For full year 2019, AC Motors offered six vehicle brands and held a 4%

market share based on the unit sales of the Honda and Isuzu dealerships it manages and the total unit sales of the brands it distributes. AC Motors directly owns and operates a total of 27 automotive dealerships and one KTM dealership.

High Technology Developmental Businesses

In 2017, AC Industrials started assembling its portfolio of enabling technologies when it acquired Misslbeck Technologies initially with 94.9% stake that year and at 100% as of December 2019. Misslbeck, based in Ingolstadt, Germany, was renamed MT Technologies post transaction closing. It is a tooling, cubing, and serial production business that primarily produces tools, provides modelling services, and manufactures parts for German automotive original equipment manufacturers ("OEMs"). These capabilities were further strengthened in 2019 when MT Technologies acquired a 75.1% share in C-Con GmbH, a group of three companies based in Germany that provides development, design, manufacturing and process design services to automotive and aerospace OEMs. C-Con GmbH also offers a unique proprietary process for carbon fiber reinforced polymer production.

AC Industrials also entered the smart energy space after acquiring Merlin Solar Technologies initially with 98.96% stake in February 2018 and at 99.20% as of December 2019. Based in San Jose, California, Merlin holds proprietary grid technology that enables specialty solar panels for unique and demanding applications primarily in transport, marine, roofing and mobile. Merlin Solar Technologies, Inc. manufactures in the Philippines, U.S. and Thailand.

For further information on AC Industrials, please refer to its website www.acindustrialtech.com.ph.

Infrastructure

AC Infrastructure Holdings Corporation

AC Infrastructure Holdings Corporation ("AC Infra") is Ayala Corporation's vehicle for investments in the infrastructure and logistics sector. It operates and manages a portfolio of projects in the toll road, rail, airport, and logistics sectors through its various subsidiaries.

AC Infra intends to meet the country's urgent need for efficient, reliable, safe, and sustainable modes of mass transportation and transport services to move people, goods, and services by investing in strategic solutions using new or existing technologies and platforms. It develops businesses and infrastructure projects to support the growing needs of the public and private sectors in the areas of mass transportation, mobility, and fulfilment solutions services.

Established in 2006, AC Infra has been participating in various PPP bids and has been awarded three PPP projects to date. Following its first PPP win of the Muntinlupa-Cavite Expressway ("MCX"), formerly known as the Daang Hari-SLEX connector road, in 2012, it also won, through a consortium comprising the Ayala and First Pacific groups, the Automated Fare Collection System project as well as the operation and maintenance of LRT 1 and the LRT 1 Cavite Extension project, together with the Metro Pacific and Macquarie groups.

Since its inauguration in July 2015, MCX serves an average of 35,000 vehicles daily in 2019. Light Rail Manila Corporation, which operates and maintains LRT1, has increased the number of light rail vehicles running on the line from 77 to 113 as of July 2019 since it took over operations in September 2015. Construction work on the Cavite extension project is ongoing, which will add 11.7 kms to the line from Baclaran to Bacoor, Cavite.

The beep payment system has sold over 7.9 million cards and facilitated ₱16 billion in transaction value across various rail, bus, and toll road systems in 2018.

In 2017, AC Infra entered the logistics space with its investment in Entrego Fulfillment Solutions, Inc. Entrego was initially set-up as Zalora Philippine's in-house fulfillment solutions division to ensure delivery lead times and service levels are aligned with customers' expectations. In 2017, this division was spun-off and Entrego emerged as an independent company – a joint venture between AC Infra and the Global Fashion Group, an affiliate of Zalora.

Entrego helps businesses manage their B-to-C and B-to-B logistics and fulfillment needs by providing customized end-to-end solutions. Its technology backbone enables real-time tracking of shipment, providing clients visibility and peace of mind that goods get to their destination.

AC Infra constantly looks for opportunities to build infrastructure needed to support new and innovative business models and accelerate growth in the country.

MCX Tollway Inc.
Ownership: 100% owned by Ayala Corporation
Concession Terms: 30 Years

MCX Tollway, Inc. is Ayala's first toll road project, which was awarded in 2011, under the Government's PPP program. It is a vital access road that links the rapidly growing city of Muntinlupa and the province of Cavite to Metro Manila.

Project Overview: 4-km, 4-lane toll road, from the junction of Daang Reyna and Daang Hari in Las Pinas/Bacoor, Cavite to SLEX through Susana Heights Interchange in Muntinlupa, traversing the New Bilibid Prison Reservation. The link-road passes through the Susana Heights Interchange as exit and entry from north and south of SLEX and widening of the existing bridge crossing SLEX as well as the expansion of the Susana Heights toll plaza.

Light Rail Manila Corporation
AC Infra Effective Stake: 35%
Concession Terms: 35 Years

Light Rail Manila Corporation ("LRMC") is a joint venture company of AC Infra, Metro Pacific Light Rail Corporation, and Philippine Investment Alliance for Infrastructure fund. LRMC operates and maintains the existing LRT Line 1 and will construct an 11.7-km extension from the present endpoint at Baclaran to the Niog area in Bacoor, Cavite. A total of eight new stations will be built along this route, which traverses the cities of Parañaque and Las Piñas up to Bacoor, Cavite to help ease the worsening traffic conditions in this corridor and enhance commercial development around the rail stations.

Project Overview: Line 1 runs a total of 20 kilometers from Baclaran in Pasay City to Roosevelt in Quezon City and will be extended by another 11.7-kilometers extension from the present end point at Baclaran to the Niog area in Bacoor, Cavite. Of this length, 10.5 kilometers will be elevated and 1.2kilometers will be at-grade. The whole stretch of the integrated LRT 1 will have a total length of approximately 32.4 kilometers.

AF Payments Inc.
Ownership: The AF Consortium is composed of the following companies:

- 36% Ayala Group Effective Stake, composed of AC Infra, BPI Card Finance Corporation and Globe.
- 20% Metro Pacific Investments, 20% Smart Communications, Inc., and 10% Meralco Financial Services Corp. for the First Pacific group.

Concession Terms: 10 years

AF Payments Inc. is a consortium between the two of the country's biggest conglomerates, the Ayala Group and First Pacific Group – known as the AF Consortium. The AF Consortium brings together companies that have strong track records and experience in operating banking and payments, utilities, retail, telecommunications, and toll road businesses, focused on developing commuting efficiency and improving customer experience.

Project Overview: AFPI provides contactless and electronic payment systems used in various mass transportation systems. The cashless payment system is used to make payments on public transport, specifically the rail system, and is planned to be available in a wide range of retailers and facilities. The name of the application is beep™.

Entrego Fulfillment Solutions, Inc.

In 2017, AC Infra entered the logistics space with its investment in Entrego Fulfillment Solutions, Inc. Entrego was initially set-up as Zalora Philippine's in-house fulfillment solutions division to ensure delivery lead times and service levels are aligned with customers' expectations. In 2017, this division was spun-off and Entrego emerged as an independent company – a joint venture between AC Infra (60%) and the Global Fashion Group (40%), an affiliate of Zalora.

For further information on AC Infra, please refer to its website www.acinfra.com.ph.

Healthcare

In 2015, Ayala set up Ayala Healthcare Holdings, Inc. or AC Health. AC Health is envisioned to be a portfolio of healthcare business currently comprising retail pharmacy and primary care, targeting the growing middle-income segment.

AC Health's initial entry into the space was the acquisition of a 50% stake in the Generika group, the pioneer in the retail of quality generic medicines in the country. In 2019, AC Health additional stake in the Generika companies which increased its ownership from 50% to 52.5%. The third largest pharmacy chain in the Philippines, Generika has a total of over 830 stores nationwide in 2019. Generika was established in September 2003 to address the need for quality and affordable medicines and promote use of generic drugs, which offer up to 85% savings vs. branded equivalents. Generika continues to expand its footprint, with a target to reach 1,000 stores by 2020. It is also improving access to quality generics by growing its housebrand portfolio which, to date, has 100 medicines under the Actimed and Nutrawell brand.

In primary care, AC Health started a chain of community-based retail clinics under the FamilyDOC brand, now the largest retail clinic chain in the country. FamilyDOC offers the combined services of an outpatient doctor's clinic, a diagnostic facility, and a pharmacy at an affordable cost. As of September 2019, it has 68 clinics in the Greater Metro Manila Area (Cavite, Laguna, Las Pinas, Paranaque, Manila, Pasig, Taguig, Pateros, Marikina, Rizal, Quezon City, Caloocan, and Valenzuela), and has served over 400,000 unique patients since it opened in December 2015. FamilyDOC employs almost 700 medical professionals, including over 120 Family Medicine residents under its duly accredited Residency Training Program, the largest program in the country.

To boost program on primary care, in 2019, AC Health signed a binding agreement to acquire a 100% stake in Healthway Philipines, Inc. (Healthway) from Healthway Asia Ltd. Healthway Philippines, Inc. owns, through its wholly-owned subsidiary HMC, Inc., the Healthway chain of clinics that comprises of 7 mall-based specialty clinics and 40 corporate clinics in the country. This acquisition transaction was completed in January 2020.

In 2019, AC Health also subscribed to shares of I.E. Medica Inc., an importer of pharmaceutical products for an initial 49% interest in the company with a call option to acquire an additional 2% stake. At the same time, AC Health signed another SPA to purchase shares of Medethix Inc., a pharmaceutical and cosmetics importer, for a 20% interest.

AC Health has also established Vigos Technologies, the first digital health portfolio in the Philippines. Vigos' portfolio of health technology solutions includes VigosEMR, an Electronic Medical Record system, MedGrocer, an FDA-licensed online pharmacy, and AIDE, a home health care platform. It has also invested in Tikehau-SPRIM, a Singapore-based health fund, and in Fibronostics, a global US-based healthcare technology company focusing on non-invasive algorithm-based solutions for diagnostic testing.

Please see Notes 10 and 24 of the 2019 Consolidated Financial Statement for further details on the above key transactions.

AC Health's vision is to build an integrated healthcare ecosystem, strengthening synergies and partnerships across the various healthcare units, and within the Ayala Group. It continues to be mindful of potentially disruptive trends, exploring other segments of the industry to enhance its portfolio of services, with a strong focus on making healthcare more accessible and affordable to more Filipinos.

For further information on AC Health, please refer to its website www.ac.health.com.ph.

Bank of the Phil. Islands (BPI or the Bank), and **Globe Telecom** (Globe) are significant associate and joint venture of the Group, respectively.

BANK OF THE PHILIPPINE ISLANDS

Bank of the Philippine Islands' highlights of Consolidated Statements of Condition and Statements of Income are shown in the Note 10 of the Group's 2019 Consolidated Financial Statements as well as in the BPI's 2018 Consolidated Financial Statements which form part of Index to Financial Statements and Supplementary Schedules of this SEC 17A report.

Background and Business

The Ayala Group conducts its financial services business through Bank of the Philippine Islands (alternately referred to as BPI, "the Bank" or "the Company" in the entire discussion of Bank of the Philippine Islands). BPI is a Philippine-based universal bank with an expanded banking license. Founded in 1851, BPI is the country's oldest bank. In the post-World War II era, BPI evolved, largely through a series of mergers and acquisitions during the 1980s and 1990s, from a purely commercial bank to a fully diversified universal bank with activities encompassing traditional commercial banking as well as investment and consumer banking.

Together with its subsidiaries, BPI offers a wide range of financial services that include corporate banking, consumer banking, consumer lending, investment banking, asset management, securities distribution, insurance services and leasing. Such services are offered to a wide range of customers, including multinationals, government entities, large corporations, SMEs and individuals.

Business Development

The 168-year-old Bank of the Philippine Islands ("BPI") is the first bank in the Philippines and Southeast Asia, and licensed by the Bangko Sentral ng Pilipinas ("BSP") to provide universal banking services. The Bank is among the highest in the industry in terms of total assets, equity capital, and market capitalization, and has a significant share of total banking system deposits, loans, and investment assets under management. It is recognized as one of the country's top providers of crossborder remittances, life and non-life bancassurance services, as well as asset finance and leasing. BPI also has a significant capital markets presence, particularly in fixed income and equities underwriting, distribution and brokerage. It is a significant provider of foreign exchange to both retail and corporate clients. The Bank also has the country's second largest branch network and operates the second largest ATM network. It is a leader and innovator in the use of digital channels, and is a major provider of financial services through internet and mobile banking.

Historical Background. Founded in 1851, BPI was the first bank formed in the Philippines and was the issuer of the country's first currency notes in 1855. It opened its first branch in Iloilo in 1897 and pioneered in sugar crop loans. It also financed the first tram service, telephone system, and electric power utility in Manila and the first steamship in the country. As such, BPI and its "escudo" ranks as one of the largest home-grown Philippine brands and carries an extensive legacy.

Recent History. For many years after its founding, BPI was the only domestic commercial bank in the Philippines. BPI's business was largely focused on deposit taking and extending credit to exporters and local traders of raw materials and commodities, such as sugar, tobacco, coffee, and indigo, as well as funding public infrastructure. In keeping with the regulatory model set by the Glass Steagall Act of 1932, the Bank operated for many years as a private commercial bank. In the early 1980s, the Monetary Board of the Central Bank of the Philippines (now the Bangko Sentral ng Pilipinas, or BSP) allowed BPI to evolve into a fully diversified universal bank, with activities encompassing traditional commercial banking as well as investment and consumer banking. This transformation into a universal bank was accomplished through both organic growth and mergers and acquisitions, with BPI absorbing an investment house, a stock brokerage, a leasing company, a savings bank, a retail finance company, and bancassurance platforms.

BPI consummated three bank mergers since the late 1990s. In 1996, it merged with City Trust Banking Corp., the retail banking arm of Citibank in the Philippines, which enhanced its franchise in consumer banking. In 2000, BPI acquired Far East Bank & Trust Company ("FEBTC"), then the largest banking merger in the Philippines. This merger established BPI's dominance in asset management & trust services and branch banking; furthermore, it enhanced the Bank's penetration of middle market clients. In 2000, BPI also formalized its acquisition of major insurance companies in the life, non-life and

reinsurance fields. In 2005, BPI acquired and merged with Prudential Bank, a medium sized bank with a clientele of middle market entrepreneurs.

In 2011, BPI became the first bank in the Philippines to acquire the trust business of a foreign bank when it purchased the trust and investment management business of ING Bank N.V. Manila.

In 2014, BPI completed a strategic partnership with Century Tokyo Leasing Corp., one of the largest leasing companies in Japan, to form BPI Century Tokyo Lease & Finance Corp., with BPI retaining 51% of ownership. This strategic partnership is expected to help BPI innovate in asset financing products and enhance the service experience of an expanding base of Philippine consumers and corporations seeking asset leasing and rental solutions.

In 2015, BPI completed another strategic partnership with Global Payments (“GPN”), an Atlantabased, NYSE-listed provider of international payment services. By combining its merchant acquiring network with that of GPN, BPI stands to provide enhanced services to its card customers, as well as to its merchant clients. The partnership with GPN remained 49% owned by BPI.

In August 2016, BPI acquired a 10% minority stake in Rizal Bank Inc. (“RBI”), a member institution of Center for Agriculture and Rural Development Mutually Reinforcing Institutions (“CARD MRI”), a group of social development organizations that specialize in microfinance.

Effective September 20, 2016, BPI has taken full control over BPI Globe BanKO, Inc. after acquiring the 20% and 40% stake of Ayala Corporation and Globe Telecom, respectively. On December 29, 2016, the Securities and Exchange Commission approved change of the corporate name to BPI Direct BanKo, Inc., A Savings Bank, after BPI Direct absorbed the entire assets and liabilities of BanKO.

Also on December 29, 2016, BPI successfully spun off its BPI Asset Management and Trust Group (“BPI AMTG”) to a Stand-Alone Trust Corporation (“SATC”) named BPI Asset Management and Trust Corp. (“BPI AMTC”). BPI AMTC officially commenced its operations on February 1, 2017.

BPI evolved to its present position as a leader in Philippine banking through a continuous process of improving its array of products and services, while maintaining a balanced and diversified risk profile that helped reinforce the stability of its earnings.

Business Milestones (2017-2019). On November 20, 2019, BPI Investment Management Inc. ("BIMI"), a wholly owned subsidiary of BPI, and PhilAm Asset Management, Inc. (“PAMI”) first announced the agreement to transfer the management of funds. Effective January 29, 2020, BIMI assumed the management and distribution of nine mutual funds previously managed by PAMI.

Principal Subsidiaries. The Bank’s principal subsidiaries are:

1) BPI Family Savings Bank, Inc. ("BFSB") is BPI's flagship platform for retail lending, in particular, housing and auto loans. It is also one of BPI's primary vehicles for retail deposits. BFSB was acquired by BPI in 1984;

2) BPI Capital Corp. ("BPI Cap") is an investment house focused on corporate finance and the underwriting, distribution, and trading of debt and equity securities. It began operations in December 1994. BPI Cap wholly owns BPI Securities Corp., a stock brokerage;

3) BPI Direct BanKo, Inc., A Savings Bank ("BanKo"), serves microfinance customers through branch, digital, and partnership channels. Founded in February 2000 as BPI Globe BanKO, it is now wholly-owned, following a September 2016 purchase of stakes owned by Ayala Corp. (20%) and Globe Telecom, Inc. (40%) and a December 2016 merger with BPI Direct Savings Bank, Inc.;

4) BPI International Finance Limited ("BPI IFL") is a deposit taking company in Hong Kong. Originally established in August 1974, it provides deposit services as well as client-directed sourcing services for international investments;

5) BPI Remittance Centre Hong Kong Ltd. ("BERC HK") is a licensed money service operator in Hong Kong servicing the remittance services to beneficiaries residing throughout the Philippines. On November 21, 2018, BPI IFL distributed its shares in BERC HK as a property dividend to the Parent Bank. BERC HK became an immediate subsidiary of the Parent Bank following this;

6) BPI Europe Plc. ("BPI Europe") commenced operations in the United Kingdom in May 2007 as a bank registered in England and Wales. It is a UK-licensed bank authorized by the Prudential

Regulation Authority (PRA), and regulated by the PRA and the Financial Conduct Authority (FCA). It started its operations offering retail deposit products and money services, servicing retail customers, primarily targeting the Filipino community;

7) BPI Century Tokyo Lease & Finance Corp. ("BPI CTL") is a non-bank financial institution ("NBFI") that provides financing services pursuant to the Financing Company Act. BPI CTL is a joint venture with Century Tokyo Leasing Corp., who purchased a 49% stake in 2014. BPI CTL wholly owns BPI Century Tokyo Rental Corp., which offers operating leases;

8) BPI/MS Insurance Corp. ("BPI MS") is a non-life insurance company. It is a joint venture with Mitsui Sumitomo Insurance Co. (who owns a 49% stake), and is the result of a merger of FGU Insurance Co. and FEB Mitsui Marine Insurance Co., which was acquired as a subsidiary of Far East Bank in 2000;

9) BPI Asset Management and Trust Corporation ("BPI AMTC") is a Stand Alone Trust Corporation (SATC) serving both individual and institutional investors with a full suite of local and global investment solutions. BPI AMTC was established after a Certificate of Authority to Operate was issued by the BSP on December 29, 2016 and it started operations on February 1, 2017;

10) BPI Investment Management Inc. ("BIMI") is a wholly owned subsidiary of the Bank and serves as the Bank's manager and investment advisor to the ALFM mutual funds, which comprise a number of open-end investment companies registered with, and regulated by, the Securities and Exchange Commission ("SEC"). BIMI is also responsible for formulating and executing the funds' investment strategies.

Principal Products & Services

The Bank offers a wide range of corporate and retail banking products. The Bank has two major categories for products and services. The first category covers its core financial intermediation business, which includes, deposit taking, lending, and securities investments. Revenue from this category is collectively termed as net interest income and accounts for 70% of net revenues. The second category covers services ancillary to the Bank's financial intermediation business, and from which it derives transaction-based commissions, service charges and other fees. These include investment banking and corporate finance fees, asset management and trust fees, stock brokerage fees, credit card-related fees, rental of bank assets, income from insurance subsidiaries and service charges or commissions earned on international trade transactions, drafts, fund transfers, various deposit-related services, and revenues from transactions on the digital channels. Commissions, service charges, and other fees, when combined with trading gains and losses arising from the Bank's fixed income and foreign exchange operations, constitute non-interest income, which accounts for the remaining 30% of net revenues.

Foreign Offices Contribution

	2017	2018	2019
Share in Total Revenue (%)	1.51	0.56	0.47
Hong Kong	0.37	0.37	0.31
USA	0.86	(0.00)	(0.00)
Europe	0.28	0.20	0.16
Share in Total Net Income (%)	1.57	(0.02)	(0.28)
Hong Kong	0.18	(0.12)	(0.32)
USA	1.43	0.04	(0.06)
Europe	(0.04)	0.05	0.09

Distribution Network

BPI had 867 branches across the country, including 6 kiosk branches, as of end 2019. Kiosks are branches much smaller than traditional full-service branches, but are fully equipped with terminals allowing direct electronic access to product information and customers' accounts, as well as processing of self-service transactions. Kiosks serve as sales outlets in high foot traffic areas such as supermarkets, shopping malls, transit stations, and large commercial establishments. Additionally, there are 300 BPI Direct BanKo branches and Branch-Lite Units (BLUs) set up in strategic locations in the country. Overseas, BPI has one (1) Hong Kong office (BPI IFL) and two (2) BPI Europe offices in London.

BPI maintains a specialized network of overseas offices to service Filipinos working abroad. To date, BPI has 3 Remittance Centers located in Hong Kong and 2 representative offices located in UAE and Japan. BPI also maintains remittance tie-up arrangements with various foreign entities in several countries to widen its network in serving the needs of Filipinos overseas.

On the lending side, there are 26 business centers, servicing both corporate and retail clients, across the country to process loan applications, loan releases, and international trade transactions. These centers also provide after-sales servicing of loan accounts.

BPI's ATM network has a total of 2,822 terminals as of end-2019, of which 2,323 are ATMs and 499 are Cash Accept Machines (CAMs). This complements the branch network by providing cash related banking services to customers at any place and time of the day. In addition, the interconnection with Bancnet gives BPI cardholders access to over 20,000 ATMs across the country. BPI's ATM network is likewise interconnected with Mastercard, China Union Pay (CUP), Discover/Diners, JCB, and Visa. Through the Bank's extensive physical and digital networks, the Bank provides a broad range of value-added services to its clients, enhancing convenience and self-service capabilities, as well as greater accessibility.

BPI's retail digital platforms (BPI Online and BPI Mobile) provide clients a reliable, safe and intuitive digital banking experience. This translates to an ultimate convenience through quick and paperless transactions anytime, anywhere. Aside from the standard banking features (i.e. account inquiry, funds transfer, bills payment), the digital platforms have introduced a new set of innovative features and services. These include:

- Cash-in transactions to Partner Merchants via Application Programming Interface ("API") where clients now have more service offerings to choose from, such as loading the following e-wallets real time: Gcash, Paymaya, Smart Money, Beep, Easytrip, Autosweep RFID, Dibz and Get Go;
- Enrollment of billers and other merchants now made easier with the use of One-Time PIN;
- Inter-bank Funds Transfer which now allow clients transfer to other local banks in the country;
- BPI Express Assist to set branch appointments in advance;
- Recent and Favorites - Clients may now view their last 3 transactions and save their 10 favorite unenrolled accounts for easier access;
- Push Notifications - Clients may now receive transactional notifications (Funds Transfer Advice, Device Registration, and Load Prepaid Card);
- Plus, clients can now choose which accounts they want to see under the new Manage Accounts feature.

BPI Phone Banking provides clients with 24/7 self-service banking facilities and a gateway to get live support through the Bank's Contact Center. Using any phone, customers can call 889-10000 to inquire about their account balances and latest transactions, transfer funds to other BPI accounts in real time and pay for their various bills. Concerns and queries on any of BPI's products and services are addressed by the highly-trained Phone Banking Specialists any time, any day.

Competition

Mergers, acquisitions and closures continued to reduce the number of players in the industry from a high of 50 upon the liberalization of rules on the entry of foreign banks, down to 46 universal and commercial banks in December 2019.

Lending by universal and commercial banks, excluding thrift banks, grew by 10.4% in 2019, lower than the 14.6% registered growth in 2018. The top five industry sectors that banks have lent to are the following:

1. Water supply, sewerage, waste management and remediation
2. Construction
3. Real estate activities
4. Financial and insurance activities
5. Agriculture, forestry and fishing

The above sectors grew by 28.5%, 23.4%, 19.6%, 17.3%, and 15.4%, respectively. Decent credit demands were also seen from administrative and support service activities, information and communication, arts, entertainment and recreation, electricity, gas, steam and air-conditioning supply, and education. Consumer loans also grew by 26.5% in December 2019 versus the prior year.

Based on required published statements by the BSP as of December 2019, BPI is the third largest bank operating in the country in terms of assets, customer loans, and capital, while ranking fourth in terms of deposits. The Bank ranks second in terms of trust assets. Total assets of BPI, based on Philippine

Accounting Standards (PAS) compliant audited financial statements, are higher than the published statements prepared along BSP standards.

Please refer to the section "Future Prospects" of this report for a general outlook on the economy and banking industry.

Patents, Trademarks, Licenses, Franchises, etc.

BPI provides its products and services through the BPI trademark and/or trade name. All its major financial subsidiaries carry the BPI name prefix (e.g., BPI Family Savings Bank, BPI Capital, BPI Securities, BPI Leasing, and BPI Direct BanKo), and so do its major product and service lines.

Following are some of BPI's trademarks for its products and services:

1. BPI Express Assist (BEA), for its branch queuing facility
2. BPI ATM, for its automated teller machine
3. BPI CAM, for its cash accept machine
4. BPI Debit and BPI Debit Cards, for its debit cards
5. Express Credit, BPI Credit and BPI Credit Cards, for its credit cards
6. Express Cash, My ePrepaid and BPI ePay, for its prepaid cards
7. BPI Phone Banking, for its contact center facility
8. BPI Online, for its internet-based transaction platform for retail customers
9. BPI Mobile App, for its mobile banking facility
10. BPI ExpressLink/BizLink, for its internet-based transaction platform for corporate customers
11. ExpressLink Mobile, for its mobile banking for corporate customers
12. Express Collect, for its over-the-counter bills collection

At BFSB, the product trademarks include the BPI Family Housing Loan and the BPI Family Auto Loan. Other product brands of BPI, BFSB and BanKo are Kaya Savings, Jumpstart, PondoKo Savings, MaxiOne, Save-up, Advance Savings, Maxi-Saver, Pamana Savings Account, Pamana Padala, Padala Moneyger, Ka-Negosyo Checking Account, Plan Ahead, the BPI Personal Loan and a loan product specifically offered by BanKo, BanKo NegosyoKo.

All the Bank's Trademark registrations are valid for 10 years with years of expiration varying from year 2020 to 2029. Trademarks intended to be used or maintained by the Bank are so maintained and renewed in accordance with applicable Intellectual Property laws and regulations. The Bank closely monitors the expiry and renewal dates of its trademarks to protect the Bank's brand equity.

In terms of business licenses, BPI has an expanded commercial banking license while BFSB and BanKo have savings bank licenses. BPI Capital Corp. has an investment house license and is a registered Government Securities Eligible Dealer ("GSED") with Broker/Dealer of Securities Function and Mutual Fund Distributor. BPI CTL has a finance company license. BPI AMTC has a trust license, securities custodian and registry license and is a PERA-accredited administrator while BIMI has an investment company adviser license, mutual fund distributor license, and is a registered transfer agent. BPI MS was granted by the Insurance Commission a Certificate of Authority to transact and sell non-life insurance products.

For foreign business licenses, BPI (Europe) Plc is a UK-licensed bank authorized by the Prudential Regulation Authority ("PRA"), and regulated by the PRA and the Financial Conduct Authority ("FCA"). Meanwhile, BPI IFL is licensed by the Hong Kong Monetary Authority as a deposit-taking company. It was further granted by the Hong Kong Securities and Futures Commission with licenses to engage in securities dealing and advising, and asset management.

Related Parties

In the ordinary course of business, the Bank has entered into various transactions with its Directors, Officers, Stockholders and their Related Interest, or DOSRI, including loan transactions. BPI and all its subsidiaries have always been in compliance with the General Banking Act, BSP circulars and regulations on DOSRI loans and transactions. As of December 31, 2019, DOSRI loans amounted to 0.67% of loans and advances as per Note 30 of the 2019 Audited Financial Statements.

Government Regulations (2017-2019)

Under the General Banking Act, the Monetary Board of the BSP is responsible for regulating and supervising financial intermediaries like BPI. The implementation and enforcement of the BSP regulations is primarily the responsibility of the supervision and examination sector of the BSP.

BPI, as a publicly listed company ("PLC"), is also governed by SEC memorandum circulars and BIR revenue regulations. Below is a non-exhaustive list of the regulations BPI has adopted in the last three years:

Issuance No.	Issue Date	Effective Date	Title/Summary
BSP Circulars			
No. 941	January 20, 2017	January 1, 2018	Amendments to the Regulations on Past Due and Non-Performing Loans
No. 989	January 4, 2018	January 27, 2018[1]	Guidelines on the Conduct of Stress Testing Exercises
No. 990	January 22, 2018	February 9, 2018[1]	Amendments to the Basel III Leverage Ratio Framework
No. 997 No. 1004	February 15, 2018 May 24, 2018	March 2, 2018 June 1, 2018	Reduction in Reserve Requirements: • 100 basis points to 19% • 100 basis points to 18%
No. 1007	June 6, 2018	January 1, 2019	Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio ("NSFR")
No. 1011	August 14, 2018	September 7, 2019[1]	Guidelines on the Adoption of the Philippine Financial Reporting Standard ("PFRS") 9 – Financial Instruments
No. 1024	December 6, 2018	January 4,2019[1]	Philippine Adoption of the Basel III Countercyclical Capital Buffer
No. 1027	December 28, 2018	February 2, 2019[1]	Amendments to the Guidelines on the Computation of Required Capital
No. 1034 No. 1035	March 15, 2019	April 6, 2019[1]	Amendments to the BASEL III: • Framework on Liquidity Standards – NSFR • Liquidity Coverage Ratio Framework and Minimum Liquidity Ratio Framework
No. 1041 No. 1056 No. 1063	May 29, 2019 October 22, 2019 December 3, 2019	May 31, 2019 June 28, 2019 July 26, 2019 November 1, 2019 December 6, 2019	Reduction in Reserve Requirements: • 100 basis points to 17% • 50 basis points to 16.5% • 50 basis points to 16% • 100 basis points to 15% • 100 basis points to 14%
No. 1044	August 6, 2019	August 27, 2019[1]	Guidelines on the Management of Interest Rate Risk in the Banking Book and Amendment of the Guidelines on Market Risk Management
No. 1051	September 27, 2019	October 17, 2019[1]	Amendments to the Framework for Dealing with Domestic Systemically Important Banks (D-SIBs)
No. 1054	October 11, 2019	November 1, 2019	Reduction in the Reserve Requirement of Bonds to 3%
No. 1055	October 17, 2019	November 5, 2019[1]	Adoption of a National Quick Response (QR) Code Standard
No. 1059	November 15, 2019	January 1, 2021	Moratorium on the Issuance of Long-Term Negotiable Certificates of Time Deposit ("LTNCDs")
No. 1061	November 25, 2019	December 17, 2019[1]	Amendment to the Definition of a Deposit Substitute

No. 1062	November 26, 2019	December 17, 2019[1]	Amendment of the Requirements on the Issuance of LTNCTDs, Bonds and Commercial Papers
No. 1067	December 13, 2019	January 4, 2020[1]	Amendments to the Disclosure Requirement on Interest Rate Risk in the Banking Book
Monetary Policy Decisions	May 9, 2019 August 8, 2019 September 26, 2019	May 10, 2019 August 8, 2019 September 27, 2019	Key Policy Rate Cuts: • 25 basis points to 4.50% • 25 basis points to 4.25% • 25 basis points to 4.00%
SEC			
MC No.12-2018	August 31, 2018	September 15, 2018	Guidelines on the issuance of Green Bonds under the ASEAN Green Bonds standards in the Philippines
MC No. 4-2019	February 15, 2019	March 2, 2019	Sustainability Reporting Guidelines for PubliclyListed Companies
MC No. 10-2019	April 25, 2019	April 27, 2019	Rules on Material Related Party Transactions for Publicly-Listed Companies
MC No. 24-2019	December 19, 2019	January 12, 2020	Code of Corporate Governance for Public Companies and Registered Issuers
Tax			
Republic Act[2] No. 10963	December 19, 2017	January 1, 2018	Tax Reform for Acceleration and Inclusion ("TRAIN"). This is the first package of the Comprehensive Tax Reform Program ("CTRP"), which amends various provisions of the 1997 National Internal Revenue Code.

[1] The Circular took effect 15 calendar days following its publication in the Official Gazette or in a newspaper of general circulation

[2] Subsequently, BPI also complied with all pertinent BIR revenue regulations implementing it.

Research and Development Activities

BPI spent the following for the last three years on Personnel Training and on Systems/Application Software:

	In Million Pesos	% of Revenues
2017	595.3	0.8
2018	802.1	1.0
2019	1,018.9	1.1

Employees

Below is a breakdown of the manpower complement of BPI in 2018 and 2019:

	December 31, 2018 Actual			December 31, 2019 Actual		
	Officers	Staff	Total	Officers	Staff	Total
Unibank	6,541	11,749	18,290	7,225	13,588	20,813
Consumer	4,176	10,228	14,404	4,517	12,026	16,543
Corporate	840	792	1,632	929	849	1,778
Investment	418	248	666	409	225	634
Support	1,107	481	1,588	1,370	488	1,858
Insurance Companies	120	501	621	127	489	616
TOTAL	6,661	12,250	18,911	7,352	14,077	21,429

Majority or 83% of the staff are members of various unions and are subject to Collective Bargaining Agreements ("CBAs"). The current CBA of the parent company was concluded and signed last May 29, 2019, which covers the period of April 1, 2019 to March 31, 2021.

CBA for BFSB was concluded and signed last December 13, 2018. The BFSB CBA covers the period November 1, 2018 to October 31, 2020.

Enterprise Risk Management

The Bank has an established enterprise risk management ("ERM") and capital management framework that allows the Bank to identify, measure, control, and monitor its significant financial and non-financial risk exposures, ensure adequate liquidity, and set aside sufficient amounts of capital to cover and mitigate such risks. The framework reflects the Bank's internal standards as guided by the regulatory guidelines and directives issued by the BSP in promoting effective risk management governance, in implementing robust business continuity and resiliency standards that are regularly tested, and in performing the internal capital adequacy assessment and other risk management processes. The Bank's ERM is anchored on the pillars of:

- Sound risk management governance;
- Value-enhancing risk methods and processes; and
- Risk-intelligent data and technology.

The Bank's Board of Directors fulfills its risk management function through the Risk Management Committee ("RMC"), which directs risk strategy, defines risk appetite statements, and reviews risk management structures, metrics, limits, and issues across the BPI Group. The Chief Risk Officer ("CRO") of the BPI Group reports directly to the RMC and is responsible in leading the formulation of risk management policies, methodologies, and metrics consistent with the overall business strategies of the Bank, ensuring that risks are prudently and rationally undertaken, within the Bank's risk appetite, and commensurate to maximize returns on capital. The CRO is supported by the Risk Management Office ("RMO") and they actively engage the RMC, Management and business units to effectively communicate through various internal channels the Bank's risk culture, risk awareness campaigns and learning programs, and risk management best practices.

The Bank's risk exposures are identified, measured, controlled, and monitored according to three (3) major risk classifications:

Credit Risk, the single largest risk for most local banks, arises from the Bank's core lending and investing businesses, and involves thorough credit evaluation, appropriate approval, management and continuous monitoring of risk exposures such as borrower (or counterparty) risk, facility risk, concentrations and industry risks relating to each loan account. In BPI, the entire credit risk management process is governed by stringent underwriting policies and rating parameters, and lending procedures and standards which are regularly reviewed and updated given regulatory requirements and market developments. The Bank's loan portfolio is continuously monitored and reviewed as to overall asset quality, concentration, and utilization of limits. The Bank continuously experiences growth in loan volumes, but is able to manage overall low credit risk and maintain asset quality (as evidenced by generally low NPLs and adequate reserves cover), and does so in general compliance with regulatory and prudential requirements relating to credit risk management (e.g., RPT and DOSRI restrictions, single borrower's limits, credit concentration, and internal and regulatory stress tests, amongst others).

Market and Liquidity Risks arise from the Bank's business in managing interest rate and liquidity gaps, as well as in the trading and distribution of fixed income, foreign exchange, and derivative instruments (as allowed by regulation). Market and liquidity risks are managed using a set of established policies and metrics guided by the Bank's market, interest rate risk in the banking book ("IRRBB"), and liquidity risk management framework set by the Board-level RMC. Market risk is the risk that the Bank's earnings or capital will decline immediately (or over time) because of volatility in interest rates, foreign exchange rates, or equity prices. The Bank employs various risk metrics such as value-at-risk ("VaR") and stop loss limits for price risk and balance sheet value-at-risk ("BS VaR"), and earnings at-risk ("EaR") for interest rate risk, supplemented by quarterly stress tests. Liquidity exposures mainly come from the mismatches of asset, liability, and foreign exchange contract maturities. The Bank manages liquidity risk by employing a minimum cumulative liquidity gap ("MCLG" – smallest net cumulative cash inflow or the largest net cumulative cash outflow) and complying with the liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") BSPprescribed minimum limit. The Bank also conducts liquidity stress tests which have consistently revealed ample liquidity to meet its financial obligations under both bank-specific and systemic or market-wide crisis scenarios and

periodically testing an established liquidity contingency funding plan ("LCFP"). The Bank's market, IRRBB, and liquidity risk exposures are generally well within the RMC-approved risk limits at the BPI Parent and Consolidated levels.

Operational and IT Risks arise from the Bank's people and processes, its information technology, threats to the security of its facilities, personnel, or data, models, business interruption risk, reputational risk, and compliance obligations to regulatory or taxing authorities, amongst others. Operational and IT risk management in the Bank involves the formulation of policies, setting and monitoring of key risk indicators, overseeing the thoroughness of bank-wide risk and control selfassessments and loss incident management; and in the process, creating and maintaining a sound business operating environment that ensures and protects the integrity of the Bank's assets, transactions, reputation, records and data of the Bank and its customers, the enforceability of the Bank's claims, and compliance with all pertinent legal and regulatory parameters. The Bank's actual operational losses are generally less than 1% of the Bank's annual gross income, which is well within the Bank's appetite for operational and IT risks.

Risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience working within the Bank. The Bank's risk managers regularly monitor key risk indicators and report exposures against carefully-established credit, market, liquidity and operational and IT risk metrics and limits approved by the RMC. Independent reviews are regularly conducted by the Bank's Internal Audit group, external auditors, and regulatory examiners to ensure that risk controls and mitigants are in place and functioning effectively as intended.

Compliance

Business or compliance risk, which can be defined as "the risk of regulatory or legal sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities", is addressed and managed within the Bank through its compliance function and its component system and program.

As the Bank's second line of defense, the compliance function has also evolved in recent years to adapt to the shift towards more technology-heavy strategies, as it seeks to deliver the compliance risk management outcomes required in an era of digital transformation. While remaining a key advisory function, it has embraced a more forward-thinking, risk-based and stress-tested approach to continuously monitor, evaluate and improve its ability to ensure compliance in a banking landscape that is subject to disruption and rapid change.

The Bank's compliance system is critically important in identifying, evaluating, and addressing the regulatory and reputational risks while the enterprise-wide compliance program helps the Bank to look at and across business lines and activities of the organization as a whole and to consider how activities in one area of the Bank may affect the business or compliance risks of other business lines and the entire group/enterprise. The compliance program also helps the Board and management in understanding where such regulatory and reputational risks in the organization are concentrated, provide comparisons of the level and changing nature of risks, and identify those control processes that most need enhancement.

Oversight of the management of the Bank's business risk and implementation of its compliance function is the responsibility of our Board of Directors, through the Audit Committee and the Corporate Governance Committee with respect to corporate governance compliance. At the management level, the compliance function is carried out by the Compliance Office, headed by the Chief Compliance Officer, who is not a member of the Board of Directors. The Compliance Office oversees the implementation of the Bank's enterprise-wide compliance programs. These programs take into account the size and complexity of the Bank, the relevant rules and regulations that affect its operations, and the business risks that may arise due to non-compliance. By using regulatory and self-assessment compliance matrices, compliance measures are formulated to mitigate identified business risks and tested to ensure effectiveness.

The Compliance Office is currently organized to cover Regulatory Compliance, Corporate Governance, Anti-Money Laundering Compliance and FATCA Compliance and the Data Privacy Office. Considering the rapid developments in the regulatory sphere as well as the growing complexity of bank products, services and transactions, the Compliance Office evolves in its coverage of compliance practice areas to anticipate and meet forward challenges. Enhancement of our compliance function's scope and domain is redefined for new and emerging sources of compliance risk. The Compliance Office is also empowered by the accountability to it of 22 Group Compliance Officers, or GCOs, who are embedded

in operational units throughout the Bank. The GCOs are charged with enforcing compliance office initiatives, as well as providing timely reports to the compliance office.

Overall enforcement is through self-regulation within the business units, and independent testing and reviews conducted by the Compliance Office and Internal Audit. Results of these reviews are elevated to the Board's Audit Committee and Corporate Governance Committee, with respect to governance issues. The Compliance Office promotes adherence and awareness to laws, rules and regulations by electronically posting information and documents in a compliance database that is accessible to all employees. Regular meetings are conducted by the Compliance Office with the GCOs to discuss the impact of new regulations, decide on the required compliance measures and amend compliance matrices as necessary. Through continued liaison and dialogue with regulators, the Compliance Office ensures the prompt dissemination of new regulations and other developments affecting bank operations.

Financial Consumer Protection

In 2017, the Bank, through its Customer Experience Management Office ("CXMO") initiated the BPI Customer Assistance Program to establish guidelines that will help ensure that all feedback from customers and potential customers are well handled in alignment with the Bank's consumer protection policies. The designated Customer Assistance Officers underwent onsite training to equip them in their function in addressing customer issues and to ensure compliance with the Bank's Consumer Protection Program. The need to conduct a continuous information and education campaign on the Financial Consumer Protection Program ("FCP") has been a major priority of the unit.

To deepen customer engagement and address specific customer needs, CXMO monitored customer complaints in each business area and identified the root causes and action plans which is part of the regular management reporting. CXMO intensified the conduct of FCP roll-outs in the branches, which also includes customer complaints handling where scenarios are based on actual customer complaints received.

The Customer Feedback Database, which was created in 2017, underwent continuous improvements to facilitate immediate routing of customer feedback to the concerned business units. This further strengthened the role of the frontliners in addressing and reporting customer issues.

For 2019, the Bank tracked and monitored customer issues and feedback concerning its products and services (the table below shows the number of customer complaints the Bank received for the past three years, and the number of customer transactions recorded for the same year). Action plans were implemented to ensure that the most pressing and important issues raised by customers were resolved within the committed turnaround times.

	2017	2018	2019
Complaints (in Thousands)	437.5	424.4	415.9
Transactions (in Millions)	1,442.1	1,540.8	2,383.7

In 2019, there were no confirmed incidents of non-compliance where BPI was officially cited by a regulator or government agency.

Data Privacy

Republic Act No. 10173, known as the Data Privacy Act of 2012, requires government and private sector entities to apply the principles of Transparency, Legitimate Purpose and Proportionality in their processing of personal data so that the data is (1) only used in relevant and specifically stated ways, (2) not stored for longer than necessary, (3) kept safe and secure, (4) used only within the confines of the law, and (5) stored following people's data protection rights. Cybersecurity and data privacy and protection have become corporate governance and risk management concerns.

BPI has established a comprehensive Data Privacy Program utilizing a combination of policies, organizational structure, access controls and technologies designed for risk reduction. The Bank has a Data Privacy Office, headed by a Board-appointed Data Privacy Officer ("DPO"), a senior management officer. The key focus of the DPO is to oversee data privacy compliance and manage data protection risks for the organization consistent with the Data Privacy Act rules and regulations, issuances by the National Privacy Commission and other applicable laws. Management has also appointed Compliance Officers for Privacy ("COP") for major business units of the Bank to augment the Data Privacy Office

and ensure the sustained implementation of the Data Privacy Management Program across business lines.

Future Prospects

Economic Growth
The Philippine economy expanded by 5.9% in 2019, below the 6-7% target of the government. Despite the strength of household consumption, delays in the implementation of infrastructure projects and the decline in investment spending dragged growth below the 6% level. For 2020, the coronavirus outbreak has become the greatest challenge for the global and domestic economies. Quantifying the potential impact of the coronavirus on the Philippine economy is difficult as the phenomenon has been unique. However, it is clear that it will have a severe negative impact on the economy.

Household Consumption
Household consumption recovered in 2019 as inflation slowed down. Stable oil prices and sufficient rice supply pulled down average inflation from 5.2% in 2018 to 2.5% in 2019. Household consumption will likely continue to be the main driver of growth in the medium term with support from OFW remittances and record-low unemployment. However, the enhanced community quarantine in various parts of the economy has crippled household consumption to an extent not seen since the early 1980s.

Investment Spending
Capital formation contracted in 2019 for the first time in 7 years as demand for machinery and equipment declined. Corporates may have postponed or scaled down the purchase of durable equipment given the elevated global growth uncertainties and expectations of lower interest rates in the coming months. Meanwhile, public construction posted a 2.4% contraction as a result of government underspending. The budget impasse and election spending ban in the first half of the year prevented the government from spending on new infrastructure projects. Looking ahead, capital expenditures may fall as business will most likely prioritize their liquidity to sustain themselves and their employees amid the measures to prevent the spread of Covid-19.

Growth of Major Sectors
Among the 3 major sectors of the economy, services outperformed in 2019 with 7.1% growth. Retail trade grew at a faster pace with the help of lower inflation, while financial intermediation recorded higher growth given wider interest margins and trading gains resulting from the bond market rally. The industry sector slowed down amid the weakness in manufacturing and construction. Global trade uncertainties weighed down manufacturing growth despite the stability shown by household consumption. In 2020, the coronavirus outbreak may hurt several industries given the restrictions on movement and economic activity. In particular, the following industries may see a decline in economic output and revenues: tourism, airline, real estate, transport, manufacturing

Financial Markets
Low inflation in 2019 gave the BSP the opportunity to revert its policy stance from tightening to monetary easing. Given the liquidity and growth challenges being faced by the economy, the Monetary Board reduced the policy rate by 75 bps from 4.75% to 4.00% and brought down the reserve requirement ratio (RRR) by 400 bps from 18% to 14% in 2019. Benchmark interest rates declined as liquidity improved gradually.

The BSP has reduced the policy rate by another 75 bps so far and may resume its monetary easing in 2020 given the economic damage that the coronavirus could bring. The enhanced community quarantine may squeeze liquidity amid the lack of spending and the need for savings in this time of crisis. As a result, the central bank may inject liquidity into the financial system through its monetary policy tools such as open market operations and further reduction in the reserve requirement on deposits.

Meanwhile, global risk aversion due to the coronavirus may fuel the demand for safe haven like the Dollar. Emerging market currencies like the Peso may weaken as investors shift their funds to assets that could protect them from the impact of the coronavirus. However, the possible decline in imports and remittances due to supply disruptions may temper the depreciation pressure from risk aversion.

Implications on Business and Strategy
Against this backdrop, BPI and the entire banking industry play a major role in the economic recovery of the country. BPI remains focused on prudently accelerating growth in the higher-margin SME and consumer lending businesses, which will be hardest hit by the coronavirus outbreak. The Bank has already announced a 90-day deferral in loan payments to doctors, nurses and other medical workers as well as policemen and soldiers to provide financial relief during the COVID-19 lockdown. BSP has

also offered relief measures, notably, to Banks such as staggered recognition of provisioning, and a 30-day grace period for loan payments.

BPI also maintains strength in the corporate segment, which comprises 75% of its loan portfolio. We strive to be the main operating bank for our clients, especially those bounce-back industries and companies, while evaluating what assistance can be provided to clients in affected sectors such as tourism, hospitality, transport, and retail trade and manufacturing.

The current environment also requires that we continue to place emphasis on managing risks by enhancing our credit process in the aspects of underwriting, monitoring, and collections, in consideration of the corona virus impact.

Liquidity is also a top priority for BPI, just having raised P34 billion in a 1.5-year bond issuance that was completed before the Luzon lockdown in March 2020. The Bank proceeds with an invigorated focus on CASA deposit growth in the near-term.

Reinforcing the Bank's operational resilience during this health crisis, BPI has put in motion business continuity plans and a pandemic response plan and protocol for the entire organization. The objective of our pandemic response plan is three-fold: (1) ensure continuous delivery of products and services to our customers and the banking public, (2) ensure the health and well-being of our employees, and (3) cooperate with authorities in their efforts to contain transmission. BPI has select branches and critical units open, some with modified physical layouts and protective screens to observe social distancing, while the rest of the skeletal work force operate in home/remote site arrangements.

The Bank recognizes the importance of building strong digital capabilities, which was tested during the enhanced community quarantine, via our digital distribution platforms to increase client access points, how we could enhance overall customer experience, as well as in the back office infrastructure to increase efficiency and reduce costs. Significant investments have been made around the five pillars of our digital ecosystem: (1) omni-channel experience, (2) customer experience, (3) high tech, high touch channels, (4) open banking, and (5) cybersecurity and privacy. At this point in time, we seek to accelerate the shift to digital, enabling us to deliver a convenient and frictionless banking experience for our clients. We are also maximizing our use of technology to enable work continuity without physical proximity.

The success of all of these efforts will contribute to a more sustainable business and, under favorable market conditions, recovery and growth of our share price.

For further details on the BPI's financial condition and operations, please refer to its 2019 Consolidated Financial Statements which is incorporated herein as part of Index to Financial Statements and Supplementary Schedules. Also, for further information on BPI, please refer to its SEC17A which is available in its website www.bpiexpressonline.com

GLOBE TELECOM, INC.

Globe Telecom, Inc.'s highlights of Consolidated Statements of Financial Position and Statements of Income are shown in the Note 10 of the Group's 2019 Consolidated Financial Statements as well as in the Globe's 2019 Consolidated Financial Statements which form part of Index to Financial Statements and Supplementary Schedules of this SEC 17A report.

Background and Business

The Ayala Group conducts its telecommunications business through Globe Telecom, Inc (alternately referred to as Globe, Globe Telecom, Globe Group or "the Company" in the entire discussion of Globe Telecom, Inc.). Globe's origin can be traced back to Robert Dollar Company, a California company which provided wireless long-distance message services. After subsequent mergers and re-namings, the company was named Globe Telecom, Inc. in 1983, when the partnership between Ayala and Singapore Telecom, the principal shareholders of Globe, was formalized. Since then, Globe has been recognized as the first company to offer SMS services in the Philippines and as the first Philippine internet service provider in the Philippines.

Globe Telecom, Inc. is a major provider of telecommunications services in the Philippines, supported by over 8,000 employees and over 1.2 million AutoloadMax (AMAX) retailers, distributors, suppliers, and business partners nationwide. The Company operates one of the largest and most technologically-advanced mobile, fixed line and broadband networks in the country, providing reliable, superior communications services to individual customers, small and medium-sized businesses, and corporate and enterprise clients. Globe currently has 94.2 million mobile subscribers (*including fully mobile subscribers*), over 2.0 million Home Broadband customers, and 1.4 million landline subscribers.

Globe is one of the largest and most profitable companies in the country, and has been consistently recognized both locally and internationally for its corporate governance practices. It is listed on the Philippine Stock Exchange under the ticker symbol GLO and had a market capitalization of US$5.3 billion as of the end of December 2019.

The Company's principal shareholders are Ayala Corporation and Singapore Telecom, both industry leaders in their respective countries. Aside from providing financial support, this partnership has created various synergies and has enabled the sharing of best practices in the areas of purchasing, technical operations, and marketing, among others.

Sustainability at Globe is anchored on The Globe Purpose, "In everything we do, we treat people right to do a Globe of Good. As a purpose-led organization, the Company aims to contribute to the UN Sustainable Development Goals by promoting innovation and technology for greater social impact. Together with business growth, Globe actively participate in nation-building through an engaged and empowered workforce that strives to achieve inclusive and sustainable development for all. In 2019, Globe became a signatory to the United Nations Global Compact, committed to implement universal sustainability principles.

Globe Bridging Communities (GlobeBridgeCom) is the corporate social responsibility arm of the company, which leads various programs that promote quality education, environmental conservation, social innovation, active citizenship through volunteerism and responsible use of information and communications technology to enrich the lives of our key stakeholders.

The Globe Group is composed of the following companies:

- Globe Telecom, Inc. (Globe) provides digital wireless communications services in the Philippines under the Globe Postpaid, Globe Prepaid, and Touch Mobile (TM) brands, using a fully digital network. It also offers domestic and international long-distance communication services or carrier services;

- Innove Communications Inc. (Innove), a wholly-owned subsidiary, holds a license to provide digital wireless communication services in the Philippines. Innove also has a license to establish, install, operate and maintain a nationwide local exchange carrier (LEC) service, particularly integrated local telephone service with public payphone facilities and public calling stations, and to render and provide international and domestic carrier and leased line services.

  On December 14, 2018, the President of the Philippines signed House Bill No. 5556 into RA No. 11151 entitled "Act Renewing For Another Twenty Five (25) Years the Franchise Granted to Isla Communications Company, Inc. Presently Known as Innove Communications, Inc., Amending for

the Purpose Republic Act No. 7372 entitled "An Act Granting the Isla Communications Co. a Franchise to Install, Operate and Maintain Telecommunications Services Within the Territory of the Republic of the Philippines and International Points and for Other Purposes.

On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal Data Center, Inc. (TechGlobal), a joint venture company formed for the purpose of operating and managing all kinds of data centers, and providing information technology-enabled, knowledge-based and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017;

- GTI Business Holdings, Inc. (GTI) is a wholly-owned subsidiary with authority to provide VOIP services. GTI was incorporated and registered under the laws of the Philippines, on November 25, 2008, as a holding company.

  GTI Corporation (GTIC)
  In July 2009, GTI incorporated a wholly owned subsidiary, GTI Corporation (GTIC), a company organized under the General Corporation Law of the United States of America, State of Delaware as a wireless and data communication services provider.

  Globe Telecom HK Limited (GTHK)
  In December 2011, GTI incorporated a wholly owned subsidiary, Globe Telecom HK Limited (GTHK), a limited company organized under the Companies Ordinance of Hong Kong as a marketing and distribution company. On March 17, 2015, GTHK applied for a services-based operator license (SBO) with the Office of the Communications Authority in Hong Kong (OFCA) which was subsequently approved on May 7, 2015. GTHK is engaged in the marketing and selling of telecommunication products and services in the international market, except the United States of America and the Philippines, under a distributor arrangement.

  Globetel European Limited (GTEU) and Subsidiaries
  On May 10, 2013, GTI incorporated a wholly owned subsidiary, Globetel European Limited (GTEU) as holding company for the operating companies of the Globe Group located in the United Kingdom, Spain and Italy.

  In 2013, GTEU incorporated its wholly owned subsidiaries, UK Globetel Limited (UKGT), Globe Mobilé Italy S.r.l. (GMI), and Globetel Internacional European España, S.L. (GIEE), for the purpose of establishing operations in Europe by marketing and selling Mobile telecommunications services to Filipino individuals and businesses located in the United Kingdom, Spain and Italy.

  On June 2, 2016, the BOD approved the cessation of the operations of UKGT, GMI and GIEE effective July 31, 2016. UKGT and GMI completed the liquidation process in 2018. On July 30, 2019, GIEE completed its regulatory requirements for liquidation.

  Globetel Singapore Pte. Ltd. (GTSG)
  On November 12, 2014, GTI incorporated GTSG, a wholly owned subsidiary, for the purpose of offering full range of international data services in Singapore under a facilities-based operations license (FBO) with Infocomm Media and Development Authority (IMDA) in Singapore which was granted on January 7, 2015;

- Kickstart Ventures, Inc. (Kickstart), a wholly-owned subsidiary and is the Philippines' most active Corporate Venture Capital firm investing in Seed to Series D digital startups. On March 28, 2012, Globe Telecom incorporated Kickstart, a stock corporation organized under the laws of the Philippines and formed for the purpose of investing in individual, corporate, or start-up businesses, and to do research, technology development and commercializing of new business ventures.

  In February 2014, Kickstart acquired 40% equity interest in Flipside Publishing Services, Inc. (FPSI). Since Kickstart was able to demonstrate control over FPSI despite of less than 50% ownership interest, FPSI was assessed to be a subsidiary of Kickstart and is included in the consolidation of Globe Group. FPSI is engaged primarily to acquire publishing rights, produce, publish, market, and sell printed and electronic books (ebooks) and other electronic documents and content for international and domestic sales. FPSI ceased operations in July 2016. FPSI remains a dormant company as of reporting date;

- Asticom Technology, Inc., a wholly-owned subsidiary, is primarily engaged in providing business process and shared service support, as well as IT system integration and consultancy services. Asticom was consolidated beginning June 2014;

- Globe Capital Venture Holdings, Inc. (GCVHI), a wholly-owned subsidiary incorporated on June 29, 2015.

  On June 29, 2015, Globe Telecom incorporated its wholly owned subsidiary, GCVHI as an investing and holding company primarily engaged in purchasing, subscribing, owning, holding, assigning real and personal property, shares of stock and other securities. In August 2019, GCVHI was rebranded to "917 Ventures" and will house Globe Telecom's non-telco incubated products.

  On October 13, 2015, GCVHI incorporated its wholly owned subsidiary Adspark Holdings, Inc. (AHI), a holding company established for the acquisition of additional investment in Globe Telecom's non-core business. AHI holds 100% of Adspark Inc. (AI), an advertising company. On January 29, 2016, AI acquired 70% of the outstanding shares of Socialytics Inc., a social media marketing firm.

  GCVHI holds 46.30% ownership interest in Globe Fintech Innovations, Inc. (GFI) and 50% ownership interest in Global Telehealth, Inc. (GTHI).;

- Bayan Telecommunications, Inc. (Bayan), is a provider of data and communications services such as dedicated domestic and international leased lines, frame relay services, Internet access, and other managed data services like Digital Subscriber Lines (DSL). Globe Telecom owns approximately 99% of BTI.
  .
  On July 2, 2015, BTI issued additional shares to Globe Telecom following the approval of National Telecommunications Commission (NTC) on the conversion of BTI's Tranche A convertible debt to equity. The conversion increased the ownership of Globe Telecom on BTI's outstanding shares from 38% to 54% controlling interest. On July 20, 2015, Globe Telecom acquired additional voting shares of BTI, which further increased its controlling interest to 99%. BTI is a facilities-based provider of data services and fixed-line telecommunications.

  BTI's subsidiaries are: Radio Communications of the Philippines, Inc. (RCPI), Telecoms Infrastructure Corp. of the Philippines (Telicphil), Sky Internet, Incorporated (Sky Internet), GlobeTel Japan (formerly BTI Global Communications Japan, Inc.), and NDTN Land, Inc. (NLI), (herein collectively referred to as "BTI Group").

  On May 30, 2017, the Management Committee, with representation of at least sixty-seven percent of the total voting interest, approved the termination of the Agreement on the Construction, Operation and Maintenance of the National Digital Transmission Network dated November 28, 1996, as well as the dissolution of Telicphil and NLI.

  On December 11, 2019, the House of Representatives received House Bill No. 5797, an act to renew and amend the franchise granted to BTI. The proposed law seeks to extend BTI's legislative franchise for another 25 years. The House Committee on Legislative franchises is yet to schedule the bill for public hearing as of February 3, 2019;

- TaoDharma (Tao), 67% owned by Globe Telecom, was established to operate and maintain retail stores in strategic locations within the Philippines that will sell telecommunications or internet-related services, devices, gadgets, and accessories.

- GTowers Inc. (GTowers), a fully owned subsidiary of Globe Telecom incorporated on August 17, 2018. GTowers is still under pre-operating stage.

- Yondu, Inc, is engaged in the development and creation of wireless products and services accessible through mobile devices or other forms of communication devices. It also provides internet and mobile value-added services, information technology and technical services including software development and related services. Yondu is registered with the Department of Transportation and Communication (DOTC) as a content provider.

  As of December 31, 2018, Yondu was 51% owned by Xurpas Inc. (Xurpas) and 49% owned by Globe Telecom. On September 11, 2019, the BOD of Globe Telecom approved the acquisition of 51% of the outstanding shares of Yondu, equivalent to 22,950 shares. The acquisition increased Globe Telecom's ownership interest from 49% to 100% and was accounted for as an acquisition of a subsidiary.

Yondu holds 100% of Rocket Search, Inc. (formerly Yondu Software Labs, Inc.), a company primarily engaged in providing information technology (IT) products and services and engaged in IT placement services.

- EC Pay, is primarily engaged in the business of providing IT and e-commerce solutions, including, but not limited to, prepaid phone and internet products, bills payments and others. On October 25, 2019, Globe Telecom signed and executed an agreement with third parties to complete its transaction to acquire 77% ownership of ECPay.

The Company is a grantee of various authorizations and licenses from the National Telecommunications Commission (NTC) as follows: (1) license to offer and operate facsimile, other traditional voice and data services and domestic line service using Very Small Aperture Terminal (VSAT) technology; (2) license for inter-exchange services; and (3) Certificate of Public Convenience and Necessity (CPCN) for: (a) international digital gateway facility (IGF) in Metro Manila, (b) nationwide digital cellular mobile telephone system under the GSM standard (CMTS-GSM), (c) nationwide local exchange carrier (LEC) services after being granted a provisional authority in June 2005, and (d) international cable landing stations located in Nasugbu, Batangas, Ballesteros, Cagayan and Brgy. Talomo, Davao City.

A. <u>Business Development and Corporate History</u>

In 1928, Congress passed Act No. 3495 granting the Robert Dollar Company, a corporation organized and existing under the laws of the State of California, a franchise to operate wireless long distance message services in the Philippines. Subsequently, Congress passed Act No. 4150 in 1934 to transfer the franchise and privileges of the Robert Dollar Company to Globe Wireless Limited which was incorporated in the Philippines on 15 January 1935.

Globe Wireless Limited was later renamed as Globe-Mackay Cable and Radio Corporation ("Globe-Mackay"). Through Republic Act ("RA") 4630 enacted in 1965 by Congress, its franchise was further expanded to allow it to operate international communications systems. Globe-Mackay was granted a new franchise in 1980 by Batasan Pambansa under Batas Pambansa 95.

In 1974, Globe-Mackay sold 60% of its stock to Ayala Corporation, local investors and its employees. It offered its shares to the public on 11 August 1975.

In 1992, Globe-Mackay merged with Clavecilla Radio Corporation, a domestic telecommunications pioneer, to form GMCR, Inc. ("GMCR"). The merger gave GMCR the capability to provide all forms of telecommunications to address the international and domestic requirements of its customers. GMCR was subsequently renamed Globe Telecom, Inc. ("Globe").

In 1993, Globe welcomed a new foreign partner, Singapore Telecom, Inc. (STI), a wholly-owned subsidiary of Singapore Telecommunications Limited ("SingTel"), after Ayala and STI signed a Memorandum of Understanding.

In 2001, Globe acquired Isla Communications Company, Inc. ("Islacom") which became its wholly-owned subsidiary effective 27 June 2001. In 2003, the National Telecommunications Commission ("NTC") granted Globe's application to transfer its fixed line business assets and subscribers to Islacom, pursuant to its strategy to integrate all of its fixed line services under Islacom. Subsequently, Islacom was renamed as Innove Communications, Inc. ("Innove").

In 2004, Globe invested in G-Xchange, Inc. ("GXI"), a wholly-owned subsidiary, to handle the mobile payment and remittance service marketed under the *GCash* brand using Globe's network as transport channel. GXI started commercial operations on 16 October 2004.

In November 2004, Globe and seven other leading Asia Pacific mobile operators ('JV partners') signed an agreement ('JV agreement') to form Bridge Alliance. The joint venture company operates through a Singapore-incorporated company, Bridge Mobile Pte. Limited (BMPL) which serves as a commercial vehicle for the JV partners to build and establish a regional mobile infrastructure and common service platform to deliver different regional mobile services to their subscribers. The Bridge Alliance currently has a combined customer base of over 250 million subscribers among its partners in India, Thailand, Hong Kong, South Korea, Macau, Philippines, Malaysia, Singapore, Australia, Taiwan and Indonesia.

In 2005, Innove was awarded by the NTC with a nationwide franchise for its fixed line business, allowing it to operate a Local Exchange Carrier service nationwide and expand its network coverage. In

December 2005, the NTC approved Globe's application for third generation (3G) radio frequency spectra to support the upgrade of its cellular mobile telephone system ("CMTS") network to be able to provide 3G services. The Company was assigned with 10-Megahertz (MHz) of the 3G radio frequency spectrum.

On May 19, 2008, following the approval of the NTC, the subscriber contracts of *Touch Mobile* or *TM* prepaid service were transferred from Innove to Globe which now operates all wireless prepaid services using its integrated cellular networks.

In August 2008, and to further grow its mobile data segment, Globe acquired 100% ownership of Entertainment Gateway Group ("EGG"), a leading mobile content provider in the Philippines. EGG offers a wide array of value-added services covering music, news and information, games, chat and web-to-mobile messaging.

On 25 November 2008, Globe formed GTI Business Holdings, Inc. (GTIBH) primarily to act as an investment company.

On October 30, 2008, Globe, the Bank of the Philippine Islands (BPI) and Ayala Corporation (AC) signed a memorandum of agreement to form a joint venture that would allow rural and low-income customers' access to financial products and services. Last October 2009, the Bangko Sentral ng Pilipinas (BSP) approved the sale and transfer by BPI of its shares of stock in Pilipinas Savings Bank, Inc. (PSBI), formalizing the creation of the venture. Globe's and BPI's ownership stakes in PSBI is at 40% each, while AC's shareholding is at 20%. The partners plan to transform PSBI (now called BPI Globe BanKO, Inc.) into the country's first mobile microfinance bank. The bank's initial focus will be on wholesale lending to other microfinance institutions but will eventually expand to include retail lending, deposit-taking, and micro-insurance. BPI Globe BanKO opened its first branch in Metro Manila in the first quarter of 2011 and now has 6 branches nationwide, over 2,000 partner outlets, 261,000 customers and over ₱2.4 billion in its wholesale loan portfolio.

On March 2012, Globe launched Kickstart Ventures, Inc. (Kickstart) to help, support and develop the dynamic and growing community of technopreneurs in the Philippines. Kickstart is a business incubator that is focused on providing aspiring technopreneurs with the efficient environment and the necessary mechanisms to start their own business. Since its launch, Kickstart has 10 companies in its portfolio covering the digital media and technology, and web/mobile platform space.

In October 2013, following the court's approval of the Amended Rehabilitation Plan (jointly filed by Globe and Bayantel in May 2013), Globe acquired a 38% interest in Bayantel by converting Bayantel's unsustainable debt into common shares. This follows Globe's successful tender offer for close to 97% of Bayantel's outstanding indebtedness as of December 2012. As part of the amended rehab plan and pending regulatory approvals, Globe would further convert a portion of its sustainable debt into common shares of Bayantel, bringing up its stake to around 56%. On October 2014, Globe Telecom received a copy of the temporary restraining order (TRO) issued by the Court of Appeals (CA) stopping the National Telecommunications Commission's (NTC) proceedings in connection with the bid of Globe Telecom Inc. to take over Bayan Telecommunications Inc. (Bayantel). Despite the lapse of the Temporary Restraining Order (TRO) last December 9, 2014, the Court of Appeals has advised the NTC to refrain from conducting any proceedings in connection with the bid of Globe assume majority control of Bayantel.

On June 3, 2014, Globe signed an agreement with Azalea Technology, Inc. and SCS Computer Systems, acquiring the entire ownership stake in Asticom. a systems integrator and information technology services provider to domestic and international markets.

On July 20, 2015, Globe Telecom, Inc. ("Globe") has agreed to purchase from Bayan Telecommunications Holdings, Corporation ("BTHC') and Lopez Holdings, Corporation ("LHC") all the equity in the capital stock of Bayan Telecommunications, Inc. ("Bayan") that is held by BTHC and LHC. The transaction involved up to 70,763,707 Bayan shares and increased Globe's equity interests in Bayan from 56.87% to 98.57% of outstanding capital stock.

On November 12, 2015, Globe received the resolution from the rehabilitation court granting its motion for the termination of the rehabilitation proceedings involving Bayan. The resolution sets a key milestone for Bayan, wherein it successfully exits rehabilitation and provides key steps for Globe to continue to unlock opportunities for synergies with Bayan.

Globe Telecom, Inc. (Globe), Ayala Corporation (AC) and Bank of the Philippine Islands (BPI) signed an agreement on August 27, 2015 to turn over full ownership of BPI Globe BanKO (BanKO) to BPI, one

of the majority owners of the joint venture. Despite the change in shareholder structure, BanKO will continue to provide broader and more competitive access to funds and critical financial services to the underbanked. Globe and AC sold their respective 40% and 20% stakes in BanKO to BPI, which already owned 40% of BanKO.

Xurpas Inc. signed an agreement with Globe Telecom on September 1, 2015, investing Php900 Million for a 51% equity stake in Yondu Inc. The investment solidifies the Globe and Xurpas partnership in the internet and digital space and will transform Yondu into a regional arm for digital content distribution and other technology driven services. The strategic alliance of Globe and Xurpas in Yondu bolsters Globe's track record of partnering with leading digital players to strengthen its position as the purveyor of the Filipino digital lifestyle.

On September 1, 2015, Yondu Inc. and GCVHI entered into a Deed of Assignment to assign the former's interest in Global Telehealth, Inc. ("GTHI") to GCVHI for a total consideration of ₱15 million.

On September 15, 2015, Globe Telecom sold its controlling interest in Yondu for a total consideration of ₱670 million. On the same date, Yondu issued additional 5,000 common shares from its unissued authorized capital stock to a third party which further dilutes Globe Telecom's ownership interest to 49% as of September 2015.

On May 30, 2016, the Board of Directors of Globe, through its Executive Committee, approved the acquisition and signing of a sale and share purchase agreement and other related definitive agreements for the following entities:

- 50% of the issued and outstanding capital stock of Vega Telecom, Inc. ("VTI") from San Miguel Corporation ("SMC") (PSE: SMC);
- 50% of the issued and outstanding capital stock of Bow Arken Holdings Company Inc. ("BAHC"); and,
- 50% of the issued and outstanding capital stock of Brightshare Holdings Corporation ("BHC").

VTI owns an equity stake in Liberty Telecom Holdings, Inc., a publicly listed company in the Philippine Stock Exchange. It also owns, directly and indirectly, equity stakes in various enfranchised companies, including Bell Telecommunication Philippines, Inc., Eastern Telecom Philippines, Inc., Express Telecom, Inc., and Tori Spectrum Telecom, Inc., among others.

The remaining 50% equity stake in VTI, BAHC and BHC was acquired by Philippine Long Distance Telephone Company (PLDT) under similar definitive agreements.

The acquisition provided Globe access to certain frequencies assigned to Bell Tel in the 700 Mhz, 900 Mhz, 1800 Mhz, 2300 Mhz and 2500 Mhz bands through a co-use arrangement approved by the NTC on May 27, 2016. NTC's approval is subject to the fulfilment of certain conditions including roll out of telecom infrastructure covering at least 90% of the cities and municipalities in three years to address the growing demand for broadband infrastructure and internet access.

On June 21, 2016, Globe Telecom exercised its rights as holder of 50% equity interest of VTI to cause VTI to propose the conduct of a tender offer on the common shares of Liberty Telecom Holdings, Inc. (LIB) held by minority shareholders as well as the voluntary delisting of LIB. At the completion of the tender offer and delisting of LIB, VTI's ownership of LIB is at 99.1%.

On August 17, 2018, Globe Telecom incorporated GTowers, Inc., a fully owned subsidiary aimed at the building and deployment of cellular towers in the country. As of December 31, 2019, GTowers is still under pre-operating stage.

On September 11, 2019, the BOD of Globe Telecom approved the acquisition of 51% of the outstanding shares of Yondu, equivalent to 22,950 shares. The acquisition increased Globe Telecom's ownership interest from 49% to 100% and was accounted for as an acquisition of a subsidiary.

On October 25, 2019, Globe Telecom signed and executed an agreement with third parties to complete its transaction to acquire 77% ownership of ECPay.

There was no bankruptcy, receivership or similar proceedings initiated during the past four years.

B. Business Segments

1. Mobile Business

Globe provides digital Mobile communication and internet-on-the-go services nationwide using a fully digital network based on the Global System for Mobile Communication (GSM), 3G, HSPA+, 4G, and LTE technologies. It provides voice, SMS, data and value-added services to its Mobile subscribers through three major brands: *Globe Postpaid, Globe Prepaid and TM (including fully Mobile, internet-on-the-go service).*

Postpaid

Globe Postpaid is the leading brand in the postpaid market, with various plan offerings. Over the years, these plans have evolved in order to cater to the changing needs, lifestyles and demands of its customers.

In order to keep up with these growing demands, Globe once again highlights its portfolio of postpaid plans featuring "*ThePLAN PLUS*" which is the Company's SIM-ONLY Plans, that offers up to 2x larger than life data. With *ThePLAN PLUS* (ranging from Plan 599 to Plan 2999), all customers have to do is bring their own smartphone and get a minimum of 3GB to as much as 61GB of data for more time online. For *ThePLAN PLUS* 599 to 999, customers can enjoy unlimited call to Globe/TM, unlimited text to All-networks, 100 minutes call to All-networks. While for *ThePLAN PLUS* 1299 to 1799 customers can enjoy from 18GB to 31GB data allocation with unlimited call to Globe/TM, unlimited text to All-networks, 200 minutes call to All-networks. *ThePLAN PLUS* 1999 and 2499 customers can enjoy 32GB and 52GB data allocation, respectively, plus unlimited call to Globe/TM, unlimited text to All-networks, 300 minutes call to All-networks. *ThePLAN PLUS* 2999 on the other hand, gives 61GB of data allocation plus unlimited call and texts to All-networks. *ThePLAN PLUS 99*9 and up also includes 1GB allocation of Facebook per month, 6-months free subscription to DisneyLife and Amazon Prime.

"*ThePlan*", the Company's postpaid plan with device likewise ranges from plan 599 to 2999 includes a choice of handset, 24-month FB subscription (with 1GB data allocation per month), free 1-month gadget care and free shipping. While *ThePlan* 999 to 2999 includes an additional free 6 months subscription to DisneyLife and Amazon Prime. *ThePlan599* offers 2GB data allocation and unlimited calls and texts to Globe/TM; *ThePlan799, 999* and *1,299* offers 3GB, 5GB and 8GB data allocation, respectively, plus unlimited calls and texts to Globe/TM and 50 minutes call to All-networks; *ThePlan1499* and *1799* offers 10GB and 15GB data allocation respectively, plus unlimited call and texts to Globe/TM and 100 minutes calls to All-networks; *ThePlan1999* and *2499* offers 16GB and 21GB data allocation respectively, plus unlimited call and texts to Globe/TM and 150 minutes calls to
All-networks; *ThePlan2999* offers 31 data allocation plus unlimited call and texts to Globe/TM and 300 minutes calls to All-networks.

Prepaid

Globe Prepaid and *TM* are the prepaid brands of Globe. *Globe Prepaid* is focused on the mainstream market while *TM* caters to the value-conscious segment of the market. Each brand is positioned at different market segments to address the needs of the subscribers by offering affordable innovative products and services.

Globe Prepaid's GoSakto is a self-service menu that provides its subscribers easy access to avail of the latest promos and services of Globe by simply dialing *143# or through the *GoSakto* Mobile app (available on Android and iOS). This menu also allows the subscribers to build their own promos (call, text and surf promos) that are best suited for their needs and lifestyle. *Globe Prepaid* customers can personalize their call, text and surfing needs for 1 day, 2 days, 3 days, 7 days, 15 days or even for 30 days. They can also select the type and number of call minutes and texts they need and adjust data allocation (in MBs) of Mobile surfing the way they want it.

Globe Prepaid and *TM* subscribers can reload airtime value or credits using various reloading channels including prepaid call and text cards, gcash, bank channels such as ATMs, credit cards, and through internet banking. Subscribers can also top-up via AutoLoad Max retailers nationwide, all at affordable denominations and increments. A consumer-to-consumer top-up facility, Share-A-Load, is also available to enable subscribers to share prepaid load credits via SMS.

Loyalty & Rewards Program

The Globe Rewards Program - "MyRewards MyGlobe" is the Company's way of granting special treats to its active customers for their continued loyal use of Globe's products and services. Awesome rewards

await its loyal customers in exchange for the points earned -- more rewards points mean more wonderful perks. All customers with active Globe/TM SIMs are automatically members of the program. No registration required. Subscribers can:

- *Earn Points* from Prepaid reloads or monthly Postpaid usage.
- *Redeem Rewards* in the form of Mobile promos, bill rebates, gadgets and gift certificates, and more or use the earned points as cash at partner stores. Subscribers have the option to redeem rewards instantly, or accumulate points to avail of higher value rewards. Redeemed points in the form of telecom services is netted out against revenues whereas points redeemed in the form of non-telco services such as gift certificates and other products are reflected as marketing expense. At the end of each period, Globe estimates and records the amount of probable future liability for unredeemed points
- *Enjoy Perks* through special discounts, exclusive treats, and more wonderful surprises

(a) <u>Mobile Voice</u>

Globe's voice services include local, national and international long-distance call services. It has one of the most extensive local calling options designed for multiple calling profiles. In addition to its standard, pay-per-use rates, subscribers can choose from bulk and unlimited voice offerings for all-day, and in several denominations to suit different budgets.

Globe keeps Filipinos connected wherever they may be in the world, through its tie-up with 776 roaming partners in 237 calling destinations worldwide. Globe also offers roaming coverage on-board selected shipping lines and airlines, via satellite. Globe also provides an extensive range of international call and text services to allow OFWs (Overseas Filipino Workers) to stay connected with their friends and families in the Philippines. This includes prepaid reloadable call cards and electronic PINs available in popular OFW destinations worldwide.

(b) <u>Mobile SMS</u>

Globe's Mobile SMS service includes local and international SMS offerings. Globe also offers various bucket and unlimited SMS packages to cater to the different needs and lifestyles of its postpaid and prepaid subscribers.

(c) <u>Mobile Data</u>

Globe's Mobile Data services allow subscribers to access the internet using their internet-capable handsets, devices, laptops with USB modems, a plug-and-play USB modem/Mobile Wifi. Data access can be made using various technologies including LTE, HSPA+, 4G, 3G with HSDPA, EDGE and GPRS or Wi-Fi. The Company spearheaded the shift from unlimited time-based data plans to volume-based consumable plans, geared towards improving the Mobile data experience of its subscribers and ensures the most appropriate pricing of data. Globe and TM subscribers can choose from a variety of GoSurf consumable data plans, ranging from Php15 for 100 MB to Php2,499 for 50 GB per month.

Globe's Value-Added Services offers a full range of downloadable content covering multiple topics including news, information, and entertainment through its web portal. Subscribers can purchase or download music, movie pictures and wallpapers, games, Mobile advertising, applications or watch clips of popular TV shows and documentaries as well as participate in interactive TV, do Mobile chat, and play games, among others. Additionally, Globe subscribers can send and receive Multimedia Messaging Service (MMS) pictures and video, or do local and international video calling.

***2.* Fixed Line and Broadband Business**

Globe offers a full range of fixed line communications services, wired and wireless Broadband access, and end-to-end connectivity solutions customized for consumers, SMEs (Small & Medium Enterprises), large corporations and businesses.

(a) <u>Fixed Line Voice</u>

Globe's fixed line voice services include local, national and international long-distance calling services in postpaid and prepaid packages through its Globelines brand. Subscribers get to enjoy toll-free rates for national long-distance calls with other Globelines subscribers nationwide. Additionally, postpaid fixed line voice consumers enjoy free unlimited dial-up internet from their Globelines subscriptions. Low-MSF (monthly service fee) fixed line voice services bundled with

internet plans are available nationwide and can be customized with value-added services including multi-calling, call waiting and forwarding, special numbers and voice mail. For corporate and enterprise customers, Globe offers voice solutions that include regular and premium conferencing, enhanced voice mail, IP-PBX solutions and domestic or international toll-free services. With the Company's cutting-edge Next Generation Network (NGN), Globe Business Voice solutions offer enterprises a bevy of fully managed traditional and IP-based voice packages that can be customized to their needs.

(b) Corporate Data

Corporate Data services include end-to-end data solutions customized according to the needs of businesses. Globe's product offerings include international and domestic leased line services, wholesale and corporate internet access, data center services and other connectivity solutions tailored to the needs of specific industries.

Globe's international data services provide corporate and enterprise customers with the most diverse international connectivity solutions. Globe's extensive data network allow customers to manage their own virtual private networks, subscribe to wholesale internet access via managed international private leased lines, run various applications, and access other networks with integrated voice services over high-speed, redundant and reliable connections. In addition to bandwidth access from multiple international submarine cable operators, Globe also has two international cable landing stations situated in different locales to ensure redundancy and network resiliency.

The Company's domestic data services include data center solutions such as business continuity and data recovery services, 24x7 monitoring and management, dedicated server hosting, maintenance for application-hosting, managed space and carrier-class facilities for co-location requirements and dedicated hardware from leading partner vendors for off-site deployment. Other Corporate Data services include premium-grade access solutions combining voice, Broadband and video offerings designed to address specific connectivity requirements. These include Broadband Internet Zones (BIZ) for Broadband-to-room internet access for hotels, and Internet Exchange (GiX) services for bandwidth-on-demand access packages based on average usage.

Globe Business knows that success is made up of different elements: effective products, streamlined processes, and reliable manpower, and that is why Globe's business solutions are a fusion of all three. Among the products and solutions are as follows:

- Mobility – Maintain your business momentum with Mobility solutions that increase productivity within and beyond the workplace. With Globe's enterprise mobility solutions, it's easier to build and maintain the business momentum: (1) Postpaid - Leverage on flexible Postpaid plans that suit companies of every scale (2) Enterprise Mobile Management - Gain more control over enterprise Mobile devices while simultaneously maximizing workforce productivity (3) IsatPhone Pro - Take communications to the next level with a satellite phone that lets you call, text, and do more-even from remote places around the globe.
- Voice – Simplify your communications infrastructure with Globe's wide range of cost-efficient Voice Solutions and enjoy the freedom of tailoring the services to fit your business needs. (Globelines; ISDN-PRI; Toll-Free Services; Enhanced Managed Voice Solution (EMVS); Managed IP-PBX; SIP Trunk; Hosted PBX System & Services; Collaboration Solutions).
- Connectivity - Keep your business up to speed with a fast and resilient connection powered by dedicated and reliable technologies (Domestic Data; International Data; Internet Services; Managed Services).
- Cloud - Improve efficiency and agility in the face of evolving business environments while keeping costs low with Globe's range of cloud services: Infrastructure-as-a-Service (IaaS); Backup-as-a-Service (BaaS); Disaster-Recovery-as-a-Service (DRaaS); Amazon Web Services; AWS Direct Connect.
- Data Center - Globe Data Center provides a superior experience that goes beyond technology. Ease your worries on day-to-day operations by outsourcing your data center hosting and management, so you can focus more on your business.
- Cybersecurity - Handle security threats and IT infrastructure cost-effectively. Manage your tasks and functions cost-effectively with Globe Business' Cybersecurity. Gain access to the best-in-class tool sets, hardware, software, and even niche technology experts while only paying for what you need, when you need it.
- Business applications – Choose from a diverse range of solutions to streamline and enhance the business' operations and raise efficiency, productivity, and customer satisfaction (G Suite; Go Canvas, Office 365; Learning Management Solutions, HR Solutions, M2M).

In November 2019, Globe Business, the enterprise arm of Globe, introduces another game-changing solution for Philippine businesses that will enable them with a reliable cloud platform for video and audio conferencing, collaboration, chat, and webinars across mobile devices, desktops, telephones, and room systems. ***Zoom,*** a video first unified communications solution provided by Zoom Video Communications, Inc., is designed to eliminate overlapping communication systems, on-premise hardware, and weak mobile experience. Zoom is able to do all of these things for one reason: Zoom's architecture was built video-first from the ground up, which results in a platform that is highly scalable and globally distributed. By remaining digitally agile, Globe is able to extend the same services to its corporate clients so that they can optimize the way they do business and harness the inevitable digital changes.

(c) <u>Home Broadband</u>

Globe offers wired and fixed wireless Broadband services, across various technologies and connectivity speeds for its residential and business customers. Globe Home Broadband consists of wired or DSL Broadband packages bundled with voice, or Broadband data-only services which are available with download speeds ranging from 1 Mbps up to 15 Mbps. Globe also expanded its Long-Term Evolution (LTE) footprint through LTE @Home offerings, bringing latest internet technology to households and allowing subscribers to surf the internet at ultrafast speeds to watch high-definition videos, downloading and uploading large files, seamless music streaming, and voice-over-internet-protocol (VOIP) calling with clear quality. This LTE service is backed by the largest 4G network in the country deployed by Globe. In June 2019, Globe joined leaders of the global telecommunications industry, by being the first in Southeast Asia to commercially introduce 5G fixed wireless Home Broadband service in the Philippines. This makes use of fixed location wireless radios instead of fiber and could provide fiber-like speeds ranging from 50 Mbps to 100 Mbps.

Home Broadband Plans available are GoUnli and GoBIG Plans. GoUnli is the ultimate unlimited data offering that allows customers to stream video, play music and games without having to worry about lock-up period, data capping, and speed throttling. GoUnli wired plans start at Php1,699 a month, which come with unlimited surfing and streaming up to 5 Mbps. Faster speeds are also available with the following plans: Plan 1899 for speeds up to 10, 15, or 20 Mbps, Plan 2499 for speeds up to 50 Mbps, and Plan 2899 for speeds up to 100 Mbps. To avail of the no-lock up offer, interested parties need only pay for a one-time modem fee of Php2,500 or Php4,500 depending on the chosen plan. Those who choose to discontinue their subscription within the first 15 days will get a 100% refund of their modem fee upon the return of the modem and telephone set provided during installation. For those looking for an option without modem fees, 24-month contract plans are also available. GoBig plans have bigger data allocations at affordable rates alongside fast and reliable speeds. Access to free content apps also remain a major part of the Broadband bundle. For Plan 1299, customers can enjoy 150GB of data allocation per month, with speeds of up 10Mbps. Those who want to stream more can avail of Plan 1699, which has a data allowance of 600GB and speeds of up to 20Mbps; Plan 4499, which has 1.5TB of data and speeds of up to 200Mbps, Plan 6,999, which has 3TB of data with speeds up to 500Mbps or Plan 9499, which has 6TB of data with speeds up to 1Gbps. All Broadband Plans (GoUnli and GoBIG) come with free landline with unlimited calls to Globe and TM for 24 months plus free nine months subscription to DisneyLife, FOX+, HOOQ, Amazon Prime Video, iflix.

Experience reliable prepaid internet that is not just easy to install but also easy on the budget. Globe At Home Prepaid Wifi is an improved WiFi connection, with wide internet coverage, ready-to-use freebie and features. Load, track, and manage your Prepaid WiFi with the Globe At Home App. In addition, Globe Streamwatch Xtreme Prepaid, the world's first all-in-one entertainment device, is likewise available. It is equipped with free clear local live TV channels and serves as an internet TV with over a million videos, shows, and movies. It also boasts of an internet connection that is 2x faster, 2x stronger, with 2x wider coverage than your average pocket WiFi device. Multiple devices can also be connected to Globe Streamwatch Xtreme, so everyone can access all the content they want at the same time.

In June 2019, Globe launched the Globe At Home Air Fiber 5G postpaid plans. The Globe At Home Air Fiber 5G postpaid plans which offer fiber-like speeds up to 100Mbps and super-sized data packages of up to 2 terabytes was initially available in select areas in Pasig, Cavite, and Bulacan. Globe at Home Air Fiber 5G was made available to eligible customers in July 2019. Plans come at Php1,899 per month for up to 20Mbps, Php2,499 for up to 50Mbps and Php2,899 for up to 100Mbps. All plans come with up to 2TB data capacity.

In November, 2019, Globe At Home Prepaid WiFi customers subscribed to *HomeSurf199* and up can enjoy free 1GB of YouTube daily for the duration of the promo subscribed to. Globe At Home

Prepaid *HomeSurf* promos may be availed through the Globe At Home App (downloaded for free via Google Play Store or the App Store).

C. Sales and Distribution

Globe has various sales and distribution channels to address the diverse needs of its subscribers.

1. Independent Dealers

Globe utilizes a number of independent dealers throughout the Philippines to sell and distribute its prepaid wireless services. This includes major distributors of wireless phone handsets who usually have their own retail networks, direct sales force, and sub-dealers Dealers are compensated based on the type, volume and value of reload made in a given period. This takes the form of fixed discounts for prepaid airtime cards and SIM packs, and discounted selling price for phonekits. Additionally, Globe also relies on its distribution network of over 1.2 million *AutoloadMax* retailers nationwide who offer prepaid reloading services to *Globe* and *TM* subscribers.

2. Globe Stores

As of December 31, 2019, the Company has a total of 214 Globe Stores all over the country where customers are able to inquire and subscribe to wireless, broadband and fixed line services, reload prepaid credits, make *GCASH* transactions, purchase handsets and accessories, request for handset repairs, try out communications devices, and pay bills. The Globe Stores are also registered with the Bangko Sentral ng Pilipinas (BSP) as remittance outlets.

In line with the Company's thrust to become a more customer-focused and service-driven organization, Globe departed from the traditional store concept which is transactional in nature and launched the redesigned Globe Store which carries a seamless, semi-circular, two-section design layout that allows anyone to easily browse around the product display as well as request for after sales support. It boasts of a wide array of mobile phones that the customers can feel, touch and test. There are also laptops with high speed internet broadband connections for everyone to try. The Globe store has an Express Section for fast transactions such as modification of account information and subscription plans; a Full-Service Section for more complex transactions and opening of new accounts; and a Cashier Section for bill payments. The store also has a self-help area where customers can, among others, print a copy of their bill, and use interactive touch screens for easy access to information about the different mobile phones and Globe products and services. Globe stores also include NegoStore areas, which serve as additional sales channels for current and prospective Globe customers. Moreover, select stores also have 'Tech Coaches' or device experts that can help customers with their concerns on their smartphones. The Company opened the first concept store in Greenbelt 4 in 2010 and accelerated its roll-out throughout 2011, averaging 4-5 new stores a month.

In 2012, Globe introduced other store formats in response to the need for more customer service channels to accommodate more subscribers availing of Globe postpaid, prepaid and internet services. The new store formats - the premium dealership store, pop-up store, microstore, kiosk, and store-on-the-go – were carefully designed based on demographics, lifestyle and shopping behaviors of its customers, each providing a different retail mix and experience to subscribers.

In 2013, Globe opened 50 concept stores and will open more concept stores in the country as part of its commitment to a wonderful customer service experience.

In 2014, Globe simultaneously unveiled its Generation 3 flagship stores in SM North EDSA, Quezon City, Manila and in Limketkai Mall, Cagayan de Oro. Designed by Tim Kobe, the founder and CEO of Eight, Inc. and designer of Apple Stores, the Globe Gen3 stores features reconfigurable and interactive elements, all designed to empower the growing digital lifestyle of customers. The stores feature four lifestyle zones – music, entertainment, productivity, and life – each with their own interactive kiosks.

Continuing with its journey of transforming customer experience, Globe opened two more Gen3 stores in 2015. On July 2015, Globe opened its third Gen3 store in Ayala Center, Cebu and on August 2015, opened its fourth Gen3 and first two-storey store in Greenbelt, Makati.

In 2016, Globe opened its Flagship ICONIC store in Bonifacio Global City Central Square Taguig. Designed by Tim Kobe of Eight Inc., the same designer of the Globe GEN3 stores, the Globe ICONIC store is the first all-in-one retail and entertainment space and was launched in two phases. Phase 1 was completed in the June 2016 and featured the entertainment space that will house shows, concerts, and a variety of on-ground events and activities. Phase 2, completed in December 2016 features the

complete Globe ICONIC Store with a glass bridge that links two Globe stores from opposite sides of the BGC Central Square.

3. Customer Facing Units

To better serve the various needs of its customers, Globe is organized along two key customer facing units (CFUs) tasked to focus on the integrated mobile, Fixed Line and international voice and roaming needs of specific market segments. The Company has a Consumer CFU with dedicated marketing and sales groups to address the needs of retail customers, and a Business CFU (Globe Business) focused on the needs of big and small businesses. Globe Business provides end-to-end mobile and Fixed Line solutions and is equipped with its own technical and customer relationship teams to serve the requirements of its client base. Globe Business also caters to the international voice and roaming needs of overseas Filipinos, whether transient or permanent. Moreover, it is tasked to grow the Company's international revenues by leveraging on Globe's product portfolio and developing and capitalizing on regional and global opportunities.

4. Others

Globe also distributes its prepaid products SIM packs, prepaid call cards and credits through consumer distribution channels such as convenience stores, gas stations, drugstores and bookstores.

D. Operating Revenues

Gross Operating Revenues by Business Segment	**Year Ended December 31**			
(in Php Mn)	**2019**	**% of total**	**2018**	**% of total**
Service Revenues				
Mobile*……………………………………………	**111,767**	**67%**	**99,530**	**66%**
Voice[1]…………………………………………..	24,276	15%	28,408	19%
SMS[2]……………………………………………	15,690	9%	20,162	13%
Data[3]……………………………………………	71,801	43%	50,961	34%
Fixed Line and Home Broadband…………**	**37,243**	**22%**	**33,345**	**22%**
Home Broadband[4]……………………………	21,747	13%	18,606	12%
Corporate Data[5]………………………………	12,828	8%	11,762	8%
Fixed Line Voice[6]……………………..……...	2,668	1%	2,977	2%
Service Revenues…….…...…………………..	**149,010**	**89%**	**132,875**	**88%**
Non Service Revenues………………………..	**17,650**	**11%**	**18,297**	**12%**
Operating Revenues………………………….	**166,660**	**100%**	**151,172**	**100%**

*Mobile business includes mobile and fully mobile broadband
**Home Broadband includes fixed wireless and wired broadband

[1] Mobile voice service revenues include the following:
a) Prorated monthly service fees on consumable minutes of postpaid plans;
b) Subscription fees on unlimited and bucket voice promotions including the expiration of the unused value of denomination loaded;
c) Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments, or CERA, net of loyalty discounts credited to subscriber billings; and
d) Airtime fees for intra network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs between 3 and 120 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts; and revenues generated from inbound international and national long distance calls and international roaming calls; and
e) Mobile service revenues of GTI.

Revenues from (a) to (d) are reduced by any payouts to content providers.

[2] Mobile SMS revenues consist of local and international revenues from value-added services such as inbound and outbound SMS and MMS, infotext, and subscription fees on unlimited and bucket prepaid SMS services, net of any interconnection or settlement payouts to international and local carriers and content providers.

[3] Mobile data service revenues consist of revenues from mobile internet browsing and content downloading, mobile commerce services, other add-on value added services (VAS), and service revenues of GXI and Yondu, net of any interconnection or settlement payouts to international and local carriers and content providers, except where Globe is acting as principal to the contract where revenues are presented at gross billed to subscriber and settlement pay-out are classified as part of costs and expenses. Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison.

[4] Home broadband service revenues consist of the following:
a) Monthly service fees of wired, fixed wireless, and bundled voice and data subscriptions;

b) Browsing revenues from all postpaid and prepaid wired and fixed wireless broadband packages in excess of allocated free browsing minutes and expiration of unused value of prepaid load credits;
c) Value-added services such as games; and
d) Installation charges and other one-time fees associated with the service.
e) Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison. Licensors' fees will be reflected as part of maintenance expense.

[5] Corporate data (previously called Fixed line data) service revenues consist of the following:
a) Monthly service fees from international and domestic leased lines;
b) Other wholesale transport services;
c) Revenues from value-added services; and
d) One-time connection charges associated with the establishment of service.

[6] Fixed Line voice service revenues consist of the following:
a) Monthly service fees;
b) Revenues from local, international and national long distance calls made by postpaid, prepaid fixed line voice subscribers and payphone customers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid and payphone call card discounts;
c) Revenues from inbound local, international and national long distance calls from other carriers terminating on Globe's network;
d) Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features;
e) Installation charges and other one-time fees associated with the establishment of the service; and
f) Revenues from DUO and SUPERDUO (fixed line portion) services consisting of monthly service fees for postpaid and subscription fees for prepaid subscribers.

Globe's mobile business contributed ₱111.8 billion in 2019 accounting for 67% of total operating revenues, 12% higher than last year's level of ₱99.5 billion. Mobile voice service revenues amounted to ₱24.3 billion in 2019, contributing 15% of operating revenues. Mobile SMS service revenues contributed ₱15.7 billion in 2019 or 9% of operating revenues. Mobile data posted strong revenue growth compared to last year's level and contributed ₱71.8 billion in 2019, 43% of operating revenues.

Accounting for 22% of total operating revenues, Globe's fixed line and broadband business grew 12%, registering ₱37.2 billion in 2019, compared to ₱33.3 billion in 2018. Home broadband contributed revenues of ₱21.7 billion, or 13% of operating revenues. Corporate data contributed 8%, at ₱12.8 billion and fixed line voice contributed 1% at ₱2.7 billion.

E. Competition

1. Industry, Competitors and Methods of Competition

(a) Mobile Market

The Philippine mobile market has a total industry SIM base of more than 167 million with an industry penetration rate of 152% as of December 31, 2019. With the growing penchant of Filipinos for smartphones, the mobile data business in the Philippines presents more opportunities for revenue growth. Mobile data usage of both prepaid and postpaid subscribers continues to be a promising market with fast-paced growth.

The Philippine government liberalized the communications industry in 1993, after a framework was developed to promote competition in the industry and accelerate the development of the telecommunications market. Ten (10) operators were granted licenses to provide CMTS services – Globe, Innove (previously Isla Communications, Inc. or "Islacom"), Bayan Telecommunications, Inc. ("Bayantel"), Connectivity Unlimited Resources Enterprises ("CURE"), Digitel Telecommunications Philippines, Inc. ("Digitel"), Express Telecom ("Extelcom"), MultiMedia Telephony, Inc., Next Mobile ("NEXTEL"), Pilipino Telephone Corporation ("Piltel") and Smart Communications, Inc. ("Smart"). Nine of the ten operators continued on to operate commercially except for Bayantel, which have yet to roll out their CMTS services commercially.

When Sun Cellular, Digitel's mobile brand, entered the market in 2003, it introduced to the market value-based unlimited call and text propositions, allowing it to build subscriber scale over time. With the market's preference for these value-based unlimited and bulk call and text services, Globe and Smart responded by creating a new set of value propositions for their subscribers. Today, with the high level of mobile penetration, driven by the prevalence of multi-SIMming (i.e., individuals having two SIMs), the competition in the mobile market remains intense, albeit in a more rational environment.

	Mobile Subscribers (Mn)	Penetration Rates (%)	Growth Rate
1998	1.62	2.5	43%
1999	2.68	3.8	65%
2000	5.26	8.6	96%
2001	10.53	14.2	100%
2002	15.17	19.0	44%
2003	22.31	27.3	47%
2004	32.87	39.4	47%
2005	34.61	40.6	5%
2006	42.04	48.3	21%
2007	54.86	61.2	30%
2008	68.03	74.6	24%
2009	75.43*	82.3	11%
2010	86.15*	93.0	14%
2011	93.74*	98.7	9%
2012	102.99*	106.4	10%
2013	108.52*	110.0	5%
2014	113.89*	116.0	5%
2015	124.79	115.2	3%
2016[1]	125.56	120.4	1%
2017[2]	118.98	111.9	-5%
2018[3]	134.59	124.3	13%
2019	167.32	151.8	24%

** Estimated end of year figures.*
Source: National Telecommunications Commission (Statistical Data 2007), publicly available information and Company estimates
[1] Starting 2016, nomadic subscribers are included in mobile subscribers (previously reported under broadband subscribers)
[2] In 2017, the industry has excluded in their reporting the prepaid subscribers who do not reload within 90 days of the second expiry period, versus the previous cut-off of 120 days
[3] In 2018, under Joint Memorandum Circular No. 05-12-2017, all prepaid load now carries a one-year expiration period

Since 2000, the mobile communications industry has experienced a number of consolidations and ushered in new entrants, namely:

- In 2000, Philippine Long Distance and Telephone Company ("PLDT") acquired and consolidated Smart and Piltel, complementing the former's fixed line businesses with the latter's wireless businesses. Subsequently in 2008, PLDT, through Smart, purchased CURE, one of the four recipients of 3G licenses awarded by the NTC, and has since launched another wireless brand in the market in Red Mobile, further heightening competition in the market at that time.

  In October 2011, PLDT also acquired 99.4% of the outstanding common stock of Digitel, which owns the Sun Cellular brand, thereby allowing it to control over two-thirds of the industry subscribers. As a condition of PLDT's acquisition of Digitel, PLDT returned to the NTC the 3G license in CURE, which is expected to be re-auctioned in the near-term.

- In 2008, San Miguel Corporation ("SMC"), partnering with Qatar Telecom, bought interests in Liberty Telecom Holdings, Inc. ("Liberty") and announced plans to enter the mobile and broadband businesses.

  In 2010, SMC acquired 100% stake in Bell Telecommunication Philippines, Inc. ("BellTel"), after acquiring shares in three companies that own the shares of BellTel. Also in 2010, SMC purchased a 40% stake in Eastern Telecommunications Philippines, Inc. ("ETPI") to expand its telecommunications services. SMC subsequently gained a majority stake of ETPI in 2011. It now owns 77.7% of the telecommunications company.

  In 2012, NTC has granted BellTel, San Miguel Corporation's mobile telephony arm, an extension to its operating license to provide cellular mobile telephone system (CMTS) service in the country for another three years.

- In 2001, Globe acquired Islacom (now Innove). Globe, likewise, acquired approximately 96.5% of the total debt of Bayantel, in December 2012. On October 2013, Globe converted a portion of the debt it holds in Bayantel into a 38% interest in the latter, based on the Amended Rehabilitation Plan approved by the Rehabilitation Court in August of the same year. Upon obtaining relevant and regulatory approvals, Globe would further convert debt into a total 56.6% share of the common stock of Bayantel.

- In May 2013, ABS-CBN Convergence, Inc. (“ABS-C”, formerly Multimedia Telephony, Inc.) announced the launch of its mobile brand, ABS-CBN Mobile. The launch of the new mobile brand was being supported through a network sharing agreement with Globe, wherein the latter provides network capacity and coverage to ABS-C on a nationwide basis. ABS-C formally launched the brand in November 26, 2013. On November 30, 2018, ABS-C discontinued its mobile phone services business and terminated the mobile network sharing arrangement with Globe Telecom.

- In November 2015, Cherry Mobile, a leading mobile phone company in the Philippines, entered into a co-branding partnership with Globe to launch the Cherry Prepaid SIM that also comes bundled with a Cherry Mobile phone. The Cherry Prepaid SIM will operate through a network sharing agreement with Globe, similar to ABS-CBN-Mobile.

- In November 2018, the Department of Information and Communications Technology (DICT) and the National Telecommunications Commission (NTC) declared Mislatel a new major telco player, a consortium composed of Mindanao Islamic Telephone Inc., Udenna Corporation, Chelsea Logistics Holdings, and China Telecom. As of reporting date, the new major player has not begun operations.

Today, only the PLDT Group and the Globe Group have built significant bases of mobile subscribers.

(b) <u>Fixed Line Market</u>

Fixed Line Voice

The number of lines in service in the fixed line voice market is estimated at 4.17 million lines as of December 31, 2019 with PLDT’s subscriber market share at 66% and Globe subscriber market share at 34%.

The fixed line voice market is currently in decline as the country continues to shift towards alternative communication solutions like VoIP and chat messaging applications.

Corporate Data

The fixed line data business is a growing segment of the fixed line industry. As the Philippine economy grows, businesses are increasingly utilizing new networking technologies and the internet for critical business needs such as sales and marketing, intercompany communications, database management and data storage. The expansion of the local IT Enabled Service (ITES) industry which includes call centers and Business Process Outsourcing (BPO) companies has also helped drive the growth of the corporate data business.

Dedicated business units have been created and organized within the Company to focus on the mobile and fixed line needs of specific market segments and customers – be they residential subscribers, wholesalers and other large corporate clients or smaller scale industries. This structure has also been driven by Globe’s corporate clients’ preferences for integrated mobile and fixed line communications solutions.

(c) <u>Home Broadband Market</u>

Home broadband continues to be a major growth area for the local telecom industry. Industry home broadband subscribers is now at 4.18 million, growing 15% versus 2018. Globe’s subscriber market share stands at 48% as of December 31, 2019, up from 44% a year ago. The aggressive network roll-out of the various operators, the wider availability of affordable prepaid broadband packages, as well as lower PC and tablet prices were the main drivers of subscriber growth. Operators used both wired and wireless technologies to serve the growing demand for internet connectivity.

While household penetration rates remains low, competition continues to intensify as telecom operators aim to capture the market by accelerating the rollout of broadband network to provide subscribers with faster internet connection and introducing more affordable and bundled offerings.

2. Principal Competitive Strengths of the Company

(a) Market Leadership Position

Globe is a major provider of telecommunications services in the Philippines. It is a strong player in the market and operates one of the largest and most technologically-advanced mobile, fixed line and broadband networks in the country, providing reliable, superior communications services to individual customers, small and medium-sized businesses, and corporate and enterprise clients. Globe's distinct competitive strengths include its technologically advanced mobile, fixed line and broadband network, a substantial subscriber base, high quality customer service, a well-established brand identity and a solid track record in the industry.

(b) Strong Brand Identity

The Company has some of the best-recognized brands in the Philippines. This strong brand recognition is a critical advantage in securing and growing market share, and significantly enhances Globe's ability to cross-sell and push other product and service offerings in the market.

(c) Financial Strength and Prudent Leverage Policies

Globe's financial position remains strong with ample liquidity, and gearing comfortably within bank covenants. At the end of 2019, Globe had total interest bearing debt of ₱136.3 billion representing 63% of total book capitalization. As of December 31, 2019, consolidated gross debt to equity ratio is at 1.68x, well within the 3:1 debt to equity limit. Additionally, debt to EBITDA is also well within the 3.5:1 covenant level, currently at 1.86x. Approximately 84% of its debt is in pesos while the balance of 16% is denominated in US dollars. Expected US dollar inflows from the business offset any unhedged US dollar liabilities, helping insulate Globe's balance sheet from any volatilities in the foreign exchange markets.

Globe intends to maintain its strong financial position through prudent fiscal practices including close monitoring of its operating expenses and capital expenditures, debt position, investments, and currency exposures.

(d) Proven Management Team

Globe has a strong management team with the proven ability to execute on its business plan and achieve positive results. With its continued expansion, it has been able to attract and retain senior managers from the telecommunications, consumer products and finance industries with experience in managing large scale and complex operations.

(e) Strong Shareholder Support

The Company's principal shareholders are Ayala Corporation (AC) and Singapore Telecom (STI), both industry leaders in the country and in the region. Apart from providing financial support, this partnership has created various synergies and has enabled the sharing of best practices in the areas of purchasing, technical operations, and marketing, among others.

F. Suppliers

Globe works with both local and foreign suppliers and contractors. Equipment and technology required to render telecommunications services are mainly sourced from foreign countries. Its principal suppliers, among others, are as follows:

The Company's suppliers of mobile equipment include Huawei Technologies Co., Ltd. (China) and Nokia Corporation (Finland); and for transmission and IP equipment, Company has partnered with Huawei Technologies Co., Ltd, (China), Nokia Corporation (Finland), NEC (Japan), ECI Telecom, Ltd. (Israel), Aviat Networks (USA), and Coriant (USA, recently acquired by Infinera (USA). For providing cell site backhaul via Very Small Aperture Terminal (VSAT), Globe partnered with Gilat Satellite Networks, Inc. (Israel). In 2019, Globe also partnered with IP Access Inc, (UK) for small cell access solutions for residential and enterprise.

For Fixed Line and Fixed Broadband Service, Globe's principal equipment suppliers include Huawei Technologies Co., Ltd. (China), FiberHome Telecom Tech (China), Nokia Corporation (Finland), Juniper Networks (USA), ZTE Corporation, and Tellabs (USA/Singapore).

For WiFi service, Company partnered with Aruba Networks (USA) and Ruckus Networks (USA).

For Network Management and Operational Support Systems, Globe's primary solution provider includes IBM (USA), Mycom OSI (United Kingdom), Incognito (Canada), Netcracker (USA), Radcom (Israel) among others.

For the Company's IT systems and infrastructure, Globe also engaged Amdocs for continuous enhancement of its Services and Operations. Amdocs Intelligent Operations will assist Globe in managing third-party systems and cloud management solutions. This includes modernizing and running IT operations for multiple lines of businesses, including prepaid and postpaid mobile services, fixed-line broadband, and enterprise services.

G. Customers

Globe has a large subscriber base across the country. The Company ended 2019 with 94.2 million mobile subscribers, comprised of 2.7 million postpaid and 91.5 million prepaid subscribers. Meanwhile, Globe has over 2.0 million home broadband customers and around 1.4 million fixed line voice subscribers.

No single customer and contract accounted for more than 20% of the Company's total sales in 2019.

H. Licenses, Patents, and Trademarks

1. Licenses

Globe currently holds the following major licenses:

Service	Type of License	Date Issued or Last Extended	Expiration Date
Globe			
Wireless	CPCN [(1)]	July 22, 2002	December 24, 2030
Local Exchange Carrier	CPCN [(1)]	July 22, 2002	December 24, 2030
International Long Distance	CPCN [(1)]	July 22, 2002	December 24, 2030
Interexchange Carrier	CPCN [(1)]	February 14, 2003	December 24, 2030
VSAT	CPCN [(1)]	February 6, 1996	February 6, 2021
International Cable Landing Station & Submarine Cable System (Nasugbu, Batangas)	CPCN [(1)]	October 19, 2007	December 24, 2030
International Cable Landing Station & Submarine Cable System (Ballesteros, Cagayan)	CPCN [(1)]	June 29, 2010	December 24, 2030

Innove	Type of License	Date Issued or Last Extended	Expiration Date
Wireless	CPCN [(1)]	December 14, 2018	January 29, 2044
Local Fixed line	CPCN [(1)]	December 14, 2018	January 29, 2044
International Long Distance	CPCN [(1)]	December 14, 2018	January 29, 2044
Interexchange Carrier	CPCN [(1)]	December 14, 2018	January 29, 2044

Bayantel	Type of License	Date Issued or Last Extended	Expiration Date
Local Exchange Carrier *(a) Quezon City, Malabon & Valenzuela, all in M.M., Albay, Camarines Norte, Camarines Sur, Catanduanes, Sorsogon & Masbate, all in Bicol Region*	CPCN [(1)]	(a) July 9, 1999	(a) July 8, 2024
(b) Manila, Caloocan, Navotas	CPCN [(1)]	(b) May 3, 2007	(b) August 9, 2021
(c) Tacloban City, Tanauan and Palo, Leyte & Sogod, Southern Leyte	CPCN [(1)]	(c) March 16, 2004	(c) March 15, 2029

(d) Leyte (Abuyog, Baybay, Burauen, Carigara, Dulag, Hilongos, Isabel, Palompon & Hilaga) Eastern Samar (Guiuan & Borongan) Western Samar (Catbalogan & Basey) Southern Leyte (Maasin)	CPCN [1]	(d) March 18, 2008	(d) August 9, 2021
(e) Antique, Iloilo, Bohol, Bukidnon, Misamis Occidental, Misamis, Zamboanga del Sur, Davao del Norte, Davao del Sur, Davao Oriental, Saranggani, South Cotabato and Surigao del Sur	PA	(e) March 9, 1998	(e) July 25, 2006 [2]
(f) Aklan, Capiz (including Roxas City), Guimaras, Negros Occidental (including cities of Bacolod and Bago), Negros Oriental (including Dumaguete City), Cebu (including cities of Cebu, Lapu-Lapu and Mandaue), Zamboanga del Norte, Surigao del Norte (including Surigao City), Tagbilaran City, Cagayan de Oro City and Tagum City	PA	(f) November 18, 2004	(f) May 1, 2006 [2]
(g) Butuan City, Agusan del Norte & Agusan del Sur	PA	(g) December 14, 1998	(g) June 14, 2005 [2]
VSAT	CPCN [1]	January 11, 2001	January 10, 2026
International Gateway Facility	CPCN [1]	April 19, 1996	April 18, 2021
Trunked Mobile Radio System	CPCN [1]	April 2, 1998	April 1, 2023
Domestic Data and Voice Communications	CPCN [1]	April 10, 2008	August 9, 2021

[1]*Certificate of Public Convenience and Necessity. The term of a CPCN is co-terminus with the franchise term.*
[2] *Motion for Extension of PA still pending with the NTC. No roll-out to justify the PA extension*

In July 2002, the NTC issued CPCNs to Globe and Innove which allow the Company to operate respective services for a term co-terminus with the congressional franchise under RA 7229 (Globe) and RA 11151 (amending RA 7372; Innove). Globe was granted permanent licenses after having demonstrated legal, financial and technical capabilities in operating and maintaining wireless telecommunications systems, local exchange carrier services and international gateway facilities. Additionally, Globe and Innove have exceeded the 80% minimum roll-out compliance requirement for coverage of all provincial capitals, including all chartered cities within a period of seven years.

2. Trademarks

Globe has the following registered trademarks in the Philippines: Globe, Globe Life Device, #LevelUpPH, #Next Level Ka Tournament, 0917, Area 917, EasyShare, EasyExtend, GG30, GG50, Globe At Home, Globe At Home Air Fiber 5G, Globe At Home Streamfest, Globe Broadband, Globe Connected Home, Globe Home Broadband, Globe MyBusiness, Globe Prism, Globe Rewards, Globe Streamwatch, Good Games, Load Up, Midnight Surf, Points Battle, Sagad Surf, Sunkissed Boracay, Supersurf, Tattoo, Tattoo Home Broadband, Tattoo@Home, and Ticket Hub. Globe also applied for the following trademarks: 917V, 917 Ventures, Elements Music Camp, Globe At Home Air, Globe at Home Air Fiber, Globe at Home Prepaid Wifi, Gomo, K-mmunity Ph, Schoor, Secret Surf, and Sulit Surf.

Globe and Saga Events, Inc. own the registered trademark “Stylefestph”.

Further, Globe also applied and registered the following brand names: Globe Telecom (Australia, Taiwan, Japan, Singapore, Macau, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania,

Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Korea, Canada, China, Saudi Arabia), Globe and Globe Life Device (Hong Kong, Taiwan, Singapore, Japan, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Macau, Qatar, UAE, USA, Saudi Arabia), Globe GCash (Singapore, Hong Kong, United Kingdom, Taiwan, Japan, Macau, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Qatar, Korea, UAE, Saudi Arabia, New Zealand, Ireland, Lebanon, Denmark, Sweden, Switzerland, Israel), Globe Kababayan (Singapore, Hong Kong, Taiwan, United Kingdom, Australia, Japan, Macau, USA, Saudi Arabia, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Malaysia, UAE, Italy, Korea, Taiwan), Globe Autoload Max (Norway, Singapore, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Japan, Hong Kong), Globe M-Commerce Hub (Taiwan, Singapore, Korea, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Australia, Macau, Qatar, Malaysia), Muzta, and Smiley With Salakot Device (Japan, UK, Australia, Kuwait, USA, Saudi Arabia, Bahrain, UAE), Smiley with Salakot (Japan, United Kingdom, Australia, USA, Saudi Arabia, Bahrain, UAE), and Muzta (Bahrain, UAE, Canada, Qatar, Saudi Arabia, UAE), GCash Remit and Logo (Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden. Lebanon, Japan, Switzerland, Macau, Hong Kong, Taiwan, New Zealand, China, Japan, Israel), GCash Express and Logo (Hong Kong, Singapore, Taiwan, Malaysia), Globe Load (Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Macau).

Globe subsidiaries and affiliates have applied/registered their respective marks with the Intellectual Property Office, namely:

a) Innove Communications, Inc. has registered the mark @Free, GoWifi, GoWifi Auto and EasySurf.

b) GXchange has the following registered trademarks GCash, GCash Remit, G-Xchange and PowerPay+. It has pending trademark applications for Cash In, GCash QR, GCash Mo na Yan! and GScore.

c) Globe Fintech Innovations, Inc. has the following registered trademarks: GPay and A Fresh Look at Money.

d) Fuse Lending, Inc. has the following registered marks Fuse, Fuse and Logo, First Loan for Everyone, Power Payday Advance, Go Loan, Spark Loan, Instaloan, and Fuse Business Loan

3. Patents

Gxchange, Inc. and UTIBA Pty Ltd. have registered the following patents in the Philippines:

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones;
2. A Method of Converting Cash into Virtual Cash and Loading it to Mobile Phone Cash Account;
3. A Method of Cashless, Cardless Purchase Transaction Using Mobile Phones; and
4. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account.

Gxchange, Inc. and UTIBA Pty Ltd. have likewise registered the following patents in the United States:

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones; and
2. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account

Gxchange, Inc. and UTIBA Pty Ltd. have likewise filed the following patent applications in Indonesia, Singapore and Europe.

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones;
2. A Method of Converting Cash into Virtual Cash and Loading it to Mobile Phone Cash Account;

3. A Method of Cashless, Cardless Purchase Transaction Using Mobile Phones; and
4. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account.

Globe has applied the patent for "Systems and/or Methods for Authorizing and Facilitating Third-Party Withdrawals or Payment" with the Intellectual Property Office.

I. Government approvals/regulations

The Globe Group is regulated by the NTC under the provisions of the Public Service Act (CA 146), Executive Order (EO) 59, EO 109, and RA 7925. Under these laws, Globe is required to do the following:

a) To secure a CPCN/PA from the NTC for those services it offers which are deemed regulated services, as well as for those rates which are still deemed regulated, under RA 7925.

b) To observe the regulations of the NTC on interconnection of public telecommunications networks.

c) To observe (and has complied with) the provisions of EO 109 and RA 7925 which impose an obligation to rollout 700,000 fixed lines as a condition to the grant of its provisional authorities for the cellular and international gateway services.

d) Globe remains under the supervision of the NTC for other matters stated in CA 146 and RA 7925 and pays annual supervision fees and permit fees to the NTC.

On October 19, 2007, the NTC granted Globe a CPCN to operate and maintain an International Cable Landing Station and submarine cable system in Nasugbu, Batangas.

On May 19, 2008, Globe Telecom, Inc. announced that the National Telecommunications Commission (NTC) has approved the assignment by its wholly-owned subsidiary Innove Communications (Innove) of its Touch Mobile (*TM*) consumer prepaid subscriber contracts in favor of Globe. Globe would be managing all migrated consumer mobile subscribers of *TM*, in addition to existing Globe subscribers in its integrated cellular network.

On September 11, 2008, the NTC granted Globe a CPCN to operate and maintain an International Cable Landing Station in Ballesteros, Cagayan Province.

J. Research and Development

Globe incurred market research costs amounting to ₱163 million in 2019, 21% higher versus 2018 spend.

K. Compliance with Environmental Laws

The Globe Group complies with the Environmental Impact Statement ('EIS') system of the Department of Environment and Natural Resources ('DENR') and pays nominal filing fees required for the submission of applications for Environmental Clearance Certificates ('ECC') or Certificates of Non-Coverage ('CNC') for its cell sites and certain other facilities, as well as miscellaneous expenses incurred in the preparation of applications and the related environmental impact studies. The Globe Group does not consider these amounts material.

Globe has not **been subject to any significant legal or regulatory action regarding non-compliance to relevant environmental regulations.**

L. Employees

The Globe Group has 8,048 active regular employees as of December 31, 2019, of which 4% or 299 are covered by a Collective Bargaining Agreement (CBA) through the Globe Telecom Employee's Union (GTEU).

Breakdown of employees by main category of activity from 2017 to 2019 are as follows:

Employee Type	2019	2018	2017
Rank & File, CBU	2,191	2,791	2,527

Supervisory	3,497	2,760	2,605
Managerial	1,839	1,698	1,598
Executives	521	480	476
Total	**8,048**	**7,729**	**7,206**

In conformance with the Department of Labor and Employment's (DOLE) Collective Bargaining Agreement (CBA), the Globe Telecom Employees Union-Federation of Free Workers (GTEU-FFW) remains active to pledge the right of every Ka-Globe to form a collective bargaining unit. All employees are allowed to participate in CBA and through GTEU-FFW, everyone is informed and made aware of the mandates.

Globe has a long-standing, healthy, and constructive relationship with the GTEU characterized by healthy and constructive discussions and industrial peace. Both have shared goals such as enhancing productivity levels and ensuring consistent quality of service to customers across various segments.

Globe and GTEU-FFW renewed their collective bargaining agreement for another 5 years, beginning 2016. This is a testament to the strong partnership built between them and the alignment in their advocacies.

M. Risk Factors

The achievement of Globe's key business objectives can be affected by a wide array of risk factors. Some of these risk factors are universal while some are unique to the telecommunications industry. The risks vary widely in occurrence and severity, some of which are beyond the company's control. There may also be risks that are either presently unknown or not currently assessed as significant, which may later prove to be material. We aim to mitigate these exposures through appropriate RM strategies, strong internal controls and capabilities, close monitoring of risks and mitigation plans. The section below sets out the principal risk types, listed in no particular order of significance:

1. Political and Socio-Economic Risks

The growth and profitability of Globe may be influenced by the overall political and economic situation of the Philippines. Any political or geopolitical instability in the Philippines could negatively affect the country's general economic conditions which, in turn, could adversely affect the company's business, financial condition or results of operations, including the ability to enhance the growth of its customer base, improve its revenue base and implement its business strategies.

The current administration is implementing major changes to the telecommunications industry that can positively or negatively affect the company's business. These include:

- Pressure to improve network performance
- Sharing of network/facilities across operators
- Providing portability of mobile numbers
- Possible pressure on pricing
- Potential entry of foreign telecom players
- Potential improved LGU support
- Promise of increased infrastructure spend
- Potential changes that aim to disrupt the current industry model

A regular environmental scanning exercise is performed to ensure the identification of any uncertainties arising from political and socioeconomic factors. Management is closely monitoring the shift in policies to anticipate the potential impact to the business plans as well as maintaining open communication lines with the various government sectors.

2. Financial Markets Risk

(a) Foreign Exchange Risk

Exposure to foreign exchange risks remains a risk to Globe. Foreign exchange risk results primarily from movements of the Philippine peso against the US dollar (USD) with respect to the company's USD-denominated financial assets, liabilities, revenues and expenditures.

There are no assurances that declines in the value of the Peso will not occur in the future or that the availability of foreign exchange will not be limited. Recurrence of these conditions may adversely affect Globe's financial condition and results of operations.

(b) Interest Rate Risk

In order to fund major expenditures, Globe has entered into various short and long-term debt obligations, which exposes the company to the risk of changes in interest rates.

The company's exposure to interest rate risk and currency risk are being managed by:

- Using a mix of fixed and variable rate debt that are meant to achieve a balance between cost and volatility.
- Entering into interest rate swaps, in which the company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount.
- Using a combination of natural hedges and derivative hedging to manage foreign exchange exposure.

Globe also regularly evaluates its projected and actual cash flows and continuously assess conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise.

3. Industry and Operational Risks

(a) <u>Competition Risk</u>

(i) <u>Traditional Competition</u>

Competition remains intense in the Philippine telecommunications industry amidst a mature mobile market and high growth data business, as current competitor seeks to regain market share with aggressive offerings. In late 2018, a 3rd player was allowed by the government to enter the Philippine telecommunications industry, selected through a bidding process spearheaded by the Department of Information and Communications Technology (DICT).

These factors are seen to further heighten the competitive dynamics amidst a mature mobile market.

(ii) <u>Alternative Competition</u>

The competitiveness of the industry is further underscored by cheap alternatives to communication such as instant messaging, social network services and voice over internet protocol. These alternatives are also driven by the proliferation of affordable smartphones and internet-capable mobile devices.

The continued growth and development of the telecommunications industry will depend on many factors. Any significant economic, technological, or regulatory development could result in either a slowdown or growth in demand for mobile services and may impact the company's business, revenues, and net income.

These factors heighten the need to continuously expand and modernize the company's network and IT services, thus requiring an equally heightened level of capital spending.

Globe continues to assert its market position through the offering of personalized plans and attractive product/device bundles, and launching innovative products and services that are relevant and responsive to the needs of the customers and focusing on superior customer experience. The company also partners with leading providers of content, mobile messaging, social media and other popular applications in order to provide products and services that anticipate and cater to shifting customer preferences.

(b) <u>Regulatory Risk</u>

Globe Telecom is regulated by the National Telecommunications Commission (NTC), an attached agency of the Department of Information and Communications Technology (DICT), for its telecommunications business, and by the Securities and Exchange Commission (SEC) for other aspects of its business as well as the Philippine Stock Exchange (PSE) as one of its capital market regulators, to name a few. On the other hand, the Philippine Competition Commission (PCC) has oversight over mergers, acquisitions, and other similar transactions as it is tasked to

effectively level the playing field among businesses and penalize anti-competitive agreements and abuse of market dominance.

The introduction of new, modifications, or the inconsistent application of laws or regulations from time to time, may materially affect the operations of Globe, and ultimately the company's earnings which could impair its ability to service debt. There is no assurance that the regulatory environment will support any increase in the company's business and financial activity.

Globe manages its regulatory risks through regular monitoring of regulatory rulings, especially those that could negatively impact its businesses, and proactive engagement with the regulators.

(c) Customer Preference and Technology Shift Risk

Globe's ability to recognize and quickly respond to changes in customer preferences by upgrading existing infrastructure and systems may impact its competitiveness in the marketplace.

Mobile data applications and the rising popularity of smartphones, mobile applications, and social media platforms as enabled by mobile and connected devices are key contributors to the explosion of data traffic. This phenomenon is putting a strain on the company's network capacity as well as the supporting back end systems, negatively impacting customer experience.

Globe's business, product and technical teams continue to keep abreast of the latest innovations and trends in telecommunications technologies, devices and gadgets. The information and insights gathered are considered in the roadmap of future products and services and the company's network and IT infrastructure evolution. Proper timing of investments in technology and infrastructure always consider its strategic implications, velocity of technology cycles and customer adoption.

The Globe data network is continuously being enhanced by deploying new mobile and data technologies, increasing network capacity and coverage while modernizing the fixed line data infrastructure.

(d) Change Program Risk

Globe is in the process of transforming its businesses and such changes permeate into its network and IT systems and supporting processes. Crucial changes in the company's network infrastructure are being pursued mainly to improve network quality, anticipate the surge in voice and data traffic, decrease total cost of ownership, and make the network robust enough to meet future needs. IT transformation programs are set to re-engineer the company's IT systems and key processes to enhance its ability to deliver superior customer experience and understand what customers value, while being able to roll out products to the market in a more efficient and effective manner.

Should Globe Telecom's ambitious and complex transformation programs fail to achieve the desired outcomes, Globe could ultimately lose market share thus impacting its financial results.

Globe has institutionalized the appropriate program governance organizations with Management Team oversight and accountability to ensure program risks are properly considered and managed aimed at achieving key program objectives and improving customer experience. Globe ensures that a competent program office and project organization are in place for major change programs. Supporting processes have been established to closely monitor and provide a venue for regular progress updates, alignment of efforts, discussion of critical implementation issues and challenges and help ensure successful execution of its change programs.

(e) Organizational Agility Risk

Leading the digital lifestyle for customers and diversification of Globe's business portfolio is critical to maintain market competitiveness. Failure to drive the entire organization to quickly adapt work practices and make the right shift in skills and competencies necessary for the company to lead in the digital space and forge into adjacent spaces may lead to missed business opportunities.

Globe has initiated cultural change programs that focus on customer centricity and innovation. Opportunistic hiring of talents required for innovation and new investment areas are also carefully considered. Globe continues to build the right leadership structures and system team that will support an agile, future-ready and customer-centric organization.

(f) Human Capital Risks

Globe is exposed to risks in staffing critical functions with competent management and technical expertise. Globe's greatest asset is its people and the company's success is largely dependent on its ability to attract highly skilled personnel and to retain and motivate the best employees.

As new players are poised to ramp up their operations, this may result in poaching of key employees from the company's talent pool.

In line with Globe's Purpose of treating people right, and in support of the Department of Labor and Employment's campaign against all illegal forms of contractualization, Globe strictly monitors its accredited partners on their sustained compliance with pertinent labor laws and regulations.

Various people-related programs designed to engage and motivate employees are being implemented in order to retain and attract key talents. Globe University was formally organized to address the growing competency and development needs of Globe. With the need to develop key talent imperatives, it is a significant move towards achieving key improvements in workforce capabilities and performance.

(g) Reputational Risk

Globe is recognized as one of the Philippines' top companies providing innovative services and delivering superior customer experience while maintaining a socially responsible business. The company is exposed to reputational risks which may result from its actions or that of its competitors; indirectly due to the actions of an employee; or consequently through actions of outsourced partners, suppliers, or joint venture partners.

Damage to Globe Telecom's reputation and erosion of brand equity could also be triggered by the inability to swiftly and adequately handle negative traditional and social media sentiments on Globe Telecom's products and services resulting from unfavorable customer experience, among others.

Regular process effectiveness and efficiency reviews on existing customer-impacting processes are being conducted to identify and address existing gaps, thus minimizing exposure to reputational risks arising from problem areas. Front line staff are regularly trained to enable them to effectively handle customer cases. On the other hand, close monitoring of customers' online sentiments is being performed to quickly detect subscriber issues being surfaced in social media and be able to manage them early on.

(h) Compliance Risks

(i) Cyber Threats

The cyber security landscape is rapidly evolving and users are heavily relying on digitized information and sharing vast amounts of data across complex and inherently vulnerable networks. This exposes Globe to various forms of cyber-attacks which could result in disruption of business operations, damage to reputation, legal and regulatory fines and customer claims.

New technologies and systems being installed in the name of advanced capabilities and processing efficiencies may introduce new risks which could outpace the organization's ability to properly identify, assess and address such risks. Further, new business models that rely heavily on global digitization, use of cloud, big data, mobile devices and social media increase the organization's exposure to cyber-attacks.

Globe continues to strengthen and enhance its existing security detection, vulnerability and patch management, configuration management, identity access management, events monitoring, data loss prevention and network/end-user perimeter capabilities to ensure that cyber threats are effectively managed.

As part of the company's mission to promote the intelligent and judicious use of the internet, Globe also educates the youth to better understand the impact of their online behavior so they can be responsible digital citizens, thereby lessening cyber threats to Globe. In parallel, online security is promoted through customer education drives.

(ii) Data Privacy

Globe, in the course of regular business, acquires personal information of its customers and retains the same either electronically or via hard copies. Existing laws require that information, especially customer information, be adequately protected against unauthorized access and or/disclosure. The risk of data leakage is high with the level of empowerment granted to in-house and outsourced employees handling sales and after sales support transactions to enable the efficient discharge of their functions.

Employee awareness on data protection and loss prevention is reinforced through regular corporate communication channels. Further, employees are made accountable for maintaining the confidentiality of data handled, including disclosures and information shared in various social media platforms. Controls over processes that require handling of customers' personal information are being tightened, coupled with enhancements in existing security capabilities to prevent compromise of customer data.

A Chief Information Security Officer and Data Protection Officer was appointed to strengthen the management of risks relating to the confidentiality and integrity of customer information while ensuring compliance with Data Privacy Act of 2012 or Republic Act 10173 (DPA). Our CISO/DPO reports to our Chief Technology and Information Officer (CTIO), and acts as Chairman of the Information Security and Privacy Committee in Management as well as leads our Information Security and Data Privacy Division (ISDP). ISDP is a fully-operationalized group that focuses on Globe's data privacy and cybersecurity matters.

The CISO provides regular updates on information security and data privacy matters to the Board, through the ARPT Committee to ensure that cyber risks and technology or digital threats to the business and our customers are addressed and managed effectively.

(iii) Business disruptions

The quality and continued delivery of Globe's services are highly dependent on its network and IT infrastructure which are vulnerable to damages caused by extreme weather disturbances, natural calamities, fire, acts of terrorism, intentional damage, malicious acts and other similar events which could negatively impact the attainment of revenue targets and the company's reputation.

Since 2012, our Business Continuity Management System (BCMS), which governs our Business Continuity and Disaster Recovery Planning, has been certified by BSI, Singapore – an internationally recognized certification body. The Globe BCMS is primarily responsible in ensuring that programs are in place for Globe to continuously improve on:

- the readiness of our employees to manage disastrous incidents;
- the ability of the organization to deliver critical products and services especially during disasters, and;
- the commitment to deliver on important legal and regulatory requirements.

The company is continuously enhancing its incident and crisis management plans and capabilities and have incorporated disaster risk reduction and response objectives in its business continuity planning. Part of Globe's Business Continuity Management Program initiatives include:

- Partnering with the Metropolitan Manila Development Authority (MMDA) and the Philippine Disaster Recovery Foundation (PDRF), to create a network of support during disasters.
- Sponsored the development of hazard maps for 54 out of 81 Philippine provinces, which will be used by Phivolcs to assist the provinces in their disaster management plans.
- Reinforced Ayala ASSIST, an app that enables Globe and other Ayala employees to easily seek assistance during disasters.
- Re-certification in Business Continuity (ISO 22301) on an enterprise-wide scale
- Reinforcing the company's business continuity policies and best practices through various awareness drives and training programs

(iv) Revenue leakage

The telecommunications industry is inherently vulnerable to revenue leakage with the continuing innovations in telco technologies, networks and IT systems and the multitude of its service plan offerings and accompanying such advancements. The pace at which new offers are launched in the market and the speed of technological innovations being adopted by Globe, coupled with the ongoing network and IT transformation programs heightens the need to identify and plug revenue leakages becomes an even more important capability in maximizing revenues and returns.

Globe strengthens its revenue assurance capabilities through the identification and embedding of appropriate revenue assurance controls into new products, services, and new systems as well as the implementation of sound controls on existing products and services.

Globe is continuously improving control effectiveness, efficiency, and coverage through periodic controls review exercises, controls discovery, and review of critical revenue-impacting processes. The company has recently completed the implementation of a revenue assurance tool that would increase efficiency in its operations through automated execution of controls.

(v) Fraud

Globe runs the risk of falling victim to fraud perpetrated by unscrupulous persons or syndicates either to avail of "free" services, to take advantage of device offers or defraud its customers. With the increased complexity of technologies, network elements and IT infrastructure, new types of fraud that are more difficult to detect or combat could also arise. This risk also involves irregularities in transactions or activities executed by employees for personal gain.

Globe remains committed to preventing and detecting fraud by institutionalizing processes and building capabilities that enable the early detection, investigation, resolution and enforcement of sanctions and legal options, close monitoring and timely reporting of various instances of fraudulent activities. The company has initiated various programs to equip its customers with the right and sufficient information so that they do not fall victim to fraudsters. Moreover, the company closely coordinates with law enforcement agencies to help protect customers from activities meant to defraud them.

Globe implements standards and practices that remind and deter employees, who through the course of business transactions with various partners, from engaging in corrupt or unethical practices. Management has zero tolerance for such acts and have corresponding severe penalties as provided in the company's Code of Conduct and Ethics (CoC). Globe employees, by virtue of his/her employment, are bound to uphold trust given to them by not seeking to gain any undue personal or pecuniary advantage (other than the rightful proceeds of employment) from dealings with or for and in behalf of Globe. Our employees maintain the highest standards of honesty, integrity, and professional conduct. Seeking undue financial and material advantage from transactions with Globe is a breach of trust between the employee and the company. Globe's CoC promulgates policies governing conflict of interest, whistleblowers, unethical, and corrupt practices, among others.

N. Management of Risks

Realizing the need to protect the business from losses arising from failures in internal processes, people, and systems or external events, which is an integral part of Globe's RM responsibility, an Operational Risk Management and Business Protection (ORB) department was established. ORB's primary objective is to provide end-to-end support for all activities under risk management, overseeing safety, environment, infrastructure hazard management, insurance, as well as enterprise business continuity management. ORB reports to the Head of Logistics and Administrative Services who directly reports to the CFO/CRO. The department is mandated to do the following:

- Provide hazard identification and risk assessment for Globe Telecom's operations, activities, events, and infrastructure;
- Facilitate implementation of risk control and mitigation measures for safety and environmental management, in collaboration with operational and business groups;

- Provide and facilitate risk transfer and business protection solutions through insurance or contractor liability agreements;
- Establish an effective framework for business continuity management for the organization to effectively respond to threats such as natural disasters, equipment failure, data breaches, and in effect, protect its business interests.

O. Debt Issues

For details on Globe Group's Loans Payable see Note 19 of Globe's 2019 Consolidated Financial Statements which is part of the exhibits to this report.

Corporate Developments:

- The NTC issued an advisory, ordering local telecommunication companies to move the migration date to October 6, 2019 from March 18, 2019. This was after the Bankers Association of the Philippines (BAP) and the Credit Card Association of the Philippines (CCAP) filed their respective petitions to postpone the migration to a later date to provide banks and credit card companies sufficient time to implement the necessary changes to their operations and systems.

  From October 6,2019 to January 5, 2020, customers who will still incorrectly dial the old 7-digit number will hear a special announcement, saying the format has been changed to 8 digits. Globe will continue reminding its customers on the upcoming migration in October through all available channels, including SMS, email, and social media. Globe and Bayan customers may visit www.globe.com.ph/help/eight-digit-number-for-landlines-and-duo.html for more information on the migration.

- Globe Telecom has entered into a tripartite agreement with ISOC Infrastructure Inc. and Malaysia-based tower giant edotco Group Sdn. Bhd., becoming the first telco to support the common tower initiative of the Department of Information and Communications Technology (DICT). ISOC and edotco, who were the first towercos to seek vendor accreditation with Globe, will build an initial 150 sites for the company.

  The DICT signed agreements with 23 tower companies with ISOC and edotco leading the pack as among the first to do so. Despite the agreements, the government has yet to release a common tower policy governing towercos in the country.

  The DICT targets to build at least 50,000 new common towers across the country in the next seven to ten years. The government agency also announced its recent plans to accelerate the building of 2,500 common towers in properties owned by government agencies. Telco stakeholders, however, are seeking the immediate release of the long-delayed Common Tower Policy.

- Globe Telecom, Aboitiz InfraCapital, and Frontier Tower Associates Philippines (FTAP) signed a memorandum of understanding (MOU) on July 2, 2019 to improve connectivity in Cebu, Davao, and Olongapo. The MOU, in support of the common tower initiatives of the Department of Information and Communications Technology (DICT), will explore the possibility of leasing build-to-suit sites, towers, and other passive telecommunications infrastructure and facilities.

  The MOU signing between Globe and the Aboitiz-FTAP partnership came immediately after Aboitiz and FTAP signed on June 19 a cooperation agreement for the development, construction, operation, and maintenance of a common tower network.

  The DICT targets to roll out at least 50,000 new common towers across the country in the next seven to ten years. Recently, the government agency announced its plans to accelerate the building of 2,500 common towers in properties owned by government agencies.

- On July 22, 2019, Globe Telecom sold its interest in AFPI to Globe Fintech Innovations for a total consideration of ₱240 million. Gain on disposal of investment in AFPI was recognized as part of other income

- On September 11, 2019, the Board of Directors of Globe through its Executive Committee, approved the acquisition of 51% of Yondu Inc., equivalent to 22,950 shares for Php501 million from Xurpass Inc. and the signing of the corresponding Deed of Sale of Shares and other related definitive agreements. The transaction is consistent with Globe's strategic imperative of developing its ICT capabilities responsive to the changing needs of its customers. Yondu's strong

IT core competencies combined with Globe's digital expertise will strengthen the value proposition of products and services catered to entreprise clients.

- On September 24, 2019, Globe has signed a memorandum of understanding (MOU) with Transcend Towers Infrastructure (Philippines) Inc., a wholly owned subsidiary of American Tower Corporation, to build more towers in the Philippines. In support of the common tower initiative of the Department of Information and Communications Technology (DICT), the agreement will have Transcend Towers build an initial 150 sites for Globe in North Luzon.

- On February 8, 2019, the RA 11202 or the "Mobile Number Portability Act" was signed into law. The act allows subscribers to change their subscription plans or service providers and still keep their current mobile numbers. Moreover, no interconnection fee or charge shall be imposed for domestic calls and SMS made by a subscriber. This act shall take effect fifteen days after its publication in the Official Gazette or in any newspaper of general circulation.

  Within ninety (90) days from the effectivity of the act, NTC shall coordinate with the Department of Information and Communications Technology, The National Privacy Commission, the Philippine Competition Commission, and other concerned agencies, and promulgate rules and regulations and other issuances to ensure the effective implementation of the Act. Within six (6) months from the promulgation of the rules and regulations, service providers shall comply with the provisions of the act and set up a mechanism for the purpose of implementing nationwide.

  On December 26, 2019, the country's major mobile operators Globe, new player Dito Telecommunity and PLDT subsidiary Smart Communications have joined forces to put up a new company using fresh investments to enable number porting services in line with the new mobile number portability initiative of the government. This is an important first step towards the full implementation of Republic Act 11202 also known as the "Mobile Number Portability Act" ("the MNP Act"). Syniverse, the world's most connected company, was chosen by the Philippine mobile operators through a rigorous technical and commercial evaluation process, to be the mobile number portability service provider (MNPSP). The company will bring in the technical infrastructure to fulfill its primary function as clearinghouse for the telcos and ensuring smooth implementation of number porting services.

  As MNPSP, Syniverse is likewise expected to fulfill all functions outlined in the implementing rules and regulations under the NTC Memorandum Circular 03-06-2019 issued in July this year. With the initial step of setting up the support mechanisms, the actual implementation of MNP will be contingent upon the completion of integration and interoperability tests of the clearinghouse facilities with the separate multi-vendor systems of the mobile operators.

For further details on the Globe's financial condition and operations, please refer to its 2019 Consolidated Financial Statements which is incorporated herein as part of Index to Financial Statements and Supplementary Schedules. Also, for further information on Globe, please refer to its SEC17A which is available in its website www.globe.com.ph.

Item 2. Properties

Ayala Corporation

Ayala Corporation owns, among others the following properties: significant area in the 4 floors of the Tower One Building located in Ayala Triangle, Ayala Avenue, Makati (which were purchased in 1995 and are used as corporate headquarters of the Company); various provincial lots relating to its business operations totaling about 1,350.95 hectares and Metro Manila lots totaling 3.36 hectares including lots and buildings for the Honda Cars Makati, Honda Cars Pasig, Honda Cars Alabang and Isuzu Alabang dealerships (which are leased to these dealerships). Certain properties are subject to certain conditions, restrictions and covenants in which the Company is compliant.

ALI

The following table provides summary information on ALI's land bank as of December 31, 2019. Properties included are either wholly-owned or part of a joint venture and free of lien unless noted.

In Estates	Location	Hectares	Outside Estates	Hectares
Metro Manila		**173**	**Metro Manila**	**105**
Makati CBD	Makati City	46	Las Pinas	84
BGC	Taguig City	27	QC	9
Arca South	Taguig City	21	Pasig	4
Parklinks	Quezon City - Pasig City	18	Paranaque	3
Ayala Alabang	Muntinlupa City	18	Makati	2
Circuit Makati	Makati City	17	Muntinlupa	2
Cloverleaf	Quezon City	10	Mandaluyong	1
Vertis North	Quezon City	7	Manila	0.3
The Junction Place	Quezon City	6	Pasay	0.1
Southpark District	Muntinlupa City	3		
Luzon		**5,395**	**Luzon**	**4,578**
Nuvali	Sta. Rosa, Laguna	1,480	Cavite	2,059
Alviera	Porac, Pampanga	1,302	Laguna	985
Altaraza	San Jose Del Monte, Bulacan	869	Batangas	844
Lio	El Nido, Palawan	867	Bulacan	239
Vermosa	Imus, Cavite	407	Pampanga	210
Cresendo	Tarlac City, Tarlac	281	Bataan	160
Broadfield	Binan, Laguna	160	Quezon	46
Evo City	Kawit, Cavite	29	Camarines Sur	17
			Rizal	15
			Cagayan – Tuguegarao	2
			Nueva Ecija	2
Visayas		**996**	**Visayas**	**210**
Sicogon Island Resort	Iloilo	810	Cebu	181
North Point	Talisay, Negros Occidental	119	Iloilo	19
Cebu Park District	Cebu City, Cebu	33	Negros Occidental	11
Gatewalk Central	Mandaue, Cebu	13		
Seagrove	Mactan Island, Cebu	12		
Atria Park District	Mandurriao, Iloilo	10		
Capitol Central	Talisay, Negros Occidental	0.4		
Mindanao		**235**	**Mindanao**	**501**
Habini Bay	Laguindingan, Misamis Oriental	200	Misamis Oriental	274
Azuela Cove	Davao City, Davao del Sur	22	Davao del Sur	227
Abreeza	Davao City, Davao del Sur	9		
Centrio	Cagayan de Oro, Misamis Oriental	3		
2019 Land Bank: 12,192		**6,798**		**5,394**

Leased Properties

The Company has an existing contract with BCDA to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to P106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, the Company transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity.

On January 28, 2011, a notice was given to the Company for the P4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. The Company signed a 25-year lease contract for the property last June 22, 2011, with an option to renew 58,000 square meters for another 25 years by mutual agreement. The project involves the construction of a retail establishment with 63,000 square meters of available gross leasable area and a combination of Headquarter-and-BPO- type buildings with an estimated 8,000 square meters of office space.

(For the complete list of leased properties, please refer to Audited FS of ALI)

Rental Properties
The Company's properties for lease are largely shopping centers, office buildings and hotels and resorts. As of December 31, 2019, rental revenues from these properties amount to P39.3 billion or 23% consolidated revenues, 13% higher than P34.9 billion recorded in 2018.

Property Acquisitions
With 12,192 hectares in its land bank as of December 31, 2019, Ayala Land believes that it has sufficient properties for development in next 25 years.

Nevertheless, the Company continues to seek new opportunities for additional, large-scale, master-planned developments in order to replenish its inventory and provide investors with an entry point into attractive long-term value propositions. The focus is on acquiring key sites in the Mega Manila area and other geographies with progressive economies that offer attractive potential and where projected value appreciation will be fastest.

On July 19, 2019, AyalaLand Logistics Holdings, Corp. (ALLHC), formerly Prime Orion Philippines, Inc. acquired 100% ownership of Unity Realty & Development Corporation (URDC). URDC owns a 192-hectare property in Mabalacat City, Pampanga which will be developed into an industrial park.

On May 15, 2018, Ayala Land, Inc. ("ALI") entered into a Memorandum of Understanding with Green Square Properties Corporation ("GSPC") and Green Circle Properties and Resources, Inc. ("GCPRI") on May 11, 2018 for the formation of a Joint-Venture Company ("JVC") that will own and develop 27,852 hectares of land ("the Properties"), specifically located in Dingalan, Aurora and General Nakar, Province of Quezon. ALI will own 51%, and GSPC and GCPRI will jointly own 49% of the JVC.

On April 4, 2018, Ayala Land, Inc. (ALI) signed a Deed of Absolute Sale with Central Azucarera de Tarlac, Inc. for the acquisition of several parcels of land with an aggregate area of approximately 290 hectares located in Barangay Central, City of Tarlac, Province of Tarlac.

On February 20, 2018, the Philippine Competition Commission (PCC) approved the setting up of a joint venture between the Company and Royal Asia Land, Inc. to acquire, own, and develop a 936-hectare commercial and residential project in Silang and Carmona, Cavite. Both firms will own 50% equity in the joint venture vehicle while Royal Asia Land will receive a consultation fee of 2% of the joint venture firm's gross revenue for its participation in the planning and development of the property. ALI, meanwhile, will develop and market the project and receive a management fee of 12% and sales and marketing fee of 5% of the gross revenue. The PCC has deemed that the transaction does not result in a substantial lessening of competition because it will not have a structural effect on the market.

In June 2015, ALI, through SM-ALI Group consortium, participated and won in the bidding for Lot No. 8-B-1, containing an area of 263,384 sqm, which is a portion of Cebu City-owned lot located at the South Road Properties, Cebu City covered by Transfer Certificate of Title No. 107-2011000963 (the "Property"). SM-ALI Group consortium is a consortium among SM Prime Holdings, Inc. ("SM"), Ayala Land, and Cebu Holdings, Inc. ("CHI", together with ALI collectively referred to as the "ALI Group"). The SM-ALI Group will co-develop the property pursuant to a joint master plan.

In April 2015, ALI purchased all of the 8.2 million common shares of Aegis PeopleSupport Realty Corporation amounting to ₱435 million. Aegis PeopleSupport Realty Corporation is a PEZA-registered entity and the owner of Aegis building along Villa Street, Cebu IT Park, Lahug, Cebu City. The building is a certified LEED-Gold Office with a gross leasable area of 18,092 sqm and is largely occupied by Teleperformance under a long-term lease.

On February 6, 2015, ALI purchased the combined remaining interest of Allante Realty and Development Corporation (Allante) and DBH, Inc. (DBH) in North Triangle Depot Commercial

Corporation (NTDCC) consisting of 167,548 common shares and 703,904 preferred shares amounting to ₱229 million. This brings ALIC) consisting of 167,548 common shares and 703,904 total outstanding capital stock of NTDCC.

In January 2014, ALI entered and signed into a 50-50% joint venture agreement with AboitizLand, Inc. for the development of a 15-hectare mixed-use community in Mandaue City, Cebu. The first project of this joint venture will involve the construction of a mall and a residential condominium unit with an estimated initial cost of ₱3 billion.

On November 23, 2013, ALI, through its wholly-owned subsidiary, Ayala Hotels and Resorts Corp, (AHRC) signed an agreement to acquire 100% interest in Asian Conservation Company, Inc. (ACCI) which effectively consolidates the remaining 40% interest in Ten Knots Development Corp. (TKDC) and Ten Knots Philippines Inc. (TKPI) (60%-owned subsidiary of the Company prior to this acquisition). The agreement resulted in the Company effectively obtaining 100% interest in TKPI and TKDC.

On April 16, 2013, ALI entered into a Sale and Purchase Agreement (SPA) with Global International Technologies Inc. (GITI) to acquire the latter's 32% interest in ALI Property Partners Co. (APPCo) for ₱3.52 billion. GITI is a 100% owned company of the Goldman Sachs Group Inc. The acquisition increased ALI's stake in APPCo from 68% to 100%. APPCo owns BPO buildings in Makati, Quezon City and Laguna with a total gross leasable area of around 230,000 sqm. The carrying amount of the non-controlling interest is reduced to nil as APPCo became wholly owned by the Company. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognized in equity attributable to the Company amounting to ₱2,722.6 million.

Mortgage, Lien or Encumbrance over Properties
The Company has certain properties in Makati City that are mortgaged with BPI in compliance with BSP rules on directors, officers, stockholders and related interests.

MWC

MWC Group has various properties across the Philippines which are generally used in its provision of water, integrated used water, sewerage and sanitation, distribution services, pipeworks and management services. MWC Group's properties are either company-owned or are required to be turned over to grantors of MWC Group's concession agreements or joint venture agreements.

Property, Plant and Equipment

Major property, plant and equipment of MWC Group are as follows:

Locations	Types of Assets
Metro Manila, Bataan, Batangas Bicol, Bulacan, Cavite, Laguna Nueva Ecija, Pampanga, Quezon Rizal, Cebu, Iloilo, Negros Occidental, Davao	Water service connection Water network Wells and facilities Distribution reservoir and boosters Transmission and distribution mainline Sewer facilities Sewer network
Zamboanga	Asset management and leak detection tool
Metro Manila	Water purification and bottling facilities

Assets Held in Trust under MWC Group's Concession or Joint Venture Agreements

<u>MWSS</u>
MWC was granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Concession Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by the Parent Company, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or the Parent Company.

The Concession Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both the East and West

Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

PGL
Laguna Water was granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with PGL. The legal title of all property in existence at the commencement date shall be retained by PGL. Upon expiration of the useful life of any such property as may be determined by Laguna Water, such property shall be returned to PGL in its then condition at no charge to PGL or Laguna Water.

TIEZA
Boracay Water was granted the right to operate, maintain in good working order, repair, decommission and refurbish all fixed and movable property (except retained assets) required to provide the water and sewerage services under its concession agreement with TIEZA. The legal title to all these assets in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of such assets as may be determined by Boracay Water, such assets shall be returned to TIEZA in its then-current condition at no charge to TIEZA or Boracay Water.

CDC
Clark Water was granted the right to finance, design and construct new facilities and to manage, exclusively possess, occupy, operate, repair, maintain, decommission, and refurbish all facilities, except private deepwells, to provide and manage the water and wastewater-related services in the CFZ.

OWD
On October 12, 2017, Obando Water was granted the right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Obando. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Obando Water, shall remain with OWD.

CWD
On October 23, 2017, Calasiao Water was granted the right to develop, manage, operate, maintain, repair, refurbish and improve, expand, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Calasiao. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Calasiao Water, shall remain with CWD.

PAGWAD
On January 21, 2019, Laguna Water was granted the right to operate, finance, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required and exclusively used to provide water delivery and sanitation services in the service area of PAGWAD.

TnWD
On February 4, 2019, South Luzon Water was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water supply and sanitation services in the service area of TnWD.

BuWD
On June 14, 2019, Bulakan Water was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the service area of BuWD.

LWD
On July 3, 2019, Aqua Centro was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water supply in the service area of LWD.

CCWD
On July 3, 2019, Calbayog Water was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but

excluding retained assets, required to provide water supply and sanitation services in the service area of CCWD.

Leases

On January 1, 2019, MWC Group adopted PFRS 16, *Leases*, which requires a lessee, at the commencement date of a lease, to recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). MWC leases office space and storage and plant facilities wherein it is the lessee.

Further details of the MWC Group's property, plant and equipment, assets held in trust and leases are in Notes 1, 9, 23 and 28 of its Audited Consolidated Financial Statements.

IMI

IMI has production facilities in the Philippines (Laguna, Cavite and Taguig), China (Shenzhen, Jiaxing, Chengdu, and Suzhou), Bulgaria, Czech Republic, Germany, Mexico and the UK. It also has a prototyping and NPI facility located in Tustin, California. Engineering and design centers, on the other hand, are located in the Philippines, Singapore, China, United States, Bulgaria, Czech Republic, and Germany. IMI also has a global network of sales and logistics offices in Asia, North America and Europe.

IMI's global facilities and capabilities of each location as of December 31, 2019 are shown below:

Location	Floor Area (square meters)	Capabilities
Manufacturing Sites		
Philippines-Laguna (2 sites)	96,182	▪ 31 SMT lines, 2 FC lines ▪ 5 COB/COF lines ▪ Box build to Complex Equipment manufacturing ▪ LVHM, HVLM ▪ Solder Wave, Potting, Al & AG W/B ▪ Protective Coating ▪ ICT, FCT, AOI, RF Testing ▪ Design & Development ▪ Test & System Development ▪ Cleanroom to class 100 ▪ Low Pressure Molding (Overmold) ▪ Precision Metals/Machining
Philippines-Cavite	2,350	▪ 3 SMT lines ▪ Box Build ▪ System Integration ▪ PTH, Solder Wave ▪ ICT, FCT, AOI ▪ 3D X-ray ▪ LVHM
Philippines-PSi Laguna	9,858	▪ Power Component Discrete Packaging, e.g., 2L,3L,4L TO-247, 3L TO252, 2L,3L TO-220 ▪ Silicon Carbide and Gallium Nitride Packaging ▪ Ag Sintering Process ▪ Diversified Packaging - from Low to High Power and Small to Large Outline ▪ R&D line/ Captive Lines for Power QFN and Modules ▪ Customized Power Packaging Requirements ▪ Low/ Med Power Discrete Packaging and Processes including Au Wire Bonding ▪ Al Ribbon, Cu Clip interconnect ▪ 3D Packaging, MCM, High Reliability OFN Packages: 3 x 3 mm,3.3x3.3 mm, 4x5 mm, 5x6mm, 6x5mm 8x8 mm at 1 mm to 1.5 mm package height
China-Pingshan	29,340	▪ 17 SMT lines, 1 COB line ▪ Box Build ▪ PTH, Solder Wave ▪ POP, Auto Pin Insertion ▪ Potting, Conformal coating and Burn-in ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ Design & Development

		▪ LVHM, HVLM
China-Kuichong	23,524	▪ 21 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ ICT, FCT, AOI, SPI, RF Testing ▪ Test & System Development ▪ LVHM, HVLM ▪ X-RAY 3D testing, RoHS screening instrument, BGA rework ▪ Burn-in test for high-end power supply, Thermal cycle test, Vibration test. ▪ Conformal Coating, Potting, PCB router, Underfill ▪ Bar-code tracking system
China-Jiaxing	18,452	▪ 11 SMT lines ▪ Vapor Phase Vacuum Reflow, SMD Odd shape Component Auto Mount ▪ Box Build (w/ Automated Customized Assembly Line) ▪ PTH, Auto Pin Insertion, Solder Wave, Selective Solder Wave ▪ Full Auto Selective Conformal Coating Line and CC AOI ▪ Ultrasonic welding and lamination ▪ Plastic injection (180T/300T press) ▪ SPI, 2D & 3D AOI, ICT, FCT, 3D X-ray, Run-in ▪ Test & System Development ▪ HVLM
China-Chengdu	7,500	▪ 6 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion, BGA, X-Ray ▪ Solder Wave ▪ Automated Conformal Coating ▪ ICT, FCT, AOI ▪ HVLM / LVHM ▪ Test Development
USA-Tustin, CA*	1,184	▪ 2 SMT prototyping lines ▪ Engineering Development ▪ Prototype Manufacturing Center ▪ Precision Assembly ▪ SMT, COB FCOF ▪ Box build
Botevgrad, Bulgaria (1 sites) Sofia, Bulgaria (1 site) Niš, Serbia (1 site)	 115, 416 50,000	▪ Bulgaria - 15 SMT lines ▪ Serbia – 6 SMT lines ▪ Box build ▪ PCB Assembly and Testing ▪ PTH, Auto Pin Insertion, Solder Wave ▪ Protective Coating ▪ Cabling ▪ ICT, FCT, AOI ▪ Test & System Development ▪ Design & Development ▪ Plastic Injection Embedded Toolshop ▪ Overmolding ▪ Metrology & laboratory ▪ Chip on board ▪ Tooling ▪ Automation
El Salto, Guadalajara, Mexico (2 sites)	25,000	▪ 9 SMT lines ▪ 40 Plastic Injection Machines (50-1,600T) including Overmolding ▪ Box build (w/ Automated Customized Assembly Line) ▪ PTH, Auto Pin Insertion, Solder Wave, Selective Solder Wave ▪ Full Auto Selective Conformal Coating Line and CC AOI, Automated potting ▪ SPI, 2D & 3D AOI, ICT, FCT, 3D X-Ray ▪ Embedded Toolshop ▪ Test & System Development
Třemošná, Plzeňská, Czech Republic	7,740	▪ 6 SMT lines ▪ 2 Pin Insertion

		▪ 3 Wave soldering ▪ 2 Selective soldering ▪ 3 Selective coating ▪ ICT, FCT, AOI (SMT, CC) ▪ Mechanical Assembly ▪ 4 Automated line ▪ Further customized assembly line
Nuremberg, Germany (VIA) **VIA optronics GmbH**	4,268	▪ VIA bond plus qualification ▪ Bonding material development ▪ Manual line, mainly lower quantity projects ▪ Prototype 84Inch ▪ 2 clear rooms (ISO class 6 & ISO class 7) ▪ ESD control ▪ Engineering, prototyping and production process improvement ▪ Test & system development (electrical) ▪ Optical test labor (mainly for display evaluation)
Suzhou, China (VIA) **VIA optronics Suzhou**	9,750	▪ Semi autoline and full autoline ▪ Large size bonding in MaxVu II ▪ Touch capabilities, ACF process ▪ Curved bonding & bonding to plastic cover
Shiga, Japan (VIA) (2 sites) **VTS-Touchsensor Co., Ltd**	10,000	▪ Metal Mesh Sensor on roll ▪ Customized design ▪ 100µm/50µm Film thickness ▪ Up to 55“ VTS internal ▪ Up to 85“ through external partners
UK-Hook (STI)	5,946	▪ 3 high-speed ASM Siplace SMT Lines (2.4m components/day) ▪ High Reliability PCB Assembly & Box Build ▪ Full Test facilities ▪ Dedicated prototype facility with 2 flexible Mydata lines ▪ Special processes & full repair and rework facility ▪ Clean Room, NPI, RF Screened Room
UK-Poynton (STI)	5,481	▪ Manufacturer of highly secure satellite communications equipment (under long term Airbus DS contract) ▪ Manufacturer of specialist amplifiers ▪ Specialist spares and repairs ▪ Full rack wiring and integration ▪ Specialist test facility – RF Testing, Anechoic Chamber, EMC Chamber & Moog 6 Degree of Freedom Motion Bed ▪ Complex Wiring & Heavy Metalwork ▪ Advanced Box Build ▪ AS9100-D
Cebu, Phils (STI)	2,601	▪ 3 high-speed placement systems (6m components/day capacity) ▪ High volume PCB Assembly and Box Build ▪ Equipment and operational standards fully compatible with Hook manufacturing site ▪ IP protection and full product traceability guaranteed
Total Manufacturing Space	**424,592**	
Sales and Marketing Support		
Hong Kong*	300	Procurement, marketing and supply chain support
Japan*	110	Sales Support
Total Support Space	**410**	
Total	**425,002**	

Further details of the IMI Group’s property, plant and equipment and lease commitments are in Notes 3, 10 and 30 of its Audited Consolidated Financial Statements.

BPI

In view of the planned re-development of the BPI Head Office building located at 6768 Ayala Avenue, Makati City, BPI's executive office and select business and support units have temporarily relocated to the Ayala North Exchange Tower 1, Ayala Avenue corner Salcedo St., Legaspi Village, Makati City and BPI Buendia Center, located at Sen. Gil J. Puyat Avenue, Makati City. The remaining business and support units have also temporarily relocated to various other sites in Makati, San Juan, Quezon City, and Muntinlupa. Meanwhile, BFSB's Head Office remains located at BFB Center, Paseo De Roxas, corner Dela Rosa St., Makati City.

Of the Bank's 867 local branches, 705 operate as BPI branches and 162 as BFSB branches; 458 located in the National Capital Region and 409 in the provincial areas.

These offices and branches are maintained in good condition for the benefit of both the employees and the transacting public. The Bank enforces standards for branch facade, layout, number and types of equipment and upkeep of the premises. As it adjusts to the needs of its customers, the Bank also continuously reconfigures the mix of its traditional branches, kiosk branches, and branch-lite units, while complemented by its digital channels.

BPI (as lessee) has various lease agreements which mainly pertain to branch premises and equipment that are renewable under certain terms and conditions. Rental contracts are typically made for fixed periods of 4 to 6 years.

On January 1, 2019, the Bank adopted PFRS 16: Leases which requires recognition of both right-of-use assets and lease liability arising from long-term leases. As of December 31, 2019, right-of-use assets and lease liabilities amounted to P7,787 million and P7,856 million, respectively.

Prior to January 1, 2019, the Bank's lease contracts were accounted for as operating leases following the provisions of PAS 17. Total lease expense for 2018 for BPI and its subsidiaries amounted to P1,809 million.

Further details pertaining to leases under PFRS 16 and PAS 17 and impact of initial adoption of PFRS 16 are reflected in Notes 20 and 29 of the 2019 Audited Financial Statements which is part of the exhibit to this report.

Globe

Globe Telecom's Corporate Office is located at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig.

Globe also owns several floors of condominium corporation Pioneer Highlands Towers 1 and 2, located at Pioneer Street in Mandaluyong City. In addition, the Company also owns host exchanges in the following areas: Bacoor, Batangas, Ermita, Iligan, Makati, Mandaluyong, Marikina, Cubao-Aurora, among others.

The Company leases office spaces in W City Center, located at 7th Avenue corner 30th Street, Bonifacio Global City, Taguig, for its Network Technical Group. It also leases office spaces in Limketkai Gateway Tower located in Cagayan de Oro City and in Abreeza Technohub located in Davao City. It also leases the space for most of its Globe Stores, as well as the Company's base stations and cell sites scattered throughout the Philippines.

Globe's existing business centers and cell sites located in strategic locations all over the country are generally in good condition and are covered by specific lease agreements with various lease payments, expiration periods and renewal options. As the Company continues to expand its network, Globe intends to lease more spaces for additional cell sites, stores, and support facilities with lease agreements, payments, expiration periods and renewal options that are undeterminable at this time.

For more information on the Globe's properties and equipment and lease commitments see Notes 3, 11 and 13 of Globe's 2019 Consolidated Financial Statements which is part of the exhibits to this report).

Item 3. Legal Proceedings

Except as disclosed herein or in the Definitive Information Statements (DIS) of the Company or its subsidiaries or associates and joint ventures which are themselves public companies or as has been otherwise publicly disclosed, there are no material legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years to which the Company or any of its subsidiaries or associates and joint ventures or its directors or executive officers is a party or of which any of its material properties is subject in any court or administrative government agency. The Company's DIS is available at its website www.ayala.com.ph.

In any event, below are the significant legal proceedings involving the Company's subsidiaries, associates and joint ventures:

ALI

As of December 31, 2019, ALI, its subsidiaries, and its affiliates, are not involved in any litigation regarding an event which occurred during the past five (5) years that they consider material.

However, there are certain litigation ALI is involved in which it considers material, and though the events giving rise to the said litigation occurred beyond the five (5) year period, the same are still unresolved, as follows:

Las Piñas Property

Certain individuals and entities have claimed an interest in ALI's properties located in Las Piñas, Metro Manila.

Prior to purchasing the aforesaid properties, ALI conducted an investigation of titles to the properties and had no notice of any title or claim that was superior to the titles purchased by ALI. ALI traced its titles to their original certificates of title and ALI believes that it has established its superior ownership position over said parcels of land. ALI has assessed these adverse claims and believes that its titles are in general superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning October 1993, ALI filed petitions in the Regional Trial Court of Makati and Las Piñas for quieting of title to nullify the purported titles or claims of these adverse claimants. These cases are at various stages of trial and appeal. Some of these cases have been decided by the Supreme Court ("SC"). These include decisions affirming the title of ALI to some of these properties, which have been developed and offered for sale to the public as Sonera, Ayala Southvale. The SC issued a decision adverse to ALI's title over these properties dated 26 July 2017 and denied ALI's motions for reconsideration.

Ayala Property Management Corp.(APMC)

As a result of the explosion which occurred on October 19, 2007 at the basement of the Makati Supermarket Building, the Philippine National Police has filed a complaint with the Department of Justice ("DOJ") and recommended the prosecution of certain officers/employees of Makati Supermarket Corporation, the owner of the building, as well as some employees of ALI's subsidiary, APMC, among other individuals, for criminal negligence. In a Joint Resolution dated April 23, 2008, the DOJ special panel of prosecutors ruled that there was no probable cause to prosecute the APMC employees for criminal negligence. This was affirmed by the DOJ Secretary in a Resolution dated November 17, 2008. A Motion for Reconsideration was filed by the Philippine National Police which remains pending with the DOJ. To date, no civil case has been filed by any of the victims of the incident.

ALI has made no allowance in respect of such actual or threatened litigation expenses.

MWC

MWC is presently involved in the following cases:

1. ***Manila Water Company, Inc. vs. The Republic of the Philippines***
   In the Matter of the Notice of Arbitration to the Republic of the Philippines
   Arbitration under the United Nations Commission on International Trade Law ("UNCITRAL") Rules (1976)

Permanent Court of Arbitration

On April 23, 2015, MWC served on the Republic of the Philippines (the "Republic"), through the Department of Finance, its Notice of Claim of even date demanding that the Republic indemnify MWC in accordance with the indemnity clauses in the Republic's Letter Undertaking dated July 31, 1997 and the Letter Undertaking dated October 19, 2009.

On November 29, 2019, MWC received the Award rendered by the Arbitral Tribunal. Said Award ruled that MWC has a right to indemnification for actual losses suffered by it on account of the Republic's breach of its obligation. The Tribunal ordered the Republic to indemnify MWC the amount of PHP7.39 billion, representing actual losses it suffered from June 1, 2015 until November 22, 2019, and to pay 100% of the amounts paid by MWC to the Permanent Court of Arbitration, and 85% of MWC's other claimed costs.

In December 2019, MWC publicly disclosed that it will not collect the monetary claims adjudged by the Tribunal in its favor.

2. *Manila Water Company, Inc. and Maynilad Water Services, Inc. vs. Hon. Borbe, et al.*
CBAA Case No. L-69
Central Board of Assessment Appeals ("Central Board")

This is an appeal from the denial by the Local Board of Assessment Appeals of Bulacan Province (the "Local Board") of MWC's (and Maynilad Water Services, Inc.'s [Maynilad]) appeal from the Notice of Assessment and Notice of Demand for Payment of Real Property Tax in the amount of PHP357,110,945 made by the Municipal Assessor of Norzagaray, Bulacan. MWC is being assessed for half of the amount.

In a letter dated April 3, 2008, the Municipal Treasurer of Norzagaray and the Provincial Treasurer of the Province of Bulacan, informed both the Concessionaires (MWC and Maynilad) that their total real property tax accountabilities have reached PHP648,777,944.60 as of December 31, 2007. This amount, if paid by the Concessionaires, will ultimately be charged to the customers as part of the water tariff rate. The Concessionaires (and the MWSS, which intervened as a party in the case) are thus contesting the legality of the tax on a number of grounds, including the fact that the properties subject of the assessment are owned by MWSS, which is both a government-owned and controlled corporation and an instrumentality of the National Government exempt from taxation under the Local Government Code.

The Central Board conducted a hearing on June 25, 2009. In the said hearing, the parties were given the opportunity and time to exchange pleadings regarding a motion for reconsideration filed by the Municipality of Norzagaray, Bulacan to have the case remanded to and heard by the Local Board rather than by the Central Board.

MWC and Maynilad have already concluded presentation of their respective evidence and witnesses, while MWSS waived its right to present evidence.

On August 12, 2015, the newly constituted members of the Central Board's Panel conducted an ocular inspection of the subject properties. On September 17, 2015, the Province of Bulacan presented its first witness, Ms. Gloria P. Sta. Maria, the former Municipal Assessor of Norzagaray, Bulacan. MWC, Maynilad and MWSS have completed their cross-examination of Ms. Sta. Maria.

In an Order dated July 15, 2016, the Central Board denied the motion for reconsideration of the Municipality of Norzagaray, Bulacan for which it filed a Petition for Certiorari with the Court of Tax Appeals (CTA) on August 24, 2016. In compliance with the directive of the CTA, MWC filed a Comment dated January 3, 2017. MWSS and Maynilad have likewise filed their respective Comments.

On January 31, 2017, the CTA requested the parties to file their respective memoranda. MWC filed its Memorandum on March 27, 2017. Maynilad filed its Memorandum dated March 16, 2017 while the Office of the Solicitor General (OSG) filed its Memorandum last March 29, 2017. On May 10, 2018, the CTA rendered a Decision denying the Petition for Certiorari finding that there was no grave abuse of discretion on the part of the Central Board.

At present, MWC has not received any motion for reconsideration or appeal from the Municipality of Norzagaray, Bulacan of the said Decision.

To date, this case remains pending.

3. ***Manila Water Company, Inc. vs. The Regional Director, Environmental Management Bureau- National Capital Region, et al.***
G.R. No. 206823 (DENR-PAB Case No. NCR-00794-09, CA-G.R. No. 112023), Supreme Court

This case arose from a complaint filed by the OIC Regional Director Roberto D. Sheen of the Environmental Management Bureau-National Capital Region (EMB-NCR) before the Pollution Adjudication Board (PAB) against MWC, Maynilad and the MWSS for alleged violation of R.A. No. 9275 (Philippine Clean Water Act of 2004, or “CWA”), particularly the five-year deadline imposed in Section 8 thereof for connecting the existing sewage line found in all subdivisions, condominiums, commercial centers, hotels, sports and recreational facilities, hospitals, market places, public buildings, industrial complex and other similar establishments including households, to an available sewerage system. Two (2) similar complaints against Maynilad and MWSS were consolidated with this case.

On April 22, 2009, the PAB, through the Department of Environment and Natural Resources ("DENR") Secretary and Chair Jose L. Atienza, Jr., issued a Notice of Violation finding MWC, Maynilad and MWSS to have committed the aforesaid violation of the CWA. Subsequently, a Technical Conference was scheduled on May 5, 2009. In the said Technical Conference, MWC, MWSS and Maynilad explained to the PAB their respective positions and it was established that DENR has a great role to play to compel people to connect to existing sewage lines and those that are yet to be established by MWC and Maynilad.

In addition to the explanations made by MWC during the Technical Conference, MWC together with MWSS and Maynilad wrote a letter dated May 25, 2009 and addressed to the respondent Secretary where they outlined their position on the matter.

In response to the May 25, 2009 letter, the OIC Regional Director for NCR, the Regional Director of Region IV-A and the Regional Director of EMB Region III submitted their respective Comments. MWC thereafter submitted its letter dated July 13, 2009 to the PAB where it detailed its compliance with the provisions of the CWA and reiterated its position that the continuing compliance should be within the context of MWC’s Concession Agreement with MWSS. Despite the explanations of MWC, the PAB issued an Order dated October 7, 2009 which found MWC, Maynilad and MWSS to have violated the CWA. MWC filed its Motion for Reconsideration dated October 22, 2009 which the PAB denied in an Order dated December 2, 2009. Hence, MWC filed its Petition for Review dated December 21, 2009 with the Court of Appeals. MWC thereafter filed an amended Petition for Review dated January 25, 2010.
In a Decision dated August 14, 2012, the Court of Appeals denied MWC’s Petition for Review and on September 26, 2012, MWC filed a Motion for Reconsideration of the Court of Appeals’ Decision.

On April 29, 2013, MWC received the Resolution dated April 11, 2013 of the Court of Appeals, denying its Motion for Reconsideration.

MWC filed its appeal from the Decision and Resolution of the Court of Appeals in the form of a Petition for Review on Certiorari with the Supreme Court on May 29, 2013. In this Petition, MWC reinforced its argument that it did not violate Section 8 of the CWA as it was able to connect existing sewage lines to available sewage facilities, contrary to the findings of the Court of Appeals.

In a Decision dated August 6, 2019, the Supreme Court ruled against MWC and held it jointly and severally liable with MWSS for PHP921,464,184 and a fine of PHP322,102 per day until full compliance with Section 8 of the CWA.

On October 2, 2019, MWC timely filed a Motion for Reconsideration raising, among others, the following arguments: (a) MWC is compliant with its obligations and responsibilities under Section 8 of the CWA; (b) in *MMDA vs. Concerned Citizens of Manila Bay* (2011), the Supreme Court ruled that MWC had until 2037 to complete the obligations imposed by MWC’s Concession Agreement; (c) Section 8 of the CWA cannot be interpreted as requiring MWSS and its concessionaires to install a complete centralized sewerage system within five (5) years; and (d) providing a complete centralized sewerage system within the 5-year timeframe would entail a substantial amount of time and money to complete, not to mention that it would monumentally exacerbate an already burdensome vehicular traffic situation in Metro Manila.

To date, the Motion for Reconsideration remains pending.

4. ***The Consolidated Cases:***

- ***A.*** ***Waterwatch Coalition, Inc. et al. vs. Ramon Alikpala, MWSS, et al., G.R. No. 207444***
- ***B.*** ***Water for All Refund Movement vs. MWSS, et al., G.R. No. 208207***
- ***C.*** ***Javier vs. MWSS, et al., G.R. No. 210147***
- ***D.*** ***ABAKADA Guro Party List vs. MWSS, et al.GR No. 213227***
- ***E.*** ***Neri Colmenares and Carlos Isagani Zarate, Representatives of Bayan Muna Partylist vs. Cesar V. Purisima, in his capacity as the Secretary of Finance, et al. G.R. No. 219362***

A. The Waterwatch Petition:

On June 25, 2013, MWC received a copy of the Petition for Certiorari and Mandamus with Prayer for the Issuance of a Temporary Restraining Order dated June 20, 2013 filed by the Waterwatch Coalition ("Waterwatch"), Inc. The issues raised in the Petition are as follows:

(a) The Concession Agreements are unconstitutional for granting inherent sovereign powers to the Concessionaires which insist they are private entities and mere agents of the MWSS;
(b) The Concessionaires are public utilities;
(c) The Concession system of MWSS, MWC and Maynilad is in a state of regulatory capture;
(d) The Concession Agreements are State Contracts and cannot invoke the non-impairment clause in the Constitution;
(e) The Concessionaires have no vested property rights; and
(f) MWSS is in a state of regulatory capture.

B. The WARM Petition

On August 14, 2013, MWC received a copy of a Petition for Certiorari, Prohibition and Mandamus dated August 5, 2013 filed by the Water for All Refund Movement ("WARM"). The issues raised in the WARM Petition are as follows:

(a) The Concession Agreements unduly grant to the Concessionaires the exercise of governmental powers even without the benefit of legislation or, at the very least, a franchise for such purpose;
(b) Concessionaires are performing public service and are therefore, governed by the Public Service Law, and subject to the 12% rate of return cap;
(c) Concessionaires are public utilities, not mere agents or contractors of the MWSS;
(d) Public utility or not, Concessionaires may not pass on their income taxes to the water consumers as expenditures; and
(e) The Concession Agreements cannot cause the creation of a Regulatory Office, a public office performing public functions, or even source its funding from the Concessionaires, which are the very same entities it is supposed to regulate.

C. The Javier Petition

On January 3, 2014, MWC received a copy of a Petition for Certiorari, Prohibition and Mandamus dated December 13, 2013 filed by the Virginia S. Javier, et.al, ("Javier") who were suing in their capacity as consumers/customers of the Concessionaires. The issues raised in the Javier Petition are as follows:

(a) The Concession Agreements are unconstitutional and/or ultra vires for being delegations of sovereign power without the consent of Congress;
(b) The Concessionaires are public utilities;
(c) Respondents have improperly implemented RORB calculations for purposes of establishing tariffs;
(d) The Concession Agreements are not protected by the non-impairment clause;
(e) Respondents should be enjoined from proceeding with arbitration; and
(f) MWSS is in a state of regulatory capture.

On February 4, 2014, MWC received a copy of the Supreme Court's Resolution dated January 14, 2014 consolidating the three (3) cases. MWC filed a Consolidated Comment on the aforesaid Petitions. The arguments raised by MWC in response to the Petitions are as follows:

(a) The Concession Agreements are valid, legal and constitutional as these have statutory basis and do not involve any grant or delegation of the "inherent sovereign powers of police power, eminent domain and taxation";

(b) The Concessionaires are not public utilities in themselves but are mere agents and contractors of a public utility (MWSS);
(c) The Concession Agreements are protected by the non-impairment clause. Petitioners cannot invoke police power for courts to nullify, modify, alter or supplant the Concession Agreements. Police power is exercised by Congress, through the enactment of laws for the general welfare. No such law or enactment is involved in this case. If and when Congress passes a law affecting the Concession Agreements, only then will it be proper to examine the interplay between police power vis-a-vis due process and the non-impairment clause;
(d) The rates set under the Concession Agreements are compliant with the 12% rate of return cap in the MWSS Charter. Not being public utilities but mere agents of the MWSS, the Concessionaires are not subject to audit by the Commission on Audit (COA); and
(e) The Concessionaires are authorized to pass on corporate income taxes to water consumers.

D. The ABAKADA-Guro Petition

On September 22, 2014, MWC received another Petition for Certiorari and Prohibition filed by the ABAKADA-Guro Party List, represented by Atty. Florante B. Legaspi, Jr. This Petition was likewise consolidated with the Waterwatch, WARM and Javier Petitions due to similarities in the issues raised.

In particular, the Petition questions the constitutionality of the Concession Agreements entered into by MWSS with both MWC and Maynilad and the extension of the Concession Agreements for another 15 years from year 2022. The Petition also seeks to nullify the arbitration proceedings between MWSS and the Concessionaires. MWC has filed its Comment on the Petition.

In its Resolution dated April 21, 2015, the Supreme Court directed the parties to file their respective memoranda within thirty (30) days from notice thereof. After moving for the extension of the deadline on several occasions, on September 18, 2015, MWC filed its Memorandum.

Maynilad, MWSS and Waterwatch have likewise filed their respective Memoranda. Petitioners WARM, ABAKADA-Guro and Javier, et al. have manifested that they would adopt their respective Petitions as their Memoranda.

E. The Colmenares Petition

This case is a Petition for Certiorari and Prohibition [with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction] dated August 6, 2015 filed by petitioners Neri Colmenares and Carlos Isagani Zarate, representatives of Bayan Muna Partylist. The Petition was filed primarily for the following purposes:

a) To nullify, supposedly for being unconstitutional, the Arbitration Clause contained in the Concession Agreements entered into by MWSS with MWC and Maynilad, respectively;
b) To nullify, supposedly for being unconstitutional, the Sovereign Guarantee contained in the Undertaking Letters executed by the Republic in favor of the Concessionaires; and
c) To declare that the Concessionaires' payments for corporate income taxes cannot be deducted as part of their operational expenditures; and
(d) To prevent Secretary Cesar V. Purisima and President Benigno Simeon C. Aquino III from processing the Concessionaires' claims under the Sovereign Guarantee.

On November 16, 2015, the Supreme Court issued a Resolution consolidating the Colmenares Petition with the Waterwatch, WARM, Javier, and ABAKADA-Guro Petitions and directing the respondents to file their respective Comments. On November 23, 2015, MWC filed its Comment/Opposition (Re: Petition for Certiorari and Prohibition [with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction] dated 06 August 2015). On November 13, 2015, the MWSS and MWSS- Regulatory Office filed their Comment. On November 28, 2015, Maynilad filed its Comment with Opposition (To the Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction).

On March 10, 2016, MWC received the Manifestation dated March 7, 2016 of the OSG requesting that the Department of Finance and the said Office be excused from filing a Comment on the instant Petition in view of the pendency of the arbitration proceedings related to the Undertaking Letters.

On May 26, 2016, MWC received Maynilad's Counter-Manifestation and Motions dated May 17, 2016, praying that the OSG be required to comment on the instant Petition. Maynilad also prayed that the instant case be set for oral arguments in accordance with the Rules of Court.

In its Resolution dated March 15, 2016, the Supreme Court noted and granted the Manifestation dated March 7, 2016 of the OSG and excused the same from filing a Comment on the instant Petition. On June 16, 2016, MWC received Maynilad's Motion for Reconsideration dated June 7, 2016 praying that the Supreme Court reconsider its Resolution dated March 15, 2016.

On July 25, 2016, MWC filed its Manifestation and Motion of even dated ("Manifestation and Motion"), where MWC joined Maynilad in seeking a reconsideration of the Supreme Court's Resolution dated March 15, 2016 and moved to set the consolidated cases for oral arguments. MWC's Manifestation and Motion was noted in the Supreme Court's Resolution dated August 2, 2016.

On August 15, 2016, MWC received the Manifestation dated August 10, 2016 of the Secretary of Finance Carlos G. Dominguez III, represented by the OSG, stating that he is adopting the position taken by his predecessor in office as stated in the Manifestation dated March 7, 2016, that the Secretary of Finance and the OSG be excused from filing a comment on the instant Petition.

The Manifestation and Motion filed by MWC, as well as the Manifestation dated August 10, 2016 filed by Secretary of Finance Carlos G. Dominguez III, were noted in the Supreme Court's Resolution dated August 23, 2016.

In a Resolution dated September 19, 2017, the Supreme Court denied Maynilad's Motion for Reconsideration. Maynilad again filed another Motion for Reconsideration dated November 6, 2017 to apprise the Supreme Court that in the interim, the arbitration between the Republic and Maynilad had been resolved by the issuance of an award in favor of Maynilad. Thus, according to Maynilad, the OSG can no longer use said arbitration proceeding as an excuse from filing its comment. Last December 12, 2017, MWC filed a Manifestation and Comment in support of Maynilad's Motion. In a Resolution dated March 6, 2018, the Supreme Court granted the Motion for Reconsideration dated November 6, 2017 filed by Maynilad and the Motion for Leave to File Manifestation and Comment dated December 12, 2017 by MWC.

On July 31, 2018, MWC received MWSS' Comment dated July 18, 2018 on the Petition.

On February 10, 2020, MWC received a Very Urgent Motion (to Set Case for Oral Arguments) dated January 30, 2020 filed by the Office of the Solicitor General on behalf of the Department of Finance, praying that the cases be set for oral arguments. On the same date, MWC received a Notice dated January 7, 2020 from the Supreme Court requiring the parties to inform the court of recent developments which may be of help in the immediate disposition of the case.

On February 26, 2020, MWC filed its Compliance/Manifestation and Compliance with Comment.

On March 2, 2020, MWC received a Manifestation and Motion from the Secretary of Finance reiterating its urgent motion to set the cases for preliminary conference and oral arguments.

To date, the foregoing cases remain pending.

5. Allan Mendoza et al. vs. Manila Water Company, Inc. Special Civil Action No. R-QZN-14-04863-SC, RTC QC Branch 77

On May 23, 2014, Allan Mendoza, et al. ("Petitioners") filed a Petition for Mandamus under Rule 65 of the Rules of Court praying that MWC and its President, Mr. Gerardo C. Ablaza, Jr. be commanded to: (a) reinstitute the Welfare Fund, under terms and conditions which are no less favorable than those provided in the MWSS Employees Savings and Welfare Plan; to make an accounting, and reimburse and/or return to the MWC Welfare Fund the employer's share as of December 2005 which was diverted to the MWC Retirement Plan; and to implement the progressive employer share from the time the Welfare Fund was dissolved in 2005 up to the time when the Fund is finally reinstituted for the petitioners who are still employed, and up to the end of employment for those who are already separated on account of resignation, retirement, termination, etc.; (b) to implement correctly the benefits of petitioners which are guaranteed against non-diminution, as indicated in Exhibit "F" of the Concession Agreement; (c) to allow petitioners to accumulate their paid leaves of 15 days of vacation leave and 15 days of sick leave annually; and (d) to pay interest on the foregoing at 12% per annum.

In an Order dated June 11, 2014, MWC and Mr. Ablaza were directed to file their Comment. On June 27, 2014, MWC and Mr. Ablaza filed their Comment and argued as follows: (a) the court has no jurisdiction over the subject matter of the instant Petition; being essentially an action for payment of employee benefits, the Labor Arbiters under the National Labor Relations Commission have original and exclusive jurisdiction over this case; (b) petitioners have resorted to mandamus in order to avoid

payment of filing fees for a collection case; thus, the court has not acquired jurisdiction over the case for failure of the petitioners to pay the prescribed docket fees as set forth in Rule 141 of the Rules of Court; (c) petitioners are not entitled to a writ of mandamus; (d) there was a plain, speedy and adequate remedy available to the petitioners; (e) the case should not be treated as a class suit; (f) the claims of petitioners have prescribed; (g) the Complaint should be dismissed because petitioners' alleged cause of action is barred by laches; and (h) petitioners have received benefits no less favorable than those granted to such employees by the MWSS at the time of their separation from MWSS.

In an Order dated July 28, 2014, the Court set the presentation of petitioners' evidence on September 10, 2014 and October 8, 2014. However, the September 10, 2014 hearing was cancelled because the branch clerk of court, the clerk-in-charge of civil cases, the court interpreter and the court aide of the branch were attending a seminar for the e-Court system.

Thereafter, petitioners filed a Motion to Cancel (the October 8, 2014) Hearing and to Allow Parties to Submit Memoranda. In their Motion, petitioners claimed that the issues for resolution in the instant case are legal questions and prayed that the parties be required to submit Memoranda in lieu of presentation of evidence.

On October 1, 2014, MWC and Mr. Ablaza filed a Comment on the Motion and stated that they do not entirely agree with petitioners' statement as they have made factual allegations in their Petition that would need to be proven in a full-blown trial. These allegations include, among others, that the employees have suffered diminution of benefits and that MWC had allegedly used part of the Welfare Fund as seed money for the Retirement Fund.

However, MWC and Mr. Ablaza proposed that the following legal issues be initially disposed of by way of simultaneous Memoranda to be submitted by the parties, namely, whether or not: (a) the court has jurisdiction over the subject matter of the Petition being essentially an action for payment of employee benefits; (b) the court has acquired jurisdiction over the case considering the failure of the petitioners to pay the prescribed docket fees as set forth in Rule 141 of the Rules of Court; (c) the petitioners are entitled to a writ of mandamus; (d) there was a plain, speedy and adequate remedy available to the petitioners; (e) this case should be treated as a class suit; (f) the claims of petitioners have prescribed; and (g) the Petition should be dismissed because petitioners' alleged cause of action is barred by laches.

On October 8, 2014, the scheduled hearing for the initial presentation of petitioners' evidence was cancelled reset to March 5, 2015 due to the absence of the presiding judge. At the March 5, 2015 hearing, petitioners reiterated their prayer that the parties be required to submit Memoranda in lieu of presentation of evidence considering that only legal questions are involved. MWC and Mr. Ablaza again countered that petitioners have made factual allegations in their Petition that would need to be proven in a full-blown trial.

The presiding judge stated that the proceedings for a petition for mandamus are summary in nature. Thus, he directed the parties to simultaneously submit their respective Memoranda within sixty days, or by May 5, 2015. He directed the parties to address all legal issues and if there are factual issues, to attach judicial affidavits of witnesses. Upon submission of the Memoranda, he will determine if a party would be allowed to cross-examine the other's witnesses or if he would still conduct oral arguments.

The parties subsequently filed their respective Memoranda.

In an Order dated September 14, 2015, the parties were directed to manifest whether they would be submitting the case on the basis of their respective Memoranda or if they would request for a trial on the merits. At the October 12, 2015 hearing before the clerk of court, MWC and Mr. Ablaza, through counsel, reiterated that they would prefer if the issues on jurisdiction and other grounds for dismissal be resolved first before deciding whether or not the case should go to trial. The clerk of court noted this manifestation for discussion with the presiding judge.

The trial court thereafter set the case for initial trial on March 30, 2016. During the hearing, both parties stated that their respective positions are already set forth in the Memorandum each submitted. The issues on jurisdiction and other grounds for dismissal were submitted for resolution. In an Order dated April 1, 2016, the trial court dismissed the case, without prejudice, on the ground that the Petition filed by Mr. Mendoza failed to state a cause of action for mandamus. In an Order dated July 14, 2016, the trial court denied the Motion for Reconsideration of the petitioners.

Mr. Allan M. Mendoza proceeded to file a Petition for Certiorari with the Court of Appeals. On October 24, 2016, the Court of Appeals ordered the counsel of Mr. Mendoza to submit an Amended Petition,

this time impleading the names of the other petitioners, stating their actual addresses, and appending copies of their Special Powers of Attorney. On December 1, 2016, the Amended Petition was filed.

In a Resolution dated January 19, 2017, the Court of Appeals directed the counsel for the petitioners to submit the addresses of some of the co-petitioners and to implead one additional petitioner. On February 21, 2017, MWC received a Second Amended Petition filed by petitioners supposedly to comply with the directive of the court.

In a Resolution dated September 8, 2017, the Court of Appeals directed MWC to comment on the Amended Petition. MWC filed its Comment on October 30, 2017.

The Court of Appeals thereafter referred the parties to compulsory mediation, which however failed. In a Resolution dated March 6, 2018, the parties were directed to file their respective Memoranda. MWC filed its Memorandum on May 24, 2018.

In a Resolution dated July 31, 2018, the Court of Appeals admitted the Memorandum filed by MWC. However, the Memorandum filed by the Petitioners was deemed not filed, as their Motion for Extension of Time to file the same was unsigned. The Petitioners were directed to show cause why their Memorandum should be admitted despite being filed late. In a Compliance with Manifestation and Motion to Admit, Petitioners' counsel explained that late filing was an oversight caused by counsel's recent surgery and the medications prescribed and prayed that Petitioners’ Memorandum be admitted.

To date, this case remains pending.

IMI

There are no material pending legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years up to the present date to which the Company or any of its subsidiaries or its directors or executive officers is a party or of which any of its material properties are subject in any court or administrative government agency.

The Company filed a civil case on April 11, 2011 against Standard Insurance (“Standard”) seeking to collect Standard’s share in the loss incurred by the Company consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at the Company’s Cebu facility which the Company claims to be covered by Standard’s “Industrial All Risks Material Damage with Machinery Breakdown and Business Interruption” policy. The share of Standard in the loss is 22% or US $1,117,056.84 after its co-insurers all paid the amount of loss respectively claimed from them. The Company had to resort to court action after Standard denied its claim on the ground that the claim is an excepted peril. Standard filed a motion to dismiss on various grounds, such as lack of cause of action and of prescription. The Regional Trial Court denied the motion to dismiss but Standard filed a Motion for Reconsideration with the Court of Appeals (CA). On April 26, 2013, the CA dismissed the case on the ground that the claim has prescribed. On April 19, 2013, IMI filed a Motion for Reconsideration. On December 10, 2013, IMI received a decision promulgated on December 2, 2013 denying the said Motion for Reconsideration.

IMI filed a Petition for Review on Certiorari dated January 23, 2014 which is pending with the Supreme Court as of December 31, 2019.

IMI’s expanding global activities, while continuing to present a myriad of growth opportunities, also tend to increase its exposure to potential disputes with customers and suppliers. Such exposure could, in turn, directly or indirectly, affect IMI’s ability to realize its short and long-term target revenues and operating margins from its services as well as adversely impact its net assets, financial position and results of operations. In this connection, IMI is currently involved in an ongoing arbitration proceeding arising from a contractual dispute with its customer.

BPI

BPI does not have any material pending legal proceedings to which BPI or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

Globe

Interconnection Charges for Short Messaging Service

On October 10, 2011, the NTC issued Memorandum Circular (MC) No. 02-10-2011 titled Interconnection Charge for Short Messaging Service requiring all public telecommunication entities to reduce their interconnection charge to each other from ₱0.35 to ₱0.15 per text, which Globe Telecom complied as early as November 2011. On December 11, 2011, the NTC One Stop Public Assistance Center (OSPAC) filed a complaint against Globe Telecom, Smart and Digitel alleging violation of the said MC No. 02-10-2011 and asking for the reduction of SMS off-net retail price from ₱1.00 to ₱0.80 per text. Globe Telecom filed its response maintaining the position that the reduction of the SMS interconnection charges does not automatically translate to a reduction in the SMS retail charge per text.

On November 20, 2012, the NTC rendered a decision directing Globe Telecom to:

- Reduce its regular SMS retail rate from P1.00 to not more than ₱0.80;
- Refund/reimburse its subscribers the excess charge of ₱0.20; and
- Pay a fine of ₱200.00 per day from December 1, 2011 until date of compliance.

On May 7, 2014, NTC denied the Motion for Reconsideration (MR) filed by Globe Telecom last December 5, 2012 in relation to the November 20, 2012 decision. Globe Telecom's assessment is that Globe Telecom is in compliance with the NTC Memorandum Circular No. 02-10-2011. On June 9, 2014, Globe Telecom filed petition for review of the NTC decision and resolution with the Court of Appeals (CA).

The CA granted the petition in a resolution dated September 3, 2014 by issuing a 60-day temporary restraining order on the implementation of Memorandum Circular 02-10-2011 by the NTC. On October 15, 2014, Globe Telecom posted a surety bond to compensate for possible damages as directed by the CA.

On June 27, 2016, the CA rendered a decision reversing the NTC's abovementioned decision and resolution requiring telecommunications companies to cut their SMS rates and return the excess amount paid by subscribers. The CA said that the NTC order was baseless as there is no showing that the reduction in the SMS rate is mandated under MC No. 02-10-2011; there is no showing, either that the present P1.00 per text rate is unreasonable and unjust, as this was not mandated under the memorandum. Moreover, under the NTC's own MC No. 02-05-2008, SMS is a value added service (VAS) whose rates are deregulated. The respective motions for reconsideration filed by NTC and that of intervenor Bayan Muna Party List (Bayan Muna) Representatives Neri Javier Colmenares and Carlos Isagani Zarate were both denied.

The NTC thus elevated the CA's ruling to the Supreme Court (SC) via a Petition for Review on Certiorari dated September 15, 2017.

For its part, Bayan Muna filed its own Petition for Review on Certiorari of the CA's Decision. On January 4, 2018, Globe received a copy of the SC's Resolution dated November 6, 2017, requiring it to comment on said petition of Bayan Muna. Subsequently, on February 21, 2018, Globe received a copy of the SC's Resolution dated December 13, 2017 consolidating the Petitions for Review filed by Bayan Muna and NTC, and requiring Globe to file its comment on the petition for review filed by NTC. Thus, on April 2, 2018, Globe filed its Consolidated Comment on both Bayan Muna and the NTC's petitions for review. On September 18, 2018, Globe received a copy of Bayan Muna's Consolidated Reply to Globe's Consolidated Comment and Digitel and Smart's Comment. Globe Telecom believes that it did not violate NTC MC No. 02-10-2011 when it did not reduce its SMS retail rate from Php 1.00 to Php 0.80 per text, and hence, would not be obligated to refund its subscribers.

However, if it is ultimately decided by the Supreme Court (in case an appeal is taken thereto by the NTC from the adverse resolution of the CA) that Globe Telecom is not compliant with said circular, Globe may be contingently liable to refund to its subscribers the ₱0.20 difference (between ₱1.00 and ₱0.80 per text) reckoned from November 20, 2012 until said decision by the SC becomes final and executory. Management does not have an estimate of the potential claims currently.

Guidelines on Unit of Billing of Mobile Voice Service

On July 23, 2009, the NTC issued NTC MC No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the Cellular Mobile Telephone System (CMTS) whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first

two (2) pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme.

On December 28, 2010, the Court of Appeals (CA) rendered its decision declaring null and void and reversing the decisions of the NTC in the rates applications cases for having been issued in violation of Globe Telecom and the other carriers' constitutional and statutory right to due process. However, while the decision is in Globe Telecom's favor, there is a provision in the decision that NTC did not violate the right of petitioners to due process when it declared via circular that the per pulse billing scheme shall be the default.

On January 21, 2011, Globe Telecom and two other telecom carriers, filed their respective Motions for Partial Reconsideration (MR) on the pronouncement that "the Per Pulse Billing Scheme shall be the default". The petitioners and the NTC filed their respective Motion for Reconsideration, which were all denied by the CA on January 19, 2012.

On March 12, 2012, Globe and Innove elevated to the Supreme Court the questioned portions of the Decision and Resolution of the CA dated December 28, 2010 and its Resolution dated January 19, 2012. The other service providers, as well as the NTC, filed their own petitions for review. The adverse parties have filed their comments on each other's petitions, as well as their replies to each other's comments. Parties were required to file their respective Memoranda and Globe filed its Memorandum on May 25, 2018. The case is now submitted for resolution.

Right of Innove to Render Service and Build Telecommunications Infrastructure in BGC

- PLDT and its affiliate, Bonifacio Communications Corporation (BCC) and Innove and Globe Telecom are in litigation over the right of Innove to render services and build telecommunications infrastructure in the Bonifacio Global City (BGC). In the case filed by Innove before the NTC against BCC, PLDT and the Fort Bonifacio Development Corporation (FBDC), the NTC has issued a Cease and Desist Order preventing BCC from performing further acts to interfere with Innove's installations in the BGC.

  On January 21, 2011, BCC and PLDT filed with the CA a Petition for Certiorari and Prohibition against the NTC, et al. seeking to annul the Order of the NTC dated October 28, 2008 directing BCC, PLDT and FBDC to comply with the provisions of NTC MC 05-05-02 and to cease and desist from performing further acts that will prevent Innove from implementing and providing telecommunications services in the Fort Bonifacio Global City pursuant to the authorization granted by the NTC. On April 25, 2011, Innove Communications, filed its comment on the Petition.

  On August 16, 2011, the CA ruled that the petition against Innove and the NTC lacked merit, holding that neither BCC nor PLDT could claim the exclusive right to install telecommunications infrastructure and providing telecommunications services within the BGC. Thus, the CA denied the petition and dismissed the case. PLDT and BCC filed their motions for reconsideration thereto, which the CA denied.

  On July 6, 2012, PLDT and BCC assailed the CA's rulings via a petition for review on certiorari with the Supreme Court. Innove and Globe filed their comment on said petition on January 14, 2013, to which said petitioners filed their reply on May 21, 2013. The case remains pending with the SC.

- In a case filed by BCC against FBDC, Globe Telecom, and Innove before the RTC of Pasig, which case sought to enjoin Innove from making any further installations in the BGC and claimed damages from all the parties for the breach of the exclusivity of BCC in the area, the court did not issue a TRO and has instead scheduled several hearings on the case. The defendants filed their respective motions to dismiss the complaint on the grounds of forum shopping and lack of jurisdiction, among others.

  On March 30, 2012, the RTC of Pasig, as prayed for, dismissed the complaint on the aforesaid grounds. The motion for reconsideration filed by BCC on July 20, 2012 remains pending with the trial court.

Acquisition by Globe Telecom and PLDT of the Entire Issued and Outstanding Shares of VTI

In a letter dated June 7, 2016 issued by Philippine Competition Commission (PCC) to Globe Telecom, PLDT, SMC and VTI regarding the Joint Notice filed by the aforementioned parties on May 30, 2016,

disclosing the acquisition by Globe Telecom and PLDT of the entire issued and outstanding shares of VTI, the PCC claims that the Notice was deficient in form and substance and concludes that the acquisition cannot be claimed to be deemed approved.

On June 10, 2016, Globe Telecom formally responded to the letter reiterating that the Notice, which sets forth the salient terms and conditions of the transaction, was filed pursuant to and in accordance with Memorandum Circular No. l6-002 (MC No. l6-002) issued by the PCC. MC No. 16-002 provides that before the implementing rules and regulations for Republic Act No. 10667 (the Philippine Competition Act of 2015) come into full force and effect, upon filing with the PCC of a notice in which the salient terms and conditions of an acquisition are set forth, the transaction is deemed approved by the PCC and as such, it may no longer be challenged. Further, Globe Telecom clarified in its letter that the supposed deficiency in form and substance of the Notice is not a ground to prevent the transaction from being deemed approved. The only exception to the rule that a transaction is deemed approved is when a notice contains false material information. In this regard, Globe Telecom stated that the Notice does not contain any false information.

On June 17, 2016, Globe Telecom received a copy of the second letter issued by PCC stating that notwithstanding the position of Globe Telecom, it was ruling that the transaction was still subject for review.

On July 12, 2016, Globe Telecom asked the CA to stop the government's anti-trust body from reviewing the acquisition of SMC's telecommunications business. Globe Telecom maintains the position that the deal was approved after Globe Telecom notified the PCC of the transaction and that the anti-trust body violated its own rules by insisting on a review. On the same day, Globe Telecom filed a Petition for Mandamus, Certiorari and Prohibition against the PCC, docketed as CA-G.R. SP No. 146538. On July 25, 2016, the CA, through its 6th Division issued a resolution denying Globe Telecom’s application for TRO and injunction against PCC’s review of the transaction. In the same resolution, however, the CA required the PCC to comment on Globe Telecom's petition for certiorari and mandamus within 10 days from receipt thereof. The PCC filed said comment on August 8, 2016. In said comment, the PCC prayed that the ₱70 billion deal between PLDT-Globe Telecom and San Miguel be declared void for PLDT and Globe Telecom’s alleged failure to comply with the requirements of the Philippine Competition Act of 2015. The PCC also prayed that the CA direct Globe Telecom to: cease and desist from further implementing its co-acquisition of the San Miguel telecommunications assets; undo all acts consummated pursuant to said acquisition; and pay the appropriate administrative penalties that may be imposed by the PCC under the Philippine Competition Act for the illegal consummation of the subject acquisition. The case remains pending with the CA.

Meanwhile, PLDT filed a similar petition with the CA, docketed as CA G.R. SP No. 146528, which was raffled off to its 12th Division. On August 26, 2016, PLDT secured a TRO from said court. Thereafter, Globe Telecom’s petition was consolidated with that of PLDT, before the 12th Division. The consolidation effectively extended the benefit of PLDT’s TRO to Globe Telecom. The parties were required to submit their respective Memoranda, after which, the case shall be deemed submitted for resolution.

On February 17, 2017, the CA issued a Resolution denying PCC’s Motion for Reconsideration dated September 14, 2016 for lack of merit. In the same Resolution, the Court granted PLDT’s Urgent Motion for the Issuance of a Gag Order and ordered the PCC to remove the offending publication from its website and also to obey the sub judice rule and refrain from making any further public pronouncements regarding the transaction while the case remains pending. The Court also reminded the other parties, PLDT and Globe, to likewise observe the sub judice rule. For this purpose, the Court issued its gag order admonishing all the parties “to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to Intervene, and Admit the Petition-in Intervention dated February 7, 2017 filed by Citizenwatch, a nonstock and non-profit association.

On April 18, 2017, PCC filed a petition before the SC docketed as G.R. No. 230798, to lift the CA's order that has prevented the review of the sale of San Miguel Corp.'s telecommunications unit to PLDT Inc. and Globe Telecom. On April 25, 2017, Globe filed before the SC a Motion for Intervention with Motion to Dismiss the petition filed by the PCC.

As of June 30, 2017, the SC did not issue any TRO on the PCC's petition to lift the injunction issued by the CA. Hence, the PCC remains barred from reviewing the SMC deal.

On July 26, 2017, Globe received the SC en banc Resolution granting Globe's Extremely Urgent Motion to Intervene. In the same Resolution, the Supreme Court treated as Comment, Globe's Motion to Dismiss with Opposition Ad Cautelam to PCC's Application for the Issuance of a Writ of Preliminary Injunction and/or TRO.

On August 31, 2017, Globe received another Resolution of the SC en banc, requiring the PCC to file a Consolidated Reply to the Comments respectively filed by Globe and PLDT, within ten (10) days from notice. Globe has yet to receive the Consolidated Reply of PCC since the latter requested for extension of time to file the same.

In the meantime, in a Decision dated October 18, 2017, the CA, in CA-G.R. SP No. 146528 and CA-G.R. SP No. 146538, granted Globe and PLDTs Petition to permanently enjoin and prohibiting PCC from reviewing the acquisition and compelling the PCC to recognize the same as deemed approved. PCC elevated the case to the SC via Petition for Review on Certiorari.

Co-use of Frequencies by PLDT/Smart and Globe Telecom as a result of the acquisition of controlling shares in VTI

On January 21, 2019, Globe filed its Comment to a petition filed by lawyers Joseph Lemuel Baligod and Ferdinand Tecson before the Supreme Court, against the NTC, PCC, Liberty Broadcasting Network, Inc. (LBNI), Bell Telecommunications Inc. (BellTel), Globe, PLDT and Smart, docketed as G.R. No. 242353. The petition sought to, among others enjoin PLDT/Smart and Globe from co-using the frequencies assigned to LBNI and BellTel in view of alleged irregularities in NTC's assignment of these frequencies to these entities. In its Comment, Globe argued that the frequencies were assigned in accordance with existing procedures prescribed by law and that to prevent the use of the frequencies will only result to its being idle and unutilized. Moreover, in view of the substantial investments made by Globe for the use of these frequencies, enjoining its use will cause grave and irreparable injury not only to Globe but to subscribers who will be deprived of the benefits of fast and reliable telecommunications services. The other Respondents have likewise filed their respective Comments to the petition.

Details on these transactions have been extensively discussed in the disclosures filed by Globe with the SEC and PSE and may be accessed from the PSE and Globe websites.

Item 4. Submission of Matters to a Vote of Security Holders

Except for matters taken up during the annual meeting of stockholders, there was no other matter submitted to a vote of security holders during the period covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

A) Market Information

Principal market where the registrant's common equity is traded.

The following table shows the high and low prices (in PHP) of Ayala Corporation's shares in the Philippine Stock Exchange for the year 2019 and 2018:

	2019		2018	
	High	Low	High	Low
1st qtr	1,000.00	906.00	1,095.00	916.00
2nd qtr	931.00	838.00	990.00	876.00
3rd qtr	983.00	884.50	1,020.00	876.00
4th qtr	879.50	752.00	970.50	882.00

Source: Bloomberg

The market capitalization of the Company's common shares as of end-2019, based on the closing price of ₱785.50/share, was approximately ₱492 billion.

The price information of Ayala common, preferred B series 1 and preferred B series 2 shares as of the close of the latest practicable trading date, March 19, 2020, is ₱394.00, ₱506.60, and ₱498.00, respectively.

B) Holders

The following are the top 20 registered holders of the Company's securities based on the records of our stock transfer agents:

<u>*Common Shares*</u>

There are 6,423 registered holders of common shares as of February 29, 2020.

	Stockholder name	No. of common shares	Percentage of common shares
1.	Mermac, Inc.	296,625,706	47.4069%
2.	PCD Nominee Corporation (Non-Filipino)	162,032,358	25.8961%
3.	PCD Nominee Corporation (Filipino)	107,795,772	17.2280%
4.	Mitsubishi Corporation	37,771,896	6.0367%
5.	Shoemart, Inc.	7,529,203	1.2033%
6.	Sysmart Corporation	1,500,912	0.2399%
7.	SM Investment Corporation	1,418,610	0.2267%
8.	Philippine Remnants Co., Inc.	823,046	0.1315%
9.	ESOWN Administrator 2019	515,904	0.0825%
10.	ESOWN Administrator 2018	486,572	0.0778%
11.	ESOWN Administrator 2016	481,726	0.0770%
12.	ESOWN Administrator 2017	441,426	0.0705%
13.	ESOWN Administrator 2015	431,619	0.0690%
14.	Mitsubishi Logistics Corporation	360,512	0.0576%
15.	ESOWN Administrator 2012	315,963	0.0505%
16.	ESOWN Administrator 2014	291,345	0.0466%
17.	Telengtan Brothers & Sons, Inc.	136,857	0.0219%
18.	Lucio Yan	127,996	0.0205%
19.	Xavier P. Loinaz	126,052	0.0201%
20.	Era Management & Development Corp.	106,118	0.0170%

Preferred B Series 1 Shares

There are 17 registered holders of preferred B series 1 shares as of February 29, 2020.

	Stockholder name	No. of preferred B series 1 shares	Percentage of preferred B series 1 shares
1.	PCD Nominee Corp – Filipino	19,826,660	99.1333%
2.	PCD Nominee Corp – Non Filipino	89,680	0.4484%
3.	Insigne Fortuna Holdings Inc.	19,320	0.0966%
4.	One Point Contact, Inc.	18,000	0.0900%
5.	Mariano Vicente Lim Tan or Katherine Tan or Elena Lim Tan	8,000	0.0400%
6.	Santos, Leonel A. and/or Santos, Alicia	7,000	0.0350%
7.	Tan, Ben Cuevo and/or Tan, Imelda Toralba	6,000	0.0300%
8.	Chan, Raymond O. or Chan Lynette	5,000	0.0250%
9.	Chavez, Felix B. or Aida T. Chavez or Irene T. Chavez	5,000	0.0250%
10.	Philippine British Assurance Company, Inc.	4,000	0.0200%
11.	Zalamea, Enriquez M. Jr.	4,000	0.0200%
12.	Jose Maximillan F. Lumawig or Grace T. Lumawig	4,000	0.0200%
13.	Henry Dy Tan and or Sherly G. Tan	3,400	0.0170%
14.	Macabuhay, Melchor T.	1,540	0.0077%
15.	Bautista, Feliciano M. and or Bautista, Elisa D.	1,000	0.0050%
16.	Lim, Iris Veronica Go	600	0.0030%
17.	GD Tan and Company	200	0.0010%

Preferred B Series 2 Shares

There are three (3) registered holders of preferred B series 2 shares as of February 29, 2020.

	Stockholder name	No. of preferred B series 2 shares	Percentage of preferred B series 2 shares
1.	PCD Nominee Corp – Filipino	29,987,920	99.8027%
2.	PCD Nominee Corp – Non Filipino	12,080	0.1773%
3.	Marieta K. Ilusorio	6,000	0.0200%

Voting Preferred Shares

There are 1,038 registered holders of voting preferred shares as of February 29, 2020.

	Stockholder name	No. of voting preferred shares	Percentage of voting preferred shares
1.	Mermac, Inc.	172,778,760	86.3893%
2.	Mitsubishi Corporation	19,545,678	9.7728%
3.	Deutsche Bank AG Manila OBO UBS HK A/C 12105904001	1,561,478	0.7807%
4.	Fernando Zobel de Ayala	554,983	0.2775%
5.	Jaime Augusto Zobel de Ayala	543,802	0.2719%
6.	CBNA MLA OBO AC 6002079755	364,810	0.1824%
7.	Delfin L. Lazaro	258,297	0.1291%
8.	Britel Fund Trustees Limited	170,064	0.0850%
9.	HSBC Manila OBO A/C 000-808154-573	169,803	0.0849%
10.	Deutsche Regis Partners, Inc. A/C Clients	137,372	0.0687%
11.	BDO Securities Corporation	115,794	0.0579%
12.	AB Capital Securities Inc.	113,164	0.0566%
13.	Deutsche Bank AG, Manila Branch	111,385	0.0557%
14.	Mercedita S. Nolledo	84,996	0.0425%
15.	Ariston Dela Rosa Estrada, Jr.	84,396	0.0422%
16.	Asiasec Equities Inc.	78,007	0.0390%
17.	HSBC Manila OBO A/C 000-083766-550	73,272	0.0366%
18.	HSBC Manila OBO A/C 000-171512-575	72,884	0.0364%
19.	Papa Securities Corporation	69,646	0.0348%
20.	Ansaldo Godinez & Company Inc.	65,977	0.0330%

C) Dividends

Stock Dividends		
Percent	Record Date	Payment Date
20%	May 22, 2007	June 18, 2007
20%	April 24, 2008	May 21, 2008
20%	July 5, 2011	July 29, 2011

Cash Dividends On Common Shares			
Year	Payment Date	Rate (Php)	Record Date
2017	July 22, 2017 December 31, 2017	3.46/share 3.46/share	July 7, 2017 December 15, 2017
2018	July 22, 2018 January 5, 2019	3.46/share 3.46/share	July 6, 2018 December 20, 2018
2019	August 15, 2019 January 4, 2020	4.15/share 4.15/share	July 30, 2019 December 19, 2019

Dividend policy

As a holding company, Ayala's policy is to provide a fixed-rate, semi-annual cash dividend on common shares. For voting preferred shares, the rate is 5.7730% per annum. For non-voting Preferred B Series 1 and 2 shares, the dividends are distributed at the rates of 5.25% and 4.8214% per annum, respectively.

D) Recent Sales of Securities

The following shares were issued to/subscribed by the Company's executives as a result of the exercise of stock options (ESOP) and the subscription to the stock ownership (ESOWN) plans:

	No. of shares	
Year	ESOP	ESOWN*
2018	8,636	518,681
2019	89,611	515,904

Net of cancelled subscriptions.

The above shares formed part of the 8,864,000 ESOP and ESOWN shares subject of the Commission's resolution dated January 12, 2006 confirming the issuance of such shares as exempt transactions pursuant to Section 10.2 of the Securities Regulation Code.

E) Corporate Governance

The Company's corporate governance principles were formalized in its Manual on Corporate Governance, as revised and filed with the SEC on May 31, 2017 (the "Revised Manual"), in compliance with SEC Memorandum Circular No. 19, Series of 2016. The Revised Manual establishes corporate governance practices that are founded on internationally recognized rigorous standards, systems and processes designed to ensure the Company's progress and stability, that an effective system of check and balance is in place and that a high standard of accountability and transparency to all stakeholders is enforced.

The Revised Manual conforms to the SEC's requirements for manuals on corporate governance. It defines primarily the roles and responsibilities of the Board and Management. More importantly, it includes a statement of their respective liabilities in the event of non-compliance with or violation of any of the provisions of the Revised Manual. It also establishes, among others, policies on (a) independent directors, (b) Board committees, (c) conflicts of interest, (d) internal and external audit procedures and practices, including risk management, (e) whistleblowing, (f) stockholders' rights and interests and (g) management's responsibility to communicate and inform stakeholders matters related to the Company's affairs. The principles embodied in the Revised Manual lay the foundation for the appropriate supervision and proper management of the Company to safeguard shareholders and other stakeholders' interests and to ensure the Company's long-term growth and sustainability. In line with this, Ayala ensures its compliance with the Revised Manual, through among others, the following:

i. The Board conducts and accomplishes an annual Board Performance Self-Assessment indicating the compliance ratings. The evaluation system was established to measure or determine the level of compliance of the Board of Directors and top-level management with the Revised Manual and the ratings are submitted to the Chief Compliance Officer who prepares the required Integrated Annual Corporate Governance Report submitted to the SEC.

ii. To ensure good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the Company, as well as the mechanism for monitoring and evaluating Management's performance.

iii. The Company ensures full compliance with the leading practices and principles of good corporate governance contained in the Revised Manual since its adoption.

iv. The Company is taking further steps to enhance adherence to principles and practices of good corporate governance. In line with this, the Board is updating the Charter of the Board of Directors adopted on June 26, 2014 as well as the Revised Manual.

Amendments to the By-Laws

Article and Section Nos.	From	To
Art. III, Sec. 2	The meetings of stockholders may be regular or special, and shall be held at the offices of the Corporation or at any place in Metro Manila designated by the Board of Directors.	The meetings of stockholders may be regular or special, and shall be held at the **principal office** of the Corporation or at any place in **the city where the principal office of the Corporation is located.**
Art. III, Sec. 3	The notice shall be sent to each stockholder by personal delivery or by mail, postal or electronic, addressed to the physical or electronic or e-mail address of the stockholder registered in the books of the Corporation, at least fifteen (15) business days advance of the date for which the meeting is called. The notice shall be deemed to have been given at the time when delivered personally or deposited in the Makati Central Post Office, or sent electronically or by e-mail and addressed as herein provided. Notice of regular or special meeting shall contain, in addition to the date, hour and place of the meeting, a statement of the matters to be transacted at the meeting, and no business other than that specified in the call shall be transacted at such meeting. The notice of the stockholders' meeting shall also set the date, time and place of the validation of proxies, which in no case, shall be less than five (5) business days prior to the stockholders' meeting.	The notice shall be sent to each stockholder by personal delivery, by mail, postal or electronic, **or by such other manner as allowed by the Securities and Exchange Commission,** addressed to the physical or electronic address of the stockholder registered in the books of the Corporation. **For regular meetings, the notice shall be sent at least twenty-one (21) days prior to the date of the meeting, while for special meetings, at least one (1) week written notice shall be sent to all stockholders.** The notice shall be deemed to have been given at the time when delivered personally or deposited in the Makati Central Post Office, or sent electronically**, or sent by such other manner allowed by the Securities and Exchange Commission** and addressed as herein provided. Notice of regular or special meeting shall contain, in addition to the date, hour and place of the meeting, a statement of the matters to be transacted at the meeting, and no business other than that specified in the **notice** shall be transacted at such meeting. **Any director or stockholder may propose any other matter for inclusion in the agenda at any regular or special stockholders meeting, subject to reasonable guidelines issued by the Board which are consistent with applicable laws, rules and regulations of the Securities and Exchange Commission, as may be amended from time to time.** The notice of the

		stockholders' meeting shall also set the date, time and place of the validation of proxies, which in no case, shall be less than five (5) business days prior to the stockholders' meeting. **<u>The notice shall also contain the procedures to be followed when a stockholder elects to vote through remote communication or *in absentia*.</u>** x x x **<u>Notice to any meeting may be waived, expressly or impliedly, including through a stockholder's attendance at a meeting unless the stockholder's presence is for the express purpose of contending that the meeting is not lawfully convened.</u>**
Art. III, Sec. 11	The Board of Directors shall fix a record date for the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action.	The Board of Directors shall fix a record date for the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, **<u>provided that the stock and transfer book shall be closed at least twenty (20) days for regular meetings and seven (7) days for special meetings, before the scheduled date of the meeting.</u>**
Art. IV, Sec. 1	The Board of Directors is the supreme authority in matters of governance and in managing the regular and ordinary business of the Corporation. Within their chartered authority, the directors acting as a board have the fullest powers to regulate the concerns of the Corporation according to their best judgment. It shall be the Board's responsibility to promote and adhere to the principles and best practices of corporate governance and to foster the long-term success of the Corporation and secure its sustained competitiveness in the global environment in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Corporation, its shareholders and other stakeholders. x x x As a corporation publicly listed in the Philippine Stock Exchange (PSE), the Corporation shall conform with the requirement to have such number of independent directors as may be required by law, and with the procedures for the nomination and election of independent directors as prescribed by law or regulations.	x x x As a corporation publicly listed in the Philippine Stock Exchange (PSE), the Corporation shall **<u>comply</u>** with the requirement to have such number of independent directors as may be required by law, and with the **<u>legally prescribed procedures for their nomination and election</u>**.

Art. IV, Sec. 3	No person shall qualify or be eligible for nomination or election to the Board of Directors if he is engaged in any business which competes with or is antagonistic to that of the Corporation. x x x For the proper implementation of this provision, all nominations for election of Directors by the stockholders shall be submitted in writing to the Board of Directors at least thirty (30) business days before the date of the regular meeting.	No person shall qualify or be eligible for nomination or election to the Board of Directors **if he is in possession of any of the grounds for disqualification provided in applicable laws and the rules and regulation of the Securities and Exchange Commission, as may be amended from time to time, or** if he is engaged in any business which competes with or is antagonistic to that of the Corporation. x x x For the proper implementation of this provision, all nominations for election of Directors by the stockholders shall be submitted in writing to the **Corporate Governance and Nomination Committee** at least thirty (30) business days before the date of the regular meeting **of the stockholders**.
Art. IV, Sec. 4	An Independent Director shall hold no interests or relationships with the Corporation that may hinder his independence from the Corporation or Management which would materially interfere with the exercise of independent judgment in carrying out the responsibilities of a Director. An Independent Director shall submit to the Corporate Secretary a letter of confirmation stating that he holds no interests affiliated with the Corporation, Management or controlling shareholder at the time of his election or appointment and/or re-election as a Director.	-
Art. IV, Sec. 5	In case any vacancy or vacancies should occur on the Board of Directors during the period between two stockholders' meetings due to death, resignation or other causes, the remaining Directors, if still constituting a quorum, may fill said vacancies by election from among the stockholders, and the stockholders so elected shall act as members of said Board until the new Board of Directors is elected.	**Section 4** – **Any vacancy due to expiration of term shall be filled no later than the day of such expiration at the annual stockholders' meeting. For any vacancy arising from removal by the stockholders, the election shall be held on the same meeting if so stated in the agenda and notice of meeting. In all other cases, the vacancy may be filled by at least a majority vote of the remaining directors, if still constituting a quorum; otherwise, the vacancy shall be filled in a special stockholders' meeting called for that purpose, in any instance no later than forty-five (45) days from the time the vacancy occurred. The director so elected shall be referred to as replacement director and act as a member of the said Board only for the unexpired term of his predecessor.** **However, when the remaining directors cannot constitute a quorum and**

		<u>emergency action is required to prevent grave, substantial or irreparable loss or damage to the Corporation, the vacancy may be temporarily filled from among the officers of the Corporation by the unanimous vote of the remaining directors. The designated director's actions shall be limited to any necessary emergency action and his term shall cease within a reasonable time from the termination of the emergency or upon election of the replacement director, whichever comes first.</u>
Art. IV, Sec. 6	The Board of Directors shall designate the days when it shall meet in regular session, but it shall meet at least six (6) times a year. It may be convened in special session by the Chairman or at the request of three (3) Directors.	**Section 5** – The Board of Directors shall designate the days when it shall meet in regular session, but it shall meet at least six (6) times a year. It may be convened in special session by the Chairman or at the request of three (3) Directors. (**<u>Two-thirds (2/3) of the number of directors as fixed in the articles of incorporation shall constitute a quorum for the transaction of corporate business, except for the election of officers, which shall require the presence of all directors.</u>** **<u>Participation of directors, including voting, at board meetings can be in person, through remote communication, such as videoconferencing, teleconferencing or other alternative modes of communication allowed by the Securities and Exchange Commission. Participation and voting cannot be done by proxy.</u>**
Art. IV, Sec. 7	The Board of Directors shall have the following duties, powers and attributes, in addition to those assigned to it by the Corporation Code and other sections of these By-Laws: a. Determine the period, manner and conditions under which the Corporation shall engage in the kinds of businesses comprised in Article II of the Articles of Incorporation; b. Determine the manner in which the corporate capital shall be invested, subject to the provisions of Article II of these By-Laws; c. Make rules for the internal regulation of the company; d. Create committees and other bodies it may deem advantageous and necessary in running the affairs of the Corporation, as well as appoint advisory Directors who can participate in board deliberations but whose functions shall be strictly advisory and non-voting; and appoint officers as the Board may deem necessary, and fix their duties and	**Section 6** - The Board of Directors shall have the duties, powers and attributes, assigned to it by the Corporation Code, **<u>as may be amended from time to time</u>**, **<u>other sections of these By-Laws, the Board Charter and the Corporate Governance Manual</u>**. (

	powers; (As Amended on 4 December 2014). e. Determine the creation of branches, agencies, office departments of any class, under the conditions it may deem convenient; f. Decide as to the safekeeping of the funds of the Corporation, open current accounts, fixed deposit accounts and savings accounts with any bank authorized to operate in the Philippines and/or abroad; g. Approve the budgets and general expense accounts of the Corporation; h. Fix annually the percentage to be written off on all capital expenditures of the Corporation such as buildings, furniture and fixtures, etc. and determine the distribution of profits and dividends. i. Submit annually to the annual meeting of stockholders the Balance Sheet, Profit and Loss Statement and Annual Report on the condition of the Corporation; j. Call special meetings of stockholders; k. Authorize any other person or persons it may deem fit, aside from the Chairman of the Executive Committee, to purchase, sell, or mortgage the real or personal properties of the Corporation; l. Authorize any other person or persons it may deem fit, aside from the Chairman of the Executive Committee, to cancel mortgages or pledges executed as securities for loans and bonds when the mortgages have been repaid to the Corporation and when the bonds have been cancelled; m. Determine the time and manner of issuance of unissued stocks and treasury shares of the Corporation (As amended on 4 December 2014); n. Fix, upon the recommendation of the Chairman of the Executive Committee, the budget of administration expenses; o. Determine the manner and conditions under which employees of the Corporation shall be granted pensions, retirement gratuity or life insurance protection; p. Institute, maintain, defend, compromise or drop any litigation in which the Corporation or its officers may be interested in as plaintiff or defendant in connection with the business of the Corporation and grant extension of time for the payment or settlement of any indebtedness in favor of the Corporation;	

	q. Settle any doubts that may arise relative to the interpretation of these By-Laws and supply any omissions, reporting thereon to the stockholders' General Meeting for such action as it may see fit to take.	
-	-	**Section 7** – **Directors with interest, potential or otherwise, in any related party transaction shall timely and fully disclose any and all material facts and abstain from deliberations on and approval of the same without prejudice to compliance with the requirements of the law and the rules and regulations of the Securities and Exchange Commission, as may be amended from time to time. Material related party contracts, as defined in applicable laws, rules and regulations of the Securities and Exchange Commission, shall be approved by at least two-thirds (2/3) of all the directors, including at least a majority of the independent directors.**
Art. IV, Sec. 8	Directors and officers may borrow money from the Corporation subject to review and approval to ensure that they are at arm's length, the terms are fair, and they will inure to the best interest of the Corporation and its shareholders, in accordance with the Corporation's Policy on Related Party Transactions.	-
Art. IV, Sec. 9	The corporate signature required for contracts, powers of attorney, etc., of all kinds shall be that of the Chairman of the Executive Committee alone, or that of any other person or persons that the Board may designate. Checks and orders of payment shall be signed by the Chairman of the Executive Committee, or by the President, or by the Chief Finance Officer or Treasurer, or by the persons or persons that the Board may designate.	-
Art. IV, Sec. 10	The Chairman of the Board of Directors shall have the following powers: a. To preside at all of stockholders' meetings and meetings of the Board of Directors; and b. To exercise such other powers which are given him by these By-Laws.	**Section 8** - The Chairman of the Board of Directors shall have the following powers: a. To preside at all of stockholders' meetings and meetings of the Board of Directors; b. **To cast the deciding vote in case of a tie in the stockholders' meetings or in the Board meetings; and** c. To exercise such other powers which are given him by these By-Laws.
Art. IV, Sec. 11	Likewise, the Chairman of the Executive Committee shall manage the business of the Corporation and shall have the following additional powers and duties: a. Prepare semi-annually the budget of administration expenses;	**Section 10 –** With the consent of the Board of Directors, the Chairman of the Executive Committee may delegate to any of the officers of the Corporation any and all powers granted him under this section, provided, however, that such delegation shall not divest the

	b. Appoint and discharge the employees occupying the positions authorized by the Board of Directors or by the Executive Committee; c. Supervise the accounting and cash and sign, with the President and the Chief Finance Officer or Treasurer, the Balance Sheet, Profit and Loss Statement and Annual Reports. d. Attend to the correspondence and sign receipts for incoming monies. With the consent of the Board of Directors, the Chairman of the Executive Committee may delegate to any of the officers of the Corporation any and all powers granted him under this section, provided, however, that such delegation shall not divest the Chairman of the authority to exercise the same powers. Any delegation of powers made by the Chairman of the Executive Committee pursuant to the provisions of the next preceding paragraph should likewise be submitted for ratification and confirmation at the next annual meeting of stockholders.	Chairman of the authority to exercise the same powers. Any delegation of powers made by the Chairman of the Executive Committee pursuant to the provisions of the next preceding paragraph should likewise be submitted for ratification and confirmation at the next annual meeting of stockholders.
Art. IV, Sec. 20	Each Director shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as Director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the Directors. In no case shall the total yearly compensation of Directors exceed one percent (1%) of the net income before income tax of the Corporation during the preceding year. The compensation and remuneration committee of the Board of Directors shall have the responsibility of recommending to the Board of Directors the fees and other compensation for directors. In discharging this duty, the committee shall be guided by the objective of ensuring that the level of compensation should fairly pay directors for work required in a company of the Corporation's size and scope.	**Section 14 – <u>Directors</u>** shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for their services. In no case shall the total yearly compensation of Directors exceed one percent (1%) of the net income before income tax of the Corporation during the preceding year. The **<u>Personnel and Compensation Committee</u>** of the Board of Directors shall have the responsibility of recommending to the Board of Directors the fees and other compensation for directors. In discharging this duty, the committee shall be guided by the objective of ensuring that the level of compensation should fairly pay directors for work required in a company of the Corporation's size and scope. **<u>No Director shall be involved in deciding his own remuneration during his incumbent term.</u>**
Art. V	**OF MANAGEMENT**	**OF MANAGEMENT <u>AND OFFICERS</u>**
Art. V, Sec. 1	Management stands as the locus of decision-making for the day-to-day affairs of the Corporation.	Management stands as the locus of decision-making for the day-to-day affairs of the Corporation **<u>and is primarily accountable to the Board of Directors for the operations of the Corporation.</u>**
Art. V, Sec. 2	Management is primarily accountable to the Board of Directors for the operations of the Corporation. As part of its accountability, it is also obligated to provide the Board with complete, adequate information on the	-

	operations and affairs of the Corporation in a timely manner. It shall inform the Board regularly, promptly and comprehensively about any issues concerning the Corporation's strategy, risk management and compliance.	
-	-	**Section 2** – **The Chief Executive Officer shall determine the Corporation's strategic direction and formulate and implement its strategic plan on the direction of the business, oversee the operations of the Corporation and manage human and financial resources in accordance with the strategic plan , and such other powers which may be assigned to him by the Board.** **Section 3 – The President shall have exercise general supervision of the business, affairs and property of the Corporation, and over its officers and employees and such other the powers which may be delegated to him by the Chairman of the Executive Committee, with the consent of the Executive Committee.** **Any delegation of powers by the Chairman of the Executive Committee to the President shall be submitted for ratification and confirmation by the stockholders pursuant to the provisions of the last paragraph of Section 10 of Article IV.** **In the absence of the President, the Acting President, shall be, in this order of precedence, (a) The Chief Executive Officer; (b) the Chairman of the Executive Committee; and (c) any Senior Officer, as may be determined by the Board of Directors.** **Section 4** – **The Treasurer or a Vice President (or Managing Director) so appointed by the Board of Directors shall have custody of the funds, credit instruments and documents of the Corporation and shall furnish a bond, conditioned on the faithful performance of this duties, in a sum to be fixed by the Board of Directors.** **Section 5** – **The Secretary shall prepare and keep the minutes of all meetings of the Board of Directors and stockholders and attend to the correspondence and files of the Corporation, sign, jointly with the President, all stock certificates, keep and affix the Corporate seal, record all transfers of stock and cancellations and keep all stock certificates transferred, likewise, keep a list in alphabetical order of all stockholders of the Corporation and of their residences and the shares owned by each, and perform all other duties which may be assigned to him by the Board of Directors.**

		Section 6 – **<u>The Compliance Officer shall ensure compliance by the Corporation, its directors and officers with applicable laws, rules and regulations, and governance issuances of regulatory agencies, proper onboarding of new directors, identification and appropriate resolution of any compliance issues, and the integrity and accuracy of all documentary submissions to regulators, and perform all other duties which may be assigned to him by the Board of Directors.</u>** **Section 7 – <u>In case of illness or absence of any officer of the Company, he shall be temporarily replaced by any other officer that the Chairman of the Executive Committee may designate.</u>**
-	-	**ARTICLE VIII** **<u>ARBITRATION</u>** **<u>Section 1 – Any dispute, controversy or claim between the Corporation and its stockholders arising from, relating to, or in connection with the implementation of the articles of incorporation or by-laws, or from intra-corporate relations, except those involving criminal offenses and interests of third parties, may be referred to and resolved by arbitration in accordance with prevailing Philippine Dispute Resolution Center, Inc. (PDRCI) Arbitration Rules and Securities and Exchange Commission Rules and Regulations.</u>** **<u>Section 2 – The number of arbitrators shall be three (3) appointed by the Philippine Dispute Resolution Center, Inc. (PDRCI) and the place of arbitration shall be in Metro Manila, Philippines. The language to be used for the arbitral proceedings shall be English.</u>** **<u>Section 3 – The parties shall be bound by the award rendered by the Arbitral Tribunal and confirmed by the appropriate Regional Trial Court. Arbitration shall not be available for disputes involving claims in excess of One Million Pesos (Php1,000,000.00) or involving the determination of the fair valuation of shares in appraisal proceedings.</u>**
Art. VIII	**MISCELLANEOUS AND TRANSITORY PROVISIONS**	**<u>ARTICLE IX</u>** **MISCELLANEOUS AND TRANSITORY PROVISIONS**

For further details please refer to Item 13.A. Corporate Governance of Part IV Corporate Governance and Sustainability.

Item 6. Management's Discussion and Analysis or Plan of Operations

2019

Full-Year Highlights

- Ayala Corporation's full year earnings amounted to ₱35.3 billion, including the divestments gains of ₱23.6 billion from AC Education and AC Energy.
- Strong consumer driven revenue growth of ALI, Globe and BPI drove the bottom-line.
- Results tempered by the recognition of a remeasurement loss of ₱18.1 billion for Manila Water.
- Slowdown in AC Industrials resulted in a net loss of ₱2.4 billion.

In December 2019, Ayala recognized a remeasurement loss of ₱18.1 billion as a result of the reclassification of its investment in Manila Water (MWC) as asset held under PFRS 5 (the accounting standard for assets held for sale). This accounting standard requires applying a fair market value accounting for Ayala's investment in MWC, if the completion of the divestment and or subsequent loss of voting control is expected to occur within one year from the date of the financial statement. It also requires the assets and liabilities of MWC to be presented as one line item in the consolidated balance sheet and P&L in 2019 as opposed to line by line consolidation in prior years.

Please see as summary table below showing the effect of accounting for MWC investment under PFRS 5.

	2019			
(in million pesos)	Pre - MWCI Reclass	PFRS 5 Reclass	Final	**2018**
Continuing Operations				
Revenues	284,704	(19,797)	**264,907**	**256,891**
Share of profit of associates & joint ventures	22,998	(654)	**22,344**	**19,761**
Interest & other income	55,995	(12,340)	**43,655**	**18,642**
	363,697	(32,791)	**330,906**	**295,293**
Cost of sales	198,207	(8,223)	**189,983**	**189,707**
General and administrative	75,737	(43,624)	**32,113**	**25,957**
Interest expense & other charges	35,337	(12,928)	**22,410**	**17,379**
Provision for income tax	12,433	1,551	**13,984**	**13,367**
	321,714	(63,225)	**258,490**	**246,410**
Net income from continuing operations	41,982	30,433	**72,416**	**48,884**
Operations segment under PFRS 5	-	(30,433) *[a]*	**(30,433)**	**6,181**
Net Income (NIAT)	41,982	-	**41,982**	**55,065**
NIAT - owners of Parent Co	35,279		**35,279**	**31,818**
NIAT - noncontrolling interests	6,703		**6,703**	**23,247**

[a] Includes the 2019 NIAT of MWCI less consolidation adjustments and the P35.2Bn after-tax remeasurement loss on MWCI Investment (P18.1 Bn AC share).

Consolidated Sales of Goods and Services

Sale of goods and rendering services rose three percent to ₱264.9 billion on higher revenues from Ayala Land's sale of commercial lots and office spaces, middle-market residential products, and improved performance of its leasing segments. This was further supported by increments from AC Energy's retail electricity supply unit and AC Health. However, this was partly offset by AC Industrials' lower revenues.

Real Estate

The conglomerate's real estate arm, Ayala Land, saw a 13 percent growth in its bottom-line in 2019, which reached ₱33.2 billion for the year. Meanwhile, its total revenues increased by two percent to ₱168.79 billion from ₱166.25 billion the previous year, mainly supported by office and commercial and industrial lot sales as well as higher contribution of new leasing assets.

Property development revenues was slightly down two percent year-on-year, reaching ₱117.6 billion in 2019. The performance was due to an eight percent decline in residential revenues given the lower

contribution of its Ayalaland Premier and ALVEO brands as most of its vertical projects recognized in 2019 were booked in previous periods and are nearing completion. On the other hand, it exhibited growth in office for sale developments and commercial and industrial lots, which rose 12 percent and 46 percent, respectively.

During the year, Ayala Land introduced three new estates and successfully launched ₱158.9 billion worth of property development projects.

On the other hand, commercial leasing saw double-digit growth from all its segments as it expanded 13 percent to ₱39.3 billion during the year. Revenues from shopping centers grew 11 percent to ₱22.0 billion from ₱19.91 billion on the back of sustained growth from its stable malls and increased contributions from its newly opened malls, Ayala Malls Feliz, Capitol Central, and Circuit Makati. Similarly, office leasing revenues increased by 12 percent to ₱9.67 billion from previous year's ₱8.61 billion, with the new offices in Ayala North Exchange, Vertis North, and Circuit Makati improving the segment's performance. Revenues coming from hotels and resorts rose by 19 percent to ₱7.62 billion from ₱6.39 billion in 2018 on strong patronage of Seda Ayala Center Cebu and Seda Lio.

Ayala Land expanded its leasing portfolio with malls and offices totaling 2.1 million and 1.2 million square meters of gross leasing area, respectively, and hotels and resorts with 3,705 rooms.

Ayala Land spent a total of ₱108.7 billion in capital expenditures in 2019. Most of the amount supported the construction of residential projects at 40 percent of total. Following this,26 percent was spent on the company's rental assets, 17 percent on land acquisition, 14 percent on estate development and the rest on other investments.

Ayala Land, through its subsidiary, AREIT Inc., became the first Philippine company to file a real estate investment trust (REIT) offering to the Securities and Exchange Commission last February 7, 2020. AREIT is seeded with Grade A office assets located in Makati CBD and is expected to expand its portfolio with new acquisitions in the future. Through this initial capital market transaction, Ayala Land hopes to pave the way for the development of a REIT market in the country, bringing another milestone to the Philippine stock market. Ayala Land seeks to do an Initial Public Offering (IPO) of AREIT, Inc. after receiving the regulatory approvals from the SEC and the PSE.

Water

Manila Water's full-year net profits dipped 16 percent year on year to ₱5.5 billion as the water supply shortage in March severely impacted the East Zone concession while some cost-side challenges also weighed down on profitability.

The decline in La Mesa dam water levels caused water service availability to drop significantly, with the dam reaching its lowest level at 68.5 meters in April 2019. To assist severely affected customers, Manila Water implemented a one-time Bill Waiver Program. Additionally, in July, raw water allocation from Angat Dam hit its lowest, with releases limited to 35 cubic meters per second for the MWSS Concessionaires. To mitigate this, Manila Water pushed for network efficiency to maintain service availability by ensuring water service of at least 7 pounds per square inch (psi) of pressure, enough to reach the ground floor level, enabling it to serve more than 7 million people covering over 1.3 million households in the East Zone.

Throughout 2019, Manila Water also affirmed its wastewater commitment of providing 32 percent coverage of the East Zone by 2021. Wastewater coverage in the East Zone is currently over 30 percent, equivalent to two million people served through nearly 400 kilometers of laid sewer network. Wastewater coverage was only at three percent prior to Manila Water taking over operations from MWSS in 1997.

Considering these factors, costs and expenses for the East Zone concession increased 32 percent to ₱6.4 billion for the year, mainly driven by the ₱534 million penalty imposed by MWSS and additional service recovery and operations costs. In all, the Manila concession's net income for the year was at ₱5.1 billion, a decline of 22% from 2018.

In February, Ayala announced a strategic partnership with an infrastructure company of Enrique K. Razon Jr., Prime Metroline Holdings Inc., through a company that it will incorporate for the transaction (hereafter, "Trident Water"), with the acquisition of a 25 percent stake in Manila Water. Ayala remains a shareholder with a 38.6 percent stake. Subsequently, Ayala announced that as part of the shareholder agreement to be executed among Ayala, its wholly owned subsidiary Philwater Holdings Company, and Trident Water, the conglomerate's Executive Committee approved the grant of proxy rights by Philwater

to Trident Water over such number of preferred shares to enable the latter to achieve 51 percent voting interest in Manila Water. Upon the grant of proxy rights to Trident Water, Ayala's effective voting interest in Manila Water will stand at 31.6 percent. The shareholders' agreement will become effective after the closing of the subscription agreement, which will occur after certain conditions are met, including required lenders' consent and regulatory approvals.

Power

Ayala's more recent core business, AC Energy, registered net profits of ₱24.6 billion in 2019, lifted by contribution from its solar projects in Vietnam, recovery of costs incurred from adjustments in the construction and operations of its power plants, and gains from the partial divestment of its thermal assets. AC Energy increased its attributable energy output in 2019 by 25% to 3,500 Gigawatt hours, of which 50% came from renewables sources.

As it shifts its portfolio towards renewable energy, AC Energy has a pipeline of more than 1,000MW in various renewable projects in the Philippines and overseas that are expected to reach financial close within 2020. This will bring AC Energy's renewable energy capacity close to 2,000MW by the end of 2020, in line with its goal of achieving 5,000MW of renewables capacity by 2025.

AC Energy saw several developments that supported its international businesses. The start of operations of the company's solar farms in Vietnam supported profits during the year. Three plants with a total of 410MW commenced commercial operations in the second quarter, in time to meet Vietnam's solar feed-in tariff deadline.

AC Energy also announced a joint venture project with UPC Solar Asia Pacific, its existing partner for various projects in and out of the Philippines, for the development of solar projects in the Asia-Pacific region.

In addition, AC Energy and Yoma Strategic Holdings Ltd. also announced its decision to form a 50:50 joint venture to drive the growth of Yoma Micro Power (S) Pte. Ltd., and jointly explore developing around 200MW of additional renewable energy projects within Myanmar including participation in large utility scale renewable projects.

Locally, subsidiary AC Energy Philippines signed share purchase agreements to increase its stakes in the North Luzon Renewables wind project, and the Sacasol and Islasol solar plants. It also started the construction of the 120MW Alaminos solar plant and the 150MW Ingrid peaking plant.

In line with its commitment to scale up its renewable energy investments, AC Energy issued two green bonds in 2019, effectively raising US$810 million in fresh capital to support its pipeline of renewable energy projects. The first issuance, which happened in January-February 2019, was the power company's maiden green bonds and fetched a total amount of US$410 million. The bonds were the first publicly syndicated Climate Bond Initiative-certified US$ Green Bonds in Southeast Asia. Subsequently in November, AC Energy raised US$400 million through the first ever US dollar denominated fixed-for-life green bond issued globally. The perpetual green bonds were listed on SGX-ST and certified under the ASEAN Green Bonds Standards by the Philippine Securities and Exchange Commission on 18 November 2019.

Industrial Technologies

AC Industrials recorded a net loss of ₱2.4 billion as headwinds in both the electronics manufacturing services industry and the global auto industry hampered earnings across its several business lines.

The company's EMS platform, Integrated Micro-Electronics Inc., continued to weather challenges in its main market segments, particularly the industrial and consumer spaces. As the automotive sector contracted globally, most notably in China, IMI's revenues, dropped 17 percent year-on-year. Additionally, investments in capacity and technical capabilities for future growth increased the company's overhead expenditures, which partly affected gross profit margins. Overall, these factors hindered IMI growth in 2019, with the company posting a net loss of US$7.8 million for the year.

Revenues from IMI's wholly owned operations tallied at US$1 billion, down 7 percent from the previous year. The company's Asian operating units dropped a total of 11 percent, as a function of the aforementioned slowdown in China's automotive market for the year. This was offset by the performance of IMI Europe, also largely automotive based, which grew three percent year-on-year as the company's newest production facility in Serbia continued its ramp-up in its first full year of

operations. In parallel, IMI's Mexico operations, which serve the North American markets, continued their robust trajectories with a 50 percent revenue growth in 2019.

IMI's core subsidiaries, Via Optronics and STI, Ltd., posted combined revenues of $248 million, a decline of 21 percent from the previous year. VIA's drop was mainly driven by the slump in the overall computing consumer segment and the delay in the release of a new generation component from one of its major customers. Meanwhile, the uncertainty over Brexit, which persisted at least through 2019, caused some delays in the awarding of several contracts where STI is a key competitor.

AC Industrials' Philippine vehicle distribution and retail arm, AC Motors, recorded a net loss of ₱337 million on lower sales volumes across its Honda, Isuzu, Kia, and Volkswagen brands. The domestic automotive market grew moderately in 2019 by four percent to over 416,000 vehicles sold. As the industry recovers from the previous year's sizable, policy-driven decline, competition continues to be highly competitive, with over 50 players vying for slowly recovering customer demand.

Meanwhile, AC Industrials' startup investments, Merlin Solar, MT Technologies, and C-CON, recorded higher net losses during the period as they continue to grow their revenue pipelines, invest in capacity and infrastructure, and manage underutilization of capacity resulting from the global downturn in automotive and manufacturing.

Share in Net Profits of Associates and Joint Ventures

Share in net profits of associates and joint ventures expanded 13 percent to ₱22.3 billion on Globe's higher revenues and lower non-operating expenses and BPI's higher interest and non-interest income. This was, however, partly offset by lower earnings from AC Energy's investee companies.

Banking

BPI's net earnings, which was supported by solid core income, higher securities trading gains, and steadily growing fee-based businesses, jumped 25 percent to ₱28.8 billion in 2019.

Total revenues grew 20 percent to ₱94.3 billion as both net interest income and non-interest income saw robust growth for the full year. BPI's net interest income was up 18 percent to ₱65.9 billion on the back of a 9-percent improvement in average asset base and a 24-basis point expansion in net interest margin. Net interest margin increased from 3.11% in 2018 to 3.35% in 2019, as a result of asset yields rising 69 basis points, partially offset by higher cost of funds.

Total loans grew 9 percent year-on-year, reaching ₱1.48 trillion, primarily driven by consumer loans which grew 13 percent, much faster than corporate and SME loans, which also grew 8 percent and 6 percent, respectively. Total deposits rose 7 percent to ₱1.70 trillion during the year. The bank's CASA ratio stood at 69.1%, while the loan-to-deposit ratio was at 87.0%.

Non-interest income was ₱28.4 billion, an increase of 25 percent versus 2018, primarily from higher securities trading gains and fee-based income. Fees, commissions, and other income increased by 12 percent, driven by higher fees from credit cards, transaction banking, branch services, and digital channels.

Operating expenses totaled ₱50.1 billion, higher by 15 percent from the previous year. Cost-to-income ratio was at 53.1%, lower than the 55.5% recorded in the prior year. Provision for losses for 2019 was ₱5.8 billion, increasing the Bank's loss coverage ratio to 104.8%. NPL ratio improved to 1.66% from 1.85% in 2018.

The bank's total assets stood at ₱2.21 trillion, higher by 6 percent year-on-year, with return on assets at 1.38%. Total equity amounted to ₱269.6 billion, with a common equity tier 1 ratio of 15.17% and capital adequacy ratio of 16.07%, both well above regulatory requirements. Return on equity for 2019 was at 10.97%.

BPI also issued over P3.1 billion of Long-Term Negotiable Certificates of Time Deposit (LTNCTDs) in October 2019. The LTNCDs have a tenor of 5.5 years and an interest rate of 4% p.a. In December 2019, BPI Family Savings Bank ("BFSB"), the Bank's wholly-owned thrift bank and consumer lending unit, issued ₱9.6 billion of 2.5-year bonds with an interest rate of with 4.3% p.a.

Telco

Globe's net income ended at ₱22.3 billion, up 20 percent, boosted by the company's data-related products and services.

Overall, Globe's total service revenues were up 12 percent to ₱149 billion, lifted by data-related services, which accounted for 71 percent of the total.

The company's strategy is aligned to the evident growth in data driven customers across all segments. Mobile data users rose 7 percent to 39.6 million subscribers, which consequently pushed mobile data traffic up substantially by 78 percent to 1.7 petabytes. Likewise, the company's home broadband subscriber base increased 25 percent to over 2 million customers as Globe Home Pre-paid Wifi gained more traction in its segment. In order to further solidify its foothold in the home broadband space through an expanded portfolio of data offerings, Globe also launched At Home Air Fiber 5G on July 2019.

Globe's EBITDA ended at ₱76 billion, up 17 percent due to robust service revenues as well as subdued operating expenses. Operating expenses grew a modest eight percent despite higher costs related to marketing, subsidies, and staff as interconnect charges dropped significantly during the period. The company's EBITDA margin was steady at 51 percent for 2019.

Capital expenditure reached a record-high of ₱51 billion, 18 percent higher year-on-year. This was allocated to fast-tracking network rollout. During the year, Globe put up more sites and added more 3G and 4G base stations.

Costs and Expenses

General and administrative expenses rose 24 percent to ₱32.1 billion, mainly driven by AC Energy's higher manpower costs, professional fees, and restructuring costs related to the partial divestment of its thermal assets drove the increase. AC Industrials' manpower and advertising costs as well as AC Health's clinic network expansion and the consolidation of Generika and Entrego into AC Health and AC Infra, respectively, likewise drove the higher GAE.

Balance Sheet Highlights

The company's balance sheet remains strong with enough capacity to support its future investments and cover dividend and debt obligations.

At the end of 2019, Ayala's total assets stood at ₱1.3 trillion. Investment properties expanded 8 percent to ₱246.7 billion on the back of ALI's malls and office expansion. Investments in associates and joint ventures, meanwhile, ended at ₱246.7 billion on account of higher equity in net earnings contribution of BPI and Globe as well as additional investments made by Ayala Land, AC Health, AC Infra, and AC Ventures.

At the end of 2019, total debt at the consolidated level stood at ₱405.3 billion, two percent lower from its end-2018 level, despite additional borrowings of Ayala Land and AC Energy as MWCI's total debt of ₱56.4 billion was reclassified to liabilities under PFRS 5.

Ayala's parent level cash stood at ₱22.6 billion, with net debt at ₱83.2 billion. Ayala's parent net debt-to-equity ratio stood at 63 percent. The conglomerate's loan-to-value ratio, the ratio of its parent net debt to the total value of its assets, was at 6.5 percent at the end 2019.

Capital Expenditure

The consolidated capital expenditure of the group reached ₱215 billion in 2019, mainly driven by Ayala Land and Globe, which respectively tallied ₱109 billion and ₱51 billion in capital outlay for the year. Parent-only capital expenditure, on the other hand, reached ₱30 billion, which went mostly to the newer businesses of Ayala. For 2020, the Ayala Group has programmed ₱275 billion in capital expenditures, of which ₱20.8 billion has been earmarked under the parent to support the emerging businesses in its portfolio.

Key performance indicators of the Company and its significant subsidiaries

The table sets forth the comparative key performance indicators of the Company and its significant subsidiaries.

Ayala Corporation (Consolidated)

(In million pesos, except ratios)	**2019**	**2018**	**2017**
Income*	295,265	283,801	249,669
Net Income Attributable to Equity Holders	35,279	31,818	30,264
Total Assets	1,345,286	1,197,926	1,021,546
Total Debt	405,338	412,262	350,612
Total Stockholders' Equity	509,314	469,108	411,092
Current Ratio[1]	1.51	1.25	1.39
Debt to Equity Ratio[2]	0.80	0.88	0.85

** Excludes MWCI accounts which are shown as Operations of the segment under PFRS 5 (see Note 25 of the Group's consolidated financial statement)*

Ayala Land, Inc.

(In million pesos, except ratios)	**2019**	**2018**	**2017**
Revenue	166,705	163,747	139,373
Net Income Attributable to Equity Holders	33,188	29,241	25,305
Total Assets	713,923	668,820	573,992
Total Debt	211,097	187,099	174,386
Total Stockholders' Equity	242,706	220,221	192,263
Current Ratio[1]	1.30	1.26	1.30
Debt to Equity Ratio[2]	0.87	0.85	0.91

Integrated Micro-Electronics, Inc.

(In thousand US dollars, except ratios)	**2019**	**2018**	**2017**
Revenue	1,250,366	1,349,400	1,090,588
Net Income Attributable to Equity Holders	-7,781	47,187	34,002
Total Assets	1,096,336	1,077,197	920,918
Total Debt	268,475	324,314	300,154
Total Stockholders' Equity	483,779	410,635	276,595
Current Ratio[1]	1.49	1.31	1.28
Debt to Equity Ratio[2]	0.55	0.80	1.09

Manila Water Company, Inc.

(In million pesos, except ratios)	**2019**	**2018**	**2017**
Revenue	21,950	19,836	18,516
Net Income Attributable to Equity Holders	5,496	6,524	6,147
Total Assets	134,602	122,533	103,394
Total Debt	56,356	51,647	39,724
Total Stockholders' Equity	55,991	53,621	48,561
Current Ratio[1]	0.66	0.59	1.09
Debt to Equity Ratio[2]	1.01	0.96	0.82

AC Energy, Inc.

(In million pesos, except ratios)	**2019**	**2018**	**2017**
Revenue	15,788	10,059	6,501
Net Income Attributable to Equity Holders	24,966	4,070	3,509
Total Assets	209,055	105,443	79,031
Total Debt	26,116	46,834	32,156
Total Stockholders' Equity	87,754	54,818	42,990
Current Ratio[1]	2.34	2.78	1.98
Debt to Equity Ratio[2]	0.30	0.85	0.75

[1] Current Assets/ Current Liabilities.

[2] Total Debt/ Total Stockholders' Equity (Total Debt includes short term debt, long-term debt both current and noncurrent portion).

Causes for any material variances
(Increase or decrease of 5% or more in the financial statements)

The December 31, 2019 and 2018 consolidated financial statements show several significant increases in Balance Sheet and Income Statement accounts relating to five (5) key factors:

1. Adoption of new accounting standard PFRS 16 (Leases) which give rise to new accounts in the balance sheet namely Right-of-use Assets and Lease Liabilities. The impact to income statement is shown in the depreciation (classified under cost of sales and general & administrative expenses) and interest expenses of the Group (Note 3 of notes to financial statements).

2. Significant acquisitions and divestments as follows (see Notes 2 and 10):
   1. Merger of AC Education and IPeople with IPeople as the surviving entity and now an AJV entity of AC from previously consolidated subsidiary.
   2. AC Energy's increase of ownership share in SLTEC (previously classified as AJV entity) from 35% in December 2018 to 80% (now a subsidiary).
   3. Acquisition of additional 2.5% stake in each of the Generika companies, which resulted to 52.5% ownership of AC Health as of December 31, 2019.

3. Reclassification of the investment in MWCI as assets under PFRS/ IFRS 5.
   With MWCI and Prime Metroline Holdings signing of a subscription agreement in February 2020, MWC qualified as a group held for deemed disposal. Since the operations of MWC represents the Group's water infrastructure business segment, it qualifies as a discontinued operation of segment under PFRS 5 in the Group's consolidated financial statements (see Notes 2 and 25).

4. Reclassification of the investment in GNPK as assets under PFRS/ IFRS 5.
   With AC Energy and Power Partners transaction in July 2019 which resulted in indirect control of AC Energy over GNPKauswagan (GNPK), the assets and liabilities of GNPK, a subsidiary, were reclassified into assets held for sale and liabilities of unit for disposal as of December 31, 2019 (see Notes 2 and 25).

5. Reclassification of accounts arising from PFRS 15:
   Reclassification of contract assets and liabilities as permitted under PIC's September 2019 letter response to real estate industry which ALI adopted to comply with PFRS 15. As a result, ALI's contract assets and liabilities are classified as receivable and other current liabilities for year end 2019 and 2018, respectively (see Note 3).

   The summarized impact of these transactions and reclassifications in the balance sheet are shown below. The impact to income statement is shown in the discussion of income statement variances.

(Amounts in Millions)	December 31, 2019					December 31, 2018	Inc (Dec)	
	Pre-PFRS	PFRS 16	PFRS 5 GNPK	PFRS 5 MWC	Audited	Restated	2019 Audited vs. 2018 Restated	
		(Item 1)	(Item 4)	(Item 3)				
ASSETS								
Cash and cash equivalents	**₱ 107,354**	**₱ -**	**₱ (4,990)**	**₱ (8,958)**	**₱ 93,406**	₱ 60,624	₱ 32,781	54%
Short-term investments	**13,497**	**-**	**-**	**(109)**	**13,388**	5,956	7,432	125%
Accounts and notes receivable	**135,032**	**-**	**(2,345)**	**(1,819)**	**130,868**	153,992	(23,123)	-15%
Inventories	**135,803**	**-**	**(396)**	**(342)**	**135,065**	120,560	14,504	12%
Other current assets	**68,990**	**-**	**(4,144)**	**(1,913)**	**62,933**	57,728	5,205	9%
Assets under PFRS 5	**(0)**	**-**	**60,705**	**109,762**	**170,467**	10,162	160,304	1577%
Noncurrent accounts and notes receivable	**55,807**	**-**	**(34)**	**(53)**	**55,720**	41,803	13,917	33%
Investments in associates and joint ventures	**256,511**	**-**	**-**	**(9,780)**	**246,731**	240,141	6,591	3%
Investment properties	**246,732**	**-**	**-**	**-**	**246,732**	227,646	19,087	8%
Property, plant and equipment	**138,759**	**-**	**(47,109)**	**(2,868)**	**88,782**	104,492	(15,711)	-15%
Right-of-use assets	**-**	**18,516**		**(296)**	**18,220**	-	18,220	-
Service concession assets	**77,947**	**-**	**-**	**(76,308)**	**1,639**	98,404	(96,766)	-98%
Deferred tax assets - net	**13,411**	**2,682**	**-**	**(1,846)**	**14,247**	15,546	(1,299)	-8%
Other assets	**74,246**	**-**	**(1,687)**	**(5,470)**	**67,089**	60,870	6,218	10%
Total Assets	**₱ 1,324,088**	**₱ 21,198**	**₱ -**	**₱ -**	**₱ 1,345,286**	₱ 1,197,926	₱ 147,360	12%

(Amounts in Millions)			December 31, 2019			December 31, 2018	Inc (Dec)	
	Pre-PFRS	PFRS 16	PFRS 5 GNPK	PFRS 5 MWC	Audited	Restated	2019 Audited vs. 2018 Restated	
		(Item 1)	(Item 4)	(Item 3)				
LIABILITIES AND EQUITY								
Liabilities								
Short-term debt	₱ 29,789	₱ -	₱ -	₱ -	₱ 29,789	₱ 39,518	₱ (9,730)	-25%
Accounts payable and accrued expenses	206,691	-	(2,701)	(8,573)	195,417	204,758	(9,342)	-5%
Income tax payable	2,705	-	-	(308)	2,397	3,407	(1,010)	-30%
Other current liabilities	28,404	-	-	(9)	28,395	31,929	(3,534)	-11%
Liabilities under PFRS 5	0	-	42,885	78,602	121,487	1,075	120,412	11198%
Long-term debt	470,843	-	(38,942)	(56,351)	375,550	372,743	2,806	1%
Lease liabilities	-	22,690	-	(308)	22,382	-	22,382	-
Service concession obligation	9,083	-	-	(9,017)	66	7,839	(7,773)	-99%
Deferred tax liabilities - net	8,580	-	-	(544)	8,036	10,999	(2,964)	-27%
Pension liabilities	3,950	-	-	(194)	3,756	2,590	1,166	45%
Other liabilities	53,239	-	(1,242)	(3,298)	48,699	53,958	(5,260)	-10%
Total Liabilities	813,283	22,690	-	-	835,972	728,817	107,155	15%
Equity								
Equity attributable to owners of the parent company	329,626	(819)	-	1,467	330,274	290,607	39,667	14%
Reserves under PFRS 5	-	-	-	(1,467)	(1,467)	-	(1,467)	-
Non-controlling interests	181,179	(673)	-	-	180,506	178,501	2,005	1%
Total Equity	510,806	(1,492)	-	-	509,314	469,108	40,205	9%
Total Liabilities and Equity	₱ 1,324,088	₱ 21,198	₱ -	₱ -	₱ 1,345,286	₱ 1,197,926	₱ 147,360	12%

Balance Sheet Items
As at December 31, 2019 vs. 2018 (Restated)

Cash and cash equivalents – 54% increase from ₱60,624 million to ₱93,405 million
Increase due to AC's proceeds from loans, dividends received and net proceeds from reissuance and redemption of preferred shares, partly offset by buy-back of common shares, dividends and loan payments; AC Energy's proceeds from sale of AA Thermal shares, from Green bonds and fixed-for-life (FFL) and dividends received, partly offset by acquisition of Phinma Energy; and AYC's proceeds from FFL bonds. Use of cash includes ALI's funding for land acquisitions, real estate expansion projects and property acquisitions, partly funded by proceeds for issued bonds and loans. This account is at 7% and 5% of the total assets as of December 31, 2019 and 2018, respectively.

Short-term investments – 125% increase from ₱5,956 million to ₱13,388 million
Increase due to additional placements by AC Energy and AYC partly offset by maturity of placements of ALI. This account is 1% and below 1% of the total assets as of December 31, 2019 and 2018, respectively.

Accounts and notes receivable (current) – 15% decrease from ₱153,992 million to ₱130,869 million
Decrease attributable to ALI's decline affected by bookings from residential and sale of trade accounts to banks; IMI's lower receivables caused by lower consumer/ telecom business lines from China sales and collections of Philippine accounts; partly offset by increase of AC Energy's RES business and advances for projects. This account is at 10% and 13% of the total assets as of December 31, 2019 and 2018, respectively.

Inventories – 12% increase from ₱120,560 million to ₱135,064 million
Increase attributable to ALI's higher real estate inventories partly offset by IMI's recoveries of backlogs. This account is at 10% of the total assets as of December 31, 2019 and 2018.

Other current assets – 9% increase from ₱57,728 million to ₱62,933 million
Increase mainly coming from ALI's higher prepayments for projects expenses, CWT and input tax. This account is at 5% of the total assets as of December 31, 2019 and 2018.

Assets under PFRS 5 – 16x increase from ₱10,162 million to ₱170,467 million
December 31, 2019 balance represents total assets of MWCI (₱109,762 million) and GNPK's (₱60,705 million) as these two entities are considered assets held for sale following certain transactions and condition as discussed in Note 25 and Note 2 of the consolidated audited financial statements. As shown in the table above, MWCI's key assets are service concession asset and investment in associates and joint ventures, while GNPK's assets are in property, plant and equipment – causing declines in these accounts year-on-year. Meanwhile, 2018 balance represents accounts of GMCP Mariveles, GNPDinginin and AC Education. This account is at 13% and 1% of the total assets as of December 31, 2019 and 2018, respectively.

Accounts and notes receivable (noncurrent) – 33% increase from ₱41,803 million to ₱55,720 million
Increase resulting mainly from ALI's and AC Energy's higher receivables. This account is at 4% and 3% of the total assets as of December 31, 2019 and 2018, respectively.

Investment Properties – 8% increase from ₱227,646 million to ₱246,732 million
Increase attributable to ALI group's expansion projects mainly on malls and office buildings. This account is at 18% and 19% of the total assets as of December 31, 2019 and 2018, respectively.

Property, plant and equipment – 15% decrease from ₱104,492 million to ₱88,782 million
Decrease coming from AC Energy's reclassification of GNPK accounts; partly offset by ALI's acquisitions. This account is at 7% and 9% of the total assets as of December 31, 2019 and 2018, respectively.

Other noncurrent assets – 18% increase from ₱40,088 million to ₱47,304 million
Increase pertains to: ALI's higher project advances and deferred tax; and AYCFL's hold-out cash for a loan availed by AC. The account also includes the Group's pension asset amounting to ₱81 million and ₱82 million in December 31, 2019 and 2018, respectively.[1] This account is at 4% and 3% of the total assets as of December 31, 2019 and 2018, respectively.

Short-term debt – 25% decrease from ₱39,518 million to ₱29,789 million
Decrease due to settlements made by IMI and AC Energy as well as AC Industrials' lower borrowing; partly offset by ALI's subsidiaries borrowings. This account is at 4% and 5% of the total liabilities as of December 31, 2019 and 2018, respectively.

Accounts payable and accrued expenses – 5% decrease from ₱204,758 million to ₱195,416 million
Decrease mainly due to ALI's lower development and project costs of residential and commercial business groups coupled partly offset by AC Energy's and AC Industrial's higher trade payables. This account is at 23% and 28% of the total liabilities as of September 30, 2019 and December 31, 2018, respectively.

Contract liabilities (current and noncurrent) – 121% increase from ₱114 million to ₱252 million
Increase coming from IMI contract liabilities. This account is at below 1% of the total liabilities as of December 31, 2019 and 2018.

Income tax payable – 30% decrease from ₱3,407 million to ₱2,397 million
Decrease mainly arising from lower tax payable of ALI and IMI groups. This account is below 1% of the total liabilities as of December 31, 2019 and 2018.

Other current liabilities – 11% decrease from ₱31,929 million to ₱28,395 million
Mainly due to ALI's lower other current liabilities (deposits, reservation fees and advance rental payments). This account is at 3% and 4% of the total liabilities as of December 31, 2019 and 2018, respectively.

Liabilities under PFRS 5 – 112x increase from ₱1,075 million to ₱121,488 million
Similar with assets, the 2019 balance represents total liabilities of MWCI (₱78,602 million) and GNPK's (₱42,885 million) reclassified to this account, similar to the treatment of assets (see Note 25 and Note 2 of the consolidated audited financial statements). As shown in the table above, both entities main liabilities are in long term debt and service concession obligation which caused declines in this accounts year-on-year. 2018 balance represents accounts of AC Education. This account is at 15% and below 1% of the total liabilities as of December 31, 2019 and 2018, respectively.

Long-term debt (current) – 59% decrease from ₱48,481 million to ₱19,884 million
Decrease due to loans maturity of ALI and AYC's actual exchange of its bonds into ALI shares; partly offset by ALI's bond issuance. This account is at 2% and 7% of the total liabilities as of December 31, 2019 and 2018, respectively.

Long-term debt (noncurrent) – 10% increase from ₱324,263 million to ₱355,666 million

[1] The Parent Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Parent Company, governed by a board of trustees appointed under a Trust Agreement between the Parent Company and the initial trustees. It holds common and preferred shares of the Parent Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee include the Parent Company's Chief Finance Officer, Group Head of Corporate Governance, General Counsel, Corporate Secretary and Compliance Officer, Head for Strategic Human Resources, Treasurer and Comptroller. ACEWRF has not exercised voting rights over any shares of the Parent Company that it owns.

Increase due to ALI's bond issuance, AYC's FFL bonds issuance and AC Energy's green bonds and FFL bonds issuance. This account is at 43% and 44% of the total liabilities as of December 31, 2019 and 2018, respectively.

Pension liabilities[1] – 45% increase from ₱2,590 million to ₱3,756 million
Increase attributable to AC parent, ALI and IMI pension liabilities. This account is below 1% of the total liabilities as of December 31, 2019 and 2018.

Other noncurrent liabilities – 10% decrease from ₱53,844 million to ₱48,447 million
Decrease attributable to ALI's lower deposits and other liabilities. This account is at 6% and 7% of the total liabilities as of December 31, 2019 and 2018, respectively.

Cost of share-based payments – 10% decrease from ₱239 million to ₱215 million
Decrease coming from issuance on the exercise of stock ownership plans. This account is below 1% of the total equity as of December 31, 2019 and 2018.

Remeasurement losses on defined benefit plan – 140% decrease from negative ₱1,299 million to negative ₱3,117 million
Decrease caused by discount rate assumptions. This account is at 1% and below 1% of the total equity as of December 31, 2019 and 2018, respectively.

Fair value reserve of financial assets at fair value through other comprehensive income (FVOCI) – 112% increase from negative ₱545 million to positive ₱67 million
Increase attributable to higher market value of securities held by BPI group. This account is at below 1% of the total equity as of December 31, 2019 and 2018.

Cumulative translation adjustments – 42% increase from ₱2,277 million to ₱3,235 million
Increase due to increase in foreign-denominated accounts particularly investments of AC Energy and ACIFL partly offset by movement in forex for PhP vs. USD. Forex of PhP vs USD amounted to ₱50.635 in December 2019 vs. ₱52.58 in December 2018. This account is at 1% and below 1% of the total equity as of December 31, 2019 and 2018, respectively.

Equity reserve and Equity conversion option – 111% increase from ₱11,959 million to ₱25,283 million
Increase due to gain on sale of ALI shares in relation to AYC's exchangeable bonds conversions and AC Energy's consolidation of PHEN. This account is at 5% and 3% of the total equity as of December 31, 2019 and 2018, respectively.

Retained Earnings – 14% increase from ₱196,915 million to ₱225,455 million
Increase due to overall growth in net income of the group. This account is 44% and 42% of the total equity as of December 31, 2019 and 2018, respectively.

Treasury stock – 149% increase from ₱2,300 million to ₱5,738 million
Increase due to AC parent's buy-back of common shares (see Note 21). This account is 1% and below 1% of the total equity as of December 31, 2019 and 2018, respectively.

Income Statement items

For the Year Ended December 31, 2019 and 2018 (Restated)

(Amounts in Millions)	Years Ended December 31, 2019				Years Ended December 31, 2018			Inc (Dec)	
	Pre-PFRS	PFRS 16 (Item 1)	PFRS 5 MWC (Item 3)	Audited	Pre-PFRS	PFRS 5 MWC (Item 3)	Audited	Audited Balance	
CONTINUING OPERATIONS									
REVENUE (Note 19)									
Sale of goods and rendering of services	₱ 284,704	₱ -	₱ (19,797)	₱ 264,907	₱274,881	₱ (17,990)	₱ 256,891	₱ 8,015	3%
Share in net profits of associates and joint ventures	23,196	(198)	(654)	22,344	20,460	(699)	19,761	2,584	13%
Interest income from real estate	7,891		-	7,891	7,042	-	7,042	849	12%
Dividend income	123		-	123	107	-	107	16	15%
	315,913	(198)	(20,451)	295,265	302,490	(18,689)	283,801	11,464	4%
COSTS AND EXPENSES									
Costs of sales and services	198,207		(8,223)	189,983	196,608	(6,901)	189,707	277	0%
General and administrative expenses	75,343	394	(43,624)	32,113	29,822	(3,865)	25,957	6,156	24%
	273,549	394	(51,848)	222,096	226,430	(10,766)	215,663	6,433	3%
OTHER INCOME (CHARGES) - Net									
Interest income	3,757		(405)	3,352	2,706	(412)	2,294	1,059	46%
Other income	44,224		(11,935)	32,288	20,182	(10,983)	9,199	23,090	251%
Interest and other financing charges	(23,186)	(1,298)	2,075	(22,410)	(19,101)	1,722	(17,379)	(5,031)	-29%
Other charges	(10,853)		10,853	-	(9,662)	9,662	-	-	-
	13,942	(1,298)	587	13,231	(5,876)	(11)	(5,886)	19,118	325%
INCOME BEFORE INCOME TAX	56,306	(1,890)	31,984	86,400	70,185	(7,934)	62,251	24,149	39%
PROVISION FOR INCOME TAX									
Current	15,727		(2,009)	13,718	16,331	(2,034)	14,297	(579)	-4%
Deferred	(2,457)	(836)	3,560	266	(1,211)	281	(930)	1,196	129%
	13,270	(836)	1,551	13,984	15,120	(1,753)	13,367	617	5%
INCOME AFTER INCOME TAX	43,036	(1,054)	30,433	72,416	55,065	(6,181)	48,884	23,532	48%
OPERATIONS OF THE SEGMENT UNDER PFRS 5									
Net income (loss) after tax	-		(30,433)	(30,433)	-	6,181	6,181	(36,615)	-592%
NET INCOME	₱ 43,036	₱ (1,054)	₱ -	₱ 41,982	₱ 55,065	₱ -	₱ 55,065	₱ (13,083)	-24%
Net Income Attributable to:									
Owners of the Parent Company	₱ 35,755	₱ (476)		₱ 35,279	₱ 31,818		₱ 31,818	₱ 3,462	11%
Non-controlling interests	7,281	(578)		6,703	23,247		23,247	(16,544)	-71%
	₱ 43,036	₱ (1,054)	₱ -	₱ 41,982	₱ 55,065	₱ -	₱ 55,065	₱ (13,083)	-24%

Share in net profits of associates and joint ventures – 13% increase from ₱19,761 million to ₱22,344 million

Increase coming from Globe's higher revenues and lower non-operating expenses and BPI's higher interest and non-interest income; partly offset by AC Energy's investees lower earnings. As a percentage to total revenue, this account is at 8% and 7% in December 31, 2019 and 2018, respectively.

Interest income from real estate and interest income – 20% increase from ₱9,336 million to ₱11,243 million

Increase attributable to interest income from ALI and AC Energy groups.

General and administrative expenses – 24% increase from ₱25,957 million to ₱32,113 million

Increase mainly from AC Energy's higher manpower costs, professional fees, restructuring costs for sale of thermal assets, partly on consolidation of SLTEC; AC Industrials increase due to higher manpower costs, advertising, transportation and provisions; and AC Health's clinic expansion and consolidation of Generika. GAE also increased due to the Group's adoption of PFRS 16 amounting to ₱394 million (see Note 3). Factoring out impact of the new consolidated units, GAE increased by 16% year-on year. As a percentage to total costs and expenses, this account is at 14% and 12% in December 31, 2019 and 2018, respectively.

Dividend and other income – 248% increase from ₱9,306 million to ₱32,411 million

Increase pertains to AC Energy's gain on the partial sale of AA Thermal, Inc. to Aboitiz Power Corporation, remeasurement gain on SLTEC, and higher liquidated damages on delayed completion of GNPK plant partly offset by impact of last year's Sithe commission fees; Parent Company's gain on AC Education and iPeople merger. These were partly offset by impact of last year's IMI's gain on disposal of China asset plus this year's provisions.

Interest and other financing charges – 29% increase from ₱17,379 million to ₱22,410 million

Increase due to higher interest expenses of the Parent Company, ALI and AC Energy as a result of higher debt balance level this year as compared to last year. The Group's adoption of PFRS 16 also increased interest expense amounting to ₱788 million shown in the table below (see Note 3).

Provision for income tax (current and deferred) – 5% increase from ₽13,367 million to ₽13,984 million
Increase mainly attributed to ALI from its better operating results partly offset by decrease in provision for income tax of AC Energy and IMI groups.

Operations of the segment under PFRS 5 – from ₱6,181 million income to ₱30,433 million loss
Includes the net income after tax of MWCI less consolidation adjustments. For the year 2019, this line also includes the impact of P35.2Bn after-tax remeasurement loss on MWCI Investment (see Item 3 above).

Income attributable to Owners of the parent – 11% increase from ₱31,818 million to ₱35,279 million
Increase resulting from better operating results of ALI and higher equity in net earnings of Globe and BPI and on AC Energy's gain from sale of AA Thermal; partly offset by remeasurement loss in MWC. As a percentage to total net income, this account is at 84% and 58% in December 31, 2019 and 2018, respectively.

Income attributable to Non-controlling interests – 71% decrease from ₽23,247 million to ₽6,703 million
Decrease mainly due to the share in the remeasurement loss in MWC; partly offset by better operating results of ALI. As a percentage to total net income, this account is at 16% and 42% in December 31, 2019 and 2018, respectively.

Outlook for 2020

While the Philippines fell short of its economic growth target in 2019, it continues to provide a favorable backdrop for Ayala to operate in given the country's strong fundamentals and consumption driven narrative. The central bank's intention to sustain easing rates throughout the year should support private sector investment spending moving forward. Additionally, the combination of strong remittances and manageable inflation, which are both expected to continue throughout the year, should further augment the country's growth trajectory.

The delay of last year's budget was one of the reasons for the country's underperformance in 2019. The postponement ultimately hindered infrastructure spending, which continues to be a critical component in the government's overall growth strategy. With the budget for 2020 already in place, the economy may see higher growth this year granted proper and timely execution of infrastructure projects in the pipeline. Furthermore, the successful rollout of the government's infrastructure plans should serve as the country's pillar for long-term sustainable growth.

Numerous external headwinds in 2019 weighed down on the Philippines and subsequently on Ayala. The US-China trade war reached its peak last year as higher tariffs were imposed to one another in a series of trade sanctions. The effect was more apparent in larger markets, but pockets of industries onshore were also affected. Since then, tensions have deescalated after a series of trade talks between the superpowers. The development should be widely favorable to developed and emerging economies.

Another issue in 2019 was Brexit, which dampened sentiment globally as it created a lot of uncertainties in how the European bloc will continue without one of its biggest members on board. The divorce of the UK from the EU saw a lot of turns since the 2016 referendum but has since then been resolved earlier in 2020. With more clarity related to this, companies that have businesses in related countries should be able to better manage their plans.

One of the biggest headwinds for the year is the spread of Covid-19 in December 2019, which continued through early 2020. As of March 2020, the global death toll is at over 3,200 with more than 92,000 people infected across 75 countries. The contagion is expected to weigh down further on global economies as multiple industries such as airlines, hotels, and manufacturing are already being drastically affected as early as now. In a bid to curb the economic impact of the epidemic, central banks have expressed their willingness to cut interest rates to stimulate their economies.

Against the backdrop of these developments, the Ayala group will continue to execute on its five-year growth strategy for 2020 as it closely monitors key trends and potential risks in the global and domestic economies as well as in the industries where it operates.

Ayala maintains a healthy balance sheet with access to various funding options to meet requirements. A robust risk management system allows the company to maximize opportunities for reinvention and navigate the challenges faced by its business units.

2018

Ayala Corporation's net income in 2018 grew five percent to ₱31.8 billion from the previous year, boosted by strong earnings contribution from its real estate, telecommunications, and power businesses.

Consolidated Sales of Goods and Services

Sale of goods and services expanded 13 percent to ₱274.9 billion of which 3% was a result of the adoption of PFRS 15 (new accounting standard in 2018 pertaining to Revenues from Contracts with Customers). Revenue growth was driven by Ayala Land which posted higher sales across all its business segments, supported by higher sales from IMI's Europe, China, Philippines, and Mexico units as well as contribution of VIA Optronics and Manila Water's new business units.

Real Estate

Ayala Land sustained its growth momentum during the year with net income expanding 16 percent to ₱29.2 billion, primarily driven by the strong performance of its property development and commercial leasing businesses.

Property development revenues jumped 18 percent to ₱120.3 billion on strong sales across its residential, office-for-sale, and commercial lot segments. Residential revenues jumped 20 percent to ₱101.1 billion, while reservation sales grew 16 percent to ₱141.9 billion, bolstered by strong demand from local and overseas Filipinos, which accounted for 82 percent of total sales during the year.

Fresh bookings from One Vertis Plaza in Vertis North, Quezon City, The Stiles East Enterprise Plaza in Circuit Makati, and completion of Park Triangle Corporate Plaza in Bonifacio Global City lifted the sale of office spaces, with revenues reaching ₱11.4 billion, 14% higher year-on-year. In addition, revenues from the sale of commercial and industrial lots grew 10 percent to ₱7.7 billion, lifted by sales from its estates in the Visayas and Mindanao region, Evo City in Cavite, Alviera in Pampanga, and Cavite Technopark.

Meanwhile, the opening of new malls and office spaces as well as the launch of new hotel and resort rooms drove the 17 percent expansion in commercial leasing revenues to ₱34.9 billion from its year-ago level. In 2018, Ayala Land added 142,000 square meters of mall space with the opening of three new malls: the Circuit Mall in Makati, the Capitol Central Mall in Bacolod, One Bonifacio High Street in Taguig, bringing its total mall gross leasable area to 1.9 million square meters. Moreover, the completion of Bacolod Capitol Corporate Center, Vertis North Corporate Center 3, and Ayala North Exchange pushed up Ayala Land's total office GLA to 1.1 million square meters.

Ayala Land's commercial leasing business was further boosted by its hotels and resorts portfolio, which continues to benefit from the growth of the country's tourism sector. In 2018, it added 390 rooms across its portfolio of branded hotels and its own Seda brand as well as bed and breakfast rooms in its Lio and Sicogon eco-tourism estates, bringing the total to 2,973 rooms.

The sustained strong performance of its leasing segment has supported the continued buildup of Ayala Land's recurring income business, which increased at a compounded annual rate of 26 percent since 2013. Meanwhile, its development income, which comprises residential, office, and lot sales, grew at a compounded annual rate of 18 percent.

Water

Manila Water recorded a net income of ₱6.5 billion, 6 percent higher from the previous year, largely driven by the Manila Concession, boosted by the contribution of its newly acquired platforms in Thailand and Indonesia.

The Manila Concession posted steady growth, with a three percent increase in billed volume to 503 million cubic meters. This was supported by the 28 percent positive tariff adjustment granted by the Metropolitan Waterworks and Sewerage System to be implemented on a staggered basis over a five-year period from 2018 to 2022.

Outside the Manila Concession, revenues from Manila Water Philippine Ventures rose six percent to ₱3.3 billion. Lowered billed volume across its domestic subsidiaries as well as operational and regulatory challenges, including the closure of Boracay island, weighed down MWPV's performance during the year.

Manila Water Asia Pacific's overseas investments continues to bear fruit. It booked a 53 percent surge in equity share in net income of associates to ₱699 million. This was mainly driven by the two platforms it acquired during the year, East Water in Thailand, and PT Sarana Tirta Ungaran in Indonesia, which contributed ₱262.7 million and ₱1.4 million in equity earnings, respectively.

To support its diversification strategy, Manila Water continues to ramp up its domestic and international business development initiatives, securing 13 new businesses in 2018. These include the full concession projects in Calbayog in Samar, San Jose in Nueva Ecija, and in Iloilo, Isabela, Pangasinan, Batangas, Bulacan, and Laguna as well as the acquisition of a 19 percent stake in East Water and a 20 percent stake in PT Sarana Tirta Ungaran.

Power

AC Energy's net earnings expanded 16 percent to ₱4.1 billion in 2018, largely driven by its domestic thermal and renewable assets as well as higher contribution from its Indonesia investments.

The strong performance and higher equity stake in GNPower Mariveles, strong wind regime, and fresh contribution of its greenfield offshore project, the 75-megawatt Sidrap wind farm in Indonesia, as well as the full-year recognition of SD Geothermal boosted AC Energy's performance during the year. Equity earnings from AC Energy's investee companies reached ₱3.6 billion, 37 percent higher from the previous year. Recovery of the costs incurred due to adjustments in the construction schedule of GNPower Kauswagan also lifted AC Energy's net earnings during the period.

During the year, AC Energy generated 2,800 gigawatt hours of attributable energy, of which 48 percent was from renewable sources. To support its strategy to scale up its renewable portfolio, AC Energy raised US$410 million in green bond in January 2019, the first publicly syndicated US dollar green bond in Southeast Asia to be certified by the Climate Bonds Initiative.

AC Energy continued to expand its international footprint through strategic partnerships with developers and operating companies. AC Energy has identified the Philippines, Vietnam, Indonesia, and Australia as key markets in its expansion strategy. The 330-MWp Ninh Thuan solar farm in Vietnam, a joint venture between AC Energy and the BIM Group, is expected to commence early in the second quarter of 2019. Once completed, it will be one of the largest solar farms in Southeast Asia, benefiting Ninh Thuan province with income generation and job creation. AC Energy also broke ground on the 80-MWp solar farms located in the provinces of Khanh Hoa and Dak Lak, in partnership with AMI Renewables Energy. In addition, AC Energy signed a memorandum of understanding with Quang Binh Province to jointly develop a wind power project with AMI Renewables.

AC Energy has also entered the Australian renewables market through a joint venture with international RE developer UPC Renewables, investing US$30M for a 50% ownership in UPC's Australian business. The platform is developing the 1,000 MW Robbins Island and Jims Plain projects in North West Tasmania and the 700 MW New England Solar Farm located near Uralla in New South Wales. It also has a further development portfolio of another 3,000 megawatts located in NSW, Tasmania and Victoria.

In September, AC Energy announced the partial sell-down of its thermal platform to Aboitiz Power, which includes the GNPower Mariveles and GNPower Dinginin assets in Bataan. The sale, valued at US$ 579.2 million, represents approximately 35% of AC Energy's attributable thermal capacity and is part of the company's strategy to actively recycle capital and will enable the expansion of AC Energy's domestic and offshore renewable energy businesses. In late February, AC Energy received approval on the transaction from the Philippine Competition Commission.

Industrial Technologies

AC Industrials' net income dropped 53 percent year-on-year to ₱578 million, largely due to the weaker performance of its automotive businesses and startup losses from newly acquired businesses. This decline was partially offset by a one-time gain in its electronics manufacturing services arm.

IMI's revenues expanded 24 percent to ₱70.8 billion on the back of a 16 percent growth in revenues from traditional businesses and a 61 percent growth in recently acquired companies, VIA and STI. It likewise benefited from new programs in the industrial and automotive segments which grew 41 percent and 21 percent, respectively.

IMI reported a net income of ₱2.4 billion, up 34 percent from a year ago, boosted by non-operating items such as net gains from the sale of a China entity and reversal of contingent consideration related

to the STI acquisition, partially offset by impairment provisions on some offshore investments. The effect of the RMB and EUR depreciation and higher interest rates also added downward pressure to IMI's performance during the year. Excluding the impact of the one-time net gain, IMI's net income went down 49 percent year-on-year.

AC Motors registered a 76 percent decline in net earnings to ₱164 million owing to significantly lower earnings of the group's Honda and Isuzu dealerships, both hit by weaker sales amid an industry-wide slowdown. This was aggravated by lower contributions from AC Industrials' investments in the Philippine distribution companies of Isuzu and Honda. Meanwhile Volkswagen's sales volume was affected by the delay in delivery of its China-sourced vehicles.

AC Industrials continues to ramp up its automotive retail portfolio and in 2018, it partnered with Kia Motors and China's SAIC Motor for the distribution of Kia and Maxus vehicles in the Philippines, respectively.

Share of Profit of Associates and Joint Ventures

Share of profits of associates and joint ventures grew 11 percent to ₱20.5 billion, lifted by Globe's higher data-driven revenues plus the growth in BPI's core businesses. The adoption of the new accounting standards PFRS 9 (Financial Instruments) and PFRS 15 has minimal effect in the net income of BPI and Globe in 2018. Higher equity in net earnings from AC Energy's investee companies, namely GN Power Mariveles, SD Geothermal, and Sidrap, as well as contribution of Manila Water's new overseas investments also drove the increase. However, this was partially offset by Ayala Land's consolidation of MCT, previously reported as an associate, as well as AC Ventures' share in net losses of Zalora and Mynt.

Banking

Bank of the Philippine Islands reported a net income of ₱23.1 billion, up 3 percent from the previous year, boosted by the robust growth of its core banking business but tempered by higher provisions and operational spending.

The bank's total revenues grew 11 percent to ₱78.5 billion on the back of a 16 percent growth in net interest income, which reached ₱55.8 billion. The increase in net interest income was a result of a 9 percent improvement in average asset base and a 21-basis point expansion in net interest margin.

Total loans stood at ₱1.35 trillion, reflecting a 13 percent growth year-on-year, boosted by strong performance of its corporate loans and credit card loans, which increased 13 percent and 24 percent, respectively. Total deposits reached ₱1.59 trillion, up 1.5 percent, with current and savings accounts registering faster growth at 2.4 percent. The bank's current account and savings account ratio stood at 71.9 percent while the loan-to-deposit ratio was at 85.4 percent.

The bank recorded higher fee income from its transaction-based service charges, credit card, and rental businesses. However, lower trust, investment management, and corporate finance fees, and securities trading income during the year, tempered BPI's non-interest income, which slid 1 percent to ₱22.7 billion.

Operating expenses totaled ₱43.6 billion for 2018, an increase of 13.2 percent year-on-year on accelerated spending to support the bank's digitalization strategy and investments in its microfinance network. In 2018, BPI Direct Banko, its microfinance arm, doubled its branch network to 200. These initiatives resulted in cost-to-income ratio of 55.5 percent in 2018 from 54.3 percent a year ago.

At the end of 2018, the bank's total assets stood at ₱2.1 trillion, up 9.5 percent from the previous year, with return on assets at 1.2 percent. With the success of its capital raising exercises - the ₱50 billion stock rights offering, the US$600 million in senior unsecured bonds, and the ₱25 billion in peso fixed rate bonds - BPI's total capital reached ₱248.52 billion, up by 38 percent from its year-ago level. Capital adequacy ratio was at 16.09 percent and Common equity tier 1 ratio was at 15.19 percent.

Telco

Data-driven demand across its business segments bolstered Globe's net profits, which reached ₱18.6 billion during the year.

On a post-PFRS basis, service revenues reached ₱132.9 billion. Mobile revenues grew nine percent to ₱106.9 billion driven by mobile data services, which accounted for 51 percent of the segment from 44

percent a year ago. This was supported by the sustained higher prepaid top-ups, indicating greater consumer spending on mobile data. This in turn, drove the mobile data traffic growth to 956 petabytes from 600 petabytes a year ago.

Globe's home broadband business jumped 19 percent to ₱18.5 billion on continued subscriber expansion in fixed wireless solutions, specifically the Home Prepaid Wi-Fi product. Similarly, its corporate data business expanded 15 percent to ₱11.8 billion amid increasing demand for fast, reliable, and secure internet connectivity and modern business solutions.

With a consistent strong revenue and well managed costs throughout the year, Globe's EBITDA improved 22 percent to ₱64.9 billion, with EBITDA margin at 46 percent from its year-ago level of 42 percent.

Globe continues to build its network capacities to address the increasing data traffic growth and customer base as it ramped up its LTE rollout. It spent ₱43.3 billion in capital expenditures in 2018, equivalent to 32 percent of its service revenues.

Costs and Expenses

Consolidated cost of sales and rendering services rose 12 percent to ₱196.6 billion, tracking the revenue growth.

General and administrative expenses expanded 18 percent to ₱29.8 billion, primarily driven by the combined increments in the group's expenses, particularly Ayala Land's taxes, contracted services, depreciation; Manila Water's management fees, manpower-related and selling expenses, and Ayala parent's higher business development and manpower costs. Moreover, the consolidation of our new subsidiaries namely MCT of Ayala Land, MT Technologies and Merlin Solar of AC Industirals, and VIA Optronics and STI of IMI drove the higher GAE during the period. This was further lifted by IMI's restructuring costs from its employee relocation in China prior to the property sale. Without the effect of these newly consolidated subsidiaries, GAE grew nine percent year-on-year.

Balance Sheet Highlights

At the end of 2018, Ayala's total assets stood at ₱1.2 trillion. Investments in associates and joint ventures expanded 19 percent to ₱240.1 billion owing to Ayala parent's subscription to BPI's stock rights offering as well as new investments of Manila Water in East Water in Thailand and PT Sarana in Indonesia, and AC Energy in renewable platforms in Australia and Vietnam. Furthermore, the growth was lifted by additional investments of AC Infrastructure in the LRT 1 project and higher share of net earnings in BPI and Globe and investee companies of Ayala Land, Manila Water, and AC Energy. This was partly offset by Ayala Land's consolidation of MCT, which was previously reported as associate as well AC Ventures' equity losses in Zalora and Mynt.

Investments in properties jumped 12 percent to ₱227.6 billion driven by Ayala Land's expansion projects in its malls, office properties, land development initiatives, and the impact of the consolidation of MCT. An adjustment in land classification required under the PFRS 15 likewise contributed to the increase.

At the end of the year, total debt at the consolidated level stood at ₱412 billion, 18 percent higher from the end-2017 level. This was driven by higher borrowings of the parent as well as higher loan balances of Ayala Land, Manila Water, and AC Energy.

Ayala's balance sheet remained healthy with enough capacity to undertake investments and cover its dividend and debt obligations. As of end-2018, parent level cash stood at ₱8.5 billion, while net debt stood at ₱96 billion. Loan-to-value ratio, the ratio of its parent net debt to the total value of its assets, stood at 11 percent.

The conglomerate's peso-dollar debt split ended at 64:36 for 2018. Ayala's dollar denominated debts are fully covered by foreign currency assets.

Outlook for 2019

Most ASEAN economies experienced a slowdown in 2018 as external risks weighed on local demand and exports. As the US economy showed strength, the Federal Reserve continued to raise policy rate that prompted ASEAN central banks to increase interest rates to temper currency depreciation. In

addition, household consumption declined as global oil prices surged, while exports struggled amid the growth slowdown in China.

Moving forward, risk-aversion is expected as many awaits the development on key global geopolitical and economic issues, including the US-China trade war and the Brexit.

On the domestic front, inflation challenges marked the Philippine economy in 2018 as average inflation accelerated to a nine-year high, largely fueled by higher global oil prices, local food supply problems, and the weaker peso.

At the start of 2019, inflation has softened, falling to its lowest level in 10 months. Many analysts believe this trend will continue over the medium term as the national government carried out efforts to ease supply of key food items to allow food prices to stabilize.

Looking ahead, with inflation now in a downtrend, the Philippine economy has the opportunity to return to a low-inflation and high growth environment, especially as election spending boosts overall demand. Investment spending is still expected to be robust in 2019 to meet strong consumer demand.

Against the backdrop of these developments, the Ayala group will continue to execute on its five-year growth strategy for 2020 as it closely monitors key trends and potential risks in the global and domestic economies as well as in the industries where it operates.

Ayala maintains a healthy balance sheet with access to various funding options to meet requirements. A robust risk management system allows the company to maximize opportunities for reinvention, and navigate the challenges faced by its business units.

Capital Expenditure

For the year 2018, a total of ₱217.4 billion was spent at the group level in support of the parent's own investment program as well as the expansion initiatives of its real estate, telecom, water, and energy units, and the ramp-up of its industrial technologies, education, infrastructure, and healthcare businesses.

Ayala
Ayala parent has set aside ₱51.8 billion in capital spending for the year. In 2018, 84% or ₱43.7 billion of this budget has been deployed largely to support the stock rights offering of BPI and IMI as well as to fund the expansion of our emerging businesses: AC Energy, AC Industrials, AC Infra, AC Health and AC Education.

ALI
ALI spent ₱110.1 billion in capital expenditures to support the aggressive completion of new projects, 41% of which was spent on residential projects; 23% on commercial projects; 15%, land acquisition; 12%, development of estates; and 9%, on investments.

MWC
MWC ended 2018 with total capital expenditures of ₱10.0 billion, 23% lower than the previous year.

The Manila Concession spent a total of ₱8.0 billion (inclusive of concession fee payments) for capital expenditures in 2018. Of the total amount, 93% was spent on wastewater expansion, network reliability, and water supply projects, while the balance of 7% was accounted for by concession fees paid to MWSS.

Meanwhile, total capital expenditures of the domestic subsidiaries dropped by 20% to ₱1.9 billion from the ₱2.3 billion spent in 2017. Of the total amount, ₱561 million was spent by Laguna Water for its water network expansion, while Boracay Water and Tagum Water disbursed ₱444 million and ₱203 million, respectively. Estate Water spent ₱490 million for its greenfield and brownfield projects, with the balance being taken on by the remaining subsidiaries for its various projects.

IMI
In 2018, IMI spent $65 million on capital expenditures to build more complex manufacturing capabilities which were funded by proceeds from the stock rights offering. For 2019, IMI expects additional $68 million of capital expenditures intended to expand IMI's capacity and support expected increases in demand, as well as to sustain IMI's productivity and efficiency.

ACEI
For the year 2018, ACEI's budget for capital expenditures amounts to ₱20.1 billion of which ₱9.8 billion has been disbursed as of the twelve-month period mainly for investments in GNPD and GNPK and in foreign countries mainly Vietnam and Australia.

BPI
For the whole year 2018, total capital expenditures amounted to ₱3.5 billion.

Globe
As of end-December 2018, total cash capital expenditures stood at about ₱43.3 billion (approximately US$821 million), 2% higher than last year's level of ₱42.5 billion. The increase in capex was due to Globe's continued network upgrade and expansion.

Key performance indicators of the Company and its significant subsidiaries

The table sets forth the comparative key performance indicators of the Company and its significant subsidiaries.

Ayala Corporation (Consolidated)			
(In million pesos, except ratios)	**2018**	**2017**	**2016**
Income	302,490	266,786	222,944
Net Income Attributable to Equity Holders	31,818	30,264	26,011
Total Assets	1,197,926	1,021,546	911,705
Total Debt	412,262	350,612	295,854
Total Stockholders' Equity	469,108	411,092	370,996
Current Ratio[1]	1.25	1.39	1.22
Debt to Equity Ratio[2]	0.88	0.85	0.80

Ayala Land, Inc.			
(In million pesos, except ratios)	**2018**	**2017**	**2016**
Revenue	163,747	139,373	123,266
Net Income Attributable to Equity Holders	29,241	25,305	20,908
Total Assets	668,820	573,992	536,433
Total Debt	187,099	174,386	159,801
Total Stockholders' Equity	220,221	192,263	172,683
Current Ratio[1]	1.26	1.30	1.12
Debt to Equity Ratio[2]	0.85	0.91	0.93

Integrated Micro-Electronics, Inc.			
(In thousand US dollars, except ratios)	**2018**	**2017**	**2016**
Revenue	1,349,400	1,090,588	842,966
Net Income Attributable to Equity Holders	45,507	34,002	28,116
Total Assets	1,070,593	920,918	639,128
Total Debt	324,314	300,154	180,774
Total Stockholders' Equity	406,436	276,595	239,328
Current Ratio[1]	1.32	1.28	1.51
Debt to Equity Ratio[2]	0.80	1.09	0.76

Manila Water Company, Inc.			
(In million pesos, except ratios)	**2018**	**2017**	**2016**
Revenue	19,836	18,516	17,712
Net Income Attributable to Equity Holders	6,524	6,147	6,065
Total Assets	122,533	103,394	85,479
Total Debt	51,647	39,724	27,619
Total Stockholders' Equity	53,621	48,561	56,780
Current Ratio[1]	0.59	1.09	1.10
Debt to Equity Ratio[2]	0.96	0.82	0.49

[1] *Current Assets/ Current Liabilities.*
[2] *Total Debt/ Total Stockholders' Equity (Total Debt includes short term debt, long-term debt both current and noncurrent portion).*

Causes for any material variances
(Increase or decrease of 5% or more in the financial statements)

The December 31, 2018 and December 31, 2017 consolidated financial statements show several significant increases in Balance Sheet and Income Statement accounts relating to two (2) key factors:

1. Major acquisitions made by subsidiaries as follows:
   In year 2018
   a. Ayala Land, Inc.'s (ALI's) increase of ownership share in MCT Berhard (MCT) from 33% in December 2017 to 72.31% in February 2018.

   In year 2017
   b. AC Energy, Inc.'s (ACEI's) acquisition of 100% ownership of Visayas Renewable Corp. (VRC) (formerly Bronzeoak Clean Energy), AC Energy Development, Inc. (AEDI) (formerly AC Energy Devco, Inc.), and 66% in Manapla Sun Power Development Corp. (MSPDC) in March 2017; 100% ownership in SCC Bulk Water Supply, Inc. (SCC) and Solienda, Inc. (Solienda) in December 2017.
   c. Integrated Micro-Electronic's (IMI's) acquisition of 80% stake in Surface Technology International Enterprises Limited (STI) in April 2017.
   d. AC Industrial Technology Holdings, Inc.'s (AITHI's/ACI's) acquisition through AC Industrials (Singapore) Ptd. Ltd. of 94.9% ownership of MT Technologies Gmbh (MT) in July 2017.

2. Adoption of three major accounting standards – PFRS 9 (*Financial Instruments)* and 15 (*Revenue from Contracts with Customers)* and PIC Q&A (Advances to Contractors and Land Classification) give rise to new accounts in the balance sheet plus certain reclassifications within the balance sheet (contract assets and contract liabilities). The summarized impact of these new standards in the balance sheet are shown below. The impact to income statement is shown in the discussion of income statement variances.

IMPACT OF PFRS 15 & 9; and PIC Q&A

	December 31, 2018				December 31, 2017			Inc (dec)	
(in million pesos)	As reported	PFRS Adj*	PIC Adj	Pre - PFRS	As reported	PIC Adj	Pre - PFRS	Pre - PFRS	
ASSETS									
Cash	**60,624**	-	-	60,624	64,259	-	64,259	(3,635)	*-6%*
Short-term investment	**5,956**	-	-	5,956	5,400	-	5,400	556	*10%*
Accounts & notes receivable	**105,519**	48,871	23,866	178,256	100,243	23,866	124,109	54,147	*44%*
Contract assets	**52,209**	(52,209)	-	-	-	-	-	-	
Inventories	**120,560**	2,971	(28,653)	94,878	105,196	(28,653)	76,543	18,335	*24%*
Other current assets	**67,890**	-	(16,530)	51,361	61,854	(16,530)	45,325	6,036	*13%*
Noncurrent accts & notes receivable	**6,366**	35,671	-	42,037	45,774	-	45,774	(3,737)	*-8%*
Noncurrent contract assets	**35,930**	(35,930)	-	-	-	-	-	-	
Invest. in assoc & JVs	**240,141**	(1,605)	-	238,535	202,649	-	202,649	35,886	*18%*
Investment properties	**227,646**	-	28,653	256,299	202,873	28,653	231,527	24,772	*11%*
Property, plant and equipment	**104,492**	-	-	104,492	85,431	-	85,431	19,062	*22%*
Other noncurrent assets	**40,088**	259	(7,337)	33,010	27,390	(7,337)	20,054	12,956	*65%*
Service concession assets	**98,404**	-	-	98,404	91,050	-	91,050	7,355	*8%*
Deferred tax assets - net	**15,546**	-	-	15,546	12,721	-	12,721	2,825	*22%*
Others **	**16,553**	-	-	16,553	16,705	-	16,705	(152)	*-1%*
Total Assets	**1,197,926**	(1,972)	0	1,195,953	1,021,546	0	1,021,546	174,407	*17%*

IMPACT OF PFRS 15 & 9; and PIC Q&A

(in million pesos)	December 31, 2018				December 31, 2017			Inc (dec)	
	As reported	PFRS Adj*	PIC Adj	Pre - PFRS	As reported	PIC Adj	Pre - PFRS	Pre - PFRS	
LIABILITIES AND EQUITY									
Liabilities									
Short-term debt	**39,518**			39,518	29,905	-	29,905	9,614	*32%*
Accts payable & accr expenses	**204,758**			204,758	169,653	-	169,653	35,106	*21%*
Income tax payable	**3,407**			3,407	1,710	-	1,710	1,697	*99%*
Long-term debt - current	**48,481**			48,481	13,732	-	13,732	34,749	*253%*
Contract liabilities	**21,989**	(21,989)	-	-	-	-	-	-	
Other current liabilities	**11,129**	30,523	-	41,652	25,984	-	25,984	15,668	*60%*
Service concession obligation	**7,839**			7,839	8,552	-	8,552	(713)	*-8%*
Long-term debt - net of current portion	**324,263**			324,263	306,975	-	306,975	17,288	*6%*
Deferred tax liabilities - net	**10,999**			10,999	8,108	-	8,108	2,891	*36%*
Noncurrent contract liabilities	**8,630**	(8,630)	-	-	-	-	-	-	
Noncurrent liabilities - others **	**47,804**	46	-	47,849	45,835	-	45,835	2,015	*4%*
Total Liabilities	**728,817**	(51)	-	728,767	610,453	-	610,453	118,313	*19%*
Equity									
Paid-in capital	**83,362**			83,362	75,001	-	75,001	8,361	*11%*
Cumulative translation adj	**2,277**	27		2,304	2,794	-	2,794	(491)	*-18%*
Non-controlling interests	**178,501**	(154)		178,347	154,745	-	154,745	23,603	*15%*
FV reserver on FVOCI	**(545)**	(1,261)	-	(1,806)	(1,108)	-	(1,108)	(698)	*-63%*
Retained earnings	**196,915**	(534)	-	196,381	170,302	-	170,302	26,079	*15%*
Equity reserve	**10,872**		-	10,872	11,600	-	11,600	(728)	*-6%*
Equity - others **	**(2,273)**	-	-	(2,273)	(2,242)	0	(2,242)	(31)	*1%*
Total Equity	**469,108**	(1,922)	-	467,187	411,092	0	411,092	56,094	*14%*

** includes impact of PFRS 15 and 9* ***accounts with individual variance of below 5%*

Given the above, the discussion of variances below will focus on comparison of pre-PFRS/ PIC balances.

Balance Sheet Items
<u>As of December 31, 2018 vs. December 31, 2017</u>

<u>Cash and cash equivalents – 6% decrease from ₽64,259 million to ₽60,624 million</u>
Slight decline due to group's advances for/acquisition of Merlin Solar and ACEI's investments; AITHI/ACI's lower sales; Bestfull Holdings, Ltd.'s (BHL's) additional FVPL investments; AC's new loans were used to fund Bank of the Philippine Islands (BPI) stock rights offer (SRO) and additional capital infusion in existing subsidiaries. Sources of cash during the year: ACEI's dividends from investment and loan drawdowns; ALI's loan proceeds and consolidation of MCT; IMI's proceeds from SRO; and Manila Water Company, Inc.'s (MWC's) revenue collections and loan proceeds were used to fund new investments in Thailand by MWC and project expansions by ALI and ACEI. This account is at 5% and 6% of the total assets as of December 31, 2018 and 2017, respectively.

<u>Short-term investments – 10% increase from ₽5,400 million to ₽5,956 million</u>
Increase due to AYC's short-term placements partly offset by ALI's placements maturity. This account is at less than 1% of the total assets as of December 31, 2018 and 2017.

<u>Accounts and notes receivable (current) – 44% increase from ₽124,109 million to ₽178,256 million</u>
Increase resulting from ALI's higher sales and impact of consolidation of MCT; higher sales of IMI; and ACEI's retail electricity supply (RES) business and advances for projects; partly offset by ALI's sale of trade accounts to banks; and AITHI/ACI's decline due to lower sales. This account is at 15% and 12% of the total assets as of December 31, 2018 and 2017, respectively.

<u>Inventories – 24% increase from ₽76,545 million to ₽94,878 million</u>
Increase pertains to AITHI/ACI's increase in inventories resulting from lower sales in 2018. This account is at 8% and 7% of the total assets as of December 31, 2018 and 2017.

<u>Other current assets – 13% increase from ₽45,325 million to ₽51,361 million</u>
Increase pertains to: ALI's consolidation of MCT; higher creditable withholding tax, input tax, prepayments in ALI, IMI, AITHI/ACI's and MWC's; BHL's additional infusion in certain FVPL investments and impact of forex translation; partly offset by ACEI's reclassification of deferred input taxes to noncurrent assets. The account also included those assets held for sale such as: (1) AC Education, Inc. (AEI) (after consolidation of National Teachers College (NTC)) and (2) ACEI's net investment in GMCP and GN Power Dinginin Ltd. Co. (GNPD). This account is at 4% of the total assets as of December 31, 2018 and 2017.

Accounts and notes receivable (non-current) – 8% decrease from ₽45,774 million to ₽42,037 million
Account decrease due to ALI's sale of trade receivables partly offset by ACEI's receivable from UPC Renewables. This account is at less than 4% of the total assets as of December 31, 2018 and 2017.

Investments in associates & joint ventures – 18% increase from ₽202,649 million to ₽238,535 million
Increase attributable to AC's subscription to BPI's SRO; new investments of MWC (East Water – Thailand and PT Sarana - Indonesia) and ACEI (UPC Renewables Australia and solar unit in Vietnam) and additional infusion of AC Infrastructure Holdings, Inc. (AC Infra) for Light Rail Manila Holdings, Inc. (LRMHI); plus equity in net earnings (less dividends) from BPI, Globe, and from existing investees of ALI, MWC and ACEI groups. These were partly offset by ALI's step-up acquisition of MCT as discussed in item 1 above; ACEI's reclassification of part of its coal investments to assets held for sale and AC Ventures Holding Corp.'s (AVHC's) share in equity losses in Zalora and Mynt. This account is at 20% of the total assets as of December 31, 2018 and 2017.

Investment Properties – 11% increase from ₽231,527 million to ₽256,299 million
The increase relates to ALI group's expansion projects mainly on malls and office buildings plus impact of MCT consolidation. This account is at 21% and 23% of the total assets as of December 31, 2018 and 2017, respectively.

Property, plant and equipment – 22% increase from ₽85,431 million to ₽104,492 million
Increase coming from ACEI's construction of power plants for GN Power Kauswagan Ltd. Co.'s (GNPK's) coal unit plus impact of forex translation adjustment; ALI's consolidation of MCT; IMI's and MWC's expansion projects. This account is at 9% and 8% of the total assets as of December 31, 2018 and 2017, respectively.

Service concession assets – 8% increase from ₽91,050 million to ₽98,404 million
Increase attributable to MWC's additional service concession assets. This account is at 8% and 9% of the total assets as of December 31, 2018 and 2017, respectively.

Deferred tax assets-net - 22% increase from ₽12,721 million to ₽15,546 million
Increase related to additional deferred tax assets of ALI's leasing group. This account is at 1% of the total assets as of December 31, 2018 and 2017.

Other noncurrent assets - 65% increase from ₽20,054 million to ₽33,010 million
Increase pertains to: ALI's higher project advances, deferred tax and non-current prepaid expenses; MWC's higher FCDA; ACEI's reclassification of deferred input tax and project development cost from other current assets; AYC Finance Ltd.'s (AYC's) hold-out cash for a loan availed by AC; and BHL's additional FVOCI investments. The account also includes the Group's pension asset amounting to ₽82 million.[2] This account is at 3% and 2% of the total assets as of December 31, 2018 and 2017, respectively.

Short-term debt – 32% increase from ₽29,905 million to ₽39,518 million
Increase in loans due to additional borrowings of MWC and ACEI partly offset by ALI's net payments and AITHI/ACI's lower borrowing due to lower vehicle purchases. This account is at 5% of the total liabilities as of December 31, 2018 and 2017.

Accounts payable and accrued expenses – 21% increase from ₽169,653 million to ₽204,759 million
Increase mainly coming from ALI's trade payables, accrued project and manpower costs; IMI's increase in sales volume driving the vendors payable; and MWC's increase arising from acceleration of projects and accrual of expenses. These were partly offset by AITHI/ACI's and ACEI's lower trade payables. This account is at 28% of the total liabilities as of December 31, 2018 and 2017.

Income tax payable – 99% increase from ₽1,710 million to ₽3,407 million
Increase mainly arising from higher tax payable of ALI group. This account is less than 1% of the total liabilities as of December 31, 2017 and 2016.

[2] The Parent Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Parent Company, governed by a board of trustees appointed under a Trust Agreement between the Parent Company and the initial trustees. It holds common and preferred shares of the Parent Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee include the Parent Company's Chief Finance Officer, Group Head of Corporate Governance, General Counsel, Corporate Secretary and Compliance Officer, Head for Strategic Human Resources, Treasurer and Comptroller. ACEWRF has not exercised voting rights over any shares of the Parent Company that it owns.

Other current liabilities – 60% increase from ₱25,984 million to ₱41,652 million
Excluding the PFRS reclassification, account increase due to ALI's higher customer deposits. This account is at 6% and 4% of the total liabilities as of December 31, 2018 and 2017, respectively.

Long-term debt (current) – 253% increase from ₱13,732 million to ₱48,481 million
Increase in loans due to ALI's additional borrowings for expansion projects and effect of consolidation of MCT; AYC's reclassification of noncurrent long-term debt to current portion and impact of forex translation on outstanding USD debt; and IMI's increase for working capital requirements. These were partly offset by AC's payment of maturing loans. This account is at 7% and 2% of the total liabilities as of December 31, 2018 and 2017, respectively.

Long-term debt (noncurrent) – 6% increase from ₱306,975 million to ₱324,263 million
Increase in loans due to additional borrowings of AC to fund subscription to BPI and IMI SRO and infusions to subsidiaries; ACEI's additional drawdowns for GNPK project and new investments, including impact of forex translation; and MWC's new debt to fund various capital expenditures and projects. These were partly offset by IMI's and ALI's debt payments and AYC's reclassification of noncurrent long-term debt to current portion. This account is at 44% and 50% of the total liabilities as of December 31, 2018 and 2017, respectively.

Service concession obligation (total) – 8% decrease from ₱8,552 million to ₱7,839 million
Decrease was due to periodic payments made by MWC as well as to the reclassification of noncurrent to current account. This account is at 1% of the total liabilities as of December 31, 2018 and 2017.

Deferred tax liabilities – 36% increase from ₱8,108 million to ₱10,999 million
Increase attributable to increase in deferred tax liabilities of ALI. This account is at 2% and 1% of the total liabilities as of December 31, 2018 and 2017, respectively.

Other noncurrent liabilities – 4% increase from ₱45,835 million to ₱47,849 million
Increase primarily due to ALI's higher customer deposits and MWC's higher retentions payable and customer guaranty deposits. This account is at 6% and 7% of the total liabilities as of December 31, 2018 and 2017.

Paid-in capital – 11% increase from ₱75,001 million to ₱83,362 million
Increase attributable to the issuance of common shares to a single long-term institutional investor (see Note 21 of the Notes to Consolidated Financial Statements). This account is at 18% of the total equity as of December 31, 2018 and 2017.

Fair value reserve of financial assets at fair value through other comprehensive income (FVOCI) – 63% decrease from negative ₱1,108 million to negative P1,806 million
Decrease attributable to decline in market value of securities held by BPI group. This account is at less than 1% of the total equity as of December 31, 2018 and 2017.

Cumulative translation adjustments - 18% decrease from ₱2,794 million to ₱2,304 million
Decrease due to higher foreign liabilities of ACEI, AC International Finance Ltd. (ACIFL) and AYC; partly offset by upward impact of higher net asset of BHL, MWC and investment in Globe. Forex of Ph₱ vs US$ amounted to ₱52.58 in December 2018 vs. ₱49.93 in December 2017. This account is at 1% of the total equity as of December 31, 2018 and 2017.

Equity Reserve - 6% decrease from ₱11,600 million to ₱10,872 million
Decrease related to ALI's equity transactions for additional investment in Prime Orion Philippines, Inc, (POPI) and consolidation of MCT; plus impact of AEI's acquisition of remaining minority interest in NTC. This account is at 2% and 3% of the total equity as of December 31, 2018 and 2017, respectively.

Retained earnings – 15% increase from ₱170,302 million to ₱196,381 million
Increase represents share in group net income net of dividends declared. This account is at 42% and 41% of the total equity as of December 31, 2018 and 2017, respectively.

Non-controlling interests – 15% increase from ₱154,745 million to ₱178,347 million
Higher amount represents share in group net income and other comprehensive income net of dividends declared by subsidiaries to its non-controlling interests; plus impact of ALI's consolidation of MCT. This account is at 38% of the total equity as of December 31, 2018 and 2017.

Income Statement items
For the Year Ended December 31, 2018 vs. December 31, 2017

In 2017, the Group changed the presentation of its consolidated statement of income from the single step to the multiple step presentation. This presentation better reflects and distinguishes other income from revenue and other charges from the operating expenses of the Group. Prior years consolidated statements of income have been re-presented for comparative purposes. The change in presentation has no impact on the consolidated net income, equity, cash flows and earnings per share of the Group.

For 2018, the Group classified certain revenues from goods and rendering services to contract revenues, in compliance with provisions of PFRS 15 (see Note 2 of Notes to Consolidated Financial Statements) summarized as follows. Prior years consolidated statements of income have been re-presented for comparative purposes:

IMPACT OF PFRS 15

	For the year 2018			For the year 2017			Inc (dec)	
(in million pesos)	As reported	PFRS 15	Pre - PFRS	As reported	PFRS 15	Pre - PFRS	Pre - PFRS	
Sale of goods & services								
Revenues from customer contracts								
Real estate	**129,415**	(129,415)	-	109,876	(109,876)	-		
Manufacturing services	**69,731**	(69,731)	-	55,028	(55,028)	-		
Water and sewer services	**19,836**	(19,836)	-	18,516	(18,516)	-		
Others	**22,317**	(22,317)	-	30,176	(30,176)	-		
Rental income	**33,582**	(33,582)	-	28,631	(28,631)	-		
Sale of goods	**-**	200,766	200,766	-	178,676	178,676	22,090	
Rendering of services	**-**	73,254	73,254	-	63,552	63,552	9,702	
	274,881	(862) *	274,019	242,228	-	242,228	31,792	13%
**pertains to IMI's adjustment of revenues under PFRS 15.*								
Equity in net earnings of associates and joint venture	**20,460**	(96)	20,364	18,494	-	18,494	1,869	10%

The discussion of variances focuses on pre-IFRS balances.

Sale of goods and rendering services – 13% increase from ₽242,228 million to ₽274,881 million
Increase in overall sale of goods and rendering services due to ALI's higher sales coming from all segments; IMI from its Europe, China, Philippines and Mexico units plus contribution of Via; MWC's and ACEI's service revenues arising from consolidation of new subsidiary and its RES unit. As a percentage to total revenue, this account is at 91% in December 31, 2018 and 2017.

Share of profit of associates and joint ventures – 11% increase from ₽18,494 million to ₽20,460 million, of which ₽83.7 million or 4% was due to PFRS reclassification as discussed in item 2 above
Increase coming from Globe's higher revenues; ACEI's share in net earnings of GNPD, Salak-Darajat and UPC Sidrap; MWC's stable earnings from foreign investments; and BPI's increase in NIAT coming from net interest income. These were partly offset by decline in ALI due to consolidation of MCT (previously reported as an associate) and AVHC's share in net losses of Zalora and Mynt. As a percentage to total revenue, this account is at 7% in December 31, 2018 and 2017.

Interest income from real estate – 30% increase from ₽5,410 million to ₽7,042 million
Increase attributable to interest income from ALI group. This account is at 2% of the total revenue in December 31, 2018 and 2017.

Dividend income – 84% decrease from ₽654 million to ₽107 million
Decrease in dividend income arising lower dividend income of AITHI/ACI and partly due to reclassification of accounts by ACEI. This account is at less than 1% of the total revenue in December 31, 2018 and 2017.

Cost of sales and rendering services – 12% increase from ₽175,674 million to ₽196,608 million
Increase in the overall cost of sales and rendering services is aligned with the growth in revenues. As a percentage to total costs and expenses, this account is at 87% in December 31, 2018 and 2017.

General and administrative expenses (GAE) – 18% increase from ₽25,213 million to ₽29,822 million of which P2,283 million or 50% of the increase represent impact of consolidation of new subsidiaries
Increase mainly on combined increments in the group's expenses specifically from: ALI (taxes, contracted services and depreciation plus impact of consolidation of MCT), MWCI (management fees,

manpower-related, selling expenses, provision for doubtful accounts and taxes), AITHI/ACI (mainly impact of consolidation of MT and Merlin), IMI (restructuring costs of Shenzen plant, consolidation of VIA and STI and partial impairment of certain goodwill asset), and AC (higher business development, sustainability and manpower costs. Without the effect of newly consolidated subsidiaries, GAE increased by P2,326 million or 9% year on year. As a percentage to total costs and expenses, this account is at 13% in December 31, 2018 and 2017.

Interest income – 93% increase from ₱1,404 million to ₱2,706 million
Increase mainly coming from interest income from ACEI group.

Interest and other financing charges – 32% increase from ₱14,441 million to ₱19,101 million
Increase due to higher interest expenses of ALI, AC/AYC, IMI, MWC and ACEI as a result of higher debt balance level this year as compared to last year.

Other charges – 17% decrease from ₱11,672 million to ₱9,662 million
Decrease due to MWC's lower rehabilitation works of service concession assets.

Provision for income tax (current and deferred) – 23% increase from ₱12,260 million to ₱15,120 million
Increase primarily due to higher taxable income attributable mainly to ALI's on account of better sales/revenues and better operating results plus ACEI's deferred income tax for GNPK investment.

Income attributable to Owners of the parent – 5% increase from ₱30,264 million to ₱31,818 million
Increase resulting from better operating results of most subsidiaries of the Group.

Income attributable to Non-controlling interests – 19% increase from ₱19,603 million to ₱23,247 million
Increase resulting from better operating results of most subsidiaries of the Group.

Item 7. Financial Statements and Supplementary Schedules

The consolidated financial statements and schedules as listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17 A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There were no disagreements with SGV & Co. on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure.

Information on Independent Public Accountant

a. The external auditor of the Company is the accounting firm of SyCip, Gorres, Velayo & Company (SGV & Co.). The Board, upon the recommendation of the Company's Audit Committee (with Mr. Loinaz as Chairman and Messrs. Del Rosario, Jr. and Matsunaga as members), approved the election of SGV & Co. as the Company's independent auditor for 2020 based on its performance and qualifications, and fixed its remuneration amounting to ₱6,059,200.00, inclusive of value-added tax.

   The election of SGV & Co., and the fixing of its remuneration will be presented to the stockholders for their approval at the annual stockholders' meeting.

b. Representatives of SGV & Co. for the current year and for the most recently completed fiscal year are expected to be present at the annual stockholders' meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

   Pursuant to the General Requirements of SRC Rule 68 (2011 Amended), Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor, and Ms. Lucy L. Chan is the Partner In-Charge starting audit year 2016.

External Audit Fees and Services

The Company paid or accrued the following fees, including VAT, to its external auditor in the past two years:

	Audit Fees	Audit-related Fees	Tax Fees	Non-Audit Fees
2019	₱5.77M	₱7.28M	-	₱0.12M
2018	₱5.99M	₱4.93M	-	₱0.12M

SGV & Co. was engaged by the Company to audit its annual financial statements and midyear review of financial statements in connection with the statutory and regulatory filings or engagements for the years ended 2019 and 2018. The audit-related fees include assurance and services that are reasonably related to the performance of the audit or review of the Company's financial statements pursuant to the regulatory requirements.

No tax consultancy services had been rendered by SGV & Co. for the past two years.

In 2019 and 2018, SGV & Co. billed the Company a fee of ₱0.12M for the validation of stockholders' votes during the annual stockholders' meeting each year.

The Audit Committee reviewed the nature of non-audit services rendered by SGV & Co. and the corresponding fees and concluded that these are not in conflict with the audit functions of the independent auditor.

The Audit Committee has an existing policy to review and to pre-approve the audit and non-audit services rendered by the Company's independent auditor. It does not allow the Company to engage the independent auditor for certain non-audit services expressly prohibited by regulations of the SEC to be performed by an independent auditor for its audit clients. This is to ensure that the independent auditor maintains the highest level of independence from the Company, both in fact and appearance.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

The following persons have been nominated to the Board for election at the annual stockholders' meeting and have accepted their respective nominations:

JAIME AUGUSTO ZOBEL DE AYALA	FERNANDO ZOBEL DE AYALA
KEIICHI MATSUNAGA	XAVIER P. LOINAZ
DELFIN L. LAZARO	ANTONIO JOSE U. PERIQUET
RIZALINA G. MANTARING	

The nominees were formally nominated to the Corporate Governance and Nomination Committee of the Board by a minority shareholder of the Company, Ms. Nina Jacinto Aquino, who holds 4,057 common shares, or 0.00049% of the total outstanding voting shares of the Company, and who is not related to any of the nominees. Messrs. Xavier P. Loinaz and Antonio Jose U. Periquet, incumbent directors, and Ms. Rizalina G. Mantaring are being nominated as independent directors in accordance with SRC Rule 38 (Requirements on Nomination and Election of Independent Directors). The Corporate Governance and Nomination Committee evaluated the qualifications of all the nominees and prepared the final list of nominees in accordance with the Amended By-Laws and the Charter of the Board of Directors of the Company.

Only nominees whose names appear on the final list of candidates are eligible for election as directors. No nominations will be entertained or allowed on the floor during the annual stockholders' meeting.

Ms. Mantaring is being nominated as an independent director of the Company for the first time. Mr. Matsunaga has served as director of the Company for three years. All other nominees, have served as directors of the Company for more than five years.

The officers of the Company are elected annually by the Board during its organizational meeting.

A summary of the qualifications of the incumbent directors, who are all nominees for directors for election at the stockholders' meeting and incumbent officers, including positions held as of December 31, 2019 and in the past five years and personal data as of December 31, 2019, of directors and executive officers, is set forth below.

Board of Directors

Jaime Augusto Zobel de Ayala	Chairman and Chief Executive Officer
Fernando Zobel de Ayala	President and Chief Operating Officer
Delfin L. Lazaro	Non-Executive Director
Keiichi Matsunaga	Non-Executive Director
Xavier P. Loinaz	Lead Independent Director
Ramon R. del Rosario, Jr.	Independent Director
Antonio Jose U. Periquet	Independent Director

Jaime Augusto Zobel de Ayala, Filipino, 60, Director of Ayala Corporation since May 1987. He is the Chairman and CEO of Ayala Corporation since April 2006. He holds the following positions in publicly listed companies: Chairman of Globe Telecom, Inc., Integrated Micro-Electronics, Inc. and Bank of the Philippine Islands; and Vice Chairman of Ayala Land, Inc., Manila Water Company, Inc. and AC Energy Philippines, Inc. He is also the Chairman of Ayala Retirement Fund Holdings, Inc., AC Industrial Technology Holdings, Inc., AC Ventures Holding Corp., AC Infrastructure Holdings Corporation and Asiacom Philippines, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Light Rail Manila Holdings, Inc. and AG Holdings Ltd. Outside the Ayala group, he is a member of various business and socio- civic organizations in the Philippines and abroad, including the JP Morgan International Council, JP Morgan Asia Pacific Council, and Mitsubishi Corporation International Advisory Council. He sits on the board of the Singapore Management University and on various advisory boards of Harvard University, including the Global Advisory Council, HBS Board of Dean's Advisors, and HBS Asia-Pacific Advisory Board, which he chairs. He is Chairman Emeritus of the Asia Business Council, a member of the Global Board of Adviser of the Council on Foreign Relations, and Co-Vice Chairman of the Makati Business Club, Chairman of Endeavor Philippines, and a board

member of Eisenhower Fellowships. He was awarded the Presidential Medal of Merit in 2009, the Philippine Legion of Honor with rank of Grand Commander in 2010, and the Order of Mabini with rank of Commander in 2015 by the President of the Philippines in recognition of his outstanding public service. In 2017, he was recognized as a United Nations Sustainable Development Goals Pioneer by the UN Global Compact for his work in sustainable business strategy and operations. The first recipient of the award from the Philippines, he was one of 10 individuals recognized for championing sustainability and the pursuit of the 17 SDGs in business. He graduated with B.A. in Economics (Cum Laude) from Harvard College in 1981 and obtained an MBA from the Harvard Graduate School of Business in 1987.

***Fernando Zobel de Ayala**,* Filipino, 59, Director of Ayala Corporation since May 1994. He is the President and Chief Operating Officer of Ayala Corporation since April 2006. He holds the following positions in publicly listed companies: Chairman of Ayala Land, Inc., Manila Water Company, Inc., and AC Energy Philippines, Inc.; and Director of Bank of the Philippine Islands, Globe Telecom, Inc. and Integrated Micro- Electronics, Inc.; and Independent Director of Pilipinas Shell Petroleum Corporation. He is the Chairman of AC International Finance Ltd., ALI Eton Property Development Corporation, Liontide Holdings, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Automobile Central Enterprise, Inc., Alabang Commercial Corporation, Accendo Commercial Corp. and Hero Foundation, Inc.; Co- Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Vice-Chairman of AC Industrial Technology Holdings, Inc., Ceci Realty Inc., Fort Bonifacio Development Corporation, Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc., Berkshires Holdings, Inc. AKL Properties, Inc., AC Ventures Holdings Corp., and Bonifacio Art Foundation, Inc.; Director of LiveIt Investments, Ltd., AG Holdings Ltd., AC Infrastructure Holdings Corporation, Asiacom Philippines, Inc., Ayala Retirement Fund Holdings, Inc., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, and Manila Peninsula; Member of the Board of INSEAD Business School and Georgetown University; Member of the International Advisory Board of Tikehau Capital and of the Hispanic Society Museum & Library International Advisory Council; Vice Chairman of the Philippine-Singapore Business Council, member of the World Presidents' Organization and Chief Executives Organization; Chairman of Habitat for Humanity International's Asia-Pacific Capital Campaign Steering Committee; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, and the National Museum. He graduated with B.A. Liberal Arts at Harvard College in 1982 and holds a CIM from INSEAD, France.

Delfin L. Lazaro, Filipino, 73, Non-Executive Director of Ayala Corporation since January 2007. He holds the following positions in publicly listed companies: Director of Ayala Land, Inc., Integrated Micro-Electronics, Inc., Manila Water Company, Inc., and Globe Telecom, Inc. His other significant positions include: Chairman of Atlas Fertilizer & Chemicals Inc., Chairman and President of A.C.S.T. Business Holdings, Inc.; Vice Chairman and President of Asiacom Philippines, Inc.; Director of AC Industrial Technology Holdings, Inc., AYC Holdings, Ltd.., AC International Finance, Ltd., Purefoods International Limited and Probe Productions, Inc. He graduated with BS Metallurgical Engineering at the University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

***Keiichi Matsunaga*, ** Japanese, 55, has been a Director of Ayala Corporation since April 2017. He is the General Manager of Mitsubishi Corporation Manila Branch. Currently, he is also the Chairman of International Elevator & Equipment Inc.; President of MC Diamond Realty Investment Phils., MC Oranbo Investment, MC Cavite Holdings, Inc., FMT Kalayaan, Inc., Japanese Chamber of Commerce & Industry of the Philippines (JCCIPI) and Director of Century City Development II Corporation (CCDC II), Isuzu Philippines Corporation, Kepco Ilijan Corporation, Portico Land Corp., and The Japanese Association Manila, Inc. (JAMI). He is not a director of any publicly listed company in the Philippines other than Ayala Corporation. He entered Mitsubishi Corporation after graduating from the Faculty of Law at Waseda University in 1988 and has since held various leadership positions.

***Xavier P. Loinaz**,* Filipino, 76, Independent Director of Ayala Corporation since April 2009. He has been our Lead Independent Director since April 2017. He is also an Independent Director of the Bank of the Philippine Islands, a publicly listed company. He also holds the following positions: Independent Director of BPI Family Savings Bank, Inc., and BPI/MS Insurance Corporation; Trustee of E. Zobel Foundation; Chairman of Alay Kapwa Kilusan Pangkalusugan and XPL Manitou Properties, Inc.; and Vice Chairman of XPL MTJL Properties, Inc. He was formerly the President of the Bank of the Philippine Islands (BPI) from 1982 to 2004. He was also the President of Bankers Association of the Philippines from 1989 to 1991. He graduated with an AB Economics degree at Ateneo de Manila University in 1963 and took his MBA-Finance at Wharton School, University of Pennsylvania in 1965.

Ramon R. del Rosario, Jr., Filipino, 75, Independent Director of Ayala Corporation since April 2010. He is President and Chief Executive Officer of Phinma Corporation, President and Chief Executive Officer of Philippine Investment Management, Inc.; Chairman of PHINMA Education Holdings, Inc., .PHINMA Araullo University, PHINMA University of Iloilo, PHINMA University of Pangasinan, PHINMA

Cagayan de Oro College, Southwestern University PHINMA, PHINMA St. Jude College, United Pulp and Paper Co., Inc., PHINMA Microtel Hotels, Inc. and PHINMA Hospitality, Inc. He is Vice-Chairman of Phinma Foundation, Inc. and Phinma Property Holdings Corp.; Director of Union Galvasteel Corp.and Philcement Corp. He is the Chairman of Philippine Business for Education; and Vice-Chairman of Caritas Manila and Philippine Business for Social Progress. He is a former chairman of the National Museum of the Philippines, Ramon Magsaysay Award Foundation and Makati Business Club, where he remains a Trustee. Mr. del Rosario graduated from De La Salle College in 1967 with degrees in BSC-Accounting and AB Social Sciences Magna cum Laude and from Harvard Business School in 1969 for a Master in Business Administration degree. He has managed Phinma since 2002 and brings with him a wealth of experience in leading a diversified conglomerate.

Antonio Jose U. Periquet, Filipino, 58, Independent Director of Ayala Corporation since September 2010. He is the chairman of Campden Hill Group, Inc., and of BPI Asset Management and Trust Corporation. He also serves as an independent director of the Bank of the Philippine Islands, ABS-CBN Corporation, DMCI Holdings, The Max's Group of Companies, and Semirara Mining and Power Corporation, The Philippine Seven Corporation and the Albizia ASEAN Tenggara Fund. He is a trustee of Lyceum of the Philippines University and a member of the Dean's Global Advisory Council at the University of Virginia's Darden School of Business. Mr. Periquet holds an AB Economics degree from the Ateneo de Manila University, a Master of Science (Econ) degree from Oxford University, UK, and an MBA from the University of Virginia, USA.

Nominees to the Board of Directors for election at the stockholders' meeting

All incumbent directors, except Mr. Ramon R. del Rosario, Jr., with the addition of Ms. Rizalina G. Mantaring are the nominees to the Board.

Rizalina G. Mantaring**,** Filipino, 60, is a Director of Sun Life Grepa Financial, Inc. and an Independent Director of Ayala Land, Inc., First Philippine Holdings Corp. Inc., PHINMA Corp. Inc., FEU Alabang, East Asia Computer Center Inc., Roosevelt College Inc., and Microventures Foundation Inc. She is also a member of the Boards of Trustees of the Makati Business Club, and Philippine Business for Education. A recipient of the Asia Talent Management Award in the Asia Business Leaders Award organized by the global business news network CNBC. She has also been recognized by the International Association of Business Communicators (Philippines) with the CEO Excel award. She was named by Moneysense Magazine as one of the 12 Most Influential in Personal Finance. She was selected as one of the 100 Most Outstanding Alumni of the past century by the University of the Philippines College of Engineering, and was 2019 PAX awardee of St. Scholastica's College Manila, the highest award given by the school to outstanding alumni. She holds a BS Electrical Engineering degree from the University of the Philippines where she graduated with honors in 1982. She obtained her MS degree in Computer Science from the State University of New York at Albany in 1993.

Ayala Group Management Committee Members / Senior Leadership Team

*/***	Jaime Augusto Zobel de Ayala	Chairman and Chief Executive Officer
*/***	Fernando Zobel de Ayala	Vice Chairman, President and Chief Operating Officer
***	Jose Rene Gregory D. Almendras	Senior Managing Director, President and CEO of AC Infrastructure Holdings Corporation, and President and CEO of Manila Water Company, Inc.
**	Cezar P. Consing	Senior Managing Director, President and CEO of Bank of the Philippine Islands
**	Bernard Vincent O. Dy	Senior Managing Director, President and CEO of Ayala Land, Inc.
***	Jose Teodoro K. Limcaoco	Senior Managing Director, Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer, Finance Group Head, and President of AC Ventures Holding Corp.
**	Arthur R. Tan	Senior Managing Director, CEO of Integrated Micro-Electronics, Inc., and President and CEO of AC Industrial Technology Holdings, Inc.
**	Ernest Lawrence L. Cu	President and CEO of Globe Telecom, Inc.
**	Alfredo I. Ayala	Managing Director
***	Paolo Maximo F. Borromeo	Managing Director, Corporate Strategy and Development Group Head, President and CEO of Ayala Healthcare Holdings, Inc.
***	John Eric T. Francia	Managing Director, President and CEO of AC Energy, Inc.
***	Solomon M. Hermosura	Managing Director, Chief Legal Officer, Corporate Secretary, Chief Compliance Officer, Data Protection Officer, and Corporate Governance Group Head
**	Ruel T. Maranan	Managing Director, President of Ayala Foundation, Inc.
***	John Philip S. Orbeta	Managing Director, Chief Human Resource Officer, and Corporate Resources Group Head

Catherine H. Ang	Executive Director and Chief Audit Executive
Estelito C. Biacora	Executive Director and Treasurer
Josephine G. De Asis	Executive Director and Controller
Dodjie D. Lagazo	Assistant Corporate Secretary
Joanne M. Lim	Assistant Corporate Secretary

** Members of the Board of Directors.*
*** Ayala Group Management Committee members.*
**** Ayala Corporation Management Committee and Ayala Group Management Committee members*

Jose Rene Gregory D. Almendras, Filipino, 59, concurrently serves as Senior Managing Director of Ayala Corporation (AC), President & Chief Executive Officer of Manila Water Company, Inc. (MWCI) and President & Chief Executive Officer of AC Infrastructure Holdings Corporation (AC Infra). He is also a member of the AC Management Committee, member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since August 2016. Rene is the Chairman of the Executive Committee of MWCI and a Board of Director of the following companies within the Ayala Group: AF Payments Inc.; Light Rail Manila Holdings, Inc.; MCX Tollway Inc.; and AC Energy Philippines, Inc. He spent 13 years with the Citibank group where he started as a management trainee and landed his first CEO position as President of City Savings Bank of the Aboitiz Group at the age of 37. In 2011, he was recognized by the World Economic Forum as a Sustainability Champion for his efforts as President of MWCI. During his stint as MWCI President and Chief Operating Officer, the company received multiple awards and was recognized as one of the Best Managed Companies in Asia, Best in Corporate Governance, one of the Greenest Companies in the Philippines and hailed as the world's Most Efficient Water Company. Under the Administration of President Benigno S. Aquino III, Rene served as a member of the Cabinet holding the position of Secretary of the Department of Energy, Office of the Cabinet Secretary and the Department of Foreign Affairs. In June 2016, he was acknowledged by the Administration for his remarkable performance in addressing the country's urgent issues and was awarded the highest Presidential Award given to a civilian - Order of Lakandula, Rank of Gold Cross Bayani.

Cezar P. Consing, Filipino, 60, is a Senior Managing Director of Ayala Corporation and has been a member of the Ayala Group Management Committee since April 2013. He has been the President and CEO of BPI, one of the Ayala Group's publicly listed companies, since April 2013. He is an Independent Director of Jollibee Foods Corporation. His other significant positions are: President of Bancnet, Inc., Chairman of Philippine Dealing Systems Holdings Corp., and Director of LGU Guarantee Corporation, Filgifts.com., The Rohatyn Group, Sqreem Technologies and Endeavor Philippines. He is Chairman and President of the Bankers Association of the Philippines. He is also a Director of the US-Philippines Society, trustee of the Manila Golf Club Foundation, and a member of the Trilateral Commission. He served as an Independent Director of CIMB Group Holdings from 2006 to 2013 and First Gen Corporation from 2005 to 2013, and as Chairman of National Reinsurance Corporation from 2018 to 2019. Prior to being President of BPI, he first worked for BPI's corporate planning and corporate banking divisions from 1980 - 1985. He worked for J.P. Morgan & Co. in Hong Kong and Singapore from 1985–2004 and became the co-head of the firm's investment banking business in Asia Pacific from 1997 – 2004 and President of J.P. Morgan Securities (Asia Pacific) Ltd. As a senior Managing Director of J.P. Morgan, he served as a member of the firm's global investment banking management committee and its Asia Pacific management committee. He was a partner at The Rohatyn Group from 2004 – 2013, ran its Hong Kong office and its private investing business in Asia, and was a board director of its real estate, and energy and infrastructure private equity investing subsidiaries. He graduated with a degree of A.B (Accelerated Program) Economics (Magna Cum Laude) from De La Salle University in 1979 and M.A. Applied Economics from the University of Michigan, Ann Arbor, in 1980.

Bernard Vincent O. Dy, Filipino, 56, is a Senior Managing Director of Ayala Corporation and has been a member of the Ayala Group Management Committee since April 2014. He is the President and Chief Executive Officer of Ayala Land (ALI). Prior to this post, he was the Head of the Residential Business, Commercial Business and Corporate Marketing and Sales of ALI. He also is also a Director of other publicly-listed Companies namely, Cebu Holdings, Inc., AyalaLand Logistics Holdings Corp., and MCT Bhd of Malaysia. His other significant positions include: Chairman of Alveo Land Corp., Ayala Property Management Corporation, Makati Development Corporation, Amaia Land Corporation, Avencosouth Corp., Bellavita Land Corporation, Ayagold Retailers, Inc., Station Square East Commercial Corporation, Aviana Development Corp., Cagayan De Oro Gateway Corp., BGSouth Properties, Inc., BGNorth Properties, Inc., BGWest Properties, Inc., Nuevocentro, Inc., Portico Land Corp. and Philippine Integrated Energy Solutions, Inc.; Vice Chairman of Ayala Greenfield Development Corporation and Alviera Country Club, Inc.; Director and President of Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc., Berkshires Holdings, Inc., Fort Bonifacio Development Corporation, Aurora Properties Incorporated, Vesta Property Holdings, Inc., Ceci Realty Inc., Alabang Commercial Corporation and Accendo Commercial Corp.; President of the Hero

Foundation Incorporated and Bonifacio Art Foundation, Inc.; Director of Avida Land Corp., Amicassa Process Solutions, Inc., Whiteknight Holdings, Inc., AyalaLand Medical Facilities Leasing, Inc., Serendra, Inc., Alveo-Federal Land Communities, Inc., ALI Eton Property Development Corporation and AKL Properties, Inc.; Member of Ayala Foundation, Inc. and Ayala Group Club, Inc. In 2015, he was inducted as member of the Advisory Council of the National Advisory Group for the Police Transformation Development of the Philippine National Police. He earned a degree of B.B.A Accountancy from the University of Notre Dame in 1985, He also received his Master's Degree in Business Administration in 1989 and in International Relations in 1995, both at the University of Chicago.

Jose Teodoro K. Limcaoco, Filipino, 57, has been the Chief Finance Officer and Finance Group Head of Ayala Corporation since April 2015. He is also the Chief Risk Officer and Sustainability Officer of Ayala Corporation. He is a director of Bank of the Philippine Islands, Globe Telecom, Inc. and Integrated Micro-Electronics, Inc.; and an independent director of SSI Group, Inc, also a publicly listed company. He is the Chairman of Darong Agricultural and Development Corporation and Zapfam Inc. He is the President and CEO of AC Ventures Holding Corp., AYC Finance Limited, Bestfull Holdings Limited and Purefoods International Limited. He is the Vice Chairman of Lagdigan Land Corporation. He is the President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., AC Infrastructure Holdings Corporation, Ayala Aviation Corporation, AC Education, Inc., Asiacom Philippines, Inc., Ayala Group Legal, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc., A.C.S.T Business Holdings, Inc., LICA Management Inc., and Just For Kids, Inc. He is the Treasurer of Ayala Retirement Fund Holdings, Inc. He joined Ayala Corporation as a Managing Director in 1998. Prior to his appointment as CFO in April 2015, he held various responsibilities including President of BPI Family Savings Bank, President of BPI Capital Corporation, Officer-in-Charge for Ayala Life Assurance, Inc. and Ayala Plans, Inc., Trustee and Treasurer of Ayala Foundation, Inc., President of myAyala.com, and CFO of Azalea Technology Investments, Inc. He served as the President of the Chamber of Thrift Banks from 2013-1015. He was named as the ING-Finex CFO of the Year in 2017. He has held prior positions with JP Morgan & Co. and with BZW Asia. He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

Arthur R. Tan, Filipino, 60, has been a Senior Managing Director of Ayala Corporation since January 2007 and has been a member of the Ayala Group Management Committee since 2002. He has been the Chief Executive Officer of Integrated Micro-Electronics, Inc. (IMI), a publicly listed company, since April 2002 and was re-elected as its President effective January 1, 2020. He is also the Group President and Chief Executive Officer of AC Industrial Technology Holdings, Inc. Concurrently, he is also the Chairman of the Board and Chief Executive Officer of PSi Technologies Inc. and Merlin Solar Technologies (Phils.), Inc.; President and Chief Executive Officer of Speedy-Tech Electronics Ltd.; Chairman of the Board of Surface Technology International (STI), Ltd., Chairman of the Advisory Board of Via Optronics GmbH and MT Technologies GmbH. He was the President of IMI from July 1, 2001 to June 23, 2016. Prior to IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts, USA), from 1994 to 1998, of which he became the Managing Director for Asia Pacific Region/Japan from 1998 to 2001. He graduated with B.S. in Electronics Communications Engineering degree from Mapua Institute of Technology in 1982 and attended post- graduate programs at the University of Idaho, Singapore Institute of Management, IMD and Harvard Business School.

Ernest Lawrence L. Cu, Filipino, 59, has been a member of the Ayala Group Management Committee since January 2009. He is the President and Chief Executive Officer of Globe Telecom, Inc., a publicly listed company. He is a trustee of Ayala Foundation, Inc. and Hero Foundation, Inc. Prior to joining Globe, he was the President and CEO of SPI Technologies, Inc. In 2017, he was adjudged Best CEO by Finance Asia. A second for Cu, he first received the award in 2010. Also in 2017, for the fifth straight year, Cu was recognized as one of the 100 most influential telecom leaders worldwide by London-based Global-Telecoms Business Magazine Power 100. Frost & Sullivan Asia Pacific has also named him CEO of the Year twice, first in 2012, and again in 2017. He earned a degree in BS Industrial Management Engineering from De La Salle University in 1982 and took his Master's Degree in Business Administration at the JL Kellogg Graduate School of Management in 1984.

Alfredo I. Ayala, Filipino, 58, has been a Managing Director of Ayala Corporation and a member of the Ayala Group Management Committee since June 2006. He is the President, Chief Executive Officer and Director of LiveIt Investments Limited, Ayala Corporation's holding company for its business processing outsourcing. He is also Director & Chief Operating Officer of iPeople, inc., Ayala Corporation's investment in the education sector, in partnership with House of Investments, Inc. Currently, he also holds the following positions: Director of Affinity Express Holdings, Ltd., and Azalea

International Venture Partners Limited.; Chairman and President of AC College of Enterprise and Technology, Inc., National Teachers College, and LINC Institute; Chairman of Affordable Private Education Center, Inc. and Newbridge International Investments Limited; Vice Chairman and Vice President of Affinity Express Philippines, Inc.; Chairman of University of Nueva Caceres; and Trustee of Ayala Foundation, Inc. He is also a Trustee of Philippine Business for Education (PBEd). He has an MBA from the Harvard Graduate School of Business Administration in 1987 and B.A. in Development Studies (Honors) and Economics from Brown University in 1982.

Paolo Maximo F. Borromeo, Filipino, 42, has been a Managing Director since January 2016 and a member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since September 2014. He has served as Group Head of Corporate Strategy and Development of the Company since September 2014. In his role, he oversees the overall corporate planning process, portfolio strategy, group-wide innovation projects and new business development initiatives. In addition, he leads Ayala Corporation's healthcare businesses. He is currently the President and Chief Executive Officer of Ayala Healthcare Holdings, Inc. and of Zapfam, Inc., and the Vice Chairman of the Generika Group of Companies. He also sits on the board of AC Ventures Holding Corp., AC Industrial Technology Holdings Inc., HCX Technology Partners, Inc., Ayala International Holdings Limited, AG Holdings Limited and LiveIt Investments Limited. Prior to joining Ayala, he was a Principal at Booz & Company, a global strategy consulting firm, based in San Francisco, California, USA. He obtained his Bachelors of Science degree in Management Engineering from the Ateneo de Manila University and his Master's in Business Administration with honors from the Wharton School at the University of Pennsylvania.

John Eric T. Francia, Filipino, 48, has been a Managing Director and a member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since January 2009. He is the President of AC Energy, Inc., President and Chief Executive Officer of AC Energy Philippines Inc., and Chairman, President and Chief Executive Officer of ACE Enexor, Inc. In his previous role as Head of Ayala's Corporate Strategy and Development group, he led Ayala's entry into the energy and transport infrastructure sectors in 2011. Under his leadership, Ayala invested in over 1,700MW of attributable capacity in the energy sector, and secured over $1bn worth of PPP projects in the transport infrastructure space. He is also a member of the Board of Directors of the following companies within the Ayala Group: Purefoods International Limited, Ayala Healthcare Holdings, Inc., AC Ventures Holding Corp., Ayala Aviation Corporation, Zapfam, Inc., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, Light Rail Manila Corporation, AC Infrastructure Holdings Corporation, Ayala Hotels, Inc., Michigan Holdings, Inc., and other various companies under the AC Energy Group. Prior to joining Ayala, he was a senior consultant and member of the management team of Monitor Group, a strategy consulting firm based in Cambridge, Massachusetts, USA. Prior to consulting, he spent a few years in the field of academe and media. He received his undergraduate degree in Humanities and Political Economy from the University of Asia & the Pacific, graduating magna cum laude in 1993. He then completed his Masters Degree in Management Studies at the University of Cambridge in the United Kingdom, graduating with First Class Honors in 1995.

Solomon M. Hermosura, Filipino, 57, has served as Managing Director of Ayala Corporation since 1999 and a member of the Ayala Corporation Management Committee since 2009 and the Ayala Group Management Committee since 2010. He is also the Group Head of Corporate Governance, and the Chief Legal Officer, Chief Compliance Officer, Corporate Secretary and Data Protection Officer of Ayala Corporation. He is the CEO of Ayala Group Legal. He serves as the Corporate Secretary and Group General Counsel of Ayala Land, Inc., and Corporate Secretary of Globe Telecom, Inc., Manila Water Company, Inc., Integrated Micro-Electronics, Inc., AC Energy Philippines, Inc. and Ayala Foundation, Inc. He also serves as a Corporate Secretary and a member of the Board of Directors of a number of companies in the Ayala group. Mr. Hermosura is currently a member of the faculty of the College of Law of San Beda University. He graduated valedictorian with Bachelor of Laws degree from San Beda College in 1986 and placed third in the 1986 Bar Examinations.

Ruel T. Maranan, Filipino, 57, has been a Managing Director of Ayala Corporation since January 2015. He has served as President of Ayala Foundation, Inc. since March 1, 2015. He is also a member of the board of directors of Asticom Technology, Inc., People's Management of the Philippines Foundation and Advisers of Natasha Goulbourn Foundation. He is also a member of the board of representatives of CIFAL Philippines. He was the Group Director of Manila Water Company, Inc. (MWC)'s Corporate Human Resources Group from 2004 to 2014. Before joining MWC, he was part of various organizations such as Globe Telecom, Inc., Vitarich Corporation, and Integrated Farm Management, among others. In MWC, he introduced numerous innovations in human resources management, rallying behind the company's being the first Filipino company to win the prestigious Asian Human Capital Award in 2011, an award sponsored by the Singapore Ministry of Manpower, CNBC Asia-Pacific, and INSEAD. Through

his leadership in human resources, MWC was vested the 2006 Outstanding Employer of the Year by the People Management Association of the Philippines. Mr. Maranan earned his AB Social Sciences degree from the Ateneo de Manila University and his law degree from the University of Santo Tomas. The latter institution has recently granted him the UST 2016 Outstanding Alumni Award under Private Sector. He has also completed the Leadership Management Program under Harvard.

John Philip S. Orbeta, Filipino, 58, is currently the Managing Director, Chief Human Resources Officer and Group Head for Corporate Resources at Ayala Corporation, covering Strategic Human Resources, Information & Communications Technology, AC Synergy, Knowledge Management, and Corporate Support Services. He has served as a member of the Ayala Corporation Management Committee since May 2005 and the Ayala Group Management Committee since April 2009. He is currently the Chairman of Ayala Aviation Corporation, Ayala Group HR Council, Ayala Group Corporate Security Council and Ayala Business Clubs; Chairman and President of HCX Technology Partners, Inc.; and Vice Chairman of Ayala Group Club, Inc. Mr. Orbeta also serves as a Board Director of AG Counselors Corporation, AC Industrial Technology Holdings, Inc., Ayala Foundation Inc., Ayala Healthcare Holdings, Inc., Ayala Retirement Fund Holdings, Inc., ZapFam Inc., Generika Group of Companies, BPI Family Bank, Inc., ALFM Growth Fund, Inc., ALFM Money Market Fund, Inc., ALFM Peso Bond Fund, Inc., ALFM Dollar Bond Fund, Inc., ALFM Euro Bond Fund, Inc., ALFM Global Multi-Asset Income Fund, Inc., ALFM Retail Corporate Fixed Income Fund, Inc. and the Philippine Stock Index Fund Corporation. Mr. Orbeta previously served as the President and CEO of Ayala Automotive Holdings Corporation and Automobile Central Enterprise, Inc. (Philippine importer of Volkswagen) and the Chairman and CEO of Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc. and Iconic Dealership, Inc., and Board Director of Honda Cars Cebu, Inc and Isuzu Cebu Inc. Prior to joining Ayala Corporation, he was the Vice President and Global Practice Director of the Human Capital Consulting Group at Watson Wyatt Worldwide (now Willis Towers Watson), overseeing the firm's practices in executive compensation, strategic rewards, data services and organization effectiveness around the world. He was also a member of Watson Wyatt's Board of Directors. He graduated with a degree in A.B. Economics from the Ateneo de Manila University in 1982.

Catherine H. Ang*,* Filipino, 49, has served as Executive Director and Chief Audit Executive of Ayala Corporation since July 2013. She joined the Company in February 2012 as Head for Risk Management and Sustainability. Currently, she also holds the following positions: Director of Technopark Land, Inc.; Audit and Risk Committee Member of Ayala Healthcare Holdings, Inc., AC Energy, Inc., AC Infrastructure Holdings Corporation, Affinity Express Holdings, Ltd., Ayala Multi-Purpose Cooperative and Entrego Fulfillment Solutions, Inc; Audit Committee Member of Light Rail Manila Corporation and AF Payments, Inc.; Audit Committee Chair of the Financial Executives Institute of the Philippines (FINEX); and a member of the Governance Committee of The Institute of Internal Auditors – Philippines (IIAP). She was also the 2017 - 2018 Audit Committee Chair and Good Governance Committee Vice Chairperson of FINEX, 2016 Finance Committee Chair of FINEX Foundation, 2015-2016 Institute of Corporate Directors' Scorecard Circle Chair, 2014 Chair of the Board of Trustees, and a member of the Board of Directors from 2009 to 2013 of IIAP. Prior to joining Ayala Corporation, she was the Chief Audit Executive of Globe Telecom, Inc. where she started as an Internal Audit Manager in 1996 and rejoined the company in 2000. In 1998, she joined PricewaterhouseCoopers - Singapore as Manager for Operational and Systems Risk Management. She started her career at SGV & Co in 1991 as a financial and IT auditor. She is a Certified Public Accountant, a Fellow of the Institute of Corporate Directors, a qualified Crisis Communication Planner, and holds an Associate (Level 1) Certification from Global Innovation Management Institute (GIMI). She graduated magna cum laude from Saint Louis College in 1991 with a degree in Bachelor of Science in Commerce major in Accounting.

Estelito C. Biacora, Filipino, 49, is the Executive Director and Treasurer of Ayala Corporation since November 2018. Currently, he also holds the following positions: Director and Treasurer of Michigan Holdings, Inc., Pameka Holdings, Inc. and Technopark Land, Inc.; Director of AYC Finance, Limited, AYC Holdings Limited, and Zapfam, Inc.; Director, Treasurer and Chief Finance Officer of Philwater Holdings Company, Inc.; Treasurer of AC Infrastructure Holdings Corporation, ACST Business Holdings, Inc., ASIACOM Philippines, Inc., AC Ventures Holding Corporation, Ayala Foundation, Inc., Azalea International Venture Partners, Ltd., Liontide Holdings, Inc., and PPI Prime Venture, Inc.; Chief Finance Officer and Treasurer of Ayala Group Club; and, member of Ayala Foundation Endowment Committee and Ayala Corporation Retirement Committee. Prior to joining Ayala, he served as Senior Vice President for Global Markets Group at the Bank of the Philippine Islands (BPI). His other previous senior assignments include Chief Investment Officer (CIO) for BPI Asset Management and Trust Group, and Senior Vice President and Head of BPI Private Banking. He also served as member of BPI Management Committee, and member of the board of BPI Forex Corporation and BPI International Finance Limited, Hong Kong. He served as the President and board member of ACI Philippines, the Financial Markets Association affiliated with Paris-based organization of global markets professionals. He also served as member of BAP-Capital Markets Development Committee. He has held prior

positions with Far East Bank and Trust Company, and Banco Santander, Philippines. Mr. Biacora earned a Bachelor of Science degree in Commerce, major in Finance in 1990 and Masters in Business Administration in 1994, from De La Salle University.

Josephine G. De Asis, Filipino, 48, has been the Controller of Ayala Corporation since August 2012. Currently, she also holds the following positions: Chairwoman of PPI Prime Venture, Inc.; Director and Chief Finance Officer of Pameka Holdings, Inc.; Director of Azalea International Venture Partner Ltd., Darong Agricultural & Development Corporation, Technopark Land, Inc., and Zapfam, Inc.; Chief Finance Officer of Michigan Holdings, Inc.; Treasurer and Chief Finance Officer of AG Counselors Corporation; and Audit and Risk Committee Member of AC Energy, Inc. and AC Infrastructure Holdings Corporation. Prior to joining Ayala Corporation, she served as the Head of Financial Control Division of Globe Telecom, Inc. from 2010 to 2012 and Controller of the Wireless Business of Globe Telecom, Inc. from 2005-2010. She is a Certified Public Accountant. She graduated with a degree in BS Accountancy (summa cum laude) from Polytechnic University of the Philippines in 1991 and attended an Executive Management Program from the University of California Los Angeles from 2004- 2005.

Dodjie D. Lagazo, Filipino, 40, has served as Assistant Corporate Secretary of Ayala Corporation since April 2015. He is an Executive Director, the Head for Legal and Regulatory, and the Assistant Corporate Secretary, of AC Energy, Inc., the Ayala Group's business arm in the energy sector. He also serves as the Corporate Secretary of various AC Energy subsidiaries and affiliates. Previously, he was a Director of Ayala Group Legal from January 2014 to July 2017, and prior to joining the Ayala Group, he was an associate at SyCip Salazar Hernandez & Gatmaitan. He received his undergraduate degree in Political Science from the University of the Philippines, Diliman, graduating magna cum laude. He then completed his Bachelor of Laws Degree in the College of Law of the University of the Philippines, Diliman, ranked sixth in the graduating class of 2003. He is a member in good standing of the Integrated Bar of the Philippines.

Joanne M. Lim, Filipino, 37, has served as Assistant Corporate Secretary of Ayala Corporation since June 2016. She is also the Assistant Corporate Secretary of Integrated Micro-Electronics, Inc, Ayala Foundation, Inc., AC Industrial Technology Holdings, Inc., LiveIt Investments Limited and other companies within the Ayala Group to which she also provides other legal services. She is a Senior Counsel at Ayala Group Legal. Prior to joining Ayala Group Legal in 2015, she was a Project Legal Advisor for CFT Transaction Advisors. She served as Director of the Legal Affairs Office of the Department of Finance from 2011 to 2013 and was an Associate at SyCip, Salazar, Hernandez & Gatmaitan Law Offices from 2007 to 2010. She obtained her Bachelor of Laws degree in 2007 and her Bachelor of Arts degree in Broadcast Communication (*magna cum laude*) in 2003, both from the University of the Philippines, Diliman. She has a Master of Laws degree in Global Business Law from New York University and a Master of Laws degree in Corporate and Financial Services Law from National University of Singapore. She was admitted to the Philippine Bar in 2008 and to the New York State Bar in 2015.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements
The above-named executive officers are covered by letters of appointment stating their respective job functionalities, among others.

Significant Employees
The Company attributes its continued success to the collective efforts of its employees, all of whom contribute significantly to the business in various ways.

Family Relationships
Jaime Augusto Zobel de Ayala, Chairman and Chief Executive Officer, and Fernando Zobel de Ayala, President and Chief Operating Officer, are brothers.

Except for the foregoing, there are no known family relationships between the current members of the Board and key officers.

Ownership Structure and Parent Company
As of February 29, 2020, Mermac, Inc. owns 56.85% of the outstanding voting shares of the Company.

Involvement in Certain Legal Proceedings
Please refer to Part I - Item 3. Legal Proceedings.

Resignation of Directors/Management Committee members/Key Officers
To date, no director has resigned from, or has declined to stand for re-election to the Board since the date of the 2019 annual meeting of stockholders due to any disagreement with the Company relative to its operations, policies and practices.

Item 10. Executive Compensation

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Jaime Augusto Zobel de Ayala Chairman and CEO Fernando Zobel de Ayala President and Chief Operating Officer Solomon M. Hermosura Managing Director, Chief Legal Officer, Corporate Secretary, Chief Compliance Officer, Data Protection Officer, and Corporate Governance Group Head Jose Teodoro K. Limcaoco Senior Managing Director, Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer, and Finance Group Head John Philip S. Orbeta Managing Director, Chief Human Resources Officer, and Corporate Resources Group Head				
CEO and Most Highly Compensated Executive Officers	Actual 2018	₱303.98M	₱243.29M	₱ 0
	Actual 2019	₱334.69M	₱280.07M	₱21.7M
	Projected 2020	₱358.12M	₱305.36M	₱ 0
All other officers** as a group unnamed	Actual 2018	₱730.62M	₱464.87M	₱ 0
	Actual 2019	₱827.10M	₱535.42M	₱59.6M
	Projected 2020	₱749.00M	₱529.25M	₱ 0

*** Managers and up (including all above-named officers).*

The total annual compensation consists of basic pay and other taxable income (guaranteed bonus and performance-based bonus).

The Other Annual Compensation is a one-time bonus paid as part of the Company's 185th year anniversary.

The Company has no other arrangement with regard to the remuneration of its existing officers aside from the compensation received as herein stated.

Warrants and options outstanding; repricing

i. Since 1995, the Company has offered its officers options to acquire common shares under its executive stock option plan (ESOP). In 2019, no options under ESOP was exercised by the above-named officers in Item 10, while there were options covering 89,611 shares exercised by the other officers of the Company, to wit:

Name	No. of Availed Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Various**	89,611	Various	₱ 415.27*	₱ 547.23*

** Average prices.*
***Managers and up*

ii. The Company adjusted the exercise price and market price of the options awarded to the above-named officers due to the stock dividends declared by the Company in May 2004, June 2007, May 2008 and July 2011 and to the reverse stock split in May 2005.

Compensation of Directors

Article IV, Section 20, of the By-laws provides:

Section 20 - Each Director shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as Director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the Directors. In no case shall the total yearly compensation of Directors exceed one percent (1%) of the net income before income tax of the Corporation during the preceding year.

The compensation and remuneration committee of the Board of Directors shall have the responsibility of recommending to the Board of Directors the fees and other compensation for directors. In discharging this duty, the committee shall be guided by the objective of ensuring that the level of compensation should fairly pay Directors for work required in a company of the Corporation's size and scope. (As amended on 18 April 2011.)

i. **Standard arrangement**

On April 21, 2017, the Board, upon the recommendation of its Personnel and Compensation Committee in order to make the level of remuneration more commensurate with their responsibilities, approved a resolution fixing the current remuneration of non-executive directors, as follows:

Retainer Fee:	₱ 3,000,000.00
Board Meeting Fee per meeting attended:	₱ 200,000.00
Committee Meeting Fee per meeting attended:	₱ 100,000.00

Directors who hold executive or management positions do not receive directors' fees. The compensation of executive directors is included in the compensation table in Item 10 above.

ii. **Other arrangement**

None of the non-executive and independent directors who are paid fees as set forth above (Standard arrangement) is engaged and compensated by the Company for services other than those provided as a director.

The Company has no other arrangement with regard to the remuneration of its existing non-executive directors aside from the compensation received as herein stated.

The Company's Personnel and Compensation Committee is chaired by Mr. Del Rosario, Jr., an independent director, with Messrs. Lazaro and Matsunaga as members.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security ownership of certain record and beneficial owners (of more than 5%) as of February 29, 2020.

Title of class of voting shares	Name and address of record owner and relationship with Issuer	Name of beneficial owner and relationship with record owner	Citizenship	No. of shares held	Percent of outstanding voting shares
Common	Mermac, Inc.[3]	Mermac, Inc.[4]	Filipino	296,625,706	35.9241%
Voting Preferred	3/F Makati Stock Exchange Building, Ayala Triangle, Ayala Avenue, Makati City			172,778,760	20.9251%
Common	PCD Nominee Corporation (Non-Filipino)[5] G/F MSE Bldg. Ayala Ave., Makati City	PCD participants acting for themselves or for their customers[6]	Various Non-Filipino	162,032,358	19.6236%
Common	PCD Nominee Corporation (Filipino)[8] G/F MSE Bldg. Ayala Ave., Makati City	PCD participants acting for themselves or for their customers[9]	Filipino	107,795,772	13.0551%
Common	Mitsubishi Corporation[7]	Mitsubishi Corporation[8]	Japanese	37,771,896	4.5745%
Voting Preferred	3-1, Marunouchi 2- Chome, Chiyoda-ku, Tokyo 100-8086			19,545,678	2.3672%

Security ownership of directors and management as of February 29, 2020.

Title of class of outstanding shares	Name of beneficial owner	Amount and nature of beneficial ownership		Citizenship	Percent of total outstanding shares
Directors					
Common	Jaime Augusto Zobel de Ayala	392,806	(indirect)	Filipino	0.0448%
Preferred B Series 1		20,000	(indirect)		0.0023%
Voting Preferred		543,802	(direct)		0.0620%
Common	Fernando Zobel de Ayala	392,264	(direct & indirect)	Filipino	0.0447%
Voting Preferred		554,983	(direct)		0.0633%
Common	Delfin L. Lazaro	41,129	(direct & indirect)	Filipino	0.0047%
Voting Preferred		258,297	(direct)		0.0295%
Common	Keiichi Matsunaga	1	(direct)	Japanese	0.0000%
Common	Xavier P. Loinaz	126,614	(direct)	Filipino	0.0144%
Voting Preferred		65,517	(direct)		0.0075%
Common	Antonio Jose U. Periquet	1,200	(direct)	Filipino	0.0001%
Common	Ramon R. Del Rosario, Jr.	1	(direct)	Filipino	0.0000%
CEO and most highly compensated officers					
Common	Jaime Augusto Zobel de Ayala	392,806	(direct & indirect)	Filipino	0.0448%
Preferred B Series 1		20,000	(indirect)		0.0023%
Voting Preferred		543,802	(direct)		0.0620%
Common	Fernando Zobel de Ayala	392,264	(direct & indirect)	Filipino	0.0447%

[3] The Co-Vice Chairmen of Mermac, Inc. ("Mermac"), Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala, are the Chairman and Chief Executive Officer and President and Chief Operating Officer of the Company, respectively. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power of Mermac.
[4] The Board of Directors of Mermac has the power to decide how the Ayala shares held by Mermac are to be voted.
[5] PCD Nominee Corporation (PCD) is not related to the Company.
[6] Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his account with the PCD participant. Out of the 269,828,130 common shares registered in the name of PCD Nominee Corporation, 59,336,890 (7.1862% of the voting stock) and 44,008,911 (5.3299% of the voting stock) are for the accounts of Deutsche Bank Manila (DB) and The Hongkong and Shanghai Banking Corporation (HSBC), respectively. The Company has no record relating to the power to decide how the shares held by PCD are to be voted. As advised to the Company, none of DB, HSBC, or any of their customers beneficially owns more than 5% of the Company's common shares.
[7] Mitsubishi Corporation ("Mitsubishi") is not related to the Company.
[8] The Board of Directors of Mitsubishi has the power to decide how Mitsubishi's shares in Ayala are to be voted. Mr. Keiichi Matsunaga has been named and appointed to exercise the voting power.

Voting Preferred		554,983	(direct)		0.0633%
Common	Solomon M. Hermosura	121,960	(indirect)	Filipino	0.0139%
Voting Preferred		53,583	(direct)		0.0061%
Common	Jose Teodoro K. Limcaoco	302,068	(indirect)	Filipino	0.0345%
Common	John Philip S. Orbeta	607,667	(indirect)	Filipino	0.0693%
Other executive officers (Ayala group ManCom members/Senior Leadership Team)					
Common	Cezar P. Consing	107,926	(indirect)	Filipino	0.0123%
Common	Bernard Vincent O. Dy	21,681	(indirect)	Filipino	0.0025%
Common	Arthur R. Tan	359,743	(indirect)	Filipino	0.0410%
Common	Jose Rene Gregory D. Almendras	112,488	(direct & indirect)	Filipino	0.0128%
Common	Alfredo I. Ayala	174,777	(direct & indirect)	Filipino	0.0199%
Common	Paolo Maximo F. Borromeo	65,311	(indirect)	Filipino	0.0074%
Common	John Eric T. Francia	120,224	(indirect)	Filipino	0.0137%
Common	Ernest Lawrence L. Cu	133,502	(indirect)	Filipino	0.0152%
Common	Ruel T. Maranan	21,671	(indirect)	Filipino	0.0025%
Common	Estelito C. Biacora	2,712		Filipino	0.0003%
Common	Josephine G. De Asis	26,984	(indirect)	Filipino	0.0031%
Common	Catherine H. Ang	25,773	(indirect)	Filipino	0.0029%
Preferred B Series 2		2,000	(indirect)		0.0002%
Voting Preferred		5,290	(direct)		0.0006%
Common	Dodjie D. Lagazo	0		Filipino	0.0000%
Common	Joanne M. Lim	0		Filipino	0.0000%
All Directors and Officers as a group		**4,661,974**			**0.5324%**

No director or member of the Company’s management owns 2.0% or more of the outstanding capital stock of the Company.

The Company knows of no person holding more than 5% of common shares under a voting trust or similar agreement.

No change of control in the Company has occurred since the beginning of its last fiscal year.

Item 12. Certain Relationships and Related Transactions

The Company, in the regular conduct of business, has entered into transactions consisting of advances, loans and reimbursements of expenses, purchase, lease and sale of real estate properties, and administrative service agreements, with associates and other related parties. Sales and purchases of goods and services to and from related parties are made at arms-length basis fair, and inure to the interest of both parties. Material related party transactions are reviewed by the Risk Management and Related Party Transactions Committee of the Board and properly disclosed in the accompanying audited financial statements. Material transactions involving the Company or its associates and in which any of its directors and executive officers has a direct or indirect material interest are likewise reviewed by the Risk Management and Related Party Transactions Committee of the Board to ensure arms-length and fair terms.

To date, there have been no complaints received by the Company regarding related-party transactions. None of the Company’s directors has entered into self-dealing and related party transactions in 2019.

The Company, all publicly-listed companies and certain entities within the Group have approval requirements and limits on the amount and extent of related party transactions in compliance with the requirements under the Revised SRC Rule 68.

Related party transactions are further discussed in the Note 32 of the Consolidated Financial Statements for December 31, 2019 which forms part of the Index of this SEC17A report.

Transactions with Promoters

There are no transactions with promoters within the past five (5) years.

Awards and Recognitions

1. Jaime Augusto Zobel de Ayala was one of the eight recipients of the Best CEO of the Year Award. The Asset Best CEO Award acknowledges the leadership qualities of a chief executive officer and rewards a range of skills and attributes including inspirational leadership, strategic thinking, team and relationship building, effective communication and change management

2. Ayala was one of thirteen grantees of the Best Investor Relations Team Award. The Award recognizes the importance of the Investor Relations Team in providing an efficient interface for the company with investors and analysts.

3. Ayala was one of the 23 Asian companies recognized for showing additional efforts and initiatives to achieve higher standards in ESG with the Platinum Award. The Asset ESG Corporate Awards offers a rigorous bench-marketing service for listed companies with regards to corporate sustainability. The criteria used to assess the companies include a range of metrics of financial performance, which are also a proxy for gauging management acumen. Companies are also evaluated according to the quality of their governance, social responsibility, environmental responsibility and investor relations. Companies that achieve the passing threshold score in all categories are recognized with the Titanium Award. Companies that show greater efforts and initiatives are granted Gold and Platinum Award.

4. Jose Teodoro K. Limcaoco was recognized as one of the 25 Most Influential DOers & Shakers in Purposeful Organizations. At the heart of The DO School lies Purposeful DOing. They believe that the businesses that thrive in the future will be those that lead with purpose and have a positive impact on our economy, our society and our environment.

   After dozens of interviews and collaboration with some of the greatest minds behind organizations, as well as a selection of dynamic impact entrepreneurs, The DO School has gotten the list of people who have effectively transformed an organization in a way that is meaningful to others. Innovative and forward-thinking DOers or organizations who find purpose in an authentic way.

5. Ma. Victoria Tan, Ayala Corporation's Head of Group Risk Management and Sustainability was counted among Eco-Business' most influential corporate sustainability leaders in Asia Pacific in 2019

6. Ayala was named one of Forbes' "World's Best Employees 2019". In partnership with Statista, Forbes narrowed down 500 finalists from 2,000 of the world's largest public companies, based on 1.4 million employment recommendations from a global poll and regional surveys

7. CSR WORKS – Ayala Corporation Head of Group Risk Management and Sustainability Ma. Victoria Tan was included among Asia's Top Sustainability Superwomen. CSR Works' annual listing of exceptional female sustainability leaders in the region. Only 27 women from 11 countries were chosen out of 126 nominations from 20 countries across Asia.

8. Ayala was recognized as one of the top performing Philippine Publicly-Listed Companies (PLCs) overall under the ASEAN Corporate Scorecard (ACGS) in 2018. The ACGS serves to raise corporate governance standards and practices among ASEAN PLCs and thereby enhance their attractiveness to foreign investors and promote ASEAN as an asset class. Companies are evaluated on the following areas: rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency and responsibilities of the board.

9. Ayala companies top FinanceAsia's 19th Best Companies in Asia Poll

   a. Three Ayala companies have been named among the top Philippine winners in FinanceAsia's 19th Best Companies Poll, beating about 240 other entrants. Ayala Corporation (AC), Ayala Land (ALI), and Globe Telecom (Globe) have all received top citations in multiple categories.

   b. Ayala Corporation placed first in Best Managed Company with Ayala Chairman & CEO Jaime Augusto Zobel de Ayala as Best CEO, and Ayala Chief Financial Officer Jose Teodoro K. Limcaoco as Best CFO. AC also ranked first in Best Growth Strategy, first in Best ESG (Environment, Social and Governance), and third in Best Investor Relations.

Website and Social Media

The Company's official website is www.ayala.com.ph. Further details on the Company's corporate information, background, activities, and other areas like governance initiatives is available at the website. Also as part of our stakeholder engagement, Ayala maintains the following social media accounts:

- Facebook.com/AyalaCorporation
- Twitter.com/Ayala_1834
- Instagram.com/Ayala_Corporation
- Linkedin.com/company/ayala-corporation
- Youtube.com/user/ayala1834.

Events after the Reporting Period

For detailed discussion of key transactions and information from December 31, 2019 up to issuance date of the 2019 consolidated financial statements, please refer to Note 39 of the Ayala Corporation's Consolidated Financial Statements for December 31, 2019 which forms part of the Index of this SEC17A report.

Other Information

Other information about the Group are disclosed in appropriate notes in the accompanying Audited Consolidated Financial Statements for December 31, 2019 or discussed in previously filed SEC17Q and SEC17-C reports for 2019 (refer to Item 14. Exhibits and Schedules Reports on SEC Form 17-C).

Also, the Company's Definitive Information Statement (DIS) report and Annual Report (AR) document are also sources of other information about Ayala group. These documents are available at the Company's website www.ayala.com.ph.

In addition, the Group has the following major transactions and information from the issuance date of the 2019 consolidated financial statements to the issuance date of this SEC17A report:

The Group

In compliance with the SEC's notice dated March 12, 2020, mandating publicly listed companies to apprise the investing public on the impact on business operations and measures being undertaken in connection with the COVID-19 pandemic, on March 16, 2020, Ayala informed that it has existing business continuity and crisis management plans in place to mitigate the adverse effect of the COVID-19 pandemic in its business operations.

Ayala has a robust business continuity management system (BCMS), which provides a framework for building organizational resilience with the capability of an effective response that safeguards the interest of its key stakeholders, reputation, brand, and value-creating activities. The BCMS consists of incident and emergency response, business continuity planning, information technology disaster recovery planning, and crisis management which includes a pandemic preparedness plan.

In particular, in view of the COVID-19 situation, Ayala institutionalized social distancing measures to ensure the safety of its workforce while ensuring continuity of its business operations across all its business units. The guidelines follow the recommendations of the Department of Health (DOH), Center for Disease Control, World Health Organization, and other local medical professional societies.

To ensure the health and safety of our workforce, we have put in place policies on alternative work arrangements such as work-from-home and flexible workhours, restrictions on non-essential overseas travel for business and personal reasons, shift to teleconferencing and videoconferencing to minimize in-person business meetings, regular cleaning and disinfection of the workplace, and cancellation of official mass gatherings.

The rising number of COVID-19 cases in the country has raised concerns on its effect on the Philippine economy, which can subsequently impact the outlook for Ayala's various business interests. Please refer to the disclosures of our publicly listed business units ALI, BPI, Globe, MWC, AC Energy Philippines Inc., IMI, and IPO for a report on the impact of the COVID-19 situation in their respective business operations.

Meanwhile, Ayala's AC Energy Group develops, and operates several power projects in the Philippines and around the region using various technologies. It also participates in the Philippine wholesale electricity spot market (WESM) to the extent of uncontracted capacity that has to be bought from or sold to the spot market. WESM prices are dependent on the balance of power supply and demand. Restrictions on travel and businesses resulting from COVID-19 pandemic may adversely affect electricity consumption and may result in lower WESM prices. Further, AC Energy relies on imported fuel and equipment for some of its power projects. Strict quarantine measures imposed locally or abroad may result in delays in importation of such equipment and fuel. For its commercial operations, AC Energy: (a) maintains a balanced supply and demand portfolio to minimize merchant risk, and (b) maintains adequate fuel inventories to ensure continued operations. It also has catch-up plans in case of construction delays and liquidated delay damages are expected from contractors for such situations. For its international business, AC Energy has mandated to limit travel plans and has implemented a self-quarantine protocol and remote work arrangements following Ayala's overall preventive measures. The same principle is applied to those deployed outside the Philippines (in Vietnam, Myanmar, and Singapore).

On the other hand, Ayala's wholly owned subsidiary AC Health continues to operate to provide healthcare services to the public and support the government in its efforts to contain the spread of COVID-19. With over 80 in combined clinic network in the Greater Metro Manila Area, FamilyDOC and Healthway continue to provide doctor consultations and basic diagnostics to patients. For suspected COVID-19 cases, FamilyDOC and Healthway strictly adhere to DOH guidelines and clinical protocols and where needed, refer patients to appropriate hospitals for further testing and management. AC Health's healthcare professionals are also equipped with the necessary protective equipment to ensure their safety.

In addition, Generika's over 800 branches will remain open to ensure access to quality affordable generic medicines, including wellness supplements for preventive care. AC Health's partner pharmaceutical importation and distribution companies, IE Medica and MedEthix, continue to source medicines and supplies, including face masks, to ensure availability at its pharmacies and clinics.

Parent Company

a) On October 30, 2019, the Parent Company clarified the news article titled, "6 Firms Bid for $10-B Sangley Airport" posted on The Daily Tribune (internet edition) on same date, that its real estate subsidiary, ALI, has made general inquiries with the Cavite local government regarding the project.

b) On Februray 7, 2020, 33,751 common shares were exercised under the Parent Company's ESOP.

c) On February 11, 2020, the Parent Company clarified that the shareholders agreement related to the subscription of shares of MWC by Trident Water will take effect after the closing of the subscription agreement, which will be after the annual stockholders' meeting of MWC on April 17, 2020 and after regulatory approvals have been obtained. This includes the SEC's approval of the denial of pre-emptive rights with respect to the issuance of shares to Trident Water. The closing of the subscription agreement is conditioned on the continuing effectivity of MWC's material contracts.

d) The Parent Company, pursuant to the share buyback program of ₱10.0 billion worth of shares approved by the BOD on December 5, 2019, made the following purchases of its common shares:

Date	Number of Shares	Price Per Share
February 11, 2020	78,310	₱755.3192
February 13, 2020	210,000	752.5476
February 14, 2020	570,060	750.0000
February 17, 2020	157,840	749.0000
March 20, 2020	100,000	415.6000
March 23, 2020	150,000	408.0000

e) On March 12, 2020, the Parent Company's BOD, at its regular meeting, ratified and approved the amendment of our By-Laws, Board Charter and Corporate Governance Manual (CG Manual), as endorsed by the Corporate Governance and Nomination Committee. The amendments to the By-Laws are intended for alignment with the Revised Corporation Code and good corporate governance practices. Please refer to Part II - Item 5 (E) for the summary of approved changes.

   Given that the stockholders have delegated to the BOD the authority to amend the By-Laws, the amendments to the By-Laws will become effective upon approval by the SEC. This matter will be presented to the stockholders at their annual meeting on April 24, 2020 as part of the acts of Board for ratification.

The revisions to the Board Charter include a more comprehensive enumeration of the responsibilities of the Board and the individual directors, statements pertaining to the Board diversity policy, new sections or independent directors, liability of directors, and performance assessment, discussion on the roles and responsibility of the Chairperson and an updated section of the Corporate Secretary.

The CG Manual was amended to align with the revisions in the By-Laws and Board Charter.

ALI

a) On February 20, 2020, the ALI BOD approved the declaration of cash dividends amounting to ₱0.268 per outstanding common share. This reflects a 3% increase from the cash dividends declared in the first half of 2019 amounting to ₱0.26 per share. These will be paid on March 20, 2020 to shareholders on record as of March 6, 2020.

b) On February 28, 2020, ALI purchased 1.2 million common shares at ₱39.10 pursuant to its share buyback program.

IMI

a) In line with the government's imposition of a Luzon-wide Enhanced Community Quarantine and Stringent Social Distancing Measures from March 17, 2020 to April 13, 2020, IMI is implementing a partial shutdown of its facilities in the region since March 17, 2020.

   Given the Philippine government's approval for export-oriented companies to remain operational, IMI is collaborating with units in the local and national levels to explore the ability to maintain the appropriate production levels within its factories. Currently, IMI has been deploying a skeletal workforce to support critical business operations in Luzon.

   In the international front, IMI China's operations has improved in the month of March with substantial workforce capacity ranging from 85% - 98%. This covers the manufacturing plants in Pingshan, Kuichong, Jiaxing, Chengdu and Suzhou. IMI is also working with China local governments on possible incentives to support the business. On the other hand, IMI Mexico, which contributes 13% of global revenues, has partial shut down of operation until April 30, 2020 in line with Mexican government directives to broaden the shut down to "non essential activities". Similar skeletal workforce is maintained.

   IMI will continue to ensure the health, safety and welfare of its employees and will abide by the guidelines mandated by government where IMI operates.

AC Energy

a) On March 26, 2020, the Parent Company confirmed the new article titled "AC Energy, Vietnam firm to expand wind project" published online on same day by Manila Times.

   AC Energy and Vietnamese partner, The Blue Circle Pte. Ltd., are proceeding with the expansion of the Mui Ne wind project with a second 40-megawatt (MW) phase to be commissioned in 2021 in Binh Thuan province in Vietnam.

Globe

a) On February 3, 2020, the Globe BOD approved the declaration of the first quarter cash dividend of ₱27 per common share, payable to common stockholders of record as of February 17, 2020. Total dividends amounting to ₱3.6 billion will be payable on March 4, 2020.

BPI

a) On January 24, 2020, BPI upsized its Bond Offer five-fold to ₱15.3 billion from an initial target size of ₱3 billion, due to strong demand from both retail and institutional investors. The Bonds has been issued, and is now tradable on the Philippine Dealing & Exchange Corp. (PDEx). The issuance is BPI's second peso bond transaction, following its landmark ₱25 billion bond issuance in 2018.The Bonds has an interest rate of 4.2423% p.a. payable quarterly, and a tenor of two (2) years. BPI Capital Corporation (BPI Capital) and Standard Chartered Bank, Philippine Branch (SCB), served as the joint lead arrangers of the bonds. BPI Capital was sole selling agent, while SCB was participating selling agent.

b) On March 27, 2020, BPI exceeded its initial target size of ₱5.0 billion for its latest Bond Offer by more than six-fold, reaching ₱33.9 billion due to strong demand from institutional investors as well as high-net-worth and retail clients. The Bonds has been issued, and are now tradable on the PDEx. The Bonds has an interest rate of 4.05% p.a. payable quarterly, and a tenor of one and a

half (1½) years. BPI decided to close the offer period last March 6, 2020, 11 days ahead of the original schedule on March 17. This decision was based on the consolidated order book having reached over ₱42.0 billion despite being priced at the tightest end of the indicative pricing range. BPI Capital and ING Bank N.V., Manila Branch (ING), served as the joint lead arrangers of the bonds. BPI Capital was sole selling agent, while ING was participating selling agent.

PART IV – CORPORATE GOVERNANCE AND SUSTAINABILITY

Item 13.A. Corporate Governance

Please refer to Item 5.E. Corporate Governance of Part II Operational and Financial Information for some discussions as it applies to the Company. For the full details and discussion, please refer to the Definitive Information Sheet and Annual Corporate Governance Report posted in the Company's Official Website www.ayala.com.ph. The detailed discussion of the Annual Corporate Governance Section deleted as per SEC Memorandum Circular No. 5, series of 2013, issued last March 20, 2013.

Item 13.B. Sustainability Report

Please refer to the Sustainability Report that will be posted in the Company's Official Website with the following link: https://www.ayala.com.ph/investors/annual-reports on or before April 14, 2020. We will notify the SEC and the PSE once it is uploaded.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C (Current Report)

(a) Exhibits - See accompanying Index to Financial Statements and Supplementary Schedules

(b) Reports on SEC Form 17-C

Aside from compliance with periodic reporting requirements, Ayala promptly discloses major and market sensitive information such as dividend declarations, joint ventures and acquisitions, the sale and disposition of significant assets, and other information that may affect the decision of the investing public.

The Company submitted SEC form 17-C and Press Statements to PSE, SEC, and PDEx on the following matters in 2019:

1. Attendance of Directors in 2018 Board of Directors Meetings
2. AC Energy's acquisition of 51.48% stake in AC Energy Philippines, Inc. (formerly PHINMA Energy Corporation) ("ACEPH")
3. AC Energy's launching of Maiden Green Bond
4. Asian Development Bank and International Finance Corporation investments in AC Energy Green Bonds
5. AC Education Inc.'s and iPeople, inc's execution of Plan and Articles of Merger
6. AC Energy signing of an investment agreement with PHINMA Corporation and Philippine Investment Management, Inc. to acquire 51.48% stake in ACEPH
7. Notice and Agenda of the 2019 Stockholders' Meeting
8. Philippine Competition Commission's ("PCC's") approval of the sale by AC Energy of 49% Voting Stake and 60% Economic Stake in AA Thermal Inc. to Aboitiz Power Corporation
9. Amendments to the Company's Articles of Incorporation and By-Laws
10. AC Industrial's acquisition of a controlling stake in C-Con Group
11. 2018 Financial and Operating Results
12. Ayala Healthcare's purchase of additional stake in the Generika group of companies
13. Updated Notice and Agenda of the 2019 Stockholders' Meeting
14. PCC's approval of AC Energy's acquisition of ACEPH
15. SEC's approval of the Plan and Articles of Merger by and between AC Education and IPO
16. Results of the Annual Meeting of Stockholders' Meeting and Organizational Meeting of the Board of Directors
17. AC Energy's completion of the sale of 49% voting stake and 60% economic stake in AA Thermal, Inc. to Aboitiz Power
18. Completion of the Merger of AC Education with iPeople, inc.
19. First Quarter 2019 Financial and Operating Results
20. Re-pricing of the dividend rate of Ayala Corporation's voting preferred shares
21. AC purchases common shares from Mitsubishi Corp
22. 2019 ESOWN Grant
23. PCC's approval of Ayala Healthcare's increase in stake in the Generika companies
24. AC Health's investment in Fibronostics
25. Completion of acquisition of PHINMA Energy by AC Energy
26. Participation of directors and key officers in Ayala Group Integrated Summit and other seminars on corporate governance
27. Issuance of new shares under Employee Stock Option Plan
28. Declaration of Cash Dividends to all outstanding shares
29. AC Energy's partner to take over Kauswagan coal plant
30. Resignation of an Officer
31. First-half 2019 Financial and Operating Results
32. Redemption of 27,000,000 Class B Preferred Shares ("ACPB2")
33. Exercise of the option for redemption of the Class B Preferred Shares, Setting of Record Date, Trading Suspension, and Redemption Guidelines
34. Notice on the Redemption of ACPB2 Shares
35. Updated Corporate Contact Details
36. Transactions of AC Energy with ACEPH
37. AC Energy partners with Yoma Strategic Holdings Ltd.
38. Ayala Corporation's announcement of mandate to banks for US$ Fixed for Life (Non-Deferrable) Senior Perpetual Notes
39. Ayala Corporation's successful launch of US$400 million senior unsecured and guaranteed fixed for life perpetual notes

40. Revised RPT Policy
41. Third Quarter 2019 Financial and Operating Results
42. Special Analyst and Investor Briefing Conference Call
43. Ayala Corporation's acquisition of 20% stake in Yoma Strategic Holdings, Inc. and another 20% stake in First Myanmar Investment Public Co. Ltd.
44. AC Energy's announcement of mandate for notes offering
45. AC Energy's successful launch of first ever Perpetual Fixed-for-life Green Bond
46. Results of the offer of new series of Class B Preferred Shares ("APB2R")
47. Setting of 2020 Stockholders' Meeting
48. AC Health's acquisition of Healthway Philippines
49. AC's buying of own issued shares from the market
50. AC's clarification on Share Buyback Program
51. Notices of Analysts' Briefing

Clarification of News Reports

1. Ayala Corp. 2019 capex set at P249.4 billion
2. Ayala Energy plans divestment of oil and gas part of PHINMA acquisition
3. Ayala on Track to Post P50B Profit
4. AC Energy, partner looking at wind-power project in Vietnam
5. Ayala launches $150M venture capital fund
6. AC Energy eyes Phinma Energy tender offer in Q2
7. AC Energy, UPC forms renewable energy venture
8. 6 Firms Bid for $10-B Sangley Airport
9. AC Energy has $1B war chest for expansion

Structured Reports submitted to SEC, PSE, and PDEx

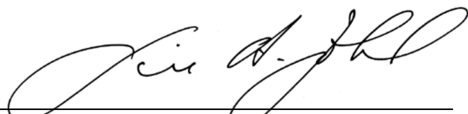
1. Top 100 Stockholders Report
2. Public Ownership Reports
3. Statement of Changes in Beneficial Ownership of Securities of directors, officers, and 10% owners
4. Quarterly Financial Reports
5. Annual Report

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on April 8, 2020.

AYALA CORPORATION

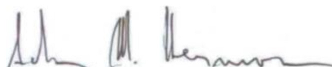
By:



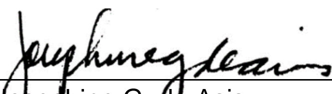
Jaime Augusto Zobel de Ayala
Chairman of the Board and
Chief Executive Officer

Fernando Zobel de Ayala
Vice Chairman, President and
Chief Operating Officer

Jose Teodoro K. Limcaoco
Chief Finance Officer, Chief Risk Officer,
Chief Sustainability Officer,
and Finance Group Head



Solomon M. Hermosura
Chief Legal Officer, Corporate Secretary,
Chief Compliance Officer, Data Protection
Officer, and Corporate Governance Group
Head



Josephine G. de Asis
Comptroller

SUBSCRIBED AND SWORN to before me this ______________ at Makati City, affiants exhibiting to me their respective passports/driver's license, to wit:

Name	Passport No.	Date and Place of Issue
Jaime Augusto Zobel de Ayala	P9640299A	November 21, 2018 - DFA Manila
Fernando Zobel de Ayala	P0349883B	January 22, 2019 - DFA Manila
Jose Teodoro K. Limcaoco	P6682433A	April 5, 2018 - DFA Manila
Solomon M. Hermosura	P3081434B	October 14, 2019 - DFA NCR East
Josephine G. De Asis	P0174919B	January 9, 2019 - DFA Manila

Doc. No. ________
Page No. ________
Book No. ________
Series of 2020

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

I. 2019 Supplementary Schedules

1. Independent Auditors' Opinion on Supplementary Schedules
2. Supplementary Schedules Details
   - A. Financial Assets
   - B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
   - C1. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
   - C2. Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
   - D. Long-term Debt
   - E. Indebtedness to Related Parties (Long-term Loans from Related Parties)
   - F. Guarantees of Securities of Other Issuers
   - G. Capital Stock
   - H. Reconciliation of Retained Earnings Available for Dividend Declaration
   - I. Map of the Relationships of the Companies within the Group
   - J. Financial Ratios

II. 2019 Consolidated Financial Statements of Registrant

1. Statement of Management's Responsibility for Financial Statements
2. Ayala Corporation and Subsidiaries Consolidated Financial Statements
   As of December 31, 2019 and 2018 and Years Ended December 31, 2019, 2018 and 2017 and Independent Auditors' Report

III. 2019 Consolidated Financial Statements of Associate and Joint Venture

1. Bank of the Philippine Islands and Subsidiaries
2. Globe Telecom, Inc. and Subsidiaries

IV. 2019 Ayala Corporation and Subsidiaries Special Form for Financial Statements (SFFS)

1. SFFS Certification by CFO and Comptroller
2. Printed copy of SFFS
3. Diskette form (soft copy) of SFFS (for submission post-ECQ period)

V. 2019 Parent Company Financial Statements (with BIR ITR Filing Reference) and SFFS

I. 2019 Supplementary Schedules

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

Tel: (632) 891 0307
Fax: (632) 819 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
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Ayala Corporation
32F-35F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Ayala Corporation and its subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, included in this Form 17-A, and have issued our report thereon dated March 12, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-5 (Group A),
November 16, 2018, valid until November 15, 2021
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125221, January 7, 2020, Makati City

March 12, 2020

SGV
Building a better working world

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6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 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 ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
Ayala Corporation
32F-35F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Ayala Corporation and its subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 12, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitons, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not part of the basic consolidated financial statements prepared in accordance with PFRSs. Except for Preferred shares on the Common equity attributable to owners of the parent (average) and Price per share, components of these financial soundness indicators have been traced to the consolidated.financial statements as at and for the year ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-5 (Group A),
November 16, 2018, valid until November 15, 2021
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BIR Accreditation No. 08-001998-46-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125221, January 7, 2020, Makati City

March 12, 2020

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. Financial Assets

B. Amounts receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

C. Amounts receivable from / payable to related parties which are eliminated during the consolidation of financial statements

D. Long-term debt

E. Indebtedness to related parties (Long-term loans from Related Parties)

F. Guarantess of Securities of Other Issuers

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H. Reconciliation of retained earnings available for dividend declaration

I. Map of relationships of the companies within the Group,wherever located or registered

J. Financial Ratios

AYALA CORPORATION AND SUBSIDIARIES
Schedule A – Financial Assets
As of December 31, 2019
(In Thousand Pesos)

Name of Issuing Entity & Association of Each Issue	Amount Shown in the Balance Sheet	Income Received & Accrued
A. Other Short-term Cash Investments [1/]		
Money Market Placements (Peso)		
BPI	11,925,802	
Various banks	4,996,029	*
	16,921,831	
Money Market Placements (FX)		
BPI	648,002	
Various banks	11,027,086	*
	11,675,088	
Time Deposits (FX)		
Various banks	**8,004,571**	*
Time Deposits (Peso)		
BPI	6,398,608	
Various banks	1,541	
	6,400,149	
Total	**43,001,639**	**772,423**
B. Short-term Investments [2/]		**Not applicable**
C. Financial Assets at Fair Value Through Profit and Loss (FVTPL) [3/]		**Not applicable**
D. Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) [4/]		**Not applicable**

[1/] Short-term highly liquid investments with varying periods up to three months shown as part of the Cash and Cash Equivalents account in the Balance Sheet. Cash Equivalents is 7.1% of the ₱609,285,431k Total Current Assets as of December 31, 2019.

[2/] Money Market Placements with varying maturity periods of more than three months and up to six months amounting to ₱13,387,801k is 2.2% of the ₱609,285,431k Total Current Assets as of December 31, 2019. This is booked under the Short-term Investments account.

[3/] Financial Assets at FVTPL amounted to ₱9,726,080k and an amount of ₱80,864k is placed under BPI's UITF. The total FVTPL account is shown under the Other Current Assets account and is 1.6% of the ₱609,285,431k Total Current Assets as of December 31, 2019.

[4/] Financial Assets at FVOCI amounted to ₱8,208,898k is shown under Other Noncurrent Assets account and is 1.1% of the ₱736,000,527k Total Noncurrent Assets as of December 31, 2019.

** composed of deposits in various banks mainly held by AC, ALI and AC Energy business units.*

Schedule B – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
As of December 31, 2019
(In Thousand Pesos)

Account Type	Beginning Balance	Additions	Deductions	Ending Balance	Current	Non-current	Payment Period
Advances to Employees	317,507	976,423	(673,421)	620,282	590,844	29,438	30 days to 1 year
Housing and Related Loan	506,689	251,052	(533,798)	223,943	(54,703)	278,646	1 year to 15 years
Car and Related Loan	184,997	257,098	(254,689)	181,636	107,598	74,038	1 year to 5 years
Others	488,804	134,629	(118,760)	479,449	317,603	161,846	6 months to 1 year
TOTAL*	**1,497,997**	**1,619,202**	**(1,580,668)**	**1,505,310**	**961,342**	**543,968**	

** Please refer to Notes 7 and 32 in the 2019 Consolidated Audited Financial Statements for detailed account analysis and discussion.*

AYALA CORPORATION AND SUBSIDIARIES
Schedule C1. – Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
As of December 31, 2019
(In Thousand Pesos)

Creditor	Creditor's Relationship to the Reporting Co.	Account Type	Beginning Balance	Movement	Ending Balance	Nature of Accounts
AC	Parent	Dividends receivable	30,000	4,600	34,600	Dividends from AGCC and DADC
AC	Parent	Other receivable	123,249	118,848	242,097	Rental fees, with interest on overdue accounts; other receivables
ACIFL	Subsidiary	Other receivable	33,251	(33,251)	-	Other receivables from AIVPL
AC Ventures	Subsidiary	Subscription receivable	96,889	(26,571)	70,318	Deposits on subscriptions, non-interest bearing
AGCC	Subsidiary	Trade receivable	31,884	10,283	42,167	Legal fees
ALI	Subsidiary	Accounts receivable	231,720	216,874	448,594	Advances, non-interest bearing and retention accounts for construction projects
AYC	Subsidiary	Other receivable	27,486,063	8,874,017	36,360,081	Mainly non-interest bearing receivable from ACIFL (for various investment)
IMI	Subsidiary	Other receivable	69,644	(47,366)	22,278	Advances, non-interest bearing
MWC	Subsidiary	Accounts receivable	4,627	97,412	102,038	Trade receivables
PFIL	Subsidiary	Other receivable	80,959	(2,995)	77,965	Other receivables from ACIFL
Others	Subsidiary	Other receivable	79,493	1,965,175	2,044,668	Reimbursement of expenses, etc.
TOTAL			**28,267,781**	**11,216,564**	**39,484,345**	

Schedule C2. – Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
As of December 31, 2019
(In Thousand Pesos)

Debtor	Debtor's Relationship to the Reporting Co.	Account Type	Beginning Balance	Movement	Ending Balance	Nature of Accounts
AC	Parent	Accounts & Subscription payable	1,015,563	1,295,645	2,311,209	Deposits on subscriptions; advances, non-interest bearing
ACI	Subsidiary	Accounts payable	77,751	(30,890)	46,861	Mainly rental fees, with interest on overdue accounts
AC Energy	Subsidiary	Accounts payable	7,674	(7,674)	-	Other payables to IMI
AC Health	Subsidiary	Accounts payable	30,643	(29,188)	1,455	Other payables to AC
ACIFL	Subsidiary	Accounts payable	26,727,931	9,632,150	36,360,081	Non-interest bearing payable to AYC (for various investment)
ACIFL	Subsidiary	Accounts payable	80,959	(2,995)	77,965	Other payables to PFIL
AGCC	Subsidiary	Accounts payable	24,050	1,419	25,469	Rental fees, with interest on overdue accounts
AGCC	Subsidiary	Dividends payable	30,000	-	30,000	Dividends
AIVPL	Subsidiary	Other payables	33,251	(33,251)	-	Other payables to ACIFL
ALI	Subsidiary	Other payables	21,306	325,549	346,855	Advances, non-interest bearing
IMI	Subsidiary	Accounts payable	75,677	(75,677)	-	Other payables to AC
MWCI	Subsidiary	Retention payable	67,860	126,173	194,033	Mainly retention accounts for construction projects
Others	Subsidiary	Other payables	75,115	15,303	90,418	Reimbursement of expenses, etc.
TOTAL			**28,267,781**	**11,216,564**	**39,484,345**	

Schedule D – Long-term Debt
As of December 31, 2019
(In Thousand Pesos)

TITLE OF ISSUE & TYPE OF OBLIGATION	AMOUNT AUTHORIZED BY INDENTURE	CURRENT	NON-CURRENT	TOTAL
PARENT COMPANY:				
Bank loans - with fixed interest rates ranging from 5.3% to 6.0% and floating interest rates based on applicable benchmark plus credit spread ranging from 0.5% to 0.70% with varying maturity dates up to 2028		₱ 4,387,500	₱ 21,445,641	₱ 25,833,141
Bonds		-	39,710,925	39,710,925
Due 2021	₱ 9,903,400	-	9,885,752	9,885,752
Due 2023	₱ 10,000,000	-	9,942,735	9,942,735
Due 2025	₱ 10,000,000	-	9,929,787	9,929,787
Due 2027	₱ 10,000,000	-	9,952,651	9,952,651
		4,387,500	61,156,566	65,544,066
SUBSIDIARIES:				
Loans from banks and other institutions:				
Foreign currency - with interest rates ranging from 0.87% to 6.88% in 2019		1,443,015	14,114,064	15,557,079
IMI		1,419,699	5,791,931	7,211,630
ALI		3,062	6,331,185	6,334,247
AC Industrials		20,254	1,990,948	2,011,202
Philippine peso - with interest rates ranging from 3.75% to 9.00% in 2019		14,052,889	78,165,325	92,218,214
ALI		13,252,323	52,519,542	65,771,865
AC ENERGY		669,225	25,461,848	26,131,073
Others		131,341	183,935	315,276
		15,495,904	92,279,389	107,775,293
Bonds:				
Fixed for life notes	$ 1,200,000	-	60,544,798	60,544,798
Green bonds	$ 410,000	-	20,727,418	20,727,418
Due 2020	₱ 4,000,000	3,995,321	-	3,995,321
Due 2021	₱ 14,000,000	-	13,934,766	13,934,766
Due 2022	₱ 12,650,000	-	12,614,111	12,614,111
Due 2023	₱ 15,000,000	-	14,887,529	14,887,529
Due 2024	₱ 18,000,000	-	17,915,811	17,915,811
Due 2025	₱ 15,000,000	-	14,908,645	14,908,645
Due 2026	₱ 16,000,000	-	15,856,414	15,856,414
Due 2027	₱ 8,000,000	-	7,924,640	7,924,640
Due 2028	₱ 10,000,000	-	9,896,154	9,896,154
Due 2033	₱ 2,000,000	-	1,985,276	1,985,276
		3,995,321	191,195,562	195,190,883
Fixed Rate Corporate Notes (FXCNs)		-	7,039,272	7,039,272
TOTAL		**₱ 23,878,725**	**₱ 351,670,789**	**₱ 375,549,514**

AYALA CORPORATION AND SUBSIDIARIES
Schedule E – Indebtedness to Related Parties (Long-term Loans from Related Parties)
As of December 31, 2019
(In Thousand Pesos)

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
Bank of the Philippine Islands (BPI)*	25,468,930	30,259,087
The increase in balance represents borrowings mainly of AC parent co., ALI and AC Energy for expansion projects.		

**Amounts shown form part of the short-term and long-term debt payable to BPI per Note 32 of the 2019 Consolidated Audited Financial Statements.*

Schedule F – Guarantees of Securities of Other Issuers
As of December 31, 2019
(In Thousand Pesos)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guaranty
AYC Finance Limited *	Various *	Total loan drawdowns amounted to $1,700M wherein $800M is outstanding as of December 31, 2019.*	None	The Parent Company unconditionally guarantees the due and punctual payment of the loan drawdowns if, for any reason AYCFL does not make timely payment of the amount due. The Parent Company waived all rights of subrogation, contribution and claims of prior exhaustion of remedies. The Parent Company's obligation as guarantor will remain in full force until no sum remains to be lent by the lenders, and the lenders recover the outstanding loan drawdowns.*

** Please refer to Note 36 of the 2019 Consolidated Audited Financial Statements for the detailed discussion.*

AYALA CORPORATION AND SUBSIDIARIES
Schedule G – Capital Stock*
As of December 31, 2019
(In Thousand Pesos)

TITLE OF ISSUE	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED AND OUTSTANDING	NUMBER OF SHARES RESERVED FOR OPTIONS, WARRANTS, CONVERSION & OTHER RIGHTS	NUMBER OF SHARES HELD BY RELATED PARTIES	DIRECTORS, OFFICERS & EMPLOYEES
Common Stock issued & subscribed [a/]	900,000,000	629,034,590			
Issued and subscribed on exercise of share options		2,127,649			
Treasury Shares reissuance/acquisition	-	(4,478,644)			
Common shares outstanding	**900,000,000**	**626,683,595**	*Refer to "Warrants and options outstanding; repricing" portion of Item 10 of the SEC17A report.*	*Refer to "Security ownership of certain record and beneficial owners" portion of Item 11 of the SEC17A report.*	**3,856,386**
Preferred A shares [b/]	**12,000,000**	**-**			
Preferred B shares [c/]	**58,000,000**	**50,000,000**			**22,000**
Preferred C shares	**40,000,000**	**-**			
Voting Preferred shares [d/]	**200,000,000**	**200,000,000**			**1,481,472**

[a/] Ayala Corporation has stock option plans for the key officers (Executive Stock Option Plan-ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 3% of the Company's capital stock.

[b/] Cumulative, nonvoting and redeemable with a par value of P100 per share and is listed and traded at the Philippine Stock Exchange. It may be redeemed at the option of Ayala Corporation starting in the fifth year. The offering price is P500 per share with a dividend rate of 8.88% per annum. This security was redeemed on Nov. 25, 2013.

[c/] Cumulative, nonvoting and redeemable with a par value of P100 per share. It is listed and traded at the Philippine Stock Exchange and may be redeemed at the option of Ayala Corporation starting on the fifth year of issue date. The offering price is P500 per share with a fixed quarterly dividend rate of 5.25% per annum for the Preferred B Series 1 and 5.575% per annum for the Preferred B Series 2.

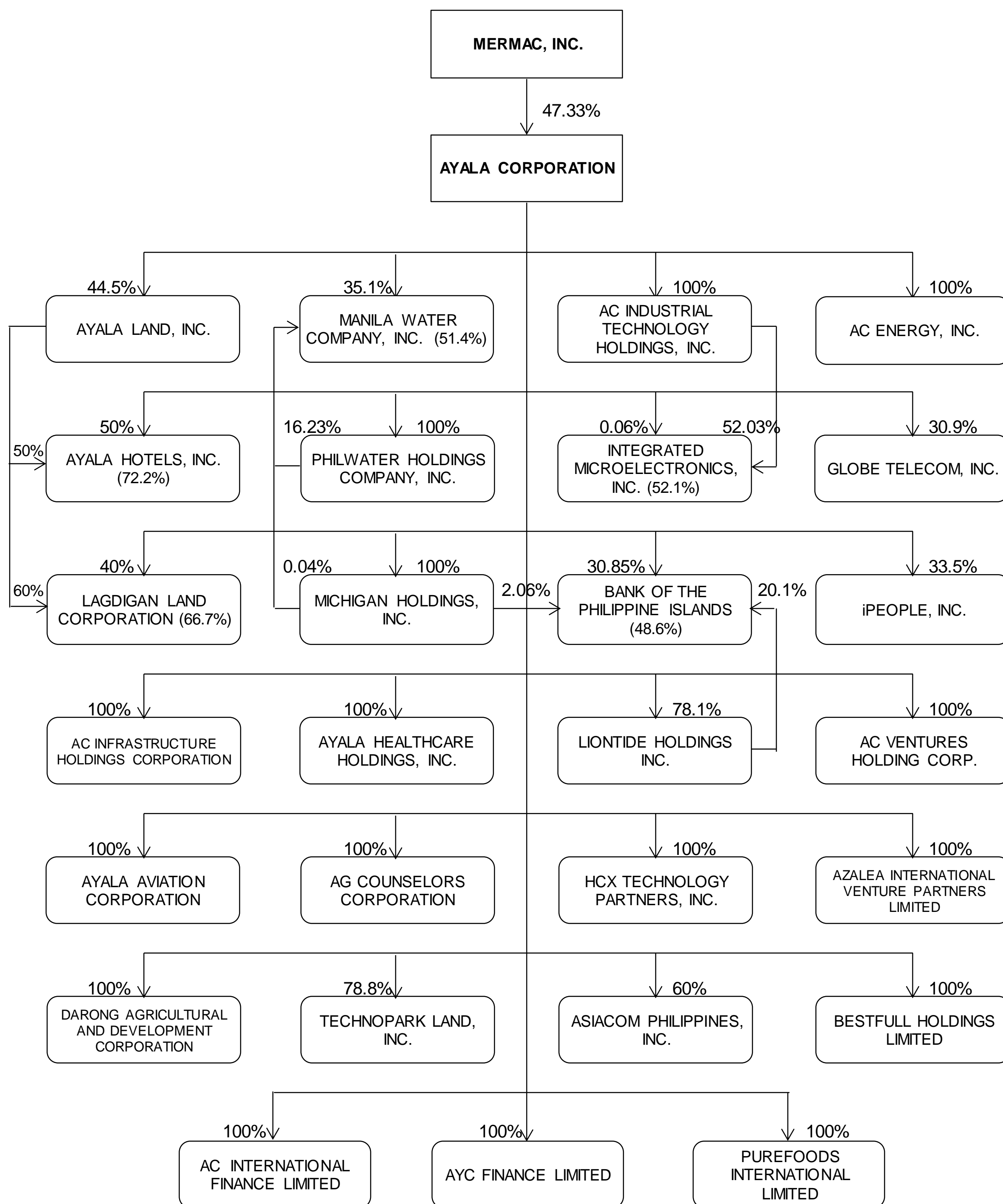
[d/] Cumulative, voting and redeemable at the option of Ayala Corporation with a par value of P1 per share and dividend rate of 5.7730% per annum.

** Please refer to Note 21 of the 2019 Consolidated Audited Financial Statements for the related discussion.*

Schedule H – Reconciliation of Retained Earnings Available for Dividend Declaration
As of December 31, 2019
(In Thousand Pesos)

	December 31, 2019		December 31, 2018	
Unappropriated retained earnings, *as adjusted to available for dividend distribution, beginning*		₱ **34,034,851**		₱ 33,179,220
Add: Net income actually earned/realized during the period - Parent co.		**22,382,508**		6,321,047
Add (Less):				
Dividend declarations during the period	₱ **(6,464,228)**		₱ (5,618,475)	
PFRS adjustments in retained earnings	**18,962**		141,513	
Other adjustments	**-**		11,546	
Treasury shares	**(3,437,896)**		-	
		(9,883,162)		(5,465,416)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		₱ **46,534,197**		₱ 34,034,851

AYALA CORPORATION AND SUBSIDIARIES
Schedule I – Map of Relationships of the Companies within the Group
As of December 31, 2019



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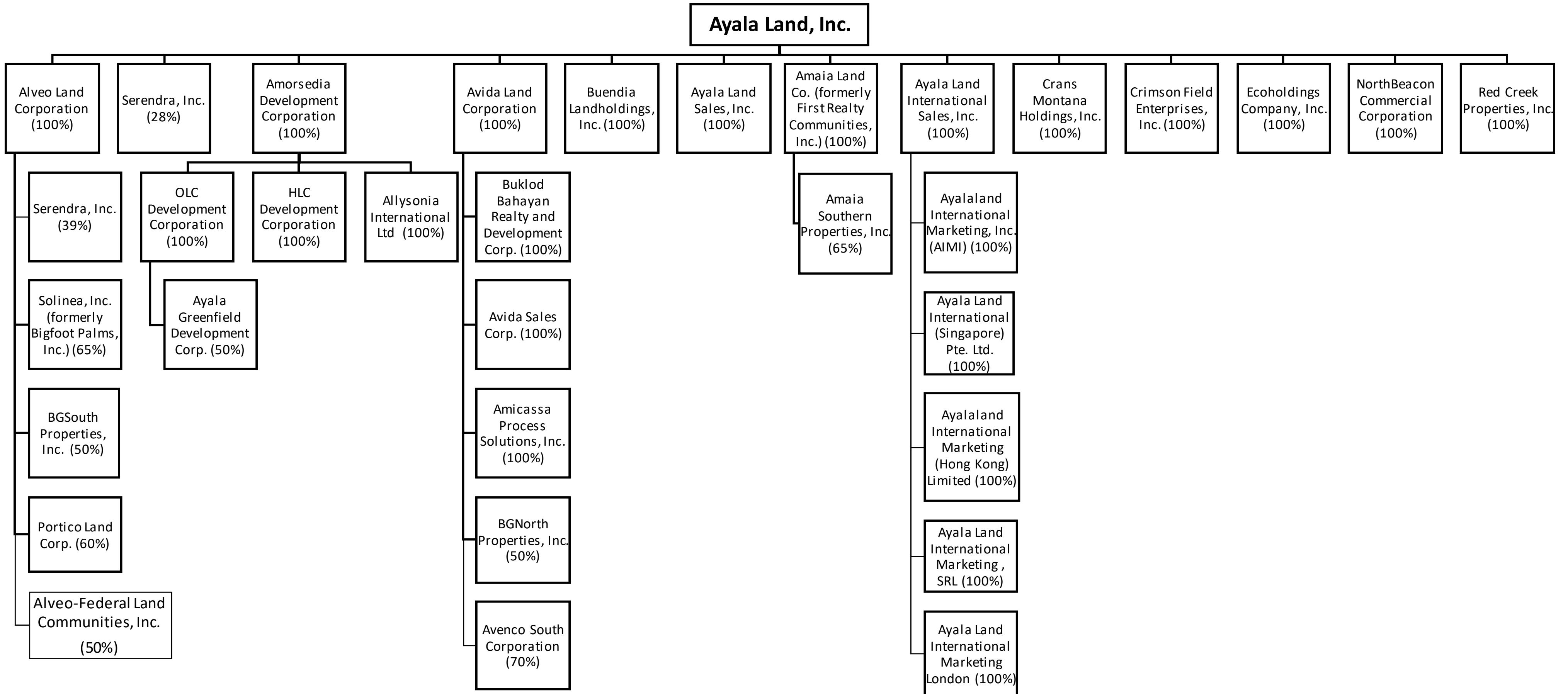

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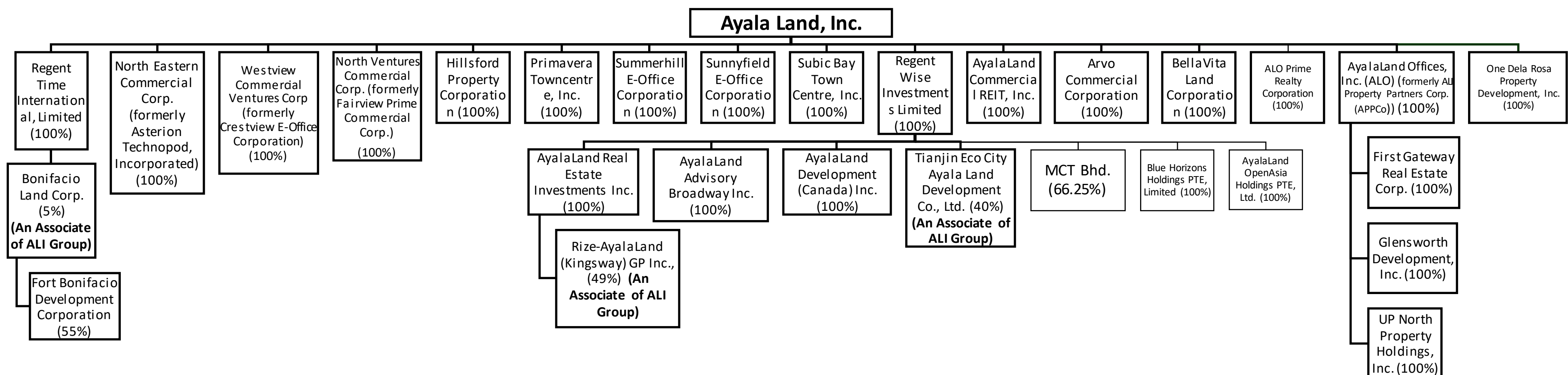

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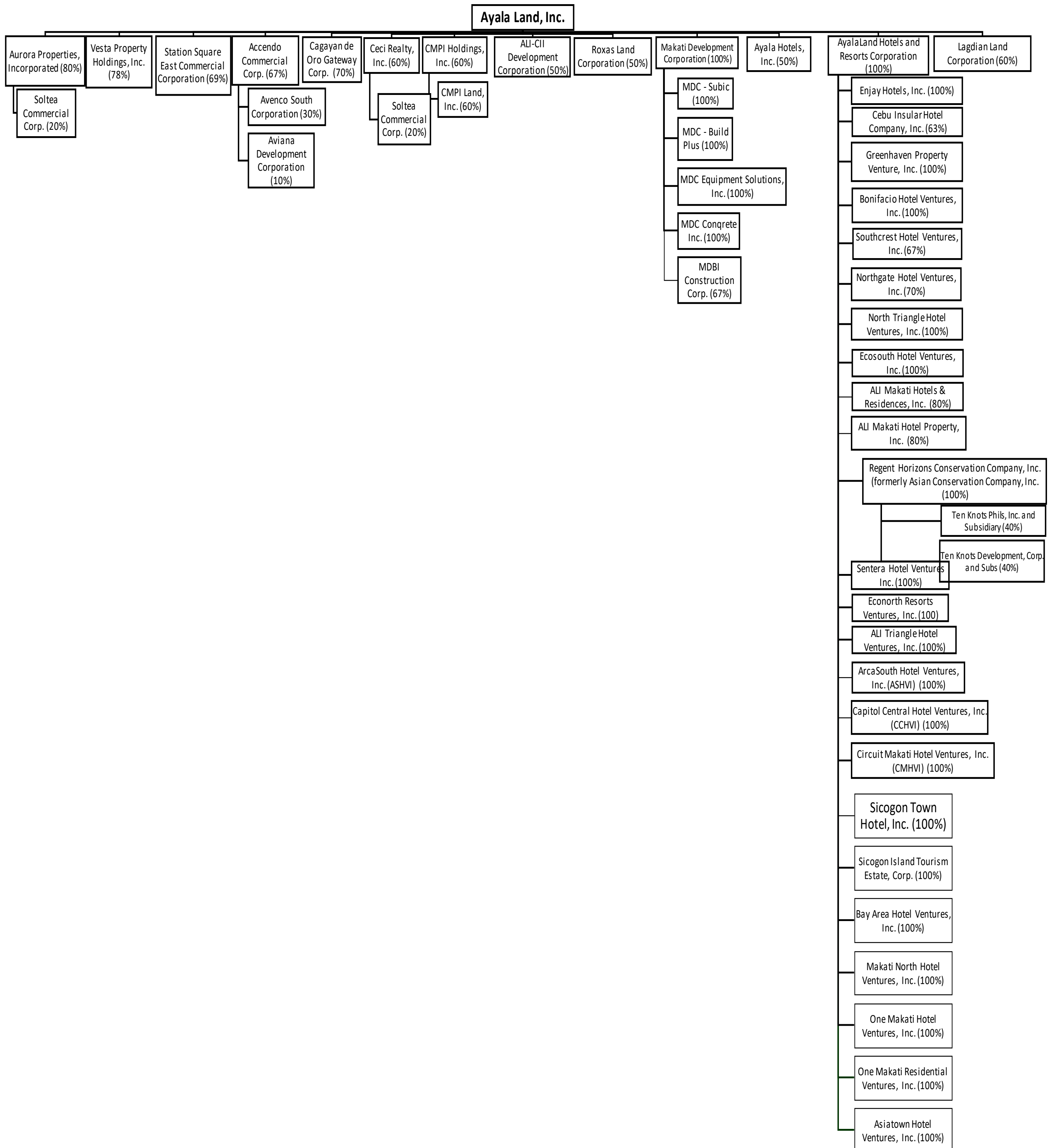

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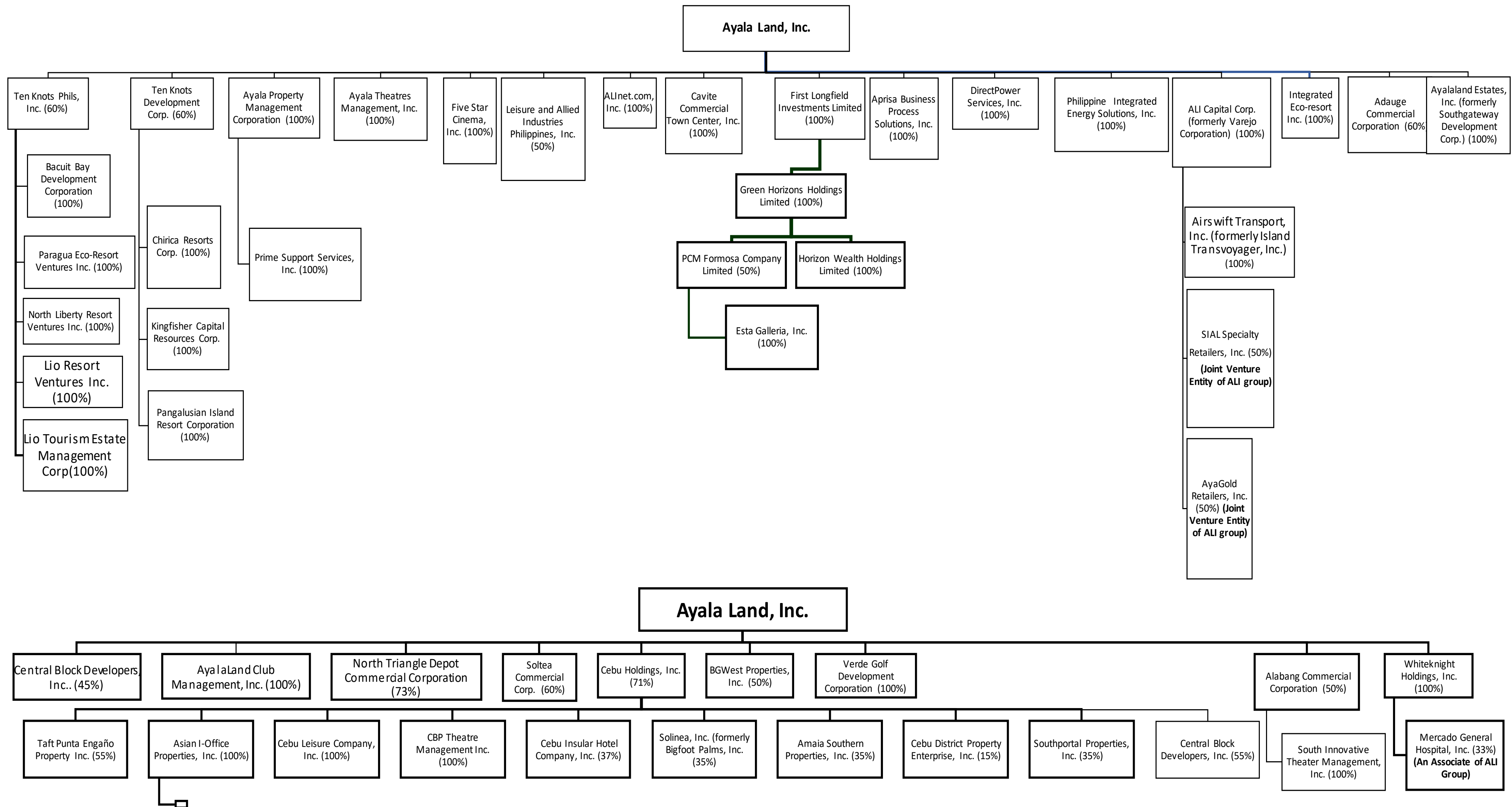

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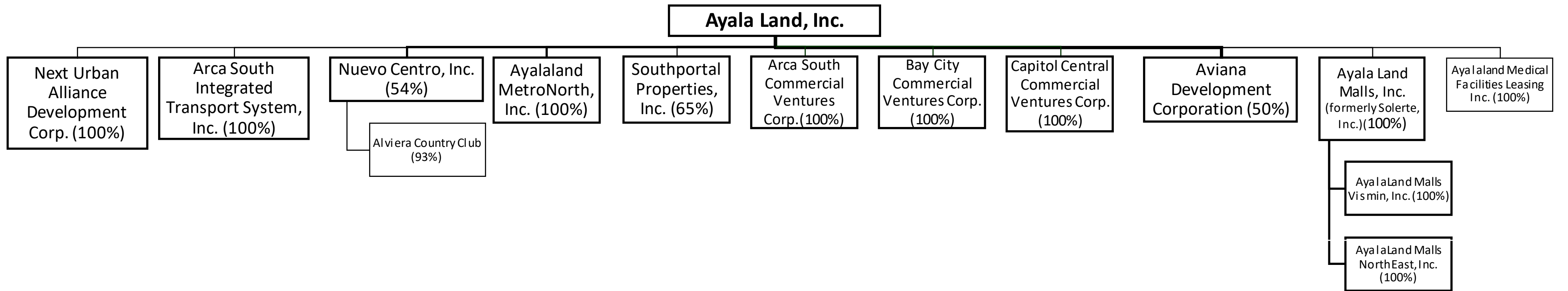

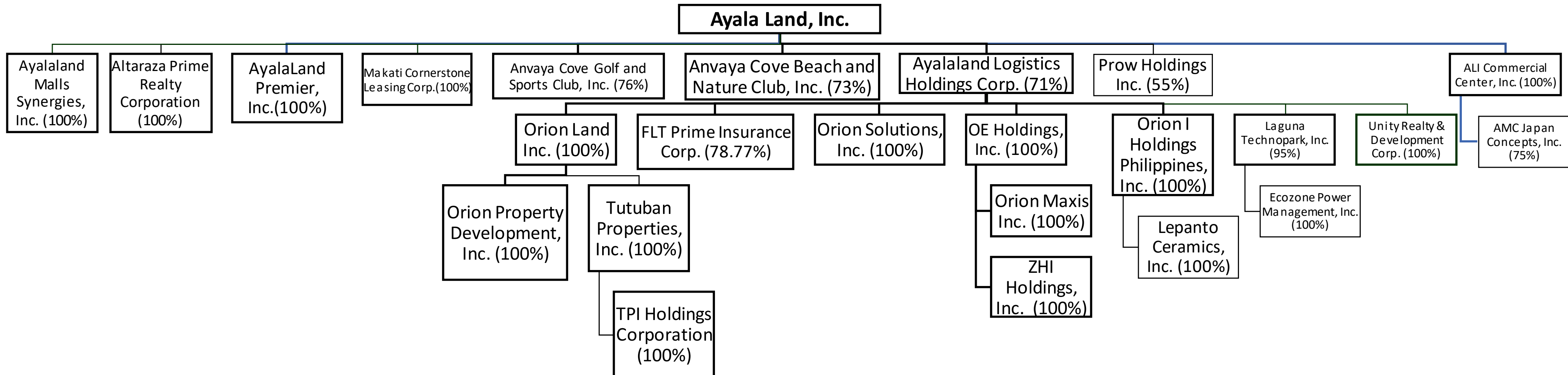

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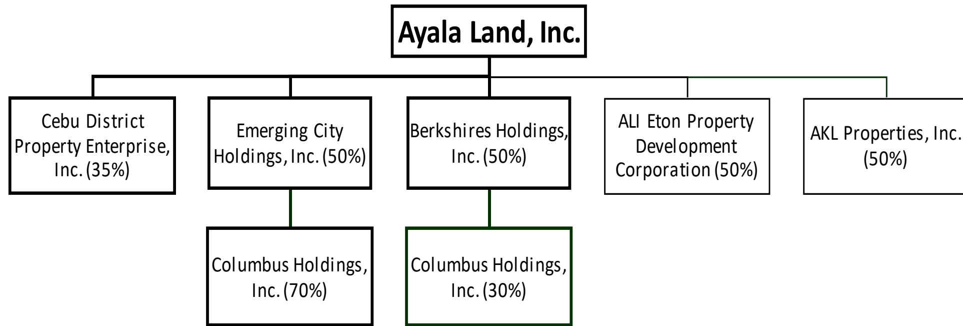

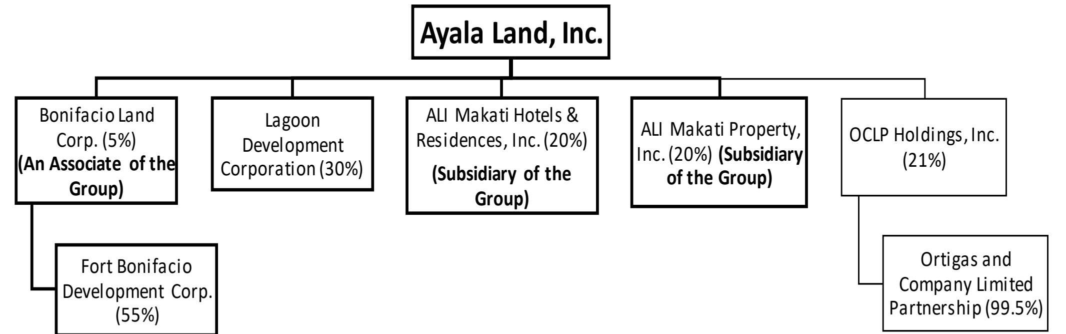

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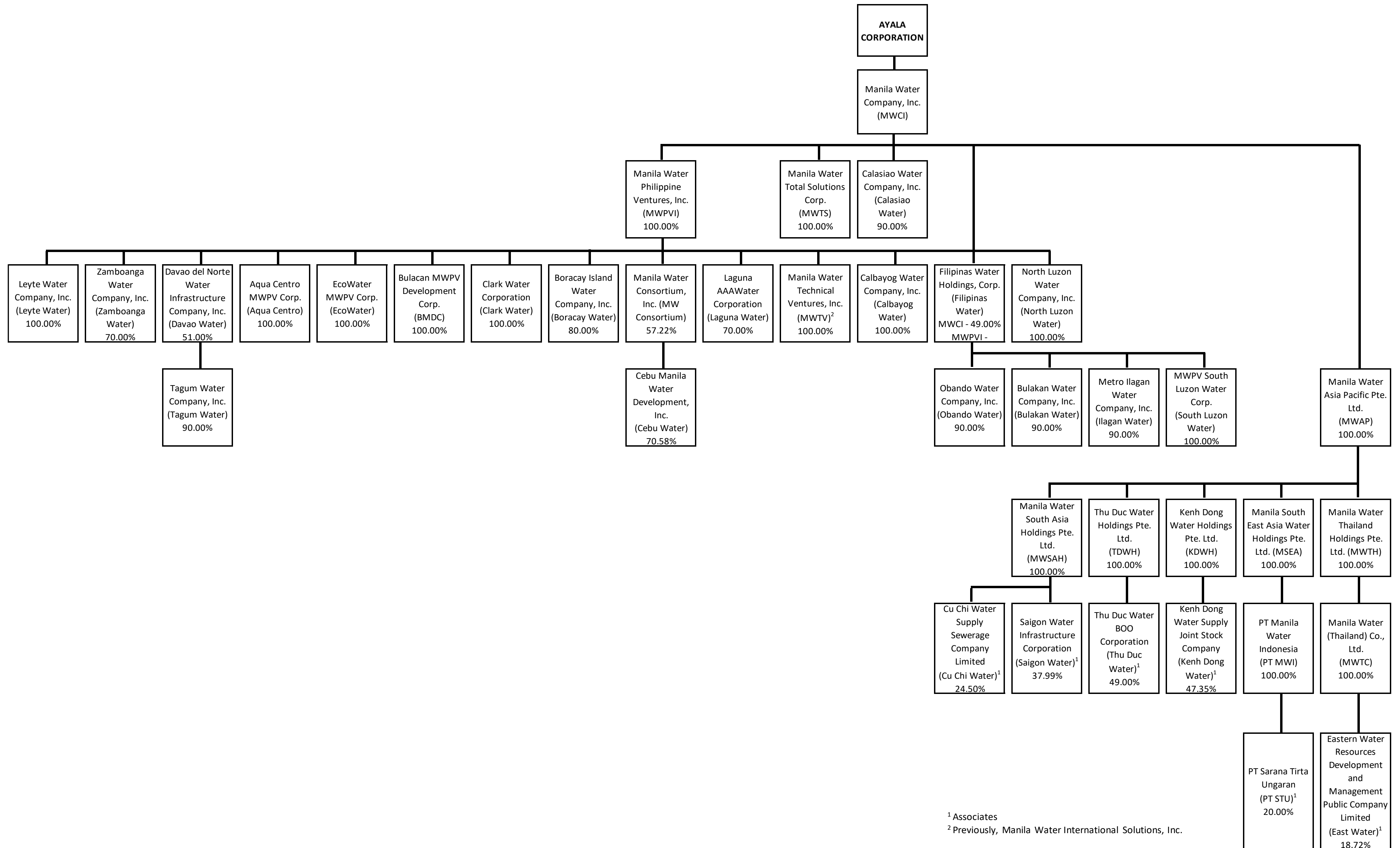

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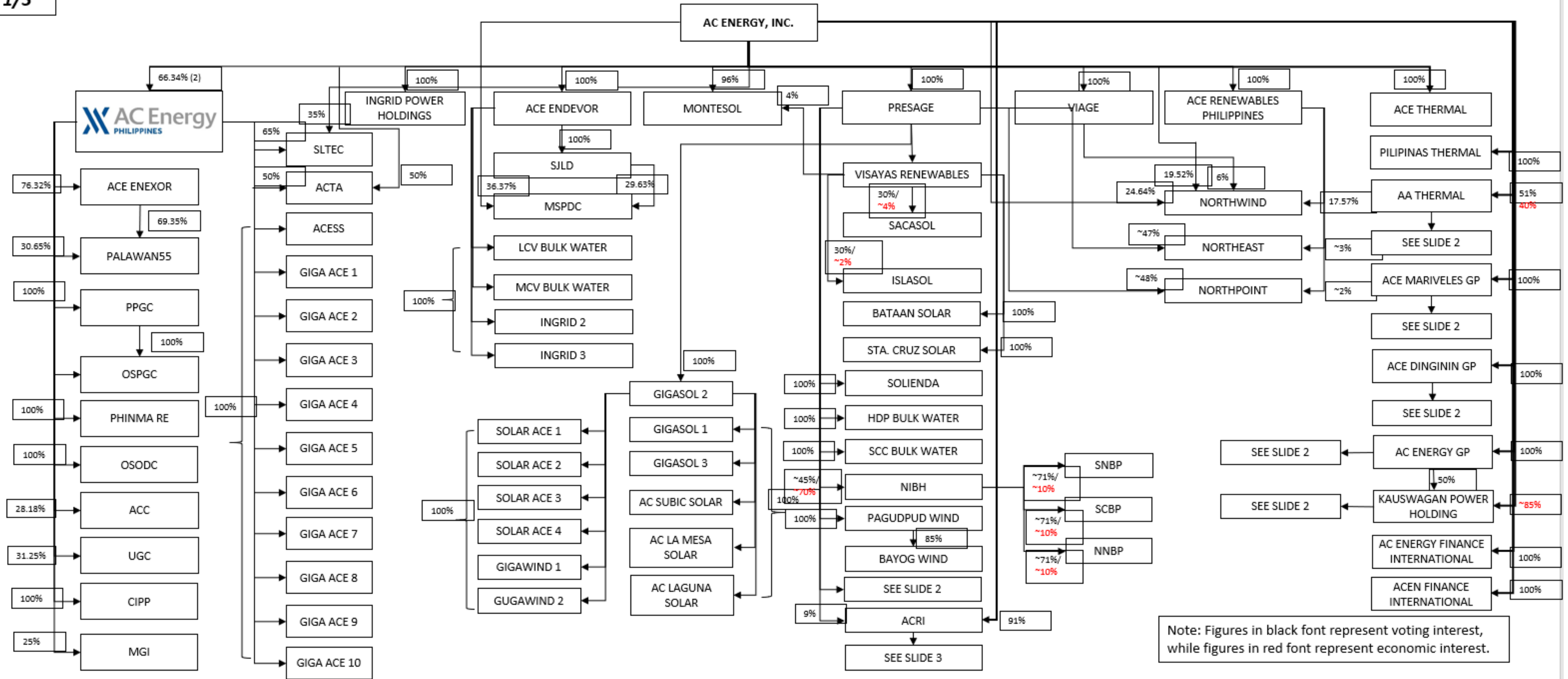
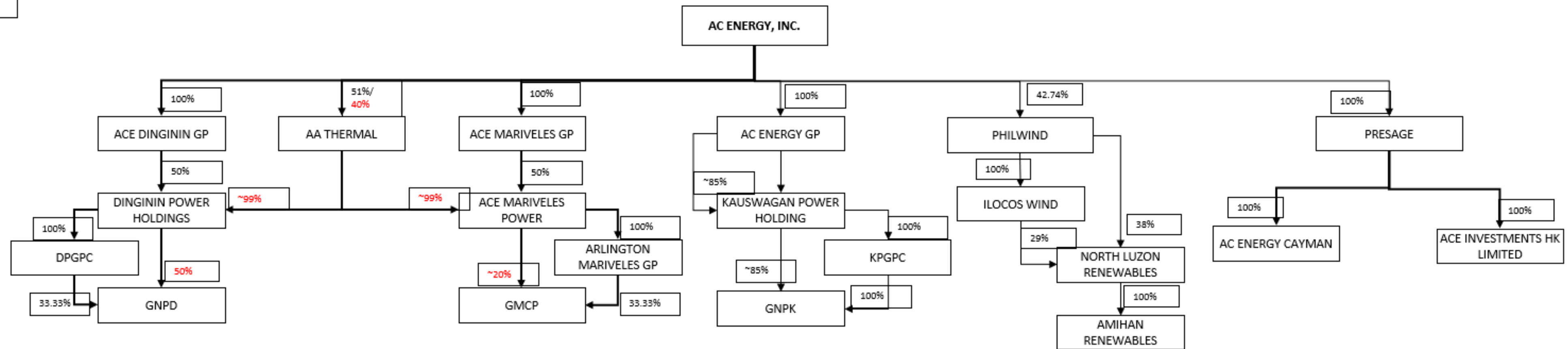


AYALA CORPORATION AND SUBSIDIARIES
Schedule I – Map of Relationships of the Companies within the Group
As of December 31, 2019

2/3



Note: Figures in black font represent voting interest, while figures in red font represent economic interest.

AYALA CORPORATION AND SUBSIDIARIES
Schedule I – Map of Relationships of the Companies within the Group
As of December 31, 2019

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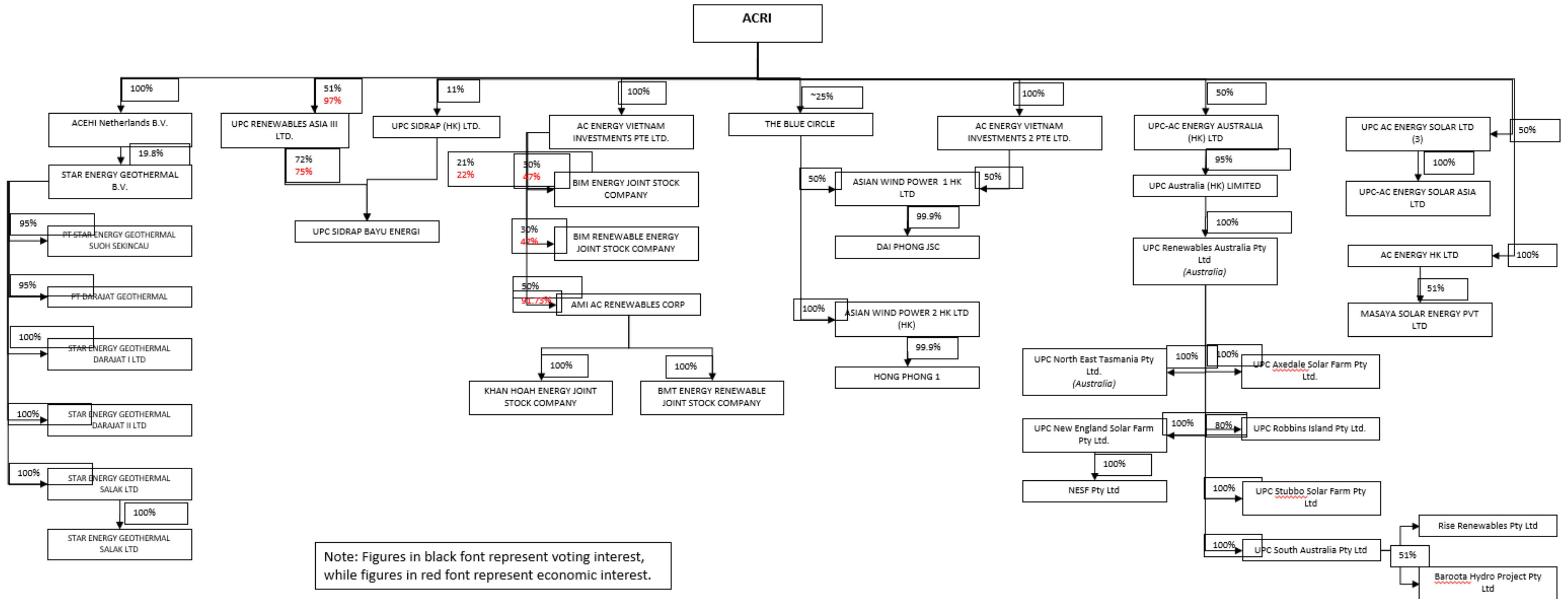

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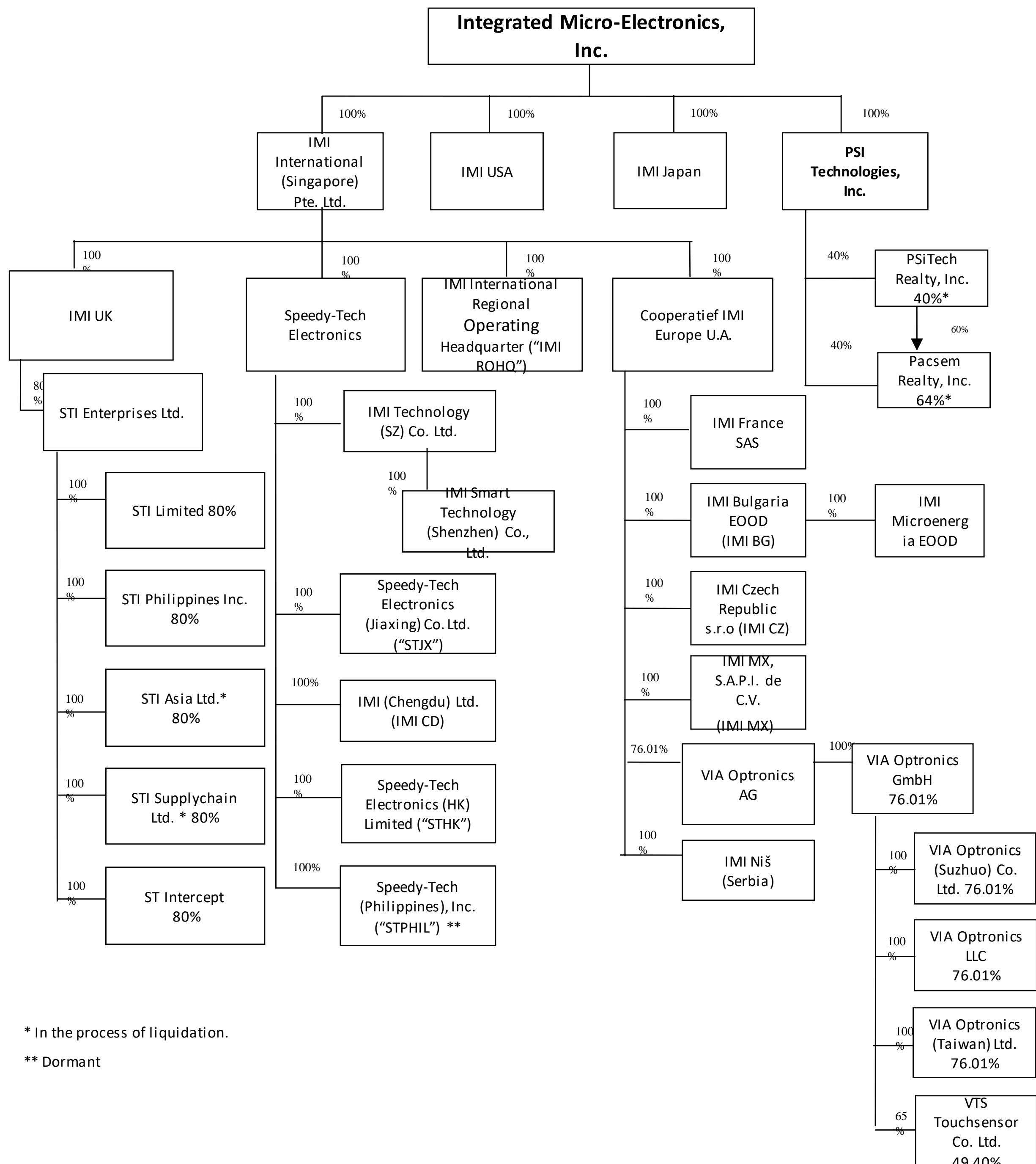

* In the process of liquidation.

** Dormant

AYALA CORPORATION AND SUBSIDIARIES
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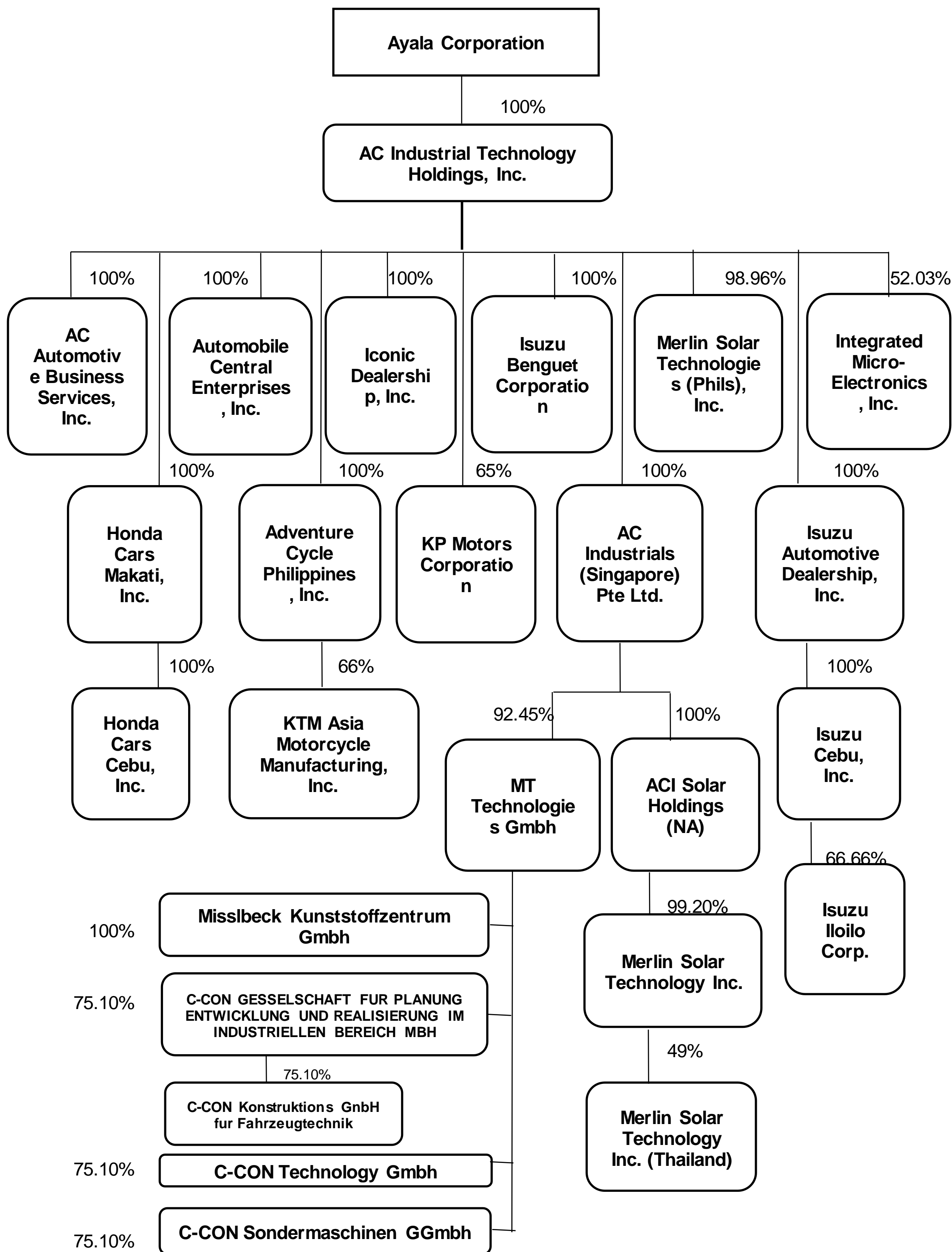

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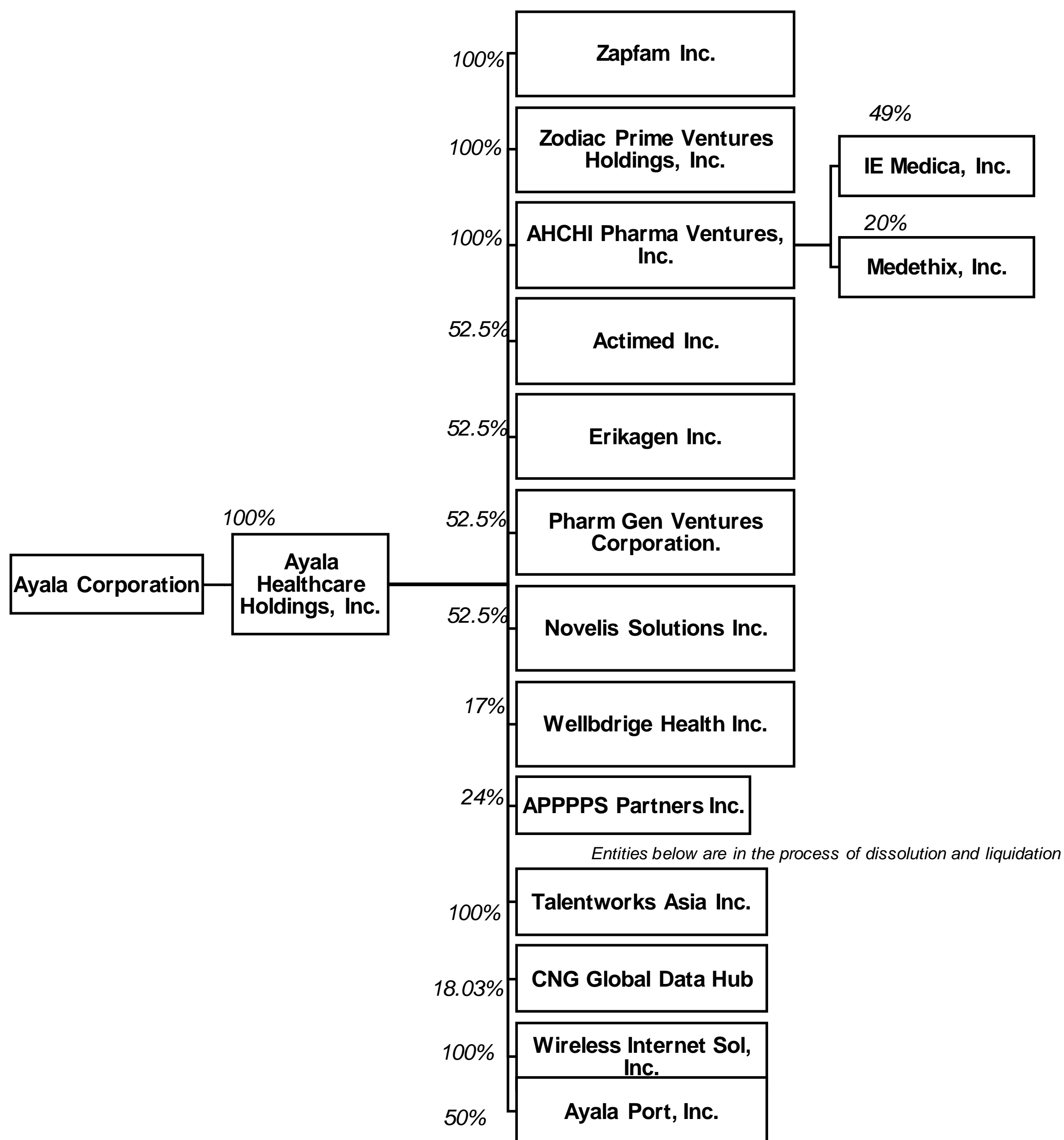

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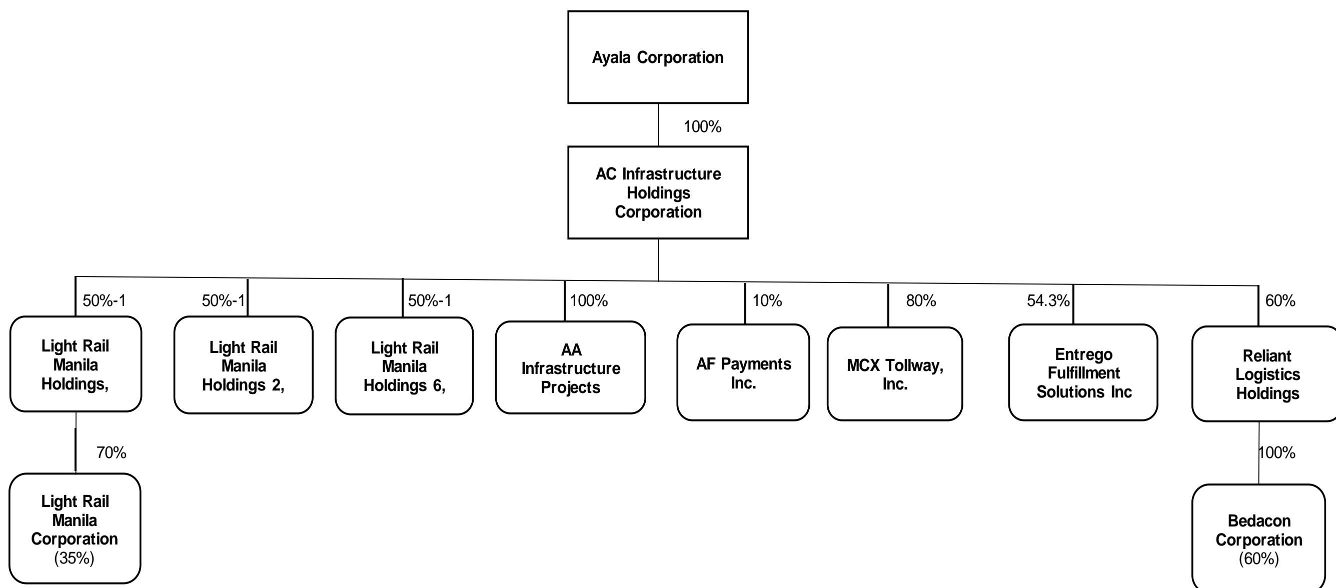

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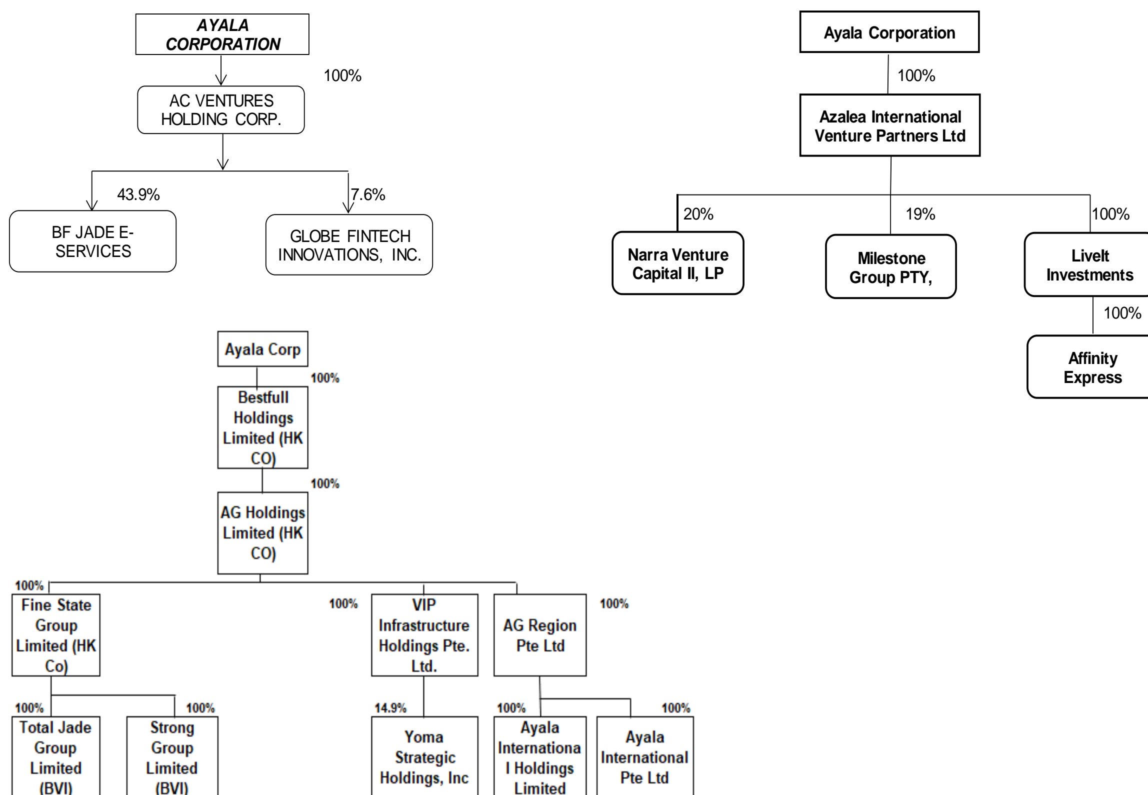


AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Financial Ratios
As of December 31, 2019

Ratio	Formula	December 2019	December 2018	December 2019	December 2018
		In thousands			
Liquidity Analysis Ratios					
Liquidity Ratio	Cash & Cash equivalents + Short-term investments	**106,793,054**	66,580,752	**0.27**	0.20
	Current Liabilities	**402,656,865**	330,102,855		
	Cash & Cash equivalents	**93,405,253**	60,624,263		
	Short-term investments	**13,387,801**	5,956,489		
	Total	**106,793,054**	66,580,752		
Current Ratio	Current Assets	**609,285,431**	412,759,422	**1.51**	1.25
	Current Liabilities	**402,656,865**	330,102,855		
Quick Ratio	Current Assets - Inventories - Prepayments	**458,847,007**	278,652,108	**1.14**	0.84
	Current Liabilities	**402,656,865**	330,102,855		
	Current assets	**609,285,431**	412,759,422		
	Inventories	**(135,064,303)**	(120,560,493)		
	Prepayments	**(15,374,122)**	(13,546,821)		
	Quick assets	**458,847,007**	278,652,108		
Solvency Ratio	Total Assets	**1,345,285,958**	1,197,925,619	**1.61**	1.64
	Total Liabilities	**835,972,400**	728,817,264		
Financial Leverage Ratios					
Assets- to-Equity Ratio	Total Assets	**1,345,285,958**	1,197,925,619	**2.64**	2.55
	Total Stockholders' Equity	**509,313,558**	469,108,355		
Interest Rate Coverage	Earnings Before Interest and Taxes (EBIT)	**108,809,486**	79,630,117	**4.86**	4.58
	Interest and other financing charges	**22,409,526**	17,378,936		
	Income after income tax from continuing operations	**72,415,823**	48,883,980		
	Provision for income tax	**13,984,137**	13,367,201		
	Interest and other financing charges	**22,409,526**	17,378,936		
	EBIT	**108,809,486**	79,630,117		
Debt Ratio	Short-term debt + Long-term debt	**405,338,157**	412,261,632	**0.30**	0.34
	Total Assets	**1,345,285,958**	1,197,925,619		
	Short-term debt	**29,788,643**	39,518,245		
	Long-term debt (current & noncurrent)	**375,549,514**	372,743,387		
	Total debt	**405,338,157**	412,261,632		
Debt-to-Equity Ratio	Short-term debt + Long-term debt	**405,338,157**	412,261,632	**0.80**	0.88
	Total Stockholders' Equity	**509,313,558**	469,108,355		

AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Financial Ratios
As of December 31, 2019

Ratio	Formula	December 2019	December 2018	December 2019	December 2018
		In thousands			
Profitability Ratios					
Gross Profit Margin	Sale of goods & rendering of services - Cost of sales & services	**74,923,276**	67,184,649	**0.28**	0.26
	Sale of goods & rendering of services	**264,906,534**	256,891,287		
	Sale of goods & rendering of services	**264,906,534**	256,891,287		
	Cost of sales & services	**(189,983,258)**	(189,706,638)		
	Gross profit	**74,923,276**	67,184,649		
Net Profit Margin	Net Profit	**42,810,461**	41,227,921	**0.16**	0.16
	Sale of goods & rendering of services	**264,906,534**	256,891,287		
	Gross profit	**74,923,276**	67,184,649		
	General and administrative expenses	**(32,112,815)**	(25,956,728)		
	Net Profit	**42,810,461**	41,227,921		
Return on Equity	Net Income to Owners of the Parent	**35,279,330**	31,817,721	**6.9%**	6.8%
	Total Stockholders' Equity	**509,313,558**	469,108,355		
Return on Common Equity	Net Income to Owners of the Parent (Common)	**34,019,574**	30,532,706	**11.9%**	12.2%
	Common Equity Attributable to Owners of the Parent (Average)	**285,499,690**	249,959,898		
	Net income to owners of the Parent	**35,279,330**	31,817,721		
	Less: Dividends on preferred stock	**(1,259,756)**	(1,285,015)		
	NIAT to Common	**34,019,574**	30,532,706		
		December 2019	December 2018		
	Equity attributable to owners of the parent	**328,807,265**	290,607,469		
	Preferred shares	**(24,897,642)**	(23,517,712)		
	Common equity attributable to owners of the Parent	**303,909,623**	267,089,757		
	Average common equity attributable to owners of the Parent	**285,499,690**			
		December 2018	December 2017		
	Equity attributable to owners of the parent	**290,607,469**	256,347,751		
	Preferred shares	**(23,517,712)**	(23,517,712)		
	Common equity attributable to owners of the Parent	**267,089,757**	232,830,040		
	Average common equity attributable to owners of the Parent	**249,959,898**			
Return on Assets	Net Income	**41,982,330**	55,065,114	**3.1%**	4.6%
	Total Assets	**1,345,285,958**	1,197,925,619		
Price/Earnings Ratio	Price Per Share	**785.50**	900.00	**14.51**	18.44
	Earnings Per Common Share (Basic)	**54.12**	48.80		

II. 2019 Consolidated Financial Statements of Registrant

Ayala
33F Tower One, Ayala Triangle, Ayala Avenue
Makati City, 1226 Philippines
www.ayala.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

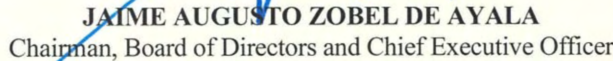
The management of Ayala Corporation (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the 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.

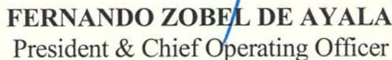
The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company and its subsidiaries in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors and Chief Executive Officer



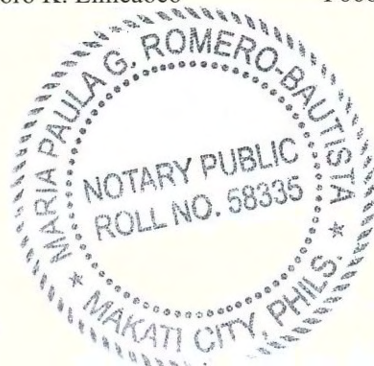
FERNANDO ZOBEL DE AYALA
President & Chief Operating Officer

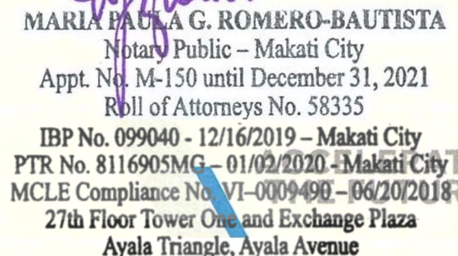
JOSE TEODORO K. LIMCAOCO
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this MAR 12 2020 at Makati City, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Jaime Augusto Zobel de Ayala	P9640299A	November 21, 2018 - DFA Manila
Fernando Zobel de Ayala	P0349883B	January 22, 2019 – DFA Manila
Jose Teodoro K. Limcaoco	P6682433A	April 5, 2018 – DFA Manila

Doc. No. 455 :
Page No 92 :
Book No. XVI :
Series of 2020.





MARIA PAULA G. ROMERO-BAUTISTA
Notary Public – Makati City
Appt. No. M-150 until December 31, 2021
Roll of Attorneys No. 58335
IBP No. 099040 - 12/16/2019 – Makati City
PTR No. 8116905MG – 01/02/2020 - Makati City
MCLE Compliance No. VI–0009490 – 06/20/2018
27th Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

3	4	2	1	8						

COMPANY NAME

AYALA CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

32F-35F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
acquery@ayala.com.ph	**7908-3000**	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
7,353	**April 24**	**December 31**

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Josephine G. De Asis	**deasis.jg@ayala.com.ph**	**7908-3000**	

CONTACT PERSON's ADDRESS

33rd-35th Floor, Tower One and Exchange Plaza, Ayala Avenue, Makati City

NOTE 1 In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 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
Ayala Corporation
32F-35F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

Opinion

We have audited the accompanying consolidated financial statements of Ayala Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ayala Corporation and its subsidiaries as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Accounting for Subsidiaries under PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations

As of December 31, 2019, the Group has investments in subsidiaries that were accounted for under PFRS 5. We consider this as a key audit matter because it requires management to exercise significant judgment in determining (a) whether conditions are met for these subsidiaries to be classified under PFRS 5, (b) the fair value of these subsidiaries for purposes of determining any impairment loss upon initial classification under PFRS 5, and (c) whether these subsidiaries qualify as discontinued operations for purposes of presentation in the consolidated statements of income.

Management's disclosures on the subsidiaries classified under PFRS 5 are included in Note 25 to the consolidated financial statements.

Audit Response

We evaluated management's assessment whether these subsidiaries qualified as held for sale based on the criteria set forth by PFRS 5 as of December 31, 2019. We inquired with management the basis of their assessment and reviewed the supporting agreements, such as term sheet and subscription agreement, as applicable, to determine whether the disposal will result in loss of control. We assessed the fair value of the net assets of these subsidiaries with reference to the term sheet or subscription agreement and the requirements of PFRS 13, *Fair value measurement*. We test computed the impairment loss by comparing the carrying amount of each of the subsidiaries with their respective fair values. We reviewed whether the amount recognized by the Group as assets held of sale and liabilities held for sale as of December 31, 2019 represent the assets and liabilities, respectively, of the consolidated subsidiaries that have been classified as held for sale as of that date. We also evaluated the Group's basis for classifying the disposal group as discontinued operations by reference to the respective segments they belong whether these represent separate major lines of businesses. We also reviewed the Group's disclosures about these subsidiaries classified under PFRS 5.

Impairment Testing of Goodwill and Non-financial Assets related to East Zone Concession

The Group has goodwill which is required to be tested for impairment at least annually. In addition, in 2019, Manila Water Company Inc. (MWC)'s market capitalization as of December 31, 2019 significantly declined compared to its net book value, which decline was triggered by, among others, the ongoing discussion with the Metropolitan Waterworks and Sewerage System on the provisions of the Concession Agreement identified for renegotiation and amendment. This is an impairment indicator that requires an assessment of the recoverability of the Group's non-financial assets related to the East Zone Concession, particularly its service concession assets and property and equipment. The impairment testing is a key audit matter because it requires management to make significant estimates and assumptions with respect to the estimated future cash flows of the related cash-generating units, revenue growth rate and the discount rate used in calculating the present value of future cash flows. The valuation of the recoverable amount of East Zone's non-financial assets, using fair value less cost to sell, requires the assistance of an external appraiser whose calculations also depend on certain assumptions such as recent sales, offering prices or listing of comparable properties located within the vicinity of the subject assets, adjustments to sales prices based on internal and external factors, and deductions for physical deterioration and all other relevant forms of obsolescence.

Management's disclosures on property and equipment, service concession asset and goodwill are included in Notes 12, 13 and 14, respectively, to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's impairment assessment process and the related controls. We involved our internal specialist in evaluating the methodologies and assumptions used in the value-in-use calculation. These assumptions include revenue growth rate, gross margin and discount rate. We compared the key assumptions used such as revenue growth rate against actual historical performance of the cash generating unit and industry outlook and gross margin against historical rates. We tested the parameters used in the derivation of the discount rate against market data.

We also involved our internal specialist in evaluating the methodology and assumptions used in the valuation of the non-financial assets of the East Zone Concession. For the market approach, the assumptions used include information supporting the comparability of the subject assets with identical or similar properties for which information is available, measures of value of comparable properties and adjustments made to the value of the comparable properties. We made inquiries with the management's specialist who appraised the assets about the methodology and assumptions used in the valuation of the subject assets and we evaluated the specialist's competence, capabilities, and objectivity by considering their qualifications, experience and reporting responsibilities.

We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is more sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of these assets.

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes to the Group's accounting policy for leases, specifically those formerly classified as operating lease arrangements where the Group is the lessee. The Group's adoption of PFRS 16 is significant to our audit because the Group has high volume of lease agreements, the recorded amounts are material to the consolidated financial statements, and the adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the extension option is enforceable and whether the Group is reasonably certain to exercise option to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right of use assets and lease liability amounting to ₱18,533 million and ₱21,564 million, respectively, as of January 1, 2019, and the recognition of depreciation expense and interest expense of ₱1,472 million and ₱1,231 million, respectively, for the year ended December 31, 2019.

The disclosures in relation to the adoption of PFRS 16 are included in Notes 3 and 31 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the determination of the incremental borrowing rate and lease term, the application of the short-term and low-value assets exemption, the selection of the transition approach and any election of available practical expedients.

To test the completeness of the population of the lease contracts, we obtained the list of lease agreements in prior year where rent expense have been recognized. The list was reconciled to the current year list. On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements), identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of the financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the enforceability of the extension and/or termination option. We also reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Accounting for Business Combinations

The Group had a number of acquisitions in 2019, including step acquisitions, which resulted in the recognition of property, plant and equipment, intangible assets and goodwill, among others, and remeasurement gain. We considered the accounting for these acquisitions as a key audit matter because these required significant management judgment and estimation in identifying the underlying acquired assets and liabilities and in determining their fair values, specifically the acquired property, plant and equipment and intangible assets, and in determining the fair value of previously-held interest.

Further details of the acquisitions made by the Group are disclosed in Note 24 to the consolidated financial statements.

Audit Response

We reviewed the purchase agreements covering the acquisitions, the consideration paid and the provisional purchase price allocation as applicable. We reviewed the identification of the underlying assets and liabilities based on our understanding of the businesses of the acquired entities and management's explanations on the rationale for the acquisitions. We assessed the competence, capabilities and objectivity of the external appraisers, as applicable, by considering their qualifications, experience and reporting responsibilities. We also involved our internal specialist in evaluating the methodologies and assumptions used in arriving at the fair values of the said underlying assets. We compared the key assumptions used such as discount rates, revenue and earnings forecast, royalty rates, and energy supply contract rates, against historical information and relevant market data. We recomputed the remeasurement gain of previously-held interest. We reviewed the presentation and disclosures related to these business combinations in the consolidated financial statements.

Revenue Recognition from Real Estate and Water Infrastructure Services

The Ayala Land, Inc. and its subsidiaries' (ALI Group) revenue recognition process, policies and procedures are significant to our audit because these involve the application of significant judgment and estimation in the following areas: (1) assessment of the probability that the entity will collect the consideration from the buyer; (2) application of the output method as the measure of progress in determining real estate revenue; (3) determination of the actual costs incurred as cost of sales; and (4) recognition of cost to obtain a contract.

In evaluating whether collectability of the amount of consideration is probable, the ALI Group considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectability is also assessed by considering factors such as past history with buyers, age of residential and office development receivables and pricing of the property. Management regularly evaluates the historical sales cancellations and back-outs if it would still support its current threshold of buyer's equity before commencing revenue recognition of real estate.

In measuring the progress of its performance obligation over time, the ALI Group uses the output method. This method measures progress based on physical proportion of work done on the real estate project which requires technical determination by the ALI Group's specialists (project engineers). This is based on the monthly project accomplishment report prepared by the third party surveyor as approved by the construction manager which integrates the surveys of performance to date of the construction activities for both sub-contracted and those that are fulfilled by the ALI Group itself.

In determining the actual costs incurred to be recognized as cost of sales, the ALI Group estimates costs incurred on materials, labor and overhead which have not yet been billed by the contractor.

The ALI Group identifies sales commission after contract inception as the cost of obtaining the contract. For real estate contracts which qualified for revenue recognition, the ALI Group capitalizes the total sales commission due to sales agent as cost to obtain contract and recognizes the related commission payable. The ALI Group uses percentage of completion (POC) method in amortizing sales commission consistent with the Group's revenue recognition policy.

For MWC and its subsidiaries (MWC Group), its revenue recognition process for the East Zone concession area requires the processing of data from a large number of customers classified as either residential, commercial, semi-business, or industrial. The amounts billed to customers consist of a number of components, including basic charge, environmental charge and foreign currency differential adjustment and where applicable, sewer charge. These tariffs depend on the customer type and are determined based on a formula as prescribed by the Metropolitan Waterworks and Sewerage System Regulatory Office (MWSS RO). This matter is significant to our audit because the revenue recognized depends on the completeness of capture of water consumption based on the meter readings taken on various dates over the concession area; the propriety of rates applied across customer types; and the reliability of the systems involved in processing the billing transactions.

The disclosures related to revenue are included in Notes 16 and 22 to the Consolidated Financial Statements.

Audit Response

For the different revenue streams mentioned above, we obtained an understanding of the ALI Group's and MWC Group's revenue recognition processes and performed the following procedures:

a. Real estate revenue and cost
    - For the buyer's equity, we evaluated management's basis for the buyers' equity by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold.
    - For the application of the output method, in recognizing real estate revenue, we obtained an understanding of the ALI Group's processes to determine the POC and performed tests of the relevant controls. We obtained the certified POC reports prepared by the project engineers and assessed their competence and objectivity by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries and obtained the supporting details of POC reports showing the stage of completion of the major activities of project construction.

- For the cost of sales, we obtained an understanding of the ALI Group's cost accumulation process and performed tests of the relevant controls. For selected projects, we traced the accumulated costs, including costs incurred but not yet billed, to supporting documents such as invoices and accomplishment reports from the contractors and official receipts.
- For the recognition of cost to obtain a contract, we obtained an understanding of the sales commission process. For selected contracts, we agreed the basis for calculating the sales commission capitalized and the portion recognized in profit or loss, particularly: (a) the percentage of commission due against contracts with sales agents, (b) the total commissionable amount (i.e., net contract price) against the related contract to sell, and, (c) the POC used in the sales commission computation against the POC used in recognizing the related revenue from real estate sales.

b. Revenue from water and sewer services
   - We obtained an understanding, evaluated the design and tested the controls over the read and bill process, which includes the capture of water consumption and calculation of billed fees, downloading of data from the billing system and uploading of data to MWC Group's financial reporting system.
   - We involved our internal specialist in the testing of the related controls over the read and bill processes.
   - We performed test calculation of the billed amounts using the volume of water consumption and MWSS RO-approved rates and compared them with the amounts reflected in the billing statements.

Amortization of MWC Group's Service Concession Assets using the Units-of-production Method

The service concession assets (SCA) of MWC Group are related to its concession agreements. MWC Group uses the units-of-production (UOP) method in amortizing its SCA based on the actual billed volume over the estimated billable water volume for the remaining period of the concession agreement. The UOP amortization method is a key audit matter as the method involves significant management judgment and estimates, particularly in determining the total estimated billable water volume over the remaining periods of the concession agreements. It considers different factors such as population growth, supply and consumption, and service coverage, including ongoing and future expansions.

Relevant disclosures related to this matter are provided in Notes 3 and 13 to the consolidated financial statements.

Audit Response

We obtained an understanding of MWC management's processes and controls in the estimation of billable water volume. We evaluated the competence, capabilities, and objectivity of MWC management's specialist who estimated the total billable water volume. We also reviewed the report of MWC management's specialist and gained an understanding of the methodology and the basis of the forecasted volumes. Furthermore, we compared the estimated billable water volume for the year against the data generated from the billing system and recalculated the amortization expense for the year based on the actual billed water volume.

Accounting for Investments in Associate and Joint Venture

The Group has effective ownership of 48.6% in Bank of the Philippine Islands and its subsidiaries (BPI Group), an associate, and 30.9% in Globe Telecom, Inc. and its subsidiaries (Globe Group), a joint venture, as of December 31, 2019, which are both accounted for using the equity method. BPI Group and Globe Group contributed ₱13.57 billion and ₱6.77 billion or 32% and 16%, respectively, to the Group's consolidated net income in 2019.

BPI Group's net income is significantly affected by the level of impairment provisioning on its loans and receivables which requires substantial management judgment and estimation. PFRS 9 requires the application of a forward-looking expected credit loss (ECL) model to assess impairment on debt financial assets not measured at fair value through profit or loss. Meanwhile, Globe Group's net income is affected by the propriety of the revenue recognized given the significant volume of transactions, the operational complexity of the billing systems, the determination of the accounting for new products introduced during the year and its adoption of PFRS 16.

Relevant disclosures related to the Group's investments in BPI Group and Globe Group are provided in Note 10 to the consolidated financial statements.

Audit Response

We sent instructions to the statutory auditors of BPI Group and Globe Group to perform an audit on the relevant financial information of BPI Group and Globe Group for the purpose of our audit of the Group's consolidated financial statements. These audit instructions contained a discussion of their scope of work, risk assessment procedures, audit strategy and reporting requirements. We discussed with the statutory auditors of BPI Group and Globe Group about their identified key audit risk areas, including their significant areas of estimation and judgment, planning and execution of audit procedures, and results of their work for the year ended December 31, 2019.

We reviewed their audit working papers and obtained relevant conclusion statements related to their audit procedures. For BPI Group, we focused on the testing of its ECL model for its loans portfolio and treasury products. We discussed with BPI Group's statutory auditor the overall characteristics of the loan portfolio, changes during the year, rationale for the changes in impairment provisioning and testing procedures for the relevant controls for staging of loan accounts and for the impairment calculations.

In the case of Globe Group, we obtained an understanding of the nature, timing and extent of their audit procedures, reviewed their selected audit working papers and obtained relevant conclusion statements related to their audit procedures. We involved our internal specialist in the assessment of the sufficiency of Globe Group's statutory auditor's procedures in testing Globe Group's IT general and application controls over the revenue recognition process and adoption of PFRS 16. We evaluated the sufficiency of the procedures performed on testing of Globe Group's processes and controls over the identification of the performance obligations in their contracts with customers, the allocation of the transaction price to the performance obligations based on the stand-alone selling prices, and the recognition of revenue at a point in time or over time. We also reviewed the procedures performed on testing of Globe Group's processes and controls over the adoption of PFRS 16, which includes the review of (i) the population of the lease agreements covered by PFRS 16 and its underlying contractual terms and conditions, (ii) the determination of the lease term, including any renewal and termination option, (iii) the incremental borrowing rate used, and (iv) lease calculation, including the transition adjustments.

We obtained the relevant financial information of BPI Group and Globe Group and recomputed the Group's share in the net income of BPI Group and Globe Group for the year ended December 31, 2019.

Consolidation Process

Ayala Corporation is the holding company of a multiple number of domestic and foreign subsidiaries with diversified business portfolios. In preparing the consolidated financial statements, several factors are considered such as fair value adjustments arising from business combinations, the presence of non-controlling interests, numerous intercompany transactions, translation of subsidiaries' foreign-currency denominated financial information to Ayala Corporation's functional currency, and other equity adjustments. Accordingly, we consider the consolidation process as a key audit matter due to the complexity involved in consolidating the financial information of domestic and foreign subsidiaries comprising the Group.

Note 2 to the consolidated financial statements provides the relevant disclosures on the Group's investees.

Audit Response

We obtained an understanding of the consolidation process and relevant controls through which the consolidated financial statements are prepared. We also obtained an understanding of the Group's process for identifying related parties and related party transactions and the reconciliation of intercompany transactions and balances. We tested significant consolidation adjustments, including eliminations of intercompany transactions and balances, deferral and realization of intercompany profits, amortization/depreciation/reversal of fair value adjustments arising from business combinations, currency translation adjustments, and movements in non-controlling interests and other equity adjustments.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

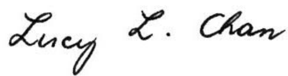
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lucy L. Chan.

SYCIP GORRES VELAYO & CO.



Lucy L. Chan
Partner
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November 16, 2018, valid until November 15, 2021
Tax Identification No. 152-884-511
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February 26, 2018, valid until February 25, 2021
PTR No. 8125221, January 7, 2020, Makati City

March 12, 2020

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2019	2018 (As Restated - see Note 3)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 32, 33 and 34)	**₱93,405,253**	₱60,624,263
Short-term investments (Notes 6, 32, 33 and 34)	**13,387,801**	5,956,489
Accounts and notes receivable (Notes 7, 32, 33 and 34)	**130,868,711**	153,991,583
Contract assets (Note 16)	**3,159,675**	3,736,447
Inventories (Note 8)	**135,064,303**	120,560,493
Other current assets (Notes 9 and 33)	**62,932,994**	57,728,026
Assets under PFRS 5 (Note 25)	**170,466,694**	10,162,121
Total Current Assets	**609,285,431**	412,759,422
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 7, 33 and 34)	**55,720,290**	41,803,297
Noncurrent contract assets (Note 16)	**–**	492,943
Investments in associates and joint ventures (Note 10)	**246,731,276**	240,140,558
Investment properties (Note 11)	**246,732,338**	227,645,548
Property, plant and equipment (Note 12)	**88,781,755**	104,492,357
Right-of-use assets (Note 31)	**18,220,572**	–
Service concession assets (Note 13)	**1,638,516**	98,404,486
Intangible assets (Note 14)	**16,625,926**	16,553,369
Deferred tax assets - net (Note 26)	**14,246,325**	15,546,040
Other noncurrent assets (Notes 15, 32, 33 and 34)	**47,303,529**	40,087,599
Total Noncurrent Assets	**736,000,527**	785,166,197
Total Assets	**₱1,345,285,958**	₱1,197,925,619

	2019	2018
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt (Notes 19, 32, 33 and 34)	**₱29,788,643**	₱39,518,245
Accounts payable and accrued expenses (Notes 17, 32, 33 and 34)	**195,416,247**	204,758,244
Contract liabilities (Note 16)	**252,341**	114,169
Income tax payable	**2,396,901**	3,406,921
Current portion of:		
Long-term debt (Notes 19, 31, 33 and 35)	**23,878,725**	48,480,559
Lease liabilities (Note 31)	**1,028,067**	–
Service concession obligation (Notes 13, 33 and 34)	**13,607**	820,802
Other current liabilities (Notes 18, 33 and 34)	**28,394,709**	31,928,643
Liabilities under PFRS 5 (Note 25)	**121,487,625**	1,075,272
Total Current Liabilities	**402,656,865**	330,102,855
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 32, 33 and 34)	**351,670,789**	324,262,828
Lease liabilities - net of current portion (Note 31)	**21,353,099**	–
Service concession obligation - net of current portion (Notes 13, 33 and 34)	**52,412**	7,018,211
Deferred tax liabilities - net (Note 26)	**8,035,817**	10,999,354
Pension liabilities (Note 28)	**3,756,048**	2,589,852
Other noncurrent liabilities (Notes 20, 33 and 34)	**48,447,370**	53,844,164
Total Noncurrent Liabilities	**433,315,535**	398,714,409
Total Liabilities	**835,972,400**	728,817,264

(Forward)

	December 31	
	2019	2018 (As Restated - see Note 3)
Equity		
Equity attributable to owners of the parent company		
Paid-in capital (Note 21)	**₱84,876,225**	₱83,361,675
Share-based payments (Note 29)	**214,617**	238,871
Remeasurement losses on defined benefit plans (Note 28)	**(3,117,329)**	(1,299,319)
Fair value reserve of financial assets at fair value through other comprehensive income (FVOCI) (Note 15)	**66,917**	(544,555)
Cumulative translation adjustments	**3,234,618**	2,276,669
Equity reserve (Notes 2 and 24)	**25,282,942**	10,872,124
Equity conversion option (Note 19)	**–**	1,087,015
Retained earnings (Note 21)	**225,454,620**	196,914,989
Treasury stock (Note 21)	**(5,737,896)**	(2,300,000)
Reserves under PFRS 5 (Note 25)	**(1,467,449)**	–
	328,807,265	290,607,469
Non-controlling interests (Note 2)	**180,506,293**	178,500,886
Total Equity	**509,313,558**	469,108,355
Total Liabilities and Equity	**₱1,345,285,958**	₱1,197,925,619

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2019	2018 (As Restated - see Note 25)	2017 (As Restated - see Note 25)
CONTINUING OPERATIONS			
REVENUE			
Sale of goods and rendering of services (Notes 11, 22, 30 and 32)	**₱264,906,534**	₱256,891,287	₱225,568,336
Share in net profits of associates and joint ventures (Notes 10 and 30)	**22,344,352**	19,760,662	18,037,250
Interest income from real estate (Note 7)	**7,890,972**	7,042,078	5,409,944
Dividend income	**122,903**	106,803	653,721
	295,264,761	283,800,830	249,669,251
COSTS AND EXPENSES			
Costs of sales and services (Notes 8, 23 and 32)	**189,983,258**	189,706,638	168,671,311
General and administrative expenses (Notes 23, 29 and 32)	**32,112,815**	25,956,728	21,644,500
	222,096,073	215,663,366	190,315,811
OTHER INCOME (CHARGES) - Net			
Interest income (Note 32)	**3,352,308**	2,293,765	1,047,050
Other income (Notes 23 and 24)	**32,288,490**	9,198,888	7,796,428
Interest and other financing charges (Notes 19, 23 and 32)	**(22,409,526)**	(17,378,936)	(13,080,794)
	13,231,272	(5,886,283)	(4,237,316)
INCOME BEFORE INCOME TAX	**86,399,960**	62,251,181	55,116,124
PROVISION FOR INCOME TAX (Note 26)			
Current	**13,717,739**	14,297,198	12,742,201
Deferred	**266,398**	(929,997)	(2,162,983)
	13,984,137	13,367,201	10,579,218
NET INCOME AFTER TAX	**72,415,823**	48,883,980	44,536,906
OPERATIONS OF THE SEGMENT UNDER PFRS 5 (Note 25)			
Net income (loss) after tax	**(30,433,493)**	6,181,134	5,329,869
NET INCOME	**₱41,982,330**	₱55,065,114	₱49,866,775
Net Income Attributable to:			
Owners of the Parent Company (Note 27)	**₱35,279,330**	₱31,817,721	₱30,263,842
Non-controlling interests	**6,703,000**	23,247,393	19,602,933
	₱41,982,330	₱55,065,114	₱49,866,775
EARNINGS PER SHARE BEFORE OPERATIONS OF SEGMENT UNDER PFRS 5 (Note 27)			
Basic	**₱79.37**	₱43.74	₱42.35
Diluted	**₱79.12**	₱43.31	₱41.69
EARNINGS PER SHARE (Note 27)			
Basic	**₱54.12**	₱48.80	₱46.67
Diluted	**₱53.93**	₱48.35	₱45.99

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2019	2018 (As Restated - see Note 25)	2017 (As Restated - see Note 25)
NET INCOME	**₱41,982,330**	₱55,065,114	₱49,866,775
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences arising from translations of foreign investments	**1,674,874**	(560,840)	2,360,433
Changes in fair values of available-for-sale investment in equity securities (Note 15)	–	–	(706,081)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans (Note 28)	**(985,132)**	(252,675)	350,532
Changes in fair values of financial assets at FVOCI - net (Note 15)	**13,564**	(975,439)	–
Tax effect relating to components of other comprehensive income	–	(153,017)	(51,063)
	703,306	(1,941,971)	1,953,821
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences arising from translations of foreign investments	**(2,121,987)**	392,731	105,163
Changes in fair values of available-for-sale investment in equity securities (Note 15)	–	–	65,822
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans	**(1,107,730)**	307,648	53,422
Changes in fair values of financial assets at FVOCI - net (Note 15)	**596,195**	(56,073)	–
	(2,633,522)	644,306	224,407
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(1,930,216)**	(1,297,665)	2,178,228
TOTAL COMPREHENSIVE INCOME	**₱40,052,114**	₱53,767,449	₱52,045,003
Total Comprehensive Income Attributable to:			
Owners of the Parent Company	**₱35,111,130**	₱30,606,268	₱31,247,213
Non-controlling interests	**4,940,984**	23,161,181	20,797,790
	₱40,052,114	₱53,767,449	₱52,045,003

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

(Amounts in Thousands)

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY												
			Other Comprehensive Income										
	Paid-in Capital (Note 21)	Share-based Payments (Note 29)	Remeasurement Gains (Losses) on Defined Benefit Plans (Note 28)	Fair Value Reserve of Financial Assets at FVOCI (Note 15)	Cumulative Translation Adjustments	Equity Reserve (Note 2)	Equity Conversion Option (Note 19)	Reserves under PFRS 5 (Note 19)	Retained Earnings (Note 21)	Treasury Stock (Note 21)	Total	Non-controlling Interests (Note 2)	Total Equity
	For the year ended December 31, 2019												
As of January 1, 2019, as previously stated	₱83,361,675	₱238,871	(₱1,299,319)	(₱544,555)	₱2,276,669	₱10,872,124	₱1,087,015	₱–	₱196,914,989	(₱2,300,000)	₱290,607,469	₱178,500,886	₱469,108,355
Effect of adoption of new accounting standards (Note 3)	–	–	–	–	–	–	–	–	(343,239)	–	(343,239)	–	(343,239)
Others	–	–	–	–	–	–	–	–	67,768	–	67,768	–	67,768
As of January 1, 2019 (Restated)	83,361,675	238,871	(1,299,319)	(544,555)	2,276,669	10,872,124	1,087,015	–	196,639,518	(2,300,000)	290,331,998	178,500,886	468,832,884
Net income									35,279,330		35,279,330	6,703,000	41,982,330
Share in other comprehensive income (loss) of associates and joint ventures	–	–	(1,107,730)	596,195	(2,121,987)	–	–	–	–	–	(2,633,522)	–	(2,633,522)
Other comprehensive income (loss)	–	–	(758,325)	14,804	3,208,842	–	–	–	–	–	2,465,321	(1,762,016)	703,305
Reserves under PFRS 5 (Note 25)	–	–	48,045	473	(128,906)	1,547,837	–	(1,467,449)	–	–	–	–	–
Total comprehensive income (loss)	–	–	(1,818,010)	611,472	957,949	1,547,837	–	(1,467,449)	35,279,330	–	35,111,129	4,940,984	40,052,113
Redemption of Preferred B Series 2 shares	–	–	–	–	–	–	–	–	–	(13,500,000)	(13,500,000)		(13,500,000)
Re-issuance of redeemed Preferred B Series 2 shares	–	–	–	–	–	–	–	–	–	13,500,000	13,500,000	–	13,500,000
Issuance of additional Preferred B Series 2 shares	1,079,931	–	–	–	–	–	–	–	–	300,000	1,379,931		1,379,931
Buy-back of common shares	–	–	–	–	–	–	–	–	–	(3,737,896)	(3,737,896)		(3,737,896)
Exercise of ESOP/ESOWN	434,619	(943)	–	–	–	–	–	–	–	–	433,676	–	433,676
Cost of share-based payments	–	(23,311)	–	–	–	–	–	–	–	–	(23,311)	–	(23,311)
Exercise of exchange option (Note 19)	–	–	–	–	–	12,323,299	(1,087,015)	–	–	–	11,236,284	3,901,950	15,138,234
Cash dividends	–	–	–	–	–	–	–	–	(6,464,228)	–	(6,464,228)	(5,820,296)	(12,284,524)
Change in non-controlling interests	–	–	–	–	–	539,682	–	–	–	–	539,682	(1,017,231)	(477,549)
At December 31, 2019	₱84,876,225	₱214,617	(₱3,117,329)	₱66,917	₱3,234,618	₱25,282,942	₱–	(₱1,467,449)	₱225,454,620	(₱5,737,896)	₱328,807,265	₱180,506,293	₱509,313,558

See accompanying Notes to Consolidated Financial Statements.

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY											
			Other Comprehensive Income									
	Paid-in Capital (Note 21)	**Share-based Payments** (Note 29)	**Remeasurement Gains (Losses) on Defined Benefit Plans** (Note 28)	**Fair Value Reserve of Financial Assets at FVOCI** (Note 15)	**Cumulative Translation Adjustments**	**Equity Reserve** (Note 2)	**Equity Conversion Option** (Note 19)	**Retained Earnings** (Note 21)	**Treasury Stock** (Note 21)	**Total**	**Non-controlling Interests** (Note 2)	**Total Equity**
						For the year ended December 31, 2018						
As of January 1, 2018	₱75,001,174	₱248,212	(₱1,303,288)	₱153,233	₱2,794,303	₱11,600,281	₱1,113,003	₱170,715,742	(₱2,300,000)	₱258,022,660	₱154,972,168	₱412,994,828
Net income	–	–	–	–	–	–	–	31,817,722	–	31,817,722	23,247,393	55,065,115
Share in other comprehensive income (loss) of associates and joint ventures	–	–	307,648	(56,073)	392,730	–	–	–	–	644,305	–	644,305
Other comprehensive income (loss)	–	–	(303,679)	(641,715)	(910,364)	–	–	–	–	(1,855,758)	(86,213)	(1,941,971)
Total comprehensive income (loss)	–	–	3,969	(697,788)	(517,634)	–	–	31,817,722	–	30,606,269	23,161,180	53,767,449
Issuance of shares	8,056,257	–	–	–	–	–	–	–	–	8,056,257	–	8,056,257
Exercise of ESOP/ESOWN	304,244	(340)	–	–	–	–	–	–	–	303,904	–	303,904
Cost of share-based payments	–	(9,001)	–	–	–	–	–	–	–	(9,001)	–	(9,001)
Exercise of exchange option (Note 19)	–	–	–	–	–	288,161	(25,988)	–	–	262,173	77,840	340,013
Cash dividends	–	–	–	–	–	–	–	(5,618,475)	–	(5,618,475)	(5,664,158)	(11,282,633)
Change in non-controlling interests	–	–	–	–	–	(1,016,318)	–	–	–	(1,016,318)	5,953,892	4,937,574
At December 31, 2018	₱83,361,675	₱238,871	(₱1,299,319)	(₱544,555)	₱2,276,669	₱10,872,124	₱1,087,015	₱196,914,989	(₱2,300,000)	₱290,607,469	₱178,500,886	₱469,108,355

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY											
			Other Comprehensive Income									
	Paid-in Capital (Note 21)	**Share-based Payments** (Note 29)	**Remeasurement Gains (Losses) on Defined Benefit Plans** (Note 28)	**Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets** (Note 15)	**Cumulative Translation Adjustments**	**Equity Reserve** (Note 2)	**Equity Conversion Option** (Note 19)	**Retained Earnings** (Note 21)	**Treasury Stock** (Note 21)	**Total**	**Non-controlling Interests** (Note 2)	**Total Equity**
						For the year ended December 31, 2017						
As of January 1, 2017	₱74,379,760	₱495,759	(₱1,548,192)	(₱466,676)	₱1,414,550	₱12,211,275	₱1,113,745	₱145,622,311	(₱2,300,000)	₱230,922,532	₱140,073,346	₱370,995,878
Net income	–	–	–	–	–	–	–	30,263,842	–	30,263,842	19,602,933	49,866,775
Other comprehensive income (loss)	–	–	191,482	(707,108)	1,274,590	–	–	–	–	758,964	1,194,857	1,953,821
Share in other comprehensive income (loss) of associates and joint ventures	–	–	53,422	65,822	105,163	–	–	–	–	224,407	–	224,407
Total comprehensive income (loss)	–	–	244,904	(641,286)	1,379,753	–	–	30,263,842	–	31,247,213	20,797,790	52,045,003
Exercise of ESOP/ESOWN	621,414	(247,043)	–	–	–	–	–	–	–	374,371	–	374,371
Cost of share-based payments	–	(504)	–	–	–	–	–	–	–	(504)	–	(504)
Exercise of exchange option (Note 19)	–	–	–	–	–	8,606	(742)	–	–	7,864	2,048	9,912
Cash dividends	–	–	–	–	–	–	–	(5,584,125)	–	(5,584,125)	(5,395,567)	(10,979,692)
Change in non-controlling interests	–	–	–	–	–	(619,600)	–	–	–	(619,600)	(732,980)	(1,352,580)
At December 31, 2017	₱75,001,174	₱248,212	(₱1,303,288)	(₱1,107,962)	₱2,794,303	₱11,600,281	₱1,113,003	₱170,302,028	(₱2,300,000)	₱256,347,751	₱154,744,637	₱411,092,388

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018 (As Restated)	2017 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱86,399,960**	₱62,251,181	₱55,116,124
Income (loss) before income tax from operations of segment under PFRS 5	**(31,984,213)**	7,933,658	7,010,410
Income before income tax	**54,415,747**	70,184,839	62,126,534
Adjustments for:			
Interest and other financing charges - net of amount capitalized (Note 23)	**24,484,235**	19,101,077	14,441,334
Depreciation and amortization (Note 23)	**18,641,311**	13,561,593	12,297,860
Cost of share-based payments (Note 29)	**135,946**	(9,001)	(504)
Provision for impairment/Losses on (Note 23):			
Investments in associates and joint ventures	**839,419**	589,109	356,700
Property, plant and equipment	**4,493**	71,430	–
Land and improvements	**–**	–	572,001
Intangible and other assets	**410,453**	361,170	26,112
Inventory obsolescence	**236,644**	125,460	(13,674)
Receivables	**671,601**	317,218	242,707
Pre-PFRS 5 impairment loss (Note 25)	**5,574,910**	–	–
Impairment loss on remeasurement to fair value less costs to sell (Note 25)	**33,244,121**	–	–
Write-down of inventories	**111,216**	–	–
Mark-to-market loss on financial assets at fair value through profit or loss	**394,780**	–	18,813
Gain on sale of financial assets as FVTPL (Note 23)	**(528,011)**	(996,170)	(779,553)
Dividend income	**(122,903)**	(106,803)	(653,721)
Other investment (income) loss (Note 23)	**(220,960)**	(1,637,720)	18,528
Gain on sale of (Note 23):			
Investments	**(24,696,571)**	(1,514,439)	(1,394,560)
Other assets	**(192,202)**	(62,463)	(126,337)
Remeasurement gain on previously held interest	**(2,020,662)**	–	–
Interest income	**(11,647,937)**	(9,747,726)	(6,813,481)
Share in net profit of associates and joint ventures (Note 10)	**(22,997,854)**	(20,459,804)	(18,494,458)
Operating income before changes in operating assets and liabilities	**76,737,776**	69,777,770	61,824,301
Decrease (increase) in:			
Accounts and notes receivable - trade	**12,256,330**	(34,762,405)	(20,003,368)
Contract assets	**(401,809)**	(1,332,372)	–
Inventories	**(3,419,900)**	6,422,504	8,575,205
Service concession assets (Note 13)	**(12,011,636)**	(10,445,119)	(10,667,636)
Other current assets	**(2,838,291)**	2,733,232	(5,305,175)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(11,394,983)**	29,311,790	4,510,461
Contract liabilities	**483,816**	(166,729)	–
Net pension liabilities	**977,070**	(291,599)	462,117
Other current liabilities	**(3,992,761)**	7,301,018	7,857,053
Cash generated from operations	**56,395,612**	68,548,090	47,252,958
Interest received	**10,914,748**	9,694,345	6,782,727
Interest paid	**(24,764,393)**	(18,646,300)	(13,374,230)
Income tax paid	**(16,428,414)**	(15,649,993)	(16,626,572)
Net cash provided by operating activities	**26,117,553**	43,946,142	24,034,883

(Forward)

	Years Ended December 31		
	2019	2018 (As Restated)	2017 (As Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of financial assets FVOCI	**₱65,660**	₱23,447	₱1,834,186
Sale/maturities of financial assets at FVTPL	**765,763**	71,690	3,408,555
Sale/redemptions of investments in associates and joint ventures (Note 10)	**30,353,702**	1,106,080	944,104
Disposals of:			
Property, plant and equipment (Note 12)	**766,655**	3,581,848	1,016,548
Investment properties (Note 11)	**1,632,666**	1,754,974	165
Land and improvements	**–**	1,105,170	–
Additions to short-term investments	**(7,540,567)**	(556,250)	(4,391,533)
Deductions/transfers (Additions) to:			
Service concession assets (Note 13)	**(29,525)**	(10,725)	(26,290)
Investments in associates and joint ventures	**(11,898,192)**	(37,633,169)	(11,779,429)
Property, plant and equipment (Note 12)	**(20,965,834)**	(14,006,370)	(25,189,980)
Investment properties (Note 11)	**(29,306,538)**	(37,287,003)	(33,358,785)
Financial assets at FVTPL	**(1,435,128)**	(1,122,194)	(1,555,243)
Financial assets at FVOCI	**(3,137,883)**	(92,673)	(799,529)
Accounts and notes receivable - non trade	**(3,580,862)**	(11,265,591)	(1,336,144)
Intangible assets (Note 14)	**849,934**	(488,357)	(492,057)
Dividends received from associates, joint ventures and investments in equity securities (Note 10)	**9,004,700**	7,478,203	8,953,251
Acquisitions through business combinations - net of cash acquired (Note 24)	**(1,143,592)**	(6,831,376)	(5,322,990)
Decrease (increase) in other noncurrent assets	**(14,448,144)**	(13,819,311)	5,775,538
Net cash used in investing activities	**(50,047,185)**	(107,991,607)	(62,319,633)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term and long-term debt	**289,335,723**	188,614,111	225,841,869
Issuance of preferred shares	**15,000,000**	–	
Issuance of common shares	–	8,069,960	–
Payments of short-term and long-term debt	**(202,331,063)**	(137,303,524)	(172,070,751)
Acquisition of treasury shares - common	**(3,737,896)**	–	–
Dividends paid (Note 21)	**(11,919,555)**	(10,769,921)	(10,864,490)
Redemption of preferred shares	**(13,500,000)**	–	
Payment of principal portion of lease liabilities	**(2,051,769)**	–	
Service concession obligation paid (Note 13)	**(838,286)**	(712,941)	(778,819)
Collections of subscriptions receivable	**274,677**	303,904	374,371
Cost of issuance/reissuance of shares	**(120,327)**	(13,703)	–
Increase (decrease) in:			
Other noncurrent liabilities	**(749,827)**	12,202,242	1,181,105
Non-controlling interests in consolidated subsidiaries (Note 24)	**(3,692,798)**	20,321	(1,362,580)
Net cash provided by financing activities	**65,668,879**	60,410,449	42,320,705
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**41,739,248**	(3,635,016)	4,035,955
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**60,624,263**	64,259,279	60,223,324
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱102,363,510***	₱60,624,263	₱64,259,279

*Includes cash and cash equivalents of assets under PFRS 5.

See accompanying Notes to Consolidated Financial Statements

1. Corporate Information

Ayala Corporation (the Parent Company) is incorporated in the Republic of the Philippines on January 23, 1968. On April 15, 2016, during the annual meeting of its stockholders, the stockholders ratified the amendment of the Fourth Article of the Articles of Incorporation (AOI) to extend the corporate term for 50 years from January 23, 2018. The amendment to the AOI was approved by the Securities and Exchange Commission (SEC) on April 5, 2017. The Parent Company's registered office address and principal place of business is 32F-35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The Parent Company is a publicly listed company which is 47.33% owned by Mermac, Inc. and the rest by the public.

The Parent Company is the holding company of the Ayala Group of Companies (the Group), with principal business interests in real estate and hotels, financial services and insurance, telecommunications, water infrastructure, electronics solutions and manufacturing, industrial technologies, automotive, power generation, infrastructure, international real estate, healthcare, education and technology ventures.

2. Group Information

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries of the Group:

Subsidiaries	Nature of Business	% of Economic Ownership Interest held by the Group	
		2019	2018
AC Energy, Inc. (AC Energy/ACEI)	Power	**100.0**	100.0
AC Infrastructure Holdings Corporation (AC Infra)	Infrastructure	**100.0**	100.0
AC International Finance Limited (ACIFL)*	Investment Holding	**100.0**	100.0
AG Counselors Corporation (AGCC)	Consulting Services	**100.0**	100.0
AC Industrial Technology Holdings Inc. (AC Industrial /ACI)	Industrial Technology and Automotive	**100.0**	100.0
Ayala Aviation Corporation (AAC)	Air Charter	**100.0**	100.0
AC Education, Inc. (AC Education/AEI)	Education	**–**	100.0
Ayala Land, Inc. (ALI)	Real Estate and Hotels	**44.5**	47.0
AYC Finance Ltd. (AYCFL)*	Investment Holding	**100.0**	100.0
Azalea International Venture Partners Limited (AIVPL)**	Business Process Outsourcing	**100.0**	100.0
Ayala Healthcare Holdings, Inc. (AC Health/AHHI)	Healthcare	**100.0**	100.0
Bestfull Holdings Limifted (BHL)***	Investment Holding – International	**100.0**	100.0
Darong Agricultural and Development Corporation (DADC)	Agriculture	**100.0**	100.0
HCX Technology Partners, Inc. (HCX)	Technology Services	**100.0**	100.0
Integrated Microelectronics, Inc. (IMI)	Industrial Technologies	**52.1**	52.1
Manila Water Company, Inc. (MWC)	Water	**51.4**	51.4
Michigan Holdings, Inc. (MHI)	Investment Holding	**100.0**	100.0
Philwater Holdings Company, Inc. (Philwater)	Investment Holding	**100.0**	100.0
Purefoods International, Ltd. (PFIL)**	Investment Holding	**100.0**	100.0
Technopark Land, Inc. (TLI)	Real Estate	**78.8**	78.8
AC Ventures Holding Corporation (ACVHC)	Investment Holding	**100.0**	100.0

**Incorporated in Cayman Islands*
***Incorporated in British Virgin Islands*
****Incorporated in Hong Kong*

Unless otherwise indicated, the principal place of business and country of incorporation of the Parent Company's investments in subsidiaries, associates and joint ventures is the Philippines.

Except as discussed below, the voting rights held by the Parent Company in its investments in subsidiaries are in proportion to its ownership interest.

The following significant transactions affected the Parent Company's investments in its subsidiaries:

Investment in ACEI
On May 2, 2019, ACEI completed the sale of a 49% voting interest and 60% economic interest in AA Thermal, Inc. (AA Thermal) to Aboitiz Power Corporation (Aboitiz Power) which amounted to US$574.19 million after applying the agreed adjustments pursuant to the Share Purchase Agreement (SPA) (see Note 25). The transaction resulted in a net gain on sale of US$448.96 million (₱23.6 billion) included under "Other Income" (see Note 23).

As of December 31, 2019, the Parent Company infused a total of ₱5.1 billion additional capital for the AC Energy Philippines (ACEPH) acquisition and another 5.8 billion via subscription on ACEI's redeemable preferred shares.

On June 24, 2019, ACEI completed the acquisition of ACEPH, formerly Phinma Energy Corporation (PHEN), resulting in an ownership interest of 66.34% (see Note 24). On July 10, 2019, SLTEC became a subsidiary of ACEI pursuant to the acquisition of 20% interest from Axia Prime Holdings (Axia) (see Note 24). Prior to the acquisition, ACEI has direct 35% ownership interest in SLTEC and 45% indirect ownership interest through ACEPH (see Notes 10 and 24). On October 11, 2019, the SEC approved the change in corporate name of PHEN to ACEPH.

On October 9, 2019, ACEI and ACEPH signed a Deed on Assignment of the 20% share of ACEI in South Luzon Thermal Energy Corp. (SLTEC) to ACEPH. On October 10, 2019, the BOD of ACEI has approved the contribution by ACEI of its ownership interest in certain of its Philippine operating and development subsidiaries and affiliates such as Monte Solar Energy, Inc. (Monte Solar),SLTEC, Philippine Wind Holdings Corporation (PWHC), and NorthWind Power Development Corp. (Northwind) (the ACEI Assets) to ACEPH under a share swap arrangement (the Share Swap), and ACEI's subscription to 6,185,182,288 shares of stock in ACEPH at ₱2.37 per share in exchange for the ACEI Assets, which price per share is within the share price range determined in the Fairness Opinion issued by FTI Consulting Philippines, Inc., an SEC-accredited and PSE-accredited independent financial valuation firm.

On November 12, 2019, ACEI and ACEPH executed a Deed of Assignment covering the share swap.

In relation to ACEPH's stock rights offering (which is subject to applicable regulatory approvals), the BOD of ACEI likewise approved its management's proposal to not exercise its preemptive rights in the first round of the stock rights offering to enable the minority shareholders of ACEPH to recover from the partial dilution arising from the share swap between ACEPH and ACEI, but that in the event there are any unsubscribed shares after the first round, ACEI will subscribe to its pro-rata share in these unsubscribed shares.

On July 1, 2019, ACEI Group and Power Partners Ltd Co. (PP) executed a term sheet for the acquisition by PP of ACEI Group's indirect partnership interest in GN Power Kauswagan Ltd. Co. (GNPK) subject to conditions precedent. The completion of the transaction will result to PP gaining control over GNPK's coal plant project. On September 30, 2019, the PCC approved the transaction. As a result of the sale agreement, GNPK assets and liabilities previously consolidated in the Group's statement of financial position are now reclassified to "Assets under PFRS 5" and "Liabilities under PFRS 5", respectively. ACEI Group continues to take up the full profit and loss of GNPK until December 31, 2019 because control is not yet transferred as of year-end (see Note 25).

On January 19, 2018, the Board of Directors (BOD) of ACEI approved the restructuring of ACEI as follows:
- Effective January 29, 2018, ACE Mariveles Power Ltd. Co. (AMPLC), a wholly owned subsidiary of ACEI, became the legal and registered owner of the limited partnership interest in GNPower Mariveles Coal Plant Ltd. Co (GMCP).
- On June 7, 2018, Ingrid Power Holdings, Inc., a wholly owned subsidiary of ACEI was incorporated.
- On July 12, 2018, ACEI Group restructured Gigasol2, Inc. to transfer 100% ownership from AC Laguna Solar Inc., AC La Mesa Solar Inc., AC Subic Solar Inc., Gigasol1 Inc., Gigasol3 Inc. SolarAce1 Inc. and SolarAce2. These companies including Gigasol2 were 100%-owned by Presage Corporation (Presage), a wholly owned subsidiary of ACEI.
- On September 7, 2018, ACE Thermal, Inc., a wholly owned subsidiary of ACEI was incorporated. On September 20, 2018, AA Thermal, Inc. (AA Thermal), a wholly owned affiliate of ACEI was incorporated.
- On September 24, 2018, ACEI transferred 100% of its limited partnership interest in each of AMPLC and Dinginin Power Holdings Ltd. Co. (DPHLC) to AA Thermal. The transfer is part of ACEI Group's restructuring plan for its thermal assets.
- On September 25, 2018, ACEI and Arlington Mariveles Netherlands Holdings B.V. (AMNHB), a subsidiary of ACEI, signed a subscription agreement for the purchase of shares of stock of AA Thermal.

On various dates in 2018, ACEI acquired 100% ownership interest in Pagudpud Wind Power Corp. (Pagudpud Wind) and HDP Bulk Water Supply, Inc. (HDP) for ₱2.5 million and ₱110.1 million, respectively (see Note 24).

Investment in AC Infra
On various dates in 2019 and 2018, the Parent Company infused additional capital to AC Infra amounting to ₱2,371.0 million and ₱1,649.3 million, respectively. In 2019, the additional capital was mainly for LRT 1 project (Cavite extension) and MCX ECC Facility projects. In 2018, the additional capital was used to fund the investments in Light Rail Manila Holdings, Inc., Entrego Fulfilment Solutions, Inc. (Entrego), AF Payments, Inc. (AFPI) and the operating and capital expenditures of AC Infra.

On August 6, 2018, AC Infra acquired 57.90% ownership interest in Entrego for a total amount of ₱158.86 million (see Note 24).

Investment in ACIFL
In May 2019, ACIFL repurchased its 110.0 million shares which were issued and registered in the name of the Parent Company, ACIFL's sole shareholder. The repurchase price was at par of US$1.00 per share for a total amount of US$110.0 million. ACIFL remained a wholly owned subsidiary of the Parent Company after the transaction.

On various dates in 2019, ACIFL infused additional capital to AC Industrial (Singapore) Pte. Ltd. (ACI Singapore), a wholly-owned subsidiary of AC Industrial, amounting to US$75.4 million to fund its various investments particularly its subscription to redeemable cumulative preferred stock (RCPS) of IMI Singapore amounting to US$60.0 million.

Investment in AC Industrial
On January 17, 2019, KP Motor Corporations (KPMC), a wholly-owned subsidiary of AC Industrial, was incorporated. KPMC is primarily engaged to assemble, manufacture, construct, purchase, import, sell on wholesale basis, distribute, export, exchange, mortgage, pledge and otherwise dispose of, and generally to deal in or engage in any commerce relating to automobiles, cars, automobile products, and all kinds of component parts of Kia brand. On March 25, 2019, AC Industrial and Roadworthy Cars, Inc. (RCI) executed a subscription agreement for additional subscriptions in KPMC resulting in AITHI's ownership at KPMC at 67.2% voting interest and 65% economic interest.

On January 30, 2019, AC Industrial relaunched the Kia brand in the Philippines wherein three (3) new vehicle models were introduced.

On March 13, 2019, AC Industrial through its subsidiary MT Technologies GmbH, has entered into an agreement with the shareholders of C-CON Group for the acquisition of a 75.1% stake in C-CON Group for a total consideration of EURO 0.86 million (see Note 24).

In 2019, the Parent Company infused ₱1.8 billion for AC Industrial's acquisition of the Kia distributorship business. In 2018, the Parent Company infused ₱3.7 billion, respectively, to AC Industrial Group to fund its operating expenses and various projects, subscription entitlement in IMI's stock offering, planned business expansion and various investments.

In March 2018, AC Industrial completed its subscription to 208,187,173 proportionate and unsubscribed rights share in IMI's stock rights offering (SRO), raising its ownership in IMI to 52.03%.

On February 24, 2018, AC Industrial completed its acquisition of a controlling stake in Merlin Solar Technologies, Inc. (Merlin US) through its offshore subsidiary, ACI Solar Holdings NA, Inc. (ACI Solar). AITHI had a previously held interest of 8.2% in Merlin US which it acquired in 2016. The 2018 acquisition resulted to a total ownership interest of 98.96% in Merlin US (see Note 24).

On various dates in 2018, AC Industrial was appointed as distributor of KIA and Maxus vehicles in the Philippines.

Investment in IMI
In 2019, IMI finalized the purchase price allocation of VTS-Touchsensor Co., Ltd. (VTS) with certain changes to the provisional values based on additional information subsequently obtained (see Note 24).

On January 30, 2018, IMI obtained the approval of the Philippines Stock Exchange (PSE) for a stock rights offer of up to 350 million new common shares to eligible shareholders in order to raise up to ₱5.0 billion proceeds. Under the rights offer, each shareholder is entitled to subscribe to one rights share for every 5.3551 existing common shares held as of record date February 14, 2018. The offer price was determined to be at ₱14.28 per rights share which was based on the 30-day volume-weighted average price of IMI common shares listed at PSE as of February 7, 2018 at a discount of 25.3%. The listing of the shares was completed on March 2, 2018. As a result of the transaction, the ownership interest of the Group increased from 50.7% to 52.1%

The fair value of the IMI shares held by the Group amounted to ₱9.1 billion and ₱12.2 billion as of December 31, 2019 and 2018, respectively. The voting rights held by the Group in IMI is 52.1% and 52.1% in 2019 and 2018, respectively.

Investment in AAC
On various dates in 2019, the Parent Company infused additional capital to AAC amounting to ₱119.4 million to fund its various expenditures.

Investment in AEI
October 1, 2018, AEI and iPeople, Inc. (IPO) executed a memorandum of agreement (MOA) for the merger, with IPO as the surviving entity. On April 24, 2019, the Plan and Articles of Merger with effectivity date of May 2, 2019 were approved by the SEC. Upon SEC approval, IPO issued 295,329,976 common shares in exchange for 1,993,477,338 AEI shares, which constitutes 28.28% of IPO. As a result of the transaction, the Group recognized a gain on disposal of ₱865.2 million included under "Other income" (see Note 23). Post-merger, the Parent Company acquired additional 54,500,000 IPO common shares from existing House of Investments (HI) affiliates for a consideration of ₱809.8 million, inclusive of directly-related fees, which resulted in an increase in ownership interest in IPO to 33.5% (see Note 10).

On February 8, 2018, AEI and most of the shareholders of National Teachers College (NTC) executed a SPA for the acquisition of shares in NTC subject to certain closing conditions. On April 30, 2018, AEI assumed ownership of approximately 96.0% of the voting shares of NTC for a total consideration of ₱1.2 billion (see Note 24).

On December 18, 2018, AEI purchased the rest of the non-controlling interest held by Pearson Affordable Learning Fund Limited (PALF) in Affordable Private Education Center, Inc. doing business under the name of APEC Schools (APEC), making APEC a wholly owned subsidiary of AEI (see Note 24).

On various dates in 2018, the Parent Company infused additional capital to AEI which amounted to ₱2,597.0 million to fund its various investments.

Investment in ALI
On April 24, 2019, ALI's subsidiary, AREIT, Inc. (AREIT), announced its plan to publicly list as a Real Estate Investment Trust (REIT) under the current Implementing Rules and Regulations of the SEC on REITs. On February 7, 2020, AREIT filed its application for a REIT offering to the SEC (see Note 40).

ALI shares with carrying value of ₱258.9 million as of December 31, 2019 and 2018 were collateralized to secure the Parent Company's loan facility. The fair value of ALI shares collateralized amounted to ₱15.4 billion and ₱13.8 billion as of December 31, 2019 and 2018, respectively (see Note 19).

On April 30, 2019, the outstanding balance of AYCFL's guaranteed exchangeable bonds amounting to US$292.8 million was exchanged and converted into 377.5 million ALI common shares (see Note 19). This resulted in a decrease in the Group's ownership interest in ALI from 47.0% to 44.5% as of December 31, 2019.

The BOD of ALI also approved the 2019 stock option program pursuant to their Employee Stock Ownership Plan (ESOWN) (see Note 29).

The fair value of ALI shares held by the Parent Company amounted to ₱297.8 billion and ₱281.1 billion as of December 31, 2019 and 2018, respectively. The voting rights held by the Parent Company in ALI is 67.3% and 68.7% as of December 31, 2019 and 2018.

Investment in AHHI
In, 2019, AHHI acquired additional stake in the Generika companies which increased its ownership from 50% to 52.5% (see Notes 10 and 24).

On November 27, 2019, the BOD approved the incorporation of Vigos Ventures Inc. (VVI). On January 7, 2020, VVI was approved by the SEC for incorporation with an authorized capital stock of ₱200 million. AHHI subscribed to 0.45 million common shares and 0.05 million common shares at a subscription price of ₱10 per share.

On various dates in 2019, the Parent Company infused ₱1,666.7 million to AHHI for certain capital expenditure, clinic expansion and new business development. Outstanding subscription as of December 31, 2019 amounted to ₱1,959.7 million. In 2018, the Parent Company infused ₱389.8 million to fund AHHI's various investments.

On December 6, 2018, AHHI entered into a share purchase agreement with Jasminum Corporation for the acquisition of a 75% ownership stake in Negros Grace Pharmacy, Inc. (Negros Grace). As of December 31, 2019, the purchase is still subject to the fulfillment of certain closing conditions, including any necessary regulatory approval. This transaction, once completed, will allow AHHI to expand its portfolio in the pharma retail space, particularly in the Visayas region.

On October 14, 2019, AHCHI Pharma Ventures, Inc. (“APV”) was incorporated with a primary purpose to acquire, hold, sell, exchange, deal and invest in the stocks, bonds or securities. AHHI subscribed to 108,600,000 common shares equivalent to 100% interest in APV for a total subscription price of ₱1.09 billion.

In November 2019, APV signed a Share Purchase Agreement (SPA) to purchase 490,000 shares of I.E. Medica Inc., an importer of pharmaceutical products, amounting to ₱931 million equivalent to 49% interest in the company with a call option to acquire an additional 2% of the outstanding capital stock of the company. At the same date, APV signed another SPA to purchase 200,000 shares of Medethix Inc., a pharmaceutical and cosmetics importer, amounting to ₱155 million equivalent to 20% interest in the company with a call option to acquire an additional 14% of the outstanding capital stock of the company.

Based on the SPA, APV will be liable for an earn-out in the event the net income after tax (NIAT) of I.E. Medica Inc., for the years 2020 and 2021 as reflected in the audited financial statements of the company meet the target NIAT. This shall be paid on May 30, 2022. APV recognized an earn-out liability amounting to ₱250.23 million and incurred interest expense amounting to ₱2.86 million as of December 31, 2019.

Investment in BHL
In November 2019, the Parent Company through BHL’s wholly-owned subsidiary, VIP Infrastructure Holdings Pte. Ltd. (VIP), signed definitive agreements to acquire 20% stake each in Yoma Strategic Holdings, Inc. (YSH) and First Myanmar Investment Public Co. (FMI). As of December 31, 2019, the VIP and YSH closed the first tranche of the placement shares, with VIP owning 14.9% of the outstanding shares of YSH (see Note 10).

Investment in MWC
On February 3, 2020, MWC and Prime Metroline Holdings, Inc., on behalf of Trident Water, a company to be incorporated, signed a subscription agreement for the acquisition of 25% ownership interest in MWC or 820.0 million newly issued common shares at ₱13.00, subject to fulfillment of conditions. Subsequently, the Parent Company will grant Trident Water its proxy rights over MWC’s preferred shares held through the Parent Company’s wholly-owned subsidiary, Philwater Holdings Company, Inc. Upon completion of the transaction which is expected to be within one year from the reporting period, Trident Water will have 51.00% voting interest and thus, obtain control over MWC. Accordingly, MWC qualified as a group held for deemed disposal as of December 31, 2019 (see Note 25).

The fair value of the MWC shares held by the Group amounted to ₱9.0 billion and ₱23.1 billion as of December 31, 2019 and 2018, respectively. The voting rights held by the Group in MWC is 80.2% and 80.3% as of December 31, 2019 and 2018.

In 2019, investment in MWC was reclassified to “Assets and liabilities and operations of segment under PFRS 5” (see Note 25).

Investment in ACVHC
In 2019, the Ayala Group established the Technology Innovation Venture Fund (Active Fund). Active Fund will be the capital fund platform to understand disruptive trends and innovations which is key to staying relevant and future-ready as a Group. The platform allows participation and active involvement of business units within the Group. Active Fund will be managed by Kickstart Ventures, Inc. and with AC Ventures will be the largest investor. The Fund will be participated in by the following subsidiaries of the Group (with their investment commitment): AC Ventures (US$100 million), Globe (US$25 million), AC Energy (US$25 million), BPI (US$20 million), AC Industrials (US$20 million), ALI (US$15 million) and MWCI (US$5 million).

On July 12, 2019, the BOD of ACVHC approved the amount of ₱63.75 million for a 25.5% ownership in a joint venture with BPI Capital Corporation and Telly Systems, Inc. for the development of an integrated payment exchange platform.

In 2018, the Parent Company infused a total of ₱0.02 billion, to ACVHC to fund its various investments in BF Jade E-Service Philippines, Inc. (BF Jade), the owner of Zalora Philippines (Zalora) and Globe Fintech Innovations, Inc. (GFI or Mynt) (see Note 10).

Material partly-owned subsidiaries with material economic ownership interest

The principal place of business of the subsidiaries are as follows:

ALI
ALI's registered and principal place of business is 31st Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

MWC
The principal place of business of MWC is at the MWSS Administration Building, 489 Katipunan Road, Balara, Quezon City.

IMI
The registered office address of IMI is at North Science Avenue, Laguna Technopark-Special Economic Zone (LT-SEZ), Bo. Biñan, Laguna.

Information of subsidiaries that have material non-controlling economic interests is provided below:

2019	**ALI**	**MWC**	**IMI***
	(In Thousands, except for %)		
Proportion of equity interests held by non-controlling interest	**55.5%**	**48.6%**	**47.9%**
Voting rights held by non-controlling interest	**32.7%**	**19.8%**	**47.9%**
Accumulated balances of non-controlling interest	**₱143,883,588**	**₱18,242,429**	**₱9,497,310**
Net income allocated to non-controlling interest	**21,626,556**	**(14,563,041)**	**(428,312)**
Comprehensive income allocated to material non-controlling interest	**21,225,123**	**(15,298,621)**	**(1,053,347)**
Dividends paid to non-controlling interest	**4,244,187**	**1,455,187**	**111,156**

**Translated using the exchange rate at the reporting date (US$1:₱50.64 on December 27, 2019).*

2018	ALI	MWC	IMI*
	(In Thousands, except for %)		
Proportion of equity interests held by non-controlling interest	53.0%	48.6%	47.9%
Voting rights held by non-controlling interest	31.3%	19.7%	47.9%
Accumulated balances of non-controlling interest	₱129,072,954	₱34,446,560	₱10,639,501
Net income allocated to non-controlling interest	18,868,583	3,016,848	1,258,795
Comprehensive income allocated to material non-controlling interest	18,201,328	2,656,094	1,148,331
Dividends paid to non-controlling interest	3,996,386	1,407,921	248,175

**Translated using the exchange rate at the reporting date (US$1:₱ 52.58 on December 28, 2018).*

The summarized financial information of these subsidiaries are provided below which are based on amounts before inter-company eliminations and PFRS 5 adjustments:

2019	**ALI**	**MWC**	**IMI***
		(In Thousands)	
Statement of financial position			
Current assets	**₱295,434,250**	**₱14,405,614**	**₱34,125,320**
Noncurrent assets	**418,489,028**	**120,196,026**	**21,387,651**
Current liabilities	**226,583,524**	**21,922,179**	**22,977,661**
Noncurrent liabilities	**244,634,186**	**56,688,254**	**8,039,170**
Statement of comprehensive income (loss)			
Revenue	**166,705,332**	**21,949,770**	**63,312,278**
Profit (loss) attributable to:			
Equity holders of the parent	**33,188,399**	**5,495,509**	**(393,973)**
Non-controlling interests	**4,326,632**	**143,916**	**(274,166)**
Total comprehensive income (loss) attributable to:			
Equity holders of the parent	**32,449,920**	**4,360,850**	**(818,321)**
Non-controlling interests	**4,326,632**	**144,849**	**(322,237)**
Statement of cash flows			
Operating activities	**36,012,239**	**549,262**	**3,602,009**
Investing activities	**(42,572,063)**	**(692,482)**	**(2,947,608)**
Financing activities	**3,753,175**	**(289,128)**	**1,590,130**
Net increase (decrease) in cash and cash equivalents	**(₱2,806,649)**	**(₱432,348)**	**₱2,244,531**

**Translated using the exchange rate at the reporting date (US$1:₱50.64 on December 27, 2019).*

2018	ALI (As Restated)	MWC	IMI* (As Restated)
		(In Thousands)	
Statement of financial position			
Current assets	₱302,829,898	₱13,448,541	₱36,290,341
Noncurrent assets	365,990,584	109,084,776	20,348,690
Current liabilities	240,784,527	22,708,379	27,663,021
Noncurrent liabilities	207,814,758	46,203,845	7,384,819
Statement of comprehensive income			
Revenue	163,746,818	19,836,292	70,951,475
Profit attributable to:			
Equity holders of the parent	29,240,880	6,523,701	2,481,109
Non-controlling interests	3,975,709	111,332	83,864
Total comprehensive income attributable to:			
Equity holders of the parent	29,701,636	6,987,646	1,996,581
Non-controlling interests	3,978,318	112,862	10,103
Statement of cash flows			
Operating activities	11,767,917	3,297,588	(343,322)
Investing activities	(2,978,246)	(8,859,009)	(4,730,716)
Financing activities	(6,264,296)	5,931,268	6,026,534
Net increase in cash and cash equivalents	₱2,525,375	₱369,847	₱952,496

**Translated using the exchange rate at the reporting date (US$1:₱52.58 on December 28, 2018).*

2017	ALI	MWC	IMI*
		(In Thousands)	
Statement of financial position			
Current assets	₱240,852,281	₱12,867,251	₱28,979,972
Noncurrent assets	333,140,053	105,836,163	17,001,451
Current liabilities	184,623,237	11,738,570	22,585,772
Noncurrent liabilities	197,105,739	43,650,182	9,585,282
Statement of comprehensive income			
Revenue	139,373,341	18,515,772	54,453,068
Profit (loss) attributable to:			
Equity holders of the parent	25,304,965	6,146,608	1,697,719
Non-controlling interests	2,860,694	(6,661)	22,007
Total comprehensive income attributable to:			
Equity holders of the parent	26,500,790	6,197,535	2,550,203
Non-controlling interests	2,860,694	(5,415)	39,025
Statement of cash flows			
Operating activities	24,233,585	(157,576)	(915,611)
Investing activities	(33,906,087)	(2,371,079)	(3,913,562)
Financing activities	9,800,657	7,483,699	4,992,541
Net increase in cash and cash equivalents	₱128,155	₱4,955,044	₱163,368

**Translated using the exchange rate at the reporting date (US$1:₱49.93 on December 28, 2017).*

3. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI), and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱) and all values are rounded to the nearest thousand pesos (₱000) unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs), which include the availment of the relief granted by the SEC under Memorandum Circular Nos. 14-2018 and 3-2019 for the following implementation issues of PFRS 15 affecting the real estate industry:

a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E
b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D
c. Accounting for Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H
d. Adoption of PIC Q&A No. 2018-14: *PFRS 15 - Accounting for Cancellation of Real Estate Sales*

PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019.

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

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a. The contractual arrangement with the other vote holders of the investee
b. Rights arising from other contractual arrangements
c. The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognize gain or loss, if any in profit or loss (under other income).

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Parent Company. Any equity instruments issued by a subsidiary that are not owned by the Parent Company are non-controlling interests including preferred shares and options under share-based transactions. The portion of profit or loss and net assets in subsidiaries not wholly-owned are presented separately in the consolidated statement of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statement of financial position, separately from the Parent Company's equity. Non-controlling interests are net of any outstanding subscription receivable.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

In accounting for call and put options over non-controlling interests, management determines whether it has present access to the returns associated with the non-controlling interests. If the options give the Group access to the returns over the non-controlling interests, the Group consolidates the acquiree as if it acquired a 100% interest.

If the options does not give the Group present access to the returns over the non-controlling interests, the Group takes the view that the non-controlling interests should be accounted for in accordance with PFRS 10, *Consolidated Financial Statements*, and must be presented within equity separate from the equity of the Parent Company, until the option is exercised.

For the years ended December 31, 2019 and 2018, the call options are accounted for in accordance with PFRS 9, *Financial Instruments,* as a derivative asset carried at fair value through profit or loss.

The financial liability for the put option is accounted for under PFRS 9 like any other written put option on equity instruments. On initial recognition, the corresponding debit is made to a component of equity attributable to the parent, not to the non-controlling interest. All subsequent changes in the carrying amount of the financial liability that result from the remeasurement of the present value payable on exercise are recognized in profit or loss also attributable to the parent.

If the put option is exercised, the entity accounts for an increase in its ownership interest. At the same time, the entity derecognizes the financial liability and reverses the component of equity that was reduced on initial recognition. If the put option expires unexercised, the financial liability is reclassified to the same component of equity that was reduced on initial recognition.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as "Equity reserve" and attributed to the owners of the Parent Company.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while the resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Reclassifications
On September 27, 2019, the Philippine Interpretations Committee (PIC) issued a letter to the various organizations in the real estate industry to clarify certain issues in relation to the PFRS 15 Implementation Issues and other accounting issues affecting real estate industry. The letter includes the clarification on the conclusion of PIC Q&A 2018-12D Step 3 on the recording of contract asset for the difference between the consideration received from the customer and the transferred goods or services to a customer. In the letter, the PIC would allow for the meantime, the recording of the difference between the consideration received from the customer and the transferred goods or services to a customer as either a contract asset or unbilled receivable. If presented as contract asset, the disclosures required under PFRS 15 should be complied with. Otherwise, the disclosures required under PFRS 9 should be followed.

As a result, ALI Group elected to record in 2019 the difference between the consideration received from the customer and the transferred goods or services to a customer as installment contracts receivable which differs from the 2018 presentation where the difference was recognized as a contract asset.

Accordingly, the affected assets and liabilities accounts of ALI Group as of December 31, 2018 have been reclassified to conform with the 2019 presentation of accounts. Details as follows:

(In thousand pesos)	As previously reported December 31, 2018	Reclassification	As restated December 31, 2018
Current assets			
Accounts and notes receivable	₱78,245,866	₱48,473,011	₱126,718,877
Contract assets	48,473,011	(48,473,011)	–
Noncurrent assets			
Noncurrent accounts and notes receivable	3,367,890	35,437,047	38,804,937
Noncurrent contract assets	35,437,047	(35,437,047)	–
Current liabilities			
Deposits and other current liabilities	–	21,874,681	21,874,681
Contract liabilities	21,874,681	(21,874,681)	–
Noncurrent liabilities			
Deposits and other noncurrent liabilities	–	8,630,235	8,630,235
Contract liabilities - net of current portion	8,630,235	(8,630,235)	–
	₱196,028,730	₱–	₱196,028,730

As the restatements have no significant impact on ALI Group's total assets, total liabilities and total equity as of January 1, 2018, management believes that the presentation of the consolidated statements of financial position as at beginning of the earliest period presented is not necessary.

The reclassification did not impact the consolidated statement of cash flows as of December 31, 2018.

Changes in Accounting Policies and Disclosures
Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2019. The nature and the impact of each new standard and amendment are described below:

- PFRS 16, *Leases*

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

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 did not have an impact for leases where the Group is the lessor. Unlike lessors, the Group as lessee is required to recognize right-of-use assets and lease liabilities.

As a lessee, the Group adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. Under the modified retrospective approach, the Group recognized right-of-use asset based on its carrying amount as if PFRS 16 had always been applied while the lease liability is recognized at date of adoption, January 1, 2019. The difference between the right-of-use asset and lease liability is recognized in the beginning Retained Earnings as at January 1, 2019.

The Group has lease contracts for land, building, warehouses and various items of plant, machinery, vehicles and other equipment. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to the accounting policy for leases prior to January 1, 2019.

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

The effect of the adoption of PFRS 16 to the consolidated statement of financial position as at January 1, 2019 is as follows (in thousands):

	Increase (decrease)
Assets	
Right-of-use assets	₱18,532,733
Other current assets	(135,463)
Investment properties	888,774
Investment in associate and joint venture	104,078
Other noncurrent assets	(862,479)
Deferred tax assets	3,426,774
	₱21,954,417
Liabilities	
Lease liabilities	₱21,564,084
Accounts payable and accrued expenses	(303,932)
Other noncurrent liabilities	(2,468,712)
Deferred tax liabilities	3,506,216
	22,297,656
Equity	
Retained earnings	(343,239)
	₱21,954,417

Lease previously classified as finance leases
The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17). The requirements of PFRS 16 were applied to these leases from January 1, 2019.

Leases previously accounted for as operating leases
The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:
- Used discount rates to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:
- Right-of-use assets of ₱18,532.73 million were recognized and presented separately in the consolidated statement of financial position.
- Lease liabilities of ₱21,564.08 million were recognized.
- Other current assets of ₱135.46 million related to previous operating leases arising from straight-lining under PAS 17 were derecognized.
- Leasehold rights and asset retirement obligation (ARO) asset under other noncurrent assets of ₱843.09 million and ₱19.39 million, respectively, were derecognized.
- Construction in progress under investment properties of ₱888.77 million was recognized
- Accrued expenses under accounts and other payables and other noncurrent liabilities of ₱303.93 million and ₱2,468.71 million, respectively, related to previous operating leases arising from straight-lining under PAS 17 were derecognized.
- Deferred tax assets and liabilities increased by ₱3,426.77 million and ₱3,506.22 million, respectively, because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings (₱343.24 million)

The lease liability as at January 1, 2019 can be reconciled to the operating lease commitments as of 31 December 2018 follows:

Operating lease commitments as at December 31, 2018	**₱46,113,530**
Weighted average incremental borrowing rate at 1 January 2019	**7.14%**
Discounted operating lease commitments at January 1, 2019	**20,633,091**
Add: Commitments relating to lease previously classified as finance lease	**11,579**
Lease payments relating to renewal periods not included in operating lease commitments as at December 31, 2018	**924,112**
Less: Operating lease commitments as at December 31, 2018	**(4,698)**
Lease liabilities recognized at January 1, 2019	**₱21,564,084**

Due to the adoption of PFRS 16, the Group's operating profit in 2019 has improved, while its interest expense has increased. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

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

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

  The interpretation specifically addresses the following:

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

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

  Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined, based on assessment, in consultation with its tax counsel, that it is probable that its income tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Group.

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

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

  These amendments had no impact on the consolidated financial statements of the Group.

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

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

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

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

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

The amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

- *Annual Improvements to PFRSs 2015-2017 Cycle*

  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

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

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

    These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

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

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

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  The Group does not expect any effect on its consolidated financial statements.

- IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23)

  In March 2019, the Interpretations Committee of the IASB issued IFRIC Update summarizing the decisions reached by the Committee in its public meetings. The March 2019 IFRIC Update includes the Committee's Agenda Decision on the capitalization of borrowing cost on over time transfer of constructed goods. The IFRIC Agenda Decision clarified whether borrowing cost may be capitalized in relation to the construction of a residential multi-unit real estate development (building) which are sold to customers prior to start of construction or completion of the development. Under the March 2019 IFRIC Update, the Committee clarified that the related assets that might be recognized in the Group's financial statements (i.e., installment contract receivable, contract asset, or inventory) will not qualify as a qualifying asset and the corresponding borrowing cost may no longer capitalized.

  On February 21, 2020 the SEC issued SEC Memorandum Circular No. 4, Series of 2020, which provides relief to the real estate industry by deferring the implementation of the IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23 – Borrowing Cost) until December 31, 2020.

  The Group does not expect any effect on its consolidated financial statements as they are already aligned with the provisions of PAS 23.

New standards and interpretations that have been issued but are not yet effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2020

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

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

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

  These amendments will apply on future business combinations of the Group.

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

  - A simplified approach (the premium allocation approach) mainly for short-duration contracts PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

  The Group is assessing the quantitative impact of PFRS 17 as of reporting date.

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.

  The Group is currently assessing the impact of adopting these amendments.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statement of financial position based on a current and noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve 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.

All other liabilities are classified as noncurrent.

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

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

Short-term Investments
Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.

Financial Instruments
For all periods up to and including the year ended December 31, 2017, the Group accounted for financial instruments under PAS 39, *Financial Instruments: Recognition and Measurement.* For the years ended December 31, 2019 and 2018, the Group accounted for financial instruments in accordance with PFRS 9, *Financial Instruments.*

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

Financial instruments prior to January 1, 2018
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. In the case of derivatives, the Group follows trade date accounting.

Initial recognition of financial instruments
All financial assets and financial liabilities are recognized initially at fair value. Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities into financial liabilities at FVTPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income under "Interest income" or "Interest and other financing charges" unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets and financial liabilities at FVTPL
Financial assets and financial liabilities at FVTPL include derivatives, financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVTPL.

Financial assets and financial liabilities 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 or a financial guarantee contract. Fair value gains or losses on investments held for trading, net of interest income or expense accrued on these assets, are recognized in the consolidated statement of income under “Other income” or “Other charges”. Interest earned or incurred is recorded in “Interest income” or “Interest and other financing charges” while dividend income is recorded in “Other income” when the right to receive payment has been established.

Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset or financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and financial liabilities may be designated at initial recognition as at FVTPL if any of the following criteria are met:
(i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
(ii) the assets or liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
(iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

The Group’s financial assets and financial liabilities at FVTPL pertain to government securities, other investment securities, derivatives not designated as accounting hedges and embedded derivatives. Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group uses derivative instruments such as structured currency options and currency forwards to hedge its risks associated with foreign currency fluctuations. Such derivative instruments provide economic hedges under the Group’s policies but are not designated as accounting hedges.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVTPL.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows that otherwise would be required under the contract.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial asset at FVTPL. This accounting policy relates to the consolidated statement of financial position captions “Cash and cash equivalents”, “Short-term investments” and “Accounts and notes receivable” (except for Advances to contractors and suppliers).

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The amortization is included in the “Interest income” account in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized under “Provision for doubtful accounts” in the consolidated statement of income.

Loans and receivables are included in current assets if maturity is within 12 months or when the Group expects to realize or collect within 12 months from the reporting date. Otherwise, they are classified as noncurrent assets.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as designated at FVTPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS financial assets are recognized in other comprehensive income and are reported as “Net unrealized gain (loss) on available-for-sale financial assets” (net of tax where applicable) in equity. The Group’s share in its associates’ or joint ventures’ net unrealized gain (loss) on AFS is likewise included in this account.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under “Other income” or “Other charges”. Where the Group holds more than one investment in the same security, the cost is determined using the weighted average method. Interest earned on AFS financial assets is reported as interest income using the effective interest rate. Dividends earned are recognized under “Other income” in the consolidated statement of income when the right to receive payment is established. The losses arising from impairment of such investments are recognized under “Provision for impairment losses” in the consolidated statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

The Group’s AFS financial assets pertain to investments in debt and equity securities included in “Investments in bonds and other securities” under “Other noncurrent assets” in the consolidated statement of financial position. AFS financial assets are included under “Other current assets” if expected to be realized within 12 months from reporting date.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVTPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to the Group's short-term and long-term debt, accounts payable and accrued expenses, and other current and noncurrent liabilities and obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Other financial liabilities are included in current liabilities if maturity is within 12 months or when the Group expects to realize or collect within 12 months from the reporting date. Otherwise, they are classified as noncurrent liabilities.

Exchangeable bonds
The exchangeable bond is classified as a compound instrument and accounted for using split accounting. The value allocated to the equity component at initial recognition is the residual amount after deducting the fair value of the liability component from the issue proceeds of the exchangeable bonds. Transaction costs incurred in relation to the issuance of the exchangeable bonds was apportioned between the liability and equity component based on their values at initial recognition.

Subsequently, the liability component is carried at amortized cost using the effective interest rate method while the equity component is not revalued. When the conversion option is exercised, the carrying amount of the liability and equity component is derecognizes and their balances transferred to equity. No gain or loss is recognized upon exercise of the conversion option.

The difference between the liability, the equity conversion option, and the non-controlling interest is lodged under Equity Reserve.

Deposits, retentions payable and customers' guaranty and other deposits
Deposits, retentions payable and customers' deposits and other deposits are initially measured at fair value. After initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. The difference between the cash received and its fair value is deferred (included in the "Deferred credits" account in the consolidated statement of financial position). Deposits are amortized using the straight-line method with the amortization included under the "Rendering of services" account in the consolidated statement of income while customers' guaranty and other deposits are amortized over the remaining concession period with the amortization included under "Interest and other financing charges" in the consolidated statement of income.

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized where:
- the rights to receive cash flows from the assets have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control of the asset.

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

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is charged to the consolidated statement of income under "Provision for doubtful accounts". Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

Financial assets carried at cost
If there is an objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS financial assets
In the case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. “Significant” is to be evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from other comprehensive income and recognized in the consolidated statement of income under “Other charges.” Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

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

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

Financial instruments beginning January 1, 2018
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables, except for installment contract receivables, are measured at the transaction price determined under PFRS 15. Refer to the accounting policies under revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, 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 Group'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 Group 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 fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Group's financial assets at amortized cost includes cash and cash equivalents, short-term investments, and accounts and notes receivables (except advances to contractors and suppliers).

Financial assets at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; 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.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition the cumulative fair value change recognized in OCI is recycled to profit or loss.

As of December 31, 2019 and 2018, the Group does not have financial assets at fair value through OCI (debt instrument).

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI 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 consolidated statement of income when the right of payment has been established, except when the Group 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 fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its listed and unquoted equity investments under this category.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, 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 fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of income.

This category includes convertible bonds, derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on equity investments are also recognized as other income in the consolidated statement of income when the right of payment has been established.

Return of capital is recorded as reduction against the investment account.
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 fair value through profit or loss. 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 fair value through profit or loss 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 fair value through profit or loss.

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 Group's consolidated statement of financial position) when:
- The rights to receive cash flows from the asset have expired; or

- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group 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 Group 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 Group could be required to repay.

Impairment of financial assets
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group 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.

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

For other financial assets such as accrued receivable, receivable from related parties, receivable from officers and employees, and advances to other companies, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash and cash equivalents and short-term investments, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group’s policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard and Poor’s (S&P), Moody’s and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

The key inputs in the model include the Group’s definition of default and historical data of three years for the origination, maturity date and default date. The Group considers trade receivables in default when contractual payment are 90 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative

in nature which may extend the definition of default to 90 days and beyond. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Determining the stage for impairment
At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due.

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

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, 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 Group's financial liabilities include accounts payable and accrued expenses, short-term debt, long-term debt, other current and non-current liabilities (other than liabilities accrued by other accounting standards such as income tax payable, provisions, etc.).

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
This is the category most relevant to the Group. 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 interest and other financing charges in the consolidated statement of income.

This category generally applies to interest-bearing loans and borrowings.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVTPL, are classified as accounts payable and accrued expenses where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effect of restatement of foreign currency-denominated liabilities is recognized in profit or loss.

This accounting policy applies to the Group's accounts payable and accrued expenses, dividends payables and subscriptions payable (other than liabilities covered by other accounting standards such as pension liability and income tax payable).

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

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

Derivative financial instruments

Initial recognition and subsequent measurement
The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Financial guarantee contracts
Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are measured at the higher of the amount of expected credit loss determined in accordance with the policy set out in Note 33 and the amount initially recognized less, when appropriate, the cumulative amount of income recognized over the period of the guarantee.

Exchangeable bonds
The exchangeable bond is classified as a compound instrument and accounted for using split accounting. The value allocated to the equity component at initial recognition is the residual amount after deducting the fair value of the liability component from the issue proceeds of the exchangeable bonds. Transaction costs incurred in relation to the issuance of the exchangeable bonds was apportioned between the liability and equity component based on their values at initial recognition.

Subsequently, the liability component is carried at amortized cost using the effective interest rate method while the equity component is not revalued. When the conversion option is exercised, the carrying amount of the liability and equity component is derecognized and their balances transferred to equity. No gain or loss is recognized upon exercise of the conversion option. The difference between the liability, the equity conversion option, and the non-controlling interest is lodged under Equity Reserve.

Deposits, customers' guaranty and other deposits
Deposits, customers' guaranty and other deposits are initially measured at fair value. After initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. The difference between the cash received and its fair value is deferred (included in the "Deferred credits" account in the consolidated statement of financial position). Deposits are amortized using the straight-line method with the amortization included under the "Costs of rendering of services" account in the consolidated statement of income while customers' guaranty are amortized over the remaining concession period with the amortization included under "Interest and other financing charges" in the consolidated statement of income.

Inventories
Inventories are carried at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and conditions are generally accounted for as follows:

Real estate inventories
- Land cost
- Land improvement cost
- Amounts paid to contractors for construction and development
- Planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs

Vehicles - purchase cost on specific identification basis.

Finished goods and work-in-process - determined on a moving average basis; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Parts and accessories, materials, supplies and others - purchase cost on a moving average basis. NRV for real estate inventories, vehicles, finished goods and work-in-process and parts and accessories is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale, while NRV for materials, supplies and others represents the related replacement costs. In the event that NRV is lower than cost, the decline shall be recognized as an expense in the consolidated statement of income.

An allowance for inventory losses is provided for slow-moving, obsolete and defective inventories based on management's physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged against operations.

Prepaid Expenses
Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for marketing fees and advertising and promotion, taxes and licenses, rentals and insurance.

Creditable Withholding Tax
This pertains to the tax withheld at source by the Group's customer and is creditable against the income tax liability of the Group.

Value-Added Tax (VAT)
Expenses and assets are recognized, net of the amount of VAT, except:
- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of VAT included.

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

Deposits in Escrow
Deposits in escrow pertain to the proceeds from the sale of the Group's projects that have only been granted temporary License to Sell (LTS) as of reporting date. These proceeds are deposited in a local bank and earn interest at prevailing bank deposit rates.

Advances to Contractors and Suppliers
Advances to other companies and advances to contractors and suppliers are carried at cost less impairment losses, if any. Prepayments for the construction of investment property and property and equipment are classified as non-current asset while the portion representing prepayments for the construction of real estate inventories are reclassified as other current assets.

Noncurrent Assets Held for Sale and Discontinued Operations
Noncurrent assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense. At reporting date, the Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:
- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of profit or loss.

The related results of operations of the disposal group that qualified as discontinued operation are separated from continuing operations and prior years' consolidated statements of income have been restated.

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in associates or joint ventures is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of these investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

If the Group's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group discontinues recognizing its share of further losses. The interest in an associate or joint venture is the carrying amount of the investment or joint venture determined using the equity method together with any long-term interest that in substance forms part of the Group's net investment in associate or joint venture. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligation or made payments in behalf of the associate of joint venture. If the associate or joint venture subsequently reports profits, the Group resumes recognizing its share of their profits only after its share of the profit equals the share of loss not recognized.

The aggregate of the Group's share in net profits or loss of associates and joint ventures is shown on the face of the consolidated statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as "Share in net profits of associates and joint ventures" in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Investment Properties

Investment properties comprise completed property and property under construction or re-development that are held to earn rentals and for capital appreciation, and are not occupied by the companies in the Group. The Group uses the cost model in measuring investment properties since this represents the historical value of the properties subsequent to initial recognition. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance are normally charged against income in the period in which the costs are incurred.

Construction-in-progress (including borrowing cost) are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, regardless of utilization. The estimated useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

The estimated useful lives of investment properties follow:

Land improvements	8 to 40 years
Buildings	20 to 40 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.

The Group discloses the fair values of its investment properties in accordance with PAS 40. The Group engaged independent valuation specialist to assess fair value as at December 31, 2019 and 2018. The Group's investment properties consist of land and building pertaining to land properties, retail (malls) and office properties. These were valued by reference to market-based evidence using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Property, Plant and Equipment

Property, plant and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property, plant and equipment consists of its construction cost or purchase price and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use.

Construction-in-progress is stated at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated or amortized until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use and computed on a straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

Buildings and improvements	20 to 40 years
Plant, machinery and equipment	5 to 25 years
Hotel property and equipment	20 to 50 years
Furniture, fixtures and equipment	3 to 10 years
Transportation equipment	3 to 5 years

The assets' residual values, useful lives and depreciation and amortization methods are reviewed periodically to ensure that the amounts, periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When property, plant and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Service Concession Arrangements

Intangible Asset Model

The Group accounts for its concession arrangements with Department of Public Works and Highways (DPWH), Metropolitan Waterworks and Sewerage System (MWSS), Provincial Government of Laguna (PGL), Tourism Infrastructure and Enterprise Zone Authority (TIEZA) and Clark Development Corporation (CDC), Obando Water District (OWD), and Calasiao Water District (CWD) under the Intangible Asset model as the Group receives the right (license) to charge users of public service. Under the Group's concession agreements, the Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide the public water services. The legal title to these assets shall remain with DPWH, MWSS, PGL, TIEZA, CDC, OWD and CWD at the end of the concession period.

The "Service concession assets" (SCA) pertain to the fair value of the service concession obligations at drawdown date and construction costs related to the rehabilitation works performed by the Group and other local component costs and cost overruns paid by the Group.

Amortization of SCA commences once the SCA are available for use and are calculated on a straight-line basis over the remaining concession period. Beginning May 1, 2017, the SCA of MWC, Boracay Island Water Company (BIWC), Clark Water Corporation (CWC), and Laguna AAA Water Corporation (LAWC) are amortized using the units of production (UOP) method over the expected total billable volume for the remaining concession period to better reflect the usage of the SCA, which is directly related to its expected total billable volume and is aligned with industry practice. This change in method resulted to a ₱554.0 million reduction of amortization expense from May 1 to December 31, 2017.

In addition, the Parent Company, MWC, LAWC, BIWC, CWC, Obando Water Company, Inc. (Obando Water), Calasiao Water Company, Inc. (Calasiao Water), Cebu Manila Water Development, Inc. (CMWDI), and Tagum Water Company, Inc. (TWC) recognize and measure revenue from rehabilitation works in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs. Recognition of revenue is by reference to the ‘stage of completion method,’ also known as the ‘percentage of completion method’ as provided under PAS 11. Contract revenue and costs from rehabilitation works are recognized as “Revenue from rehabilitation works” and “Cost of rehabilitation works,” respectively, in profit or loss in the period in which the work is performed.

The Parent Company recognizes its contractual obligations to restore certain parts of the infrastructure to a specified level of condition in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as the obligations arise.

Financial Asset Model
On the other hand, the concession arrangement with the Department of Transportation (DOTr), Provincial Government of Cebu (PGC) and Tagum Water District (TWD) are accounted for under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. Under the concession arrangement with PGC and TWD, Cebu Manila Water Development, Inc. (CMWD) and TWC, both subsidiaries of MWC, are awarded the right to deliver bulk water supply to the grantor for a specific period of time under the concession period. The concession agreement with DOTr qualifies under the Financial Asset model as Arca South Integrated Terminal Inc. (ASITI), a subsidiary of ALI, has an unconditional contractual right to receive cash or other financial assets (i.e., the Annual Grantor Payment) for its construction, operating and maintenance services directly from DOTr.

Under this model, the operator recognizes a financial asset in its consolidated statement of financial position in consideration for the services it provides (design, construction, etc.). Such financial assets are recognized in the consolidated statement of financial position under “Other current assets” and “Other noncurrent assets” in an amount corresponding to the fair value of the infrastructure on first recognition and subsequently at amortized cost. The receivable is settled when payments from the grantor are received. The financial income calculated on the basis of the effective interest rate is recognized in profit or loss.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The estimated useful life of intangible assets is assessed as either finite or indefinite.

The estimated useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized over their estimated useful lives on a straight line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The estimated useful lives of intangible assets follow:

Leasehold rights	20 to 23 years
Customer relationships	5 years
Unpatented technology / intellectual properties	5 years
Developed software	3 years
Licenses	3 years
Technical service agreement	3 years
Trademarks	3 to 5 years

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible assets and is recognized in the consolidated statement of income when the intangible asset is derecognized.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset under “Project Development Cost” when the Group can demonstrate:
- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development; and,
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. The estimated useful life of research and development costs is 5 years. During the period of development, the asset is tested for impairment annually.

<u>Leases effective January 1, 2019</u>
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
Except for short-term leases and leases of low-value assets, the Group applies a single recognition and measurement approach for all leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use 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 and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset

at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follow:

Land, building and improvements	10-50 years
Transportation equipment	3-10 years
Others	5 years

Right-of-use assets are subject to impairment. Refer to the accounting policies in Impairment of non-financial assets section.

ii) Lease liabilities
At the commencement date of the lease, the Group 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 Group and payments of penalties for terminating a lease, if the lease term reflects the Group 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 Group 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.

iii) Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (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 lease of low-value assets recognition exemption to leases that are considered of low value as defined in the accounting policies of subsidiaries. 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.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted on a straightline basis over the lease term and is included in revenue in the consolidated statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

For the years ended December 31, 2018 and 2017, leases are accounted for as follows:

<u>Leases prior to adoption of PFRS 16</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

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

Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the consolidated asset are classified as operating leases. Fixed lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Group as lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rent is recognized as revenue in the period in which it is earned.

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and included under "Remeasurement gain/loss arising from business combination" in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as bargain purchase gain. The Group reassess whether it has correctly identified all of the assets acquired and all of the liabilities

assumed and reviews the procedures used to measure amounts to be recognized at the acquisition date if the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

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

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

<u>Combinations of Entities Under Common Control</u>
Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method generally involve the following:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity.

- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- Comparative financial information are presented as if the entities had always been combined.

The effects of any intercompany transactions are eliminated to the extent possible.

Asset Acquisitions
If the assets acquired and liabilities assumed in an acquisition transaction do not constitute a business as defined under PFRS 3, the transaction is accounted for as an asset acquisition. The Group identifies and recognizes the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets) and liabilities assumed. The acquisition cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such transaction or event does not give rise to goodwill. Where the Group acquires a controlling interest in an entity that is not a business, but obtains less than 100% of the entity, after it has allocated the cost to the individual assets acquired, it notionally grosses up those assets and recognizes the difference as non-controlling interests.

Water Rights
Water rights are accounted for as an intangible asset with indefinite useful life. These pertain to the permit acquired separately, and are recognized as an intangible asset as these were issued by the National Water Resources Board (NWRB) without an explicit provision on the period of effectivity. Costs incurred for the acquisition of water rights are capitalized and measured on initial recognition at cost.

Presidential Decree No. 1067, also known as the Water Code, states that water permits shall continue to be valid as long as water is beneficially used. The rights may be suspended or revoked based on certain grounds such as non-compliance with approved plans and specifications or schedules of water distribution, and use of water for a purpose other than that for which it was granted.

All water permits are subject to modification or cancellation by the NWRB, after due notice and hearing, in favor of a project of greater beneficial use or for multi-purpose development, and a water permittee who suffers thereby shall be duly compensated by the entity or person in whose favor the cancellation was made.

Impairment of Nonfinancial Assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot

exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments in associates and joint ventures
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee company. The Group determines at each reporting date whether there is any objective evidence that the investment in the investee company is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the investee company and the carrying cost and recognizes the amount as a reduction of the "Share in net profits of associates and joint ventures" account in the consolidated statement of income.

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

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

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

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.

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

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

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets and 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 consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Equity
Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" (APIC) account. Direct costs incurred related to equity issuance are chargeable to APIC account. If APIC is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares and is presented as reduction from equity.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

For the Preferred A treasury shares, the amount reflected under treasury stock pertains to par value.

Revenue and Cost Recognition
For all periods up to and including the year ended December 31, 2017, the Group accounted for its revenue in accordance with PAS 11, PAS 18 and related interpretations as follows:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Real estate revenue and costs
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectability of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectability is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with PIC Q&A No. 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the physical proportion of contract work. The percentage of completion is determined by the Group's project engineers.

Any excess of collections over the recognized receivables are included in the "Deposits and other current liabilities" account in the liabilities section of the consolidated statement of financial position.

If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Deposits and other current liabilities" account in the liabilities section of the consolidated statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied and is determined with reference to the specific, including estimated costs, on the property allocated to sold area. Cost of residential and commercial lots and units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

Estimated development costs include direct land development, shared development cost, building cost, external development cost, professional fees, post construction, contingency, miscellaneous and socialized housing. Miscellaneous costs include payments such as permits and licenses, business permits, development charges and claims from third parties which are attributable to the project. Contingency includes fund reserved for unforeseen expenses and/ or cost adjustments. Revisions in estimated development costs brought about by increases in projected costs in excess of the original budgeted amounts are considered as special budget appropriations that are approved by management and are made to form part of total project costs on a prospective basis and allocated between costs of sales and real estate inventories.

Revenue from construction contracts included in the "Real estate" account in the consolidated statement of income is recognized using the percentage-of-completion method, based on the completion of a physical proportion of the contract work inclusive of the uninstalled goods and materials delivered to the site.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Rental income under non-cancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Rooms revenue from hotel and resort operations is recognized when the services are rendered.

Revenue from banquets and other special events are recognized when the events take place.

Water and sewer revenue
Water and sewer revenue are recognized when the related water and sewerage services are rendered. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. A certain percentage of water revenue is recognized as environmental charges. Other customer related fees such as reconnection and disconnection fees are recognized when these services have been rendered.

Supervision fees
Supervision fees are recognized using the percentage of completion (POC) method of accounting, measured principally on the basis of the physical proportion of the contract work to the estimated completion of a project.

Revenue from pipeworks and integrated used water services
Revenue from pipeworks and integrated used water services is recognized when the related water and wastewater network related services are rendered.

Distributors' fee
Distributors' fee is recognized when significant risk and rewards of ownership of trade assets have been transferred to the distributor.

Revenue from packaged water
Revenue from packaged water and other water related products is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods where the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of transfers of risks and rewards varies depending on the individual terms of the contract of sale but usually occurs when the customer receives the product.

Operation and maintenance services
Service fee income is recognized when the operation, maintenance and management services have been rendered for water and waste water facilities of Bonifacio Water Corporation (BWC).

Performance fees
Performance fees are recognized when the non-revenue water reduction (NRW) has been recovered based on specific targets and schedule as agreed in the Non-revenue Water Reduction Service Agreement (NRWSA) with Zamboanga City Water District (ZCWD).

Service fees
Service fees for technical assistance extended to ZCWD are recognized when the related services have been rendered.

Other operating income
Other customer related fees such as connection, reconnection and disconnection fees, income from customers late payments, sale of scrap materials, income from septic sludge disposal, and income from bacteriological water analysis are recognized when these services have been rendered.

Revenue from rehabilitation works
Revenue from rehabilitation works is recognized and measured by the Group in accordance with PAS 11 for the construction and PAS 18 for the service. This includes revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of SCA.

When the Group provides construction or upgrade services, the consideration received or receivable is recognized at its fair value. The Group accounts for revenue and costs relating to operation services in accordance with PAS 18.

Toll revenues
Revenue from toll fees is recognized upon entry of vehicles in the toll road facility and receipt of cash payment. Toll fees received in advance, through transponders or magnetic cards, are included under "Accounts Payable".

Service Revenue
Service revenue arises from the provision of delivery services, which include document management, express parcel, freight forwarding and outbound courier services is recognized when the delivery is completed.

Revenue from sales of electronic products and vehicles and related parts and accessories
Revenue from sales of electronic products and vehicles and related parts and accessories are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received excluding discounts, returns, rebates and sales taxes.

Energy sales
Energy sales is recognized upon actual delivery of concerted electricity from the 51.9M NorthWind Renewable Energy Plant (REP) at Bangui Farm and 18MW DC Solar Power Plant of Montesolar at Bais, Negros Oriental.

The tariff on the generation of REP's original twenty (20) turbines (Phases I & II) is a Feed-in-Tariff (FIT) rate specific to ACEI of ₱5.76/kWh, as approved by the Energy Regulatory Commission (ERC) in its decision dated June 30, 2014. The FIT specific to ACEI is lower than the national FIT and is valid for twenty (20) years, less the actual years of operation as provided for under the FIT Rules.

The tariff on the new six (6) turbines (Phase III) shall be the national FIT of ₱8.53/kWh, subject to compliance by ACEI of the requirements under the FIT System. Being a new plant and established under the incentives granted under RA 9513, it shall have FIT period of twenty (20) years.

Revenue from sale of electricity through Retail Electricity Supply (RES) Contract is composed of generation charge from monthly energy supply with various contestable customers and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge.

Marketing and management fees
Marketing fees, management fees from administrative and property management and revenue from vehicle repairs are recognized when services are rendered.

Revenue from digitizing and document creation services
Revenue from digitizing and document creation services are recognized when the service is completed and electronically sent to the customer. Provision for discounts and other adjustments are provided for in the same period the related sales are recorded.

Tuition and other school fees
Tuition and other school fees are recognized over the period of instruction. Tuition and other school fees collected during the year that are applicable in the next school year are deferred and presented under the "Others" account in the Other Noncurrent Liabilities section of the consolidated statement of financial position.

Interest income
Interest income is recognized as it accrues using the effective interest method.

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

For the years ended December 31, 2019 and 2018, the Group accounted for its revenue under PFRS 15, *Revenue from Contracts with Customers,* as follow:

ALI Group's Revenue from Contracts with Customers
The Group primarily derives its real estate revenue from the sale of vertical and horizontal real estate projects. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the provisioning of water, electricity, air-conditioning and common use service area in its mall retail spaces, wherein it is acting as agent.

The disclosures of significant accounting judgments, estimates and assumptions relating to revenue from contracts with customers are provided in Note 4.

Real estate sales
The Group derives its real estate revenue from sale of lots, house and lot and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses the output method. The Group recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date. This is based on the monthly project accomplishment report prepared by the project engineers as approved by the construction manager which integrates the surveys of performance to date of the construction activities for both sub-contracted and those that are fulfilled by the developer itself.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as trade receivables under residential and office development receivables account. Any excess of collections over the total of recognized trade receivables is included in the "customer deposit" account in the liabilities section of the consolidated statement of financial position. The impact of the significant financing component on the transaction price has not been considered since the Group availed the relief granted by the SEC under Memorandum Circular Nos. 14-2018 as of 2018 for the implementation issued of PFRS 15 affecting the real estate industry.

Cost recognition
The Group recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land and connection fees. These include costs of land, land development costs, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

In addition, the Group recognizes as an asset only costs that give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered.

Rental income under non-cancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Marketing fees, management fees from administration and property management are recognized over time as the customer receives and consumes the benefit from the performance of the services.

Hotel and resorts revenue
ALI Group recognizes room accommodation services over time since the guest simultaneously receives and consumes the services provided by ALI Group. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. Revenue from banquets and other special events are recognized when the events take place.

Cost of hotel operations
Cost of hotel operations pertains to expenses incurred in relation to sale of goods and rendering of services. These are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. These are recognized when incurred and measured at the amount paid or payable.

Construction revenue and cost
Revenue from fixed price construction contracts are recognized over time using the milestone-based revenue recognition which is in reference to output method. The output method is determined based on the start and completion of a task of the contract work inclusive of uninstalled goods and materials delivered to the site.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

MWC Group's Revenue from Contracts with Customers
Revenue recognized over time using output method

- *Water and sewer revenue*
  Water and sewer revenue is recognized over time as the customer receives and consumes the benefit from the performance of the related water and sewerage services. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. Also, twenty percent (20%) of water revenue is recognized by MWC as environmental charge.

- *Operation and maintenance services*
  Revenue from operation and maintenance services is recognized over time as the operation, maintenance, and management services are rendered for water and waste water facilities of Bonifacio Water Corporation (BWC).

- *Performance fees*
  Performance fees are recognized as revenue over time as the NRW are recovered as agreed in the NRWSA with ZCWD.

MWC Group recognizes revenue from water and sewer services, environmental charge, operation and maintenance services and performance fees over time using output method. As practical expedient allowed under PFRS 15, the Group recognizes revenue in the amount to which MWC Group has a right to invoice since MWC Group bills a fixed amount for every cubic meter delivered or NRW recovered.

- *Connection fees*
  Connection fees are amounts paid by customers in exchange for the set-up of a connection from the customer's establishment to MWC Group's water or sewer network. Revenue from

connection fees is recognized over time, using output method based on time elapsed over the period when the related water and sewer services are expected to be provided.

- *Supervision fees*
  Supervision fees arise from MWPVI, Aqua Centro, EcoWater, and Laguna Water's assurance of potable water and effective used water services for new developments, and performance of certain functions which includes, but is not limited to, the provision of design and project management services in the development of water and used water facilities. Revenue from supervision fees is recognized over time, using output method. Under this method, progress is measured using survey of performance completed to date and milestone reached. This is based on the work accomplishment report prepared by the project contractor as approved and reviewed by the project management head.

- *Revenue from pipeworks and integrated used water services*
  Revenue from pipeworks and integrated used water services is recognized over time as the water and wastewater network related services are rendered, using output method. Under this method, progress is measured using survey of performance completed to date and milestone reached. This is based on the work accomplishment report prepared by the project contractor as approved by the project management head.

MWC Group has determined that the output method is the appropriate method in measuring progress of the connection services, project management services, and pipeworks and integrated used water services since this depicts MWC Group's performance in managing and providing service connection from water and used water facilities to the developments.

Revenue recognized over time using input method

- *Revenue from rehabilitation works and Cost of rehabilitation works*
  Revenue from rehabilitation works is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of SCA or concession financial receivables and pertain to revenue from construction or upgrade services. Revenue from rehabilitation works is recognized over time, using input method. Under this method, progress is measured by reference to the actual costs incurred to date.

- *Construction revenue*
  Construction revenue arise from the NRWSA with ZCWD for the establishment of district metering areas. Revenue from construction services is recognized over time, using input method. Under this method, progress is measured based on actual costs incurred on materials, labor, and overhead relative to the total project costs.

- *Service fees*
  Service fees for technical assistance extended to ZCWD are recognized over time, using input method, when the related services have been rendered to the ZCWD. Under this method, progress is measured based on actual costs incurred on manpower and overhead relative to the total project costs.

MWC Group determined that the input method is the appropriate method in measuring progress of the rehabilitation works, construction revenue and service fees because there is a direct relationship between MWC Group's effort (i.e., actual cost incurred incurred) and the transfer of service to the customer.

Revenue recognized at a point in time

- *Distributors' fee*
  Distributors' fee is recognized as revenue at a point in time when control of the trade assets have been transferred to the distributor, generally upon delivery of the related assets.

- *Revenue from packaged water*
  Revenue from packaged water and other water related products is recognized at the point in time when control of the goods is transferred to the distributor, generally upon receipt of the related product.

- *Other operating income*
  Other customer related fees such as reconnection and disconnection fees, income from customers late payments, income from septic sludge disposal, and income from bacteriological water analysis are recognized at a point in time when the control over these good or services have been transferred to the customer.

IMI Group's Revenue from Contracts with Customers
IMI Group is in the business of providing electronic manufacturing and other related services to various customers. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which IMI Group expects to be entitled in exchange for those goods or services. IMI Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

Manufacturing services
IMI Group provides manufacturing services in accordance with the customer's specifications. IMI Group promises to provide a combined performance obligation comprised of non-distinct goods or services, which include issuance of materials to production, assembly, testing and packaging.

Contracts with customers are generally classified as turnkey or consignment. In a turnkey contract, IMI Group procures the materials and provides the assembly services to the customer. In a consignment contract, IMI Group only provides assembly services to the customer.

For turnkey contracts, revenue is recognized over time since the products created have no alternative use to IMI Group and IMI Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than IMI Group's failure to perform as promised.

For goods manufactured not covered by customer purchase orders or firm delivery schedule, revenues are recognized at a point in time, when control of the asset is transferred to the customer, generally when goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customer.

For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as IMI Group performs its obligation.

Revenue from optical bonding technology and metal mesh touch sensors (VIA and VTS)
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which IMI Group expects to be entitled in exchange for those goods or services. IMI Group has concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring the, to the customer.

Non-recurring engineering services
Non-recurring engineering charges, tooling and other pre-production revenue stream (NREs) are recognized at a point in time since the criteria for over time recognition is not met. This is based on the assessment that while, in general, IMI Group has no alternative use for these NREs, either due to customization or restrictions by the customer, there is no assurance or relevant experience that IMI has enforceable right to payment or can recover the cost, plus reasonable margin, in case of contract termination. Point in time revenue recognition for NREs would mean revenue is recognized upon customer acceptance of the NREs (transfer of control).

IMI Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., customer options that provide material rights to customers, warranties). In determining the transaction price, IMI Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer, if any.

Variable consideration
If the consideration in a contract includes a variable amount, IMI Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Significant financing component
IMI Group's contracts with its customers are short-term in nature. Using the practical expedient in PFRS 15, IMI Group does not adjust the promised amount of consideration of the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

IMI Group does not have significant separate performance obligations wherein the transaction price needs to be allocated as of December 31, 2019 and 2018.

Warranty obligations
IMI Group provides warranties for general repairs of defects that existed at the time of sale. The warranties provided are customary per industry practice. These assurance-type warranties are accounted for under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

IMI Group does not provide warranty beyond fixing defects that existed at the time of sale or outside of industry practice. After-sales repairs are arranged with customers separately and are accounted for as any other manufacturing service contract with customers.

ACEI Group's Revenue from Contracts with Customers
Sale of Electricity
Sale of electricity is consummated whenever the electricity generated by the ACEI Group is transmitted through the transmission line designated by the buyer, for a consideration. Revenue from sale of electricity is based on sales price. Sales of electricity using bunker fuel are composed of generation fees from spot sales to the WESM and supply agreements with third parties and are recognized monthly based on the actual energy delivered.

Starting December 27, 2014, sales of electricity to the WESM using wind and solar are based on the Feed in Tariff (FIT) rate under the FIT System and are recognized monthly based on the actual energy delivered. Meanwhile, revenue from sale of electricity through ancillary services to the National Grid Corporation of the Philippines (NGCP) is recognized monthly based on the capacity scheduled and/or dispatched and provided. Revenue from sale of electricity through Retail Supply Contract is composed of generation charge from monthly energy supply with various contestable customers and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge

<u>Contract Balances</u>
Receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer

pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

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

The contract liabilities also include payments received by the Group from the customers for which revenue recognition has not yet commenced.

Costs to obtain contract
The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. The Group has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the “Real estate costs and expenses” account in the consolidated statement of income.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

Amortization, de-recognition and impairment of capitalized costs to obtain a contract
The Group amortizes capitalized costs to obtain a contract to cost of sales over the expected construction period using percentage of completion following the pattern of real estate revenue recognition. The amortization is included within cost of sales.

A capitalized cost to obtain a contract is derecognized either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Group determines whether there is an indication that cost to obtain a contract may be impaired. If such indication exists, the Group makes an estimate by comparing the carrying amount of the assets to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant costs or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific performance indicators that could trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, their judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

Assets and liabilities arising from rights of return
Right of return assets
Right of return asset represents the Group’s right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities
A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer.

The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

Cost to obtain a contract
The Group pays sales commission to its employees for each contract that they obtain for bundled sales of equipment and installation services. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions (included under employee benefits and part of cost of sales) because the amortisation period of the asset that the Group otherwise would have used is one year or less.

Expenses
Expenses are recognized in the consolidated statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are recognized in the consolidated statement of income:
- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association 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 or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

Direct operating expenses and general and administrative expenses are recognized as they are incurred.

Borrowing Costs
Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets (included in “Investment properties”, “Property, plant and equipment” and “Service concession assets” accounts in the consolidated statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group’s weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Pension Cost
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the

present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

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

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

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

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

Defined contribution plan

IMI

IMI's subsidiaries in Singapore, China and Hong Kong, Czech Republic, Mexico, Germany, and UK participate in the respective national retirement schemes defined by the laws of the countries in which it has operations. These retirement schemes are considered as defined contribution plans. A defined contribution plan is a plan under which the subsidiary pays fixed contributions. Each subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The required contributions to the national retirement schemes are recognized as retirement expense as accrued.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

<u>Income Tax</u>
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 taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of reporting date.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group 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 income tax is provided, using the liability method, on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in foreign subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 as part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow all as part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the end of the reporting period. Movements in the deferred

income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

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

For periods where the income tax holiday (ITH) is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the subsidiary neither results in a deductible temporary difference or temporary taxable difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

Foreign Currency Transactions

The functional and presentation currency of the Parent Company and its subsidiaries (except for AYCF, ACIFL, PFIL, BHL, AIVPL and IMI), is the Philippine Peso (₱). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in the consolidated statement of comprehensive income until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currency of AYCF, ACIFL, PFIL, BHL, AIVPL and IMI is the US Dollar (US$). As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Parent Company (the Philippine Peso) at the closing rate as at the reporting date and their statement of income accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity as “Cumulative Translation Adjustments”. On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in the consolidated statement of income.

Exchange differences arising from elimination of intragroup balances and intragroup transactions are recognized in profit or loss. As an exception, if the exchange differences arise from intragroup balances that, in substance, forms part of an entity’s net investment in a foreign operation, the exchange differences are not to be recognized in profit or loss, but are recognized in OCI and accumulated in a separate component of equity until the disposal of the foreign operation.

On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

The Group’s share in the translation adjustments of associates and joint ventures are likewise included under the “Cumulative Translation Adjustments” account in the consolidated statement of comprehensive income.

MWC Group
As approved by the MWSS Board of Trustees (BOT) under Amendment No. 1 of the Concession Agreement with MWSS, the following will be recovered through billings to customers:

a. Restatement of foreign currency-denominated loans;
b. Excess of actual concession fee payment over the amounts of concession fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱53.16:US$1.00 based on the latest rate rebasing exercise effective January 1, 2018;
c. Excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and
d. Excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

In view of the automatic reimbursement mechanism, the MWC Group recognizes deferred foreign currency differential adjustment (FCDA) (included as part of "Other noncurrent assets" or "Other noncurrent liabilities" in the consolidated statement of financial position) for both the realized and unrealized foreign exchange gains and losses. Other water revenue-FCDA is credited (debited) upon recovery (refund) of realized foreign exchange losses (gains). The write-off or reversal of the deferred FCDA pertaining to concession fees will be made upon determination of the rebased foreign exchange rate, which is assumed in the business plan approved by MWSS-Regulatory Office (RO) during the latest Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

Share-based Payments
The Group has equity-settled, share-based compensation plans with its employees.

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will ultimately vest. Fair value is determined by using the Binomial Tree and Black-Scholes model, further details of which are provided in Note 28 to the consolidated financial statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the awards ('vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized as of 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 conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. 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 a modification of the original award, as described in the previous paragraph.

Pre-PFRS 2 Options
For options granted before November 7, 2002 that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 27).

Employee share purchase plans
The Parent Company and certain subsidiaries have employee share purchase plans (ESOWN) which allow the grantees to purchase the Parent Company's and its respective subsidiaries' shares on installment payment plan. The Group recognizes stock compensation expense over the holding period. These are accounted for similar to the PFRS 2 options. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. The Group treats its ESOWN plan as option exercisable within a given period. For the measurement of the fair value of options at the grant date, the Parent Company uses a Binomial Tree Model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 28.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income attributable to common equity owners of the Parent Company by the weighted average number of common shares issued and outstanding during the year. The net income attributable to common equity owners of the Parent Company is net of dividends attributable to preferred equity holders.

Diluted EPS is computed by dividing net income attributable to common equity holders of the Parent Company by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. Calculation of diluted EPS considers the potential ordinary shares of subsidiaries, associates and joint ventures that have dilutive effect on the basic EPS of the Parent Company. The calculation of diluted EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share. Basic and diluted EPS are adjusted to give retroactive effect to any stock dividends declared during the period.

Assets Held in Trust
Assets which are owned by MWSS, PGL, TIEZA and CDC but are operated by the MWC Group under the concession agreements are not reflected in the consolidated statement of financial position but are considered as Assets Held in Trust (see Note 37).

Operating Segments
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 30 to the consolidated financial statements.

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

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

4. Significant Accounting Judgments, Assumptions and Estimates

The preparation of the accompanying consolidated financial statements in conformity with PFRSs requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Judgments
In the process of applying the Group'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 consolidated financial statements:

Revenue from contracts with customers
The Group applied the following judgments that significantly affect the identification of a contract, determination of the performance obligation and amount as well as timing of revenue from contracts with customers.

ALI Group
Existence of a contract
ALI Group's primary document for a contract with a customer is a signed contract to sell. It has determined, however, that in cases wherein contract to sell are not signed by both parties, the combination of its other signed documentation such as reservation agreement, official receipts, buyers' computation sheets and invoices, would contain all the criteria to qualify as contract with the customer under PFRS 15.

In addition, part of the assessment process of ALI Group before revenue recognition is to assess the probability that ALI Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the customer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history with the customer, age and pricing of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of customers' equity before commencing revenue recognition.

Revenue recognition method and measure of progress
ALI Group concluded that revenue for real estate sales is to be recognized over time because: (a) ALI Group's performance does not create an asset with an alternative use and; (b) ALI Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on ALI Group's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date. In addition, ALI Group requires a certain percentage of buyer's payments of total selling price (buyer's equity), to be collected as one of the criteria in order to initiate revenue recognition. Reaching this level of collection is an indication of buyer's continuing commitment and the probability that economic benefits will flow to ALI Group. ALI Group considers that the initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

ALI Group has determined that output method used in measuring the progress of the performance obligation faithfully depicts ALI Group's performance in transferring control of real estate development to the customers.

Sale of real estate receivables
ALI Group has entered into arrangements with banks wherein it discounted its real estate receivables without recourse. ALI Group believes that the sales transactions are not more than infrequent and that the receivables discounted is insignificant in value both individually and in aggregate. The Group continue with the objective of collecting contractual cash flows until maturity.

IMI Group
Identifying contracts with customers
Generally, a valid and approved manufacturing service agreement (MSA), scheduling agreement (SA), customer accepted quote, customer forecast, and/or customer purchase order or firm delivery schedule will be in place before IMI Group provides services or manufacture goods for the customers. IMI Group is not obligated to transfer any goods or provide services until the customer submits a purchase order or firm delivery schedule under the MSA or SA, respectively. The purchase order or firm delivery schedule creates the enforceable rights and obligations and is therefore evaluated together with the MSA or SA for revenue recognition in accordance with PFRS 15.

Determining the timing of revenue recognition
IMI Group assessed that revenue from manufacturing of goods shall be recognized over time or point in time. For turnkey contracts wherein the products created have no alternative use to IMI Group and IMI Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than IMI Group's failure to perform as promised, revenue is recognized over time. For goods manufactured not covered by customer purchase orders or firm delivery schedule, revenues are recognized at a point in time. For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as IMI Group performs.

Determining the method to measure of progress for revenue recognized over time
IMI Group measures progress towards complete satisfaction of the performance obligation using an input method (i.e., costs incurred). Management believes that this method provides a faithful depiction of the transfer of goods or services to the customer because IMI Group provides integration service to produce a combined output and each item in the combined output may not transfer an equal amount of value to the customer.

Water infrastructure services revenue recognized using the input and output method
MWC Group recognizes revenue from rehabilitation works, construction revenue, and service fees using the input method while it recognizes supervision fees and revenue from pipeworks and integrated used water services using the output method. The input or output method of recognizing revenue over the period covered by the separate contracts with customers requires MWC Group to base the level of transfer of control over these services based on MWC Group's review and concurrence with work accomplishment reports prepared by project managers or submitted by independent project contractors.

Definition of default and credit-impaired financial assets
ALI Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criterion - for residential, commercial and office development receivables, the customer received a notice of cancellation and does not continue the payments.

Qualitative criteria
The customer meets unlikeliness to pay criteria, which indicates the customer is in significant financial difficulty. These are instances where:

a. The customer is experiencing financial difficulty or is insolvent
b. The customer is in breach of financial covenant(s)
c. An active market for that financial assets has disappeared because of financial difficulties
d. Concessions have been granted by ALI Group, for economic or contractual reasons relating to the customer's financial difficulty
e. It is becoming probable that the customer will enter bankruptcy or other financial reorganization

The criteria above have been applied to the financial instruments held by ALI Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) throughout ALI Group's expected loss calculation.

Incorporation of forward-looking information
ALI Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

To do this, ALI Group considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. Based on ALI Group's evaluation and assessment and after taking into consideration external actual and forecast information, ALI Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The base case represents a most-likely outcome and is aligned with information used by ALI Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, ALI Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

ALI Group has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Significant increase in credit risk
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors.

The Group's cash and cash equivalents and short-term investments are graded in the top investment category by globally recognized credit rating agencies such as S&P, Moody's and Fitch and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from these credit rating agencies both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Investment in Subsidiaries
The Group determined that it has control over its subsidiaries (see Note 2) by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following were also considered:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual agreements
- The Group's voting rights and potential voting rights

Consolidation of entities in which the Group holds only 50% or less than majority of voting rights
The Group determined that it controls certain entities even though it owns 50% or less than majority of the voting rights. The factors considered include, among others, the size of its block of voting shares, the relative size and dispersion of holdings of other shareholders, and contractual agreements to direct the relevant activities of the entities.

Investment in Associates
The Group determined that it exercises significant influence over its associates (see Note 10) by considering, among others, its ownership interest, board representation and participation on board sub-committees, and other contractual terms.

Investment in Joint Ventures
The Group's investments in joint ventures (see Note 10) are structured in separate incorporated entities. Even though the Group holds various percentage of ownership interest on these arrangements, their respective joint arrangement agreements requires unanimous consent from all parties to the agreement for the relevant activities identified. The Group and the parties to the agreement only have rights to the net assets of the joint venture through the terms of the contractual arrangements.

Non-controlling interests
The Group considers a subsidiary as a subsidiary with material NCI, an associate and a joint venture with material interest if its net assets exceed 5% of its total consolidated net assets of the Group as of reporting period and considers the relevance of the nature of activities of the subsidiary compared to other operations of the Group. There are no significant restrictions on the Parent Company's ability to use assets and settle liabilities of the Group.

Product Development Costs
This includes capitalized costs arising from the development phase of certain projects which are still undergoing qualification.

Intangible assets not yet available for use are tested for impairment following the value-in-use approach. The recoverable amounts of these product development costs and related property, plant and equipment have been determined using cash flow projections from financial budgets approved by management covering a 5-year period, which is within the expected life cycle of the projects. The pretax discount rates applied to cash flow projections range from 13.79% to 16.67%.

Significant delay in the mass production of one project resulted to impairment of the related capitalized development cost. Impairment loss amounting to $0.52 million (₱26.2 million) was recognized under "Miscellaneous income (loss)" account in 2017. The comparison of the recoverable amounts and the carrying amounts of the product development costs and related property, plant and equipment resulted to no additional impairment loss in 2019 and 2018. Research expenditure recognized as expense amounted to $0.85 million (₱44.0 million), $2.37 million (₱124.9 million), and $3.56 million (₱184.3 million) in 2019, 2018 and 2017, respectively.

Service concession arrangement
In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Group has made a judgment that its concession agreements with DPWH, MWSS, PGL, TIEZA, CDC, OWD and

CWD qualify under the Intangible Asset model as it receives the right (license) to charge users of public service.

On the other hand, the Group has made a judgment that the concession agreement with DOTr, PGC and TWD qualifies under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial assets for its construction services directly from the grantors.

The accounting policy on the Group's SCA under the Intangible Asset and Financial model is discussed in Note 3.

Distinction of land between real estate inventories and investment properties
The Group determines whether a property will be classified as real estate inventories or investment properties. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (real estate inventories). All other properties that are not yet determined to be sold in the normal operating cycle are classified as investment properties.

Property acquisitions and business combinations
The Group acquires subsidiaries that own real estate properties. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made with regard to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the Group (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in PAS 40 on ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

Contingencies
The Group is currently involved in various legal proceedings in the ordinary conduct of business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsel handling the defense in these matters and is based upon an analysis of potential results.

The Group currently does not believe that these proceedings will have a material adverse effect on the Group's financial position and results of operations (see Note 36).

Classification of assets (liabilities) held for sale
On September 30, 2019, the acquisition of ACEI's indirect partnership interest in GN Power Kauswagan Ltd. Co. (GNPK) by Power Partners Ltd. Co. was approved. As a result, GNPK assets and liabilities previously consolidated in the Group's consolidated statement of financial position are reclassified to "Assets under PFRS 5" and "Liabilities under PFRS 5", respectively (see Note 25).

The Group classifies an asset as held for sale when the asset's carrying amount will be recovered principally through a sale transaction rather than through continuing use and the following criteria are met as of the financial reporting date:

(a) The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; and
(b) The sale must be highly probable.

Discontinued operations
MWC qualified as a group held for deemed disposal since the issuance of the primary shares to Trident Water by MWC and the assignment of portion of the preferred shares voting rights which is expected to be completed within one year from the reporting date will result in the Parent Company's loss of control over MWC (see Note 25).

The Group qualifies a disposal group as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:
- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business, or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale.

Judgements effective January 1, 2019

Determination of lease term of contracts with renewal and termination options – Group as a lessee
ALI Group 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.

ALI Group has several lease contracts that include extension and termination options. ALI Group applies judgment in evaluating whether the provisions to renew or terminate the lease is enforceable. For leases where ALI Group has the unilateral option to renew or terminate, it then applies judgment on whether it is reasonably certain or not to exercise the option. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, ALI Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraph 122 of PAS 1, Presentation of Financial Statements
Upon adoption of the Interpretation, ALI Group has assessed whether it has any uncertain tax position. ALI Group applies significant judgement in identifying uncertainties over its income tax treatments. ALI Group determined, based on its assessment, in consultation with its tax counsel, that it is probable that its uncertain income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements of ALI Group.

IMI Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable profits. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The amount of such provisions is based on various factors, such as experience on previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the entities within the Group.

Management's Use of Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Existing circumstances and assumptions about future developments, however, may change due to market changes or

circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revenue recognition on real estate projects
ALI Group's revenue recognition policy require management to make use of estimates and assumptions that may affect the reported amounts of revenues. ALI Group's revenue from real estate is recognized based on the percentage of completion and are measured principally on the basis of the estimated completion of a physical proportion of the contract work. Apart from involving significant estimates in determining the quanitity of imports such as materials, labor and equipment needed, the assessment process for the POC is complex and the estimated project development costs requires technical determination by management's specialists (project engineers). ALI Group also includes land in the calculation of POC since ALI Group availed of the relief granted by the SEC under Memorandum Cirular No. 14-2018 as of 2018 for the implementation issues of PFRS 15 affecting the real estate industry. See Notes 22 and 23 for the related balances.

Similarly, the commission is determined using the percentage of completion method.

Revenue and cost recognition - rehabilitation works
MWC Group measures revenue from rehabilitation works at the fair value of the consideration received or receivable. MWC Group's revenue from rehabilitation works are recognized over time, using input method. Under this method, progress is measured by reference to the actual costs incurred to date. Revenue from rehabilitation works recognized by MWC Group is equivalent to the costs of rehabilitation works incurred as these costs are recovered by MWC Group through its right to charge the customers. As of December 31, 2019, 2018 and 2017, MWC Group's revenue from and cost of rehabilitation works amounted to ₱10,852.9 million, and ₱9,662.0 and ₱11,672.1 million, respectively.

Estimating the period over which control over services is transferred to the customer
For each group of similar customer contracts that result in revenues recognized over a period of the time, the Group makes an estimate of such period over which the Group transfers the control of the services provided to the customer. For revenue from rehabilitation works, construction revenue, service fees, supervision fees, and revenue from pipeworks and integrated used water services, the Group has determined that the period of revenue recognition is the term of the customer contract. For connection fees revenue, the Group has estimated that the customer receives control over the remaining concession period or remaining customer contract term.

Accounting for business combination
Where asset is acquired through the acquisition of corporate interests, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents an acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the asset.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Otherwise, corporate acquisitions are accounted for as business combinations. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

The acquisitions of the Group were accounted for as business combinations (see Note 24).

Fair value of the financial liabilities on put option
The acquisition of VIA in 2016 and STI in 2017 included call and put options over the non-controlling interests. These options are considered when determining whether the entity has obtained control over the acquiree if in substance the entity already has access to the returns associated with that ownership interest. IMI management assessed that the options do not give IMI Group present access to the returns associated with the non-controlling interests in subsidiary and, therefore, accounted for

the non-controlling interests under PFRS 10, while the financial liability was accounted for under PAS 39 measured at the present value of the redemption amount, with a debit to a component of equity attributable to the parent.

IMI management assessed that the discounted, probability-weighted cash flow methodology is the appropriate model to derive the present value of the redemption amount. The key estimates and assumptions used in the valuation include the current equity value of the acquiree, forecasted interest rate and probability of trigger events occurring. The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital. For STI, IMI management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronic services solutions to derive its current equity value. IMI management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization.

Further details on the valuation of the put options are disclosed in Note 33.

Fair value of contingent consideration liability
The cost of acquisition of STI also includes contingent consideration that will depend on the actual normalized EBITDA performance less adjustments in 2018 and 2019. IMI management assessed that the probability-weighted average of payouts associated with each possible outcome is the appropriate model to derive the fair value as part of the consideration transferred. Valuing normalized EBITDA requires management to make an estimate of the expected future cash flows of STI and an appropriate discount rate in order to calculate the fair value of the contingent consideration as of acquisition date.

Further details on the valuation of the contingent consideration liability are disclosed in Note 33.

Provision for expected credit losses of trade receivables and contract assets

ALI Group
ALI Group uses a provision matrix to calculate ECLs for trade receivables other than the residential, commercial and office development receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on ALI Group's historical observed default rates. ALI Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information such as inflation rate and Gross Domestic Product (GDP) growth rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

ALI Group uses vintage analysis approach to calculate ECLs for residential, commercial and office development receivables. The vintage analysis accounts for expected losses by calculating the cumulative loss rates of a given loan pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the PD model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

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

Other trade receivables and contract assets
For the other trade receivables and contract assets, the Group uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. .At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

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

Although lifetime expected credit losses are determined collectively, trade receivables and contract assets are also assessed individually based on default or delinquencies and possibility of financial difficulties or possibility of bankruptcy of the customers.

Further details are provided in Note 33.

Evaluation of net realizable value of inventories
Inventories are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' and land and improvements' estimated selling price in the ordinary course of business, cost of completion and costs necessary to make a sale to determine the NRV. For real estate inventories, the Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the real estate inventories. In determining the recoverability of the inventories and land and improvements, management considers whether those inventories are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased.

In the event that NRV is lower than the cost, the decline is recognized as an expense. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Further details on inventories are provided in Note 8.

Evaluation of impairment of nonfinancial assets
The Group reviews investments in associates and joint ventures, investment properties, property, plant and equipment, right-of-use assets, service concession assets, goodwill and intangible assets for impairment of value. Impairment for goodwill is assessed at least annually. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

The Group estimates the recoverable amount as the higher of the fair value less costs to sell and value in use. For investments in associates and joint ventures, fair value less costs to sell pertain to quoted prices (listed equities) and to fair values determined using discounted cash flows or other valuation technique such as multiples. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments in associates and joint ventures, investment properties, plant, property, and equipment, right-of-use assets, service concession assets and intangible assets.

For goodwill, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

Further details on investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets are provided in Notes 10, 11, 12, 13 and 14, respectively.

Determining the fair value of investment properties
The Group discloses the fair values of its investment properties. The Group engaged independent valuation specialists to assess fair value as at December 31, 2019 and 2018. The Group's investment properties consist of land and building pertaining to land properties, retail (malls) and office properties. These were valued by reference to market based evidence using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Further details on investment properties assets are provided in Note 11.

Estimating billable water volume
The SCAs related to MWC Group's concession agreements are amortized using the UOP method based on actual billed volume and total estimated billable volume for the remaining period of the concession agreements. MWC Group considers factors such as population growth rate, supply and consumption, and service coverage, including ongoing and future expansions in estimating the total billable water volume over the remaining periods of the concession agreements. For the years ended December 31, 2019 and 2018, SCA amortization expense based on the UOP method amounted to ₱2,272.6 million and ₱2,042.0 million, respectively (see Note 13).

Deferred FCDA
Under the concession agreements' entered into by the MWC Group with MWSS and TIEZA, MWC and Boracay Island Water Company (BIWC) are entitled to recover (refund) foreign exchange losses (gains) arising from concession loans and any concessionaire loans. MWC and BIWC recognized deferred FCDA (included as part of "Other noncurrent assets" or "Other noncurrent liabilities" in the consolidated statement of financial position) for both realized and unrealized foreign exchange gains and losses. Deferred FCDA is set up as an asset for the realized and unrealized exchange losses since this is a resource controlled by MWC and BIWC as a result of past events and from which future economic benefits are expected to flow to MWC and BIWC. Realized and unrealized foreign exchange gains, on the other hand, which will be refunded to the customers, are presented as liability. . As of December 31, 2019 and 2018, MWC and BIWC's deferred FCDA classified under "Other noncurrent assets" amounted to ₱1,669.04 million and ₱2,620.32 million (see Note 25).

The deferred FCDA of MWC and BIWC arises from a rate adjustment mechanism for the recovery or compensation on a current basis, subject to quarterly review and adjustment by MWSS or TIEZA, when necessary, of accrued foreign exchange gains and losses, arising from MWSS or TIEZA loans and concession loans used for capital expenditures and concession fee payments.

Further details on deferred FCDA of MWC and BIWC are provided in Note 15.

Deferred tax assets
The Group reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

Further details on deferred tax assets are provided in Note 26.

Recognition and measurement of taxes
The Group has exposure to taxes in numerous jurisdictions. Significant judgment is involved in determining the group-wide provision for taxes including value-added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact profit or loss in the period in which such determination is made.

Further details on the carrying amount of the Group's income taxes payable are provided in Note 26.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Parent Company and certain subsidiaries.

Further details on the share-based payments recognized by the Group are provided in Note 28.

Defined benefit plans (pension benefits)
The cost of defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

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

Further details about the assumptions used are provided in Note 27.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Further details about the fair value of financial instruments are provided in Note 33.

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

as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

The Group's lease liabilities amounted to ₱22.4 billion as of December 31, 2019.

5. Cash and Cash Equivalents

This account consists of the following:

	2019	2018
	(In Thousands)	
Cash on hand and in banks (Note 32)	**₱50,403,614**	₱26,213,080
Cash equivalents (Note 32)	**43,001,639**	34,411,183
	₱93,405,253	₱60,624,263

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term rates.

6. Short-term Investments

Short-term investments pertain to money market placements made for varying periods of more than three months but less than one year and earn interest ranging from 0.9% to 6.0% per annum in 2019 and 1.8% to 4.6% per annum in 2018.

7. Accounts and Notes Receivable

This account consists of the following:

	2019	2018 (As Restated)
	(In Thousands)	
Trade:		
Real estate and hotels	**₱124,310,805**	₱138,300,975
Electronics manufacturing	**14,687,014**	16,202,397
Power generation	**4,689,762**	1,072,345
Automotive	**3,047,040**	2,896,516
International and others	**848,985**	47,348
Information technology and Outsourcing	**314,422**	261,012
Water (Note 25)	**–**	2,614,044
Advances to other companies	**23,593,209**	24,842,066
Receivable from related parties (Note 32)	**14,491,228**	8,964,594
Receivable from officers and employees (Note 32)	**1,505,310**	1,497,997
Dividend receivable (Note 32)	**145,010**	1,334,894
Receivable from BWC	**–**	388,411
Others (Note 32)	**1,384,578**	388,518
	189,017,363	198,811,117
Less allowance for expected credit losses	**2,428,362**	3,016,237
	186,589,001	195,794,880
Less noncurrent portion	**55,720,290**	41,803,297
	₱130,868,711	₱153,991,583

The classes of trade receivables of the Group follow:

Real estate and hotels
Real estate receivables consist of:
- Residential, commercial and office development - pertain to receivables from the sale of high-end, upper middle-income and affordable residential lots and units; economic and socialized housing units and sale of commercial lots; sale of office units; and leisure community developments.
- Corporate business - pertain to lease receivables from office and factory buildings and receivables from sale of industrial lots
- Shopping centers - pertain to lease receivables from retail spaces
- Construction contracts - pertain to receivables from third party construction projects
- Management fees - pertain to receivables from facilities management services
- Others - pertain to receivables from hotel operations and other support services

Residential, commercial and office development receivables are collectible in monthly installments over a period of one (1) to ten (10) years. These are carried at amortized cost using the effective interest rate method with annual interest rates ranging from 6.3% to 13.5%. Titles to real estate properties are transferred to the buyers only once full payment has been made.

Corporate business receivables are collectible on a monthly or quarterly basis depending on the terms of the lease contracts.

Receivables from shopping centers, construction contracts and management fees are due within 30 days upon billing.

Receivables from hotel operations and other support services are normally due within 30 to 90 days upon billing.

ALI Group sold real estate receivables on a without recourse basis to partner mortgage banks, which include BPI Family Savings Bank, a related party, totaling ₱9,976.3 million in 2019 and ₱12,867.2 million in 2018. These were sold at a discount with total proceeds of ₱9,281.2 million and ₱12,041.9 million, respectively. ALI Group recognized loss on sale amounting to ₱775.2 million in 2019 and ₱825.3 million in 2018 (see Note 23).

Electronics manufacturing
Pertain to receivables arising from manufacturing and other related services for electronic products and components and have credit terms averaging 80 days from invoice date.

Power generation
Power generation receivables pertain to ACEI Group’s receivable from Philippine Electric Market Corporation (PEMC), National Grid Corporation of the Philippines (NGCP), National Transmission Corporation (TransCo) for the FIT and from the Group’s bilateral customers. It consists of both noninterest-bearing and interest-bearing receivables. The term is generally 30-to-60 days.

Automotive
Automotive receivables relate to sale of passenger cars, motorcycles and commercial vehicles and are collectible within 30 to 90 days from date of sale.

International and others
International and other receivables arose from investments in overseas property companies and projects, charter services, agri-business and others and are generally on 30- to 60- day terms.

Water
Water receivables arise from water and sewer services rendered to residential, commercial, semi-business and industrial customers of MWC Group and are collectible within 30 days from billing date.

These receivables also include receivables from pipework services collectible within 12 months, receivables from distributors' fees arising from the Exclusive Distributorship Agreement (EDA) entered into by Manila Water Total Solutions Corp. (MWTS), a wholly-owned subsidiary of MWC, with distributors of its Healthy Family drinking water which are collectible within the period that is agreed with the distributors and receivables arising from supervision fees on the development of water and used water facilities which are collectible within thirty (30) days from billing date.

Outsourcing
Outsourcing receivables arise from venture capital for technology businesses; provision of value-added content for wireless services, online business-to-business and business-to-consumer services; electronic commerce; technology infrastructure sales and technology services; and onshore- and offshore-ourtsourcing services and are normally collected within 30- to 60- days from invoice date.

The nature of the Group's other receivables follows:

Advances to other companies
Advances to other companies mainly pertain to ALI's advances to joint venture partners that have been made in consideration of project costs and purchases of land that are still subject to completion. The documentation for these advances provides that these will be payable over a fixed term or on demand in order to allow for repayment of the advances when closing does not occur.

Advances to other companies also includes receivables from MRT Development Corporation (MRTDC) shareholders which pertains to interest-bearing advances made by North Triangle Depot Commercial Corporation (NTDCC) to MRTDC equivalent to the Pre-2006 Development Rights Payment (DRP) Payables and the Residual Depot DRP which is due more than one year, in relation to the funding and repayment agreement. As of December 31, 2019 and 2018, receivables from MRTDC shareholders amounted to ₱422.3 million and ₱436.7 million, respectively.

On December 17, 2014, NTDCC and MRTDC shareholders executed a "funding and repayment agreement" wherein the latter agrees to repay NTDCC, for the account of MRTDC, its respective pro rata share in the Total Depot DRP Advances (the Pre-2006 DRP Payables and the Residual Depot DRP, including 15% interest rate accrued on such DRP payables).

Commencing on January 1, 2015, the MRTDC Shareholders shall effect the repayment of their respective pro rata share in the Total Depot DRP Payables, through a set-off against their respective share in the commercial center royalties to be received from ALI Group.

Set off shall be effective as of the beginning of every calendar month, commencing January 30, 2015 and shall result in the settlement of the portion of the Total DRP Payables to the extent of the amount of the commercial center royalties then the balance will fall due to the relevant MRTDC Shareholders.

In 2019, AC Industrial extended a loan to RCI amounting to ₱1.6 billion which bears interest at the rate of 16% per annum and which accrue from, and shall be paid by RCI, beginning on the second anniversary of the commencement of business of KPMC. For the succeeding years until the repayment date, interest on the principal amount of the loan shall accrue with respect to the outstanding amount of the loan at the rate of 8% per annum and is payable for a period of 10 years. As of December 31, 2019, loans receivable from RCI amounted to ₱1.7 billion.

Receivables from officers and employees
Receivable from officers and employees pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction, are interest bearing (6.0% per annum) and have various maturity dates.

The Group entered into agreements with BPI Asset Management and Trust Corporation (BPI Trust) in 2019 and 2018 for the assignment of interest-bearing employee receivables amounting to ₱108.9 million and ₱11.3 million, respectively. The transactions were without recourse and did not result to any gain or loss.

Receivables from BWC
Receivables from BWC pertain to the assigned receivables from the share purchase agreement between MWC and Veolia Water Philippines, Inc. (VWPI) related to the acquisition of VWPI's interest in Clark Water Corporation (CWC) in 2011.

The assigned receivable will be paid by BWC at an amount equal to 30% of the product consumed by all of BWC's customers and the tariff imposed by MWC on its customers falling under the corresponding classification pursuant to the Concession Agreement, and all amounts received by BWC as connection fees from customers, and any fee BWC may charge in relation to the interconnection with the wastewater treatment plant of areas of developments outside the BWC service area. The assigned receivable from BWC is interest bearing and MWC Group classifies as current the portion of its gross receivable from BWC that is due within the next twelve (12) months in accordance with the agreed terms.

On December 27, 2019, BWC and MWC entered into a Settlement Agreement for the pre-termination of the assigned receivable on that date for ₱334.89 million.

Interest income earned from receivable from BWC amounted to ₱27.81 million, ₱28.08 million, and ₱34.64 million in 2019, 2018, and 2017, respectively (see Note 25).

Others
Other receivables include accrued interest receivable and other nontrade receivables from non-related entities which are non-interest bearing and are due and demandable. This also includes receivable from the DPWH pertaining to the additional costs incurred by the Parent Company in the construction of the Daang Hari-South Luzon Expressway (SLEX) Link Road arising from the government directive to revise the interconnection design of the road amounting to ₱215.9 million (see Note 13).

Movements in the allowance for expected credit losses follow (amounts in thousands):

	2019							
	Real Estate and Hotels	**Electronics Manufacturing**	**Water Infrastructure**	**Automotive and Others**	**Outsourcing**	**Power Generation**	**Parent Company**	**Total**
At January 1	**₱872,268**	**₱105,908**	**₱1,239,761**	**₱77,783**	**₱176,552**	**₱367,369**	**₱176,597**	**₱3,016,238**
Provisions during the year (Note 23)	**675,923**	**14,998**	**111,532**	**31,647**	**22,369**	**147,675**	**4,660**	**1,008,804**
Write-offs	**(254,498)**	**(1,534)**	**–**	**–**	**(10,221)**	**–**	**–**	**(266,253)**
Reversals/Adjustments (Note 23)	**(107,148)**	**–**	**(50,651)**	**(17,437)**	**(102)**	**(100,984)**		**(276,322)**
Reclassification/Others	**(252)**	**779**	**–**	**–**	**180**	**274,487**	**(28,657)**	**246,537**
Reclassification to PFRS 5 (Note 25)	**–**	**–**	**(1,300,642)**	**–**	**–**	**–**	**–**	**(1,300,642)**
At December 31	**₱1,186,293**	**₱120,151**	**₱–**	**₱91,993**	**₱188,778**	**₱688,647**	**₱152,600**	**₱2,428,362**

**Disclosure of individually and collectively impaired receivables is not required under PFRS 9.*

	2018							
	Real Estate and Hotels	Electronics Manufacturing	Water Infrastructure	Automotive and Others	Outsourcing	Power Generation	Parent Company	Total
At January 1	₱725,946	₱100,373	₱1,064,885	₱78,480	₱174,758	₱352,562	₱148,159	₱2,645,163
Provisions during the year (Note 23)	236,048	4,640	199,118	16	1,896	14,807	35,991	492,516
Write-offs	(652)	(3,623)	–	–	–	–	–	(4,275)
Reversals/Adjustments (Note 23)	(89,074)	–	(24,242)	(713)	(102)	–	(11,323)	(125,454)
Reclassification/Others	–	4,518	–	–	–	–	3,770	8,288
At December 31	₱872,268	₱105,908	₱1,239,761	₱77,783	₱176,552	₱367,369	₱176,597	₱3,016,238

**Disclosure of individually and collectively impaired receivables is not required under PFRS 9.*

8. **Inventories**

This account consists of the following:

	2019	2018
	(In Thousands)	
At cost:		
Residential and condominium units and offices	**₱67,924,015**	₱52,254,774
Residential and commercial lots	**52,363,671**	51,704,811
Materials and supplies	**5,783,188**	10,682,612
Vehicles	**4,142,126**	4,640,443
Work-in-process	**832,632**	681,059
Finished goods	**282,823**	106,041
Others	**468,676**	151,048
	131,797,131	120,220,788
At NRV:		
Materials, supplies and others	**2,616,629**	307,610
Finished goods	**268,639**	2,888
Work-in-process	**381,904**	–
Parts and accessories	**–**	29,207
	3,267,172	339,705
	₱135,064,303	₱120,560,493

A summary of the movements of real estate inventories is set out below.

2019

	Residential and Commercial Lots	**Residential and Condominium units and Offices**	**Total**
		(In Thousands)	
Opening balances at January 1	**₱52,116,837**	**₱52,254,774**	**₱104,371,611**
Land acquired during the year	**7,598,083**	**–**	**7,598,083**
Construction/Development costs incurred	**7,160,927**	**49,232,278**	**56,393,205**
Borrowing costs capitalized	**–**	**122,682**	**122,682**
Disposals (recognized as cost of sales)	**(15,772,399)**	**(43,580,602)**	**(59,353,001)**
Transfers from/to investment properties and other assets	**1,260,223**	**9,894,883**	**11,155,106**
	₱52,363,671	**₱67,924,015**	**₱120,287,686**

2018

	Residential and Commercial Lots	**Residential and Condominium units and Offices**	**Total**
		(In Thousands)	
Opening balances at January 1	₱44,106,425	₱46,739,183	₱90,845,608
Land acquired during the year	6,694,113	540,324	7,234,437
Acquisition through business combination	–	13,620,873	13,620,873
Construction/Development costs incurred	23,640,668	29,317,230	52,957,898
Borrowing costs capitalized	–	167,036	167,036
Disposals (recognized as cost of sales)	(29,520,948)	(38,263,140)	(67,784,088)
Transfers from/to investment properties and other assets	7,196,579	133,268	7,329,847
	₱52,116,837	₱52,254,774	₱104,371,611

The Group recognized provision for inventory obsolescence amounting to ₱236.6 million and ₱125.5 million in 2019 and 2018, respectively and recorded a reversal of provision for inventory obsolescence amounting to ₱13.7 million in 2017. The provision is included under "General and administrative expenses" in the consolidated statements of income (see Note 23).

The cost of the inventories carried at NRV amounted to ₱2,370.1 million and ₱348.8 million as of December 31, 2019 and 2018, respectively.

Inventories recognized as cost of sales amounted to ₱129.0 billion, ₱134.4 billion and ₱132.8 billion in 2019, 2018 and 2017, respectively, and were included under “Costs of sales” in the consolidated statements of income (see Note 23).

9. Other Current Assets

This account consists of the following:

	2019	2018
	(In Thousands)	
Input VAT	**₱15,877,481**	₱15,694,759
Prepaid expenses	**15,374,122**	13,546,821
Advances to contractors	**13,260,900**	11,452,729
Financial assets at FVTPL	**9,726,080**	9,236,804
Creditable withholding tax	**5,546,478**	4,771,550
Derivative assets (Notes 33 and 34)	**338,612**	65,788
Deposits in escrow	**239,526**	322,666
Concession financial receivable	**–**	193,199
Others	**2,569,795**	2,443,710
	₱62,932,994	₱57,728,026

Input VAT
Input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

Prepaid expenses
Prepaid expenses mainly include prepayments for commissions, marketing fees, advertising and promotions, taxes and licenses, rentals and insurance. ALI’s cost to obtain contracts which includes prepaid commissions and advances to brokers amounted to ₱2,876.2 million and ₱2,662.0 million in 2019 and 2018, respectively. In line with ALI Group's accounting policy, if a contract or specific performance obligation exhibited marginal profitability or other indicators of impairment, judgment was applied to ascertain whether or not the future economic benefits from these contracts were sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract specific key performance indicators that could trigger variable consideration, or service credits (Note 15).

Advances to contractors
Advances to contractors represents prepayments for the construction of inventories.

Financial Assets at FVTPL
TRG Investments
Financial assets at FVTPL includes the Group’s investment in the common and preferred shares of The Rohatyn Group (TRG) Allocation LLC and TRG Management LP (collectively TRG investments) amounting to US$21.7 million (₱1.1 billion) and US$5.7 million (₱292.9 million), respectively in 2019 and US$37.8 million (₱1.9 billion) and US$5.4 million (₱283.9 million), respectively in 2018.

In 2019 and 2018, the Group made additional investment in TRG investments amounting to US$0.2 million (₱10.1 million) and US$1.4 million (₱73.6 million), respectively, representing capital call for the year.

As of December 31, 2019 and 2018, the Group’s remaining capital commitment with the TRG Investments amounted to US$0.1 million (₱5.0 million) and US$0.3 million (₱15.8 million), respectively.

Unit Investment Trust Fund (UITF) investments
As of December 31, 2019, ALI Group invested in BPI Money Market Fund (MMF) with a fair value of ₱80.9 million. The BPI MMF's Net Asset Value (NAV) was at ₱23,980.6 million with duration of 131 days.

As of December 31, 2018, ALI Group invested in BPI MMF with a fair value of ₱71.6 million. The BPI MMF's NAV was at ₱8,331.5 million with duration of 150 days.

As of December 31, 2019 and 2018, the carrying value of ALI Group's UITF investments amounted to ₱96.4 million and ₱85.7 million, respectively.

ARCH Fund
In 2007, the private equity fund, called ARCH Capital Asian Partners, L.P. (ARCH Fund I) was established. The ARCH Fund I achieved its final closing, resulting in a total investor commitment of US$330.0 million in 2007. As of December 31, 2019 and 2018, the carrying amount of the BHL Group's investment in ARCH Fund I amounted to US$0.7 million (₱35.4 million) and US$1.1 million (₱57.8 million), respectively.

In 2019 and 2018, the ARCH Fund I returned capital amounting to US$0.9 million (₱45.6 million) and US$1.2 million (₱63.1 million), respectively. The proceeds from the return of capital of ARCH Fund 1 came from its real estate project called The Concordia. Phase 1 to 3 of The Concordia was fully sold and hand over of units to buyers have already started.

In 2011, BHL Group committed to invest US$50.0 million in ARCH Capital's second real estate fund, ARCH Capital-TRG Asian Partners, L.P. (ARCH Fund II), which had its first closing on June 30, 2011. As of December 31, 2019 and 2018, the carrying amount of the ARCH Fund II amounted to US$17.08 million (₱864.8 million) and US$16.2 million (₱851.8 million), respectively.

On various dates in 2019 and 2018, ARCH Fund II made capital calls where BHL Group's share amounted to US$0.3 million (₱15.2 million) and US$0.1 million (₱5.3 million), respectively. In 2019 and 2018, the ARCH Fund II returned capital amounting to US$0.1 million (₱5.1 million) and US$13.3 million (₱699.3 million), respectively.

On July 1, 2014, the Group committed to invest 10% of capital raised, capped at US$50.0 million in ARCH Capital's third real estate fund, ARCH Capital-TRG Asian Partners III, L.P. (ARCH Fund III). As of December 31, 2019 and 2018, the carrying amount of the investment in the ARCH Fund III amounted to US$65 million (₱3,291.3 million) and US$58.5 million (₱3,075.9 million), respectively.

On various dates in 2019 and 2018, the ARCH Fund III made capital calls where the Group's share amounted to US$2.6 million (₱131.7 million) and US$11.5 million (₱604.7 million), respectively. In 2019, the ARCH Fund III returned capital amounting to US$1.1 million (₱55.7 million).

As of December 31, 2019 and 2018, the Group's remaining capital commitment with the ARCH Fund III amounted to US$5.0 million (₱253.2 million) and US$6.0 million (₱315.5 million), respectively.

On August 18, 2018, the Group committed to invest US$20.0 million in ARCH Capital's fourth real estate fund, ARCH Capital Asian Partners IV, L.P. (ARCH Fund IV). As of December 31, 2019 and 2018, the carrying amount of the investment in the ARCH Fund IV amounted to US$10.7 million (₱541.7 million) and US$1.7 million (₱85.6 million), respectively.

On various dates in 2019 and 2018, the ARCH Fund IV made capital calls where the Group's share amounted to US$9.7 million (₱492.1 million) and US$1.8 million (₱91.1 million), respectively. In 2019 and 2018, the ARCH Fund IV returned capital amounting to US$3.2 million (₱162.0 million) and US$0.1 million (₱5.0 million), respectively.

As of December 31, 2019 and 2018, BHL's remaining capital commitment with the ARCH Fund IV amounted to US$11.7 million (₱592.4 million) and US$1.7 million (₱85.6 million), respectively.

ALI Group's investment in ARCH Capital Fund pertains to monetary interest in a fund in which the management takes the view that these are held for trading and it is a portfolio of identified property funds invested and managed by professional managers.

As of December 31, 2019 and 2018, ALI Group's investment in ARCH Fund amounted to ₱389.0 million and ₱390.5 million , respectively. Contributions and return of capital in 2019 amounted to ₱30.1 million and ₱24.4 million, respectively. In 2018, contributions and return of capital amounted to ₱2.7 million and ₱69.8million, respectively.

Maloekoe Capital Fund 2
Maloekoe Capital Fund 2 is a venture capital fund which focuses on technology investments in Indonesia and Southeast Asia. In 2017, the Group committed to invest up to US$2.0 million. As of December 31, 2019 and 2018, the Group has invested US$0.2 million (₱10.1 million) and US$0.2 million (₱12.6 million), respectively, in Maloeke Capital Fund 2 representing 15.38% of the Class A shares of the fund.

Alibaba
Alibaba Group's New Retail Strategic Opportunities Fund is a fund which aims to invest in traditional brick-and-mortar retail companies based in China and integrate them with Alibaba's e-commerce platform, leveraging on Alibaba's consumer reach, data scale and technology.

On January 12, 2018, ACVHC, through Total Jade Group Ltd., a wholly-owned subsidiary of BHL, invested an additional US$0.8 million to Alibaba's New Strategic Retail Opportunities Fund.

As of December 31, 2019 and 2018, the carrying amount of the investment in the Alibaba amounted to US$0.7 million (₱35.7 million) and US$0.8 million (₱43.1 million), respectively.

Arbor Venture Fund I L.P. (Arbor Fund I)
The Arbor Fund I is a private equity fund which focuses on providing funding for new ventures in the financial technology and services space. The fund has investments in companies providing big data decision making (credit scoring, identity verification), asset management, payments processing, and on-line credit linked to payment processing, HR services, and cloud based accounting. On November 29, 2017, AIVPL and Total Jade Group Limited (Total Jade), a wholly-owned subsidiary of BHL, entered into an assignment and assumption agreement whereby AIVPL transferred and assigned all its rights with respect to its investment in Arbor Fund I at carrying amount. Total Jade committed to invest US$2.0 million in Arbor Fund I and Total Jade's remaining capital commitment to Arbor Fund I amounted to US$0.08 million and US$0.4 million as of December 31, 2019 and 2018, respectively.

In 2019 and 2018, Arbor Fund I made capital calls where the Group's share amounted to US$0.06 million (₱3.0 million) and US$0.3 million (₱22.9 million), respectively.

As of December 31, 2019 and 2018, the carrying amount of the investment in Arbor Fund I amounted to US$2.8 million (₱141.0 million) and US$2.3 million (₱123.0 million), respectively. The Group's remaining capital commitment amounted to US$0.2 million (₱10.5 million) in 2018.

Arbor Venture Fund GP II, L.P (Arbor Fund II)
Arbor Fund II is a fund which focuses on Asian financial technology firms. Total Jade has committed to invest up to US$2.0 million and Total Jade's remaining capital commitment to Arbor Fund II amounted to US$1.12 million and US$1.5 million as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the carrying amount of the investment in Arbor Fund II amounted to US$0.7 million (₱39.4 million) and US$0.5 million (₱20.0 million), respectively.

In 2019, the Arbor Fund II returned capital amounting to US$0.1 million (₱5.1 million).

Indies Pelago Investments, L.P. (Indies Pelago)
Indies Pelago targets relatively more mature, growth stage technology companies in Southeast Asia, givind investors access to technology sector leaders without the venture capital risk associates with earlier stage funding. As of December 31, 2019, the carrying amount of the investment amounted to US$1.2 million (₱61.6 million).

Total Jade has committed to invest up to US$2.0 million and Total Jade's remaining capital commitment to Indies Pelago amounted to US$0.8 million as of December 31, 2019.

Ikhlas Capital Fund, L.P. (Ikhlas)
Ikhlas is a ASEAN-focused private equity fund. On 2 April 2019, Total Jade has committed to invest up to US$20.0 million. As of December 31, 2019, Total Jade's remaining capital commitment to Ikhlas amounted to US$18.9 million. The carrying amount of the investment in Ikhlas amounted to US$1 million (₱54.2 million) as of December 31, 2019.

Promissory Notes issued by CLOUSE S.A-Class C ordinary shares in Ant International Co. Limited
Fine State Group Limited subscribed US$10.0 million of the Promissiory Notes with the aggregate subscription price of US$10.0 million issued by CLOUSE S.A., acting for the account of its Compartment 41 on May 24, 2018.

According to the Promissiory Notes Subscription Letter, the Issuer shall use the net proceeds received from the issuance of the Promissory Notes to acquire a number of Class C ordinary shares in Ant International Co., Limited, which may be exchanged for the H shares or the A shares.

Ant International Co., Ltd operates Alipay, the world's largest mobile and online payments platform as well as Yu'e Bao, the world's largest money-market fund. It also runs Sesame Credit, a third-party credit rating system.

TRG Global Opportunity Fund (GOF) and TRG Special Opportunity Fund (SOF)
The GOF is a multi-strategy hedge fund which invests primarily in emerging markets securities. The SOF focuses on less liquid assets in emerging markets (Latin America, Asia, Emerging Europe, Middle East and Africa) such as distressed debt, NPLs, corporate high yield, mid and small cap stocks, real estate (debt and equity) and private equity. In 2019 and 2018, the Group received return of capital and realized loss amounting to nil (see Note 23).

The aggregate carrying amount of GOF and SOF amounted to US$1.3 million (₱65.8 million) and US$1.3 million (₱68.4 million) as of December 31, 2019 and 2018, respectively.

Sares-Regis Investments
The Group is also invested in Sares-Regis Multifamily Value-add Fund II LP (SRG II) and Sares-Regis Multifamily Value-add Fund III LP (SRG III), real estate private equity funds managed by the Sares-Regis Group (SRG) based in California, USA, focused on multifamily property developments in the Western USA. In 2017, the Group also co-invested with SRG II for the acquisition of a 319-unit apartment community in Rancho Cucamonga, California, USA (SRG Co-Investment) amounting to US$4.8 million (₱239.7 million).

In 2019 and 2018, SRG II, SRG III, and the SRG Co-Investment collectively returned capital amounting to US$3.2 million (₱162.0 million) and US$0.1 million (₱5.3 million), respectively. As of December 31, 2019 and 2018, the carrying amount of the total investment in SRG II, SRG III, and the SRG Co-Investment amounted to US$25.3 million (₱1,281.1 million) and US$25.0 million (₱1,314.5 million), respectively. In 2018, this investment was reclassified as FVTPL from AFS financial assets as a result of the Group's adoption of PFRS 9 (see Note 3).

Renewable Energy Test Center, RETC LLC
As of December 31, 2019, and 2018, the carrying amount of the investment in RETC amounted to US$4.43 million (₱224.3 million) and US$4.69 million (₱246.6 million), respectively.

Wave Computing
In 2017 and 2018, the Group invested US$2.2 million (₱109.8 million) and US$2.0 million (₱105.2 million) in Wave Computing, a start-up specializing in hardware for artificial intelligence and machine learning. In 2018, this investment was reclassified as FVTPL from AFS financial assets as a result of the Group's adoption of PFRS 9.

These investments are accounted for at FVTPL. There is no change in management's intention to hold the investments for trading purpose.

Fibronostics
AHHI, through its technology arm, Vigos, expanded its digital portfolio with a recent investment in Fibronostics, a global US-based healthcare technology company focusing on non-invasive algorithm-based solutions for diagnostic testing. The agreement was signed on May 31, 2019 between AHHI and SPRIM, the bioscience R&D firm from which Fibronostics was spun off. As of December 31, 2019, the carrying amount of the investment amounted to ₱32.4 million.

Tikehau (TKS I, LP)
During 2018, AHHI invested in TKS I, LP, a Singapore limited partnership investing globally in healthcare and life sciences industries. As at December 31, 2019 and 2018, the carrying amount of the investment amounted to ₱13.2 million and ₱5.8 million, respectively.

These investments are accounted for at FVTPL. There is no change in management's intention to hold the investments for trading purpose. Net changes in fair value of financial assets at FVTPL amounting to ₱394.8 million loss, ₱81.4 million gain and ₱18.8 million loss in 2019, 2018 and 2017, respectively, is included under "General and administrative expenses" in the consolidated statements of income (see Note 23).

Creditable withholding tax
The Group will be able to apply the creditable withholding taxes against income tax payable.

Deposits in escrow
Deposits in escrow pertain to the proceeds from the sale of ALI Group that have been only granted with a temporary License To Sell (LTS) by the Housing and Land Use Regulatory Board (HLURB). For projects with temporary LTS, all payments, inclusive of down payments, reservation, and monthly amortization, among others, made by the buyer within the selling period shall be deposited in an escrow account.

Concession financial receivable
Concession financial receivable is accounted for in accordance with IFRIC 12, arising from the bulk water contract between CMWDI and Metropolitan Cebu Water District (MCWD) whereby the facilities constructed by CMWDI shall be used for the delivery of potable and treated water to MCWD at an aggregate volume of 18,000 cubic meters per day for the first year and 35,000 cubic meters per day for the succeeding years up to twenty (20) years at ₱24.59 per cubic meter.

In 2019 and 2018, CMWDI also invoked the force majeure clause due to high water turbidity which resulted to intermittent delivery of the required 35.0 million liters of water to MCWD. As a result, MCWD recognized ₱1.35 million and ₱3.34 million impairment loss for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, concession financial receivable from the Bulk Water Supply Agreement of MCWD amounted to ₱1,054.54 million and ₱1,047.04 million, respectively (see Note 25).

The breakdown of the concession financial receivable is as follows:

	2019	2018
	(In Thousands)	
Current	**₱238,983**	₱193,199
Noncurrent	**815,556**	853,335
	1,054,539	1,046,534
Reclassification to PFRS 5 (Note 25)	**(1,054,539)**	–
	₱–	₱1,046,534

<u>Others</u>
In 2019, others mainly include deferred charges. In 2018, others include accrued liquidated damages (see Notes 12 and 23). On January 5, 2018, the 33% share transfer related to the sale was approved by the Chinese government (see Note 23). The net gain recognized from sale amounted to US$19.1 million, net of employee relocation incentive (see Note 23).

10. Investments in Associates and Joint Ventures

This account consists of the following:

	2019	2018
	(In Thousands)	
Investment in stocks - cost		
Balance at beginning of year	**₱183,766,711**	₱158,766,616
Additions	**16,280,890**	38,118,448
Acquisition through business combination (Note 24)	**6,819,774**	–
Transfers/Others	**(2,681,308)**	–
Acquisition of control	**(9,157,794)**	(6,376,975)
Reclassification to PFRS 5	**(13,509,012)**	(6,741,378)
Balance at end of year	**181,519,261**	183,766,711
Accumulated equity in net earnings:		
Balance at beginning of year	**57,706,372**	47,771,969
Impact of adoption of PFRS 16	**104,078**	–
Others/Impact of adoption of PFRS 9	**169,520**	(248,674)
Balance at the beginning of the year (as restated)	**57,979,970**	47,523,295
Equity in net earnings of continued operations during the year	**22,344,352**	19,760,662
Equity in net earnings of segment under PFRS 5 during the year	**653,502**	699,142
Dividend income	**(7,772,351)**	(7,553,088)
Acquisition of control	**(502,406)**	(1,094,148)
Transfers/Others	**(766,419)**	–
Provision and others		
Provision (net)	**(839,419)**	(602,022)
Dilution gain	**91,629**	62,997
Reclassification to PFRS 5	**(1,784,596)**	(1,090,466)
Balance at end of year	**69,404,262**	57,706,372
Other Comprehensive Income:		
Balance at beginning of year	**(1,332,525)**	(3,889,285)
Adjustment (PFRS 9 and 15)	–	1,912,454
Balance at the beginning of the year (as restated)	**(1,332,525)**	(1,976,831)
Additions (deductions)	**(2,633,522)**	644,306
Reclassification to PFRS 5	**(226,200)**	–
Balance at end of year	**(4,192,247)**	(1,332,525)
	₱246,731,276	₱240,140,558

Details of the Group's investments in associates and joint ventures and the related percentages of ownership are shown below:

	Percentage of Ownership		Carrying Amounts	
	2019	2018	**2019**	2018
			(In Millions)	
Domestic:				
Bank of the Philippine Islands (BPI)	**32.9**	32.9	**₱108,440**	₱101,691
Liontide Holdings, Inc. (LHI)*	**78.1**	78.1	**49,266**	45,291
Globe Telecom, Inc. (Globe)*	**30.9**	30.9	**25,654**	23,215
OCLP Holdings, Inc. (OHI)	**21.0**	21.0	**8,540**	8,118
AA Thermal, Inc.	**40.0**	–	**5,349**	–
Emerging City Holdings, Inc. (ECHI)*	**50.0**	50.0	**4,076**	3,911
Light Rail Manila Holdings, Inc. (LRMHI)	**50.0**	50.0	**4,595**	3,417
South Luzon Thermal Energy Corp. (SLTEC)*	**–**	35.0	**–**	3,042
GNPower Mariveles Coal Plant Ltd. Co (GMCP)**	**–**	20.4	**–**	2,781
ALI-ETON Property Development Corporation*	**50.0**	50.0	**3,295**	2,109
GNPower Dinginin Ltd. Co. (GNPD)**	**–**	50.0	**–**	2,023
AKL Properties, Inc.*	**50.0**	50.0	**2,274**	1,943
Berkshires Holdings, Inc. (BHI)*	**50.0**	50.0	**2,003**	1,933
Cebu District Property Enterprise, Inc. (CDPEI)*	**35.0**	35.0	**1,443**	1,464
Bonifacio Land Corporation (BLC)	**10.0**	10.0	**1,479**	1,428
iPeople, Inc. (IPO)	**33.5**	–	**5,183**	–
Philippine Wind Holdings Corporation (PWHC)*	**42.9**	42.9	**1,662**	1,420
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	**1,427**	1,308
IE Medica, Inc. (IEM)	**49.0**	–	**1,192**	–
BF Jade E-Services Philippines, Inc. (BF Jade)	**44.7**	44.7	**762**	930
Rize-Ayalaland (Kingsway) GP Inc. (Rize-Ayalaland)	**49.0**	49.0	**451**	794
Alveo-Federal Land Communities, Inc.*	**50.0**	50.0	**904**	789
Generika Group*	**–**	50.0	**–**	474
Foreign:				
Star Energy Salak-Darajat B.V. (incorporated in Indonesia)	**19.8**	19.8	**11,041**	10,280
Eastern Water Resources Development and Management Public Company Limited (Eastern Water) (incorporated in Thailand)***	**–**	20.0	**–**	8,623
Thu Duc Water B.O.O. Corporation (TDW) (incorporated in Vietnam) ***	**–**	49.0	**–**	3,074
Kenh Dong Water Supply Joint Stock Company (KDW) (incorporated in Vietnam)***	**–**	47.4	**–**	2,721
Saigon Water Infrastructure Joint Stock Company (Saigon Water) (incorporated in Vietnam)***	**–**	38.0	**–**	1,172
UPC-AC Energy Australia Ltd. (incorporated in Australia)*	**50.0**	50.0	**1,327**	1,462
Yoma Strategic Holdings, Inc. (YSH) (incorporated in Myanmar)	**14.9**	–	**5,498**	–
Others	**Various**	Various	**870**	4,728
			₱246,731	₱240,141

**Joint ventures*
*** In accordance with the share purchase agreement, the Group reclassified portion of its effective holdings in GMCP and GNPD as asset held for sale as of December 31, 2018. The closing of the agreement, however, is subject to certain conditions precedent that have not yet materialized as of date. Accordingly, the effective ownership of the Group remained unchanged as of December 31, 2018.*
****MWCI accounts reclassified to PFRS 5*

Unless otherwise indicated, the principal place of business and country of incorporation of the Group's associates and joint ventures is the Philippines.

Except as discussed in subsequent notes, the voting rights held by the Group in its investments in associates and joint ventures are in proportion to their ownership interest.

Financial information on significant associates follows:

BPI	**2019**	2018
	(In Millions, except earnings per share)	
Total resources	**₱2,205,030**	₱2,085,228
Total liabilities	**1,931,996**	1,833,690
Equity	**273,034**	251,538
Less: non-controlling interest	**3,457**	3,017
Equity attributable to the equity holders of BPI	**269,577**	248,521
Share in equity	**88,715**	81,869
Notional goodwill	**20,131**	20,131
Adjustments in goodwill	**(406)**	(309)
Carrying value of investment	**108,440**	101,691
Net interest income and other income	**94,334**	78,524
Total expenses	**65,251**	55,195
Net income	**29,083**	23,329
Net income attributable to:		
Equity holders of BPI	**28,803**	23,078
Non-controlling interests	**280**	251
Group's share in net income for the year	**9,571**	7,685
Other comprehensive loss	**128**	(1,289)
Group's share in other comprehensive loss	**39**	(387)
Total comprehensive income	**29,211**	22,040
Total comprehensive income attributable to:		
Equity holders of BPI	**28,769**	21,878
Non-controlling interests	**442**	162
Group's share in total comprehensive income	**9,613**	7,251
Basic and diluted earnings per share	**6.39**	5.35
Dividends received from BPI	**₱2,503**	₱2,503

BLC	**2019**	2018
	(In Millions)	
Current assets	**₱10,997**	₱5,037
Noncurrent assets	**32,438**	37,539
Current liabilities	**3,066**	3,799
Noncurrent liabilities	**7,176**	6,559
Equity	**33,193**	32,218
Less: noncontrolling interest	**14,896**	14,492
Equity attributable to Parent Company	**18,297**	17,726
Proportion of Group's ownership	**10.1%**	10.1%
Group's share in identifiable net assets	**1,848**	1,790
Carrying amount of the investment	**1,479**	1,428
Negative goodwill	**(369)**	(363)
Revenue	**5,790**	4,925
Cost and expenses	**(3,150)**	(2,907)
Net income (continuing operations)	**2,640**	2,018
Net loss attributable to minority interest	**(1,243)**	(945)
Net income attributable to parent	**1,397**	1,074
Group's share in net income for the year	**141**	108
Total comprehensive income attributable to equity holders of the Parent Company	**1,397**	1,074
Group's share in total comprehensive income for the year	**141**	108
Dividends received	**₱81**	₱71

LRMHI	2019	2018
	(In Millions)	
Current assets	**₱2,341**	₱2,241
Noncurrent assets	**28,066**	18,873
Current liabilities	**2,115**	802
Noncurrent liabilities	**15,293**	11,515
Equity	**12,999**	8,797
Revenue	**3,451**	3,464
Cost and expenses	**2,822**	2,819
Net income	**629**	645
Group's share in net income for the year	**220**	226
Total comprehensive income	**613**	669
Group's share in total comprehensive income for the year	**214**	234
Dividends received from LRMHI	**₱–**	₱–

Salak Darajat	2019	2018
	(In Millions)	
Current assets	**US$250**	US$216
Noncurrent assets	**2,494**	2,492
Current liabilities	**115**	121
Noncurrent liabilities	**1,592**	1,612
Equity	**1,037**	975
Share in equity	**206**	193
Fair value adjustment on land	**15**	13
Carrying value of investment	**221**	206
Revenue	**332**	227
Cost and expenses	**(247)**	(171)
Net income	**85**	56
Group's share in net income for the year	**17**	11
Total comprehensive income	**64**	73
Group's share in total comprehensive income for the year	**13**	14
Dividends received from Salak Darajat	**US$–**	US$–

Financial information on significant joint ventures (amounts in millions, except earnings per share figures) follows:

LHI	2019	2018
	(In Millions)	
Current assets, including cash and cash equivalents amounting to ₱1,447.7 million in 2019 and ₱636.2 million in 2018	**₱1,448**	₱1,454
Noncurrent assets	**53,950**	49,906
Current liabilities	**91**	1,074
Noncurrent liabilities	**8,969**	8,970
Equity	**46,338**	41,316
Share in equity	**36,177**	32,257
Notional goodwill	**12,988**	12,988
Adjustments in goodwill	**101**	46
Carrying value of investment	**49,266**	45,291
Revenue	**5,779**	4,634
Interest income	**43**	27
Costs and expenses		422
Net income	**5,235**	4,239
Group's share in net income for the year	**4,089**	3,335
Other comprehensive income (loss)	**–**	641
Group's share in other comprehensive loss	**–**	501
Total comprehensive income	**5,235**	4,880
Group's share in total comprehensive income	**4,089**	3,836
Dividends received from LHI	**₱82**	₱393

Globe	2019	2018
	(In Millions)	
Current assets, including cash and cash equivalents amounting to ₱8.3 billion in 2019 and ₱23.2 billion in 2018	**₱61,739**	₱73,523
Noncurrent assets	**242,551**	225,974
Current liabilities including financial liabilities* amounting to ₱12.9 billion in 2019 and ₱16.8 billion in 2018	**84,577**	85,467
Noncurrent liabilities, including financial liabilities* amounting to ₱122.9 billion in 2019 and ₱131.5 billion in 2018	**138,466**	140,889
Equity	**81,247**	73,143
Less: non-controlling interest	**135**	24
Equity attributable the equity holders of the Parent	**81,112**	73,119
Share in equity	**21,745**	19,298
Notional goodwill	**3,939**	3,939
Adjustments in goodwill	**(30)**	(23)
Carrying value of investment	**25,654**	23,215
Revenue	**166,660**	151,173
Interest income	**500**	391
Costs and expenses		
Depreciation and amortization	**(34,144)**	(30,422)
Interest expense	**(6,803)**	(6,915)
Provision for income tax	**(10,544)**	(8,987)
Net income	**22,284**	18,626
Net income attributable to:		
Equity holders of the Parent	**22,269**	18,641
Non-controlling interests	**14**	(15)
Share in net income for the year	**6,774**	5,646
Other comprehensive income	**(2,253)**	1,094
Share in other comprehensive income (loss) for the year	**(696)**	338
Total comprehensive income	**20,031**	19,720
Share in total comprehensive income for the year	**6,078**	5,934
Earnings per share:		
Basic	**162.96**	135.91
Diluted	**162.20**	135.40
Dividends received from Globe	**₱3,745**	₱3,745

**excluding trade and other payables and provisions*

	2018			
	SLTEC	GMCP	ECHI	OHI
		(In Millions)		
Current assets	₱4,239	US$253	₱10,421	₱18,304
Noncurrent assets	16,478	647	32,371	16,354
Current liabilities	3,025	104	3,285	8,828
Noncurrent liabilities	10,098	716	7,479	18,713
Equity	7,954	80	32,028	7,117
Revenue	6,625	447	5,315	9,279
Cost and expenses	5,647	321	3,112	7,468
Net income	978	126	2,203	1,811
Group’s share in net income	338	22	398	382
Total comprehensive income	980	130	798	1,811
Group’s share in total comprehensive income for the year	338	22	399	382
Dividends received	₱173	US$5	₱200	₱27

In 2019, SLTEC became a wholly-owned subsidiary of ACEI pursuant to the acquisition of 20% interest from Axia on July 10, 2019.

In 2019, GMCP, ECHI and OHI were classified as associate with immaterial interest.

In addition to the interest in associates and joint ventures discussed above, the Group also has interest in a number of individually immaterial associates and joint ventures. Below is a summary of certain financial information concerning these immaterial associates and joint ventures:

	2019	2018
	(In Millions)	
Carrying amount	**₱52,330**	₱23,977
Share in net income	**1,125**	90
Share in other comprehensive income (loss)	**(912)**	648
Share in total comprehensive income	**₱213**	738

The following significant transactions affected the Group's investments in associates and joint ventures:

Investment in BPI
On January 17, 2018, the BOD of BPI approved the offering for subscription of up to 567.0 million shares of BPI by way of a SRO up to ₱50.0 billion.

On April 25, 2018, BPI completed the SRO, issuing 558,659,210 new common shares at ₱89.50 per share. The issuance received strong support from domestic and foreign shareholders such that a total of 683,258,317 shares were subscribed, representing an oversubscription of 22.4%. The Group subscribed to its proportionate and unsubscribed rights share which was very minimal, raising its effective ownership in BPI to 48.6%.

Adoption of PFRS 16
On adoption of PFRS 16, the BPI Group recognized lease liabilities and right-of-use assets in relation to leases which has previously been classified as operating leases under principles of PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. As at January 1, 2019, the BPI Group recognized lease liabilities amounting to ₱8,644 million (see Note 3). The associated right-of-use asset for property leases were measured at the amount equal to lease liabilities adjusted by the amount of any prepaid or accrued lease payments. The amount of prepaid lease payments amounted to ₱407 million.

Adoption of PFRS 9
The adoption of PFRS 9 resulted in changes in accounting policies and adjustments to the amounts previously recognized by BPI Group. Resulting adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening balance of Surplus and Reserves of BPI Group as of January 1, 2018.

The adoption of PFRS 9 has resulted in changes mainly in BPI Group's accounting policies for recognition, classification and measurement and impairment of financial assets using the ECL method. There were no changes in the classification of financial liabilities.

The changes in BPI Group's classification and measurement and impairment of financial assets resulted to an increase in BPI's surplus by ₱62.0 million and decrease in accumulated other comprehensive loss by ₱4,111.0 million as of January 1, 2018, of which the Group's share amounted to ₱31.4 million and ₱1,912.4 respectively.

Adoption of PFRS 15
The impact of PFRS 15 adoption did not result to a significant change in the revenue recognition of BPI Group.

BPI spunoff its BPI Asset Management and Trust Group (BPI AMTG) to a newly-established Stand-Alone Trust Corporation (SATC) named BPI Asset Management and Trust Corp. (BPI AMTC). BPI AMTC officially commenced its operations on February 1, 2017.

The fair value of the BPI shares held by the Group amounted to ₱130.4 billion and ₱139.4 billion as of December 31, 2019 and 2018, respectively.

Investment in LHI
In July 2018, LHI completed its subscription to 112,191,314 proportionate and unsubscribed rights share in BPI's SRO by securing from a local bank a ₱10.0 billion loan bearing 5.9134% interest per annum and maturing on April 20, 2025.

As of December 31, 2017, LHI owns 618,338,612 common shares of BPI representing a direct ownership interest in BPI of 20.1%. The Parent Company and GIC Special Investments Pte. Ltd. (GICSI), as joint venture partners, agreed to vote their BPI shares based on the common position reached jointly by them as shareholders. In January 2017, the SEC approved the reclassification of 48,574,200 of LHI's Common B shares into redeemable preferred shares (RPS). In March 2017, Arran Investment Pte Ltd, the holder of these RPS, issued a notice to LHI for a redemption in-kind involving 10,913,830 RPS shares for 45,627,477 shares of BPI held by LHI. The redemption in-kind has a total consideration of US$90.9 million (₱4.6 billion) worth of BPI shares. The cross at the PSE was executed on May 5, 2017.

As of December 31, 2019 and 2018, LHI owns 904.2 million common shares of BPI representing a direct ownership interest in BPI of 20.1%. The Parent Company and GIC Special Investments (GICSI) Pte Ltd., the entity controlling Arran Investments Pte. Ltd., as joint venture partners, agreed to vote its BPI shares based on the common position reached jointly by them as shareholders.

The fair value of BPI shares held by LHI amounted to ₱79.5 billion and ₱85.0 billion as of December 31, 2019 and 2018, respectively. In 2019, the effective ownership in LHI is 78.0%.

Investment in Globe
In July 22, 2019, Globe sold its interest in AFPI to Globe Fintech Innovations for a total consideration of ₱240 million.

On September 11, 2019, the BOD of Globe through its Executive Committee, approved the acquisition of 51% of Yondu Inc., equivalent to 22,950 shares for ₱501 million from Xurpass Inc. and the signing of the corresponding Deed of Sale of Shares and other related definitive agreements. The transaction is consistent with Globe's strategic imperative of developing its ICT capabilities responsive to the changing needs of its customers. Yondu's strong IT core competencies combined with Globe's digital expertise will strengthen the value proposition of products and services catered to enterprise clients.

On October 25, 2019, Globe acquired 77% equity interest in ECPay from Payment One, Inc. and The Andresons Group, Inc. Globe bought 49.28 million shares in the firm priced at ₱31.25 per share. The transaction will enable small business owners to offer more products and services which in turn will stimulate the e-commerce industry and the digital economy, bringing Globe closer to its vision of a digitally-enabled Philippines.

On November 5, 2018, the BOD of Globe approved the proposed change in the dividend policy from 75% to 90% of prior year's core net income to 60% to 75% of prior year's core net income applied to the 2019 dividend declaration. The amended policy provided Globe with increased flexibility with respect to capital management. This adjustment will also ensure the sustainability of the operations in this investment-heavy environment, while protecting future dividends, once planned expansion yields beneficial results.

In 2019, Globe Group adopted PFRS 16. Prior to adoption of PFRS 16, the Globe Group recognized rental expense on its operating leases on a straight line basis over the term of lease. In adopting PFRS 16, the Globe Group used the modified retrospective approach wherein the cumulative effect of the initial application of the standards were recognized at January 1, 2019, and the comparative periods were not restated. The Globe Group also applied transitional reliefs and practical expedients for the measurements of leasel libialities and right of use assets arising from leases previously classified as operating lease. As of January 1, 2019, the Globe Group recognized right-of-use assets amounting to ₱3,483.2 million and lease liabilities of ₱3,443.3 million with a decrease on retained earnings amounting to ₱336.5 million.

In 2018, Globe Group adopted PFRS 9 and 15 and the resulting adjustments were recognized in the opening balance of retained earnings as of January 1, 2018.

The impact of the adoption of PFRS 15 and 9 on the Globe Group's retained earnings as of January 1, 2018 is as follows:

a) PFRS 15 - increase in retained earnings as of January 1, 2018 by ₱4.9 billion, of which the Group's share is ₱1.5 billion, brought about by:
   - Re-allocation of contract consideration between wireless communication services and the sale of handsets
   - Capitalization of certain commissions and installation costs as deferred contract costs and amortized over the period when the performance obligations are satisfied
   - Deferral of installation fees as contract liabilities and recognized as revenue on a straight-line basis over the subscription contract

b) PFRS 9 - decrease in retained earnings as of January 1, 2018 by ₱5.6 billion, of which the Group's share is ₱1.7 billion, brought about by the recognition of additional impairment losses on subscriber receivables under the ECL method.

On February 28, 2017, Globe and PLDT each subscribed to 2,760,000 new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of Vega Telecom, Inc. (VTI), at a subscription price of ₱4,000 per subscribed shares (inclusive of a premium over par of ₱3,000 per subscribed share) or a total subscription price of ₱11,040 million (inclusive of a premium over par of ₱8,280 million). Globe's and PLDT's assigned advances from San Miguel Corporation (SMC), which amounted to ₱11,040 million, were treated as subscription for future stock subscription by VTI and applied subsequently as full payment of the subscription price.

Also, on the same date, Globe and PLDT each subscribed to 800,000 new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of VTI, at a subscription price of ₱4,000 per subscribed share (inclusive of a premium over par of ₱3,000 per subscribed share), or a total subscription price of ₱3,200 million (inclusive of a premium over par of ₱2,400 million). Globe and PLDT each paid ₱148 million in cash for the subscribed shares. The remaining balance of the subscription price shall be paid by Globe and PLDT upon call of the VTI BOD.

On February 17, 2017, Globe Telecom and its wholly-owned subsidiaries, GFI/Mynt and Globe Capital Venture Holdings, Inc. (GCVHI) entered into an investment agreement with Alipay and the Parent Company, for Alipay and the Parent Company to invest in the unissued common shares of GFI/Mynt.

On September 27, 2017, following the approval from PCC, GFI/Mynt received the capital infusion from Alipay and the Parent Company through ACVHC amounting to ₱2,784.60 million in exchange for GFI/Mynt's 513 million common shares. The issuance of shares to Alipay and ACVHC diluted GCVHI's ownership interest to 45% and resulted in a loss of control over GFI/Mynt. Thereafter, investment in GFI/Mynt was accounted for as a joint venture under equity method since no single party controls the arrangement and approvals of all parties are required for business decisions. The transaction resulted in a gain on fair value of retained interest in Globe's consolidated financial statements amounting to ₱1,889.9 million in 2017.

The fair value of Globe shares held by the Parent Company amounted to ₱83.2 billion and ₱78.2 billion as of December 31, 2019 and 2018. In 2019, the effective ownership in Globe is 30.9%.

The Parent Company also holds 60% ownership interest in Asiacom, which owns 158.5 million Globe preferred shares and 460.0 million AC preferred shares as of December 31, 2019 and 2018. The Parent Company does not exercise control over Asiacom and Globe since it is a joint venture with Singapore Telecommunications Limited (SingTel).

Investment in OHI
OHI owns 99.5% interest in Ortigas & Company Limited Partnership (OCLP), an entity engaged in real estate development and leasing businesses. In 2016, ALI acquired a 21.0% stake in OHI consistent with its thrust of expanding its operations to other areas within and outside of Metro Manila through partnerships. The acquisition was made possible via the purchase of shares from existing OHI shareholders, and this was recorded under "Investments in associates and joint ventures" account for ₱7,320.7 million. In 2017, the Group finalized the purchase price allocation of its acquisition of OHI through business combination in March 2016. The final purchase price allocation resulted in gain from bargain purchase of ₱148.0 million included under "Other income" (see Note 23).

Investment in AA Thermal
On February 28, 2019, the PCC approved the acquisition by Aboitiz Power Corporation (Aboitiz Power) of a 49% voting interest and 60% economic interest in AA Thermal. This follows the signing of a share purchase agreement on September 26, 2018 between Aboitiz Power and AMNHB (a subsidiary of ACEI). During the first half of 2019, ACEI completed the sale valued at US$574.19 million (₱29,731.6 million).(see Note 25).

Investment in IPO
On October 1, 2018, AEI and IPO executed a memorandum of agreement (MOA) for the merger, with IPO as the surviving entity and with HI and the Parent Company owning 48.18% and 33.5%, respectively (see Note 10 for assets held for sale). The merger, which was approved by the stockholders of IPO and AEI on December 12, 2018 and December 5, 2018, respectively, was approved by the PCC on December 12, 2018. On January 31, 2019, AEI and IPO executed the Plan and Articles of Merger, as approved by their respective boards of directors and stockholders.

Also on January 31, 2019, the Parent Company executed a share purchase agreement for 7.28% of IPO with some of its stockholders, subject to the approval by the SEC of the merger and the effectivity thereof.

The Plan and Articles of Merger were submitted to the SEC on February 8, 2019 and were approved on April 24, 2019.

The merger involved combining AEI's assets which included the APEC Schools, University of Nueva Caceres and National Teachers College and IPO's assets which included the Mapua University, Malayan Colleges Laguna, Malayan Colleges Mindanao and Malayan High School of Science. The valuation of each school and asset under AEI and IPO was determined using standard net asset value and discounted cash flow methodologies.

On May 2, 2019, the merger became effective pursuant to the terms of the Plan of Merger. House of Investments, Inc. and its affiliates, and the Parent Company, now control 51.3% and 33.5%, respectively, of listed IPO. The transaction values the combined entity at approximately ₱15.5 billion.

The Parent Company received approximately ₱4.4 billion worth of primary IPO shares from the merger. Additionally, the Parent Company acquired ₱0.8 billion worth of secondary IPO shares resulting in a total cost of investment in IPO at ₱5.2 billion.

The gain on the merger transaction amounted to ₱0.8 billion and was recorded in the Group's consolidated Other Income (see Note 23).

Key assets of IPO, post-merger, consist mainly of land, property and equipment and intangibles. Notional goodwill on this new investment amounted to ₱1.9 billion (see Note 24).

The fair value of IPO shares held by the Parent Company amounted to ₱3,319.9 million as of December 31, 2019.

Investment in ECHI, BHI and BLC
ALI's 5.32% direct investment in BLC and 4.78% through Regent Time International, Limited (Regent Time) are accounted for using the equity method because ALI has significant influence over BLC. On April 17, 2003, the following transactions were consummated pursuant to the terms and conditions of the Assignment Agreement (Agreement), dated February 8, 2003, among ALI, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among ALI, EHI and Neo Oracle Holdings, Inc. ([formerly Metro Pacific Corporation (MPC)] as amended:

(a) The assignment to ALI and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPC, pursuant to which, Larouge extended MPC a loan in the principal amount of US$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by ALI and EHI for such assignment was approximately US$90.0 million, subject in part to foreign exchange adjustment.

(b) The assignment to ALI and EHI [acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus)] of the controlling interests in BLC representing 50.38% of BLC's outstanding capital stock. The assignment was effected by MPC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.6% of its outstanding capital stock.

The Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.

ALI and EHI jointly hold the 50.38% equity interest in BLC through ECHI and BHI. ALI and EHI assigned the notes receivable from MPC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method, resulting in a negative goodwill of ₱1.4 billion.

Subsequent to this, ALI and EHI acquired additional shares of BLC through a combination of direct acquisition and through its associates at varying dates as follows:

On July 31, 2008, the Group acquired, through ALI, Regent and Columbus, additional 4,360,178 shares of BLC from FBDC amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC. In January and October 2009, a total of 2,295,207 BLC shares were acquired from Development Bank of the Philippines and MPC, pertaining to the pledged shares, through Columbus amounting to ₱362.6 million. This resulted in an increase in the Group's effective interest in BLC to 45.05% as of December 31, 2009.

In 2011, BLC redeemed its 3,485,050 preferred shares with an aggregate redemption price of ₱500.0 million.

Investment in Light Rail Manila Holdings, Inc. (LRMHI)
LRMHI was incorporated on June 23, 2014, as a holding company for the LRT 1 Cavite extension project. LRMHI holds 70% of the total equity of Light Rail Manila Corporation (LRMC), the project company established for the construction, operation and maintenance of the LRT 1 Cavite extension project. AC Infra owns 50% of the shares of LRMHI that ultimately resulted to a 35% interest in LRMC.

As of December 31, 2019, the upgrade of propulsion, train control and management systems of the LRT 1 generation 2 trains were 93.3% and 85.0% complete, for the project management to on-site installation and defect liability period and tuning phases, respectively. The rehabilitation of eleven (11) rectifier subs-stations and the design, supply and installation of CCTV, access control, and security network systems were at 73.4% and 80.1% complete, respectively.

As of December 31, 2019 and 2018, AC Infra's remaining equity investment commitment for the LRT 1 project amounted to ₱2.9 billion and ₱4.1 billion, respectively.

Investment in SLTEC
SLTEC is a 50-50 joint venture between ACEI and PHINMA Energy Corporation (PEC) incorporated for the construction and operation of the 135 MW power plant in Calaca, Batangas. The power plant employs the environment-friendly Circulating Fluidized Bed boiler technology. SLTEC will operate as a base load plant to serve the anticipated demand for power in the Luzon grid. On April 24, 2015 and February 26, 2016, Unit 1 and 2 have achieved Commercial Operations Date (COD), respectively. Upon COD, PEC entered into a 15-year power purchase agreement to purchase all of the generated output of SLTEC.

On December 20, 2016, ACEI sold 5,374,537 common shares and 5,374,537 preferred shares in SLTEC to Axia Power Holdings Philippines Corp. (Axia Power), a subsidiary of Marubeni Corporation, which resulted in a net gain of ₱1.2 billion. The transaction resulted in the decrease in ownership interest of ACEI in SLTEC from 50% to 35%.

SLTEC became a wholly-owned subsidiary of the ACEI pursuant to the acquisition of 20% interest from Axia on July 10, 2019 (see Notes 2 and 24).

Investment in GMCP
On August 29, 2017, GMCP signed a Notes Facility Agreement with certain lenders for an aggregate principal amount of US$800.0 million (the NFA). Financial Closing under the NFA was successfully achieved on September 29, 2017 with the proceeds of the loan being used to refinance its existing loan obligations, return of capital to the partners, and for other general corporate purposes.

GMCP recognized loan breakage costs and accounting mark-to-market losses amounting to US$45.8 million due to refinancing, which in turn reduced the equity earnings of ACEI by ₱396.0 million as of December 31, 2017.

Following the return of capital to the project sponsors and owners last October 12, 2017, the sharing percentage of ACEI (through its limited partnership interest) increased from 17.0246% to 20.3372%, pursuant to the terms of the Second Amended and Restated Limited Partnership Agreement for GMCP.

Effective January 29, 2018, AMPLC became the legal and registered owner of the limited partnership interest in GMCP.

On September 20, 2018, AA Thermal, a wholly owned affiliate of ACEI was incorporated.

On September 24, 2018, ACEI transferred 100% of its limited partnership interests in each of AMPLC and DPHLC to AA Thermal. The transfer is part of ACEI's restructuring plan for its thermal assets. The AA Thermal platform will initially consist of ACEI's limited partnership interests in GMCP, the owner and operator of an operating 2x316 MW coal plant in Mariveles, Bataan, and in GNPD, the

developer and owner of a 2x668 MW supercritical coal plant project in Dinginin, Bataan, which is currently under construction.

On September 25, 2018, ACEI and AMNHB signed a subscription agreement for the purchase of shares of stock of AA Thermal.

On September 26, 2018, Aboitiz Power Corp. (Aboitiz Power) entered into a share purchase agreement with ACEI Group for the acquisition of 12.20% effective interest in GMCP and 30.00% effective interest in GNPD. The closing of the sale transaction is subject to conditions precedent (including the approval by the PCC). The transaction was valued at US$579.2 million. After the sale, the Group's effective ownership in GMCP and GNPD will be reduced to 8.13% and 20%, respectively.

Consequently, as a result of the share purchase agreement, the Group's interest in GMCP and GNPD, in so far as it relates to the portion to be sold to Aboitiz Power is reclassified to noncurrent asset held for sale as of December 31, 2018 (see Note 9). ACEI Group also determined that the asset held for sale shall be carried at reclassification date at the carrying value of the two investments amounting to ₱5,635.3 million since this is lower than the fair value less cost to sell of US$579.20 million.

ALI-ETON Property Development Corporation (ALI-ETON)
ALI-ETON Property Development Corporation was incorporated on March 13, 2016. ALI-ETON is a joint venture between ALI and LT Group, Inc. The ALI and LT Group, Inc. entered into an agreement on January 21, 2016 to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portions of Pasig City and Quezon City.

In 2019 and 2018, ALI made additional equity infusions to ALI-Eton to fund the development requirements of Parklinks amounting to ₱1,195.0 million and ₱1,534.0 million as of December 31, 2019 and 2018 respectively.

Investment in GNPD
GNPD achieved financial close for its first 2x600 MW plant and its second unit for 2x668 MW super-critical coal fired power plant, in Dinginin, Bataan on September 2, 2016 and December 12, 2017, respectively. The estimated project cost of the GNPD Project is US$1.7 billion with the debt component to be provided by Philippine banks. The GNPD Project will support the increasing electricity demand of Luzon and Visayas. Construction of the first unit is well underway, and is targeted for commercial operations by 2019, with the second unit scheduled for completion by 2020. As of December 31, 2019 and 2018, ACEI's remaining total capital commitment on its investment in GNPD amounted to US$82.2 million.

Investment in AKL
AKL Properties, Inc. is a 50:50 joint venture between Ayala Land, Inc. and Royal Asia Land, Inc., and is organized primarily for future mixed-use development in South Luzon area.

Investment in Cebu District Property Enterprise, Inc.
Cebu District Property Enterprise, Inc. (CDPEI) was incorporated on February 20, 2014 and is a 50:50 joint venture between ALI and Aboitiz Land, Inc. CDPEI's main purpose is to create a mixed-use commercial and residential district with the 15.4 hectare property in Subangdaku, Mandaue. On April 11, 2014, ALI's 50% equity was further broken down to 35% ALI, 10% CHI and 5% CPVDC.

Investment in PWHC
In 2014, the DOE issued a Certificate of Endorsement for FIT for the wind power project after it was commissioned and started commercial operations (see Note 38).

On April 13, 2015, the wind power project received their Feed-in-Tariff Certificate of Compliance (FIT COC) from the Energy Regulatory Commission (ERC). This entitled the wind power project to a feed-in-tariff (FIT) of ₱8.53 per kilowatt hour for a period of 20 years from November 11, 2014 to November 10, 2034.

Investment in IEM
In 2019, Ayala Healthcare Holdings, Inc, through its wholly-owned subsidiary AHCHI Pharma Ventures, Inc. acquired 490,000 ordinary shares in IE Medica Inc. representing 49% of equity interest. The acquisition cost of the investment amounted to ₱931 million which includes a contingent consideration amounting to ₱250.2 million and a call option amounting to ₱15.7 million. This resulted in AHCHI Pharma Ventures obtaining significant influence over IE Medica. The investment in associate account includes a notional goodwill amounting to ₱719.1 million arising from the acquisition. Share in net identifiable assets on the date of acquisition amounted to ₱211.9 million.

The call options for both acquisitions was accounted for as a “Derivative asset” in the consolidated financial statements.

Investment in BF Jade
On February 23, 2017, the Parent Company, ALI , BPI Capital Corporation (BPI Capital), and Kickstart Ventures Inc. (Kickstart) signed an investment agreement to acquire ownership stakes in BF Jade, subject to the fulfillment of certain closing conditions, including the approval of the acquisition by the PCC. BF Jade is the owner and operator of online fashion platform Zalora Philippines (Zalora). BPI Capital and Kickstart are wholly owned subsidiaries of BPI and Globe, respectively. The transaction will result in the following ownership interest by new investors over BF Jade: Parent Company at 43.28%, while the rest at 1.91% each for a total of 49% for the Ayala Group.

On August 14, 2017, certain conditions precedent to closing the transaction have been complied with, including the approval (or deemed approval) from the PCC.

On August 31, 2017, the parties completed the closing of the transaction and the new investors subscribed to shares of BF Jade. The Parent Company and ALI assigned their rights to subscribe to their wholly owned subsidiaries ACVHC and AMSI,Inc., respectively.

As of January 31, 2018, the parties, BF Jade, ACVHC, ALI Kickstart and BPI Capital, completed the post-closing conditions of the acquisition of BF Jade and made their respective capital contributions to BF Jade. ACVHC paid ₱334.7 million while AMSI, Inc., BPI Capital and Kickstart paid ₱14.8 million.

The valuation of BF Jade was based on enterprise value/sales multiples of similar e-commerce fashion companies.

In 2018, the PPA for the above acquisition was finalized. ACVHC’s total investment amounted to ₱1,113.9 million. As of December 31, 2019 and 2018, the fair values of the identifiable assets and liabilities acquired amounted to ₱1,293.4 million and ₱1,171.3 million, respectively. ACVHC’s share in the net assets of BF Jade is ₱53.0 million and corresponding notional goodwill on this investment amounted to ₱1,060.9 million which formed part of the carrying amount of the investment as of December 31, 2018 and 2017. The goodwill recognized on the acquisition can be attributed to Zalora’s brand and current workforce.

On October 4, 2018, ACVHC infused additional capital of ₱151.9 million at the same valuation as the last infusion. AMSI, Inc. BPI Capital and Kickstart waived their right to infuse additional capital. As a result, ACVHC assumed their portion of the capital infusion, increasing the ownership stake of AVCH to 43.89% from 43.28%. Following AVCH’s infusion, Ayala Group’s combined ownership remained at 49.00%.

Investment in Rize-Ayalaland
Rize-Ayalaland (Kingsway) GP, Inc. was incorporated on January 25, 2013 under the laws of British Columbia, Canada. ALI’s effective ownership is 49% through its Vancouver-based subsidiary, AyalaLand Real Estate Investments Inc.

Investment in Alveo-Federal Land Communities, Inc. (AFLCI)
Alveo signed a Joint Venture Agreement (JVA) with Federal Land, Inc. last April 29, 2015 for equal ownership over AFLCI. The JV is for the development of Project Lexus located in Laguna near Nuvali.

Investment in Generika Group of Companies
On March 13, 2019, AHHI subscribed to an additional 2.5% stake in each of the Generika companies namely Actimed, Novelis, PharmGen and Erikagen with a total subscription price of ₱78.0 million. On June 3, 2019, the proposed increase in stake was approved by PCC and on July 4, 2019, AHHI proceeded with the closing of the increase to 52.5% equity stake in Erikagen, Inc.

AHHI recognized a gain amounting to ₱281.91 million as a result of measuring at fair value its 50% equity interest in Generika held before the business combination (see Note 24).

Investment in AFPI
AFPI was incorporated on February 10, 2014 and is engaged in the design, construction, installation and operation and maintenance of a contactless automated fare collection system for public utility transport facilities. AC Infra, Globe and BPI owns 10%, 20% and 20%, respectively of the total shares and voting interest of AFPI.

In 2019 and 2018, AC Infra made ₱35.0 million and ₱30.0 million equity infusion, respectively, for the full payment of preferred shares subscribed to in 2018 and subscription to additional 47.13 million preferred shares.

AFPI has incurred operating losses since the launch of its contactless smartcard for the stored value ridership and contactless medium technology as replacement of the old-magnetic-based ticketing system. The target growth turned significantly lower than actual and expectation has also been tempered by AFPI's revenue generation forecasts. On this basis and following the key requirements of PAS 36 wherein assets can be carried at no more than their recoverable amount, management has recognized impairment provisions of nil and ₱78.4 million in 2019 and 2018, respectively. As of December 31, 2019 and 2018, the net carrying value of the investment in AFPI amounted to nil.

As of December 31, 2019 and 2018, AC Infra's remaining equity investment commitment for the project amounted to ₱90.0 million and ₱125.0 million, respectively.

Investment in Isla Bio
On March 20, 2018, ACEI through Presage and Zabaleta & Co. Inc. entered into a share purchase agreement for the acquisition of 21,484 common shares in Negros Island Biomass Holdings (Isla Bio) which represents 42.97% interest in Isla Bio. Isla Bio is the entity that holds interests in the 3 biomass plants in Negros - San Carlos BioPower, South Negros BioPower and North Negros BioPower.

In 2019, the purchase price allocation for the above acquisition was finalized. ACEI Group's investment amounted to ₱154.66 million. As of December 31, 2019, the fair values of identifiable assets and liabilities acquired amounted to ₱0.85 million and ₱0.59 million, respectively. ACEI Group's share in net assets of IslaBio is ₱0.11 million and corresponding notional goodwill on this investment amounted to ₱154.55 million which formed part of the carrying amount of the investment as of December 31, 2019 and 2018. The goodwill recognized on the acquisition can be attributed to future earnings from the company's investments in three biomass plants (1) San Carlos BioPower, (2) South Negros BioPower and (3) Negros BioPower which were still under construction upon acquisition of IslaBio.

Investment in Star Energy Salak-Darajat B.V. (Salak-Darajat)
On March 31, 2017, ACEI, as part of an Indonesian consortium, completed the purchase and acquisition of Chevron's geothermal assets and operations in Indonesia. The Indonesia consortium consists of ACEI (with significant influence as a result of its 19.8% economic stake), Star Energy Group Holdings Pte. Ltd., Star Energy Geothermal Pte. Ltd., and Electricity Generating Public

Company Ltd. and the acquisition was made through their joint venture company, Star Energy Geothermal (Salak-Darajat) B.V. The Indonesia assets and operations include the Darajat and Salak geothermal fields in West Java, Indonesia, with a combined capacity of 637MW of steam and power.

On July 24, 2017, ACEI together with Star Energy Geothermal Holdings, Pte. Ltd. entered into definitive agreements for the transfer of 99% of their consortium interests in ACEI-Star Holdings, Inc. (ACEI-Star) to AllFirst Equity Holdings, Inc. ACEI-Star is the special purpose company that signed a share sale and purchase agreement with Chevron in December 2016 to acquire Chevron's Philippine geothermal assets subject to the satisfaction of certain conditions precedent, including the approval of the PCC.

In 2018, the purchase price allocation for the above acquisition was finalized. As of December 31, 2018 and 2017, ACEI's investment in Salak-Darajat amounted to US$168.5 million. The identifiable assets and liabilities acquired and goodwill arising from the transaction follows: Salak-Darajat's assets and liabilities amounting to US$2,677.2 million and US$1,826.7 million, respectively. Assets include developed and undeveloped geothermal intangible assets amounting to US$44.3 million and US$1,196.2 million, respectively, which will not be amortized but will be subjected to impairment assessment. ACEI's corresponding notional goodwill on this investment amounted to US$0.1 million and is included as part of the carrying value of the investment as of December 31, 2018 and 2017.

Investmen in YSH

On October 14, 2019, Yoma Strategic Holdings Ltd. (YSH) announced its decision to form a partnership with ACEI. YSH and ACEI are looking to establish a 50:50 joint venture that will see ACEI and YSH working together to drive the growth of Yoma Micro Power (S) Pte. Ltd. (Yoma Micro Power).

Both parties have signed a binding term sheet which envisages the joint venture investing at least $30 million into Yoma Micro Power. The new joint venture plans to invest in Yoma Micro Power and will jointly explore developing around 200MW of additional renewable energy projects within Myanmar including participation in large utility scale renewable projects.

On November 8, 2019, the Parent Company signed definitive agreements to acquire a 20% stake in YSH and another 20% stake in First Myanmar Investment Public Co. (FMI). The total consideration for the investment is US$237.5 million.

The investment in YSH, which total US$155 million, will be implemented in two-tranches – US$108.6 million for 14.9% of the outstanding shares and US$46.4 million for 5.1% of the outstanding shares of the company. The completion of the YSH transaction is subject to the satisfaction of certain conditions precedent, including approvals by the Singapore Exchange of the listing of the YSH shares to be subscribed.

VIP Infrastructure Holdings Pte Ltd, a subsidiary of Bestfull and YSH have closed the first tranche of the placement shares, with the Parent Company having been allotted shares equivalent to 14.9% of the outstanding shares of YSH and having paid the price therefore. The Singapore Exchange has approved the listing of the shares allotted to the Parent Company.

The investment in FMI will be via US$82.5 million convertible loan. The completion of the FMI transaction is subject to the satisfaction of certain conditions precedent, including approvals by the Central Bank of Myanmar of the convertible loan.

Investment in UPC Renewables Australia

On May 23, 2018, ACEI participated in the Australian renewables market through a joint venture with international renewable energy developer, UPC Renewables Australia. ACEI has invested US$30.0 million (₱1,519.1 million) for 50% ownership in UPC's Australian business and is also providing US$200.0 million facility to fund project equity.

UPC Renewables Australia is developing the 1,000 MW Robbins Island and Jims Plain projects in North West Tasmania and the 600 MW New England Solar Farm located near Uralla in New South Wales. UPC Renewables Australia also has a further development portfolio of another 3,000 MW's located in NSW, Tasmania and Victoria

In 2019, the purchase price allocation for the above acquisition was finalized. As of December 31, 2019, the fair values of identifiable assets and liabilities acquired amounted to US$3.48 million (₱176.2 million) and US$6.59 million (₱333.7 million), respectively. ACEI Group's share in net liabilities of UPC Australia (HK) Ltd. is US$1.45 million and corresponding notional goodwill on this investment amounted to US$31.45 (₱1,592.5) million which formed part of the carrying amount of the investment as of December 31, 2019 and 2018. The goodwill recognized on the acquisition can be attributed to the cost of pre-development of different renewable energy projects and the right to participate in wind and solar energy projects in Australia through the joint venture company.

Investments in UPC Sidrap HK Ltd. and UPC Renewables Asia III Ltd. (UPC III)
On January 21, 2017, ACEI signed investment agreements with UPC Renewables Indonesia Ltd. for the development, construction, and operation of a wind farm project in Sidrap, South Sulawesi, Indonesia (the Sidrap Project). The project will be developed through PT UPC Sidrap Bayu Energi (UPC Sidrap), a special purpose company based in Indonesia and 72%-owned by UPC Renewables Asia III Ltd. The Sidrap Project, with generating capacity of 75 MW, started commercial operations in April 2018 and is the first utility-scale wind farm project in Indonesia once completed. The investment in UPC Sidrap HK Ltd. is comprised of 1,130 Redeemable Class B shares amounting to US$6.4 million (₱334.0 million). In 2017, ACEI SG infused a total of US$23.7 million to UPC Renewables Asia III Ltd. representing 51% ownership interest.

In 2018, the purchase price allocation for the above acquisition was finalized. The fair values of the identifiable assets and liabilities acquired and goodwill arising from the transaction follows: net assets and liabilities amounting US$0.2 million. Assets include certain project development assets. ACEI's corresponding notional goodwill on this investment amounted to US$23.5 million is included as part of the carrying amount of the investment as of December 31, 2018 and 2017.

In 2019, ACEI Group made additional investment amounting to ₱69.99 million.

Investment in MCT
On January 2, 2018, ALI Group through RWIL acquired an additional 17.24% share in MCT Bhd for a total cost of RM202.5 million (₱2.6 billion) which brought ALI's shareholding in MCT to 50.19% from 32.95%. On February 19, 2018, as a result of the mandatory take-over offer, ALI Group's shareholdings in MCT increased from 50.19% to 72.31% (see Note 24).

Investment in IPO
On October 1, 2018, AEI and IPO executed a memorandum of agreement (MOA) for the merger, with IPO as the surviving entity and with HI and the Parent Company owning 48.18% and 33.5%, respectively (see Note 10 for assets held for sale). The merger, which was approved by the stockholders of IPO and AEI on December 12, 2018 and December 5, 2018, respectively, was approved by the PCC on December 12, 2018. On January 31, 2019, AEI and IPO executed the Plan and Articles of Merger, as approved by their respective boards of directors and stockholders.

Also on January 31, 2019, the Parent Company executed a share purchase agreement for 7.28% of IPO with some of its stockholders, subject to the approval by the SEC of the merger and the effectivity thereof.

The Plan and Articles of Merger were submitted to the SEC on February 8, 2019 and were approved on April 24, 2019.

The merger involved combining AEI's assets which included the APEC Schools, University of Nueva Caceres and National Teachers College and IPO's assets which included the Mapua University, Malayan Colleges Laguna, Malayan Colleges Mindanao and Malayan High School of Science. The valuation of each school and asset under AEI and IPO was determined using standard net asset value and discounted cash flow methodologies.

On May 2, 2019, the merger became effective pursuant to the terms of the Plan of Merger. House of Investments, Inc. and its affiliates, and the Parent Company, now control 51.3% and 33.5%, respectively, of listed IPO. The transaction values the combined entity at approximately ₱15.5 billion.

The Parent Company received approximately ₱4.4 billion worth of primary IPO shares from the merger. Additionally, the Parent Company acquired ₱0.8 billion worth of secondary IPO shares resulting in a total cost of investment in IPO at ₱5.2 billion.

The gain on the merger transaction amounted to ₱0.8 billion and was recorded in "Other income" in the Group's consolidated statements of income (see Note 23).

Key assets of IPO, post-merger, consist mainly of land, property and equipment and intangibles. Notional goodwill on this new investment amounted to ₱1.9 billion (see Note 24).

The fair value of IPO shares held by the Parent Company amounted to ₱3,319.9 million as of December 31, 2019.

Others

Investment in Globe Fintech Innovations, Inc. (Mynt)

On February 17, 2017, the Parent Company and Ant Financial Services Group (Ant Financial) signed an investment agreement, with closing conditions, to subscribe to new shares of Mynt, a holding company for financial technology businesses operating under Globe Capital Venture Holdings, Inc. (GCVHI), a wholly-owned subsidiary of Globe. Through this transaction, the Parent Company will own 10% of Mynt.

The PCC approved the transaction on August 23, 2017 paving the way for the deal closing where the Parent Company (through ACVHC) and Ant Financial will subscribe to new shares of Mynt. On September 27, 2017, parties completed the closing of this transaction.

Standard valuation methodologies such as the use of comparable company multiples and discounted cash flows were used to determine fair value computations and in preparing the purchase price allocation.

In 2018, the PPA for the above acquisition was finalized. ACVHC's investment amounted to ₱506.3 million. With Mynt's assets and liabilities valued at ₱4,975.7 million and ₱1,805.2 million, respectively, ACVHC's corresponding notional goodwill on this investment amounted to ₱189.3 million and is included as part of the carrying amount of the investment as of December 31, 2018 and 2017.

On December 16, 2019, Mynt issued new shares in exchange for additional capital infusion from GCVHI and Ant Financial. The Parent Company (through ACVHC) did not participate in this capital call, leading to a dilution of the Parent Company's ownership in Mynt to 7.6%.

As of and for the period ended December 31, 2019, the Parent Company has unrecognized share of losses of Mynt amounting to ₱353.9 million.

Investment in PT STU
PT STU is incorporated in Indonesia with principal place of business in Semarang, Indonesia. On March 6, 2018, MWC through its wholly-owned subsidiary PT Manila Water Indonesia (PTMWI), acquired 4,478 ordinary shares in PT STU to own twenty percent (20%) of the outstanding capital stock. The acquisition cost of the investment amounted to ₱37.0 million (IDR10.00 billion). The investment in associate account includes a notional goodwill amounting to ₱1.1 million arising from the acquisition of shares of stock in PT STU. Share in net identifiable assets on date of acquisition amounted to ₱35.9 million.

Investment in The Blue Circle Pte. Ltd. (TBC)
On April 26, 2018, AC Energy International Pte Ltd. (ACEI SG), a wholly owned subsidiary of ACEI, and Jetfly Asia Pte. Ltd. executed a Share Sale Purchase Agreement for the acquisition of 25% interest in TBC. ACEI's investment in TBC is US$1.9 million representing ownership of 489,227 ordinary shares (SGD1.00 par value per share). TBC has a platform of wind projects in the Southeast Asia.

In 2019, the purchase price allocation for the above acquisition was finalized. ACEI Group's investment amounted to US$1.90 million (₱96.2 million). As of December 31, 2019, the fair values of identifiable assets and liabilities acquired amounted to US$4.29 million (₱217.22 million) and US$6.40 million (₱324.1 million), respectively. ACEI Group's share in net liabilities of TBC is US$0.53 million (₱26.8 million) and corresponding notional goodwill on this investment amounted to US$2.43 million (₱123.0 million) which formed part of the carrying amount of the investment as of December 31, 2019 and 2018. The goodwill recognized on the acquisition can be attributed to cost of pre-development of wind projects and the right to participate in wind projects in Southeast Asia through TBC.

On May 6, 2019, ACEI in partnership with TBC signed a Shareholders' Agreement to jointly construct, own and operate the Mui Ne Wind Farm located at the Binh Thuan province, Southeastern coast of Vietnam. Construction for the 40 MW first phase will commence immediately with an estimated cost of US$92 million, to be financed by debt and equity. The Mui Ne Wind Farm has an expansion potential of up to 170 MW. ACEI accounts for over 62% of the economic ownership including its 50% direct voting stake. Project completion of the first phase is expected in the first half of 2020, in time for the new wind feedin-tariff deadline of November 2021.

SIAL CVS Retailers, Inc.,
SIAL CVS Retailers, Inc., FamilyMart Co., Ltd., and ITOCHU Corporation have concluded the transaction to sell 100% of the outstanding shares of Philippine FamilyMart CVS, Inc. (PFM) to P-H-O-E-N-I-X Petroleum Philippines, Inc. (PNX), further to a Memorandum of Agreement (MOA) entered into by the parties last October 30, 2017.

PFM is the official Area Franchisee of the Family Mart brand of convenience stores in the Philippines with a current network of 67 company-owned and franchised stores all over the country. Prior to this transaction, SIAL CVS Retailers, Inc., a 50-50 joint venture company between ALI Capital Corp. (a 100% subsidiary of ALI) and SSI Group, Inc. (SSI), owned 60% of PFM, while Japanese companies, FamilyMart Co., Ltd. and ITOCHU Corporation, owned 37.6% and 2.4% respectively.

The transaction was approved by the PCC last January 3, 2018.

As of December 31, 2019 and 2018, the Group has no contingent liabilities in relation to its investments in associates and joint ventures.

On certain investments in associates and joint ventures, the Group entered into shareholders' agreements with fellow shareholders.

11. **Investment Properties**

The movements in investment properties follow:

2019

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	**₱84,568,399**	**₱119,517,201**	**₱55,415,158**	**₱259,500,758**
Additions	**16,965,958**	**10,567,896**	**9,484,719**	**37,018,573**
Exchange differences	**(93,531)**	**(135,484)**	**–**	**(229,015)**
Disposals	**(1,350,405)**	**(460,762)**	**–**	**(1,811,167)**
Transfers	**(10,920,160)**	**(392,605)**	**(353,335)**	**(11,666,100)**
Balance at end of year	**89,170,261**	**129,096,246**	**64,546,542**	**282,813,049**
Accumulated depreciation and amortization				
Balance at beginning of the year	**–**	**31,725,769**	**–**	**31,725,769**
Depreciation and amortization (Note 23)	**–**	**4,404,491**	**–**	**4,404,491**
Disposals	**–**	**(178,584)**	**–**	**(178,584)**
Exchange differences	**–**	**(406)**	**–**	**(406)**
Balance at end of year	**–**	**35,951,270**	**–**	**35,951,270**
Accumulated impairment losses				
Balance at beginning and end of year	**129,441**	**–**	**–**	**129,441**
Net book value	**₱89,040,820**	**₱93,144,976**	**₱64,546,542**	**₱246,732,338**

2018

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	₱85,924,880	₱95,058,339	₱49,660,703	₱230,643,922
Additions	6,346,917	16,744,741	13,781,075	36,872,733
Acquisition through business combination (Note 24)	1,223,498	4,489,137	–	5,712,635
Exchange differences	209,538	107,665	–	317,203
Disposals	(1,642,908)	(115,958)	–	(1,758,866)
Transfers	(7,493,526)	3,233,277	(8,026,620)	(12,286,869)
Balance at end of year	84,568,399	119,517,201	55,415,158	259,500,758
Accumulated depreciation and amortization				
Balance at beginning of the year	–	27,641,070	–	27,641,070
Depreciation and amortization (Note 23)	–	4,068,284	–	4,068,284
Disposals	–	(3,892)	–	(3,892)
Exchange differences	–	20,307	–	20,307
Balance at end of year	–	31,725,769	–	31,725,769
Accumulated impairment losses				
Balance at beginning and end of year	129,441	–	–	129,441
Net book value	₱84,438,958	₱87,791,432	₱55,415,158	₱227,645,548

Certain parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove all improvements (such as buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its own use and benefit.

Construction in progress pertain to buildings under construction to be leased as retail and office spaces upon completion.

The aggregate fair value of the Group's investment properties amounted to ₱495.8 billion in 2019 and ₱328.1 billion in 2018. The fair values of the investment properties were arrived at using the Market Data Approach and Income Approach for land and buildings, respectively, and were determined by independent professionally qualified appraisers.

2019

			Fair value measurement using		
	Date of Valuation	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
				(In Thousands)	
Land properties	**Various**	**₱278,165,996**	**₱–**	**₱–**	**₱278,165,996**
Retail properties	**Various**	**109,835,314**	**–**	**–**	**109,835,314**
Office properties	**Various**	**106,628,343**	**–**	**–**	**106,628,343**
Hospital properties	**Various**	**1,215,483**	**–**	**–**	**1,215,483**

2018

			Fair value measurement using		
	Date of Valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
				(In Thousands)	
Land properties	Various	₱152,670,030	₱–	₱–	₱152,670,030
Retail properties	Various	73,034,911	–	–	73,034,911
Office properties	Various	101,208,761	–	–	101,208,761
Hospital properties	Various	1,143,511	–	–	1,143,511

The fair values of the land were arrived at using the Market Data Approach. Market Data Approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. This approach was used for the land as it is commonly used in the property market since inputs and data for this approach are available. For Market Data Approach, the higher the price per sqm., the higher the fair value.

The fair values of the buildings (retail, office, hospital) were arrived using the Income Approach. Income Approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost saving generated by the asset.

The significant unobservable inputs to valuation of investment properties ranges from ₱1,500-₱278,000 per sqm.

Interest capitalized amounted to ₱22.8 million, ₱19.0 million and ₱17.7 million in 2019, 2018 and 2017, respectively. The capitalization rates are 4.41-7.00%, 2.00-7.65% and 2.50-4.75% in 2019, 2018 and 2017, respectively.

Consolidated rental income from investment properties amounted to ₱31.7 billion in 2019, ₱28.5 billion in 2018 and ₱24.3 billion in 2017. Consolidated direct operating expenses arising from the investment properties amounted to ₱6.8 billion in 2019, ₱5.9 billion in 2018 and ₱4.7 billion in 2017, respectively.

Depreciation and amortization expense pertaining to investment properties amounted to ₱4.4 billion in 2019, ₱4.1 billion in 2018 and ₱3.5 billion in 2017 (see Note 23).

12. Property, Plant and Equipment

The movements in property, plant and equipment follow:

	2019						
	Land, Buildings and Improvements (Note 19)	**Plant, Machinery and Equipment**	**Hotel Property and Equipment** (Note 19)	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Construction-in-Progress**	**Total**
				(In Thousands)			
Cost							
At January 1	**₱27,212,611**	**₱29,176,676**	**₱14,441,262**	**₱12,920,124**	**₱6,005,215**	**₱44,914,550**	**₱134,670,438**
Additions	**3,045,218**	**2,985,108**	**4,525,214**	**2,485,320**	**557,831**	**4,955,680**	**18,554,371**
Additions through business combination (Note 24)	**7,624,019**	**17,724,790**	**–**	**112,232**	**46,554**	**177,721**	**25,685,316**
Disposals	**(213,484)**	**(1,408,671)**	**–**	**(157,062)**	**(269,378)**	**–**	**(2,048,595)**
Transfers	**(248,250)**	**901,780**	**596,297**	**(76,562)**	**32,506**	**(1,136,676)**	**69,095**
Exchange differences	**506,909**	**(431,143)**	**–**	**67,400**	**39,968**	**1,318,596**	**1,501,730**
Others	**–**	**596,386**	**(876,748)**	**8,773**	**305,987**	**149,042**	**183,440**
Reclassifications PFRS 5	**(2,015,117)**	**(3,335,393)**	**–**	**(2,512,959)**	**(1,351,124)**	**(48,493,248)**	**(57,707,841)**
At December 31	**35,911,906**	**46,209,533**	**18,686,025**	**12,847,266**	**5,367,559**	**1,885,665**	**120,907,954**
Accumulated depreciation and amortization and impairment loss							
At January 1	**7,656,712**	**10,228,292**	**2,610,552**	**7,041,478**	**2,641,047**	**–**	**30,178,081**
Depreciation and amortization for the year (Note 23)	**1,669,430**	**5,347,140**	**516,270**	**1,251,158**	**732,936**	**–**	**9,516,934**
Impairment loss	**4,493**	**–**	**–**	**–**	**–**	**–**	**4,493**
Transfers	**(60,295)**	**(875)**	**–**	**–**	**–**	**–**	**(61,170)**
Disposals	**(172,042)**	**(1,242,335)**	**–**	**(150,366)**	**(201,240)**	**–**	**(1,765,983)**
Exchange differences	**(94,871)**	**(231,230)**	**–**	**(76,255)**	**1,314**	**–**	**(401,042)**
Others	**(224,569)**	**(202,827)**	**(286,588)**	**724,203**	**(319,672)**	**–**	**(309,453)**
Reclassifications PFRS 5	**(559,961)**	**(1,436,497)**	**–**	**(2,253,592)**	**(785,611)**	**–**	**(5,035,661)**
At December 31	**8,218,897**	**12,461,668**	**2,840,234**	**6,536,626**	**2,068,774**	**–**	**32,126,199**
Net book value	**₱27,693,009**	**₱33,747,865**	**₱15,845,791**	**₱6,310,640**	**₱3,298,785**	**₱1,885,665**	**₱88,781,755**

	2018						
	Land, Buildings and Improvements (Note 19)	Plant Machinery and Equipment	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
				(In Thousands)			
Cost							
At January 1	₱17,578,981	₱27,105,172	₱14,093,725	₱11,406,113	₱6,062,370	₱36,707,006	₱112,953,367
Additions	3,723,434	2,670,054	287,562	2,080,723	384,562	4,765,699	13,912,034
Additions through business combination (Note 24)	3,943,696	1,609,365	–	129,198	35,883	–	5,718,142
Disposals	(2,414,111)	(2,326,724)	(361,871)	(914,843)	(382,406)	(219)	(6,400,174)
Transfers	3,652,638	326,394	421,846	16,247	(10,324)	–	4,406,801
Exchange differences	731,626	(207,812)	–	206,034	34,201	3,443,039	4,207,088
Others	(3,653)	227	–	(3,348)	(119,071)	(975)	(126,820)
At December 31	27,212,611	29,176,676	14,441,262	12,920,124	6,005,215	44,914,550	134,670,438
Accumulated depreciation and amortization and impairment loss							
At January 1	5,954,838	10,053,614	2,487,261	7,022,646	1,915,624	88,753	27,522,736
Depreciation and amortization for the year (Note 23)	1,932,429	1,599,308	466,319	287,926	974,078	–	5,260,060
Impairment loss	25,159	46,271	–	–	–	(88,753)	(17,323)
Disposals	(426,976)	(1,209,941)	(343,028)	(533,470)	(304,911)	–	(2,818,326)
Exchange differences	172,102	164,837	–	137,667	63,520	–	538,126
Others	(840)	(425,797)	–	126,709	(7,264)	–	(307,192)
At December 31	7,656,712	10,228,292	2,610,552	7,041,478	2,641,047	–	30,178,081
Net book value	₱19,555,899	₱18,948,384	₱11,830,710	₱5,878,646	₱3,364,168	₱44,914,550	₱104,492,357

As of December 31, 2018, the carrying value of IMI Group's pledged equipment with BNP Paribas amounted to US$1.4 million (₱71.0 million).

Construction in progress of ACEI Group pertains to the construction and development of GNPK, a 4x135 MW (net) coal-fired power generating facility and private port facility located in the Barangays of Tacub and Libertad in the Municipality of Kauswagan, Province of Lanao del Norte. As of December 31, 2019, this has been reclassified to assets under PFRS 5.

GNPK has the right to claim compensation due to the adjustment in construction schedule using the rate of US$20,550 per day on the Onshore Engineering, Procurement and Construction (EPC) and US$42,710 per day on the Offshore EPC or a total of US$63,260 per day rate. Unit 1's completion date was expected and contracted to be on December 1, 2017 which resulted in thirty (30) days of adjustment. Total compensation in 2019 and 2018 amounted to US$38.6 million (₱1,960.2 million) and US$36.0 million (₱1,788.5 million). In 2019, part of the total compensation amounting to US$16.3 million (₱803.2 million) pertains to cost recoveries from liquidated damages which was charged against property, plant and equipment and the remaining US$22.3 (₱1,157.0 million) was recorded under "Other income" account (see Note 23).

Additions through business combination of land, building and improvements and plant, machinery and equipment of SLTEC and ACEPH amounting to ₱489.8 million and ₱13.3 million, respectively, was transferred to right-of-use of asset.

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱9.5 billion in 2019, ₱5.3 billion in 2018 and ₱3.5 billion in 2017 (see Note 23).

13. Service Concession Assets and Obligations

Service Concession Assets (SCA)
The movements in this account follow:

	2019	2018
	(In Thousands)	
Cost		
At January 1	**₱132,606,673**	₱122,151,008
Additions during the year		
Construction and rehabilitation works	**10,728,197**	9,478,084
Concession fees	**2,526,529**	948,016
Local component cost	**62,411**	13,095
Transfers	**2,578**	16,649
Retirements/Disposals	**–**	(179)
Reclassification to PFRS 5	**(143,761,128)**	–
At December 31	**2,165,260**	132,606,673
Accumulated amortization		
At January 1	**34,202,187**	31,101,438
Amortization (Note 23)	**2,905,938**	3,100,805
Retirements/Disposals	**–**	(56)
Impairment loss	**5,207,000**	–
Reclassification to PFRS 5	**(41,788,381)**	–
At December 31	**526,744**	34,202,187
Net book value	**₱1,638,516**	₱98,404,486

SCA consists of the present value of total estimated concession fee payments, including regulatory costs and local component costs, of the Parent Company, MWC, Laguna Water, Boracay Water, Clark Water, Obando Water, Calasiao Water, Bulakan Water, South Luzon Water, and Lambunao Water, pursuant to the Group's concession agreements and joint venture agreements; and the revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements and joint venture agreements.

The Parent Company has a concession agreement with the DPWH while the MWC Group has concession agreements with MWSS, PGL, TIEZA, CDC, OWD, CWD, PAGWAD, TnWD, and BuWD. These concession agreements set forth the rights and obligations of the Parent Company and MWC Group throughout the concession period (see Note 37).

Contract assets arising from concession agreements consist of the cost of rehabilitation works covered by the concession agreements of the Parent Company, MWC, Laguna Water, Boracay Water, Clark Water, Cebu Water, Obando Water, Bulakan Water, South Luzon Water, Tagum Water and Calasiao Water.

Total interest and other borrowing costs capitalized as part of SCA amounted to ₱980.92 million, ₱1,018.3 million and ₱713.3 million in 2019, 2018 and 2017, respectively. The capitalization rates used range from 4.50% to 7.66% in 2019, 6.57% to 7.57% in 2018, and 5.12% to 9.15% in 2017.

MWC Water Supply Shortage
In March 2019, the large decline in La Mesa dam water levels caused water service availability in the East Zone to drop significantly, reaching its lowest level at about 68.5 meters in April 2019. In response to the effect of the water supply shortage to customers of the East Zone, on March 26, 2019, MWC announced a voluntary one-time Bill Waiver Program to be implemented in April 2019 to help alleviate the inconvenience of all customers and to assist those severely affected by the water supply shortage.

In April 2019, MWSS BOT (MWSS Resolution No. 2019-055-CO and MWSS Resolution No. 2019-056-CO) imposed a financial penalty of ₱534.05 million on the Parent Company for its failure to meet its service obligation to provide 24/7 water supply to its customers (see Note 17). While the development of new water sources is, under the Concession Agreement, ultimately the responsibility of MWSS, the Parent Company has abided by the decision of MWSS to pay the financial penalty of ₱534.05 million even as it assumes no liability on the basis of the penalty as the Parent Company was not the root cause of the water supply shortage. Pursuant to the directive of the MWSS RO, the ₱534.05 million financial penalty was distributed to the East Zone customers through rebates wherein all connections as of March 31, 2019 received a minimum rebate equivalent to their first 10 cubic meters or ₱153.93 each while identified severely affected accounts received an additional rebate of ₱2,197.94 each.

Supreme Court Decision in Relation to the Philippine Clean Water Act of 2004
This case arose from a complaint filed by the OIC Regional Director Roberto D. Sheen of the Environmental Management Bureau-National Capital Region (EMB-NCR) before the Pollution Adjudication Board (PAB) against the Parent Company, Maynilad, and MWSS for alleged violation of Philippine Clean Water Act of 2004 (RA No. 9275, the “Clean Water Act”), particularly the five (5)-year deadline imposed in Section 8 thereof for connecting the existing sewage line found in all subdivisions, condominiums, commercial centers, hotels, sports and recreational facilities, hospitals, market places, public buildings, industrial complex and other similar establishments including households, to an available sewerage system. Two (2) similar complaints against Maynilad and MWSS were consolidated with this case.

On September 18, 2019, the Parent Company received a copy of the Decision of the Supreme Court on the case ‘Manila Water Company, Inc. vs. The Secretary of the Department of Environment and Natural Resources, et.al.’ with G.R. No. 206823 and promulgated on August 6, 2019. In the Decision, the Supreme Court found the Parent Company liable for fines in violation of Section 8 of the Clean Water Act in the following manner:

a. The Parent Company shall be jointly and severally liable with MWSS for the total amount of ₱921.46 million covering the period starting from May 7, 2009 to the date of promulgation of the Decision, August 6, 2019, to be paid within fifteen (15) days from finality of the Decision.
b. b. From finality of the Decision until full payment of the ₱921.46 million fine, the Parent Company shall be fined in the initial amount of ₱322,102.00 per day, subject to a further 10.00% increase every two (2) years as provided under Section 28 of the Clean Water Act, until full compliance with Section 8 of the same law.
c. c. The total amount of fines imposed by the Decision shall earn legal interest of six percent (6.00%) per annum from finality and until full satisfaction thereof.

On October 2, 2019, the Parent Company filed a Motion for Reconsideration with the Supreme Court. As of December 31, 2019, the Parent Company has not received any resolution from the Supreme Court.

Variation Order
On February 25, 2013, the DPWH sent a Variation Notice to Pertconsult International, the Project's Independent Consultant (IC), instructing the IC to advise the Parent Company to submit a request for Prior Clearance and Variation Proposal in connection with TRB's directive to include in the Project's design a provision for future expansion of SLEX to accommodate possible fifth lane for both directions at the Filinvest to Susana Heights Section. IC, in its letter to the Project's Management Consultant dated March 4, 2013, effectively directed the Parent Company to comply with the DPWH letter dated February 25, 2013.

Such proposal was made in accordance with the Concession Agreement which provides that in the event the DPWH initiates a variation, the Parent Company as concessionaire, shall prepare a proposal setting out the necessary details and additional cost estimates.

On April 10, 2014, the Parent Company submitted a variation proposal to the DPWH and sought for approval of (1) Direct payment of the construction cost for the works related to the provisioning of the SLEX future expansion amounting to ₱251.2 million inclusive of VAT and (2) Extension of the concession period by 3 ½ years due to the delays encountered as a result of the variation order.

DPWH, in its letter to IC dated February 6, 2015, advised the same that it has issued the approved Prior Clearance/Authority to Issue Variation Order No. 1 with a cap of ₱223.0 million.

On May 27, 2015, the DPWH approved the adjusted cost of the variation order in the amount of ₱223.0 million (which was rectified by the Bureau of Construction) variation proposal and endorsed it to the National Economic and Development Authority (NEDA) for information and appropriate action. Accordingly, the Parent Company reclassified the amount of ₱223.0 million from service concession account to receivables from the Government upon DPWH's approval of the variation order.

NEDA in its meeting held on July 15, 2015 confirmed the recommendation of the variation order.

On May 31, 2016, variation order for the project amounting to ₱16.6 million was reclassified to SCA under investment in toll road. Also, various reimbursement for expenses incurred during the acquisition of the right of way amounting to ₱1.1 million was received from the DPWH under the Reimbursement Agreement.

On November 21, 2016, the IC recommended to the DPWH that a Certificate of Final Completion be issued for the project. Subsequently, DPWH, in its letter dated December 21, 2016, issued the certificate of completion. As of December 31, 2019 and 2018, the Parent Company's other receivables includes receivable from DPWH amounting to ₱215.9 million pertaining to variation order and reimbursement of right-of-way acquisition claims.

Service Concession Obligation
Provision for maintenance obligation of MCX
Provision for maintenance obligation pertains to the present value of the estimated contractual obligations of the Parent Company to undertake the financing of the Project's periodic maintenance, which includes renewal and restoration of toll roads and toll road facilities prior to turnover of the asset to DPWH, the grantor.

Under the Minimum Performance Standards and Specifications (MPSS), the Parent Company has the obligation to perform routine and periodic maintenance. Routine maintenance pertains to day-to-day activities to maintain the road infrastructures while periodic maintenance comprises of preventive activities against major defects and reconstruction. Moreover, the Parent Company is required to perform maintenance and repair work in a manner that complies with the MPSS once it hands the

asset back to the DPWH. The provision is a product of the best estimate of the expenditure required to settle the obligation based on the usage of the road during the operating phase. The amount is reduced by the actual obligations paid for heavy maintenance of the SCA.

The breakdown of service concession obligations follows:

	2019	2018
	(In Thousands)	
Current	**₱13,607**	₱820,802
Noncurrent	**52,412**	7,018,211
	₱66,019	₱7,839,013

MWSS Concession Fees
The aggregate concession fees of MWC pursuant to the concession agreement are equal to the sum of the following:

a. 10% of the aggregate peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray Angat Transbasin Project (UATP), on the prescribed payment date;
b. 10% of the aggregate peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date, on the prescribed payment date;
c. 10% of the local component costs and cost overruns related to the UATP;
d. 100% of the aggregate peso equivalent due under MWSS loans designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or elected by MWC for continuation; and
e. 100% of the local component costs and cost overruns related to existing projects;
f. MWC's share in the repayment of MWSS loan for the financing of new projects; and
g. One-half of MWSS annual corporate budget.

In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II (the Angat Project). Total loan facility amounted to US$116.6 million with maturity of twenty (20) years including a 5-year grace period. Interest rate is 3% per annum.

MWSS subsequently entered into a Memorandum of Agreement (MOA) with MWC and Maynilad to equally shoulder the repayment of the loan with such repayment to be part of the concession fees.

On May 12, 2015, MWSS entered into a MOA with the Parent Company and Maynilad for the Angat Water Transmission Improvement Project (Angat Transmission Project). The Angat Transmission Project aims to improve the reliability and security of the raw water coming from the Angat Dam through the rehabilitation of the transmission system from Ipo to La Mesa and the application of water safety, risk and asset management plans. Subsequently, on May 27, 2016, MWSS entered into a loan agreement with Asian Development Bank to finance the Angat Transmission Project. The loan amounts to US$123.30 million with a maturity of twenty-five (25) years including a seven (7)-year grace period. As stipulated in the MOA, the Parent Company and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

In 2016, MWC paid MWSS ₱500.0 million as compensation for additional water allocation in the Angat reservoir. The payment made shall be part of the MWC's business plan and shall be considered in the next rate rebasing exercise.

In 2016, MWSS entered into a MOA with the Parent Company and Maynilad which was subsequently amended in 2018 for the New Centennial Water Source - Kaliwa Dam Project (NCWS-KDP). The NCWS-KDP aims to develop a new water source in order to meet the increasing water demand by constructing a dam for MWSS service area's domestic water supply.

To partially finance the NCWS-KDP, MWSS entered into a Preferential Buyer's Credit Loan Agreement with The Export-Import Bank of China in 2018 amounting to US$211.21 million with a maturity of twenty (20) years including a seven (7)-year grace period. As stipulated in the MOA, the Parent Company and Maynilad shall shoulder equally the repayment of the loan and all reasonable expenditures related to the Project with such payments to form part of the concession fees.

The schedule of undiscounted future concession fee payments follows:

Year	Foreign Currency-Denominated Loans (Translated to US$)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2020	$9,778,143	₱593,572,360	₱1,088,688,631
2021	7,123,623	395,714,907	756,419,558
2022	6,800,857	395,714,907	740,076,301
2023	7,555,420	395,714,907	778,283,599
2024	7,358,799	395,714,907	768,327,694
2025 onwards	58,318,436	4,748,578,881	7,701,532,888
	$96,935,278	₱6,925,010,869	₱11,833,328,671

**Peso equivalent is translated using the PDEx closing rate as of December 31, 2018 amounting to ₱52.58 to US$1.*

PGL Concession Fees
Under LAWC's concession agreement with PGL, LAWC is required to pay concession fees to PGL computed as a percentage of water sales as follows:

Operational Period	Percentage of Water Sales
Years 1 to 5	4.00%
Years 6 to 10	3.00%

Seventy percent (70%) of the concession fees shall be applied against any advances made by LAWC to PGL. The remaining thirty percent (30%) of the concession fees shall be payable annually thirty (30) days after the submission of the audited financial statements by LAWC, starting on the first operational period, which begins upon the expiration of the transition period. Advances as of December 31, 2019 and 2018 amounted to ₱50.98 million ₱84.4 million (see Note 25).

TIEZA Concession Fees
The aggregate concession fee pursuant to BIWC's concession agreement with TIEZA is equal to the sum of the following:

a. Servicing the aggregate peso equivalent of all liabilities of BWSS as of commencement date;
b. 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes which are for the account of BIWC; and
c. Payment of annual operating budget of the TIEZA Regulatory Office starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.0 million. For the year 2012 and beyond, BIWC shall pay not more than ₱20.0 million, subject to annual CPI adjustments.

CDC Concession Fees
The aggregate concession fee pursuant to the CWC's concession agreement with CDC is equal to the sum of the following:

a. Annual franchise fee of ₱1.5 million;
b. Semi-annual rental fees of ₱2.8 million for leased facilities from CDC.

As a result of the extension of the Concession Agreement of CWC, payment of rental fees on the CDC existing facilities was extended by an additional 15 years from October 1, 2025 to October 1, 2040.

OWD Concession Fees
The aggregate concession fee pursuant to Obando Water's concession agreement with OWD is equal to the sum of the following:

i. base concession fee which shall be used for operations of the OWD; and
ii. additional concession fee composed of amounts representing amortization payments for the outstanding obligations of OWD and 2% of the gross annual receipts of Obando Water, representing franchise tax to be paid by the OWD.

On March 28, 2019, LWUA has approved a new loan repayment scheme of thirteen (13) years with OWD. Upon initial payment, which shall not be later than May 15, 2019, LWUA shall no longer collect interest and penalties from OWD.

For the years ended December 31, 2019 and 2018, concession fees recognized as part of SCA and SCO arising form the concession agreement with OWD amounted to nil and ₱470.9 million , respectively.

CWD Concession Fees
Under Calasiao Water's concession agreement with CWD, concession fees are based on a fixed schedule of annual payments over the twenty-five (25) year concession period.

BuWD Concession Fees
The aggregate concession fee pursuant to Bulakan Water's concession agreement with BuWD is equal to the sum of the following:

i. base concession fee which shall be used for operations of the BuWD; and
ii. additional concession fees composed of:
   - 2.00% of the gross monthly water sales of Bulakan Water,
   - one-time expenditures and payables applicable only for Year 1 of the concession agreement, and
   - an amount equivalent to the monthly consumption of BuWD under a bulk water supply agreement with Luzon Clean Water Development Corporation, including any minimum guaranteed volume consumption.

Any loss or reduction in profit for any given year as a result of the operation of the facilities in the service area of BuWD shall not in any way affect or reduce the payment of the base concession fee.

PAGWAD Revenue Share
Under Laguna Water's JVA with PAGWAD, Laguna Water is required to pay, on a calendar year basis, an annual revenue share, amounting to the higher of:
i. ₱10.50 million for a twelve (12)-month period or the proportionate amount for those years with less than twelve (12) months (the "base revenue share"); or
ii. seven percent (7.00%) of the annual gross operating revenues for the immediately preceding year based on the audited financial statements (the "variable revenue share").

The revenue share shall be payable by LWC in advance at the start of the relevant year. The base revenue share shall be payable within fifteen (15) calenday days from the start of the relevant year. In the event the variable revenue share is higher than the base revenue share, the difference between the variable revenue share and the base revenue share shall be payable to PAGWAD within fifteen (15) calenday days after the approval of Laguna Water's audited financial statements.

Subject to the provision of the JVA on EPA, Laguna Water shall increase the revenue share due to PAGWAD in case of a corresponding increase in the government-mandated salary and benefits that may be implemented during the period of the JVA.

TnWD Fees

Under South Luzon Water's JVA with TnWD, South Luzon Water is required to pay, on a annual basis, a revenue share, amounting to ₱17.50 million subject to an increase of ₱1.00 million every five (5) years, conditioned upon the approval by the TnWD BOD and LWUA on the increase in tariff rates for the relevant tariff adjustment year. The revenue share for the duration of the

Appointment Period	Revenue Share
Years 1 to 5	₱17.50 million
Years 6 to 10	₱18.50 million
Years 11 to 25	₱19.50 million
Years 16 to 20	₱20.50 million
Year 21 to 25	₱21.50 million

LWD Fees

Under Aqua Centro's JVA with LWD, Aqua Centro is required to pay, on a monthly basis, an annual revenue share, amounting to ₱15.75 million, conditioned upon the approval by the LWD BOD and LWUA on the increase in tariff rates for the relevant tariff adjustment year. The revenue share shall no longer be guaranteed and shall be subject to adjustment by mutual agreement and discussion of Aqua Centro and LWD if the tariff adjustment are not secured or obtained from LWUA. The revenue share for the duration of the appointment period:

Appointment Period	Revenue Share
Years 1 to 5	₱15.75 million
Years 6 to 10	₱17.50 million
Years 11 to 25	₱17.50 million
Years 16 to 20	₱17.50 million
Year 21 to 25	₱20.65 million
Years 26 to 30	₱25.75 million
Years 31 to 35	₱35.33 million

Subject to the provision of the JVA on EPA, Aqua Centro shall increase the revenue share due to LWD in case of a corresponding increase in the government-mandated salary and benefits that may be implemented during the appointment period of the JVA.

CCWD Revenue Share

Under Calbayog Water's JVA with CCWD, Calbayog Water is required to pay, on a monthly basis, an annual revenue share, amounting to ₱18.00 million subject to an increase of P=1.00 million every five (5) years, conditioned upon the approval by the CCWD BOD and LWUA on the increase in tariff rates for the relevant tariff adjustment year. The revenue share for the duration of the appointment period:

Appointment Period	Revenue Share
Years 1 to 5	₱18.00 million
Years 6 to 10	₱19.00 million
Years 11 to 25	₱20.00 million
Years 16 to 20	₱21.00 million
Year 21 to 25	₱22.00 million
Years 26 to 30	₱25.75 million
Years 31 to 35	₱35.33 million

Subject to the provision of the JVA on EPA, Calbayog Water shall increase the revenue share due to CCWD in case of a corresponding increase in the government-mandated salary and benefits that may be implemented during the appointment period of the JVA.

MCWD Bulk Water Supply Agreement

On December 13, 2013, Cebu Water received a Notice of Award for the bulk supply of water to the MCWD. In relation to this, Cebu Water and MCWD signed a twenty (20)-year Bulk Water Supply Agreement for the supply of eighteen (18) million liters per day of water for the first year and thirty-five (35) million liters per day of water for years two (2) up to twenty (20).

Concession financial receivable is accounted for in accordance with IFRIC 12, arising from the bulk water contract between Cebu Water and MCWD, whereby the facilities constructed by Cebu Water shall be used for the delivery of potable and treated water to MCWD at an aggregate volume of eighteen (18) million liters per day for the first year and thirty-five (35) million liters per day for the succeeding years up to twenty (20) years at ₽24.59 per cubic meter.

In 2019 and 2018, Cebu Water invoked the force majeure clause due to high water turbidity which resulted to intermittent delivery of the required thirty-five (35) million liters of water to MCWD.

TWD Bulk Water Sales and Purchase Agreement
The concession financial receivable arising from the Bulk Water Sales and Purchase Agreement (Agreement) between Tagum Water and TWD is accounted for in accordance with IFRIC 12. Under the Agreement, Tagum Water shall construct water treatment facilities which shall be used for the delivery of potable water to TWD at an aggregate volume of twenty-six (26) million liters per day for the 1st to 3rd years; thirty-two (32) million liters per day for the 4th to 6th years; and thirty-eight (38) million liters per day for the remaining years of the agreement. There shall be a tariff rate adjustment of fifteen percent (15%) every three (3) years starting on the 4th year from the Operations Start Date as defined in the Agreement.

14. **Intangible Assets**

The movements in intangible assets follow:

	2019									
	Goodwill	**Customer Relationships**	**Unpatented Technology/ Intellectual Properties**	**Developed Software**	**Licenses**	**Trademarks**	**Project Development Cost**	**Leasehold and Other Rights**	**Others**	**Total**
	(In Thousands)									
Cost										
At January 1	**₱11,129,654**	**₱1,039,867**	**₱1,535,868**	**₱919,296**	**₱757,238**	**₱122,354**	**₱1,186,946**	**₱5,298,751**	**₱131,318**	**₱22,121,292**
Additions during the year	**–**	**–**	**41,256**	**18,329**	**37,922**	**–**	**217,683**	**174,284**	**423**	**489,897**
Additions through business combination (Note 24)	**1,437,239**	**–**	**–**	**28,865**	**–**	**777,430**	**–**	**–**	**11,925**	**2,255,459**
Exchange differences	**(273,716)**	**(41,222)**	**(42,431)**	**–**	**(33,856)**	**(4,526)**	**(32,113)**	**–**	**–**	**(427,864)**
Reclassification due to PFRS 16	**–**	**–**	**–**	**–**	**–**		**–**	**(536,523)**	**–**	**(536,523)**
Reclassification/Others	**(153,191)**	**122,576**	**(45,108)**	**(102,762)**	**(4)**	**–**	**(95,972)**	**(442,956)**	**(21,882)**	**(739,299)**
Reclassification to PFRS 5	**(136,566)**	**–**	**–**	**–**	**–**	**–**	**–**	**(174,284)**	**–**	**(310,850)**
At December 31	**12,003,420**	**1,121,221**	**1,489,585**	**863,728**	**761,300**	**895,258**	**1,276,544**	**4,319,272**	**121,784**	**22,852,112**
Accumulated amortization and impairment loss										
At January 1	**2,103,416**	**1,036,283**	**274,810**	**795,588**	**453,777**	**7,284**	**175,605**	**707,818**	**13,342**	**5,567,923**
Amortization (Note 23)	**–**	**27,827**	**89,201**	**(915)**	**90,971**	**–**	**122,084**	**13,251**	**(379)**	**342,040**
Impairment Loss (Note 23)	**367,910**	**–**	**–**	**–**	**(20,396)**	**–**	**–**	**7,500**	**–**	**355,014**
Exchange differences	**(13,426)**	**(39,243)**	**48,984**	**–**	**1,446**	**8,146**	**(5,475)**	**–**	**–**	**432**
Reclassification due to PFRS 16	**–**	**–**	**–**	**–**	**–**		**–**	**–**	**–**	**–**
Reclassification/Others	**–**	**21,366**	**(20,268)**	**12,973**	**(506)**	**–**	**(1,021)**	**(38,669)**	**(5,598)**	**(31,723)**
Reclassification to PFRS 5	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,500)**	**–**	**(7,500)**
At December 31	**2,457,900**	**1,046,233**	**392,727**	**807,646**	**525,292**	**15,430**	**291,193**	**682,400**	**7,365**	**6,226,186**
Net book value	**₱9,545,520**	**₱74,988**	**₱1,096,858**	**₱56,082**	**₱236,008**	**₱879,828**	**₱985,351**	**₱3,636,872**	**₱114,419**	**₱16,625,926**

	2018									
	Goodwill	**Customer Relationships**	**Unpatented Technology/ Intellectual Properties**	**Developed Software**	**Licenses**	**Trademarks**	**Project Development Cost**	**Leasehold and Other Rights**	**Other**	**Total**
	(In Thousands)									
Cost										
At January 1	₱12,677,470	₱1,886,728	₱447,941	₱440,741	₱605,032	₱57,811	₱834,436	₱4,822,296	₱84,733	₱21,857,188
Additions during the year	–	–	–	8,125	–	–	270,823	5,728	–	284,676
Additions through business combination (Note 24)	326,686	38,802	894,083	–	482,091	121,237	–	–	–	1,862,899
Exchange differences	(649,812)	396,404	(19,125)	–	56,863	1,117	30,424	–	–	(184,129)
Reclassification/Others	(1,224,690)	(1,282,067)	212,969	470,430	(386,748)	(57,811)	51,263	470,727	46,585	(1,699,342)
At December 31	11,129,654	1,039,867	1,535,868	919,296	757,238	122,354	1,186,946	5,298,751	131,318	22,121,292
Accumulated amortization and impairment loss										
At January 1	1,981,708	1,830,072	113,920	373,054	372,648	46,166	51,520	298,367	84,733	5,152,188
Amortization (Note 23)	–	355,789	151,345	635	95,789	7,283	100,826	409,451	11,326	1,132,444
Retirement/Disposals	361,170	–	–	–	–	–	–	–	–	361,170
Exchange differences	(239,462)	(305,194)	9,545	–	28,145	–	23,259	–	–	(483,707)
Reclassification/Others	–	(844,384)	–	421,899	(42,805)	(46,165)	–	–	(82,717)	(594,172)
At December 31	2,103,416	1,036,283	274,810	795,588	453,777	7,284	175,605	707,818	13,342	5,567,923
Net book value	₱9,026,238	₱3,584	₱1,261,058	₱123,708	₱303,461	₱115,070	₱1,011,341	₱4,590,933	₱117,976	₱16,553,369

Goodwill pertains to the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

Impairment Testing of Goodwill for the Group
The Group's goodwill are tested for impairment annually as follows:

IMI Group
Goodwill acquired through business combinations have been allocated to the particular CGUs of IMI for impairment testing as follows (amounts in thousands):

	2019		2018	
	In US$	**In Php***	In US$	In Php*
STI (Notes 2 and 25)	**US$56,628**	**₱2,867,334**	US$54,965	₱2,890,060
VIA	**44,325**	**2,244,395**	45,643	2,399,909
Speedy Tech Electronics, Ltd. (STEL)	**38,225**	**1,935,532**	38,225	2,009,870
IMI	**1,098**	**55,586**	1,098	57,733
IMI CZ	**506**	**25,611**	520	27,342
	US$140,782	**₱7,128,458**	US$140,451	₱7,384,914

**Translated using the PDEx closing exchange rate at the consolidated statement of financial position date (US$1:₱50.64 in 2019 and US$1:₱52.58 in 2018).*

STI, VIA, STEL Group and IMI CZ
The recoverable amounts of these CGUs have been based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections follows:

	2019	2018
VIA	**12.78%**	11.76%
STEL	**12.36%**	14.25%
STI	**9.47%**	11.83%
IMI CZ	**7.90%**	10.15%

Cash flows beyond the five-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate (CAGR) for the global electronic manufacturing services (EMS) industry, specifically on automotive, industrial equipment, consumer electronics and telecommunications segments.

Key assumptions used in value-in-use calculations
The calculations of value-in-use for the CGUs are most sensitive to the following assumptions:

- Revenue - Revenue forecasts are management's best estimates considering factors such as industry CAGR, existing customer contracts and projections, historical experiences and other economic factors.
- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Overhead and administrative expenses - estimates are based on applicable inflation rates in the respective countries of the cash generating units considering expected future cost efficiencies and production facilities rationalization.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of IMI Group and its operating segments and is derived from its weighted average cost of capital.

No impairment loss was assessed for STI, VIA, VTS and IMI CZ in 2019, 2018 and 2017.

In 2019 and 2018, an impairment loss amountingnil and US$6.90 million, respectively was recognized for STEL (see Note 23).

Sensitivity to changes in assumptions
With regard to the assessment of value-in-use of STI, VIA and IMI CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of these CGUs to exceed their recoverable amount.

IMI
The goodwill of IMI pertains to its acquisition of M. Hansson Consulting, Inc. (MHCI) in 2006 and IMI USA in 2005. MHCI was subsequently merged to IMI as testing and development department. IMI USA acts as direct support to IMI Group's customers by providing program management, customer service, engineering development and prototyping manufacturing services. IMI USA's expertise in product design and development particularly on the flip chip technology is being used across IMI Group in providing competitive solutions to customers. In 2018, the recoverable amount was based on the market price of IMI's shares at valuation date less estimated costs to sell. The fair value of the IMI's shares represents the value of IMI Group. In 2019, given the volatile market, IMI Group assessed the impairment based on value-in-use calculations using cash flow projections of IMI from financial budgets approved by management covering a 5-year period.

The comparison of the recoverable amounts and the carrying amounts resulted to no impairment loss in 2019, 2018 and 2017.

MWC and Philwater
Goodwill from the acquisition of MWC and Philwater amounted to ₱367.1 million as of December 31, 2019 and 2018. The recoverable amount in 2019 and 2018 was based on the market price of MWC shares at valuation date less estimated cost to sell. The comparison of the recoverable amount and the carrying amount resulted in full impairment loss in 2019.

CWC
Goodwill from the acquisition of CWC amounted to ₱130.3 million as of December 31, 2018. MWC's impairment tests for goodwill from the acquisition of CWC is based on value in use calculations using a discounted cash flow model. The 2018 cash flows for the next twenty-two (22) years assume a steady growth rate and is are derived from CWC's latest business plan. The MWC Group used the remaining concession life of CWC when testing for impairment. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model. The post-tax discount rate applied to cash flows projections is 10.43% and 12.48% in 2019 and 2018, respectively.

No impairment loss was recognized in 2018 as a result of the impairment testing performed. In 2019, goodwill has been fully impaired based on the recoverable amount (market price per share of MWC).

ACEI Group
Goodwill acquired through business combinations pertaining to the AC Energy DevCo. Inc. Group and Wind Power CGU of ACEI for impairment testing aggregated to ₱33.5 million and ₱786.2 million, respectively.

The recoverable amount is based on value in use calculations using cash flow projections from financial budgets approved by ACEI management covering the period the CGU is expected to be operational. The post-tax discount rates applied to cash flow projections is 10% which is based on weighted average cost of capital of comparable entities. The value-in-use computation is most sensitive to the discount rate and growth rate applied to the cash flow projections.

ACEI management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the CGUs to exceed its recoverable amount.

No impairment loss was recognized in 2019 and 2018.

The Group also performed impairment testing for all other goodwill and no impairment loss was recognized.

Customer relationships
Customer relationships pertain to STEL Group's and IMI BG's contractual agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business. Customer relationships of STEL and IMI BG aggregating $19.7 million (₱995.99 million) were fully amortized as of December 31, 2019, 2018 and 2017.

Unpatented Technology
Unpatented technology is arising from STEL Group's products which are technologically feasible, as well as from Merlin Solar Technologies, Inc. (Merlin USA), a subsidiary of AC Industrials, which was recognized in 2018 after the completion of AC Industrial's acquisition of Merlin USA. These technologies are also unique, difficult to design around, and meet the separability criteria.

The unpatented technology amounting to $0.01 million (₱0.5 million) was fully amortized as of December 31, 2019, 2018 and 2017.

This also includes intellectual properties which relates to the acquisition of VIA and VTS. VIA's intellectual properties pertain to display system optically bonded to a display region and enhanced liquid crystal display system and methods. The finalization of the purchase price allocation for the acquisition of VIA resulted to the measurement of intellectual properties at fair value amounting to $7.85 million.

As of December 31, 2019 and 2018, the carrying value of VIA and VTS's intellectual properties amounted to $6.60 million and $4.32 million, respectively.

Licenses
This includes acquisitions of computer software, applications and modules.

Developed Software
Developed software includes the system application acquired by the AHHI to compile its electronic medical records, as well as to facilitate online pharmacy and consultation. It also includes developed software pertaining to HCXI.

Trademarks
Trademarks pertain to the trademark recognized by AC Industrial upon its acquisition of Merlin USA, as well as from the acquisition of Generika Group by AC Health in 2019.

Project development cost
Project development cost includes cost arising from the development phase of certain projects of IMI which are still undergoing qualification amounting to ₱692.5 million.

Project development cost also pertains to easement right of way (ROW) which is the privilege granted to one person to pass across another's land.

During the construction of Kauswagan Transmission Line Project and Mariveles Project, several ROW were acquired from local residents for the right to erect the transmission lines which will be used to connect to the National Grid Corporation of the Philippines. Easement right acquired from local residents is for an indefinite period of time.

As of December 31, 2019 and 2018, project development cost pertaining to easement ROW amounted to ₱233.5 million and ₱311.1 million, respectively.

Leasehold and other rights
Leasehold rights consist of the following:
- Through the acquisition of POPI, ALI acquired leasehold rights arising from their lease agreement with Philippine National Railways (PNR) (see Notes 24 and 30).
- TKPI's leasehold rights pertains to the right to use the property in Apulit Island located in Taytay, Palawan expiring on December 31, 2029.
- NTDCC's leasehold rigts refer to development rights on an 8.3-hectare portion of the MRT Development Corporation, which is located on the North Triangle property, and enabled the Group to develop and construct a commercial center.
- Through the acquisition of Solienda, ACEI acquired the absolute and irrevocable title, rights and interests in the contract of lease, and the subsequent amendment agreements, of San Julio Realty, Inc. (SJRI) with San Carlos Sun Power, Inc. (SACASUN), San Carlos Solar Energy, Inc. (SACASOL) and San Carlos Biopower Inc. (SCBP) amounting to ₱445.3 million and ₱168.1 million as of December 31, 2018 and 2017, respectively (see Note 24). The Assignment Agreements were amended on December 26, 2016 to clarify that SJRI irrevocably assigns, transfers and conveys absolutely unto Solienda, Inc. all its rights, ownership and/or interest in 50% of the total rental payments due under the Contracts of Lease. The parties undertake to provide continuing support for the full implementation of the Agreements and shall perform in good faith any and all facts necessary to implement the Agreements and its amendments. These leasehold rights were previously classified under "Other Noncurrent Assets" as of December 31, 2017.

This account also includes MWC Group's water banking rights pertaining to the rights to draw water from the Luyang River, Pampanga River, Abacan River, Pasig-Potrero River and Agno River. On August 22, 2012, the National Water Resources Board (NWRB) approved the assignment of Water Permit No. 16241 from Central Equity Ventures Inc. (now Stateland Inc.) to MW Consortium which MW Consortium allows CMWDI to use for its project. As of December 31, 2019 and 2018, CMWDI's water banking right amounted to ₱45.0 million.

In 2019 and 2018, MWPVI incurred costs to aquire conditional water permits form the NWRB amounting to ₱108.49 million and ₱5.73 million, respectively. A conditional water permit is necessary prior to the issuance of the water permit by NWRB subject to submission of certain requirements, including plans and specifications for the diversion works, pump structure, water measuring deivce and water distribution system, and environmental compliance certification by the Department of Environmental and Natural Resources, among others. In 2018, the NWRB granted MWPVI the permits to use the water from the Pampanga River, Abacan River, and Pasig-Potrero River. These permits supersede the conditional water permits granted to MWPVI in 2017. On August 27, 2019, the NWRB granted MWPVI the permit to use water from the Agno River which superseded the conditional water permit granted on March 21, 2018. As of December 31, 2019, MWC Group believes that the remaining requirements for the Cagayan River are ministerial and is certain that it will be able to comply with the conditions required.

15. **Other Noncurrent Assets**

This account consists of the following:

	2019	2018
	(In Thousands)	
Advances to contractors	**₱13,664,137**	₱10,272,615
Deferred charges	**11,517,876**	9,650,001
Investment in bonds and other securities	**8,208,898**	3,034,245
Deposits - others	**3,330,646**	2,478,582
Creditable withholding taxes	**2,208,663**	500,700
Deferred input VAT	**2,045,667**	6,907,123

(Forward)

	2019	2018
	(In Thousands)	
Pension assets (Note 28)	**80,596**	82,005
Deferred FCDA	**–**	2,620,320
Concession financial receivable (Note 9)	**–**	853,335
Others	**6,247,046**	3,688,673
	₱47,303,529	₱40,087,599

Advances to contractors
Advances to contractors represents prepayments for the construction of investment properties, property and equipment and service concession assets.

Deferred charges
Deferred charges includes ALI's project costs incurred for unlaunched projects of the group, advance rental payments, and noncurrent prepaid management fees. This also includes ALI's noncurrent portion of cost to obtain contracts which includes prepaid commissions and advances to brokers, which amounted to ₱442.4 million and ₱261.0 million in 2019 and 2018, respectively.

Deferred charges also include IMI's tooling items customized based on the specifications of the customers and to be repaid as part of the price of the manufactured items.

Deferred input VAT
Deferred input VAT pertains to unamortized VAT portion from purchases of capital goods.

Investments in Bonds and Other Securities
This account consists of bonds and equity investments, which are classified as financial assets at fair value through OCI and financial assets at fair value through profit or loss, follows:

	2019	2018
	(In Thousands)	
Financial assets at FVTPL		
Investment in bonds	**₱2,305,402**	₱–
Financial assets at FVOCI		
Quoted equity investments	**1,633,763**	2,200,447
Unquoted equity investments	**4,269,733**	833,798
	₱ 8,208,898	₱3,034,245

Investment in Bonds
Investment in bonds pertain to non-interest bearing bonds with a term of 36-months. The Group recorded the investment as financial asset at fair value through profit or loss. The fair value of the investment in bonds is determined using the binomial lattice approach. The fair value of the investment is categorized under Level 3.

Quoted Equity Investments
Quoted equity instruments consist mainly of investments in listed equity securities and golf club shares. Investments in golf club shares wherein ALI Group does not exercise control or demonstrate significant influence amounted to ₱1,478.4 million and ₱1,425.4 million as of December 31, 2019 and 2018, respectively. It also includes the following quoted equity investment:

Ho Chi Minh City Infrastructure Investment Joint Stock Co. (CII)
The Group, through BHL, has acquired a 10% ownership interest in CII for US$15.9 million in 2012. CII is listed on the Ho Chi Minh City Stock Exchange and is a leading player in the infrastructure sector in Vietnam. CII has a portfolio of strategic infrastructure assets, including water treatment plants and toll roads serving Ho Chi Minh City and surrounding areas.

In 2018, BHL converted nil units of bonds. In 2018, a decrease in fair value of the investments amounting to US$1.5 million (₱78.9 million) was recognized directly in equity. BHL did not dispose any shares in 2018 (see Note 23).

In 2019, there is no disposal of shares. The carrying amount of the investment in CII amounted to US$3.8 million (₱196.3 million) and US$4.5 million (₱236.6 million) as of December 31, 2019 and 2018, respectively.

Unquoted Equity Investments
Unquoted equity investments include unlisted preferred shares in public utility companies which the Group will continue to carry as part of the infrastructure that it provides for its real estate development projects, water utilities projects, and to its other operations. It also includes the following unquoted equity investments:

Investments in Negros Island Solar Power, Inc. (ISLASOL) and San Carlos Solar Energy, Inc. (SACASOL)
ACEI's investments in ISLASOL and SACASOL ₱336.5 million and ₱260.9 million, respectively, are equity securities of domestic corporations whose shares are not listed in PSE. The investments are carried at fair value following the finalization of the purchase price allocation of VRC in 2018 (see Note 24).

As of January 1, 2018, the investments in Sares Regis and Wave Computing amounting to ₱947.6 million and ₱110.5 million, respectively, were reclassified to FVTPL as a result of the Group's adoption of PFRS 9 (see Note 10).

The net fair value gain (loss) on financial assets at FVOCI as reflected in the equity section is broken down as follows:

	2019	2018
	(In thousands)	
Net unrealized gain on financial assets at FVOCI of the Parent Company and its consolidated subsidiaries	**(₱1,181,953)**	(₱1,196,758)
Share in the net unrealized loss on financial assets at FVOCI of associates and joint ventures	**1,248,397**	652,203
Reserves under PFRS 5	**473**	–
	₱66,917	(₱544,555)

The rollforward of unrealized gain (loss) on financial assets at FVOCI of the Parent Company and its consolidated subsidiaries is as follows:

	2019	2018
	(In thousands)	
At January 1, as previously stated	**(₱1,196,758)**	₱96,215
Effect of adoption of PFRS 9	**–**	(651,259)
At January 1, as restated	**(1,196,758)**	(555,044)
Changes in fair value recognized in equity	**14,805**	(641,714)
At December 31	**(₱1,181,953)**	(₱1,196,758)

Deferred FCDA
Deferred FCDA refers to the net unrecovered amounts from (amounts for refund to) customers of MWC Group for realized losses (gains) from payments of foreign loans based on the difference between the drawdown or rebased rate versus the closing rate at payment date. This account also covers the unrealized gains or losses from loan valuations.

Deposits - others
This includes deposits and advances for projects which include escrow deposits and security deposits on land leases, electric and water meter deposits. In 2018, deposit for land acquisition amounting to ₱1,299.8 million which was outstanding as of December 31, 2017 was reclassified to rehabilitation works under SCA (see Note 13).

Others
Others pertain to prepayments for expenses that is amortized for more than one year. In 2019 and 2018, this includes restricted cash which amounted to ₱4.3 billion and ₱2.4 billion, respectively, that is not available for use by the Group (see Note 19).

16. **Contract Balances and Cost to Obtain a Contract**

The contract balances of the Group consist of the following:

	2019	2018 (As Restated)
	(In Thousands)	
Contract Assets		
Current	**₱3,159,675**	₱3,736,447
Noncurrent	**–**	492,943
Total Contract Assets	**₱3,159,675**	₱4,229,390
Contract Liabilities		
Current	**₱252,341**	₱114,169
Total Contract Liabilities	**₱252,341**	₱114,169

Set out below is the nature of contract assets and liabilities of the Group:

IMI Group
Contract assets and liabilities
As of December 31, 2019 and 2018, IMI Group's contracts assets and contract liabilities consist of:

	2019		2018	
	In US$	**In ₱**	In US$	In ₱
	(In Thousands)		(In Thousands)	
Contract assets - current	**US$58,908**	**₱2,982,813**	US$63,484	**₱3,337,998**
Contract liabilities - current	**4,742**	**240,120**	1,831	**96,277**

**Translated using the exchange rate at the reporting date (US$1:50.64 and US$1:₱52.58 on December 31, 2019 and 2018).*

Contract assets are initially recognized for revenue earned from manufacturing of goods as receipt of consideration is conditional on successful completion of the services. When goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customers, the amounts recognized as contract assets are reclassified to trade receivables. Payments are received from customers depending on the credit terms.

Contract liabilities includes short-term advances received to render manufacturing services.

IMI Group applied the practical expedient in PFRS 15 on the disclosure of information about the transaction price allocated to remaining performance obligations given the customer contracts have original expected duration of one year or less.

AC Infra
Contract assets amounting to ₱171.9 million pertain to the unbilled delivery service revenue recognized by AC Infra Group as of December 31, 2019. Upon issuance of the related service invoices, these shall be recognized as trade receivables.

MWC Group
Contract assets
As of December 31, 2019 and 2018, contracts assets consists of:

	2019	2018
	(In Thousands)	
Contract assets from:		
Supervision fees	**₱323,470**	₱262,202
Pipeworks and integrated used water services	**188,642**	–
NRWSA with ZCWD	**64,762**	66,475
Bulk Water Sales and Purchase Agreement with TWD (Note 13)	**46,563**	69,770
Current portion	**623,437**	398,447
Bulk Water Sales and Purchase Agreement with TWD (Note 13)	**570,126**	415,679
NRWSA with ZCWD	**229,823**	77,264
Noncurrent portion	**799,949**	492,943
	1,423,386	891,390
Reclassification to PFRS 5 (Note 25)	**(1,423,386)**	(891,390)
	₱–	₱–

Contract assets from supervision fees are initially recognized for revenue earned arising from the provision of design and project management services in the development of water and used water facilities. These contract assets are reclassified to “Accounts and notes receivables” upon acceptance and reaching certain construction milestones for the related water and used water facilities.

Contract assets from the NRWSA with ZCWD are initially recognized for revenue earned arising from construction revenue and performance fees for NRW reduction services. These contract assets are reclassified to “Accounts and notes receivables” upon acceptance of and billing to the customer.

In March 2019, the City Government of Zamboanga City declared a state of calamity due to the recurrence of El Niño. This prompted the ZCWD to implement a service-wide water rationing scheme. Consequently, Zamboanga Water was constrained to suspend its NRW Reduction activities due to the unstable supply caused by said water rationing.

Per Section 1.10 of the NRWRSA, a rebaseline is to be performed if there is a decrease in supply resulting from El Niño. Per agreement with ZCWD Project Management Unit (PMU) in November 2017, the computed NRW cu.m./day prior the rebaseline shall be used as basis for the “locked-in” performance computation. However, a supplemental agreement to formally recognize the computation and payment of “locked-in” performance has not been finalized as of December 31, 2019.

As of December 31, 2019, Zamboanga Water has not billed locked in performance fees amounting to ₱150.9 million.

Contract assets arising from the Bulk Water Sales and Purchase Agreement with TWD consist of the cost of rehabilitation works which will be reclassified to "Concession financial receivables" upon completion of construction of the related facilities. The rollforward of these contract assets follows:

	2019	2018
	(In Thousands)	
Balance at beginning of year	₱485,450	₱–
Rehabilitation works	78,341	219,078
Finance income (Note 23)	52,899	70,847
Impact of adoption of PFRS 15	–	206,954
Reclassification to concession financial receivables (Note 10)	–	(11,429)
Balance at end of year	₱616,690	₱485,450

17. Accounts Payable and Accrued Expenses

This account consists of the following:

	2019	2018
	(In Thousands)	
Accounts payable	₱104,887,772	₱120,312,117
Accrued expenses		
Project costs	18,269,215	18,641,346
Personnel costs	8,615,806	9,078,336
Professional and management fees	4,303,302	5,422,587
Rental and utilities	3,665,886	3,741,150
Repairs and maintenance	2,059,901	3,093,319
Advertising and promotions	1,418,547	1,416,910
Various operating expenses	5,679,698	3,479,680
Taxes payable	23,436,569	20,688,048
Liability for purchased land	9,936,887	2,544,623
Dividends payable	4,496,286	4,131,317
Retentions payable (Note 20)	4,190,349	6,762,286
Interest payable (Note 31)	3,371,968	4,137,612
Related parties (Note 31)	1,084,061	1,072,551
DRP obligation	–	236,362
	₱195,416,247	₱204,758,244

Accounts payable and accrued expenses are non-interest bearing and are normally settled on 15- to 60-day terms. Other payables are non-interest bearing and are normally settled within one year.

Accrued various operating expenses include accruals for supplies, commissions, transportation and travel, insurance, representation, dues and fees and others.

Project costs represent accrual for direct costs associated with the commercial, residential and industrial project development and construction like engineering, design works, contract cost of labor and direct materials.

Taxes payable consists of net output VAT, withholding taxes, business taxes, capital gains tax and other statutory payables, which are due within one year.

Retentions payable pertains to the amount withheld by ALI Group on contractor's billings to be released after the guarantee period, usually one (1) year after the completion of the project or upon demand. The retention serves as a security from the contractor should there be defects in the project.

Liability for purchased land pertains to the current portion of unpaid unsubdivided land acquired payable during the year. These are normally payable in quarterly or annual installment payments or upon demand.

Development Rights Payment (DRP) obligation pertains to the current portion of the liability arising from the assignment agreement between ALI Group and MRTDC of the latter's development rights. In consideration of the lease, ALI Group will be charged an annual rent related to the original DRP obligation on the MRTDC and 5% of the rental income from ALI Group's commercial center business. Of the 5% variable amount due, 2.42% shall be directly paid by ALI Group to the minority shareholders of Monumento Rail Transit Corporation, 28.47% shall be paid directly to Metro Global Holdings Corporation and the remaining 69.11% shall be applied against receivables. This amount has been reclassified in line with adoption of PFRS 16.

18. **Other Current Liabilities**

This account consists of:

	2019	2018 (Restated - see Note 3)
	(In Thousands)	
Customer's Deposits	**₱25,481,979**	₱29,043,778
Nontrade payables	**1,075,740**	1,490,379
Financial liabilities on put option (Notes 24 and 33)	**1,823,114**	1,386,926
Installment payable	**13,876**	7,560
	₱28,394,709	₱31,928,643

Deposits pertain to security and customers' deposits. Security deposits are equivalent to three (3) to six (6) months' rent of tenants with cancellable lease contracts and whose lease term will end in the succeeding year. This will be refunded to the lessees at the end of the lease term or be applied to the last months' rentals on the related contracts. Customers' deposits consist of collections from real estate customers which have not reached the 10% threshold to qualify for revenue recognition and excess of collections over the recognized receivables based on percentage of completion (see Note 3). The amount of revenue recognized from amounts included in customers' deposits at the beginning of the year amounted to ₱22,826.6 million and ₱11,479.4 million in 2019 and 2018, respectively.

Nontrade payables pertain mainly to non-interest bearing real estate-related payables to contractors and various non-trade suppliers which are due within one year.

Financial liabilities on put option relate to the acquisition of VIA, STI and C-CON. The put options of VIA pertain to the right of the non-controlling shareholder to sell to IMI a portion of its shareholding that is approximately 5% of the issued and outstanding nominal share capital of VIA within the first and third anniversary of the agreement (5% put option) and all remaining shares held by the non-controlling shareholder upon the happening of certain trigger events (exit put options). The 5% put option is exercisable any time between the 1st and 3rd anniversary of the agreement or if prior to the 3rd anniversary, the share capital of VIA is increased, the 5% put option may be exercised within three months from registration of the capital increase. The exit put options are exercisable when there is a termination for a cause of the service agreement or the share capital of VIA is increased that will dilute the holding of non-controlling interest to below 10%.

The put option of STI pertains to the right of the non-controlling shareholder to sell to IMI all noncontrolling interests held upon the happening of certain trigger events as specified in the shareholders agreement. The put option of STI is exercisable during the period commencing upon the earlier of: (1) No Fault Leaver Event (i.e., First Founder of STI ceases to be an employee of a member of the STI Group) occurring in respect of a Founder, (2) the aggregate relevant proportion of

the Founders falling to less than 5%, or (3) the fifth anniversary of the service agreement. Mark-to-market gains (loss) on put options included under “Other income” account amounted to $3.45 million in 2019, ($5.37) million in 2018 and $2.30 million in 2017.

Minority shareholder of C-CON Group have the right to require MT Technologies to purchase and acquire all its shares. The option can be exercised after the holding period, which is defined as the 8th anniversary year after the acquisition date, April 1, 2019. Based on the management's judgment, the put options will be exercise by the minority shareholders on April 1, 2027 or the 8th anniversary year after the acquisition date.

19. Short-term and Long-term Debt

Short-term debt consists of:

	2019	2018
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 5.30% to 6.70% per annum in 2019 and 4.38% to 7.03% per annum in 2018	**₱23,176,325**	₱18,120,547
Foreign currency debt - with interest rates ranging from 2.45% to 4.98% in 2019 and 2.50% to 6.04% in 2018	**6,612,318**	21,397,698
	₱29,788,643	₱39,518,245

ALI Group
The short-term debt of ALI Group amounting to ₱18,032.8 million and ₱14,386.7 million as of December 31, 2019 and 2018, respectively, represents peso and foreign-currency denominated bank loans with various interest rates. Peso-denominated short term loans had a weighted average cost of 4.98% and 5.00% per annum in 2019 and 2018.

In compliance with BSP rules on directors, officers, stockholders and related interests, certain short-term and long-term debt with a carrying value of ₱24,416.9 million and ₱14,170.3 million as of December 31, 2019 and 2018 are secured by real estate mortgages dated September 2, 2014 and March 14, 2016 covering both land and building of the Greenbelt Mall. Net book value of the property amounted to ₱2,451.2 million and ₱2,618.9 million as of December 31, 2019 and 2018, respectively which is accounted as part of the “Investment properties” account.

MWC Group
On March 5, 2018, MWTC entered into a one-year term facility agreement with Mizuho Bank, Ltd., Bangkok Branch (Mizuho Bangkok), whereby Mizuho Bangkok extended credit to MWTC for THB5.3 billion to finance MWTC’s acquisition of the shares in Eastern Water (see Note 11). The loan bears interest of BIBOR plus margin and is guaranteed by the MWC Group.

As of December 31, 2019 and 2018, the carrying value of the short-term debt amounted to nil and ₱8,596.54 million, respectively.

AC Industrial Group
The Philippine peso debt of AC Industrial Group pertains to short-term loans with various banks and institutions amounting to ₱4.13 billion and ₱4.5 billion as of December 31, 2019 and 2018, respectively. These loans are unsecured and bear interest rate of 5.20% to 7.48% per annum in 2019 and 4.38% to 7.03% per annum in 2018.

AIVPL Group
The peso-denominated and dollar-denominated debt of AIVPL Group through its subsidiary, Affinity Express India Private Limited (AEIPL), pertains to short-term loans with various banks amounting to ₱292.3 million and ₱260.8 million as of December 31, 2019 and 2018, respectively. These loans are unsecured and bear interest rate at 4.85% to 5.85% in 2019 12.0% in 2018.

IMI Group
As of December 31, 2019 and 2018, IMI Group has short-term loans aggregating to US$126.1 million (₱6,382.6 million) and US$136.3 million (₱7,168.7 million), respectively. These short-term loans have maturities ranging from 30-180 days and bear fixed interest rates ranging from 2.45% to 2.95% in 2019 and 2.50% to 3.12% in 2018.

ACEI Group
On April 20, 2018 and July 30, 2018, respectively, ACEI SG signed a short-term loan line and revolving credit facility with Rizal Commercial Banking Corporation and Mizuho Bank Ltd. Singapore amounting to US$65.0 million (₱3,511.3 million) and US$50.0 million (₱2,701.0 million), respectively. Proceeds of the loan are to be used to finance investments in power and power related projects and for other general corporate purpose expenses.

As of December 31, 2018, outstanding drawdowns from the short-term loan line and revolving credit facility amounted to US$35.0 million (₱1,890.7 million) and US$15.00 million (₱810.3 million), respectively.

In 2018, ACEI SG received additional loan drawdowns from different banks aggregating to US$86.0 million (₱4,521.9 million) and made repayments amounting to US$50.0 million.

Long-term debt consists of:

	2019	2018
	(In Thousands)	
The Parent Company:		
Bank loans - with fixed interest rates ranging from 5.3% to 6.0% and floating interest rates based on applicable benchmark plus credit spread ranging from 0.5% to 0.70% with varying maturity dates up to 2028	**₱25,833,141**	₱27,405,387
Bonds	**39,710,925**	39,762,594
	65,544,066	67,167,981
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 0.87% to 6.88% in 2019 and 1.39% to 5% in 2018;	**15,557,079**	68,364,538
Philippine peso - with interest rates ranging from 3.75% to 9.00% in 2019 and 2.85% to 9.00% in 2018 (Note 24)	**92,218,214**	76,558,056
Bonds:		
Fixed for life notes	**60,544,798**	20,918,114
Green Bonds	**20,727,418**	–
Exchangeable bonds due 2019	–	15,285,934
Due 2019	–	12,313,125
Due 2020	**3,995,321**	3,989,546
Due 2021	**13,934,766**	5,000,000
Due 2022	**12,614,111**	12,605,471

(Forward)

	2019	2018
	(In Thousands)	
Due 2023	**₱14,887,529**	₱14,861,918
Due 2024	**17,915,811**	14,923,051
Due 2025	**14,908,645**	14,895,124
Due 2026	**15,856,414**	7,939,468
Due 2027	**7,924,640**	6,969,630
Due 2028	**9,896,154**	9,886,828
Due 2033	**1,985,276**	1,984,613
Fixed Rate Corporate Notes (FXCNs)	**7,039,272**	11,986,615
Short-dated notes	**–**	7,093,375
	310,005,448	305,575,406
	375,549,514	372,743,387
Less current portion	**23,878,725**	48,480,559
	₱351,670,789	₱324,262,828

Reconciliation of carrying amount against nominal amount follows:

	2019	2018
	(In Thousands)	
Nominal amount	**₱377,185,582**	₱374,143,753
Unamortized discount	**(1,636,068)**	(1,400,366)
	₱375,549,514	₱372,743,387

The Parent Company

Generally, the Parent Company's long-term loans are unsecured. Due to certain regulatory constraints in the local banking system regarding loans to directors, officers, stockholders and related interest, some of the Parent Company's credit facilities with a local bank are secured by shares of stock of a subsidiary with a fair value of ₱15.4 billion and ₱14.0 billion as of December 31, 2019 and 2018, respectively, in accordance with Bangko Sentral ng Pilipinas (BSP) regulations. All credit facilities of the Parent Company outside of this local bank are unsecured, and their respective credit agreements provide for this exception.

The Parent Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions.

In November and December 2013, the Parent Company availed of a ₱2.0 billion and a ₱4.3 billion loan from various banks to mature in 2018 and 2020, respectively. The ₱2.0 billion loan have interest rate per annum equal to the 3-month PDST-R2 plus a spread of 100 basis points (1%) per annum, or BSP overnight reverse repurchase (RRP) rate plus a spread of 25 basis points (0.25%), whichever is higher. In February 2016 and November 2017, the Parent Company paid the first and second principal payment for the ₱2.0 billion loan which amounted to ₱100.0 million each. In November 2018, the Parent Company paid the final principal payment which amounted to ₱1.8 billion. The ₱4.3 billion loan have interest rate per annum equal to the 6-month PDST-R1 plus a spread of thirty basis points (0.30%) for the first six months and 3-month PDST-R1 plus a spread of sixty basis points (0.60%) thereafter. In December 2015, 2016, 2017, 2018 and 2019, the Parent Company paid the five principal payments for the ₱4.3 billion loan which amounted to ₱42.5 million each.

In August 2015, the Parent Company availed of a 7-year loan from a local bank amounting to ₱3.0 billion which bears fixed interest rate of 5.2883% per annum. Principal repayments amounting to ₱30.0 million shall be made at the end of the third year until the sixth year and payment of remaining principal balance amounting to ₱2.9 billion at maturity date.

In December 2016, the Parent Company entered into a revolving term loan agreement amounting to ₱10.0 billion. The first drawdown of the loan amounted to ₱300.0 million on December 22, 2017 with a quarterly repricing rate and a tenor of three years. The ₱300.0 million have interest rate equivalent to (i) the Benchmark Rate-Floating plus a margin of seventy basis points (0.70%) per annum or (ii) the 28-day BSP Deposit Facility Rate plus a margin of forty-five basis points (0.45%) per annum, whichever is higher. On February 23, 2018 and July 19, 2018, the Parent Company drew an additional ₱2.5 billion for three years and ₱0.5 billion for four years, respectively. Both drawdowns are repriced quarterly similar to the terms of the initial drawdown. The Parent Company paid the first principal payment for the ₱300.0 million and ₱0.5 billion drawdowns amounting to ₱3.0 million and ₱12.5 million, respectively, in 2018. In 2019, the Parent Company paid the final principal payments of ₱297.0 million for the first drawdown, ₱2.5 billion for the second drawdown, and ₱0.5 billion for the third drawdown.

On November 4, 2019, the Parent Company drew down a 45-day ₱10 billion loan from its revolving term loan agreement dated December 1, 2016. The principal and interest were fully paid on December 9, 2019.

On January 30, 2018, the Parent Company signed the following loan facilities with BPI that are secured by collateral:

a. ₱1.9 billion 10-year loan facility with ALI shares as collateral (70% of outstanding loan on 2:1 collateral ratio). The loan have interest rate equivalent to (i) the Benchmark Rate-Floating plus a margin of sixty basis points (0.60%) per annum or (ii) the average of BSP Overnight Deposit Facility (ODF) and BSP Term Deposit Auction Facility (TDF) Rate of the tenor nearest the interest period, whichever is higher; and

b. ₱10.0 billion 10-year loan facility with US$ deposits as collateral (1:1 ratio). The loan have interest rate equivalent to (i) the Benchmark Rate-Floating plus a margin of sixty basis points (0.60%) per annum or (ii) the average of BSP Overnight Deposit Facility (ODF) and BSP Term Deposit Auction Facility (TDF) Rate of the tenor nearest the interest period, whichever is higher.

On February 26, 2018, the Parent Company drew down the full amount of the ₱1.9 billion loan with ALI shares as collateral. In 2019 and 2018, the Parent Company paid four and three principal payments, respectively for the ₱1.9 billion loan amounting to ₱23.8 million each.

On April 30, 2018, the Parent Company drew down ₱6.0 billion from its ₱10.0 billion 10-year loan facility secured by an assignment of AYCFL's deposits amounting to $115.7 million. In 2018, the company made two principal payments of ₱75.0 million each, and pre-paid ₱4.0 billion in October 2018. In 2019, the Parent Company made one principal payment of ₱75.0 million and three principal payments of ₱12.5 million each, and pre-paid ₱812.5 million in January 2019.

On May 15, 2018, the Parent Company drew down ₱0.5 billion from the same facility secured by an assignment of AYCFL's deposits amounting to $9.6 million. The Parent Company made two principal payments worth ₱6.3 million each in 2018, and one principal payment of ₱6.3 million in 2019. The Parent Company pre-paid the remaining balance of ₱481.3 million on January 30, 2019.

In January 2019, the Parent Company drew down ₱3.5 billion from its ₱10.0 billion 10-year loan facility secured by an assignment of AYCFL's deposits amounting to $67.2 million. In 2019, Parent Company paid four principal payments amounting to ₱43.8 million each.

In April 2018, the Parent Company signed an ₱11 billion fixed term loan facility with a local bank with a tenor of 8 years. The loan shall have a fixed interest rate of 6.0043%, which was based on the prevailing PDST-R2 benchmark plus a spread of 65 basis points. The amount was fully drawn on April 30, 2018.

Also in April 2018, the Parent Company signed a ₱5.0 billion term loan facility with a local bank. The Parent Company drew down ₱2.0 billion with a tenor of 5 years with fixed interest rate of 6.0043%, which was based on the prevailing PDST-R2 benchmark plus a spread of 65 basis points.

Bonds
Below is the summary of the outstanding Peso bonds issued by the Parent Company:

Year Issued	Term	Interest rate	Principal Amount (In thousands)	Carrying Value (In thousands)		Features
				2019	2018	
2011	10 years	6.80%	9,903,400	**₱9,885,752**	₱9,970,466	20% balance puttable on the 5th anniversary of the issue date; balance puttable on the 8th anniversary issue date
2012	15 years	6.875%	10,000,000	**9,952,651**	9,946,221	Callable from the 10th anniversary issue until every year thereafter until the 14th anniversary issue date
2016	7 years	3.92%	10,000,000	**₱9,942,735**	₱9,927,904	Callable from the 5.5th anniversary issue until every year thereafter until the 7th anniversary issue date
2017	8 years	4.82%	10,000,000	**9,929,787**	9,918,003	Callable from the 6.5th anniversary issue until every year thereafter
			₱39,903,400	**₱39,710,925**	₱39,762,594	

The outstanding Peso bonds of the Parent Company have been rated “PRS Aaa” by PhilRatings.

Bonds due 2021
In May 2019, the Parent Company paid ₱96.6 million on the ₱10.0 billion bonds issued in May 2011.

Bonds due 2025
On February 10, 2017, the Parent Company issued ₱10.0 billion, 4.82% bonds due in 2025. This pertains to the second and final tranche of the ₱20.0 billion fixed rate bonds program approved by the BOD on March 10, 2016.

The long-term debt of the Parent Company provide for certain restrictions and requirements with respect to maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Parent Company as of December 31, 2019 and 2018.

Interest paid amounted to ₱3.9 billion and ₱3.3 billion in 2019 and 2018, respectively (see Note 18).

Subsidiaries

Foreign Currency Debt

AYCFL
In March 2016, AYCFL increased the existing Bilateral Term Loan Facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd from US$100.0 million up to US$200.0 million with interest rates at certain basis points over LIBOR and maturing in September 2022. The Bilateral Term Loan Facility has an availability period of 5 years which offers the same flexibility as a Revolving Credit Facility. As of December 31, 2019, AYCFL has withdrawn US$80.0 million from the loan facility.

Furthermore, AYCFL undertook the conversion of the US$200.0 million Club Term Loan facility into Revolving Credit facility with Mizuho Bank, Ltd. and Sumitomo Mitsui Banking Corporation with interest rates at certain basis points over LIBOR and maturing in March 2020. The loan facility is guaranteed by the Parent Company. As of December 31, 2019, AYCFL has withdrawn US$300.0 million from the loan facility.

IMI Group

IMI

The long-term debts of IMI aggregating to US$135.8 million and US$180.0 million as of December 31, 2019 and 2018, respectively, were obtained from Singapore-based and local banks with terms of three to five years, subject to fixed annual interest rates ranging from 2.70% to 3.41% in 2019 and 2.15% to 3.94% in 2018.

VIA

VIA has a long-term debt from a Germany-based bank amounting to nil as of December 31, 2019 and €0.1 million (US$0.1 million) as of December 31, 2018. The debt is unsecured and bears annual interest of 5.35% and matured on June 30, 2019.

VIA also has a long-term loan with a Japanese bank with a face amount of JPY600.0 million ($4.44 million) and JPY500.0 million ($5.78 million) as of December 31, 2019 and 2018, respectively. The loans is payable monthly and bears interest of 1.67% and will mature in 2023.

IMI CZ

IMI CZ has term loan facility from Czech-based payable in 60 regular monthly installments and bears interest of 1-month EURIBOR plus spread ranging from 0.9% to 2.70% but is not to exceed 15% per annum. Outstanding balance as of December 31, 2019 and 2018 amounted to €1.9 million (US$2.1 million) and €3.1 million (US$3.5 million), respectively.

Cooperatief

Cooperatief's long-term debt aggregating to €14.3 million (US$20.4 million) as at July 29, 2011 relates primarily to the acquisition of EPIQ shares and receivables of EPIQ NV from IMI EU/MX subsidiaries. Based on the payment schedule in the SPA, this long-term debt will be settled from 2013 to 2018, subject to interest rate of 1.60% plus 1.50%. The loan was fully paid in 2018.

IMI BG

IMI BG has a long-term debt from European-based bank that relates to the term loan facility for financing the construction of a new warehouse with a term of five years and bears interest based on 3-month EURIBOR plus 2.90%. The loan matured in December 2018. The warehouse was completed in 2013.

The credit facility with the bank is subject to the following collateral: Security of Transfer of Ownership Title relating to office and factory equipment with a carrying value of US$1.4 million.

MWC Group

MWMP Loan

On October 2, 2012, MWC entered into a Subsidiary Loan Agreement with LBP under the Metro Manila Wastewater Management Project (MWMP) with the World Bank. The loan has a term of 25 years and was made available in US Dollars in the aggregated principal amount of US$137.5 million via semiannual installments after the 7-year grace period. MWC made four drawdowns in 2015 aggregating to US$22.6 million (₱1,123.7 million) and three drawdowns in 2016 aggregating to US$17.5 million (₱868.1 million). In 2017, MWC made an additional three drawdowns with a total amount of US$22.4 million (₱1,118.4 million). In 2018, MWC made additional drawdown amounting to US$8.9 million (₱468.0 million). In 2019, the MWC made an additional four (4) drawdowns amounting to US$41.68 million (₱2,095.2 million). The carrying value of the MWMP loan as of December 31, 2019 and 2018 is US$109.3 million (₱5,504.8 million) and US$70.9 million (₱3,727.9 million), respectively.

NEXI Loan

On October 21, 2010, MWC entered into a term loan agreement (NEXI Loan) amounting to US$150.0 million to partially finance capital expenditures within the East Zone. The loan has a tenor of 10 years and is financed by a syndicate of four banks - ING N.V Tokyo, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ Ltd. and Sumitomo Mitsui Banking Corporation and is insured by Nippon Export and Investment Insurance. First, second and third drawdowns of the loan

amounted to US$84.0 million, US$30.0 million and US$36.0 million, respectively. The carrying value of this loan as of December 31, 2019 and 2018 amounted to US$19.0 million (₱937.3 million) and US$37.0 million (₱1,945.5 million), respectively.

JPY40.0 billion loan
On September 30, 2015, MWC signed a 7-year JPY40.0 billion term loan facility with three international banks: The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation to finance MWC's capital expenditures. MWC made its first drawdown on March 9, 2016 amounting to JPY13.4 billion (₱5.7 billion). In 2017, MWC made two additional drawdowns totaling JPY 26.6 billion (₱11.7 billion). MWC did not make any drawdown in 2018. The loan's carrying value as of December 31, 2019 and 2018 is JPY20.5 billion (₱9,481.4 million) and JPY27.2 billion (₱12,931.8 million), respectively.

MSTP Loan
On October 20, 2005, MWC entered into a Subsidiary Loan Agreement with LBP to finance the improvement of the sewerage and sanitation conditions in the East Zone. The loan has a term of 17 years and was made available in Japanese Yen in the aggregate principal amount of JPY6.6 billion payable via semi-annual installments after the 5-year grace period.

MWC made its last drawdown on October 26, 2012. The total drawn amount for the loan is JPY4.0 billion. As of December 31, 2019 and 2018, outstanding balance of the LBP loan amounted to JPY0.8 billion (₱391.7 million), and JPY1.2 billion (₱562.5 million), respectively.

MWTC
THB5.30 billion loan
On February 27, 2019, MWTC signed a THB5.30 billion, five (5)-year term loan facility with Mizuho Bank Ltd. – Bangkok Branch and Bank of Ayudhya Public Company Limited to take out the previous bridge loan used to finance the acquisition of an 18.72% equity stake in East Water. This loan bears interest of BIBOR plus margin and is guaranteed by the MWC. The carrying value of the loan as of December 31, 2019 amounted to THB5,271.3 million (₱8.861.3 million).

BOC Loan
On August 27, 2019, MWC entered into a syndicated loan agreement amounting to €250.00 million to fund the capital investment program for 2019 to 2020. The loan will be prepaid in eight (8) installments starting April 2023 and is financed by a syndicate of two banks namely Bank of China (Hong Kong) Limited and Bank of China Limited, Manila Branch. MWC has made a drawdown amounting to €40.00 million in 2019. The carrying value of the loan as of December 31, 2019 amounted to €39.41 million (₱2,221 million).

The long-term debt of MWC Group has been reclassified to liabilities under PFRS 5 as of December 31, 2019.

ALI Group
In October 2012, ALI executed and fully drawn a US$58.5 million long-term facility. The loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriceable quarterly. The loan will mature on the third month succeeding the tenth anniversary of the initial drawdown date. Subsequently in March 2016, a US$30.0 million long-term facility was assigned by ALI Makati Hotel Property, Inc. (AMHPI) to ALI. The assigned loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriceable quarterly and had a remaining term of 3 years and 4 months from the time of assignment. ALI paid the remaining dollar-denominated loans on December 20, 2018.

In November 2019, ALI executed and had simultaneously drawn a US$125.0 million long-term facility. The loan bears a floating interest rate based on a credit spread over the three-month US Dollar LIBOR, repriceable quarterly. The proceeds were onlent to MCT to refinance its existing loans. The loan will mature on the fifth anniversary of the initial drawdown date.

As of December 31, 2019 and 2018, the remaining aggregate balance of US Dollar-denominated long term loans amounted to ₱6,329.4 million and nil, respectively.

ACEI Group
GNPK
The peso-denominated and dollar-denominated debt of GNPK pertains to a construction and term loan facility having an aggregate principal amount of ₱1,700.0 million and US$605.0 million, respectively, with interests ranging from 6.88% to variable at LIBOR plus a margin of three and one-quarter of one percent (3.25%). The dollar-denominated debt is composed of the following: 1) Tranche A Loan US$375.0 million; 2) Tranche B Loan US$60.0 million; and 3) Tranche C Loan US$170.0 million.

As of December 31, 2018, the assets of GNPK amounting to US$831.0 million are pledged as collateral. The carrying value of the loans amounted to US$696.2 million as of December 31, 2018.

In 2019, all liabilities including loans payable of GNPK were reclassified under liabilities under PFRS 5.

Philippine Peso Debt

MWC Group
MWC Parent Company
On August 16, 2013, MWC entered into a Credit Facility Agreement with a local bank having a fixed nominal rate of 4.42% and with a term of 7 year from the issue date which is payable annually. MWC may repay the whole and not a part only of the loan starting on the 3rd anniversary of the drawdown date of such loan or on any interest payment date thereafter. The carrying value of the loan as of December 31, 2019 and 2018 amounted to ₱4.8 billion and ₱4.9 billion, respectively.

On May 11, 2018, MWC signed a ₱5.0 billion, 10-year term loan facility with a local bank. The loan will be used to finance general corporate requirements and capital investment programs in the Manila Concession as well as to refinance existing concessionaire loans. The carrying value of the loan as of December 31, 2019 and 2018 amounted to ₱4.3 billion and ₱4.8 billion, respectively.

On April 8, 2011, MWC issued ₱10.0 billion FXCN with ₱5.0 billion having a term of five (5) years (Five-Year FXCN Note) from the issue date and the other ₱5.0 billion with a term of ten (10) years (Ten-Year FXCN Note) from the issue date which is both payable quarterly. MWC may repay the whole and not a part only of the Ten-Year FXCN Notes on the 7th anniversary of the drawdown date of such FXCN Note or on any FXCN interest payment date thereafter.

On April 8, 2016, MWC prepaid the outstanding balance of the Five-Year FXCN Note. The carrying value of the FXCN as of December 31, 2019 and 2018 amounted to ₱4.8 bilion.

On November 13, 2019, MWC signed a ₱5.00 billion, five (5) year term, revolver loan facility with BDO Unibank with principal payable at bullet after sixty (60) months. The loan will be used for the expansion and improvement of the water source, distribution and sewerage systems, and other general corporate requirements as well as to refinance existing concessionaire loans. MWC has made two (2) drawdowns amounting to ₱3,800 million in 2019. The carrying value of the loan as of December 31, 2019 amounted to ₱3,771.45 million.

On July 17, 2008, MWC, together with all of its Lenders signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Prior to the execution of the Omnibus Amendment Agreement, the obligation of MWC to pay amounts due and owing committed to be repaid to the lenders under the existing facilty agreements were secured by Assignment of Interest by Way of Security executed by MWC in favor of a trustee acting on behalf of the lenders. The Assignments were also subject to the provisions of the

Amended and Restated Intercreditor Agreement dated March 1, 2004 and its Amendatory Agreement dated December 15, 2005 executed by MWC, the lenders and their appointed trustee.

Under the Omnibus Amendment Agreement, the lenders effectively released MWC from the assignment of its present and future fixed assets, receivables and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where MWC is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, MWC agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either MWC or MWSS. Currently, all lenders of MWC Group are considered Concessionaire Lenders and are on *pari passu* status with one another.

In November and December 2014, MWC Group signed Amendment Agreements to its loan agreements with its existing lenders. This effectively relaxed certain provisions in the loan agreements providing MWC Group more operational and financial flexibility. The loan amendments include the shift to the use of MWC Group from consolidated financial statements for the purposes of calculating the financial covenant ratios, the increase in maximum debt to equity ratio to 3:1 from 2:1 and the standardization of the definition of debt service coverage ratio at a minimum of 1.2:1 across all loan agreements.

LAWC
On September 7, 2010, LAWC, entered into a loan agreement with two local banks for the financing of its construction, operation, maintenance and expansion of facilities in its servicing area. Pursuant to the loan agreement, the lenders have agreed to provide loans to LAWC up to ₱500.0 million, principal payments of which will be made in 30 consecutive equal quarterly installments starting August 2013. The carrying value of this loan amounted to ₱66.56 million and ₱132.9 million as of December 31, 2019 and 2018, respectively.

On April 29, 2013, LAWC entered into a loan agreement with Development Bank of the Philippines (DBP) to partially finance the modernization and expansion of the water network system and water supply facilities in Biñan, Sta. Rosa and Cabuyao, Laguna. Under the agreement, the lender has agreed to provide a loan to the borrower through the Philippine Water Revolving Fund (PWRF) in the aggregate principal amount of up to ₱500.0 million bearing an effective interest rate of 7.29%. The carrying value of this loan as of December 31, 2019 and 2018 amounted to ₱403.64 million and ₱432.9 million, respectively.

On January 9, 2014, LAWC excercised its option to avail of the second tranche of its loan agreement with DBP to finance its water network and supply projects, including the development of a well-field network on the Biñan, Sta. Rosa area of Laguna. Under the expanded facility agreement, DBP provided additional loans to LAWC in the aggregate principal amount of ₱833.0 million. The carrying value of the loans amounted to ₱692.82 million and ₱743.1 million as of December 31, 2019 and 2018, respectively.

On October 23, 2015, LAWC entered into a loan agreement with a local bank to finance the modernization and expansion of its water network system and water supply facilities throughout the province of Laguna. Under the loan agreement, the lender agreed to provide a loan to the borrower in the aggregate principal amount of up to ₱2.5 billion for an applicable fixed interest rate, as determined in respect of each drawdown. The carrying value of the loan amounted to ₱2.1 billion and ₱2.3 billion as of December 31, 2019 and 2018, respectively.

On March 29, 2017, LAWC entered into a loan agreement with Grand Challenges Canada to fund the project during the period beginning on the effective date of the loan agreement and ending on the project end date of March 31, 2018 for up to an aggregate principal amount of CA$0.87 million (₱34.7 million). The project supported by the loan is the "Bundling water and sanitation services for the poor in informal urban communities." As of December 31, 2019 and 2018, the carrying value of the loan amounted to CAD0.87 million.

On June 28, 2019, LWC signed a ten (10)-year term loan facility amounting to ₱2.50 billion with the Bank of the Philippine Islands. The loan will be used to partially finance LWC's capital expenditure program. The first drawdown was made in July 2019 amounting to ₱200.00 million bearing an effective interest rate of 6.06%. The second drawdown was made in December 2019 amounting to ₱500.00 million bearing effective interest rates of 6.05%. The carrying value of the loan amounted to ₱696.44 million as of December 31, 2019.

BIWC

On July 29, 2011, BIWC, entered into an omnibus loan and security agreement with DBP and a local bank to finance the construction, operation, maintenance and expansion of facilities for the fulfillment of certain service targets for water supply and waste water services for the Service Area under the Concession Agreement, as well as the operation and maintenance of the completed drainage system. The loan shall not exceed the principal amount of ₱500.0 million and is payable in twenty (20) years inclusive of a three (3)-year grace period.

Sub-tranche 1

The loan shall be available in three sub-tranches, as follows:

- Sub-tranche 1A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through PWRF;
- Sub-tranche 1B, the loan in the amount of ₱125.0 million to be provided by a local bank and funded through PWRF; and
- Sub-tranche 1C, the loan in the amount of ₱125.0 million to be provided by a local bank and funded through its internally-generated funds.

The carrying value of the loan as of December 31, 2019 and 2018 amounted to ₱355.6 million and ₱371.8 million, respectively.

Sub-tranche 2

The Agreement provided BIWC the option to borrow additional loans from the lenders. On November 14, 2012, BIWC entered into the second omnibus loan and security agreement with DBP and a local bank. The agreed aggregate principal of the loan amounted to ₱500.0 million which is available in three sub-tranches:

- Sub-tranche 2A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through PWRF
- Sub-tranche 2B, the loan in the amount of ₱125.0 million to be provided by a local bank and funded through PWRF
- Sub-tranche 2C, the loan in the amount of ₱125.0 million to be provided by a local bank and funded through BIWC's internally-generated funds.

The carrying value of the loan as of December 31, 2019 and 2018 amounted to ₱353.9 million and ₱397.7 million, respectively.

Sub-tranche 3

On October 9, 2014, BIWC signed a Third Omnibus Loan and Security Agreement in the amount of ₱650.0 million with SBC to fund capital expenditures related to water and sewerage services in the concession area of BIWC. The carrying value of loan as of December 31, 2019 and 2018 amouted to ₱630.1 million and ₱642.7 million, respectively.

On December 20, 2017, BIWC signed a Fourth Omnibus Loan and Security Agreement in the amount of ₱2.4 billion with the Bank of the Philippine Islands (BPI). The loan will be used to finance the general corporate and capital expenditures requirements of BIWC. BIWC made its first drawdown on April 30, 2018 amounting to ₱250.0 million. The second drawdown was made on September 25, 2018 amounting to ₱250.0 million. The third drawdown was made on December 20, 2018 amounting to ₱100.0 million. The carrying value of loan as of December 31, 2019 and 2018 amounted to ₱596.0 million to ₱595.6 million.

CWC
On April 10, 2015, CWC entered into a loan agreement with a local bank, whereby the bank extended credit to CWC for up to ₱1.2 billion to partially finance its concession capital expenditures program. Under the agreement, the loan bears interest at a rate of 6.179% and principal payments will be made in forty eight (48) consecutive equal quarterly installments starting July 2018. The carrying value of the loan amounted to ₱1.0 billion and ₱1.1 billion as of December 31, 2019 and 2018, respectively.

On December 13, 2018, CWC availed of a fifteen (15)-month term loan with RCBC amounting to ₱100.0 million to finance its working capital requirements. Under the agreement, the loan bears interest at the rate of 7.55% payable monthly. The loan's principal payment is due on March 13, 2020. The carrying value of the loan amounted to nil and ₱100.0 million as of December 31, 2019 and 2018, respectively.

On March 11, 2019, CWC signed a term loan agreement amounting to ₱535.00 million with the Development Bank of the Philippines. The proceeds of the loan will be used to partially finance CWC's capital expenditure programs. The first and second drawdowns on this loan were made on March 22, 2019 and December 20, 2019, amounting to ₱100.00 million and ₱80.00 million, respecively. The carrying value of the loan amounted to ₱180.00 million as of December 31, 2019.

CMWD
On December 19, 2013, the CMWD entered into an omnibus loan and security agreement (the Agreement) with DBP to partially finance the construction works in relation to its bulk water supply project in Cebu, Philippines. The lender has agreed to extend a loan facility in the aggregate principal amount of ₱800.0 million or up to 70% of the total project cost whichever is lower. Principal payments will be made in twenty (20) equal quarterly installments starting December 2017. The carrying value of the loan as of December 31, 2019 and 2018 amounted to ₱612.19 million and ₱655.8 million, respectively.

Zamboanga Water Company, Inc.(ZWC)
On June 30, 2016, ZWC, a 70% joint venture company of MWC, signed a term loan agreement in the amount of ₱85.00 million with DBP. The proceeds of the loan will be used to partially finance ZWC's capital expenditures in relation to its NRW reduction and management program in Zamboanga City. The carrying value of the loan as of December 31, 2019 and 2018 amounted to ₱79.60 million and ₱84.7 million, respectively.

MWPVI
On October 5, 2016, MWPVI signed a 15-year fixed rate term loan facility amounting to ₱4.0 billion with various domestic banks. The terms of the loan include an option to increase the size of the facility to a maximum of ₱7.0 billion. The proceeds of the loan will be used to finance MWPVI's capital expenditures, future acquisitions and other general corporate requirements.

On February 24, 2017, MWPVI made a bridge loan drawdown amounting to ₱150.00 million each from SBC and Metrobank. These bridge loans had a fixed rate of 2.75% and a 119-day term. On June 23, 2017, these bridge loans were rolled-over for additional 180 days with a rate of 2.90%, repriced monthly. On November 9, 2017, MWPVI repaid its ₱300.0 million bridge loan and made the first drawdown on its loan facility amounting to ₱450.00 million from each bank.

On October 5 and December 19, 2018, MWPVI made its subsequent drawdowns amounting to ₱50.00 million and ₱175.00 million from each bank, respectively. In 2019, MWPVI made additional drawdowns totaling to ₱800.00 million from each bank. The carrying value of the loan as of December 31, 2019 and 2018 amounted to ₱2,928.52 million and ₱1,340.97 million, respectively.

These loan drawdowns have a term of thirteen (13) to fifteen (15) years, with interest payable semi-annually and principal repayments starting on November 9, 2022.

TWC
On October 6, 2016, TWC signed an Omnibus Loan and Security Agreement in the amount of ₱450.0 million. The proceeds of the loan will be used to partially finance the construction works in relation to Tagum Bulk Water Supply Project. Nominal interest is at 5.30% per annum, payable quarterly. Principal payments will be made in forty-eight (48) equal quarterly installments starting December 2020.

On September 25, 2017, April 18 and November 23, 2018, TWC made its subsequent drawdowns amounting to ₱130.0 million, ₱120.0 million and ₱154.0 million, respectively. The carrying value of the loan as of December 31, 2019 and 2018 amounted to ₱401.5 million and ₱401.2 million, respectively.

The long-term debt of MWC Group has been reclassified to "Liabilities under PFRS 5" as of December 31, 2019.

ALI Group
In August to September 2015, ALI assumed an aggregate of ₱15,442.3 million various long-term facilities of some subsidiaries from various banks. The loans bear fixed interest rates ranging from 4.5% to 4.7% per annum and terms ranging from 4.4 years to 10.5 years. As of December 31, 2019 and 2018, the remaining balance of the assumed long-term facilities amounted to ₱14,107.8 million and ₱14,503.2 million respectively.

In March 2017, ALI executed a ₱10,000.0 million long-term facility with a domestic bank, of which ALI had simultaneously drawn an initial ₱5,000.0 million. The loan carries a fixed interest rate of 4.949% per annum and a term of 10 years. The balance of facility of ₱5,000.0 million was drawn in April 2017. In March 2018, ALI executed a ₱5,000.0 million long-term facility with a domestic bank, of which ALI had simultaneously drawn the entire facility amount. In March and April 2019, ALI executed and drew in two tranches a ₱13.0 billion long-term facility. The loan which was drawn at ₱6.5 billion each, carries a fixed interest rate at 6.2720% and 6.3070%, respectively. As of December 31, 2019 and 2018, remaining balance of the Peso-denominated long-term loans amounted to ₱41,885.1 million and ₱29,465.7 million, respectively.

Subsidiaries
The Philippine Peso bank loans include ALI subsidiaries' loans that will mature on various dates up to 2028. Peso-denominated loans bear various floating interest rates at 60 bps to 80 bps spread over the benchmark 91-day PDST-R2 or and fixed interest rates ranging from 3.89% to 6.49% per annum Certain loans which are subject to floating interest rates are subject to floor floating interest rates equivalent to (i) 95.0% or par of the Overnight Reverse Repurchase Agreement Rate of the Bangko Sentral ng Pilipinas (BSP Overnight Rate) or (ii) the BSP Overnight Rate plus a spread of 20 bps to 75 bps per annum or (iii) the average of the Bangko Sentral ng Pilipinas Overnight Deposit Rate and Term Deposit Facility with a term closed to the 90-day interest period. The total outstanding balance of the subsidiaries' loans as of December 31, 2019 and 2018 amounted to ₱25,401.29 million and ₱25,123.67 million loans, respectively.

ACEI Group
On February 20, 2017, ACEI entered into an unsecured loan agreement with The Philippine American Life and General Insurance Company (PHILAM) amounting to ₱1.0 billion payable in 10 years from the date of drawdown with 6% fixed interest per annum. The loan shall be paid in one lump sum at the maturity date.

On April 27, 2017, ACEI entered in to an unsecured loan agreement with Philippine National Bank (PNB) amounting to ₱7.0 billion. The loan is payable seven (7) years from initial the drawdown date. ACEI shall pay interest on the outstanding principal amount of the loan at the fixed rate of 5.75% per annum, with duration of three (3) months commencing on the drawdown date. All drawdown beyond May 5, 2017, the relevant PDST-R2 benchmark rate will apply +1% per annum spread, with a floor of 5.25% per annum. Repayment of the principal amount shall be 20% of the loan from 5th to 27th interest period and the remaining 84% shall be paid lump sum at the end of 28th interest period. Drawdown of ₱250.0 million was made by ACEI on May 3, 2017. On May 25, 2018, an additional drawdown of ₱2.0 billion was made by ACEI. Principal repayment amounted to ₱108.75 million and ₱8.7 million in 2019 and 2018, respectively. As of December 31, 2019 and 2018, ACEI has undrawn loan amounted to ₱4.8 billion. The outstanding balance as of December 31, 2019 is ₱2.1 billion.

On June 22, 2017, ACEI entered into unsecured loan agreement with Security Bank Corporation (SBC) amounting to ₱5.0 billion. The tenor of the loan agreement is seven (7) years from the initial drawdown date, with grace period on principal payments of up to three (3) years, reckoned from the initial drawdown. Repayment of the principal amount shall be 16% of the loan from the 12th to 27th interest period and the remaining 84% of the loan will be paid lump sum on the 28th interest period. On June 29, 2017, ACEI drawn ₱100.0 million from then facility. ACEI shall pay interest on the outstanding principal amount of the loan at the fixed rate of 5.75% per annum for all drawdowns from June 2017 to June 2018. For all drawdowns beyond June 2018, the interest rate shall be based on the relevant Peso Benchmark Rate PDST-R2 rate, plus credit spread, the fixed interest rate shall have a floor rate of 5.00%. As of December 31, 2019, the outstanding balance is ₱100.0 million.

Subsidiaries
SLTEC
On April 29, 2012, SLTEC entered into an omnibus loan and security agreement with BDO, SBC and Rizal Banking Corporation to re-leverage and optimize the capital structure of SLTEC and fund its general corporate requirements. Tenor of the loan is 12 years from initial drawdown date. Interest rate ranges from 4.44% to 7.11%. The principal amount shall be paid on a semi-annual after the 3rd anniversary. SLTEC may, at its option, prepay the loan in part or in full on any interest payment date together with accrued interest thereon up to and including the date immediately preceding the date of prepayment, subject to prepayment penalties ranging from 0.00% to 1.25%. As of December 31, 2019, the outstanding balance of these loans is ₱10.7 billion.

<u>ACEI Group</u>
On February 20, 2017, ACEI entered into an unsecured loan agreement with The Philippine American Life and General Insurance Company (PHILAM) amounting to ₱1.0 billion payable in 10 years from the date of drawdown with 6% fixed interest per annum. The loan shall be paid in one lump sum at the maturity date.

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On June 22, 2017, ACEI entered into unsecured loan agreement with Security Bank Corporation (SBC) amounting to ₱5.0 billion. The tenor of the loan agreement is seven (7) years from the initial drawdown date, with grace period on principal payments of up to three (3) years, reckoned from the initial drawdown. Repayment of the principal amount shall be 16% of the loan from the 12th to 27th interest period and the remaining 84% of the loan will be paid lump sum on the 28th interest period.

On June 29, 2017, ACEI drawn ₱100.0 million from then facility. ACEI shall pay interest on the outstanding principal amount of the loan at the fixed rate of 5.75% per annum for all drawdowns from June 2017 to June 2018. For all drawdowns beyond June 2018, the interest rate shall be based on the relevant Peso Benchmark Rate PDST-R2 rate, plus credit spread, the fixed interest rate shall have a floor rate of 5.00%. As of December 31, 2019, the outstanding balance is ₱100.0 million.

Subsidiaries
SLTEC
On April 29, 2012, SLTEC entered into an omnibus loan and security agreement with BDO, SBC and Rizal Banking Corporation to re-leverage and optimize the capital structure of SLTEC and fund its general corporate requirements. Tenor of the loan is 12 years from initial drawdown date. Interest rate ranges from 4.44% to 7.11%. The principal amount shall be paid on a semi-annual after the 3rd anniversary. SLTEC may, at its option, prepay the loan in part or in full on any interest payment date together with accrued interest thereon up to and including the date immediately preceding the date of prepayment, subject to prepayment penalties ranging from 0.00% to 1.25%. As of December 31, 2019, the outstanding balance of these loans is ₱10.7 billion.

ACEPH

Description	Interest Rate (per annum)	Terms	2019
₱5.00 billion loan with BDO	5.0505% per annum for the first 5 years; repricing for the succeeding 5 years is the average of the 5-year BVAL, three (3) days prior to Repricing Date, plus a margin of ninety basis points per annum (0.90%), with the sum divided by 0.95	Availed on November 15, 2019, payable in semi-annual installment within 10 years with final repayment on November 14, 2029; contains negative pledge	**₱4,957.72**
₱1.50 billion loan with China Banking Corporation (CBC)	The higher of 7-year PDST-F at interest rate setting date which is one (1) banking day prior to issue date plus a spread of 1.625% or 5.675% for the first 7 years; repricing for the last 3 years, the higher of 3-year PDST-F plus a spread of 1.625% or initial interest rate.	Availed on April 14, 2014, payable in quarterly installment within 10 years to commence 1 year after the first interest payment date with final repayment on April 10, 2024; contains negative pledge	**₱1,358.73**
₱1.18 billion loan with SBC	Fixed at a rate of 6.50% per annum which shall be payable at the end of the interest period of six months	Availed on January 11, 2017 payable in semi-annual installments within 12.5 years to commence 6 months after the Drawdown Date and every 6 months thereafter with final repayment on July 11, 2029; contains negative pledge	**904.02**
₱1.18 billion loan with DBP	Fixed at a rate of 6.00% for the first 7 years; repricing for the last 5.5 years, the higher of 5-year PDST-R2 plus a spread of 1.625% or 6.25%	Availed on January 10, 2017 payable in semi-annual installments within 12.5 years to commence 6 months after the Drawdown Date and every 6 months thereafter with final repayment on July 10, 2029; contains negative pledge	**904.00**
₱0.50 billion loan with Banco De Oro Unibank, Inc. (BDO)	The higher of 7Y PDST-F at interest rate setting date which is one (1) banking day prior to issue date plus a spread of 1.625% or 5.675% for the first 7 years; repricing for the last 3 years), the higher of 3-year PDST-F plus a spread of 1.625% or initial interest rate	Availed on April 30, 2014, payable in quarterly installments within 10 years to commence 1 year after the first interest payment date with final repayment on January 30, 2024; contains negative pledge	**452.08**
₱0.93 billion loan with SBC	The applicable peso benchmark (based on BVAL) plus minimum of 2.0% spread, with quarterly repricing, which shall be payable quarterly in arrears.	Availed on December 28, 2018 payable on June 28, 2020; up to 18 months from drawdown date	**–**
Carrying value (net of unamortized debt issue costs and embedded derivatives of ₱58.26 million as of December 31, 2019)			**₱8,576.55**

In 2019, principal payments made relative to ACEPH's loans amounted to ₱1,094.1 million. ACEPH paid ₱43.0 million debt issue costs for the ₱5,000.0 million additional loans availed in 2019

PHINMA Renewable
On December 18, 2013, PHINMA Renewable entered into a ₱4,300.00 million Term Loan Facility with Security Bank Corporation ("SBC") and Development Bank of the Philippines ("DBP"). The loan facility is divided into two tranches amounting to ₱2,150.00 million each - DBP as the Tranche A lender and SBC as the Tranche B lender.

Both tranches have a term of 15 years with semi-annual interest payments starting on the date on which the loan is made. The Tranche A's interest is to be fixed at the higher of 10-year PDS Treasury Fixing ("PDST-F") plus a spread of 1.625% or 6.25% for the first 10 years, to be repriced at higher of 5-year PDST-F plus a spread of 1.25% or 6.25% for the last 5 years. The Tranche B will be fixed at higher of interpolated 15-year PDST-F plus a spread of 1.625% or 6.5%. The interest rate floor on the loan is an embedded derivative that is required to be bifurcated. In 2013, the Group did not recognize any derivative liability arising from the bifurcated interest floor rate since the fair value is not significant.

The loan's principal repayment is variable amount payable semi-annually; amount of principal repayment to be determined during the due diligence stage based on the required debt service coverage ratio ("DSCR") and financial projections using the Financial Model validated by an independent financial model auditor. Any incremental revenue resulting from a subsequent increase in the applicable FIT rate shall be applied to principal repayment of the loan in the inverse order of maturity. Incremental revenue is the difference in the revenue based on existing FIT rate of ₱7.40/kwh and a new base rate as defined by the relevant government agency excluding annual adjustments to account for inflation and foreign exchange movements.

In 2019, PHINMA renewable paid ₱27.78 million and ₱28.48 million for Tranche A and Tranche B, respectively.

As of December 31, 2019, the carrying value of these loans amounted to ₱1,504.5 million.

North Wind Power Development Corporation (NPDC)
On May 31, 2012, Bank of the Philippines Islands (BPI) granted a ₱1,000.00 million loan to NPDC, a subsidiary of ACEI.

On September 27, 2013, BPI granted a ₱1,500.00 million long-term loan facility to NPDC to partly fund the Phase III expansion project of NPDC. Total drawings from the loan facility amounted to ₱1,280.00 million.

On October 26, 2016, NPDC and BPI signed an amendment to the loan agreement dated May 31, 2012 and September 27, 2013 reducing the loan principal due by ₱179.57 million.

The reduction in loan principal payment in those periods were spread over the remaining term of the loan. The remaining terms and conditions of the original loan agreements were not amended.

The interest rate on both loans from BPI is based on a floating rate equivalent to prevailing Bangko Sentral ng Pilipinas Overnight Reverse Repurchase Rate (BSP RRP), plus 1.00% spread. The interest is payable semi-annually, computed based on the outstanding balance with payments commencing on the issue date and ending on the maturity date. Starting on the 5th or 7th year, the NPDC has the option of choosing between a floating rate and a fixed rate.

On June 27, 2018, BPI granted a ₱1,000.00 million loan to NPDC to fully prepay the outstanding balance of the loan from Union Bank of the Philippines and to finance its general funding requirements. The first principal repayment and interest is due on April 27, 2019. Interest rate is fixed for the initial period of five (5) years to be repriced after the fifth (5th) year anniversary at a rate

equivalent to (a) the Based Rate- Fixed plus a spread of 0.98%, or (b) 5.30% per annum, whichever is higher. On June 27, 2018, NPDC fully paid its outstanding loan with UBP.

On May 6, 2014, NPDC signed a ₱500.00 million long-term loan facility with Union Bank of the Philippines (UBP) to partly fund the Phase III expansion project of NPDC and refinance a loan. The 6.25% interest rate on the loan from UBP is fixed for the entire 10-year repayment period.

As of December 31, 2019, the outstanding balance of NPDC's loans amounted to ₱2.1 billion.

AAC
On October 6, 2017, AAC secured a 5-year loan from a local bank amounting to ₱450.00 million, bearing interest of 5.4% per annum. Proceeds was used to partially finance the acquisition of the new aircraft. Principal repayments amounting to ₱22.50 million are due every end of the quarter from the loan availment date. The total principal paid for the year ended December 31, 2019 amounted to ₱90 million, respectively. Interest expense recognized in the statements of comprehensive income amounted to ₱17.05 million and ₱15.77 million for the period ended December 31, 2019 and 2018, respectively. Accrued interest as of December 31, 2019 and 2018 amounted to ₱3.43 million and ₱4.58 million, respectively.

In 2017, debt issuance cost representing documentary stamp tax which amounted to ₱2.25 million was presented as a direct deduction to the carrying value of the loan. Amortization of the debt issuance cost amounted to ₱0.58 million and ₱0.73 million in 2019 and 2018, respectively.

Bonds
2019 AYCFL US$400.0 Million Senior Unsecured and Guaranteed Fixed For Life Perpetual Notes (Fixed For Life)
On October 23, 2019, the Parent Company announced that it had successfully set the terms of a US dollar-denominated fixed-for-life (non-deferrable) senior perpetual issuance at an aggregate principal amount of US$400 million (₱20,118.9 million) with a fixed coupon of 4.850% for life with no step-up and no reset, payable semi-annually. The bonds will be issued by AYCFL and will be unconditionally and irrevocably guaranteed by the Parent Company. The bonds were priced at par with a re-offer yield of 4.850%, reflecting a 27.5 basis points compression from the initial price guidance. The final order book was over four times oversubscribed with the order book allocated predominantly to Asia, with the rest to Europe, reflecting the strong investors' confidence in the Ayala name. By investor type, more than half of the offering was allocated to fund managers, insurance companies and pension funds, around one-quarter to banks and financial institutions and the remainder to private banks. The transaction was settled on October 30, 2019.

2017 AYCFL US$400.0 Million Senior Unsecured and Guaranteed Fixed For Life Perpetual Notes (Fixed For Life)
On September 7, 2017, the Parent Company announced that AYCFL had successfully set the terms of a US dollar-denominated fixed-for-life (non-deferrable) senior perpetual issuance at an aggregate principal amount of US$400 million (₱20,171.9 million) with an annual coupon of 5.125% for life with no step-up. The issuance is the first corporate fixed-for-life with no coupon step-up in Southeast Asia and the first fixed-for-life with no step-up (and reset) deal in the Philippines. The issuer, AYCFL, may redeem the Notes in whole but not in part on September 13, 2022 (first redemption date) or any interest payment date falling after the first redemption date at 100% of the principal amount of the Notes plus any accrued but unpaid interest. The proceeds of the issuance will be used to refinance the issuer's US Dollar maturing obligations and to fund investments of the Guarantor (the Parent Company) or its offshore subsidiaries.

The pricing of the Notes reflected a 50-basis point compression from initial price guidance. The offering was more than five times oversubscribed, with investors' confidence reflecting the high quality of the Ayala signature. 19% of the order book for the Notes was allocated to investors from the Philippines, 10% from Europe with the remaining 71% from rest of Asia. By investor type, the split was 67% to fund/asset managers, 12% to banks, 7% to insurance and pension funds, and the

remaining 14% to private banks and other investors. The Notes was settled on September 13, 2017 and was listed in the Singapore Exchange Securities Trading Limited on September 14, 2017.

The Group accounts for this as liability, and, thus shown forming part of long-term debt as of December 31, 2019 and 2018. The cost of issuance is at US$2.7 million resulting in net proceeds of US$397.3 million.

AYCFL Exchangeable Bonds
On May 2, 2014, AYCFL issued at face US$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.50% per annum, payable semi-annually. The Bonds are guaranteed by the Parent Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds are listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options. The Bondholders have the right to exchange their Bonds for shares at any time during the exchange period. AYCFL shall lodge sufficient shares in its securities account to service Exchange Rights. In consideration for the reservation of the shares and by way of deposit for the exercise by the Bondholders of the Exchange Right, AYCFL shall remit to the Parent Company from time to time such amount as may be agreed between them, as defined in the Exchange Protocol agreed between AC and AYCFL. The exchange price per principal amount to be exchanged, translated into at the fixed exchange rate of ₱44.31/US$1.00, is equal to 36.48, subject to anti-dilutive adjustments contingent on certain events. The exchange option was assessed to be an equity component of the Bonds at the consolidated financial statements as the Bonds are denominated in the functional currency of AYCFL and to be settled by the Parent Company through issuance of a fixed number of ALI's common shares.

The put option entitles the bondholders to require AYCFL to redeem, in whole or in part, the Bonds on May 2, 2017 (put option date) at 100% of the principal amount together with accrued and unpaid interest. Moreover, if a change of control event occurs (the change of control put) or in the event that the common shares of ALI are delisted or suspended from trading for a period of more than 20 consecutive trading days (the delisting put), the bondholders may require AYCFL to redeem the Bonds, in whole but not in part, at 100% of the principal amount together with accrued and unpaid interest.

The early redemption option gives the right to AYCFL to redeem the Bonds, in whole but not in part, at any time after May 2, 2017 at 100% of the principal amount on the date fixed for such redemption, provided, however, that no such redemption may be made unless the closing price of the common shares of ALI (translated into US$ at the prevailing average to US$ exchange rate as published by the BSP) for any 30 consecutive trading days was at least 130% of the exchange price then in effect (translated into US$ at the fixed exchange rate of ₱44.31/US$1.00). In addition, if at any time the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued or if a tax event occurs, AYCFL may redeem the Bonds, in whole but not in part, at 100% of principal amount together with accrued and unpaid interest.

The put and early redemption options were assessed to be embedded derivatives that are clearly and closely related to the host contract, therefore, not required to be bifurcated. As the Bonds were determined to be a compound instrument at the consolidated level, (i.e., it has a liability and an equity component which pertains to the exchange option), the Group applied split accounting. The value allocated to the equity component at issue date amounted ₱1.1 billion, being the residual amount after deducting the fair value of the liability component amounting to ₱11.9 billion from the issue proceeds of the Bonds.

In 2018, an equivalent amount of US$7.2 million principal was exchanged and converted into a total of 9,094,414 shares.

On April 30, 2019, the remaining AYCFL US$292.8 million guaranteed exchangeable bonds as of December 31, 2018 were exchanged and converted into total of 377.5 million ALI ordinary common shares. On May 2, 2019, the Bonds have zero outstanding balance.

The total cumulative exchanges of the Bonds into shares resulted in an overall gain of ₱12.3 billion which was booked under Equity Reserve.

As of December 31, 2019 and 2018, the outstanding balance of the Bonds amounted to nil and ₱15.3 billion, respectively.

The loan agreements on long-term debt of the Company and certain subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Group as of December 31, 2019 and 2018. The Parent Company aims to maintain for its debt to equity ratio not to exceed 3:1 in compliance with loan covenants of AYCFL.

ALI Group
Below is the summary of the outstanding Peso bonds issued by ALI Group:

Year Issued	Term (Years)	Interest rate	Principal Amount (In thousands)	Carrying Value (In thousands) 2019	2018	Features
2012	7.0	5.6250%	₱9,350,000	**₱–**	₱9,341,196	Fixed rate bond due 2019
2012	10.0	6.0000%	5,650,000	**5,645,304**	5,644,680	Fixed rate bond due 2022
2013	7.0	4.6250%	4,000,000	**3,995,321**	3,989,546	Fixed rate bond due 2020
2013	20.0	6.0000%	2,000,000	**1,985,276**	1,984,613	Fixed rate bond due 2033
2013	10.5	5.0000%	15,000,000	**14,936,647**	14,923,051	Fixed rate bond due 2024
2014	11.0	5.6250%	8,000,000	**7,952,880**	7,945,703	Fixed rate bond due 2025
2015	7.0	4.5000%	7,000,000	**6,968,807**	6,960,744	Fixed rate bond due 2022
2016	9.5	4.7500%	7,000,000	**6,955,765**	6,949,421	Fixed rate bond due 2025
2016	10.0	4.8500%	8,000,000	**7,946,612**	7,939,468	Fixed rate bond due 2026
2016	3.0	3.0000%	2,982,530	**–**	2,971,976	Homestarter Bond due 2019
2016	7.0	3.8915%	7,000,000	**6,961,631**	6,952,613	Fixed rate bond due 2023
2017	10.0	5.2624%	7,000,000	**6,972,611**	6,969,630	Fixed rate bond due 2027
2018	10.0	5.9203%	10,000,000	**9,896,154**	9,886,828	Fixed rate bond due 2028
2018	5.0	7.0239%	8,000,000	**7,925,898**	7,909,305	Fixed rate bond due 2023
2019	7.0	6.3690%	8,000,000	**7,909,802**	–	Fixed rate bond due 2026
2019	5.0	4.7580%	3,000,000	**2,979,164**	–	Fixed rate bond due 2024
2019	2.0	4.2463%	9,000,000	**8,937,450**	–	Fixed rate bond due 2021
2019	7.25	4.9899%	1,000,000	**952,029**	–	Fixed rate bond due 2027
Total				**₱108,921,351**	₱100,368,774	

Philippine Rating Services Corporation (PhilRatings) rated the ALI's 2019 bond issue "PRS Aaa" with a stable outlook, and maintained the "PRS Aaa" rating with a stable outlook for all other outstanding bonds.

Philippine Peso 7-Year and 10-year Bonds due 2019 and 2022
In April 2012, ALI issued a total of ₱15,000.0 million bonds, broken down into a ₱9,350.0 million bond due 2019 at a fixed rate equivalent to 5.6% p.a. and a ₱5,650.0 million bond due 2022 at a fixed rate equivalent to 6.0% p.a. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. ALI fully paid the ₱9,350.0 million bond in April 2019.

Philippine Peso 5-year and 10-year and 6-month Bonds due 2024
In July 2013, ALI issued a total of ₱15,000.0 million bonds due 2024 at a fixed rate equivalent to 5.0% p.a. Credit Rating and Investors Services Philippines, Inc. (CRISP) assigned a "AAA" on the bonds indicating that it has a minimal credit risk owing to the Company's capacity to repay its debt obligations. In 2019, ALI issued a total of ₱3,000.0 million bonds due 2024 at a fixed rate equivalent to 4.758% p.a. under its new shelf registration.

Philippine Peso 7-Year and 20-year Bonds due 2020 and 2033
In October 2013, ALI issued a total of ₱6,000.0 million bonds, broken down into a ₱4,000.0 million bond due 2020 at a fixed rate equivalent to 4.6% p.a. and a ₱2,000.0 million bond due 2033 at a fixed rate equivalent to 6.0% p.a. CRISP assigned a "AAA" rating on the bonds indicating that it has a minimal credit risk owing to ALI's capacity to repay its debt obligations.
Philippine Peso 11-year Bonds due 2025

In April 2014, ALI issued a total of ₱8,000.0 million bonds due 2025 at a fixed rate equivalent to 5.6% p.a.

Philippine Peso 7.0 Billion Fixed Rate Bonds due 2022
In April 2015, ALI issued a total of ₱7,000.0 million bonds due 2022 at a fixed rate equivalent to 4.5% p.a.

Philippine Peso 9-year and 6-month Bonds due 2025
In April 2016, ALI issued a total of ₱7,000.0 million bonds due 2025 at a fixed rate equivalent to 4.75% p.a. The Bonds is the second tranche of the Fixed-rate Bonds Series under ALI's ₱50,000.0 million Debt Securities Program registered in the SEC.

Philippine Peso 7-year and 10-year Bonds due 2026
In March 2016, ALI issued a total of ₱8,000.0 million bonds due 2026 at a fixed rate equivalent to 4.85% p.a. The Bonds is the first tranche of the Fixed-rate Bonds Series under ALI's ₱50,000 million Debt Securities Program registered in the SEC. In May 2019, ALI issued an ₱8,000.0 million fixed rate bond due 2026 at a rate equivalent to 6.369% p.a. The Bonds represent the first tranche of debt securities issued under the Parent Company's new ₱50,000.0 million Debt Securities Program registered with the SEC, and listed on the PDEx.

Philippine Peso 3-Year Homestarter Bond due 2019 and 7-year Bonds due 2023
In October 2016, ALI issued a total of ₱10,000.0 million bonds, broken down into a ₱3,000.0 million Homestarter bond due 2019 at a fixed rate of 3.0% per annum and a ₱7,000.0 million fixed rate bond due 2023 at a rate equivalent to 3.8915% per annum The Bonds represent the first tranche of Homestarter Bonds series and the third tranche of the Fixed-rate Bonds Series issued under ALI's ₱50,000.0 million Debt Securities Program registered with the SEC, and listed in the PDEx. In 2017, ALI paid ₱9.1 million as an early down payment of the outstanding 3-Year Homestarter Bond. In 2018, ALI paid ₱8.4 million as an early down payment of the outstanding 3-Year Homestarter Bond. ALI fully paid the remaining Homestarter Bond on October 21 and December 23, 2019.

Philippine Peso 7-year and 3-month and 10-year Bonds due 2027
In May 2017, ALI issued a ₱7,000.0 million fixed rate bond due 2027 at a rate equivalent to 5.2624% p.a. The Bonds represent the fourth tranche of the Fixed-rate Bonds Series issued under the ALI's ₱50,000.0 million Debt Securities Program registered with the SEC, and listed in PDEx. In November 2019, ALI issued a ₱1,000.0 million fixed rate bond due 2027 at a rate equivalent to 4.9899 % p.a. This was the third tranche of bonds issued under the new ₱50,000.0 million shelf registration of ALI.

Philippine Peso 10-year Bonds due 2028
In April 2018, ALI issued a ₱10,000.0 million fixed rate bond due 2028 at a rate equivalent to 5.9203% per annum and subject to repricing on 27 April 2023, the fifth anniversary of the Issue Date, at the higher of 5.9203% or the prevailing 5-year benchmark plus 75 bps. The Bonds represent the fifth tranche of the Fixed-rate Bonds Series issued under ALI's ₱50,000.0 million Debt Securities Program registered with the SEC,and listed in the PDEx.

Philippine Peso 5-year Bonds due 2023
In October 2018, ALI issued a ₱8,000.0 million fixed rate bond due 2023 at a rate equivalent to 7.0239% per annum The Bonds represent the sixth and final tranche of the Fixed-rate Bonds Series issued under ALI's ₱50,000.0 million Debt Securities Program registered with the SEC, and listed in the PDEx.

Philippine Peso 2-year Bonds due 2021
On November 6, 2019, ALI issued a ₱9.0 billion fixed rate bond due 2021 at a rate equivalent to 4.2463% per annum. The Bonds form part of the third trance of debt securities issued under ALI's new ₱50. 0 billion Debt Securities Program registered with the SEC and listed on PDEx.

Philippine Peso 21-month Note due 2019
In July 2017, ALI issued and listed on the Philippine Dealing & Exchange Corp. a ₱4,300.0 million Corporate Note. This Note issue is an SEC-registration exempt transaction under Section 10.1(l) of the Securities Regulation Code (SRC) and Section 10.1.3 of the 2015 Implementing Rules and Regulations of the SRC. Thus, the Note was offered on a limited basis to juridical persons or entities who, at the point of offer or sale, were Qualified Buyers. The Notes bear a fixed interest rate of 2.75% per annum The Corporate Notes matured in April 2019.

Philippine Peso 15-month Note due 2019
In November 2017, ALI issued and listed on the PDEx Corp. a ₱3,100.0 million Corporate Note. This Note issue is an SEC-registration exempt transaction under Section 10.1(l) of the Securities Regulation Code (SRC) and Section 10.1.3 of the 2015 Implementing Rules and Regulations of the SRC. Thus, the Note was offered on a limited basis to juridical persons or entities who, at the point of offer or sale, were Qualified Buyers. The Notes bear a fixed interest rate of 3.25% per annum The Corporate Notes matured in February 2019.

Philippine Peso 5-, 10-, 15-Year FXCN due on 2016, 2021 and 2026
In January 2011, ALI issued ₱10,000.0 million FXCNs to various financial institutions and retail investors. The notes will mature on various dates up to 2026. The FXCNs bear fixed interest rates ranging from 5.6% to 7.5% per annum depending on the term of the notes. ALI prepaid ₱1,950.0 million of notes due in 2016 on January 19, 2013. In 2014, ALI paid ₱43.0 million for the matured portion of the loan. In January 2016, ALI paid ₱3,750 million notes for the matured portion of the loan. In 2017, ALI paid ₱43.0 million for the matured portion of the loan. In 2018, ALI prepaid ₱3,234.0 million notes and paid ₱10.0 million for the matured portion of the loan. As of December 31, 2019 and 2018, the remaining balance of the FXCN amounted to ₱960.0 million and ₱970.0 million, respectively.

Philippine Peso 10-year Note due 2023
In December 2012, ALI executed a ₱5.0 billion committed Corporate Note facility with a local bank, of which an initial ₱3.5 billion was drawn in 2012. The balance of ₱1.5 billion was subsequently drawn in January 2013. The Corporate Notes currently bear a fixed interest rate of 4.50% and will mature on the third month succeeding the tenth anniversary of the initial drawdown date. In 2015, the ₱50.0 million was prepaid by ALI. In 2017, another ₱50.0 million was prepaid by ALI. In 2017, ALI paid another ₱50.0 million. In 2018, another ₱50.0 million was prepaid by ALI. In 2019, ALI paid another amortization in the amount of ₱50.0 million. As of December 31, 2019 and 2018, the remaining balance of the note amounted to ₱4,750.0 million and ₱4,800.0 million, respectively.

Philippine Peso 5.0 Billion Fixed Rate Bonds due 2021
In June 2014, CHI issued a total of ₱5.0 billion bonds due 2021 at a fixed rate equivalent to 5.32% per annum

The loan agreements on long-term debt of the Parent Company and some subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Group as of December 31, 2019 and 2018.

ACEI Group

Green Bonds

On January 29, 2019, ACEI, through its wholly-owned subsidiary (ACEFIL issued US dollar-denominated senior Green Bonds (Bonds) at an aggregate principal amount of US$225 million with a 5-year tenor and a coupon of 4.75% per annum, priced at 99.451. The Bonds were successfully listed in the Singapore Exchange on January 30, 2019.

On February 12, 2019, International Finance Corporation (IFC) invested an additional US$75 million in ACEI's Bonds described above via a tap on the facility - bringing the total five-year issue size to US$300 million. On the same date, ACEFIL also issued 10-year Bonds with a principal amount of US$110 million, with a coupon of 5.25% per annum, priced at 99.616. These were also listed on the Singapore Exchange.

The Bonds, now with an aggregate principal amount of US$ 410 million, were issued off a recently established US$1.00 billion Medium Term Note Programme and are guaranteed by ACEI.

FFL Bonds

On November 27, 2019, the Group also issued US dollar-denominated fixed-for-life (FFL Bonds) through ACEFIL at an aggregate principal amount of US$400.00 million (₱20,300.0 million) with a fixed coupon of 5.65 % for life and with no step-up and no reset.

There is no property owned by the Group that was pledged as collateral to these loans.
ACEI plans to deploy the funds for renewable energy expansion across the Asia Pacific region to include the Philippines, Indonesia, Vietnam, Myanmar, India and Australia, among others.

Interest capitalized by subsidiaries amounted to ₱128.2 million and ₱196.2 million in 2019 and 2018, respectively. The capitalization rates are 4.41% to 7.01% in 2019 and 2% to 7.65% in 2018.

Compliance with debt covenants

The loan agreement on long-term debt of the Parent Company and some subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Group as of December 31, 2019 and 2018.

20. Other Noncurrent Liabilities

This account consists of the following:

	2019	2018 (Restated)
	(In Thousands)	
Deposits and deferred credits	**₱23,073,011**	₱29,702,272
Retentions payable	**6,751,643**	5,721,123
Contractors payable	**6,595,611**	7,264,642
Liability for purchased land	**5,426,645**	5,021,034
Deferred output vat	**1,721,402**	1,923,754
Subscriptions payable	**498,687**	802,702
DRP obligation	**–**	1,001,146
Provisions (Note 36)	**–**	569,893
Others	**4,380,371**	1,837,598
	₱48,447,370	₱53,844,164

Deposits and deferred credits
Deposits include security deposits from tenants of retail and office spaces and deferred credits arising from sale of real estate properties. Security deposits are equivalent to three (3) to six (6) months' rent of long-term tenants with noncancellable leases. This will be refunded to the lessees at the end of the lease term or be applied to the last months' rentals on the related contracts. This also includes customers' deposits which consist of excess of collections over the recognized receivables based on percentage of completion. Deferred credits pertain to advances from buyers of real estate properties to cover various processing fees including, but not limited to, fees related to transfer of title such as registration fees, documentary taxes and transfer taxes. Payments made by ALI Group for the processing of title are charged to this account.

Customers' deposits consist of excess of collections over the recognized receivables based on percentage of completion.

Contractors payable
Contractors payable represents accrued costs incurred for property development that are not yet billed.

Retentions payable
Retentions payable pertains to amount withheld by the Group from the contractors' billings to be released after the guarantee period, usually one (1) year after the completion of the project or upon demand. The retention serves as a security from the contractor should there be defects in projects requiring rework.

Liability for purchased land
Liability for purchased land pertains to the portion of unpaid unsubdivided land acquired during the year. These are normally payable in quarterly or annual installment payments within three (3) or five (5) years.

Deferred output VAT
Deferred output VAT pertains to output VAT on receivables for which sales recognition has been deferred based on sales collection threshold for VAT recognition purposes.

DRP obligation
DRP obligation pertains to the liability arising from the assignment agreement between NTDCC, a subsidiary of ALI, and MRTDC of the latter's development rights (see Note 36). In consideration of the lease, NTDCC will be charged an annual rent related to the original DRP obligation on MRTDC and 5% of the rental income from NTDCC's commercial center business. This amount has been reclassified in line with the adoption of PFRS 16.

Subscriptions payable
Subscription payable mainly pertains to ALLHC's investment in Cyber Bay.

On April 25, 1995, Central Bay, a wholly-owned subsidiary of Cyber Bay, entered into a Joint Venture Agreement with the Philippine Reclamation Authority (PRA; formerly Public Estates Authority) for the complete and entire reclamation and horizontal development of a portion of the Manila-Cavite Coastal Road and Reclamation Project (the Project) consisting of three partially reclaimed and substantially eroded islands (the Three Islands) along Emilio Aguinaldo Boulevard in Parañaque and Las Piñas, Metro Manila with a combined total area of 157.8 hectares, another area of 242.2 hectares contiguous to the Three Islands and, at Central Bay's option as approved by the PRA, an additional 350 hectares more or less to regularize the configuration of the reclaimed area.

On March 30, 1999, the PRA and Central Bay executed an Amended Joint Venture Agreement (AJVA) to enhance the Philippine Government's share and benefits from the Project which was approved by the Office of the President of the Philippines on May 28, 1999.

On July 9, 2002, the Supreme Court (SC) (in the case entitled "Francisco Chavez vs. Amari Coastal Bay and Reclamation Corp.") issued a ruling declaring the AJVA null and void. Accordingly, PRA and Central Bay were permanently enjoined from implementing the AJVA.

On July 26, 2002, Central Bay filed a Motion for Reconsideration (MR) of said SC decision. On May 6, 2003, the SC En Banc denied with finality Central Bay's MR. On May 15, 2003, Central Bay filed a Motion for Leave to Admit Second MR. In an En Banc Resolution of the SC dated July 8, 2003, the SC resolved to admit the Second MR of Central Bay.

On November 11, 2003, the SC rendered a 7-7 split decision on Central Bay's Second MR. Because of the new issues raised in the SC's latest resolution that were never tried or heard in the case, Central Bay was constrained to file on December 5, 2003 a Motion for Re-deliberation of the SC's latest resolution which motion was denied with finality by the SC.

With the nullification of the AJVA, Central Bay has suspended all Project operations. On August 10, 2007, in view of the failure by the PRA to comply with its obligations and representations under the AJVA, Cyber Bay and Central Bay have filed their claims for reimbursement of Project expenses in the amount of ₱10,200.0 million with the PRA. Cyber Bay and Central Bay provided the PRA with the summary and details of their claims on September 5, 2007.

On July 15, 2008, Cyber Bay sent a follow-up letter to the PRA. The PRA, in its letter dated July 18, 2008, informed Cyber Bay that its claim is still being evaluated by the PRA. As of December 31, 2019, the claim is still being evaluated by the PRA.

As of December 31, 2019 and 2018, ALI Group has unpaid subscription in Cyber Bay amounting to ₱481.7 million. The investment in Cyber Bay under "Investment in bonds and other securities" amounted to ₱513.6 million and ₱548.3 million as of December 31, 2019 and 2018, respectively (see Note 15).

Provisions

Provisions relate to pending unresolved claims and assessments.

On October 13, 2005, the Municipality of Norzagaray, Bulacan assessed the Parent Company and Maynilad Water Services, Inc. (jointly, the Concessionaires) real property taxes on certain common purpose facilities registered in the name of and owned by MWSS purportedly due from 1998 to 2005 amounting to 357.11 million. On November 15, 2010, the local government of Quezon City demanded the payment of 302.71 million for deficiency real property taxes from MWSS on MWSS properties within its territorial jurisdiction. The assessments from the municipality of Norzagaray and Quezon City have been questioned by the Concessionaires and MWSS and are pending resolution before the Central Board of Assessment Appeals and Supreme Court, respectively. On November 7, 2018, the Supreme Court issued its decision declaring that the real properties of the MWSS located in Quezon City are exempt from the real estate tax imposed by the local government of Quezon City. Total provision for these assessments amounted to nil and 416.23 million as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the remaining provision for estimated probable losses pertains to various legal proceedings and exposures arise in the ordinary course of business. Management believes that any amount the Group may have to pay in connection with any of these matters will not have a material adverse effect on the Group's financial position or operating results

R.A. No. 9275 or the Philippine Clean Water Act of 2004 (the "Philippine Clean Water Act

The legal proceedings before the Supreme Court originated from a complaint filed by the Regional Director of the Environmental Management Bureau-National Capital Region (EMB-NCR) before the Pollution Adjudication Board ("PAB") against the MWC, Maynilad Water Services, Inc. ("Maynilad") and MWSS for alleged violation of the Philippine Clean Water Act of 2004 (RA No.9275, the "Clean Water Act"), particularly the five (5)-year deadline imposed in Section 8 thereof for connecting the existing sewage line found in all subdivisions, condominiums, commercial centers, hotels, sports and

recreational facilities, hospitals, market places, public buildings, industrial complex and other similar establishments including households, to an available sewerage system. Two (2) similar complaints against Maynilad and MWSS were consolidated with this case.

On September 18, 2019, MWC received a copy of the Decision of the Supreme Court on the case of *'Manila Water Company, Inc. vs. The Secretary of the Department of Environment and Natural Resources, et.al.'* with G.R. No. 206823 promulgated on August 6, 2019. In this Decision, the Supreme Court found MWC liable for fines in violation of Section 8 of the Clean Water in the following manner:

a) MWC shall be jointly and severally liable with the MWSS for the total amount of ₱921.5 million covering the period starting from May 7, 2009 to the date of promulgation of the Decision, August 6, 2019, to be paid within fifteen (15) days from finality of the Decision.

b) From finality of the Decision until full payment of the ₱921.5 fine, MWC shall be fined in the initial amount of ₱322,102.00 per day, subject to a further 10.0% increase every two (2) years as provided under Section 28 of the Philippine Clean Water Act, until full compliance with Section 8 of the same law.

c) The total amount of fines imposed by the Decision shall earn legal interest of 6% per annum from finality and until full satisfaction thereof.

On October 2, 2019, MWC filed a Motion for Reconsideration with the Supreme Court. As of March 12, 2020, MWC has not received any resolution from the Supreme Court.
The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the ground that it can be expected to prejudice the outcome of these claims and assessments (see Note 37).

The provision of MWC group amounted to ₱1,181.9 million has been reclassified to liabilities under PFRS 5.

Others
Others include nontrade payables. In 2019, this includes liability for the unpaid acquisition cost by ACEI Group to Axia for the 20% interest in SLTEC amounting to ₱2,040.0 million.

21. Equity

The details of the Parent Company's preferred and common shares follow:

	Preferred A shares		**Preferred B shares**		**Preferred C shares**		**Voting Preferred shares**		**Common shares**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	(In Thousands, except par value per share)									
Authorized shares	**12,000**	12,000	**58,000**	58,000	**40,000**	40,000	**200,000**	200,000	**900,000**	900,000
Par value per share	**₱100**	₱100	**₱100**	₱100	**₱100**	₱100	**₱1**	₱1	**₱50**	₱50
Issued and subscribed shares	**12,000**	12,000	**58,000**	58,000	**–**	–	**200,000**	200,000	**631,162**	630,627
Outstanding shares										
At beginning of year	**–**	–	**47,000**	47,000	**–**	–	**200,000**	200,000	**630,627**	621,292
Issuance of shares	**–**	–	**–**	–	**–**	–	**–**	–	**–**	8,810
Issued shares on exercise of share options	**–**	–	**–**	–	**–**	–	**–**	–	**19**	7
Subscribed shares	**–**	–	**–**	–	**–**	–	**–**	–	**516**	518
Treasury shares										
Redemption	**–**	–	**(27,000)**	–	**–**	–	**–**	–	**–**	–
Re-issuance	**–**	–	**30,000**	–	**–**	–	**–**	–	**–**	–
Acquisition	**–**	–	**–**	–	**–**	–	**–**	–	**(4,479)**	–
At end of year	**–**	–	**50,000**	47,000	**–**	–	**200,000**	200,000	**626,683**	630,627

Details of Preferred B shares as follows (*in Thousands, except par value per share*).

	Series 1		**Series 2**		**Total**	
Preferred B	**2019**	2018	**2019**	2018	**2019**	2018
Par value per share	**₱100**	₱100	**₱100**	₱100		
Issued and subscribed shares	**28,000**	28,000	**30,000**	30,000	**58,000**	58,000
Treasury shares	**8,000**	8,000	**–**	3,000	**8,000**	11,000
Outstanding shares	**20,000**	20,000	**30,000**	27,000	**50,000**	47,000
Cost of treasury shares	**₱800,000**	₱800,000	**₱–**	₱300,000	**₱800,000**	₱1,100,000

Preferred Shares

Preferred A shares

On November 11, 2008, the Parent Company filed a primary offer in the Philippines of its Preferred A shares at an offer price of ₱500.00 per share to be listed and traded on the PSE.

Preferred A shares are cumulative, nonvoting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 8.88% per annum. The Preferred A shares may be redeemed at the option of the Parent Company starting on the fifth year.

On June 28, 2013, the BOD approved and authorized the exercise of call option on Preferred A shares effective November 25, 2013 based on the dividend rate of 8.88% per annum. The redemption of Preferred A shares is presented as part of treasury stock.

Preferred B shares

In July 2006, the Parent Company filed a primary offer in the Philippines of its Preferred B shares at an offer price of ₱100.00 per share to be listed and traded in the PSE. The Preferred B shares are cumulative, nonvoting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of shares and with dividend rate of 9.4578% per annum. The Preferred B shares may be redeemed at the option of the Parent Company starting on the fifth year from the date of issuance.

On March 14, 2011, the BOD approved and authorized the exercise of call option on its Preferred B shares effective July 21, 2011 based on the dividend rate of 9.5% per annum. The redemption of Preferred B shares is presented as part of treasury stock.

Preferred B Series 1 shares

In September 2013, the BOD approved and authorized the re-issuance and offering of 20.0 million Preferred B Series 1 shares from its 58.0 million authorized Class "B" preferred treasury share capital for an aggregate amount of ₱10.0 billion. The Preferred B Series 1 shares were offered at a price of ₱500.00 per share with a fixed quarterly dividend rate of 5.25% per annum.

Preferred B Series 2 shares

On August 22, 2014, the BOD approved and authorized the re-issuance and offering of 27.0 million Preferred B Series 2 shares, which comprise a second and separate series from the Parent Company's outstanding 5.25% Preferred B Series 1 shares, from its 58.0 million authorized Class "B" preferred treasury share capital, for an aggregate amount of ₱13.5 billion. The Preferred B Series 2 shares were offered at a price of ₱500.00 per share with a dividend rate of 5.575%. The reissuance resulted to the Parent Company recognizing ₱10.7 billion additional paid-in capital net of direct expenses from re-issuance.

On September 13, 2019, the BOD approved and authorized the redemption by the Parent Company of its 27.0 million Preferred B Series 2 shares representing all of the outstanding Preferred B Series 2 shares shares at the redemption price equal to the issue price plus all accrued and unpaid dividends until November 5, 2019 based on the dividend rate of 5.575% per annum. On the same date, the BOD also approved and authorized the re-issuance and offering of 30.0 million Preferred B Series 2 shares for an offer price of ₱500.00 per share with initial dividend rate of 4.8214% per annum which

will be applicable until its next dividend rate resetting date which is 5 years from issue date. The re-issuance resulted to the Parent Company recognizing ₱1.1 billion additional paid-in capital net of direct expenses from re-issuance.

Preferred C shares.
Preferred C shares are cumulative, non-participating, non-voting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of the shares.

Voting Preferred shares
On March 15, 2010, the BOD approved the reclassification of 4.0 million unissued common shares with a par value of ₱50.00 per share into 200.0 million Voting Preferred shares with a par value of ₱1.00 per share and the amendment of the Parent Company's amended Articles of Incorporation to reflect the reclassification of the unissued common shares into new Voting Preferred shares.
On April 16, 2010, the Parent Company's stockholders ratified the reclassification.

On April 22, 2010, the SEC approved the amendments to the Parent Company's Articles of Incorporation embodying the reclassification of the unissued common shares to new Voting Preferred shares.

The Voting Preferred shares are cumulative, voting and redeemable at the option of the Parent Company under such terms that the BOD of the Parent Company may approve at the time of the issuance of shares and with a dividend rate of 5.3% per annum. In 2016, the dividend rate was repriced to 3.6950%.
On July 16, 2019, the BOD approved the re-pricing of dividend rate to 5.7730% per annum, which is equal to the 3-year PHP BVAL reference rate as of May 20, 2019 and will be applicable until May 20, 2022, the next re-pricing date.

<u>Common Shares</u>
The common shares may be owned or subscribed by or transferred to any person, partnership, association or corporation regardless of nationality, provided that at any time at least 60% of the outstanding capital stock shall be owned by citizens of the Philippines or by partnerships, associations or corporations with 60% of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

In July 2013, the SEC approved the amendments to the Parent Company's Articles of Incorporation for the exemption of 100 million common shares from the exercise of pre-emptive rights of holders of common shares. These shares are allocated to support the financing activities of the Parent Company.

On July 21, 2018, the Parent Company issued 8.8 million common shares at a price of ₱916.0 per share to an institutional investor and paid documentary stamp taxes and listing fee amounting to ₱4.4 million and ₱9.0 million, respectively.

On May 22, 2019, the Parent Company purchased its 3,805,644 common shares at ₱838.00 from Mitsubishi Corporation ("Mitsubishi") pursuant to the share buyback program approved by the BOD on September 10, 2007, June 2, 2010, and December 10, 2010.

On December 11, 2019, the Parent Company also purchased its 613,000 common shares at ₱815.00 pursuant to the share buyback program of ₱10.0 billion worth of shares approved by the BOD on December 5, 2019. The Company purchased another 60,000 common shares at ₱752.00 on December 16, 2019.

<u>Treasury shares</u>
As of December 31, 2019, treasury shares include 12.0 million Preferred A shares amounting ₱1.2 billion, 8.0 million Preferred B shares amounting to ₱800.0 million and 4.5 million common shares amounting to ₱3.7 million.

As of December 31, 2018, treasury shares include 12.0 million Preferred A shares and 11.0 million Preferred B shares amounting to ₱1.2 billion and ₱1.1 billion, respectively.

The details of the Parent Company's paid-in capital follow:

2019

	Preferred Stock - A	Preferred Stock - B	Voting Preferred	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital	Treasury Stock
					(In Thousands)				
At beginning of year	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱31,340,717**	**₱190,658**	**₱46,156,018**	**(₱1,525,718)**	**₱83,361,675**	**(₱2,300,000)**
Redemption of Preferred B Series 2 shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13,500,000)**
Re-issuance of redeemed Preferred B Series 2 shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**13,500,000**
Issuance of additional Preferred B Series 2 shares	**–**	**–**	**–**	**–**	**–**	**1,079,931**	**–**	**1,079,931**	**300,000**
Exercise/Cancellation/ Subscription of ESOP/ ESOWN	**–**	**–**	**–**	**943**	**25,795**	**601,297**	**(468,093)**	**159,942**	**–**
Collection of subscription receivables	**–**	**–**	**–**	**–**	**–**	**–**	**274,677**	**274,677**	**–**
Buyback of common shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,737,896)**
At end of year	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱31,341,660**	**₱216,453**	**₱47,837,246**	**(₱1,719,134)**	**₱84,876,225**	**(₱5,737,896)**

2018

	Preferred Stock - A	Preferred Stock - B	Voting Preferred	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital	Treasury Stock
					(In Thousands)				
At beginning of year	₱1,200,000	₱5,800,000	₱200,000	₱30,899,877	₱164,725	₱37,929,927	(₱1,193,355)	₱75,001,174	(₱2,300,000)
Issuance of new shares	–	–	–	440,500	–	7,615,757	–	8,056,257	–
Exercise/Cancellation/ Subscription of ESOP/ESOWN	–	–	–	340	25,933	610,334	(500,942)	135,665	–
Collection of subscription receivables	–	–	–	–	–	–	168,579	168,579	–
At end of year	₱1,200,000	₱5,800,000	₱200,000	₱31,340,717	₱190,658	₱46,156,018	(₱1,525,718)	₱83,361,675	(₱2,300,000)

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

	Number of shares registered	Issue/offer price	Date of approval	**2019** Number of holders of securities as of December 31	2018 Number of holders of securities as of December 31
Common shares	200,000,000*	₱1.00 par value**; ₱4.21 issue price	July 1976	**6,424**	6,507
Preferred A shares***	12,000,000	₱100 par value; ₱500 issue price	November 2008	**–**	–
Preferred B shares	8,000,000	₱100 par value; ₱500 issue price	July 2006	**–**	–
Preferred B shares- Series 1****	20,000,000	₱100 par value; ₱500 issue price	October 2013	**19**	19
Preferred B shares- Series 2*****	30,000,000	₱100 par value; ₱500 issue price	November 2019	**2**	–
	27,000,000	₱100 par value; ₱500 issue price	October 2014	**–**	10
Voting preferred shares	200,000,000	₱1 par value; ₱1 issue price	March 2010	**1,039**	1,031

**Initial number of registered shares only.*
***Par value now is ₱50.00*
****The Preferred A shares were fully redeemed on November 25, 2013.*
*****The Preferred B- Series 1 shares were re-issued on November 15, 2013.*
******The Preferred B-Series 2 share were re-issued on November 29, 2019.*

Retained Earnings
Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries and associates and joint ventures accounted for under the equity method amounting to ₱184,615.5 million, ₱142,844.6 million and ₱116,104.3 million as of December 31, 2019, 2018 and 2017, respectively, which are not available for dividend declaration by the Parent Company until these are declared by the investee companies.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury.

In accordance with the Revised SRC Rule 68, Annex 68-D, the Parent Company's retained earnings available for dividend declaration as of December 31, 2019 and 2018 amounted to ₱46.5 billion and ₱34.0 billion, respectively.

Dividends consist of the following:

	2019	2018	2017
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	**₱5,204,472**	₱4,333,459	₱4,299,109
Cash dividends per share	**8.30**	6.92	6.92
Dividends to equity preferred shares declared during the year			
Cash dividends to Preferred B shares	**1,248,210**	1,277,625	1,277,625
Cash dividends to Voting Preferred shares	**11,546**	7,390	7,390

Capital Management
The primary objective of the Parent Company's capital management policy is to ensure that it maintains a robust balance sheet in order to support its business and maximize shareholder value.

The Parent 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 Parent Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2019, 2018 and 2017.

The Parent Company monitors capital using a gearing ratio of debt to equity and net debt to equity. Debt consists of short-term and long-term debt of the Group. Net debt includes short-term and long-term debt less cash and cash equivalents, short-term investments and restricted cash of the Group. The Parent Company considers as capital the total equity.

	2019	2018
	(In Thousands)	
Short-term debt	**₱29,788,643**	₱39,518,245
Long-term debt	**375,549,514**	372,743,387
Total debt	**405,338,157**	412,261,632
Less:		
Cash and cash equivalents	**93,405,253**	60,624,263
Short-term investments	**13,387,801**	5,956,489
Restricted cash	**4,261,796**	2,365,311
Net debt	**₱294,283,307**	₱343,315,569
Total equity	**₱509,313,558**	₱469,108,355
Debt to equity	**79.6%**	87.9%
Net debt to equity	**57.8%**	73.2%

The loan agreements on long-term debt of the Parent Company and some subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Group as of December 31, 2019 and 2018.

Due to certain constraints in the local banking system regarding loans to directors, officers, stockholders and related interest (DOSRI), some of the Parent Company's credit facilities with a local bank are secured by US dollar cash in accordance with BSP regulations. Any outstanding loan amount, as well as the interest, all other charges and expenses, shall be secured by an assignment of US dollar denominated deposits (thru its financing arm AYCFL, see Note 19) and remain on holdout by the bank for as long as the loan is outstanding at a collateral to loan ratio of 1:1, which the borrower agrees to maintain at all times.
The Parent Company also monitors capital through return-to-common equity ratio. For this ratio, the Parent Company considers as capital the average amount of equity with the exclusion of accounts pertaining to preferred shares and the non-controlling interests.

	2019	2018
	(In Thousands)	
Net income attributable to owners of the parent	**₱35,279,330**	₱31,817,721
Less:		
Dividends to equity preferred shares	**1,259,756**	1,285,015
	₱34,019,574	₱30,532,706
Average common equity attributable to owners of the parent	**₱285,499,690**	₱249,959,899
Return to common equity	**11.9%**	12.2%

22. **Revenue**

This account consists of

	2019	2018 (As Restated)	2017 (As Restated)
		(In Thousand)	
Revenue from contracts with customers			
Real estate	**₱133,734,275**	₱134,474,474	₱114,186,459
Manufacturing services	**64,677,782**	69,731,033	55,028,256
Others	**34,807,402**	24,163,360	32,032,305
	233,219,459	228,368,867	201,247,020
Rental income	**31,687,075**	28,522,420	24,321,316
Sale of goods and rendering services	**264,906,534**	256,891,287	225,568,336
Share in net profits of associates and joint ventures	**22,344,352**	19,760,662	18,037,250
Interest income from real estate	**7,890,972**	7,042,078	5,409,944
Dividend income	**122,903**	106,803	653,721
Total	**₱295,264,761**	₱283,800,830	₱249,669,251

Disaggregated revenue information
Set out below is the disaggregation of revenue from contracts with customers of the material subsidiaries of the Group:

ALI Group
Revenue from contracts with customers of ALI Group consists of:

	2019	2018	2017
		(In Thousands)	
Revenue from contracts with customers			
Residential development	**₱117,580,972**	₱120,396,794	₱101,797,865
Hotels and resorts	**7,624,159**	6,386,896	5,621,164
Construction	**3,076,549**	2,393,683	1,559,430
Other	**5,452,595**	5,297,101	5,208,000
Total Revenue	**₱133,734,275**	₱134,474,474	₱114,186,459

ALI Group derives revenue from the transfer of goods and services over time and at a point in time, in different product types. ALI Group's disaggregation of each source of revenue from contracts with customers are presented below:

Residential development

	2019	2018
	(In thousands)	
Type of Product		
Middle Income Housing	**₱36,023,183**	₱33,164,100
Coremid	**34,813,550**	33,694,884
Condominium	**29,326,334**	35,284,221
Lot only	**17,417,905**	18,253,589
	₱117,580,972	₱120,396,794

All of ALI Group's real estate sales from residential development are revenue from contracts with customers recognized over time.

Hotels and resorts

	2019	2018
	(In thousands)	
Type of Services		
Rooms	**₱4,447,172**	₱3,909,395
Food and beverage	**2,090,953**	2,116,548
Other operated department	**761,712**	296,049
Others	**324,322**	64,904
	₱7,624,159	₱6,386,896

ALI Group's construction revenue pertains to transactions with related parties such as joint ventures and associates.

Set-out below is ALI's reconciliation of contracts with customers with the amounts disclosed in segment information (in millions):

	2019					
	Residential Development	**International**	**Construction**	**Hotels and Resorts**	**Property Management and Others**	**Total**
			₱3,076	**₱7,624**		
Sales to external customer	**₱102,981**	**₱6,709**			**₱5,453**	**₱125,843**
Interest	**7,891**	**–**	**–**	**–**	**–**	**7,891**
Total revenue from contracts with customers	**₱110,872**	**₱6,709**	**₱3,076**	**₱7,624**	**₱5,453**	**₱133,734**

	2018					
	Residential Development	International	Construction	Hotels and Reosrts	Property Management and Others	Total
Sales to external customer	₱105,752	₱7,602	₱2,394	₱6,387	₱5,297	₱127,432
Interest	7,042	–	–	–	–	7,042
Total revenue from contracts with customers	₱112,794	₱7,602	₱2,394	₱6,387	₱5,297	₱134,474

Information about ALI Group's performance obligations are summarized below:

Real estate sales
ALI Group entered into contracts to sell with one identified performance obligation which is the sale of the real estate unit together with the services to transfer the title to the buyer upon full payment of contract price. The amount of consideration indicated in the contract to sell is fixed and has no variable consideration.

The sale of real estate unit may cover the contract for either the (i) serviced lot; (ii) service lot and house, and (ii) condominium unit and ALI Group concluded that there is one performance obligation in each of these contracts. ALI Group recognizes revenue from the sale of these real estate projects under pre-completed contract over time during the course of the construction.

Payment commences upon signing of the contract to sell and the consideration is payable in cash or under various financing schemes entered with the customer. The financing scheme would include payment of 10% of the contract price spread over a certain period (e.g., one to two years) at a fixed monthly payment with the remaining balance payable (a) in full at the end of the period either through cash or external financing; or (b) through in-house financing which ranges from two (2) to ten (10) years with fixed monthly payment. The amount due for collection under the amortization schedule for each of the customer does not necessarily coincide with the progress of construction, which results to either a contract asset or contract liability.

After the delivery of the completed real estate unit, ALI Group provides one year warranty to repair minor defects on the delivered serviced lot and house and condominium unit. This is assessed by ALI Group as a quality assurance warranty and not treated as a separate performance obligation.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially satisfied) as at December 31, 2019 and 2018 are as follows:

	2019	2018
	(In Thousands)	
Within one year	**₱180,244,187**	₱47,937,926
More than one year	**36,483,661**	55,328,212
	₱216,727,848	₱103,266,138

The remaining performance obligations expected to be recognized within one year and in more than one year relate to the continuous development of ALI Group's real estate projects. ALI Group's condominium units are completed within three years and five years, respectively, from start of construction while serviced lots and serviced house and lots are expected to be completed within two to three years from start of development.

IMI Group
The following table presents revenue of IMI Group by type:

	2019	2018
	(Amounts in thousands)	
Manufacturing of goods	**₱64,399,776**	₱69,509,283
Non-recurring engineering services	**278,006**	221,750
Revenue from contracts with customers	**₱64,677,782**	₱69,731,033

Translated using the weighted average exchange rate for the year (US$1:₱51.78 in 2019 and $1:₱ 52.32 in 2018).

The following table presents revenue per market segment:

	2019	2018	2017
		(In Thousands)	
Automotive	**₱31,011,316**	₱28,351,717	₱22,502,867
Industrial	**16,310,945**	17,509,064	11,172,810
Consumer	**6,584,754**	9,218,063	9,514,040
Telecommunication	**4,907,555**	7,015,392	6,130,972
Aerospace/defense	**2,737,345**	2,973,384	1,258,732
Medical	**826,599**	677,805	972,975
Multiple market/others	**2,299,268**	3,985,608	3,475,860
	₱64,677,782	₱69,731,033	₱55,028,256

Translated using the weighted average exchange rate for the year(US$1:₱51.73 in 2019, $1:₱ 52.32 in 2018, and US$1:₱50.40 in 2017).

Revenues from contracts with customers of IMI Group are also further disaggregated by customer's nationality and timing of revenue recognition, as management believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

23. Costs and Expenses and Other Income (Charges)

Details of costs of sales and services included in the consolidated statements of income are as follows:

	2019	2018 (As Restated)	2017 (As Restated)
		(In Thousands)	
Cost of sales (Notes 8 and 31)	**₱129,029,980**	₱138,365,033	₱132,774,423
Cost of services:			
Personnel costs (Notes 28 and 31)	**₱12,589,037**	₱10,440,253	₱7,836,509
Depreciation and amortization (Notes 11, 12, 13 and 14)	**12,143,989**	8,823,927	7,305,578
Professional fees, management fees and commissions	**9,399,302**	6,874,268	4,649,609
Rental, utilities and supplies	**6,007,394**	11,259,227	4,859,838
Taxes and licenses	**4,076,513**	3,076,684	2,953,846
Repairs and maintenance	**3,334,893**	2,256,489	1,016,457
Hotels and resorts operations	**3,001,616**	3,030,787	5,435,408
Contract labor	**1,687,412**	1,072,874	533,892
Transportation and travel	**1,049,462**	415,316	322,313
Insurance	**570,397**	406,645	226,635
Others	**7,093,263**	3,685,135	756,803
	60,953,278	51,341,605	35,896,888
Costs of sales and services	**₱189,983,258**	189,706,638	₱168,671,311

Cost of sales includes, among others, the cost of real estate inventories amounting to ₱59.4 billion in 2019, ₱67.8 billion in 2018 and ₱59.9 billion in 2017; electronics goods amounting to ₱45.0 billion in 2019, ₱49.5 billion in 2018 and ₱44.2 billion in 2017; and cost of vehicles, automotive parts and accessories amounting to ₱19.6 billion in 2019, ₱19.7 billion in 2018 and ₱28.4 billion in 2017.

IMI's subsidiaries, excluding PSi and IMI BG, participate in their respective national retirement schemes which are considered as defined contribution plans. The retirement expense of these subsidiaries which form part of IMI's personnel cost is as follows:

	US$	**₱**
	(In thousands)	
2019	7,697	387,934
2018	7,726	407,073
2017	4,793	248,173

"Others" include various costs such as cost of energy sales, communication, dues and fees and miscellaneous overhead, among others.

General and administrative expenses included in the consolidated statements of income are as follows:

	2019	2018 (As Restated)	2017 (As Restated)
		(In Thousands)	
Personnel costs (Notes 28 and 31)	**₱15,179,174**	₱12,352,751	₱10,412,209
Depreciation and amortization (Notes 11, 12, 13 and 14)	**2,882,734**	1,946,638	1,582,792
Professional fees	**2,525,381**	2,289,367	1,992,328
Taxes and licenses	**2,079,132**	1,681,497	1,305,991
Contract labor	**1,472,599**	1,046,312	805,684
Advertising and promotions	**973,506**	892,869	818,644
Transportation and travel	**895,350**	697,149	566,055
Repairs and maintenance	**764,658**	736,212	550,594
Rental and utilities	**605,863**	963,986	778,876
Postal and communication	**432,702**	340,702	287,548
Dues and fees	**349,681**	255,509	172,515
Insurance	**245,152**	292,265	183,512
Provision for impairment / Losses on:			
Investments in associates and joint ventures (Note 10)	**839,419**	589,109	356,700
Receivables (Note 7)	**671,601**	317,218	242,707
Intangible and other assets (Notes 14 and 24)	**410,453**	361,170	26,112
Mark-to-market loss (gain) on financial assets at FVTPL (Notes 9 and 32)	**394,780**	(81,376)	18,813
Inventories (Note 8)	**236,644**	125,460	(13,674)
Property, plant and equipment (Note 12)	**4,493**	–	–
Land and Improvements	**–**	–	572,001
Supplies	**244,714**	264,112	155,179
Donations and contributions	**227,812**	254,030	223,048
Entertainment, amusement and recreation	**140,979**	149,592	151,179
Write-down of inventories	**111,216**	–	–
Research and development	**45,069**	14,372	181,018
Others	**379,703**	467,784	274,669
	₱32,112,815	₱25,956,728	₱21,644,500

Personnel costs include IMI's retirement expense amounting to US$1.2 million (₱59.5 million), US$72.6 million (₱72.7 million) and US$1.2 million (₱62.6 million) in 2019, 2018 and 2017.

“Others” include various expenses such as plant relocation costs, management fees, marketing, collection charges, sales commission, bank service charge, periodicals and miscellaneous operating expenses. In 2017, the plant relocation costs pertaining to the transfer of one of IMI’s operations in China from Liantang, Luohu to Pingshan were also charged to certain general and administrative expenses. Such plant relocation is in line with the urban redevelopment projects of the Shenzhen City government.

Depreciation and amortization expense included in the consolidated statements of income follows:

	2019	2018 (As Restated)	2017 (As Restated)
		(In Thousands)	
Included in:			
Cost of sales and services	**₱12,143,989**	₱8,823,927	₱7,305,578
General and administrative expenses	**2,882,734**	1,946,638	1,582,792
	₱15,026,723	₱10,770,565	₱8,888,370

Personnel costs included in the consolidated statements of income follow:

	2019	2018 (As Restated)	2017 (As Restated)
		(In Thousands)	
Included in:			
Cost of sales and services	**₱12,589,037**	₱10,440,253	₱7,836,509
General and administrative expenses	**15,179,174**	12,352,751	10,412,209
	₱27,768,211	₱22,793,004	₱18,248,718

Other income consists of:

	2019	2018 As Restated	2017 As Restated
		(In Thousands)	
Gain on sale of investments (Notes 2, 10 and 24)	**₱24,696,571**	₱1,514,439	₱1,394,560
Remeasurement gain (loss) on previously held interest (Note 24)	**2,020,662**	(1,968,599)	–
Revenue from management contracts	**909,212**	622,149	564,437
Gain on sale of financial assets at FVTPL	**528,011**	996,170	779,553
Collateral income on automotive sales	**438,967**	492,115	588,045
Gain on sale of other assets	**192,202**	45,303	126,337
Insurance claim	**144,935**	71,793	45,877
Connection fees and engineering services	**23,603**	–	–
Recoveries of accounts written off (Note 7)	**3,038**	5,268	775,087
Foreign exchange loss (Note 32)	**(258,223)**	(222,845)	(21,344)
Others	**3,589,512**	7,643,095	3,543,876
	₱32,288,490	₱9,198,888	₱7,796,428

In 2019, “Gain on sale of investments” include net gain on ACEI’s sale of AA Thermal amounting to ₱23.6 billion and gain on merger of AEI and iPeople amounting to ₱865.2 million (see Note 2).
In 2018, gain on sale of investments includes gain from sale by STSN to Jinnuo Century Trading Limited amounting to US$19.1 million (₱1.0 billion).

"Others" mainly pertain to income derived from ancillary services, other activities rendered for the customers not in the normal course of business and miscellaneous income of consolidated subsidiaries. In 2019, this includes gain on reversal of put option amounting to $3.45 million (₱178.0 million) (see Note 18), gain on reversal of contingent consideration amounting to $3.73 million (₱193.0 million), insurance claims of ₱489.0 million and liquidated damages amounting to ₱1,157.0 million. In 2018, this includes, among others, gain on reversal of contingent consideration amounting to US$21.3 million (₱1.0 billion), liquidated damages amounting to US$36.0 million (₱1.8 billion), commission income amounting to ₱827.2 million, marketing fees, integrated used water and other water services (e.g., sale of packaged water, septic sludge disposal and bacteriological water analysis); and income from sale of scrap. In 2017, this account consisted of AC Energy Cayman's commission income amounting to ₱1.5 billion (see Note 36) and ALI's reversal of allowance for impairment in inventories of ALI amounting to ₱1.3 billion (see Note 8). In 2017, ALI reversed its allowance for impairment in inventories due to higher fair value than its carrying amount.

Interest and other financing charges consist of:

	2019	2018	2017
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱ 1,307,581**	₱595,375	₱659,044
Long-term debt	**18,971,380**	16,216,479	11,954,115
Accretion of lease liability	**1,202,425**	–	–
Amortization of discount on long-term debt	**–**	7,259	386,843
Others	**928,140**	559,823	80,792
	₱22,409,526	₱17,378,936	₱13,080,794

"Others" include, among others, various charges, such as pretermination costs, bond offering fees, and credit card charges.

24. Business Combinations and Transactions with Non-controlling Interests

2019 Acquisitions

ACEPH (Formerly: PHINMA Energy Corporation)
On January 9, 2019, PHINMA Corporation approved and signed the Heads of Agreement for the sale of its shares in ACEPH, formerly Phinma Energy Corporation (PHEN), representing 26.25% ownership interest to ACEI subject to the execution of the appropriate definitive agreements.

Further to the transaction, ACEI Group acquired PHINMA Corporation's and PHINMA Inc.'s combined 51.48% stake in ACEPH via secondary share sale for approximately ₱3.40 billion, based on the valuation date as of December 31, 2018. ACEI also subscribed to approximately 2.63 billion ACEPH primary shares at par value.

On February 8, 2019, the parties signed the Investment Agreement. The PCC approval was issued on April 11, 2019.

ACEI Group made a tender offer to the other ACEPH shareholders from May 20 to June 19, 2019. On June 24, 2019, ACEI Group completed its acquisition of ACEPH, making it a subsidiary of the former. Subsequently, the ACEI Group divested a portion of its shareholdings at book value which resulted in ACEI Group effectively owning 66.34% of ACEPH's total outstanding shares of stock.

On October 11, 2019, the SEC approved the change in corporate name of PHEN to ACEPH. The provisional fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follow (amounts in thousands):

Assets	
Cash and cash equivalents	₱3,600,845
Receivables - net	2,731,875
Investment in joint ventures and associates	6,819,774
Property, plant and equipment	3,029,250
Intangibles	135,172
Input taxes	362,091
Creditable withholding taxes	839,120
Other assets	2,122,047
	19,640,174
Liabilities	
Accounts payable and accrued expenses	2,804,425
Loans and other noncurrent liabilities	7,785,492
	10,589,917
Net assets	**₱9,050,257**
Cost of acquisition	₱6,301,353
Less: Share in the fair value of net assets acquired	6,003,940
Provisional Goodwill	₱297,413
Non-controlling interest	₱3,046,317

Analysis of cash flows on acquisition:

	In ₱ (In Thousands)
Cash consideration	₱6,301,353
Less: Cash acquired from the subsidiary	3,600,845
Net cash flow (included in cash flows from investing activities)	**₱2,700,508**

From June 24 to December 31, 2019, the ACEI Group's share in ACEPH's revenue and net income amounted to ₱4.73 billion and ₱106.74 million, respectively. Had the combination taken place at the beginning of 2019, the ACEI Group's share in ACEPH's revenue and net loss would have been ₱1.4 billion and ₱0.5 million, respectively.

The non-controlling interest have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

The purchase price allocation for the acquisition of ACEPH has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. This includes information necessary for the valuation of assets related to certain bilateral contracts, and property plant and equipment. Reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are receivables, property, plant and equipment, intangible assets, and other current and noncurrent assets. The PPA will be finalized within one year from June 24, 2019, the acquisition date.

South Luzon Thermal Energy Corporation (SLTEC)
On July 10, 2019, a SPA was signed between ACEI and Axia for the sale of the latter's 20% interest in SLTEC. ACEI had a previously held interest of 35% in SLTEC and 45% indirect ownership interest through ACEPH. With the acquisition of 20% interest, SLTEC became a wholly-owned subsidiary of ACEI Group. PFRS 3, *Business Combinations*, provided that in a step acquisition, the previously held equity interest is remeasured at fair value and the difference is recognized as a gain or loss in the

consolidated statement of comprehensive income. A gain on remeasurement of previously held interest amounting to ₱1.73 billion was recorded under "Other income".

The provisional fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follow (amounts in thousands):

Assets	
Cash and cash equivalents	₱1,809,434
Restricted cash	158,028
Receivables-net	202,677
Other current assets	1,190,240
Property, plant and equipment	22,146,802
Other noncurrent assets	396,431
	25,903,612
Liabilities	
Accounts payable and accrued expenses	818,097
Loans and other noncurrent liabilities	11,430,715
	12,248,812
Net assets	**13,654,800**
Less: Cost of acquisition	(3,400,000)
Fair value of previously held interest	(10,923,840)
Provisional goodwill	**₱669,040**
Fair value of previously held interest	₱10,923,840
Less: Carrying value of previously held interest	9,186,465
Remeasurement gain on previously held interest	**₱1,737,375**

Analysis of cash flows on acquisition:

	In ₱ (In Thousands)
Cash consideration	₱340,000
Less: Cash acquired from the subsidiary	1,809,435
Net cash inflow (included in cash flows from investing activities)	**₱1,469,435**

Remeasurement gain on previously held interest amounting to ₱1.74 billion is recorded under other income in the consolidated financial statements.

From July 10 to December 31, 2019, the ACEI's share in SLTEC's revenue and net loss amounted to ₱2.42 billion and ₱183.75 million, respectively. Had the combination taken place at the beginning of 2019, the ACEI Group's share in SLTEC's revenue and net loss would have been ₱4.74 billion and ₱269.76 million, respectively.

The PPA for the acquisition of the control over SLTEC has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. This includes information necessary for the valuation of certain assets. Reasonable changes are expected as additional information becomes available. The account is subject to provisional accounting is property, plant and equipment. The PPA will be finalized within one year from July 10, 2019.

Generika Companies
On March 13, 2019, AHHI signed conditional agreements to subscribe to an additional 2.5% stake in each of the Generika companies namely Actimed, Inc. (Actimed), Novelis Solutions, Inc. (Novelis), Pharm Gen Ventures Corp. (PharmGen) and Erikagen, Inc. (Erikagen) which will result to AHHI having 52.5% ownership thereof. The total subscription of ₱78.0 million was invested into the Generika companies.

The Ferrer Group opted not to participate in this equity round. Generika's Board approved the capital call and AHHI's full take-up last February 28, 2019.

The conditions to the issuance of shares include, among others, the approval of the PCC and other regulatory approvals. On June 3, 2019, AHHI received the approval of the PCC on its proposed increase in ownership in Actimed, Novelis and Pharmgen. On June 28, Erickagen received approval from SEC for its proposal to increase its authorized capital stock.

On July 4, 2019, following the completion of conditions precedent, AHHI proceeded with the closing of the increase to 52.5% in its equity stake in Erikagen, Inc.

The following are the fair values of the identifiable assets and liabilities assumed:

	Actimed	Novelis	Erikagen	PharmGen
		(In Thousands)		
Cash and cash equivalents	₱84,943	₱18,023	₱19,263	₱43,253
Receivables	571,931	94,214	75,667	67,110
Inventories	483,431	11,771	4,995	118,913
Prepayments	14,434	2,682	767	5,909
Other current assets	138,980	5,095	874	7,319
Property and equipment	36,823	1,464	1,557	94,448
Intangible assets	25,472	1,255	–	5,835
Trademark	554,420	–	223,010	–
Right-of-use Asset	23,649	–	13,252	132,397
Deferred tax asset	9,675	1,459	1,196	–
Other noncurrent assets	–	–	3,060	16,538
Total Assets	1,943,758	135,963	343,641	491,722
Accounts and other payables	657,962	53,823	49,055	139,598
Tax payable	4,339	2,952	752	900
Other current liability	184,542	11,124	14,375	257,725
Lease liability	25,387	–	16,086	140,896
Deferred tax liability	166,326	–	66,989	–
Other noncurrent liability	249,503	26,266	1,013	632
Total Liabilities	1,288,059	94,165	148,270	539,751
Fair Value of Net Assets	655,699	41,799	195,370	(48,029)
Non-controlling interest (47.5%)	(311,457)	(19,854)	(92,801)	22,814
Goodwill (Gain on Bargain Purchase)	322,985	29,381	(37,521)	69,614
Cost of acquisition	**₱667,227**	**₱51,326**	**₱65,048**	**₱44,399**
Cash paid	₱7,065	₱1,559	₱31,578	₱37,796
Gain on Remeasurement	217,563	17,765	20,085	27,874
CV of Investment in Generika	442,599	32,002	13,385	(21,271)
	₱667,227	**₱51,326**	**₱65,048**	**₱44,399**

AHHI recognized a gain of ₱281.91 million as a result of measuring at fair value its 50% equity interest in Generika held before the business combination. The gain is included in the Group's Other Income.

The Generika name and house brand have been identified as intangible assets arising from this acquisition. AHHI has performed an internal valuation to determine the fair value of these trademarks amounting to ₱777.43 million.

AHHI also determined that the purchase price includes Goodwill amounting to ₱421.98 million. The goodwill comprises the value of strengthening AC Health's market position in the affordable retail pharmacy sector in the Philippines and cost reduction synergies expected to arise from the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

Both the Trademark and the Goodwill were determined to have indefinite useful life and will be subjected to periodic impairment testing.

Analysis of cash flows on acquisition follows:

	In ₽ (In Thousands)
Cash consideration	₽78,000
Less: Cash acquired from the subsidiary	165,482
Net cash flow (included in cash flows from investing activities)	**(₽87,482)**

The fair value of the receivables approximates their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

From the date of acquisition, AHHI's share in Generika's revenue and net loss amounted to ₽2,300 million and ₽9.96 million, respectively. If the combination had taken place at the beginning of 2019, AC Health's share in Generika's revenue and net loss would have been ₽2,346 million and ₽9.96 million, respectively.

C-CON Group
On March 13, 2019, AC Industrials through its subsidiary MT Technologies GmbH, has entered into an agreement with the shareholders of C-CON Group for the acquisition of a 75.1% stake in C-CON Group for a total consideration of EURO 0.86 million. The closing of the transaction transpired on April 1, 2019. C-CON Group is a German engineering, design and manufacturing group catering to the automotive, industrial and aerospace space industries. The acquisition is in line with the strategy to expand its business operations in auto industry. Beyond the envisioned complementary benefits to MT, C-con also hold proprietary expertise in the production of carbon fiber reinforced polymer (CFRP) parts.

The MT group elected to measure the noncontrolling interest in the acquiree at the proportionate share of its interest in the acquiree's net assets acquired and liabilities assumed.

The value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands)

	In EURO	**In ₽***
Assets		
Cash	€159	₽9,397
Receivables	3,308	195,548
Inventories	3,550	209,873
Property, plant and equipment	6,343	374,972
Other noncurrent assets	849	50,189
	14,209	**839,979**
Liabilities		
Trade accounts payable and accrued liabilities	2,874	169,885
Loans payable	10,350	611,890
	13,224	**781,775**
Net assets	**€985**	**₽58,204**

	In EURO	In ₱*
Cost of acquisition	€1,429	₱84,471
Non-controlling interest at fair value	245	14,493
	1,674	**98,964**
Less: Fair value of net assets acquired	985	58,204
Goodwill	**€689**	**₱40,760**

**Translated using the exchange rate at the date of the closing of the transaction (€1:₱59.1182 on April 1, 2019).*

Analysis of cash flows on acquisition follows (amount in thousands)

	In EURO	In ₱*
Initial purchase consideration	€860	₱50,842
Liabilities related to contingent consideration recognized	569	33,629
Cost of acquisition	**€1,429**	**₱84,471**
Purchase cash consideration	860	50,842
Less: Cash acquired from the subsidiary	159	9,397
Net cash flow (included in cash flows from investing)	**€701**	**₱41,445**

**Translated using the exchange rate at the date of the closing of the transaction (€1:₱59.1182 on April 1, 2019).*

The initial purchase consideration of €860 thousand was paid in cash. The transaction purchase price also includes contingent consideration of €569 thousand payable to the previous shareholders, subject to certain conditions. It also includes put and call options on the non-controlling interest in C-con of 24.9%, the exercise of which are subject to certain conditions. The estimated fair value of the net financial liability amounted to €1.739 million (₱102.8 million)

Acquisition-related costs, which consist of professional and legal fees, transaction costs and travel expenses amounting to €0.6 million were recognized as expense in 2019.

The purchase price allocation has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. This include information necessary for the valuation of assets such as property and equipment and other intangible assets.

The purchase price allocation has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. This includes information necessary for the valuation of assets such as property and equipment and other intangible assets.

From the date of acquisition, AC Industrial's share in C-con's revenue and net losses amounted to €15.7 million (₱902.9 million) and €2.2 million (₱124.3 million) respectively, covering nine months from April to December 2019. If the combination had taken place at the beginning of 2019, the AITHI's share in C-con's revenue and net losses would have been €20.9 million (₱1,216.2 million) and €3.0 million (₱174.1 million), respectively.

2018 Acquisitions

MCT Berhad (MCT)
On January 2, 2018, ALI through its wholly-owned subsidiary, RWIL, signed a share purchase agreement to acquire an additional 17.24% share in MCT, subject to completion of certain conditions.

On January 5, 2018, the transfer of shares was completed, increasing ALI's shareholding in MCT to 50.19% from 32.95%. RWIL also issued a notice of an unconditional mandatory take-over offer to the BOD of MCT, to acquire all remaining shares of MCT that are not already held by RWIL, following the completion of certain conditions to the share purchase agreement.

The mandatory take-over offer made in connection to the acquisition of additional shares in MCT closed as of 5:00 p.m. (Malaysian time) February 19, 2018. Owners of 295,277,682 shares accepted the offer, equivalent to 22.12% of MCT's total outstanding shares. As a result of the offer, ALI's shareholdings in MCT increased from 50.19% to 72.31%. Total consideration paid is ₱6.0 billion. ALI Group remeasured its previously held interest in MCT based on its acquisition-date fair value which resulted to a remeasurement loss of ₱1.8 billion.

ALI Group finalized the purchase price allocation of its acquisition of MCT through business combination in December 2018. The final purchase price allocation resulted in gain from bargain purchase of ₱1.8 billion. The net gain of ₱60.0 million from the acquisition is presented under 'Other income' account in the consolidated statement of income.

The following are the fair values of the identifiable assets and liabilities assumed (amounts in thousands):

Assets	
Cash and cash equivalents	₱1,078,224
Trade and other receivables	2,833,560
Inventories	13,620,873
Investment properties	5,712,635
Property, plant and equipment	4,599,423
Other noncurrent assets	69,222
	27,913,937
Liabilities	
Accounts and other payables	5,506,336
Borrowings	2,752,114
Income tax payable	128,551
Deferred tax liabilities	2,287,772
	10,674,773
Net assets	**₱17,239,164**
Total net assets acquired (72.31%)	12,465,640
Negative goodwill	(1,854,073)
Cost of acquisition	**₱10,611,567**

Analysis of cash flows on acquisition:

	In ₱
Cash consideration	₱10,611,567
Previously held interest	(4,849,007)
Less: Cash acquired from the subsidiary	(1,078,224)
Net cash flow (included in cash flows from investing activities)	**₱4,684,336**

The fair value of the trade and other receivables approximate their carrying amounts since these are short-term in nature. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

From January 8 to December 31, 2018, ALI Group's share in MCT's revenue and net income amounted to ₱7.6 billion and ₱1.3 billion.

National Teachers College (NTC)
On February 8, 2018, AEI and shareholders of National Teachers College (NTC) executed a SPA for the acquisition of shares in NTC subject to certain closing conditions. NTC is located at Nepomuceno Street, Quiapo, Manila and was founded in 1928, as the first school in the country to offer General Education leading to a Bachelor of Science in Education. NTC is one of the most recognized teacher education institutions in the Philippines. It also offers programs in business,

accountancy, psychology, hospitality and tourism management, and information technology. NTC offers pre-school, elementary, secondary, tertiary and post-graduate courses. It has approximately 12,000 students in all levels of education.

On April 30, 2018, AEI assumed ownership of approximately 96% of the voting shares of NTC for a total consideration of ₱1.16 billion. With NTC added to the existing AEI's portfolio currently composed of APEC Schools and University of Nueva Caceres (UNC), AEI's combined student population is now approximately 38,000 students.

The values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash	₱53,719
Trade and other receivables	54,222
Other current assets	217
Property, plant and equipment	865,325
Intellectual property rights	422,243
Student relationship	38,802
Other noncurrent assets	21,033
	1,455,561
Liabilities	
Accounts and other payables	36,587
Tax liabilities	143,154
Other payables	10,712
	190,453
Net Assets	**₱1,265,108**
Non-controlling interest (11.8%)	(149,283)
Goodwill	44,911
Cost of acquisition	**₱1,160,736**

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

Acquisition-related costs, which consist of professional and legal fees, transaction costs, taxes, representation and travel expenses amounting to ₱13.9 million were recognized as expense in 2018.

Analysis of cash flows on acquisition follows:

	In ₱
Cash consideration	₱1,160,736
Less: Cash acquired from the subsidiary	(53,719)
Net cash flow (included in cash flows from investing activities)	**₱1,107,017**

Merlin Solar Technology, Inc. (Merlin)
On February 24, 2018, AC Industrial completed its acquisition of a controlling stake (additional in Merlin Solar Technologies, Inc. (Merlin USA). This transaction was done through AITHI's subsidiary, ACI Solar, which had previously acquired an 8.2% stake in Merlin in 2016. The acquisition resulted in a total of 98.96% ownership interest in Merlin. PFRS 3, *Business Combinations*, provided that in a step acquisition, the previously held equity interest is remeasured at fair value and the difference is recognized as a gain or loss in the consolidated statement of comprehensive income. A loss on

remeasurement of previously held equity interest in Merlin of US$3.2 million was recognized at the acquisition date.

The Group has elected to measure non-controlling interest in the acquiree at fair value. The fair value of the non-controlling interest in Merlin USA, a non-listed company, has been estimated by applying a discounted cash flow technique. The fair value measurement is based on significant inputs that are not observable in the market. The fair value estimate is based on an assumed discount of 39.1% and terminal value exit multiple of 1.2x.

The value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

	In US$	**In ₽***
Assets		
Cash	US$65	₽3,386
Receivables	710	37,015
Inventories	1,510	78,674
Other current assets	469	24,010
Property, plant and equipment	2,130	110,962
Intangible assets - Intellectual Property and Trademark	14,240	741,904
Other noncurrent assets	1,507	78,530
	20,631	1,074,481
Liabilities		
Trade accounts payable and accrued liabilities	4,272	222,218
Loans payable	3,046	158,691
	7,318	380,909
Net assets	**US$13,313**	**₽693,572**
Goodwill	$1,702	₽88,702
Fair value of previously held interest	(1,384)	(72,119)
Non-controlling interest at fair value	(303)	(15,788)
Less: Fair value of net assets acquired	13,313	693,572
Cost of acquisition	**US$13,328**	**₽694,367**

**Translated using the exchange rate at the date of the closing of the transaction ($1:₽52.10 on February 26, 2018).*

The deferred tax assets mainly comprise of the tax effect of the net operating loss carryover and temporary differences between financial statement balance and tax balance of accruals and tangible and intangible assets.

The goodwill recognized on the acquisition can be attributed to the automotive Tier 1 manufacturing competencies in modelling, cubing, tooling and plastic parts production that MT adds to AITHI's portfolio, as well as expected synergies from cross-selling and organizational efficiencies with other AITHI companies.

Analysis of cash flows on acquisition follows (amounts in thousands):

	In US$	**In ₽***
Initial purchase consideration	US$11,985	₽624,419
Liabilities related to contingent consideration recognized	1,343	69,970
Cost of acquisition	**US$13,328**	**₽694,389**
Purchase cash consideration	US$11,985	₽624,419
Less: Cash acquired from the subsidiary	65	3,387
Net cash flow (included in cash flows from investing)	**US$11,920**	**₽621,032**

**Translated using the exchange rate at the date of the closing of the transaction ($1:₽52.10 on February 26, 2018).*

The initial purchase consideration of US$12.0 million was paid in cash. The transaction purchase price also includes contingent consideration of US$1.3 million payable to the previous shareholders, subject to certain conditions.

Acquisition-related costs, which consist of professional and legal fees, transaction costs and travel expenses amounting to US$0.6 million were recognized as expense in 2018.

From the date of acquisition, AITHI's share in Merlin's revenue and net losses amounted to US$3.0 million and US$11.3 million, respectively, covering 10 months from March to December 2018. If the combination had taken place at the beginning of 2018, the AITHI's share in Merlin's revenue and net loss would have been US$3.1 million and US$15.0 million, respectively.

VTS-Touchsensor Co., Ltd. (VTS)
On April 9, 2018, IMI, through its subsidiary, VIA Optronics GmbH (VIA), and Toppan Printing Co., Ltd. (Toppan) entered into an agreement to serve the market for copper-based metal mesh touch sensors. The agreement provides that Toppan transfer 65% of its shares in VTS to VIA. VTS is a newly formed spin-off company of Toppan.

VTS develops and manufactures the metal mesh touch sensors in Japan on the existing premises of Toppan. The new setup strengthens VIA's portfolio of differentiated and value-added sensor technology for touch panels, touch-display modules, display head assemblies, and interactive display systems across multiple markets and segments.

IMI Group elected to measure the non-controlling interest in VTS at the proportionate share of its interest in the acquiree's identifiable net assets.

The net assets recognized in December 31, 2018 financial statements were based on a provisional assessment of their fair value. The valuation had not been completed by the date the 2018 financial statements were approved for issue by the BOD.

In March 2019, the purchase price allocation was finalized. The fair value of the property, plant and equipment (PPE) and intangible asset increased by $7.16 million and $2.58 million, respectively. The increase in fair value of PPE arose from the assessment and valuation mainly of technical equipment and machinery, buildings and improvements and other equipment, which was determined using current replacement cost method. The increase in intangible asset is due to the identification and valuation of customer relationship as a separate asset with fair value determined using the Multi Period Excess Earnings Method (MEEM). PPE was depreciated using various useful lives ranging from 3-10 years while the customer relationship is amortized over a period of 5 years.

As a result, deferred tax liability on the increase in fair value of the property, plant and equipment and intangible asset was recognized amounting to $3.32 million. There was also corresponding recognition of gain on a bargain purchase amounting to $2.41 million upon finalization and the provisional goodwill amounting to $0.97 million was reversed. In addition, additional depreciation and amortization from increase in fair values of property and equipment and intangible assets net of share of non-controlling interest totaling to $0.73 million was recognized in 2019.

The impact of the finalization of the purchase price allocation is not material so prior year financial statements was not restated.

The fair values of the identifiable assets and liabilities acquired follows (amounts in thousands):

Assets	**In US$**	Fair Values
Receivables - net	US$185	US$184
Inventories	1,338	1,244
Property, plant and equipment	7,253	97
Intangible assets	7,835	5,258
	US$16,611	US$6,783
Liabilities		
Deferred tax liabilities	3,322	–
Other noncurrent liabilities	5,254	5,254
	8,576	5,254
Net Assets	**8,035**	1,529
Non-controlling interest (35%)	(US$4,066)	(US$536)
Goodwill (Gain on bargain purchase)	(2,412)	970
Cost of Acquisition	**US$1,557**	**₱1,963**

Analysis of cash flows on acquisition follows:

	In US$	In ₱*
Cash consideration	US$1,966	₱102,232
Less: Cash acquired from the subsidiary	–	–
Net cash flow (included in cash flows from investing activities)	**US$1,966**	**₱102,232**

**Translated using the exchange rate at the closing date of transaction (US$1:₱52.00 on April 9, 2018).*

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

Acquisition-related costs, which consists of professional and legal fees, travel and recruitment services amounting to US$1.1 million were recognized as expense in 2018.

From the date of acquisition, VTS contributed US$26.5 million of revenue and US$0.9 million profit before tax to the Group. If the combination had taken place at the beginning of 2018, the IMI's share in VTS' revenue and net income would have been US$35.3 million and US$1.3 million, respectively.

Entrego Fulfilment Solutions, Inc. (Entrego)
On August 6, 2018, AC Infra acquired 54.33% ownership interest in Entrego for a total acquisition cost of ₱158.9 million by subscription to Entrego's Class A Common shares, Class B Common shares and Preferred shares. The shareholders' agreement has been signed by the parties on August 17, 2018, the closing date of the transaction. The Investment Agreement, signed on February 13, 2018, allowed ALI through its wholly-owned subsidiary AMSI, Inc., BPI through its wholly-owned subsidiary BPI Capital Corporation and Kickstart Ventures, Inc. to subscribe for up to 1.9% of the Class A Common Shares each, provided that the total equity interest of the Ayala Shareholder Group in the common shares of the issuer shall amount to 60%.

This investment forms part of Ayala's strategy to develop infrastructure that will result in better efficiencies and improve the fulfillment goals of its existing businesses in real estate, banking, telecommunications, and e-commerce.

As of December 31, 2019, AC Infra has infused a total of ₱453.4 million to this investment.

The values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	**₱49,759**
Receivables	**39,653**
Prepayments	**4,951**
Other current assets	**4,385**
Property and equipment	**6,817**
Other noncurrent assets	**2,045**
Subscription receivable	**98,391**
	206,001
Liabilities	
Accounts and other payables	**74,492**
Tax payable	**4,992**
Other current liability	**1,772**
	81,256
Net Assets	**₱124,745**
Non-controlling interest	**2,964**
Goodwill	**31,155**
Cost of acquisition	**₱158,864**

Analysis of cash flows on acquisition follows:

	In ₱*
Cash consideration	₱158,864
Less: Cash acquired from the subsidiary	(49,759)
Net cash flow (included in cash flows from investing activities)	**₱109,105**

The fair value of the receivables and subscription receivable approximate their carrying amounts. None of the receivables and subscription receivable have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired, except subscription receivable, and liabilities assumed.

Acquisition-related costs, which consist of legal fees, travel and meeting expenses amounting to ₱7.7 million were recognized as expense in 2018.

From the date of acquisition, AC Infra's share in Entrego's revenue and net loss amounted to ₱73.5 million and ₱73.0 million, respectively. If the combination had taken place at the beginning of 2018, AC Infra's share in Entrego's revenue and net loss would have been ₱99.7 million and ₱91.7 million, respectively.

Pagudpud Wind Power Corp. (Pagudpud Wind or PWPC)
On November 27, 2018, Presage entered into an Investment Framework Agreement and Shareholders' Agreement for the development and construction of a proposed Balaoi-Caunayan wind farm project in Ilocos Norte (Balaoi). As part of the transaction, Presage agreed to acquire 100% ownership of PWPC the majority shareholder of Bayog Wind Power Corp. (BWPC), the project company for Balaoi.

The fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	₱875
Prepayments and other current assets	530
	1,405
Liabilities	
Accounts payable and accrued expenses	1,497
Net assets (liabilities)	**(92)**
Goodwill	2,592
Cost of acquisition	**₱2,500**

Analysis of cash flows on acquisition follows:

Cash consideration	₱2,500
Less: Cash acquired from the subsidiary	(875)
Net cash flow (included in cash flows from investing activities)	**₱1,625**

In 2019, ACEI Group finalized its purchase price allocation and there were no changes to the fair values of the assets acquired and liabilities assumed. The fair values of the assets and liabilities approximate their carrying amounts since these are short-term in nature.

From November 27 to December 31, 2018, ACEI's share in Pagudpud Wind's revenue and net loss amounted to nil and ₱0.1 million, respectively. If the combination had taken place at the beginning of 2018, ACEI's share in Pagudpud's revenue and net loss would have been nil and ₱0.1 million, respectively.

HDP Bulk Water Supply Inc. (HDP)
On December 7, 2018, Presage entered into a SPA with Jose Maria Eduardo P. Zabaleta and Juan Xavier P. Zabaleta for the purchase of one hundred percent (100%) of outstanding capital stock of HDP Bulk Water Supply Inc. for a total consideration of ₱110.1 million. The transaction was also closed on the same day.

HDP is a domestic company that supplies water to San Carlos Bioenergy, Inc. (SCBI) under a Water Supply Contract executed on October 31, 2006 (originally between SCBI and San Julio Realty Inc. (SJRI), which was later assigned by SJRI to San Carlos Land, Inc. (SCLand) on December 22, 2008, and then by SCLand to the HDP on December 11, 2017).

The fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	₱1,111
Receivables	3,463
Water supply contract	104,862
Other current assets	13,086
	122,522
Liabilities	
Accounts payable and accrued expenses	12,423
Net Assets	**110,099**
Goodwill	–
Cost of acquisition	**₱110,099**

Analysis of cash flows on acquisition follows:

Cash consideration	₱110,099
Less: Cash acquired from the subsidiary	(1,111)
Net cash flow (included in cash flows from investing activities)	**₱108,988**

In 2019, the Group finalized its purchase price allocation resulting in the recognition of water supply contract amounting to ₱104.86 million and reduction in goodwill by the same amount. The prior period comparative information was not restated since impact is not material. The fair value of receivables, prepayment and other assets, and accounts payable and accrued expenses approximate their carrying amounts since these are short-term in nature. The valuation technique adopted for the measurement of water supply contract is the discounted cash flow analysis wherein the significant observable input is the discount rate. The fair value measurement using observable date is based on Level 3 of the fair value technique.

From December 7 to 31, 2018, ACEI's share in HDP's revenue and net income amounted to ₱1.65 million and ₱1.58 million, respectively. If the combination had taken place at the beginning of 2018, ACEI's share in HDP's revenue and net income would have been ₱18.03 million and ₱9.07 million, respectively.

Extraordinary Development Corporate Group (EDCG)
On December 11, 2018, Aqua Centro, a wholly-owned subsidiary of MWC, entered into seven (7) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to the provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic in the province of Cavite. These subsidiaries are Earth Aspire Corporation, First Advance Development Corporation, Ambition Land Inc., Prosperity Builders Resources Inc., Tahanang Yaman Homes Corporation, Extraordinary Development Corp., and Earth + Style Corporation.

On January 9, 2019, Aqua Centro paid 50% of the total contract price amounting to total consideration of ₱24.7 million, while the balance was paid on November 28, 2019 after compliance with all conditions precedent to its APAs.

In 2019, Aqua Centro took over the operations of three (3) additional subdivisions. Aqua Centro shall operate the remaining one (1) subdivision once all the conditions precedent under the APAs have been fulfilled. As of December 31, 2019, Aqua Centro is operating nine (9) out of the ten (10 subdivisions) covered by its APAs.

On December 11, 2018, LAWC entered into four (4) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to or used in its water service provision operations in Biñan, Laguna. The APAs are with the following EDCG subsidiaries, namely, Earth Aspire Corporation, Earth Prosper Corporation, Earth and Style Corporation and Extraordinary Development Corp. On December 20, 2018, LAWC paid 50% of the total acquisition cost amounting to ₱20.46 million. The remaining 50% was paid on September 6, 2019, after compliance wirh all conditions precedent to LAWC's APAs.

MWC management assessed that the following acquisitions are considered as acquisition of business under PFRS 3 since: a) the assets purchased by MWC Group have the ability to create or operate water services when one or more processes were applied; b) the business can be integrated to MWC Group's operations; and c) revenues from the provision of water is considered an output that MWC Group will benefit from as a result of the acquisition.

The fair values of the identifiable assets on these transactions as of the date of acquisition were as follows (amounts in thousands):

	Assets Acquired (Property, Plant and Equipment)	Acquisition Cost	Goodwill (Bargain Purchase)
Aqua Centro			
First Advance Development Corporation	₱40,790	₱20,769	(₱20,021)
Earth Aspire Corporation	3,753	1,356	(2,397)
Ambition Land Inc.	5,528	4,559	(968)
Prosperity Builders Resources Inc.	11,604	12,475	871
Tahanang Yaman Homes Corporation	7,249	10,189	2,940
Earth + Style Corporation	15,143	7,160	(7,982)
Extraordinary Development Corp.	15,008	4,658	(10,350)
Laguna Water			
Earth Prosper Corporation	13,952	6,881	(7,071)
Earth + Style Corporation	23,303	17,338	(5,965)
Extraordinary Development Corp.	5,753	81	(5,672)
Earth Aspire Corporation	18,278	16,619	(1,659)

No identifiable liabilities were assumed by Aqua Centro and LAWC in these acquisitions. The fair value of the property, plant and equipment acquired is ₱30.2 million and ₱111.4 million in 2019 and 2018, respectively, which is in excess of the aggregate consideration of ₱11.2 million in 2019 and ₱67.6 million in 2018. Total gain on bargain purchase amounting to ₱18.3 million and ₱43.8 million is presented as part of “Other income” in the 2019 consolidated statement of comprehensive income.

Cash outflow amounted to ₱20.5 million and no cash was acquired in the transaction.

In 2018, the purchase price allocations of Aqua Centro and Laguna Water for the acquisitions are provisional as the valuation of property, plant and equipment is yet to be finalized. The purchase price allocation of Aqua Centro and Laguna Water were finalized in 2019.

The rollforward of goodwill is as follows:

	2019	2018
	(In thousands)	
Balance at beginning of year	**₱136,566**	₱132,755
Additions from business combination	**–**	3,811
Balance at end of year	**₱136,566**	₱136,566

As of December 31, 2019 and 2018, the goodwill balance is attributable to acquisitions of the following businesses:

Clark Water	₱130,319
Tahanang Yaman Homes Corporation	2,940
San Vicente Homes	1,230
Las Palmas Subdivisions Phases 1 to 7	1,206
Prosperity Builders Resources Inc.	871,
Balance at end of year	₱136,566

From the date of acquisition, Extraordinary Development Corporation Group contributed ₱2.5 million of revenue and ₱1.4 million profit before tax to the Group.

2017 Acquisitions

AC Energy DevCo Inc. (AEDCI), Visayas Renewables Corp. (VRC) and Manapla Sun Power Dev't. Corp.
On March 16, 2017, ACEI signed definitive documents to acquire 100% ownership of Bronzeoak Clean Energy (Bronzeoak) and SCCE. With the acquisition, SCCE and Bronzeoak have been renamed as AC Energy DevCo Inc. and Visayas Renewables Corp. (VRC), respectively. In March 2017, ACEI Group also acquired 66.22% ownership interest in Manapla Sun. Manapla Sun is the landowner of and lessor for Islasol's solar farm in Manapla, Negros Occidential.

The fair values of the identifiable assets and assumed acquired liabilities and goodwill arising as at the date of acquisition follows (amounts in thousands):

AC Energy DevCo Inc. Group

Assets	
Cash and cash equivalents	₱9,381
Receivables	5,224
Prepayments and other current assets	19,527
Property, plant and equipment	2,447
	36,579
Liabilities	
Accounts payable and accrued expenses	10,315
Net Assets	26,264
Cost of acquisition	812,527
Goodwill (Note 14)	₱786,263

Cash consideration	₱812,527
Less: Cash acquired from the subsidiary	9,381
Net cash flow	₱803,146

As of December 31, 2018, ACEI finalized its purchase price allocation and there were no changes to the fair values of the assets acquired and liabilities assumed.

The goodwill arising from the acquisition of AEDCI is from the established capabilities of its assembled workforce which includes:

a. Pre-development and development – which involves site acquisition, permitting and studies to get the project to a shovel ready state
b. Construction – including sourcing of investors as well as managing the construction of the power plants
c. Operations – covering management of the power plants in lieu of the investors for a fee

Further, the above acquisition included projects in its pipeline with a view of developing projects (new and from the pipeline) for ACEI Group. Through this acquisition, ACEI Group is able to have the capability to develop projects end-to-end from permits and feasibility studies all the way to construction and operations.

Currently, the assembled workforce oversees the pre-development and development of several potential sites for its solar projects within the Philippines, as well as the construction of offshore renewable power plants where ACEI Group co-invested with local partners.

From March 16 to December 31, 2017, ACEI's share in AEDCI's revenue and net income amounted to ₱119.9 million and ₱12.4 million, respectively. If the combination had taken place at the beginning of 2017, ACEI's share in AEDCI's revenue and net income would have been ₱180.2 million and ₱31.8 million, respectively.

Visayas Renewables Corp.

Assets	
Cash and cash equivalents	₱6,226
Prepayments and other current assets	21
Equity investments at FVOCI	579,886
	586,133
Liabilities	
Accounts payable and accrued expenses	107
Net Assets	586,026
Cost of acquisition	586,026
Goodwill	₱–

Cash consideration	₱586,026
Less: Cash acquired from the subsidiary	6,226
Net cash flow	₱579,800

As of December 31, 2018, ACEI Group finalized its purchase price allocation resulting in the recognition of equity investments at FVOCI amounting to ₱579.9 million and reduction in goodwill by the same amount. The prior period comparative information was not restated, instead the adjustment to the provisional goodwill recognized in 2017 was included under Reclassification/other adjustments for 2018 in Note 14. The fair value of prepayments and other current assets and accounts payable and accrued expenses approximate their carrying amounts since these are short-term in nature. The valuation technique adopted for equity instruments at fair value through other comprehensive income dated March 16, 2017 is the discounted cash flow method. The fair value measurement using unobservable data is based on Level 3 of the fair value hierarchy.

From March 16 to December 31, 2017, ACEI's share in VRC's revenue and net income amounted to ₱11.6 million and ₱11.3 million, respectively. If the combination had taken place at the beginning of 2017, ACEI's share in VRC's revenue and net income would have been ₱16.0 million and ₱15.6 million, respectively.

Manapla Sun Power Dev't. Corp.

The fair values of the identifiable assets and assumed acquired liabilities and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	₱2,684
Receivables	28,817
Prepayments and other current assets	8,255
Investment property	253,670
	293,426
Liabilities	
Accounts payable and accrued expenses	49,440
Net Assets	243,986
Cost of acquisition	236,000
Non-controlling Interest	7,986
Goodwill	₱–

Cash consideration	₱236,000
Less: Cash acquired from the subsidiary	2,684
Net cash flow	₱233,316

As of December 31, 2018, ACEI Group finalized its purchase price allocation resulting in the recognition of investment property amounting to ₱253.7 million and reduction in goodwill by the same amount. The prior period comparative information was not restated, instead the adjustment to the provisional goodwill recognized in 2017 was included under Reclassification/other adjustments for 2018 in Note 14. The fair value of receivables and accounts payable and accrued expenses approximate their carrying amounts since these are short-term in nature. The valuation technique adopted for the measurement of investment property (i.e., land) fair value is the market approach. The market price per square meter of land amounts to ₱680.00. The fair value measurement using unobservable data is based on Level 3 of the fair value hierarchy.

From March 16 to December 31, 2017, ACEI's share in Manapla Sun's revenue and net income amounted to ₱46.0 million and ₱37.5 million, respectively. If the combination had taken place at the beginning of 2017, ACEI's share in Manapla Sun's revenue and net income would have been ₱40.3 million and ₱36.6 million, respectively.

SCC Bulk Water Supply, Inc. (SCC)
On December 18, 2017, Presage acquired 100% interest in SCC Bulk Water.

The fair values of the identifiable assets and assumed acquired liabilities and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	₱152
Prepayments and other current assets	77
Property, plant and equipment	18,281
Water supply contract (Note 16)	127,476
Other assets	243
	146,229
Liabilities	
Accounts payable and accrued expenses	₱19,158
Net Assets	127,071
Cost of acquisition	127,071
Goodwill	₱–

Cash consideration	₱127,071
Less: Cash acquired from the subsidiary	152
Net cash flow	₱126,919

As of December 31, 2018, ACEI Group finalized its purchase price allocation resulting in the recognition of water supply contract amounting to ₱127.5 million and reduction in goodwill by the same amount. The prior period comparative information was not restated, instead the adjustment to the provisional goodwill recognized in 2017 was included under Reclassification/other adjustments for 2018 in Note 14.

The fair value of prepayments and other current assets, other assets and accounts payable and accrued expenses approximate their carrying amounts since these are short-term in nature. The valuation technique adopted for the measurement of property, plant and equipment and water supply contract is the discounted cash flow method. The fair value measurement using unobservable data is based on Level 3 of the fair value hierarchy.

From December 18 to 31, 2017, ACEI's share in SSC Bulk Water's revenue and net loss amounted to nil. If the combination had taken place at the beginning of 2017, ACEI's share in SSC's revenue and net loss would have been nil and ₱0.50 million, respectively.

Solienda, Incorporated
On December 28, 2017, Presage acquired 100% interest in Solienda.

The fair values of the identifiable assets and assumed acquired liabilities and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	₱13,665
Receivables	6,112
Prepayments and other current assets	3
Deferred tax assets	6,143
Leasehold rights	470,727
Liabilities	
Accounts payable and accrued expenses	₱148,965
Net Assets	347,685
Cost of acquisition	347,685
Goodwill	₱–

Cash consideration	₱347,685
Less: Cash acquired from the subsidiary	13,665
Net cash flow	₱334,020

As of December 31, 2018, ACEI Group finalized its purchase price allocation resulting in the recognition of leasehold rights amounting to ₱470.7 million and reduction in goodwill by the same amount. The prior period comparative information was not restated, instead the the adjustment to the provisional goodwill recognized in 2017 under Reclassification/other adjustments for 2018 in Note 14.

The fair value of receivables, prepayments and other current assets and accounts payable and accrued expenses approximate their carrying amounts since these are short-term in nature. The valuation technique adopted for the measurement of leasehold rights is the discounted cash flow method. The fair value measurement using unobservable data is based on Level 3 of the fair value hierarchy.

From December 28 to 31, 2017, ACEI's share in Solienda's revenue and net income amounted to nil. If the combination had taken place at the beginning of 2017, ACEI's share in Solienda's revenue and net income would have been ₱68.4 million and ₱44.7 million, respectively.

Surface Technology International Enterprises Limited (STI)
On April 6, 2017, IMI, through its subsidiary IMI UK, entered into an agreement with the shareholders of STI for the acquisition of an 80% stake in STI, an electronics manufacturing services (EMS) company based in the United Kingdom, with factories in Hook and Poynton in the United Kingdom and Cebu, Philippines. The closing of the transaction transpired on May 16, 2017 upon completion of pre-closing conditions and regulatory approvals.

In 2017, the purchase price allocation for the acquisition of STI has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation.

IMI finalized the purchase price allocation with the following changes to the values based on additional information subsequently obtained (amounts in thousands):

Assets	In US$	In₱
Cash and cash equivalents	US$4,046	₱201,005
Receivables	11,195	556,168
Inventories	14,116	701,283
Other current assets	3,445	171,148
Property, plant and equipment	5,963	296,242
Intangible asset	1,438	71,440
	US$40,203	₱1,997,286
Liabilities		
Trade payable and other current liabilities	25,404	1,262,071
Short and long-term debt	15,108	750,565
Other noncurrent liabilities	1,484	73,725
	41,996	2,086,361
Net Liabilities	(1,793)	(89,075)
Non-controlling interest (20%)	358	17,785
Goodwill	56,159	2,789,979
Cost of acquisition	$54,724	₱2,718,689

**Translated using the exchange rate at the closing date of transaction (US$1:₱49.68 on May 16, 2017).*

The changes in the fair values pertain to the audited balances of STI as of acquisition date. The prior period comparative information was not restated since the audited fair values approximates the provisional carrying values. Adjustment of the provisional goodwill recognized in 2017 was included under Reclassification/other adjustments for 2018 in Note 14. The goodwill recognized on the acquisition can be attributed to STI's access to the UK market. Further, the partnership will allow IMI Group's entry into the aerospace, security and defense sectors. Management assessed that as a contract manufacturer, STI does not hold any intellectual property rights and that there are no existing customer relationships. For fixed assets, there is no fair value adjustment required due to the age and nature of equipment. The fair value of the receivables approximates their carrying amounts. None of the receivables have been impaired and is expected that the full contractual amounts can be collected.

The initial purchase consideration of £23.0 million (US$29.8 million) was paid in cash upon signing of the agreement. The contingent consideration is based on the actual normalized earnings before interest, taxes, depreciation and amortization (EBITDA) performance less adjustments in 2018 and 2019. The contingent consideration was recognized at its fair value as part of the consideration transferred using the probability-weighted average of payouts associated with each possible outcome. Fair values of the contingent consideration amounted to £3.0 million (US$3.7 million) and £19.3 million (US$25.0 million) as of December 31, 2018 and 2017, respectively (see Note 9). The gain from the reversal of contingent liability amounting to US$21.30 million was included under "Other Income" in the 2017 consolidated statement of income (see Note 23).
Analysis of cash flows on acquisition:

	In US$	In ₱*
Initial purchase consideration	US$29,750	₱1,477,980
Contingent consideration	24,976	1,240,808
Cost of acquisition	US$54,726	2,718,788
Cash consideration	US$29,750	1,477,980
Less: Cash acquired from the subsidiary	4,045	200,956
Net cash flow (included in cash flows from investing activities)	**US$25,705**	**₱1,277,024**

**Translated using the exchange rate at the reporting date (US$1:₱49.68 on December 31, 2017).*

The agreement also provided details regarding the sale of additional shares from the non-controlling interest through the grant of put and call options. The Group accounted for the call option as a derivative asset at nil value. The Group accounted for the put option as a financial liability measured at the present value of the redemption amount which amounted to US$10.4 million (₱546.8 million) and US$10.2 million (₱509.3 million) as of December 31, 2018 and 2017, respectively. Mark-to-market gains (losses) amounting to US$0.8 million (₱41.9 million) and US$2.6 million (₱131.0 million) were recognized for the years ended December 31, 2018 and 2017, respectively, in the consolidated statements of income.

From the date of acquisition up to December 31, 2017, STI contributed US$45.5 million of revenue and US$0.3 million profit before tax to the Group. If the combination had taken place at the beginning of the year, STI would have contributed revenue amounting to US$64.8 million and loss before tax mounting to US$6.3 million.

Acquisition-related costs, which consist of professional and legal fees, financing and transaction costs, taxes, representation and travel expenses amounting to US$1.4 million were recognized as expense in the consolidated statements of income.

MT Misslbeck Technologies GmbH (MT)
On June 1, 2017, AITHI, through its subsidiary ACI Singapore, has entered into an agreement with the shareholders of MT for the acquisition by ACI Singapore of a 94.90% equity stake and various shareholder and other loans in MT, a supplier of models, tools and plastic parts based in Ingolstadt, Germany. The said agreement became effective on June 2, 2017. The closing of the transaction transpired on July 5, 2017 upon completion of pre-closing conditions and regulatory approval.

In 2017, the purchase price allocation for the acquisition of AITHI has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation.

AC Industrial finalized the purchase price allocation in 2018 with the following changes to the fair values based on additional information subsequently obtained (amounts in thousands):

	In EUR	In ₱*
Assets		
Cash	€2	₱147
Receivables	3,626	216,654
Inventories	10,382	620,347
Property, plant and equipment	24,994	1,493,389
Other noncurrent assets	257	15,332
	39,261	2,345,869
Liabilities		
Trade accounts payable	11,159	666,761
Long-term debt	25,629	1,531,343
(Forward)		
	In EUR	**In ₱***
Other noncurrent liabilities	2,954	176,503
	39,742	2,374,607
Net assets	**(€481)**	**(₱28,738)**
Non-controlling interest (5.10%)	€0.001	₱0.06
Goodwill	481	28,738
Cost of acquisition	€0.001	₱0.06

**Translated using the exchange rate at the date of the closing of the transaction (€1:₱50.60 on July 5, 2017).*

AC Industrial has elected to measure non-controlling interest in the acquiree at the proportionate share of the non-controlling interest in the recognized amounts of the acquiree's identifiable net assets. The carrying amount of non-controlling interest changes due to allocation of profit or loss, changes in other comprehensive income and dividends declared for the reporting period.

The goodwill recognized on the acquisition can be attributed to the automotive Tier 1 manufacturing competencies in modelling, cubing, tooling and plastic parts production that MT adds to AC Industrial's portfolio, as well as expected synergies from cross-selling and organizational efficiencies with other AITHI companies.

Analysis of cash flows on acquisition (amounts in thousands):

	In EUR	In ₱*
Cost of acquisition	€0.001	₱0.06
Assumption of shareholder and other loans	21,897	1,308,346
Less: Cash acquired with the subsidiary	2	147
Net cash flow (included in cash flows from investing activities)	**€21,895**	**₱1,308,199**

**Translated using the exchange rate at the date of the closing of the transaction (€1:₱50.50 on July 5, 2017).*

The initial purchase consideration of EUR1 upon signing of the agreement was paid in cash. The transaction also includes put and call options on the non-controlling interests in MT of 5.1%, the exercise of which are subject to certain conditions. The estimated fair value of the financial liability amounted to ₱68.5 million.

Acquisition-related costs, which consist of professional and legal fees, transaction costs, taxes, representation and travel expenses amounting to EUR1.2 million were recognized as expense in 2017.

From July 5 to December 31, 2017, AITHI's share in MT's revenue and net loss amounted to €19.3 million (₱1,147.3 million) and €3.2 million (₱190.3 million), respectively. If the combination had taken place at the beginning of 2017, the AITHI's share in MT's revenue and net loss would have been €32.7 million (₱1,919.8 million) and €4.4 million (₱265.8 million), respectively.

Renewable Energy Test Center, LLC (RETC)
On September 15, 2017, AI North America (AINA), a wholly-owned subsidiary of BHL, fully acquired RETC for a total consideration of US$13.1 million. The closing of the transactions is subject to completion conditions and regulatory approval. BHL Group previously held 15.75% equity interest in RETC indirectly through the Series A Preferred Interests in PFIL North America, Inc. As a result of the transaction, RETC became a wholly-owned subsidiary of the BHL Group.

On March 8, 2018, AINA, a wholly-owned subsidiary of BHL, through its subsidiary PFIL North America, Inc. (PFIL NA), sold 70% interest of RETC for a total consideration of US$10.8 million to Marubeni Corporation (see Note 11). As a result of the transaction, BHL Group's ownership interest in RETC decreased from 100% to 30% (see Note 11). The Group recognized gain on loss of control amounting to ₱2.2 million included under "Other income" (see Note 23).

Asian Land Strategies Corporation (Asian Land)
On January 4, 2017, MWPVI entered into an Asset Purchase Agreement (APA) with Asian Land to acquire and operate the latter's assets used in the water business operations in Asian Land's developments in the province of Bulacan. The intention of MWPVI was to assign the rights under the APA to Bulacan MWPV Development Corp. (BMDC), MWC's wholly owned subsidiary.

On July 31, 2017, MWPVI assigned all its rights and obligations on the APA to BMDC under a Deed of Assignment. On the same day, the Deed of Absolute Sale has also been executed between Asian Land and BMDC. Total consideration paid by BMDC to Asian Land amounted to ₱54.0 million, inclusive of VAT.

Solar Resources, Inc. (Solar Resources)
On July 26, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar developments in the province of Bulacan. On July 31, 2017, Solar Resources executed a Deed of Assignment in relation to the APA and a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC. Total consideration paid by BMDC to Solar Resources amounted to ₱21.0 million, inclusive of VAT.

Borland Development Corporation (Borland)
On December 14, 2017, Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale to sell, assign, transfer, and convey its assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan to BMDC. Total consideration paid by BMDC to Borland amounted to ₱7.3 million, exclusive of VAT.

The fair values of the identifiable assets on these transactions as of the date of acquisition were as follows:

	Asian Land	Solar Resources	Borland
Assets acquired			
Property, plant and equipment	₱103,122	₱17,544	₱6,050
Acquisition cost	48,214	18,750	7,280
Goodwill (Bargain purchase)	(₱54,908)	₱1,206	₱1,230

No identifiable liabilities were acquired by BMDC in these acquisitions. The gain on bargain purchase is presented as part of "Other income" in the 2017 consolidated statement of income.

Transactions with Non-controlling Interest

Parent Company
On May 2, 2014, AYCFL issued at face US$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019. The Bonds are guaranteed by the Parent Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds were listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options. The Bondholders have the right to exchange their Bonds for shares at any time during the exchange period.

On April 30, 2019, the remaining AYCFL US$292.8 million guaranteed exchangeable bonds as of December 31, 2018 was exchanged and converted into total of 377.5 million ALI ordinary common shares.

The total cumulative exchanges of the Bonds into shares resulted in an increase in equity reserve of ₱12.3 billion.

ALI Group
In September 2019, ALI purchased additional 648,177 shares of VPHI for ₱799.42 million increasing ALI's ownership to 78.41%.

On April 17, 2019, ALI acquired additional 14,913,200 common shares of CHI through open market purchases using the trading facilities of the Philippine Stock Exchange totaling ₱88.7 million resulting in ALI's ownership from 70.4% to 71.1%.

On April 30, 2018, ALI and AyalaLand Logistics Holdings Corp. (ALLHC), formerly Prime Orion Philippines, Inc. (POPI), executed a Deed of Exchange where ALI will subscribe to 1,225,370,620 common shares of ALLHC for an aggregate subscription price of ₱3.0 billion in exchange for 30,186 common shares of LTI. The subscription and exchange shall be subject to and deemed effective only upon the issuance by the SEC of the confirmation of valuation of the shares. The SEC issued its approval on February 28, 2019. This increased ALI's ownership to 69.50%. This resulted in a decrease in equity reserve amounting to ₱664.9 million

On February 4, 2019, the Executive Committee of ALI approved the purchase of a 20% equity interest owned by Mitsubishi Corporation in Laguna Technopark, Inc. (LTI), equivalent to 8,051 common shares, with a total value of ₱800 million. On May 10, 2019, POPI changed its corporate name to ALLHC.

Subsequently on June 10, 2019, ALI sold to ALLHC its 20% equity interest or 8,051 LTI common shares equivalent to ₱800 million for additional shares of stock in ALLHC resulting to increase in ALI's ownership from 69.5% to 70.36%. On September 9, 2019, OLI sold through a special block sale, 215,090,031 common shares of ALLHC to Avida Land Corporation, a wholly-owned subsidiary of ALI, for a total consideration of ₱628.1 million. Subsequently, these shares were acquired by ALI through a special block sale for a total consideration of ₱628.1 million. This resulted in an increase ALI's effective ownership in ALLHC from 70.36% to 71.46%

The transactions were accounted for as an equity transaction since there were no changes in control. The movements within equity are accounted for as follows:

	2019		
	Consideration paid	Carrying value of Non-controlling interests acquired	Difference recognized within Equity as Equity Reserve
		(In Thousands)	
8.41% in VPHI	₱799,420	₱68,916	₱730,504
0.69% in CHI	88,734	73,977	14,757
0.86% in ALLHC	800,000	825,447	(25,447)
1.10% in ALLHC	628,100	1,033,335	(405,235)
	₱2,316,254	₱2,001,675	₱314,579

In 2018, ALI acquired additional 59,631,200 common shares of CHI totaling to ₱352.8 million. Further, an additional 77,742,516 shares was acquired as a result of swap of CPVDC shares for a total consideration of ₱229.3 million which brings ALI's ownership to 70.4%.

In January 2018, ALI purchased additional 202,774,547 shares of POPI from Genez Investment Corporation for ₱497.7 million increasing ALI's ownership to 67%.

In December 2018, ALI acquired 8,051 common shares of LTI for ₱800.0 million increasing its ownership to 95%.

The transactions were accounted for as an equity transaction since there were no changes in control. The movements within equity are accounted for as follows:

	2018		
	Consideration paid	Carrying value of Non-controlling interests acquired	Difference recognized within Equity
		(In Thousands)	
4.14% in POPI	₱497,652	₱315,951	₱181,701
20.00% in LTI	800,000	528,295	271,705
1.53% net reduction in CHI	582,106	826,752	(244,646)
	₱1,879,758	₱1,670,998	₱208,760

In March 2018, the Irredeemable Convertible Unsecured Loan Stock of Dato Sri Tong and Tan Sri Barry Go, founders of MCT, were converted into 122,218,357 shares. This resulted in a 6.07% dilution of ALI's stake in MCT as of date of share issuance. As such, the current ownership stake of ALI in MCT is 66.25%. This resulted in an increase in Equity reserve amounting to ₱1,044.5 million.

In 2017, ALI purchased additional 97,763,900 common shares of CHI from BPI Securities Corporation totaling ₱575.0 million which brought up ALI's ownership to 72% of the total outstanding capital stock of CHI.
In February 2017, ALI purchased additional 631,000 common shares of POPI from BPI Securities Corporation for ₱1.26 million. ALI's interest remains at 51% of the total POPI's outstanding capital stock.

In June 2017, Orion Land, Inc. (OLI), a subsidiary of POPI, acquired 512,480,671 common shares equivalent to 11.69% ownership at ₱2.45 share amounting to ₱1,255.58 million. The acquisition of POPI shares by OLI was treated as an acquisition of non-controlling interest resulting to a debit to equity reserve of ₱405.18 million. This increased ALI's effective ownership to 63.05%.

The transactions were accounted for as an equity transaction since there were no changes in control. The movements within equity are accounted for as follows:

	Consideration paid	Carrying value of Non-controlling interests acquired	Difference recognized within Equity
		(In Thousands)	
5.09% in CHI	₱574,994	₱394,907	₱180,087
11.69% in POPI	1,258,579	852,656	405,923
	₱1,833,573	₱1,247,563	₱586,010

In August 2017, AHRC entered into a memorandum of agreement with SIDECO and an individual to develop Sicogon Island into a new leisure destination. The investment of SIDECO and an individual to Sicogon Island Tourism Estate Corp. (SITEC) changed the ownership interest of AHRC in SITEC from 100% to 77% without a loss of control. The difference between the amount by which non-controlling interest of 23% are adjusted and the fair value of consideration paid is recognized directly to equity amounting to ₱134.0 million.

In 2016, ALI purchased additional 201,859,364 common shares of CHI for total consideration of ₱1,209.8 million which brought ALI's ownership from 56.4% to 66.9%. The transaction was accounted for as an equity transaction since there was no change in control. The difference between the fair value of the consideration paid and the amount of which the noncontrolling interest is adjusted amounting to ₱461.0 million is recognized in equity under "Equity Reserve".

From March 2016 to July 2016, LLHI subscribed to 18,150,931 common and 48,876,456 preferred shares of Nuevo Centro or equivalent to 45.0% stake of NCI's total outstanding capital. This transaction resulted into lower ALI's interest to 55.0% in NCI as of December 31, 2016. The transactions were accounted as an equity transaction since there was no change in control.

In 2015, ALI purchased additional shares from non–controlling interests of CHI, NTDCC, Aurora Properties Incorporated (API). The transactions were accounted as an equity transaction since there was no change in control. The movements within equity are accounted for as follows:

	Consideration paid	Carrying value of Non-controlling interests	Difference recognized within Equity
		(In Thousands)	
6.7% in CHI	₱649,927	₱434,074	₱215,853
9.4% in NTDCC	778,356	174,770	603,586
1.9% in API	58,157	45,540	12,617
	₱1,486,440	₱654,384	₱832,056

In 2014, ALI Group acquired additional shares from non-controlling interests of Philenergy (40.0%), NTDCC (14.5%) and CECI (0.40%) and were accounted as an equity transaction since there was no change in control.

In 2013, ALI Group acquired additional 32% interest in APPCo and additional 40% interests in TKDC and TKPI increasing its ownership interest to 100%. The transactions were accounted as an equity transaction since there was no change in control. Following is the schedule of the movement in equity reserves recorded within the equity:

	Consideration paid	Carrying value of Non-controlling interests acquired	Difference recognized within Equity
		(In Thousands)	
6.7% in CHI	₱3,520,000	₱797,411	₱2,722,589
9.4% in NTDCC	2,000,000	1,413,960	586,040
	₱5,520,000	₱2,211,371	₱3,308,629

IMI Group

STEL

On December 26, 2016, STEL acquired the remaining non-controlling interest in Shenzhen Speedy-Tech Electronics Co., Ltd. for a total consideration of US$0.4 million.

The details of the transaction are as follows (amounts in thousands):

	In US$	**In Php***
Non-controlling interest acquired	US$190	₱9,447
Consideration paid to the non-controlling shareholder	(360)	(17,899)
Total amount recognized in “Equity Reserves” account within equity	(US$170)	(₱8,452)

**Translated using the exchange rate at the reporting date (US$1:₱49.72 on December 31, 2016).*

25. Assets and Liabilities and Operations of Segment under PFRS 5

MWC

On February 3, 2020, MWC and Prime Metroline Holdings, Inc., on behalf of a company to be incorporated (Trident Water), signed a subscription agreement for the acquisition of 820.0 million common shares of MWC at ₱13.00 per share. On February 6, 2020, the Parent Company’s Executive Committee approved the grant of proxy rights by Philwater to Trident Water over its 4,000,000,000 preferred shares to enable the latter to achieve 51.00% voting interest in MWC, subject to the fulfillment of the conditions in the subscription agreement for the 24.96% share in MWC. Upon the grant of proxy rights to Trident Water, the Parent Company’s effective voting interest in MWC will stand at 31.60%.

On February 7, 2020, MWC received a letter from Prime Metroline Holdings, Inc. that it has announced, through publication in a newspaper of general circulation, its intention to make a mandatory offer for the shares of the MWC at an offer price of ₱13.00 per share.

The issuance of the primary shares to Trident Water by MWC and the assignment of portion of the preferred shares voting rights is expected to be completed within one year from the reporting date and will result in the Parent Company’s loss of control over MWC. Accordingly, as at December 31, 2019, MWC qualified as a group held for deemed disposal and since the operations of MWC represents the Group’s water infrastructure business segment, qualifies as a discontinued operation (presented as operation of segment under PFRS 5 in the statement of income).

The results of MWC for the years ended December 31, 2019, 2018 and 2017 are presented below:

	2019	2018	2017
		(In Thousands)	
Revenue from contracts with customer	**₱20,729,630**	19,027,915	₱29,381,301
Cost of Services	**(8,223,313)**	(6,900,923)	(7,003,157)
Gross profit	**12,506,317**	12,126,992	22,378,144
Operating expenses	**(4,805,302)**	(3,865,330)	(15,240,737)
Other income (expenses)-net	**(866,197)**	(328,003)	(126,997)
Pre-PFRS 5 impairment loss (Notes 13 and 14)	**(5,574,910)**	–	–
Impairment loss recognized on remeasurement to fair value less costs to sell	**(33,244,121)**	–	–
Income/ (Loss) before income tax	**(31,984,213)**	7,933,659	7,010,410
Provision for income tax			
Related to income from ordinary activities for the period	**(2,031,058)**	(1,752,524)	(1,680,541)
Related to pre-PFRS 5 impairment loss	**1,301,750**	–	–
Related to remeasurement to fair value less costs to sell	**2,280,028**	–	–
Net income/(loss) from operations of the Segment under PFRS 5	**(₱30,433,493)**	₱6,181,135	₱5,329,869

In 2019, operating expenses include provision for impairment on receivables amounting to ₱0.1 million and depreciation and amortization on property, plant and equipment, service concession assets and right-of-use assets amounting to ₱3,572.5 million.

Write-down of non-financial assets

Immediately before the classification of MWC under PFRS 5, the recoverable amount was estimated for service concession assets and goodwill which resulted in impairment loss of ₱5.2 billion and. ₱367.9 million, respectively.

Following the reclassification of the assets and liabilities of MWC to assets and liabilities under PFRS 5, the write-down of the following non-financial assets was made to remeasure the carrying amount of the group to fair value less costs to sell (amounts in thousands):

Service Concession Asset	₱25,664,749
Investments in associates and joint ventures	5,739,994
Property, Plant and Equipment	1,701,516
Goodwill	137,862

The loss was recorded under Operations of the segment under PFRS 5 in the consolidated statements of income. Fair value was determined based on the price at which the Company 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 major classes of assets and liabilities of the MWC classified under PFRS 5 as at December 31, 2019 are as follows:

	2019
Assets under PFRS 5	*(In thousands)*
Cash and cash equivalents	₱8,339,714
Short-term investments	727,798
Receivables	1,871,875
Concession financial receivables	1,054,538
Contract assets	1,471,574
Inventories	342,440

(Forward)

	2019
Investments in associates and joint ventures	₱9,779,814
Property, plant and equipment	2,867,910
Service concession assets - net	76,307,998
Right-of-use assets	295,675
Deferred tax assets	1,846,449
Other assets	4,856,350
Total assets under PFRS 5	**₱109,762,135**
Liabilities under PFRS 5	
Accounts and other payables	₱8,573,299
Contract liabilities	345,644
Lease liabilities	308,482
Service concession obligations	9,017,457
Income tax payable	308,404
Short-term and long-term debt	56,350,986
Pension liabilities	194,194
Deferred tax liabilities	543,777
Other liabilities	2,960,143
Total liabilities under PFRS 5	**₱78,602,386**

The reserves under PFRS 5 pertain to MWC reserves as follows:

	2019
Reserves under PFRS 5	*(In thousands)*
Remeasurement losses on defined benefit plans	48,045
Fair value reserve of financial assets at fair value through OCI	473
Cumulative translation adjustments	(128,906)
Equity reserve	1,547,837
Total reserves under PFRS 5	**₱1,467,449**

The following are the disaggregation of MWC's revenue from contracts with customers which forms part of the Group's operations of the segment under PFRS 5 for the years ended December 31, 2019 and 2018:

2019

	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Total
		(In Thousands)		
Revenue from contracts with customers				
Water	**₱12,380,830**	**₱2,975,888**	**₱–**	**₱15,356,718**
Sewer	**257,247**	**314,853**	**–**	**572,100**
Environmental charges	**2,834,858**	**151,479**	**–**	**2,986,337**
Other operating income	**102,511**	**1,699,196**	**12,768**	**1,814,475**
	₱15,575,446	**₱5,141,416**	**₱12,768**	**₱20,729,630**
Timing of revenue recognition				
Revenue recognized over time	**₱15,552,473**	**₱4,871,953**	**₱–**	**20,424,426**
Revenue recognized at a point in time	**22,974**	**269,463**	**12,768**	**305,205**
	₱15,575,447	**₱5,141,416**	**₱12,768**	**₱20,729,631**

2018

	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Total
		(In Thousands)		
Revenue from contracts with customers				
Water	₱12,332,399	₱2,264,888	₱–	₱14,597,287
Sewer	246,598	273,803	–	520,401
Environmental charges	2,691,308	28,343	–	2,719,651
Other operating income	275,251	886,318	29,007	1,190,576
	₱15,545,556	₱3,453,352	₱29,007	₱19,027,915

	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Total
		(In Thousands)		
Timing of revenue recognition				
Revenue recognized over time	₱15,298,057	₱3,089,330	₱–	₱18,387,387
Revenue recognized at a point in time	247,499	364,022	₱29,007	640,528
	₱15,545,556	₱3,453,352	₱29,007	₱19,027,915

The net cash flows of MWC are as follows:

	2019	2018
		(In Thousands)
Operating	**₱549,262**	₱3,297,589
Investing	**(692,482)**	(8,859,009)
Financing	**(289,128)**	5,931,268
Net cash outflow/inflow	**(₱432,348)**	₱369,848

The net income attributable to owners of the Parent Company and NCI from continuing and operations of segment under PFRS 5 are as follows:

	2019	2018	2017
		(In thousands)	
Net Income (Loss) Attributable to:			
Owners of the Parent Company (Note 27)			
From continuing operations	**₱51,149,782**	₱28,653,435	₱27,581,428
From operations of segment under PFRS 5	**(15,870,452)**	3,164,287	2,682,404
Non-controlling interest			
From continuing operations	**21,266,041**	20,230,545	16,955,478
From operations of segment under PFRS 5	**(14,563,041)**	3,016,848	2,647,465

Earnings per share	**2019**	2018	2017
		(In Thousands)	
Basic, net income (loss) from operations of segment under PFRS 5	**(₱48.42)**	₱9.88	₱8.58
Diluted, net income (loss) from operations of segment under PFRS 5	**(₱48.32)**	₱9.85	₱8.55

GNPK

On July 1, 2019, the ACEI and PP executed a term sheet for the acquisition by PP of the ACEI Group's indirect partnership interest in GNPK. The completion of the transaction will result to PP gaining control over GNPK's coal plant project. The closing of the sale transaction is subject to conditions precedent, including the approval by the PCC that was obtained on September 30, 2019.

The major classes of assets and liabilities of the GNPK classified under PFRS 5 as at December 31, 2019 are as follows:

	2019
	(In Thousands)
Assets Held for Sale	
Cash and cash equivalents	₱4,990,109
Receivables	2,378,369
Input value-added taxes	3,839,980
Property, plant and equipment	48,102,754
Intangible assets	280,311
Other assets	1,113,035
Total assets under PFRS 5	₱60,704,558

(Forward)

	2019 *(In Thousands)*
Liabilities under PFRS 5	
Accounts and other payables	₱2,700,672
Loans Payable	38,942,070
Deferred tax liability - net	288,225
Other liabilities	954,273
Total liabilities under PFRS 5	**₱42,885,240**

As of December 31, 2019, total reserves of GNPK amounted to ₱208.6 million.

Merger of AEI and IPO
On January 8, 2018, the Group publicly announced the potential merger of AEI and IPO, the listed holding company for the education sector of House of Investments Inc., a member of the Yuchengco Group of Companies (see Note 10). The parties agreed to an exclusivity period to complete due diligence, and to finalize the terms and conditions of the proposed merger within the first quarter of 2018. As of December 31, 2018 and 2017, AEI was classified as a disposal group held for sale.

The major classes of assets and liabilities of AEI classified as held for sale as of December 31,2018 are as follows (amounts in thousands):

	2018
Assets	
Cash and cash equivalents	₱1,464,681
Accounts and other receivables	162,876
Other current assets	68,996
Investment property	1,490,005
Property and equipment	556,294
Other noncurrent assets	783,972
	4,526,824

(Forward)

Liabilities	
Accounts and other payables	₱410,660
Loans payable	30,000
Other noncurrent liabilities	634,612
	₱1,075,272
Non-controlling interests	₱358,427

The net cash flows incurred by AEI for the year are as follows:

Assets	2018
Operating	₱399,453
Investing	(1,716,136)
Financing	2,358,112
Net cash inflow	₱1,041,429

AA Thermal
On February 28, 2019, the PCC approved the acquisition by Aboitiz Power Corporation (Aboitiz Power) of a 49% voting interest and 60% economic interest in AA Thermal. This follows the signing of a share purchase agreement on September 26, 2018 between Aboitiz Power and AMNHB (a subsidiary of ACEI). During the first half of 2019, ACEI completed the sale valued at US$574.
19 million. The carrying value of ACEI Group's investment in AA Thermal was US$125.23 million (₱6.68 billion). The transaction resulted to US$448.96 million (₱23.59 billion) gain on sale which is presented under "Other Income" in the condensed consolidated statements of comprehensive

income (see Note 23). The proceeds of the sale were fully collected on May 17, 2019 (US$572.87 million) and September 5, 2019 (US$1.31 million for the price adjustment). The remaining interest on AA Thermal is recorded under "Investments in associates and joint ventures".

As of December 31, 2018, the portion sold to Aboitiz Power in 2019 amounting to ₱5.64 billion was classified as "Assets held for sale" in the consolidated financial statements of the Group.

AA Thermal has ownership interest in the 2x300 MW coal-fired power plant in Mariveles, Bataan owned by GNPower Mariveles Coal Plant Ltd. Co., which has been in operations since 2014, and in the 2x600 MW supercritical coal-fired power plant in Dinginin, Bataan owned by GNPower Dinginin Ltd. Co., which is currently under construction.

26. Income Tax

The components of the Group's deferred taxes are as follows:

Net deferred tax assets

	2019	2018
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱9,549,758**	₱10,531,049
Lease Liability	**4,512,578**	–
Accrued expenses	**1,057,660**	605,405
MCIT	**857,344**	–
Allowance for probable losses	**677,677**	649,222
Retirement benefits	**675,029**	470,937
NOLCO	**286,175**	813,314
Allowance for doubtful accounts	**26,931**	95,875
Allowance for inventory obsolescence	**16,648**	7,866
Advanced rental	**11,366**	32,537
Remeasurement loss	**9,106**	6,951
Fair value adjustment on property, plant and equipment arising from business combination	**3,978**	–
Service concession obligation	**–**	1,449,136
Unrealized foreign exchange loss	**–**	789,643
Fair value adjustments on long-term debt	**–**	165,769
Contract asset	**–**	1,668
Others	**396,154**	575,984
	18,080,404	16,195,356
Deferred tax liabilities on:		
ROU asset	**(3,223,526)**	–
Capitalized interest and other expenses	**(485,077)**	(434,023)
Difference between amortization expense of SCA per straight-line depreciation	**–**	(215,293)
Others	**(125,476)**	–
	(3,834,079)	(649,316)
Net deferred tax assets	**₱14,246,325**	₱15,546,040

Net deferred tax liabilities

	2019	2018
	(In Thousands)	
Deferred tax assets on:		
Lease liability	**₱339,392**	₱–
Accrued expenses	**184,672**	17,476
Difference between tax and book basis of accounting for real estate transactions	**92,021**	43,621
Allowance for probable losses	**51,820**	116,102
Fair value adjustments on:		
Long-term debt	**–**	88,852
AFS financial asset	**–**	1,116
NOLCO	**3,871**	52,616
Retirement benefits	**418**	3,637
MCIT	**–**	9,051
Advanced rental	**10**	–
Unrealized foreign exchange loss	**11,664**	–
Others	**95,665**	138,856
	779,533	471,327
Deferred tax liabilities on:		
Fair value adjustment arising from business combination	**(3,807,047)**	(4,093,238)
Difference between tax and book basis of accounting for real estate transactions	**(2,018,940)**	(1,006,586)
ROU asset	**(1,010,026)**	**–**
Difference between carrying amount of nonmonetary asset and their tax base	**(634,249)**	**–**
Accrual of liquidated damage	–	(651,970)
Capitalized interest and other expenses	**(297,873)**	(144,668)
Acquisition of trademarks and patents	**(264,485)**	
Unrealized foreign exchange gain	**(28,153)**	(2,486)
Accrued receivables	**(17,466)**	(11,327)
Contract asset	**(11,517)**	(37,282)
Unrealized fair value gain less costs to sell of biological assets	**(4,492)**	(6,909)
Fair value adjustments arising from business combination with MWC:		
Service concession assets	**–**	(3,683,544)
Land and improvements	**–**	(625,490)
Property, plant and equipment	**–**	(173,056)
Unrealized lease income	**–**	(75,850)
Concession finance receivable	**–**	(72,793)
Depreciation	**–**	(38,577)
Prepaid expenses	**–**	(21,381)
Difference between amortization expense of SCA per straight line method and per UOP	–	(433)
Others	**(721,102)**	(825,091)
	(8,815,350)	(11,470,681)
Net deferred tax liabilities	**(₱8,035,817)**	(₱10,999,354)

In 2018, deferred tax related to remeasurement gain on defined benefit plans recognized in OCI amounted to ₱93.6 million.

The Group has NOLCO amounting to ₱18.9 billion and ₱18.0 billion in 2019 and 2018, respectively, and MCIT amounting to ₱203.2 million and ₱181.6 million in 2019 and 2018, respectively. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. As of December 31, 2019, total unrecognized NOLCO and MCIT amounted to ₱15.4 billion and ₱38.6 million, respectively. The subsidiaries will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As of December 31, 2019, NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities, respectively, are as follows:

Year incurred	Expiry Date	NOLCO	MCIT
		(In Thousands)	
2016	2019	5,835,744	23,198
2017	2020	5,632,420	26,132
2018	2021	6,555,855	132,281
2019	2022	6,710,337	44,803

As of December 31, 2019 and 2018 deferred tax liabilities have not been recognized on the undistributed earnings and cumulative translation adjustment of foreign subsidiaries since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future. The undistributed earnings and cumulative translation adjustment amounted to ₱22.4 billion and ₱18.1 billion as of December 31, 2019 and 2018, respectively.

The reconciliation between the statutory and the effective income tax rates follows:

	2019	2018	2017
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Nontaxable share in net profits of associates and joint ventures	**(12.68)**	(8.75)	(8.93)
Nondeductible expenses	**17.12**	0.44	1.45
Interest income and capital gains subjected to lower rates	**(16.58)**	(1.28)	(1.93)
Income under income tax holiday	**(0.90)**	(0.59)	(0.35)
Others	**5.89**	1.72	(0.51)
Effective income tax rate	**22.85%**	21.54%	19.73%

The income tax on profits of overseas subsidiaries have been calculated at the rates of tax prevailing in the countries where such subsidiary operates, based on existing legislation, interpretations and practices in respect thereof.

Revenue Regulations (RR) No. 16-2008
RR No. 16-2008 provided the implementing guidelines for Section 34 of RA No. 9504 on the use of the OSD for corporations. The OSD allowed shall be an amount not exceeding 40% of the gross income. Gross income earned refers to gross sales or gross revenue derived from any business activity, net of returns and allowances, less cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses. This was applied by MWC Group for the years ended December 31, 2019, 2018 and 2017.

The use of OSD as the method of computing tax deductible expenses affected the recognition of several deferred tax assets and liabilities, such that no deferred tax assets and liabilities were recognized on items of income and expenses that are not considered in determining gross income for income tax purposes. The MWC Group forecasts that it will continue to avail of the OSD, such that the manner by which it will recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result in any future tax consequence under OSD.

The tax rate of 18% for the years in which OSD is projected to be utilized was used in computing the deferred income taxes on the net service concession obligation starting 2008.

Deferred taxes on allowance for ECL and pension liability were not recognized by MWC. The net reduction in deferred tax assets from applying the 18% effective tax rate to the recognized deferred taxes on net service obligation and the derecognition of the deferred taxes relating to the accounts with temporary differences which are not considered in determining gross income for income tax purposes by MWC amounted to ₱130.41 million and ₱288.21 million as of December 31, 2019 and 2018, respectively.

Registration with the PEZA and Board of Investments (BOI) Incentives
Some activities of certain local subsidiaries are registered with the PEZA and BOI. Under the registration, these subsidiaries are entitled to certain tax and nontax incentives, which include, but are not limited to, income tax holiday (ITH) and duty-free importation of inventories and capital equipment. Upon the expiration of the ITH, the subsidiaries will be liable for payment of a five percent (5%) tax on gross income earned from sources within the PEZA economic zone in lieu of payment of national and local taxes.

ALI
ALI was registered with PEZA last December 13, 2017 as a Developer/Operator of the Southpark Corporate Center. In November 6, 2017, ALI was registered with PEZA as a Developer/Operator of the Vertis North IT Park.

The BOI issued certificates of registrations to ALI Group in accordance with the existing Omnibus Investment Code. The projects have been granted an ITH for a fixed period from the date of registration or actual start of operations.

27. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to owners of the Parent Company:

	2019	2018 (As Restated)	2017 (As Restated)
	(In Thousands, except EPS figures)		
Net income attributable to the owners of the Parent Company			
Continuing operations	**₱51,149,782**	₱28,653,435	₱27,581,438
Segment under PFRS 5	**(15,870,452)**	3,164,287	2,682,404
Less: Dividends on preferred stock	**(1,259,756)**	(1,285,015)	(1,285,015)
	34,019,574	30,532,707	28,978,827
Less profit impact of assumed conversions of potential ordinary shares of investees	**(51,642)**	(178,364)	(319,184)
	₱33,967,932	₱30,354,343	₱28,659,643
Weighted average number of common shares	**628,558**	625,644	620,928
Dilutive shares arising from stock options	**1,312**	2,119	2,240
	629,870	627,763	623,168

(Forward)

	2019	2018 (As Restated)	2017 (As Restated)
	(In Thousands, except EPS figures)		
EPS before operations of segment under PFRS 5			
Basic	**₱79.37**	₱43.74	₱42.35
Diluted	**₱79.12**	₱43.31	₱41.69
EPS			
Basic	**₱54.12**	₱48.80	₱46.67
Diluted	**₱53.93**	₱48.35	₱45.99

28. **Defined Benefit Plan**

The Parent Company and certain subsidiaries have their respective funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on defined formula with a certain minimum lump-sum guarantee of effective salary per year of service. The consolidated retirement costs charged to operations amounted to ₱926.1 million, ₱800.2 million and ₱893.1 million in 2019, 2018 and 2017, respectively, net of retirement costs of segment reclassified to PFRS 5 amounting to ₱104.1 million, ₱78.3 million and ₱76.1 million in 2019, 2018 and 2017, respectively.

The Parent Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Parent Company, governed by a board of trustees appointed under a Trust Agreement between the Parent Company and the initial trustees. It holds common and preferred shares of the Parent Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee include the Parent Company’s Chief Finance Officer, Group Head of Corporate Governance, General Counsel, Corporate Secretary and Compliance Officer, Head for Strategic Human Resources, Treasurer and Comptroller. ACEWRF has not exercised voting rights over any shares of the Parent Company that it owns.

For the subsidiaries, the funds are generally administered by a trustee bank under the supervision of the Board of Trustees of the plan for each subsidiary. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans’ objectives, benefit obligations and risk capacity.

Existing regulatory framework in the Philippines requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee’s retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. Some of the entities of the Group also provides additional post employment healthcare benefits to certain senior employees in the Philippines.

The components of expense (included in personnel costs under “Cost of rendering services” and “General and administrative expenses”) in the consolidated statements of income follow:

	2019	2018 (As Restated)	2017 (As Restated)
		(In Thousands)	
Current service cost	**₱875,495**	₱763,607	₱787,865
Past service cost	**–**	10,563	549
Net interest cost on benefit obligation	**160,820**	104,197	189,488
Loss (gain) on curtailment and settlements	**(6,049)**	84	(8,679)
Reclassification to PFRS 5	**(104,148)**	(78,273)	(76,146)
Total pension expense	**₱926,118**	₱800,178	₱893,077

The remeasurement effects recognized in other comprehensive income (included in Equity under “Remeasurement losses (gains) on defined benefit plans”) in the consolidated statements of financial position follow:

	2019	2018	2017
		(In Thousands)	
Loss (gain) on plan assets (excluding amount included in net interest)	**(₱261,290)**	₱699,513	(₱270,307)
Actuarial gain due to liability assumption changes - experience and demographic assumptions	**389,358**	102,522	(151,681)
Actuarial loss (gain) due to liability assumption changes - financial	**947,590**	(549,360)	71,456
Reclassification to PFRS 5	**(90,526)**	–	–
Remeasurements in other comprehensive income	**₱985,132**	₱252,675	(₱350,532)

The funded status and amounts recognized in the consolidated statements of financial position for the pension plan as of December 31, 2019 and 2018, as follows:

	2019	2018
	(In Thousands)	
Benefit obligations	**₱9,714,281**	₱10,027,735
Plan assets	**(5,958,233)**	(7,437,883)
Net pension liability position	**₱3,756,048**	₱2,589,852

As of December 31, 2019 and 2018, pension assets (included under “Other Noncurrent Assets”) amounted to ₱80.6 million and ₱82.0 million (see Note 15), respectively, and pension liabilities amounted to ₱3.8 billion and ₱2.6 billion, respectively.

Changes in net defined benefit liability of funded funds in 2019 and 2018 are as follows:

2019

	Net benefit cost in consolidated statement of income							Remeasurements in other comprehensive income										
	January 1	Current service cost	Past Service Cost	Net interest	Loss (gain) on Curtailments and Settlements	Subtotal	Benefits paid	Return on plan assets*	Actuarial loss due to liability experience	Actuarial loss due to demograhic assumption changes	Actuarial loss due to financial assumption changes	Subtotal	Transfer payments	Contribution by employer	Foreign currency exchange differences	Reclassi-fication to PFRS 5	Settlements	December 31
									(In Thousands)									
Present value of defined benefit obligation	₱10,027,735	₱875,495	₱–	₱698,392	(₱6,049)	₱1,567,838	(₱2,116,363)	₱–	₱387,565	₱1,793	₱947,590	₱ 1,336,948	(₱9,306)	₱–	(₱4,439)	(₱1,073,160)	(₱14,972)	₱9,714,281
Fair value of plan assets	(7,437,883)	–	–	(537,572)	–	(537,572)	2,157,149	(261,290)	–	–	–	(261,290)	7,502	(793,655)	9,288	878,965	19,263	(5,958,233)
Net defined benefit liability (asset)	₱2,589,852	₱875,495	₱–	₱160,820	(₱6,049)	₱1,030,266	₱40,786	(₱261,290)	₱387,565	₱1,793	₱947,590	₱1,075,658	(₱1,804)	(₱793,655)	₱4,849	(₱194,195)	₱4,291	₱3,756,048

**Excluding amount included in net interest*

2018

	Net benefit cost in consolidated statement of income							Remeasurements in other comprehensive income									
	January 1	Current service cost	Past Service Cost	Net interest	Loss (gain) on Curtailments and Settlements	Subtotal	Benefits paid	Return on plan assets*	Actuarial loss due to liability experience	Actuarial loss due to liability assumption changes	Subtotal	Transfer payments	Contribution by employer	Foreign currency exchange differences	Reclassi-fications	Settlements	December 31
									(In Thousands)								
Present value of defined benefit obligation	₱10,035,831	₱763,607	₱10,563	₱505,571	₱84	₱1,279,825	(₱795,581)	₱–	(₱549,360)	₱102,522	(₱446,838)	(₱42,700)	₱–	₱–	₱–	(₱2,802)	₱10,027,735
Fair value of plan assets	(7,533,027)	–	–	(401,374)	–	(401,374)	357,789	699,513	–	–	699,513	87,203	(650,789)	–	–	2,802	(7,437,883)
Net defined benefit liability (asset)	₱2,502,804	₱763,607	₱10,563	₱104,197	₱84	₱878,451	(₱437,792)	₱699,513	(₱549,360)	₱102,522	₱252,675	₱44,503	(₱650,789)	₱–	₱–	₱–	₱2,589,852

**Excluding amount included in net interest*

The following tables present the changes in the present value of defined benefit obligation and fair value of plan assets:

Present value of defined benefit obligation

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱10,027,735**	₱10,035,831
Current service cost	**875,495**	763,607
Interest cost	**698,392**	505,571
Past service cost	**–**	10,563
Remeasurements in other comprehensive income:		
Actuarial changes arising from experience adjustments and changes in demographic assumptions	**389,358**	102,522
Actuarial changes arising from changes in liability assumptions	**947,590**	(549,360)
Benefits paid from plan assets	**(2,116,363)**	(795,581)
Settlements	**(14,972)**	(2,802)
Transfer payments	**(9,306)**	(42,700)
Foreign currency exchange difference	**(4,439)**	–
Gain on curtailment and settlements	**(6,049)**	84
Reclassification to PFRS 5	**(1,073,160)**	–
	₱9,714,281	₱10,027,735

Fair value of plan assets

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱7,437,883**	₱7,533,027
Contributions	**793,655**	650,789
Interest income on plan assets	**537,572**	401,374
Return on plan assets (excluding amount included in net interest)	**261,290**	(699,513)
Foreign currency exchange difference	**(9,288)**	–
Benefits paid	**(2,157,149)**	(357,789)
Transfer payments	**(7,502)**	(87,203)
Settlements	**(19,263)**	(2,802)
Reclassification to PFRS 5	**(878,965)**	–
	₱5,958,233	₱7,437,883

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

	2019	2018
	(In Thousands)	
Assets		
Cash and cash equivalents	**₱30,672**	₱33,714
Debt investments	**3,790,049**	5,342,728
Equity investments	**2,400,021**	2,039,884
Other assets	**580,538**	100,009
	6,801,280	7,516,335
Liabilities		
Trust fee payable	**(8,528)**	(45,804)
	(8,528)	(45,804)
Reclassifications to PFRS 5	**(878,965)**	–
Net Asset Value*	**₱5,913,787**	₱7,470,531

**The difference of ₱44.4 million and ₱32.6 million in the fair value of plan assets as of December 31, 2019 and 2018, respectively, pertains to movements after the valuation date.*

All equity and debt instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse investments and do not have any concentration risk.

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

	2019	2018
Discount rates	**0.4% to 7.6%**	0.9% to 8.5%
Future salary increases	**4.0% to 7.5%**	3.0% to 8.0%

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

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

		2019	2018
	Increase (decrease)	Net Pension Liabilities	
		(In Thousands)	
Discount rates	1%	**(₱528,235)**	(₱383,831)
	(1%)	**590,037**	452,594
Future salary increases	1%	**572,983**	458,707
	(1%)	**(493,721)**	(394,987)

The management performed an Asset–Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Group's current strategic investment strategy consists of 55.73% of debt instruments, 35.29% of equity instruments and 8.54% other assets.

The Group expects to contribute ₱854.8 million to the defined benefit pension plan in 2020.

The average duration of the defined benefit obligation at the end of the reporting period is 3.95 to 24.0 years in 2019 and 4.05 to 26.1 years in 2018.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2019 (amounts in thousands):

	2019	2018
Less than 1 year	**₱1,910,766**	₱2,430,702
More than 1 year to 5 years	**3,945,150**	26,453,265
More than 5 years	**52,658,759**	118,301,970
	₱58,514,675	₱147,185,937

As of December 31, 2019 and 2018, the plan assets include shares of stock of the Parent Company with total fair value of ₱327.7 million and ₱341.1 million, respectively. The Parent Company gives the trustee bank the discretion to exercise voting rights over the shares.

The fund includes investment in securities of its related parties. Details of the investment per type of security are as follows (amounts in thousands):

2019	**Historical Cost**	**Fair Value**	**Unrealized Gain**
		(In Thousands)	
Equity securities	**₱1,038,809**	**₱1,040,493**	**₱1,684**
Debt securities	**1,361,971**	**1,433,550**	**71,579**
Unit investment trust funds	**209,694**	**211,063**	**1,369**
Others	**13,387**	**13,461**	**74**
	₱2,623,861	**₱2,698,567**	**₱74,706**

2018	Historical Cost	Fair Value	Unrealized Gains (Losses)
		(In Thousands)	
Equity securities	₱830,611	₱825,021	₱13,752
Debt securities	1,777,777	1,705,619	(24,934)
Unit investment trust funds	112,885	109,830	(3,055)
Others	73,307	74,285	978
	₱2,794,580	₱2,714,755	(₱13,259)

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

The Group's transactions with the fund mainly pertain to contributions, benefit payments, settlements and curtailments.

29. Stock Option Purchase Plans

The Parent Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (ESOWN) covering 3.0% of the Parent Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a defined period of time.

ESOP
The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Parent Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he/she is given 3 years to exercise his/her vested and unvested options. In case the grantee resigns, he/she is given 90 days to exercise his/her vested options.

A summary of the Parent Company's stock option activity and related information for the years ended December 31, 2019, 2018 and 2017 follows:

	2019		2018		2017	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, at beginning of year	**1,024,067**	**₱287.82**	1,032,703	₱287.32	1,201,738	₱295.27
Exercised	**(89,611)**	**341.61**	(8,636)	227.53	(169,035)	343.88
Outstanding, at end of year	**934,456**	**₱282.66**	1,024,067	₱287.82	1,032,703	₱287.32

The options have a contractual term of 10 years. As of December 31, 2019 and 2018, the weighted average remaining contractual life of options outstanding is 1.64 years and 2.53 years, respectively, and the exercise prices ranged from ₱227.50 to ₱500.00.

The fair value of each option is estimated on the date of grant using the Black-Scholes Merton Formula. The fair values of stock options granted under ESOP at each grant date and the assumptions used to determine the fair value of the stock options are as follows:

	April 26, 2013	April 18, 2011	April 16, 2010
Weighted average share price	₱640.00	₱352.08	₱303.70
Exercise price	₱500.00	₱264.06	₱227.53
Expected volatility	42.40%	41.21%	41.31%
Option life	10 years	10 years	10 years
Expected dividends	0.54%	0.86%	0.92%
Risk-free interest rate	3.04%	6.64%	8.56%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

The Parent Company also has ESOWN granted to qualified officers wherein grantees may subscribe in full to the shares awarded to them based on the average market price determined by the Personnel and Compensation Committee as the offer price set at grant date. For any share awards unsubscribed, grantees still have the option to subscribe from the start of the fifth year but not later than on the start of the seventh year from date of grant.

To subscribe, the grantee must be an employee of the Parent Company or any of its subsidiaries during the 10-year payment period. In case the grantee resigns, the unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, and payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may continue to subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Parent Company's Right to Repurchase.

In 2015, the Parent Company introduced a revised ESOWN plan wherein grantees are given one (1) month from the time an allocation is awarded to subscribe in full, with any unsubscribed awards forfeited.

ESOWN grants totaling 515,904, 492,875 and 456,286 were subscribed in 2019, 2018 and 2017, respectively. Movements in the number of options outstanding under ESOWN as of December 31, 2019, 2018 and 2017 follow:

	2019		2018		2017	
	Number of options	**Weighted average exercise price**	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
At January 1		**₱–**	–	₱–	–	₱–
Granted	**767,942**	**883.83**	494,683	926.00	458,120	837.53
Subscribed	**(515,904)**	**(883.83)**	(492,875)	(926.00)	(456,286)	(837.53)
Expired	**(252,038)**	**883.83**	(1,808)	(926.00)	(1,834)	(837.53)
At December 31	–	**₱–**	–	₱–	–	₱–

The ESOWN grants are effectively treated as options on shares exercisable within a given period, considering both the subscription period allowed to grantees and the subscription payment pattern. As such, the fair values of these options are estimated on the date of grant using the Black-Scholes Merton Formula and Binomial Tree Model, taking into account the terms and conditions upon which the options were granted. These models require six inputs to produce the stock option value, which are namely: share price, exercise price, time to maturity, volatility rate, dividend yield, and risk-free rate.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	April 26, 2019	April 20, 2018	April 18, 2017	December 16, 2016	December 23, 2015	April 11, 2014
Number of unsubscribed shares	–	–	–	–	–	8,344
Fair value of each option	**₱263.51**	₱256.30	₱222.49	₱176.82	₱444.59	₱619.00
Share price	**₱895.00**	₱919.00	₱859.00	₱732.00	₱718.88	₱673.96
Exercise price	**₱883.83**	₱926.00	₱837.53	₱717.30	₱611.05	₱480.00
Expected volatility	**29.17%**	30.28%	29.55%	30.31%	38.23%	42.13%
Dividend yield	**0.78%**	0.75%	0.61%	0.70%	0.67%	0.74%
Interest rate	**5.64%**	3.68%	2.89%	1.46%	4.81%	4.38%

In 2019 and 2018, the Parent Company recognized ₱135.9 million and ₱126.3 million as share-based payments expense, respectively.

In 2017, the Parent Company recognized an adjustment of ₱166.7 million reduction in the ESOWN costs of share-based payments following the revised valuation methodology.

Subscriptions receivable from the stock option plans covering the Parent Company's shares are presented under equity.

ALI

ALI has stock option plans for key officers and employees covering 2.5% of ALI's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

ESOP

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of ALI or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

ALI has no ESOP grant and availment during 2019, 2018 and 2017.

ESOWN

In November 2001, ALI offered all its ESOWN subscribers with outstanding ESOWN subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

In 2005, ALI introduced a revised ESOWN Plan (the Plan) wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee of ALI as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of ALI or any of its subsidiaries during the ten (10)-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the ten (10)-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the Plan are subject to ALI's right to repurchase.

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of stock options granted are estimated on the date of grant using the Black-Scholes Merton (BSM) Formula and Binomial Tree Model (BTM), taking into account the terms and conditions upon which the options were granted. The BSM Formula and BTM Model requires six inputs to produce an option stock value namely; market value of the share, book value of the share, time to maturity, volatility rate, dividend yield, and risk free rate. The expected volatility was determined based on an independent valuation.

In 2019, the BOD of ALI approved the stock option program pursuant to their ESOWN. The program authorizes the grant to qualified executives, in accordance with the terms of the ESOWN, stock options covering up to a total of 14,430,750 common shares at a subscription price of ₱44.49 per share, which is the average price of ALI common shares at the Philippine Stock Exchange over the last 30-day trading as of February 26, 2019.

On April 30, 2019, 152 grantees of stock options under ESOWN subscribed to 10,073,389 common shares at ₱44.49 per share and became effective on the same day. As a result of the subscription of these grantees, ALI's outstanding common shares increased to 14,734,581,724.

Movements in the number of options outstanding and weighted average exercise prices (WAEP) under ESOWN follow:

	2019	**WAEP**	2018	WAEP	2017	WAEP
At January 1	**5,601,470**	**₱32.71**	5,150,628	₱19.31	7,288,035	₱19.95
Granted	**11,610,720**		10,384,365	–	11,420,517	–
Subscribed	**(10,453,766)**	**43.70**	(9,933,523)	41.14	(12,264,970)	33.32
Availment	**487,585**		96,516	–	113,541	–
Cancelled	**(6,940,594)**		(96,516)	–	(1,406,495)	–
At December 31	**304,415**	**₱35.94**	5,601,470	₱32.71	5,150,628	₱19.31

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Date							
	March 21, 2019	March 28, 2018	March 01, 2017	April 05, 2016	March 20, 2015	March 20, 2014	March 18, 2013	March 13, 2012
Number of unsubscribed shares	–	–	–	181,304	–	1,369,887	1,713,868	3,967,302
Fair value of each option (BTM)	₱–	₱–	₱8.48	₱13.61	₱16.03	₱12.60	₱16.05	₱9.48
Fair value of each option (BSM)	₱17.13	₱12.71	₱–	₱18.21	₱20.63	₱12.16	₱11.85	₱6.23
Weighted average share price	₱44.70	₱41.02	₱39.72	₱35.58	₱36.53	₱31.46	₱30.00	₱21.98
Exercise price	₱44.49	₱45.07	₱35.81	₱26.27	₱29.58	₱22.55	₱21.45	₱14.69
Expected volatility	31.48%	34.04%	30.95%	32.03%	31.99%	33.50%	36.25%	33.00%
Dividend yield	1.16%	1.22%	1.34%	1.27%	1.02%	1.42%	1.93%	0.9%
Interest rate	5.57%	4.14%	4.41%	4.75%	4.11%	3.13%	2.78%	5.70%

Total expense (included under "General and administrative expenses") recognized in 2019, 2018 and 2017 in the consolidated statement of income arising from share–based payments of ALI amounted to ₱142.86 million, ₱98.5 million and ₱153.8 million, respectively.

IMI

IMI Group has an ESOWN, which is a privilege extended to IMI Group's eligible managers and staff whereby IMI Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the ESOWN.

The key features of the plan are as follows:

- The subscription price per share shall be based on the average closing price at the PSE for 20 consecutive trading days with a discount to be determined by the Compensation Committee of IMI.
- Term of payment is eight years reckoned from the date of subscription with specified percentage of payment (i.e., 2.5% initial payment, 5.0% on 1st anniversary, 7.5% on 2nd anniversary, 10% on 3rd anniversary and balance over remaining years).
- Holding period: 40%, 30% and 30% after one (1), two (2) and three (3) years from subscripton date, respectively.

Movements in the number of shares outstanding under ESOWN in 2019, 2018 and 2017 follow:

	2019		2018		2017	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
At beginning of year	**₱139,364,849**	**₱6.65**	140,406,496	₱6.67	141,565,253	₱6.69
Forfeitures	**(1,672,663)**	**9.39**	(1,041,647)	9.40	(1,158,757)	8.66
At end of year	**₱137,692,186**	**₱6.65**	₱139,364,849	₱6.65	₱140,406,496	₱6.67

Total expense arising from share-based payments of IMI (included under "General and administrative expenses") in the consolidated statements of income amounted to nil, US$0.3 million (₱15.8 million), and US$0.26 million (₱13.0 million) in 2019, 2018 and 2017, respectively.

MWC

Executive Stock Option Plan (Executive SOP), Expanded Executive SOP and ESOWN

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule.

For the unsubscribed shares of the ESOWN grants in 2013 and 2012, the employee still has the option to subscribe within seven (7) years.

On March 6, 2018, the Remuneration Committee of MWC's BOD approved the grants of ESOWN equivalent to 16,054,873 shares at the subscription price of ₱27.31 per share. The subscription price is equivalent to the average closing price of MWC's common shares at the PSE for twenty (20) consecutive trading days ending March 6, 2018.

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and Black–Scholes Merton Formula, txaking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Dates			
	March 7, 2018	February 10, 2015	November 19, 2013	October 5, 2012
Number of shares granted	16,054,873	7,281,647	6,627,100	4,772,414
Number of unsubscribed shares	5,161,140	884,873	351,680	460,000
Fair value of each option	₱5.74	₱11.58	₱10.58	₱11.76
Weighted average share price	₱26.55	₱21.35	₱23.00	₱26.24
Exercise price	₱27.31	₱26.00	₱22.92	₱24.07
Expected volatility	24.92%	26.53%	24.90%	30.66%
Dividend yield	2.80%	2.55%	3.47%	2.56%
Risk-free interest rate	3.43%	3.79%	2.99%	4.57%
Expected life of option	45 days	4 years	4 years	4 years

To enjoy the rights provided for in the ESOWN, the grantee should be with MWC at the time the holding period expires. The Holding Period of the ESOWN shares follows: 40%, 30% and 30% from one year, two years and three years from subscription date, respectively.

For the 2013 and previous years' grants, the ESOWN grantees were allowed to subscribe fully or partially to whatever allocation may have been granted to them. In case of partial subscriptions, the employees are still allowed to subscribe to the remaining unsubscribed shares granted to them provided that this would be made at the start of Year 5 from grant date up to the end of Year 6. Any additional subscription made by the employee (after the initial subscription) will be subjected to another three (3)-year holding period. For the 2018 and 2015 grants, unsubscribed shares were forfeited.

Movements in the number of stock options outstanding under ESOWN are as follows:

	2019	**Weighted average exercise price**	2018	Weighted average exercise price
At January 1	**131,600**	**₱23.49**	231,980	₱23.49
Cancelled	**(131,600)**	**–**	(100,380)	–
At December 31	**₱–**	**₱23.49**	131,600	₱23.49

Total expense arising from equity-settled share-based payment transactions of MWC (included under "General and administrative expenses") in the consolidated statements of income amounted to ₱20.2 million, ₱24.0 million and ₱12.2 million in 2019, 2018 and 2017, respectively.

The expected life of the options is based on management's estimate and is not necessarily indicative of exercise patterns that may occur. MWC's expected volatility was used as an input in the valuation of the outstanding options. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily reflect the actual outcome.

No other features of the options granted were incorporated into the measurement of fair value.

30. **Operating Segment Information**

For management purposes, the Group is organized into the following business units:

- Parent Company - represents operations of the Parent Company including its financing entities such as ACIFL, AYCFL, PFIL and MHI.

- Real estate and hotels - planning and development of large-scale fully integrated mixed-used communities that become thriving economic centers in their respective regions. These include development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of high-end, upper middle-income and affordable and economic housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

- Financial services and insurance - commercial banking operations with expanded banking license. These include diverse services such as deposit taking and cash management (savings and time deposits in local and foreign currencies, payment services, card products, fund transfers, international trade settlement and remittances from overseas workers); lending (corporate, consumer, mortgage, leasing and agri-business loans); asset management (portfolio management, unit funds, trust administration and estate planning); securities brokerage (on-line

stock trading); foreign exchange and capital markets investments (securities dealing); corporate services (corporate finance, consulting services); investment banking (trust and investment services); a fully integrated bancassurance operations (life, non-life, pre-need and reinsurance services); and other services (internet banking, foreign exchange and safety deposit facilities).

- Telecommunications (Telecoms) – provider of digital wireless communications services using a fully digital network; domestic and international long distance communication services or carrier services; broadband internet and wireline voice and data communication services; also licensed to establish, install, operate and maintain a nationwide local exchange carrier (LEC) service, particularly integrated local telephone service with public payphone facilities and public calling stations, and to render and provide international and domestic carrier and leased line services. In recent years, operations include developing, designing, administering, managing and operating software applications and systems, including systems designed for the operations of bill payment and money remittance, payment facilities through various telecommunications systems operated by telecommunications carriers in the Philippines and throughout the world and to supply software and hardware facilities for such purposes.

- Water infrastructure – contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery, sewerage and sanitation, distribution services, pipeworks, used water management and management services. In 2016, a new business initiative was undertaken where the group will exclusively provide water and used water services and facilities to all property development projects of major real estate companies.

  In 2019, investment in MWC was reclassified to “Assets and liabilities and operations of segment under PFRS 5” (see Note 25).

- Electronics manufacturing – global provider of electronics manufacturing services (EMS) and power semiconductor assembly and test services with manufacturing facilities in Asia, Europe, and North America. It serves diversified markets that include those in the automotive, industrial, medical, telecommunications infrastructure, storage device, and consumer electronics industries. Committed to cost-development to manufacturing and order fulfillment), the company's comprehensive capabilities and global manufacturing presence allow it to take on specific outsourcing needs.

- Power generation – unit that will build a portfolio of power generation assets using renewable and conventional technologies which in turn will operate business of generating, transmission of electricity, distribution of electricity and supply of electricity, including the provision of related services.

- Automotive, Outsourcing and Others – includes operations of Automotive unit’s business on manufacturing, distribution and sale and providing repairs and services for passenger cars and commercial vehicles. In 2016, this unit launched initiatives to include industrial manufacturing activity for long-term synergy and integration with automotive business. This segment also includes outsourcing services unit (venture capital for technology businesses and emerging markets; onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, full-service creative and marketing, human capital management solutions, and full-service accounting); International unit (investments in overseas property companies and projects); Aviation (air-chartered services); consultancy, agri-business and other operating companies. This business segment group also includes the companies for Infrastructure (development arm for various types of infrastructure); education, human capital resource management and health services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

For the years ended December 31, 2019, 2018 and 2017, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment results include transfers between operating segments. Those transfers are eliminated in consolidation.

The following tables regarding operating segments present assets and liabilities as of December 31, 2019 and 2018 and revenue and income information for each of the three years in the period ended December 31, 2019 (amounts in millions):

2019

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Electronics Manufacturing	Power Generation	Automotive and Others	Intersegment Eliminations and Others	Consolidated
Revenue									
Sales to external customers	₱279	₱157,474	₱–	₱–	₱63,651	₱12,665	₱30,838	₱–	₱264,907
Intersegment	155	375	–	–	103	849	159	(1,641)	–
Share in net profits of associates and joint ventures	–	956	13,567	6,766	–	1,130	(75)	–	22,344
Interest income	–	7,891	–	–	–	–	–	–	7,891
Dividend income	59	–	–	–	–	64	–	–	123
	493	166,696	13,567	6,766	63,754	14,708	30,922	(1,641)	295,265
Costs and expenses									
Costs of sales and services	–	94,752	–	–	58,530	11,441	26,188	(928)	189,983
General and administrative	4,097	9,518	–	–	5,425	4,045	9,043	(15)	32,113
	4,097	104,270	–	–	63,955	15,486	35,231	(943)	222,096
Other income (charges)									
Interest income	742	930	–	–	52	1,564	70	(6)	3,352
Other income	1,792	1,186	–	–	425	27,404	2,090	(608)	32,289
Interest and other financing charges	(5,594)	(13,694)	–	–	(675)	(2,267)	(611)	432	(22,409)
Other charges	–	–	–	–	–	–	–	–	–
	(3,060)	(11,578)	–	–	(198)	26,701	1,549	(182)	13,232
Net income (loss) before income tax	(6,664)	50,848	13,567	6,766	(399)	25,923	(2,761)	(881)	86,399
Provision for (benefit from) income tax	105	13,313	–	–	100	566	(5)	(95)	13,984
	(6,769)	37,535	13,567	6,766	(499)	25,357	(2,756)	(786)	72,415
Operations of the segment under PFRS 5	–	–	–	–	–	–	–	(30,433)	(30,433)
Net income (loss)	(₱6,769)	₱37,535	₱13,567	₱6,766	(₱499)	₱25,357	(₱2,756)	(₱31,219)	₱41,982
Other information									
Segment assets	₱69,273	₱677,107	₱–	₱–	₱55,330	₱105,166	₱43,140	(₱36,175)	₱913,841
Investments in associates and joint ventures	186,117	25,294	–	–	–	21,089	14,231	–	246,731
Deferred tax assets	83	11,528	–	–	267	901	1,056	412	14,247
Assets under PFRS 5	–	–	–	–	–	–	60,705	109,762	170,467
Total assets	₱255,473	₱713,929	₱–	₱–	₱55,597	₱127,156	₱119,132	₱73,999	₱1,345,286
Segment liabilities	₱149,684	₱465,090	₱–	₱–	₱30,922	₱77,621	₱19,961	(₱36,829)	₱706,449
Deferred tax liabilities	82	6,091	–	–	179	820	864	–	8,036
Liabilities under PFRS 5	–	–	–	–	–	–	42,885	78,602	121,487
Total liabilities	₱149,766	₱471,181	₱–	₱–	₱31,101	₱78,441	₱63,710	₱41,773	₱835,972
Segment additions to property, plant and equipment and investment properties	₱116	₱35,852	₱–	₱–	₱1,936	₱49,811	₱1,811	(₱39,254)	₱50,272
Depreciation and amortization	₱270	₱9,281	₱–	₱–	₱2,567	₱1,503	₱1,258	₱3,762	₱18,641
Non-cash expenses other than depreciation and amortization	(₱100)	₱151	₱–	₱–	₱249	₱450	₱832	₱17	₱1,599
Cash flows provided by (used in):									
Operating activities	₱7,444	₱42,452	₱–	₱–	₱2,977	₱2,004	₱541	(₱29,300)	₱26,118
Investing activities	(₱6,887)	(₱49,061)	₱–	₱–	(₱3,014)	(₱4,271)	(₱17,219)	₱30,405	(₱50,047)
Financing activities	₱8,065	₱3,025	₱–	₱–	₱2,060	₱35,814	₱18,742	(₱2,037)	₱65,669

2018 (as restated)

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Electronics Manufacturing	Power Generation	Automotive and Others	Intersegment Eliminations	Consolidated
Revenue									
Sales to external customers	₱243	₱155,892	₱–	₱–	₱69,731	₱3,778	₱27,247	₱–	₱256,891
Intersegment	174	63	–	–	–	695	413	(1,345)	–
Share in net profits of associates and joint ventures	51	740	10,906	5,646	–	2,730	(313)	–	19,760
Interest income	–	7,042	–	–	–	–	–	–	7,042
Dividend income	59	–	–	–	–	21	27	–	107
	527	163,737	10,906	5,646	69,731	7,224	27,374	(1,345)	283,800
Costs and expenses									
Costs of sales and services	–	100,879	–	–	62,617	3,627	23,773	(1,189)	189,707
General and administrative	3,940	9,367	–	–	5,416	1,623	6,848	(1,237)	25,957
	3,940	110,246	–	–	68,033	5,250	30,621	(2,426)	215,664
Other income (charges)									
Interest income	455	958	–	–	53	769	58	–	2,293
Other income	939	1,541	–	–	1,861	2,802	3,054	(998)	9,199
Interest and other financing charges	(5,226)	(10,799)	–	–	(672)	(397)	(308)	23	(17,379)
Other charges	–	–	–	–	–	–	–	–	–
	(3,832)	(8,300)	–	–	1,242	3,174	2,804	(975)	(5,887)
Net income (loss) before income tax	(7,245)	45,191	10,906	5,646	2,940	5,148	(440)	106	62,252
Provision for (benefit from) income tax	53	11,984	–	–	353	863	98	17	13,368
	(7,298)	33,207	10,906	5,646	2,587	4,285	(538)	89	48,884
Operations of segment under PFRS 5	–	–	–	–	–	–	–	6,181	6,181
Net income (loss)	(₱7,298)	₱33,207	₱10,906	₱5,646	₱2,587	₱4,285	(₱538)	₱6,270	₱55,065
Other information									
Segment assets	₱46,267	₱632,398	₱–	₱–	₱56,109	₱73,485	₱31,601	₱92,216	₱932,076
Investments in associates and joint ventures	168,203	23,376	–	–	–	25,252	7,315	15,995	240,141
Deferred tax assets	80	13,041	–	–	166	41	387	1,831	15,546
Assets under PFRS 5	–	–	–	–	–	5,635	4,527	–	10,162
Total assets	₱214,550	₱668,815	₱–	₱–	₱56,275	₱104,413	₱43,830	₱110,042	₱1,197,925
Segment liabilities	₱140,318	₱442,705	₱–	₱–	₱34,705	₱49,908	₱10,444	₱38,663	₱716,743
Deferred tax liabilities	80	5,895	–	–	207	757	172	3,888	10,999
Liabilities under PFRS 5	–	–	–	–	–	–	1,075	–	1,075
Total liabilities	₱140,398	₱448,600	₱–	₱–	₱34,912	₱50,665	₱11,691	42,551	₱728,817
Segment additions to property, plant and equipment and investment properties	₱189	₱123,364	₱–	₱–	₱–	₱–	₱1,521	(₱73,781)	₱51,293
Depreciation and amortization	₱304	7,446	₱–	₱–	₱2,311	₱394	₱319	₱2,787	₱13,561
Non-cash expenses other than depreciation and amortization	₱–	₱66	₱–	₱–	₱499	₱20	₱153	₱327	₱1,065
Cash flows provided by (used in):									
Operating activities	(₱5,811)	₱11,767	₱–	₱–	(₱701)	(₱5,034)	(₱795)	₱44,520	₱43,946
Investing activities	₱15,296	(₱2,978)	₱–	₱–	(₱4,373)	(₱23,925)	(₱8,233)	(₱83,779)	(₱107,992)
Financing activities	(₱164)	(₱6,264)	₱–	₱–	₱6,026	₱23,674	₱10,585	₱26,553	₱60,410

2017 (as restated)

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Electronics Manufacturing	Power Generation	Automotive and Others	Intersegment Eliminations	Consolidated
Revenue									
Sales to external customers	₱254	₱133,161	₱–	₱–	₱ 55,029	₱2,155	₱34,969	₱–	₱225,568
Intersegment	266	(63)	–	–	–	262	845	(1,310)	–
Share in net profits of associates and joint ventures	–	861	10,772	4,559	–	1,778	67	–	18,037
Interest income	–	5,410	–	–	–	–	–	–	5,410
Dividend income	61	2	–	–	–	390	201	–	654
	581	139,371	10,772	4,559	55,029	4,585	36,083	(1,310)	249,669
Costs and expenses									
Costs of sales and services	26	87,921	–	–	48,405	1,563	31,885	(1,129)	168,671
General and administrative	3,255	7,315	–	–	4,618	1,313	5,360	(217)	21,644
	3,281	95,236	–	–	53,023	2,876	37,245	(1,346)	190,315
Other income (charges)									
Interest income	449	578	–	–	6	81	39	(106)	1,047
Other income	1,055	2,344	–	–	437	2,050	2,466	(556)	7,796
Interest and other financing charges	(3,838)	(9,070)	–	–	(345)	(305)	(205)	682	(13,081)
Other charges	–	–	–	–	–	–	–	–	–
	(2,334)	(6,148)	–	–	98	1,826	2,300	20	(4,238)
Net income (loss) before income tax	(5,034)	37,987	10,772	4,559	2,104	3,535	1,137	56	55,116
Provision for (benefit from) income tax	169	9,825	–	–	376	(56)	281	(16)	10,579
	(₱5,203)	₱28,162	₱10,772	₱4,559	₱1,728	₱3,591	₱856	₱72	₱44,537
Operations of segment under PFRS 5								5,330	5,330
Net income (loss)	(₱5,203)	₱28,162	₱10,772	₱4,559	₱1,728	₱3,591	₱856	₱5,402	₱49,867
Other information									
Segment assets	₱47,213	₱536,543	₱–	₱–	₱45,906	₱54,506	₱32,857	₱89,151	₱806,176
Investments in associates and joint ventures	139,054	26,796	–	–	–	24,562	3,974	8,263	202,649
Deferred tax assets	98	10,649	–	–	60	116	176	1,622	12,721
Total assets	₱186,365	₱573,988	₱–	₱–	₱45,966	₱79,184	₱37,007	₱99,054	₱1,021,546
Segment liabilities	₱112,443	₱378,185	₱–	₱–	₱31,982	₱36,021	₱13,050	₱30,664	₱602,345
Deferred tax liabilities	102	3,544	–	–	127	170	105	4,060	8,108
Total liabilities	₱112,545	₱381,729	₱–	₱–	₱32,109	₱36,191	₱13,155	₱34,724	₱610,453
Segment additions to property, plant and equipment and investment properties	₱164	₱30,676	₱–	₱–	₱3,089	₱14,088	₱3,178	₱7,353	₱58,548
Depreciation and amortization	₱324	₱6,420	₱–	₱–	₱1,443	₱323	₱498	₱3,290	₱12,298
Non-cash expenses other than depreciation and amortization	₱207	₱612	₱–	₱–	₱24	₱54	₱271	₱634	₱1,802
Cash flows provided by (used in):									
Operating activities	(₱5,097)	₱25,641	₱–	₱–	(₱140)	(₱5,034)	(₱795)	₱9,460	₱24,035
Investing activities	₱7,951	(₱35,372)	₱–	₱–	(₱4,737)	(₱23,925)	(₱8,233)	₱1,996	(₱62,320)
Financing activities	(₱164)	₱9,801	₱–	₱–	₱4,986	₱23,674	₱10,585	(₱6,561)	₱42,321

Geographical Segments

	Revenue			Total Assets		Investment Properties and Property, Plant and Equipment Additions	
	2019	2018	2017	**2019**	2018	**2019**	2018
Philippines	**₱225,705**	₱210,263	₱188,113	**₱1,242,566**	₱1,136,933	**₱48,901**	₱49,091
Europe	**32,626**	33,330	26,274	**14,671**	16,776	**490**	1,872
Asia	**23,561**	23,395	21,292	**58,480**	25,681	**435**	81
USA	**13,373**	16,813	13,990	**29,569**	18,536	**446**	249
	₱295,265	₱283,801	₱249,669	**₱1,345,286**	₱1,197,926	**₱50,272**	₱51,293

31. **Leases**

Group as a lessee
The Group has lease contracts for land, building, warehouses and various items of plant, machinery, vehicles and other equipment used in its operations. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

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

The rollforward analysis of right-of-use asets recognized and the movements for the year ended December 31, 2019 are as follows:

	Right-of-use Assets			
	Land, Building and Improvments	**Transportation Equipment**	**Others**	**Total**
		(In Thousands)		
Cost				
At January 1, as previously reported	**₱–**	**₱–**	**₱–**	**₱–**
Effect of adoption of PFRS 16 (Note 3)	**16,735,545**	**1,588,794**	**208,394**	**18,532,733**
At January 1, as restated	**16,735,545**	**1,588,794**	**208,394**	**18,532,733**
Additions				
Due to business combination	**672,374**	**–**	**–**	**672,374**
Additions during the year	**959,703**	**–**	**–**	**959,703**
At December 31	**18,367,622**	**1,588,794**	**208,394**	**20,164,810**
Accumulated Depreciation and Amortization				
At January 1, as previously reported	**–**	**–**	**–**	**–**
Effect of adoption of PFRS 16	**–**	**–**	**–**	**–**
At January 1, as restated	**–**	**–**	**–**	**–**
Depreciation	**1,286,930**	**180,285**	**4,693**	**1,471,908**
Capitalized depreciation	**95,129**	**–**	**3,586**	**98,715**
Cumulative translation adjustment	**75,610**	**2,330**	**–**	**77,940**
At December 31	**1,457,669**	**182,615**	**8,279**	**1,648,563**
	16,909,953	**1,406,179**	**200,115**	**18,516,247**
Reclassification to PFRS 5 (Note 25)	**(295,675)**	**–**	**–**	**(295,675)**
Net Book Value	**₱16,614,278**	**₱1,406,179**	**₱200,115**	**₱18,220,572**

The rollforward analysis of lease liabilities follows (in thousands):

	2019
At January 1, as previously reported	**₱–**
Effect of adoption of PFRS 16 (Note 3)	**21,564,084**
At January 1, 2019, as restated	**21,564,084**
Additions	**1,711,468**
Accretion of interest expense	**1,231,380**
Capitalized interest	**388,242**
Payments	**(2,051,769)**
Foreign exchange gain	**(48,776)**
Cumulative translation adjustment	**(98,749)**
Disposals	**(6,232)**
	22,689,648
Reclassification to PFRS 5 (Note 25)	**(308,482)**
As at December 31	**22,381,166**
Current lease liabilities	**(1,028,067)**
Noncurrent lease liabilities	**₱21,353,099**

The following are the amounts recognized in the consolidated statement of income (in thousands):

	2019
Depreciation expense of right-of-use assets	**₱1,471,908**
Interest expense on lease liabilities	**1,231,380**
Expense relating to short-term leases	**401,745**
Expense relating to leases of low-value assets	**1,013**
Variable lease payments	**438,431**
	₱3,544,477

The Group had a total cash outflows for leases of ₱2,051.77 million in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of ₱1,632.08 million and ₱1,711.47 million, respectively.

Shown below is the maturity analysis of the undiscounted lease payments (in thousands):

	2019
Within one year	**₱1,635,474**
After one year but no more than five years	**6,155,314**
More than five years	**57,540,360**

The significant leases entered into by the Group are as follow:

Parent Company
On December 15, 2014, Mermac, Inc. (the Lessor) and the Parent Company entered into a Contract of Lease. The Lessor leases, lets, and demises unto the Parent Company, an office space constituting the Leased Premises, located at the 35th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The term of the lease shall be five (5) years, commencing on November 15, 2014 and ending on November 14, 2019. The lease is subject to annual escalation clause of 5% for the first 2 years and 10% for the next 2 years.

In 2019, the contract of lease was renewed with lease term of one year commencing on November 15, 2019.

ALI Group
ALI Group entered into lease agreements with third parties covering real estate properties. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

ALI Group has lease contracts for land that contains variable payments based on certain percentage of gross rental income of the commercial centers. These terms are negotiated by management for certain commercial spaces without steady customer demand. Mangement's objective is to align the lease expense with the revenue earned. The following provides information on the ALI Group's variable lease payments, including the magnitude in relation to fixed payments (in thousands):

	Fixed Payments	Variable Payments	Total
Fixed	₱1,098,425	₱–	₱1,098,425
Variable rent with minimum payment	151,221	159,229	310,450
Variable rent only	–	170,895	170,895
At December 31	₱1,249,646	₱330,124	₱1,579,770

<u>ALI</u>
On January 2017, ALI signed a Lease Agreement with Philippine Racing Club, Inc. for the lease of land located in Circuit Makati, Brgy. Carmona, Makati City with an aggregate area of 12,793 sqm. The term of the lease shall be twenty-three (23) years and three (3) months commencing from Delivery Date. The Lessee shall have the option to renew the lease under the same terms and conditions for another period of five years, provided that renewal period shall be mutually agreed by the Parties. For the period commencing from delivery date until sixty-three (63) months thereafter, the Lessee shall pay the Lessor the rent amounting to ₱100.00 million. Commencing on the sixty fourth month from execution of the contract until the end of the lease term, the Lessee shall pay the Lessor the rent equal to fifty percent (50%) of the Gross Income of the Lessee.

On September 2018, the ALI signed a Lease Agreement with Manila Seedling Bank Foundation, Inc. (MSBFI) for the lease of a 4.5-hectare portion of land located at the corner of EDSA and Quezon Avenue, Diliman, Quezon City. The term of the lease shall be coterminous with the Lessor's usufruct over the Leased Premises, or until September 20, 2027.

Bay City
On September 2, 2014, ALI signed a Lease Agreement with D.M. Wenceslao & Associates Inc. for the lease of several parcels of land along Asean Avenue and Macapagal Boulevard, Aseana City, Paranaque City with an aggregate area of 92,317 sqm. ALI signed a 45-year lease contract with an option to renew for another 45 years subject to such terms and conditions as may be mutually agreed upon by the lessor and ALI.

ALI also signed the Air Rights and Basement Rights over the leased property with an aggregate area of 1,686.48 sqm and 8,294 sqm, respectively, subject to the same terms and conditions as the contract of lease dated September 2, 2014.

<u>Ayalaland MetroNorth, Inc. (AMNI)</u>
On January 28, 2011, the Board of Regents of the University of the Philippines awarded to AMNI the ₱4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. AMNI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for another 25 years subject to mutual agreement of the parties. The lease payments shall commence as soon as sales are registered by the merchants.

A retail establishment with about 63,000 sqm of gross leasable area and an office/BPO building about 8,000 sqm of gross leasable area shall be constructed on the property.

<u>NTDCC</u>
The Company entered into an assignment agreement with MRTDC wherein the latter has assigned its development rights to the Company in exchange for the Company's assumption of DRP obligation beginning January 1, 2006. The DRP obligation is payable annually for 42 years from the date of assumption, renewable upon expiration with escalation rate of 3% annually starting inception.

On October 29, 2015, the Company entered into a non-cancellable land lease agreement with GERI for the lease of an aggregate of 10,994.86 square meters undivided portions of the North Avenue Lot Pad A and North Avenue Lot Pad B to which the latter is entitled to development rights. The agreement shall be effective until August 8, 2047, subject to the extension of the development rights period.

During 2016, the Company entered into non-cancellable land lease agreement with Anglo, DBH and Allante which shall be effective until August 8, 2047.

ALICAP
In December 2017, the ALICAP entered into 120-month lease agreement with NAC Aviation for a brand new ATR72-600 with MSN 1440 which will commence at the date of delivery. Commitment fee or refundable deposit required for the lease amounted to US$0.42 million. The ATR72-600 with MSN 1440 was delivered to ALICAP in February 2018 and has started flight operations in March 2018. ALICAP, per lease contract, has the option to purchase the ATR72-600 with MSN 1440 at the end of lease term for US$14.16 million.

In June 2018, ALICAP entered into another 120-month lease agreement with NAC Aviation for a brand new ATR72-600 with MSN 1492 which will commence at the date of delivery. Commitment fee or refundable deposit required for the lease amounted to US$0.42 million. The ATR72-600 with MSN 1492 was delivered to ALICAP on the same month and has started flight operations in August 2018. ALICAP, per lease contract, has the option to purchase the ATR72-600 with MSN 1440 at the end of lease term amounting to US$14.16 million.

AHRC
On January 30, 2018, the AHRC signed a Lease Agreement with Dunes & Eagle Land Development Corporation for the lease of ten parcels of land located at Barangay Mactan, Lapu-Lapu City, Mactan Island, Cebu with an aggregate area of 3,220 sqm. The term of the lease shall be for a period of fifty (50) years commencing from the date of execution of the agreement. Rent payment should be as follows: (a) ₱70 million per annum for the first 5 years (b) 5% of Gross Revenues or ₱70 million per annum whichever is higher for the 6th year to the 30th year, and (c) 5.5%of Gross Revenues or ₱70 million per annum whichever is higher for the 31st year to the 50th year.

On July 26, 2012, ALI entered into a renewable contract of lease with Province of Negros Occidental for 40,481 square meters area of land with a monthly lease of ₱73.00 per square meter which shall be escalated every five years by ten percent (10%) of the current rate of rent. The term of the lease shall be for a period of fifty (50) years commencing from the date of delivery subject to renewal by mutual agreement of the parties under such terms and conditions as may be mutually acceptable. AHRC has assessed that the lease agreement is a non-cancellable lease. On December 23, 2014, ALI assigned its rights and obligations to Capitol Central Hotel Ventures, Inc. under the Contract of Lease Assignment over a portion on which Seda Capitol Central was constructed equivalent to an area of 3,714.80 square meters. The agreement on lease assignment transfers and conveys the Company to take over the lease of the assigned portion subject to the same terms and conditions contained in the contract of lease.

Bonifacio Hotel Ventures, Inc. entered into a non-cancellable and renewable contract of lease with Fort Bonifacio Development Corporation for the land on which Seda BGC Tower 1 was constructed with initial term of twenty-five (25) years commencing from the date that the Hotel first commences business or start of commercial operation. The lease agreement provides for the payment of rent based on 3% of the Hotel's gross income for its 1st year of operation, 4% of the Hotel's gross income for its 2nd year of operation, and 5% of the Hotel's gross income for the succeeding years or ₱350 per square meter for the 1st year, ₱375 per square meter for the 2nd year and ₱400 per square meter for the 3rd year, whichever is higher, and starting on the 4th year of operations, rent shall be escalated at a rate of 3% per year until the end of the lease period. The Company entered into another non-cancellable and renewable contract of lease with Fort Bonifacio Development Corporation for the land on which the Seda BGC Tower 2 was constructed with initial term of twenty-five (25) years commencing from the date that the Hotel first commences business or start of

commercial operation. The lease agreement provides for the payment of rent based on 3% of the Hotel's gross income for its 1st year of operation, 4% of the Hotel's gross income for its 2nd year of operation, and 5% of the Hotel's gross income for the succeeding years or ₱575 per square meter for the 1st year, ₱616.06 per square meter for the 2nd year and ₱657.15 per square meter for the 3rd year, whichever is higher, and starting on the 4th year of operations, rent shall be escalated at a rate of 3% per year until the end of the lease period.

ALLHC
On August 28, 1990, the Company, through a Deed of Assignment, acquired all the rights, titles, interests and obligations of Gotesco Investment, Inc. in a contract of lease of the land owned by PNR for the Tutuban Terminal. The contract provided for a payment of a guaranteed minimum annual rental plus a certain percentage of gross sales. The lease covers a period of 25 years until 2014 and is automatically renewable for another 25 years, subject to compliance with the terms and conditions of the lease agreement. On December 22, 2009, ALLHC entered into an agreement with PNR for the renewal of its lease contract for another 25 years beginning September 5, 2014.

Station Square East Commercial Corporation (SSECC)
ALI has an existing contract with Bases Conversion and Development Authority (BCDA) to develop, under a lease agreement signed on July 2000, a mall with an estimated gross leasable area of 152,000 sqm on a 9.8-hectare lot inside Fort Bonifacio. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues.

Capitol
On April 26, 2012 ALI signed a Lease Agreement with the Province of Negros Occidental for the lease of a parcel of land with an aggregate area of 40,481 sq. m. located along Gatuslao cor. North and South Capitol Roads, Bacolod City, registered in the name of the Province of Negros Occidental. ALI signed a 50-year lease contract with an option to renew as may be mutually agreed upon by the lessor and the Company. ALI assigned the parcels of land to Capitol in December 2017.

Arvo Commercial Corporation (Arvo)
On October 15, 2014, Arvo entered into a property lease agreement with Rotonda Development Corporation for the construction, development and operation of a commercial and mall center. The terms of the lease shall be 42 years, with an option to renew for another 40 years subject to mutual agreement of the parties. The lease agreement provided rent-free period of 2 years and lease payments shall commence thereafter. Lease payments shall be paid annually at ₱60.00 per sqm, subject to an annual escalation of 4%.

IMI Group
IMI Group has various operating lease agreement in respect of plant facilities, office spaces and land. These lease agreements have terms ranging from 5 to 15 years, fixed payment subject to escalation clauses, renewal option and early termination penalties.

MWC Group
MWC Group leases office space and storage and plant facilities wherein it is the lessee. The terms of the lease range from one year or until the end of the concession period.

Operating leases - as lessor

Parent Company
The Parent Company is a party under various operating leases which have lease terms between one to thirty years with an annual escalation rate of 4.5% to 10%.

Future minimum rentals receivable under non-cancellable operating leases of the Parent Company follow:

	2019	2018
	(In Thousands)	
Within one year	**₱31,449**	₱29,290
More than one (1) year but less than five (5) years	**165,839**	162,923
More than five (5) years	**535,330**	565,060
	₱732,618	₱757,273

ALI Group
ALI Group have lease agreements with third parties covering their investment properties portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals receivable under noncancellable operating leases of ALI Group are as follows:

	2019	2018
	(In Thousands)	
Within one year	**₱8,379,752**	₱8,300,061
After one year but not more than five years	**27,303,616**	27,223,203
More than five years	**19,102,347**	18,204,281
	₱54,785,715	₱53,727,545

32. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

All publicly-listed and certain member companies of the Group have Material Related Party Transactions Policies containing the approval requirements and limits on amounts and extent of related party transactions in compliance with the requirements under the Revised SRC Rule 68 and SEC Memorandum Circular 10, series of 2019.

The Parent Company has an approval requirement such that material related party transactions (RPT) shall be reviewed by the Risk Management Committee (the Committee) and endorsed to the BOD for approval. Material RPTs are those transactions that meet the threshold value as approved by the Committee amounting to ₱50.0 million or five (5) percent of the total assets, whichever is lower and other requirements as may be determined by the Committee upon the recommendation of the Parent Company's Risk Management.

The Group, in its regular conduct of business, has entered into transactions with associates, joint ventures and other related parties principally consisting of deposits/placements, advances, loans and reimbursement of expenses, purchase and sale of real estate properties, various guarantees, construction contracts, and development, management, underwriting, marketing and administrative service agreements. Sales and purchases of goods and services as well as other income and expense to and from related parties are made at normal commercial prices and terms.

The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an associate

i. As of December 31, 2019 and 2018, the Group maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows (amounts in thousands):

	2019	2018
Cash in banks	**₱5,951,704**	₱6,699,666
Cash equivalents	**18,972,412**	19,542,962
Short-term investments	**247,739**	2,838,388
Financial assets at FVTPL	**80,864**	71,597
Other noncurrent assets - others (Note 15)	**4,261,796**	2,365,311

ii. From the Group's placements and short-term investments with BPI, the Group has accrued interest receivable amounting to ₱38.6 million and ₱58.3 million as of December 31, 2019 and 2018, respectively. Cash in banks earns interest at 0.01% to 0.75% per annum. Cash equivalents earn interest from 1.2% to 2.8% per annum. Investment in FVTPL pertain to MMF which earns interest depending on the duration of time invested in the fund with fair value of ₱80.9 million and ₱71.6 million, as of December 31, 2019 and 2018, respectively. Interest income earned from all the deposits, placements and investments amounted to ₱713.4 million in 2018, ₱476.0 million in 2018 and ₱248.0 million in 2017.

The Group also has short-term and long-term debt payable to BPI aggregating to ₱46.0 billion and ₱32.3 billion as of December 31, 2019 and 2018, respectively. These short-term and long-term debts are interest bearing with varying rates ranging from 3.92% to 4.70%, have various maturities starting 2019 and varying schedules of payments for interest. The Group has accrued interest payable pertaining to the outstanding balance of the short-term and long-term debt amounting to ₱53.7 million and ₱51.1 million as of December 31, 2019 and 2018, respectively. Interest expense incurred from the debt amounted to ₱578.6 million in 2019, ₱785.2 million in 2018 and ₱893.4 million in 2017.

Transactions with BPI will be settled in cash.

b. Outstanding balances of related party transactions follow (amounts in thousands):

	Receivables		**Payables**	
	2019	2018	**2019**	2018
Associates:				
BPI	**₱568,194**	₱719,177	**₱148,328**	₱129,211
Alveo-Federal Land Communities, Inc. (Alveo-Federal Land)	**154,836**	359,993	**–**	–
CDPEI	**136,242**	75,378	**629**	69
Honda Cars Philippines, Inc. (HCP)	**102,215**	105,695	**269,294**	247,580
Isuzu Philippines Corporation (IPC)	**100,881**	183,968	**30,778**	131,844
BF Jade E-Services Philippines Inc.	**57,522**	35,304	**89,905**	45,830
Bonifacio Land Corp. (BLC)	**573**	377	**214,412**	214,352
	1,120,463	1,479,892	**753,346**	768,886
Joint ventures:				
ALI ETON Property Development Corporation	**3,267,222**	2,190,605	**3,942**	14
UPC Renewables Asia III Limited	**1,434,560**	1,149,829	**–**	–
The Blue Circle Pte. Ltd. (TBC)	**903,243**	–	**–**	–
Yoma Strategic Investments Ltd.	**476,590**	–	**–**	–
Globe	**256,168**	228,816	**41,225**	26,035
UPC Renewables Asia I Limited	**₱–**	₱630,960	**₱–**	₱–
	6,337,783	4,200,210	**45,167**	26,049

(Forward)

	Receivables		Payables	
	2019	2018	**2019**	2018
Other related parties:				
Asian Wind Power 1 HK Ltd.	**₱3,063,669**	₱–	**₱–**	₱–
UPC Renewables Asia Pacific Holdings	**1,674,552**	–	**–**	–
FBDC	**1,540,411**	3,200,203	**–**	–
UPC Solar Asia Pacific Ltd.	**304,464**			
BIM Renewable	**223,891**	–	**–**	–
AMI AC Renewables Corporation (formerly *New Energy Investments Corp.*)	**46,808**	–	**–**	–
Columbus Holdings, Inc.	**–**	–	**267,355**	267,355
Others	**179,187**	84,289	**18,193**	10,261
	7,032,982	3,284,492	**285,548**	277,616
	₱14,491,228	₱8,964,594	**₱1,084,061**	₱1,072,551

i. Receivable from BPI includes trade receivables on vehicles sold and financing dealer incentives by AITHI group, dividends receivable and accrued interest receivables on short-term placements by the Group.
ii. Receivable from CDPEI pertains to development and construction related costs while accounts from Alveo-Federal Land mainly consist of marketing and management fees; and construction costs.
iii. Receivable from Globe includes trade receivables on vehicles sold and project management and professional fees.
iv. Receivable from FBDC largely pertains to management fees which are included under “Other income” and billed and unbilled receivables of MDC Group for the construction of FBDC’s projects.
v. Receivable from IPC and HCP pertains to marketing and sales incentives arising from the sale of vehicles.
vi. Receivable from BLC pertains to parcels and documents delivery by Entrego.
vii. Receivable from ALI-ETON pertains to the sale of land by Alveo to ALI-ETON.
viii. Receivable from UPC III relates to the contractual obligation of UPC Renewables Asia III to redeem the preferred shares owned by ACEI Group at a determined amount through cash payment at some future date.
ix. Receivable from TBC pertain to the interest-bearing loan agreement it has entered into with AC Energy to fund the development costs for the pipeline projects of TBC. The loan facility has an interest rate of 10% per annum. The loan and interest are payable on June 30, 2020.
x. Receivable from Yoma includes an interest-bearing loan facility to fund the development of Yoma Micro Power. The loan facility is drawable in tranches with interest of 4% per annum. The loan and interest are payable on October 17, 2020.
xi. Receivable from Asian Wind pertains to an interest-bearing loan agreement for the development, financing, and construction of Dai Phong Project. The loan facility has an interest of 12% per annum. The loan and interest payable are payable on April 12, 2044.
xii. Receivable from UPC Renewables Asia Pacific pertains to an interest-bearing loan agreement to fund the development of renewable energy and energy storage projects. The loan facility has an interest rate of 8% per annum. The loan and interest are payable on January 31, 2023.
xiii. Receivable from UPC Solar pertains to the loan agreement it has entered into with AC Energy Group to fund the development and construction of renewable energy assets in Asia. The loan facility has an interest rate of 9% per annum. The loan and interest are payable on August 9, 2024.
xiv. Other outstanding balances of receivable from related parties at year-end pertain mostly to advances, including those for project development, logistics and reimbursement of operating expenses.
xv. All these are unsecured, interest free, will be settled in cash and are due and demandable, unless otherwise stated.
xvi. Payable to IPC and HCP consist of purchased parts and accessories and vehicles that are trade in nature, interest-free, unsecured and are payable within 15 to 30 days.

xvii. Payable to BPI includes interest payable on Group's borrowings payable at various payment terms like monthly or quarterly and insurance premiums payable which are due in 30-60 days.
xviii. Payable to BF Jade pertains to cash collections from customers with COD payment term collected by Entrego to be remitted to BF Jade.
xix. The other outstanding balances of payable to related parties at year-end consist of payable to Columbus representing non-interest bearing advances for stock redemption. It also pertains to advances, including those for development costs and land acquisitions, and expenses incurred on utilities, professional services, logistics and other miscellaneous services.
xx. Unless otherwise stated, all these are unsecured, interest free, will be settled in cash and are due and demandable.
xxi. Allowance for doubtful accounts on amounts due from related parties amounted to ₱9.9 million and ₱83.5 million as of December 31, 2019 and 2018, respectively. Reversal of provision for doubtful accounts amounted to ₱17.4 million in 2019 (see Note 7). Provision for doubtful accounts amounted to ₱50.4 million and ₱0.7 million in 2018 and 2017, respectively (see Note 23).

c. Dividends receivable from related parties pertain to accrued dividend declarations from associates and joint ventures. These are non-interest bearing and usually collectible within one year. This amounted to ₱145.0 million and ₱1,334.9 million as of December 31, 2019 and 2018, respectively (see Note 7).

d. Receivables from officers and employees amounting to ₱1,505.3 million and ₱1,498.0 million as of December 31, 2019 and 2018 pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction, are interest bearing ranging from 6.0% to 10.0% per annum and have various maturity dates ranging from 2019 to 2027 (see Note 7).

e. Revenue and expenses from related parties follow:

	Revenue			Costs and Expenses		
	2019	2018	2017	**2019**	2018	2017
			(In Thousands)			
Associates:						
BPI	**₱1,178,279**	₱913,974	₱525,772	**₱629,603**	₱1,078,384	₱915,015
BF Jade	**171,662**	59,733	–	**10,288**	–	–
Joint ventures:						
Globe	**320,500**	355,957	193,426	**301,542**	233,742	169,884
Alveo-Federal	**–**	56,305	–	**–**	–	–
	1,670,441	1,385,969	719,198	**941,433**	1,312,126	1,084,899
Other related parties:						
FBDC	**–**	₱188,747	₱–	**13,890**	₱2,182	₱–
Others	**42,424**	20,148	65,552	**59,343**	21,321	23,889
	42,424	208,895	65,552	**73,233**	23,503	23,889
	₱1,712,865	₱1,594,864	₱784,750	**₱1,014,666**	₱1,335,629	₱1,108,788

Revenue recognized from related parties includes:
i. Leasing and project development and management services rendered by ALI Group.
ii. Water and sewerage services rendered by MWC.
iii. Automotive sales and repair services rendered by AITHI Group.
iv. Interest and miscellaneous income from cash deposits and money market placement as well as financing dealer incentive from BPI and other entities.
v. Others include various income such as interest and management fees.

Expenses recognized from related parties include:

i. Interest expense from short-term and long-term debt and credit card and other bank charges payable to BPI.
ii. Purchases of communications software and billings for mobile phone charges and internet connections with Globe.
iii. Building rental, leased lines, internet connections and ATM connections with Innove, subsidiary of Globe.
iv. Others include miscellaneous operating expenses such as professional and management services.

f. The Group's compensation of key management personnel by benefit type follows:

	2019	2018	2017
		(In Thousands)	
Short-term employee benefits	**₱1,681,229**	₱1,329,281	₱1,309,239
Post-employment benefits	**91,166**	74,087	97,834
Share-based payments	**7,616**	705	10,607
	₱1,780,011	1,404,073	₱1,417,680

Key management personnel of the Group include all officers with position of vice president and up.

33. Financial Instruments

Financial Risk Management

General

Like any other risks, financial risks are inherent in the business activities and are typical of any large holding company. The financial risk management of the Parent Company seeks to effectively contribute to better decision making, enhance performance, and satisfy compliance demands.

The Parent Company defines financial risks as risk that relates to the Parent Company's ability to meet financial obligations and mitigate funding risk, credit risk and exposure to broad market risks, including volatility in foreign currency exchange rates and interest rates. Funding risk refers to the potential inability to meet contractual or contingent financial obligations as they arise and could potentially impact the Parent Company's financial condition or overall financial position. Credit risk is the risk of financial loss arising from a counterparty's failure to meet its contractual obligations or non-payment of an investment. These exposures may result in unexpected losses and volatilities in the Parent Company's profit and loss accounts.

The Parent Company maintains a strong focus on its funding strategy to help provide access to sufficient funding to meet its business needs and financial obligations throughout business cycles. The Parent Company's plans are established within the context of our annual strategic and financial planning processes. The Parent Company also take into account capital allocations and growth objectives, including dividend pay-out. As a holding company, the Parent Company generates cash primarily on dividend payments of its subsidiaries, associates and joint ventures and other sources of funding.

The Parent Company also establishes credit policies in setting up limits for counterparties that are reviewed quarterly and monitoring of any changes in credit standing of counterparties.

The Parent Company has a formal foreign exchange and interest rate risk management policy. The Parent Company actively monitors foreign exchange exposure and interest rate changes. And in addition, the Parent Company ensures that all loan covenants and regulatory requirements are complied with.

The Ayala Group continues to monitor and manage its financial risk exposures in accordance with Board approved policies. The succeeding discussion focuses on Ayala Group's financial risk management.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise financial assets at FVTPL and FVOCI, AFS financial assets, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, short-term investments, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The Group's main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, price risk, liquidity risk, and credit risk.

The Group also uses hedging instruments, the purpose of which is to manage the currency and interest rate risks arising from its financial instruments.

The Group's risk management policies relevant to financial risks are summarized below:

The Group's exposure to market risk for changes in interest rates relates primarily to the Parent Company's and its subsidiaries' obligations. The policy is to keep a certain level of the total obligations as fixed to minimize earnings volatility due to fluctuation in interest rates.
The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates as of December 31, 2019 and 2018, with all variables held constant.

Cash flow interest rate risk

	Change in basis points	Effect on profit before tax	
		2019	2018
		(In Thousands)	
Parent Company -			
Floating rate			
Borrowings	+100	**(₱100,213)**	(₱275,133)
	-100	**100,213**	275,133
Subsidiaries -			
Floating rate			
Borrowings	+100	**(₱267,731)**	(₱269,880)
	-100	**₱267,731**	269,880

There is no other impact on the Group's equity other than those already affecting the net income.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with its corresponding nominal amounts and carrying values follows: (amounts in thousands):

December 31, 2019

	Interest terms (per annum)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	**₱93,405,253**	**₱93,405,253**	**₱–**	**₱–**	**₱93,405,253**
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	**13,387,801**	**13,387,801**			**13,387,801**
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	**1,145,484**	**629,025**	**342,497**	**173,962**	**1,145,484**
Receivables from related parties	Fixed at the date of transaction	Various	**6,409,885**	**1,376,766**	**1,974,765**	**3,058,354**	**6,409,885**
			₱114,348,423	**₱108,798,845**	**₱2,317,262**	**₱3,232,316**	**₱114,348,423**
Parent Company							
Long-term debt							
Fixed							
Peso	Fixed at 6.0043%	8 years	**₱11,000,000**	**–**	**1,744,919**	**9,187,892**	**10,932,811**
Peso	Fixed at 6.875%	15 years	**10,000,000**	**–**	**–**	**9,952,651**	**9,952,651**
Peso	Fixed at 3.92%	7 years	**10,000,000**	**–**	**9,942,735**	**–**	**9,942,735**
Peso	Fixed at 4.82%	8 years	**10,000,000**	**–**	**–**	**9,929,787**	**9,929,787**
Peso	Fixed at 6.80%	10 years	**9,903,400**	**–**	**9,885,752**		**9,885,752**
Peso	Fixed at 5.2883%	7 years	**2,940,000**	**28,890**	**2,904,927**	**–**	**2,933,817**
Peso	Fixed at 6.0043	5 years	**2,000,000**	**93,655**	**1,896,363**	**–**	**1,990,018**
Floating							
Peso	Variable at 0.60% to 0.70% over 3-month PDST R2 or 0.45% over 28-day BSP TDF Rate	3 months	**10,021,250**	**4,034,409**	**2,640,689**	**3,301,397**	**9,976,495**
Subsidiaries							
Short-term debt	Ranging from 5.30% to 6.70%	Monthly, quarterly	**23,176,325**	**23,176,325**	**–**	**–**	**23,176,325**
	Ranging from 2.45% to 4.98%	Monthly, quarterly	**6,612,318**	**6,612,318**	**–**	**–**	**6,612,318**
Long-term debt							
Fixed							
Peso and foreign currency Dollar	Fixed at 1.86% to 9.00%	3,4,5,7,10 and 15 years	**315,312,810**	**17,235,807**	**101,229,513**	**186,252,400**	**304,717,720**
Floating							
	Variable	3 months, semi-annual	**5,291,328**	**2,485,964**	**1,811,764**	**990,000**	**5,287,728**
			₱416,257,431	**₱53,667,368**	**₱132,056,662**	**₱219,614,127**	**₱405,338,157**

December 31, 2018

	Interest terms (per annum)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱60,624,263	₱60,624,263	₱–	₱–	₱60,624,263
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	5,956,489	5,956,489	–	–	5,956,489
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	1,348,394	259,908	1,024,152	64,334	1,348,394
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	–	–	–	–	–
			₱67,929,146	₱66,840,660	₱1,024,152	₱64,334	₱67,929,146
Parent Company							
Long-term debt							
Fixed							
Peso	Fixed at 6.0043%	8 years	₱11,000,000	₱–	₱875,760	₱10,071,238	₱10,946,998
Peso	Fixed at 3.92%	7 years	10,000,000	–	9,927,904	–	9,927,904
Peso	Fixed at 4.82%	8 years	10,000,000	–	–	9,918,003	9,918,003
Peso	Fixed at 6.80%	10 years	10,000,000	–	9,970,466	–	9,970,466
Peso	Fixed at 6.875%	15 years	10,000,000	–	–	9,946,221	9,946,221
Peso	Fixed at 5.2883%	7 years	2,970,000	29,916	2,931,726	–	2,961,642
Peso	Fixed at 6.0043	5 years	2,000,000	–	2,017,241	–	2,017,241
Floating							
Peso	Variable at 0.60% to 0.70% over 3-month PDST R2 or 0.45% over 28-day BSP TDF Rate	3 months	11,543,250	492,212	8,563,559	2,423,735	11,479,506
Subsidiaries							
Short-term debt	Ranging from 2.50% to 6.04%	Monthly, quarterly	21,397,698	21,397,698	–	–	21,397,698
	Ranging from 4.38% to 7.03%	Monthly, quarterly	18,120,547	18,120,547	–	–	18,120,547
Exchangeable bond	Fixed at 0.50%	5 years	15,285,934	15,285,934	–	–	15,285,934
Long-term debt							
Fixed							
Peso and foreign currency	Fixed at 1.86% to 9.00%	3,4,5,7,10 and 15 years	288,655,774	29,800,309	59,370,346	186,146,450	275,317,105
Floating	Variable at 0.75% over 91-day PDST-R2	3 months, semi-annual	14,972,366	2,872,188	7,193,900	4,906,279	14,972,367
			₱425,945,569	₱87,998,804	₱100,850,902	₱223,411,926	₱412,261,632

Foreign exchange risk
The Group's foreign exchange risk results primarily from movements of the PHP against other currencies. The Group's consolidated statements of income can be affected significantly by movements in the USD and other currencies versus the PHP. In 2019 and 2018, the Group entered into currency forward contract s to hedge its risks associated with foreign currency fluctuations.

IMI Group
The IMI Group's foreign exchange risk results primarily from movements of the functional currency of each legal entity against other currencies. As a result of significant transactions denominated in RMB, PHP and EUR the consolidated statements of income can be affected significantly by movements in the USD versus these currencies. In 2019 and 2018, IMI entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

IMI Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than IMI's functional currency. Approximately 61% and 60% of IMI Group's sales for the years ended December 31, 2019 and 2018, respectively, and 48% and 51% of costs for the years ended December 31, 2019 and 2018, respectively, are denominated in currencies other than IMI's functional currency.

IMI Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider hedging any material exposure where appropriate.

MWC Group
The MWC Group's foreign exchange risk results primarily from movements of the PHP against the US$ and JPY. Majority of revenues are generated in PHP, and substantially all capital expenditures are also in PHP. Approximately 48.74% and 53.81% of debt as of December 31, 2019 and 2018, respectively, was denominated in foreign currency.

Information on the Group's significant foreign currency-denominated monetary assets and liabilities and their Php equivalent follows:

	December 31, 2019		December 31, 2018	
	US$	**Php Equivalent***	US$	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	**US$994,643**	**₱50,370,483**	US$171,367	₱9,010,477
Accounts and notes receivables	**109,956**	**5,653,120**	–	–
Other current assets	**2,458**	**125,349**	–	–
Investment in bonds & other securities	**–**	**–**	34,860	1,832,939
Other noncurrent assets	**380**	**19,242**	–	–
Total assets	**1,107,437**	**56,168,194**	206,227	10,843,416
Liabilities				
Accounts payable and accrued expenses	**12,215**	**616,536**	1,034	54,368
Other current liabilities	**906**	**45,900**	–	–
Short-term debt	**5,773**	**292,295**	–	–
Long-term debt	**252,903**	**12,805,733**	193,842	10,192,212
Other noncurrent liabilities	**67,863**	**3,439,006**	64,859	3,410,286
Total liabilities	**339,660**	**17,199,470**	259,735	13,656,866
Net foreign currency denominated assets (liabilities)	**US$767,777**	**₱38,968,724**	(US$53,508)	(₱2,813,450)

**Translated using the exchange rate at the reporting date (US$1:₱50.64 on December 31, 2019 and US$1:₱52.58 on December 31, 2018).*

	December 31, 2019		December 31, 2018	
	JPY	**Php Equivalent***	JPY	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**JPY329,343**	**₱152,323**	JPY465,744	₱221,899
Accounts and notes receivable	**615,632**	**284,733**	26,380	12,569
Other noncurrent assets	**2,398**	**1,109**	2,675	1,274
Total assets	**947,373**	**438,165**	494,799	235,742
Liabilities				
Accounts payable and accrued expenses	**841,612**	**389,250**	583,933	278,209
Other current liabilities	**75,701**	**35,042**	75,861	36,042
Short-term debt	**102,295**	**47,312**	–	–
Long-term debt	**21,686,410**	**10,038,498**	28,402,974	13,494,253
Other noncurrent liabilities	**378,348**	**175,137**	527,061	250,407
Total liabilities	**23,084,366**	**10,685,239**	29,589,829	14,058,911
Net foreign currency denominated liabilities	**JPY(22,136,993)**	**₱(10,247,074)**	(JPY29,095,030)	(₱13,823,169)

**Translated using the exchange rate at the reporting date (JPY1:₱0.4619 on December 31, 2019 and JPY1:₱0.4738 on December 31, 2018).*

	December 31, 2019		December 31, 2018	
	RMB	**Php Equivalent***	RMB	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**RMB 132,334**	**₱958,907**	RMB154,278	₱1,181,951
Accounts and notes receivables	**597,898**	**4,332,427**	665,668	5,099,778
Other current assets	**–**	**–**	7,038	53,923
Total assets	**730,232**	**5,291,334**	826,984	6,335,652
Liabilities				
Accounts payable and accrued expenses	**498,772**	**3,614,149**	478,697	3,667,373
Short-term debt	**127,692**	**925,271**	113,245	867,591
Total liabilities	**626,464**	**4,539,420**	591,942	4,534,964
Net foreign currency denominated assets	**RMB103,768**	**₱751,914**	RMB235,042	₱1,800,688

**Translated using the exchange rate at the reporting date RMB1: ₱7.2356 on December 31, 2019 and RMB1: ₱7.66 on December 31, 2018).*

	December 31, 2019		December 31, 2018	
	EUR	**Php Equivalent***	EUR	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**EUR38,750**	**₱2,185,163**	EUR21,745	₱1,310,743
Accounts and notes receivable	**79,216**	**4,465,576**	68,957	4,156,544
Other current assets	**7,430**	**418,870**	424	25,567
Other noncurrent assets	–	**17**	–	–
Total assets	**125,396**	**7,069,626**	91,126	5,492,854
Liabilities				
Accounts payable and accrued expenses	**35,726**	**2,014,524**	45,110	2,719,101
Other current liabilities	**15,174**	**855,400**	13,715	826,678
Short term debt	**14,055**	**792,299**	13,212	796,393
Long-term debt	**40,413**	**2,277,344**	1,933	116,538
Other noncurrent liabilities	**3,037**	**171,291**	7,999	482,179
Total liabilities	**108,405**	**6,110,858**	81,969	4,940,889
Net foreign currency denominated assets	**EUR16,991**	**₱958,768**	EUR9,157	₱551,965

**Translated using the exchange rate at the reporting date (EUR1: ₱56.2302 on December 31, 2019 and EUR1: ₱60.15 on December 31, 2018)*

	December 31, 2019		December 31, 2018	
	VND	Php Equivalent*	VND	Php Equivalent
	(In Thousands)			
Assets				
Cash and cash equivalents	**VND15,702,138**	**₱34,309**	VND1,121,738	₱2,566
Other current assets	**178,430**	**390**	–	–
Other noncurrent assets	**120,436**	**263**	–	–
Total assets	**16,001,004**	**34,962**	1,121,738	2,566
Liabilities				
Accounts payable and accrued expenses	**907,163**	**1,979**	1,401,336	3,177
Net foreign currency denominated assets	**VND15,093,841**	**₱32,983**	(VND279,598)	(₱611)

Translated using the exchange rate at the reporting date (VND1:₱0.0022 on December 31, 2019 and VND1:₱ 0.0023 on December 31, 2018.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (amounts in thousands).

Currency	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax	
		2019	2018
US$	₱1.00	**₱767,777**	(₱53,508)
	(1.00)	**(767,777)**	53,508
JPY	1.00	**(22,136,993)**	(29,095,030)
	(1.00)	**22,136,993**	29,095,030
RMB	1.00	**103,768**	235,042
	(1.00)	**(103,768)**	(235,042)
EUR	1.00	**16,991**	411,893
	(1.00)	**(16,991)**	(411,893)
VND	1.00	**15,093,841**	(279,598)
	(1.00)	**(15,093,841)**	279,958

There is no other impact on the Group's equity other than those already affecting net income.

Equity price risk

Financial assets at FVTPL and FVOCI are acquired at certain prices in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers, or factors affecting all instruments traded in the market. Depending on several factors such as interest rate movements, the country's economic performance, political stability, and domestic inflation rates, these prices change, reflecting how market participants view the developments. The Group's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each sector and market.

The analysis below demonstrates the sensitivity to a reasonably possible change of market index with all other variables held constant, of the Group's equity arising from fair valuation of quoted financial assets at FVTPL and FVOCI (amounts in thousands):

	Market Index	Change in Variables	Effect on Equity Increase (decrease)
			(In Thousands)
2019	PSEi	5%	**₱31,922**
		(5%)	**(31,922)**
2018	PSEi	5%	₱35,234
		(5%)	(35,234)

Liquidity risk
Liquidity risk is defined by the Group as the risk of losses arising from funding difficulties due to deterioration in market conditions and/or the financial position of the Group that make it difficult to raise the necessary funds or that forces the Group to raise funds at significantly higher interest rates than usual.

This is also the possibility of experiencing losses due to the inability to sell or convert marketable securities into cash immediately or in instances where conversion to cash is possible but at loss due to wider than normal bid-offer spreads.

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues, both on-shore and off-shore.

ALI Group
ALI Group employs scenario analysis and contingency planning to actively manage its liquidity position and guarantee that all operating, investing and financing needs are met. ALI Group has come up with a three-layered approach to liquidity through the prudent management of sufficient cash and cash equivalents, the potential sale of accounts receivables and the maintenance of short-term revolving credit facilities.

Cash and cash equivalents are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise. Management develops viable funding alternatives through a continuous program for the sale of its receivables and ensures the availability of ample unused short-term revolving credit facilities from both local and foreign banks as back-up liquidity.

IMI Group
IMI Group's exposure to liquidity risk relates primarily to its short-term and long-term obligations. IMI Group seeks to manage its liquidity profile to be able to finance its capital expenditures and operations. IMI Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, IMI Group regularly evaluates its projected and actual cash flows. To cover financing requirements, IMI Group intends to use internally-generated funds and loan facilities with local and foreign banks. Surplus funds are placed with reputable banks.

MWC Group
MWC Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and debentures. MWC Group's policy is to maintain a level of cash that is sufficient to fund its operating cash requirements for the next four (4) to six (6) months and any claim for refund of customers' guaranty deposits. Capital expenditures are funded through

long-term debt, while operating expenses and working capital requirements are sufficiently funded through internal cash generation.

The table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2019 and 2018, based on contractual undiscounted payments.

	December 31, 2019				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱104,887,772	₱–	₱–	₱–	₱104,887,772
Project costs	18,269,215	–	–	–	18,269,215
Accrued expenses	17,127,334	–	–	–	17,127,334
Personnel costs	8,615,806	–	–	–	8,615,806
Dividends payable	4,496,286	–	–	–	4,496,286
Retentions payable	4,190,439	6,751,643	–	–	10,942,082
Related parties	1,084,061	–	–	–	1,084,061
Contractors payable	–	–	–	6,595,611	6,595,611
DRP obligation	–	–	–	–	–
Nontrade Payable	1,075,740	–	–	–	1,075,740
Subscription payable	–	498,687	–	–	498,687
Liability for purchased land	9,936,887	–	–	5,426,645	15,363,532
Financial liabilities on put option	1,823,114	–	–	–	1,823,114
Service concession obligation	13,607	–	–	52,412	66,019
Deposits and deferred credits	25,481,979	–	–	23,073,011	48,554,990
Short-term debt	29,788,643	–	–	–	29,788,643
Long-term debt	23,878,725	25,330,889	55,034,437	271,305,463	375,549,514
Lease Liabilities	1,635,474	2,063,484	4,091,830	57,540,360	65,331,148
Other liabilities	13,875	–	–	4,380,371	4,394,246
Interest payable*	11,194,428	3,339,765	3,430,620	49,152,140	67,116,953
	₱263,513,385	₱37,984,468	₱62,556,887	₱417,526,013	₱781,580,753

**includes future interest payments*

	December 31, 2018				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱120,312,117	₱–	₱–	₱–	₱120,312,117
Project costs	18,641,346	–	–	–	18,641,346
Accrued expenses	17,153,646	–	–	–	17,153,646
Personnel costs	9,078,336	–	–	–	9,078,336
Dividends payable	4,131,317	–	–	–	4,131,317
Retentions payable	6,762,286	5,721,123	–	–	12,483,409
Related parties	1,072,551	–	–	–	1,072,551
Contractors payable	–	–	–	7,264,642	7,264,642
DRP obligation	236,362	–	–	1,001,146	1,237,508
Nontrade Payable	1,490,379		–	–	1,490,379
Subscription payable	–	802,702	–	–	802,702
Liability for purchased land	2,544,623	–	–	5,021,034	7,565,657
Financial liabilities on put option	1,386,926	–	–	–	1,386,926
Service concession obligation	820,802	–	–	7,018,211	7,839,013
Customers' deposits	29,043,778	–	–	29,069,683	58,113,461
Short-term debt	39,518,245	–	–	–	39,518,245
Long-term debt	48,480,559	97,363,916	65,333,808	161,565,104	372,743,387
Other liabilities	7,560	–	–	1,837,598	1,845,158
Interest payable*	12,141,391	26,940,306	3,124,796	18,209,755	60,416,248
	₱312,822,224	₱130,828,047	₱68,458,604	₱230,987,173	₱743,095,948

**includes future interest payments*

Cash and cash equivalents, short–term investments and financial assets at FVTPL are used for the Group's liquidity requirements. Please refer to the terms and maturity profile of these financial assets under the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section.

Credit risk
Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's holding of cash and cash equivalents and short-term investments and receivables from customers and other third parties exposes the Group to credit risk of the counterparty. Credit risk management involves dealing with institutions for which credit limits have been established. The Treasury and Financial Policies of the individual subsidiaries set credit limits for their counterparty. The Group trades only with recognized, creditworthy third parties and has a well-defined credit policy and established credit procedures.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 90 days when they fall due, which are derived based on the Group's historical information.

The Group considers "low risk" to be an investment grade credit rating with at least one major rating agency for those investments with credit rating. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition.

Given the Group's diverse base of counterparties, the Group is not exposed to large concentrations of credit risk.

The maximum exposure to credit risk for the components of the consolidated statement of financial position is equal to the carrying values.

Part of the policies is the performance of impairment analysis for the credit accounts (see Note 3).

ALI Group
ALI Group's credit risks are primarily attributable to installments receivable, rental receivables and other financial assets. To manage credit risks, ALI Group maintains defined credit policies and monitors its exposure to credit risks on a continuous basis.

In respect of installments receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. ALI Group also undertakes supplemental credit review procedures for certain installment payment structures. ALI Group's stringent customer requirements and policies in place contribute to lower customer default than its competitors. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements. Exposure to bad debts is not significant as title to real estate properties are not transferred to the buyers until full payment has been made and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with ALI Group security deposits and advance rentals which helps reduce ALI Group's credit risk exposure in case of defaults by the tenants. For existing tenants, ALI Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

Other financial assets are comprised of cash and cash equivalents excluding cash on hand, short-term investments, financial assets at FVTPL and financial assets at FVOCI. ALI Group adheres to fixed limits and guidelines in its dealings with counterparty banks and its investment in financial instruments. Bank limits are established on the basis of an internal rating system that principally covers the areas of liquidity, capital adequacy and financial stability. The rating system likewise

makes use of available international credit ratings. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations. Nevertheless, ALI Group closely monitors developments over counterparty banks and adjusts its exposure accordingly while adhering to pre-set limits.

ALI Group's maximum exposure to credit risk as of December 31, 2019 and 2018 is equal to the carrying values of its financial assets.

Given ALI Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rate is based on days past due of all customers as they have similar loss patterns. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. The security deposits and advance rental are considered in the calculation of impairment as recoveries. As of December 31, 2019 and 2018, the exposure at default amounts to ₱14,354.9 million and ₱9,849.9 million, respectively. The expected credit loss rate is 5.3% and 3.5% that resulted in the ECL of ₱1,186.3 million and ₱872.3 million as of December 31, 2019 and December 31, 2018, respectively.

IMI Group
The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that IMI Group's exposure to bad debts is not significant.

MWC Group
MWC Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by MWC Group's established policy, procedures and control relating to customer credit risk management. Credit risk for receivables from customers is managed primarily through credit reviews and an analysis of receivables on a continuous basis. MWC Group has no significant concentration of credit risk. Outstanding customer receivables and contract assets are regularly monitored and customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e., by geographical region, and product type). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on MWC Group's historical observed default rates. MWC Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Generally, trade receivables are written-off when deemed unrecoverable and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

The aging analysis of accounts and notes receivables that are past due but not impaired follows:

December 31, 2019

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	31-60 days	61-90 days	91-120 days	>120 days	Total		
				(In Thousands)					
Trade:									
Real estate and Hotels	₱105,990,906	₱2,432,249	₱1,454,322	₱1,403,803	₱1,736,415	₱10,797,062	₱17,823,851	₱496,048	₱124,310,805
Electronics manufacturing	12,597,183	1,016,298	312,623	221,203	22,742	463,710	2,036,576	53,255	14,687,014
Automotive	1,099,742	174,526	591,992	348,421	236,626	516,170	1,867,735	79,563	3,047,040
Power generation	4,641,254	–	–	–	–	–	–	48,508	4,689,762
Outsourcing	199,940	65,007	10,080	4,853	7,062	27,480	114,482	–	314,422
International and others	789,038	29,503	3,876	6,306	–	20,262	59,947	–	848,985
Advances to other companies	19,958,123	245,326	206,677	8,585	4,442	2,910,777	3,375,807	259,279	23,593,209
Receivable from related parties	11,396,859	1,413,094	577,563	451,775	53,050	549,416	3,044,898	49,471	14,491,228
Receivable from officers and employees	1,378,632	4,153	3,886	4,684	6,712	105,355	124,790	1,888	1,505,310
Dividend receivable	145,010	–	–	–	–	–	–	–	145,010
Receivable from BWC	–	–	–	–	–	–	–	–	–
Others	1,384,578	–	–	–	–	–	–	–	1,384,578
Total	₱159,581,265	₱5,380,156	₱3,161,019	₱2,449,630	₱2,067,049	₱15,390,232	₱28,448,086	₱988,012	₱189,017,363

December 31, 2018

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	31-60 days	61-90 days	91-120 days	>120 days	Total		
				(In Thousands)					
Trade:									
Real estate and hotels	₱128,842,167	₱2,559,105	₱1,405,219	₱885,261	₱505,299	₱3,231,656	₱8,586,540	₱872,268	₱138,300,975
Electronics manufacturing	13,258,437	1,954,513	278,346	246,423	101,179	257,591	2,838,052	105,908	16,202,397
Automotive	1,085,224	612,365	355,860	247,375	146,904	371,005	1,733,509	77,783	2,896,516
Water infrastructure	1,374,283	–	–	–	–	–	–	1,239,761	2,614,044
Power generation	611,919	–	–	–	–	–	–	460,426	1,072,345
Outsourcing	84,460	–	–	–	–	–	–	176,552	261,012
International and others	46,639	709	–	–	–	–	709	–	47,348
Receivable from related parties	8,459,392	176,443	7,331	5,215	59,313	173,361	421,663	83,541	8,964,596
Receivable from officers and employees	1,334,894	–	–	–	–	–	–	–	1,334,894
Concession financial receivable	1,217,341	27,992	10,726	15,198	15,112	211,628	280,656	–	1,497,997
Dividend receivable	1,334,894	–	–	–	–	–	–	–	1,334,894
Receivable from BWC	388,411	–	–	–	–	–	–	–	388,411
Others	388,518	–	–	–	–	–	–	–	388,518
Total	₱158,426,579	₱5,331,127	₱2,057,482	₱1,399,472	₱827,807	₱4,245,241	₱13,861,129	₱3,016,239	₱175,303,947

The table below shows the credit quality of the Group's financial assets as of December 31, 2019 and 2018 (amounts in thousands):

December 31, 2019

	Neither past due nor impaired				Past due but		
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents excluding cash on hand	₱93,405,253	₱–	₱–	₱93,405,253	₱–	₱–	₱93,405,253
Short-term investments	13,387,801	–	–	13,387,801	–	–	13,387,801
Other current assets							
FVTPL financial assets	–	12,031,482	–	12,031,482	–	–	12,031,482
Derivative assets	338,612	–	–	338,612	–	–	338,612
Deposits in escrow	239,526	–	–	239,526	–	–	239,526
Other noncurrent assets							
Deposits -others	3,330,646	–	–	3,330,646	–	–	3,330,646
Others	4,261,796	–	–	4,261,796	–	–	4,261,796
Accounts and notes receivables							
Trade							
Real estate and hotels	93,860,536	8,172,503	3,957,867	105,990,906	17,823,851	496,048	124,310,805
Electronics manufacturing	663,401	11,933,782	–	12,597,183	2,037,256	52,575	14,687,014
Automotive	1,099,742	–	–	1,099,742	1,867,735	79,556	3,047,033
Power generation	4,641,254	–	–	4,641,254	–	48,508	4,689,762
Outsourcing	199,940	–	–	199,940	114,482	–	314,422
International and others	789,038	–	–	789,038	60,947	–	849,985
Receivable from related parties	8,269,213	2,711,255	416,391	11,396,859	3,044,898	49,471	14,491,228
Receivable from officers employees	1,183,632	179,128	15,872	1,378,632	124,790	1,888	1,505,310
Concession financial receivable	–	–	–	–	–	–	–
Dividend receivable	145,010	–	–	145,010	–	–	145,010
Receivable from BWC	–	–	–	–	–	–	–
Other receivable	1,384,578	–	–	1,384,578	–	–	1,384,578
Financial assets at FVOCI							
Quoted shares of stocks	1,633,763	–	–	1,633,763	–	–	1,633,763
Unquoted shares of stocks	–	4,269,733	–	4,269,733	–	–	4,269,733
	₱228,833,741	₱39,297,883	₱4,390,130	₱272,521,754	₱25,073,959	₱728,046	₱298,323,759

December 31, 2018

	Neither past due nor impaired				Past due but	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents excluding cash on hand	₱60,583,510	₱–	₱–	₱60,583,510	₱–	₱–	₱60,583,510
Short–term investments	5,956,489	–	–	5,956,489	–	–	5,956,489
Other current assets							
FVTPL financial assets	–	9,236,804	–	9,236,804	–	–	9,236,804
Deposits in escrow	322,666	–	–	322,666	–	–	322,666
Derivative assets	65,788	–	–	65,788	–	–	65,788
Other noncurrent assets							
Deposits -others	2,478,582	–	–	2,478,582	–	–	2,478,582
Others	2,365,311	–	–	2,365,311	–	–	2,365,311
Accounts and notes receivables							
Trade							
Real estate and hotels	122,114,418	3,670,685	3,057,064	128,842,167	8,586,540	872,268	138,300,975
Electronics manufacturing	333,809	12,924,628	–	13,258,437	2,838,052	105,908	16,202,397
Automotive	63,965	1,011,595	9,664	1,085,224	1,733,509	77,783	2,896,516
Water infrastructure	666,684	707,599	–	1,374,283	–	1,239,761	2,614,044
Power generation	611,919	–	–	611,919	–	460,426	1,072,345
Outsourcing	84,460	–	–	84,460	–	176,552	261,012
International and others	45,510	1,129	–	46,639	709	–	47,348
Receivable from related parties	6,137,662	2,011,628	310,102	8,459,392	421,663	83,541	8,964,596
Receivable from officers employees	1,045,275	157,637	14,429	1,217,341	280,656	–	1,497,997
Concession financial receivable	1,046,534	–	–	1,046,534	–	–	1,046,534
Dividend receivable	1,334,894	–	–	1,334,894	–	–	1,334,894
Receivable from BWC	–	388,411	–	388,411	–	–	388,411
Other receivable	388,518	–	–	388,518	–	–	388,518
Financial assets at FVOCI							
Quoted shares of stocks	2,058,460	–	–	2,058,460	–	–	2,058,460
Unquoted shares of stocks	–	975,785	–	975,785	–	–	975,785
	₱207,704,454	₱31,085,901	₱3,391,259	₱242,181,614	₱13,861,129	₱3,016,239	₱259,058,982

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

Cash and cash equivalents, short–term investments, FVTPL financial assets, quoted financial assets at FVOCI and investment in bonds classified as loans and receivable, advances to other companies and related party receivables

High grade pertains to cash and cash equivalents and short-term investments, quoted financial assets, investment in bonds classified as loans and receivable, related party transactions and receivables with high probability of collection.

Medium grade pertains to unquoted financial assets other than cash and cash equivalents and short–term investments with nonrelated counterparties and receivables from counterparties with average capacity to meet their obligation.

Low grade pertains to financial assets with the probability to be impaired based on the nature of the counterparty.

Trade receivables
Real estate, BPO and international and others - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment in the past; and low grade pertains to receivables with more than 3 defaults in payment.

Electronics manufacturing - high grade pertains to receivable with favorable credit terms and can be offered with a credit term of 15 to 45 days; medium grade pertains to receivable with normal credit terms and can be offered with a credit term of 15 to 30 days; and low grade pertains to receivables under advance payment or confirmed irrevocable Stand-by Letter of Credit and subjected to semi-annual or quarterly review for possible upgrade or transaction should be under advance payment or confirmed and irrevocable Stand-By Letters of credit; subject to quarterly review for possible upgrade after one year.

Water infrastructure – high grade pertains to receivables that are collectible within 7 days from bill delivery; medium grade pertains to receivables that are collectible from 11 to 30 days from bill delivery.

Automotive – high grade pertains to receivables from corporate accounts and medium grade for receivables from noncorporate accounts.

Unquoted financial assets at FVOCI – the unquoted investments are unrated.

34. Fair Value Measurement and Derivative Instruments

Fair Value of Financial and Nonfinancial Instruments
The carrying amounts approximate fair values for the Group's financial assets and liabilities due to its short-term maturities except for the following financial instruments as of December 31, 2019 and 2018 (amounts in thousands):

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS AT FVTPL				
Held for trading	**₱9,726,080**	**₱9,726,080**	₱9,236,804	₱9,236,804
Investment in bonds	**2,305,402**	**2,305,402**	–	–
Derivative assets				
Embedded	**–**	**–**	65,324	65,324
Freestanding	**338,612**	**338,612**	464	464
Total financial assets at FVTPL	**12,370,094**	**12,370,094**	9,302,592	9,302,592

(Forward)

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
AT AMORTIZED COST				
Accounts and notes receivables				
Noncurrent trade receivables				
Real estate	**₱42,994,112**	**₱42,994,112**	₱35,437,047	₱35,437,047
Nontrade receivables				
Receivable from officers and employees	**1,505,311**	**1,443,659**	1,497,998	1,488,987
Concession financial receivable	**–**	**–**	1,517,892	2,358,369
Total loans and receivables	**44,499,423**	**44,437,771**	38,452,937	39,284,403
FINANCIAL ASSETS AT FVOCI				
Quoted equity investments	**1,633,763**	**1,633,763**	2,200,447	2,200,447
Unquoted equity investments	**4,269,733**	**4,269,733**	833,798	833,798
Total Financial assets at FVOCI	**5,903,496**	**5,903,496**	3,034,245	3,034,245
OTHER FINANCIAL ASSETS				
Deposits	**3,570,171**	**3,570,171**	2,801,248	2,801,248
Total Other Financial Assets	**3,570,171**	**3,570,171**	2,801,248	2,801,248
Total financial assets	**₱66,343,184**	**₱66,281,532**	₱53,591,022	₱54,422,488
FINANCIAL LIABILITIES AT FVTPL				
Financial liabilities on put option	**₱1,823,114**	**₱1,823,144**	₱1,386,926	₱1,386,926
Other noncurrent liabilities - Contingent consideration	**–**	**–**	195,920	195,920
	1,823,114	**1,823,144**	1,582,846	1,582,846
OTHER FINANCIAL LIABILITIES				
Long–term debt	**375,549,514**	**370,299,700**	372,743,387	360,945,172
Service concession obligation	**66,020**	**66,020**	7,839,013	8,693,080
Deposits and other noncurrent liabilities	**54,552,768**	**48,496,423**	35,141,427	31,241,007
Total other financial liabilities	**430,168,302**	**418,862,143**	415,723,827	400,879,259
Total financial liabilities	**₱431,991,416**	**₱420,685,287**	₱417,306,673	₱402,462,105

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

Financial assets at FVTPL – Fair values of investment securities are based on quoted prices as of the reporting date. For other investment securities such as FVTPL with no reliable measure of fair value, these are carried at its last transaction price. Fair value of the bonds is based on binomial lattice approach.

The fair value of the investment in UITF is based on net asset values as of reporting dates.

The fair value of the investment in ARCH Capital Fund is determined using the discounted cash flow (DCF) method. Under the DCF method in fund fair valuation, it is estimated using assumptions regarding the benefits and liabilities of ownership over the underlying asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream, associated with the underlying asset. The exit yield is normally separately determined and differs from the discount rate. Significant inputs considered were rental, growth and discount rates. The higher the rental and growth rates, the higher the fair value. The higher the discount rates, the lower the fair value.

The fair value of other unquoted financial assets at FVTPL is determined using Weighted Average Cost of Capital using market comparable. The rate used is 5% in 2019 and 2018.

Derivative instrument – The fair value of the freestanding currency forwards is based on counterparty valuation. Derivative asset – The fair value is estimated using a modified stock price binomial tree model for convertible callable bonds.

Noncurrent trade and nontrade receivables – The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 6.25% to 13.50% and 2.90% to 6.37% as of December 31, 2019 and 2018.

Financial assets at FVOCI quoted equity securities – fair values are based on quoted prices published in markets.

Financial assets at FVOCI unquoted equity securities – fair values are based on the latest selling price available.

Financial liabilities on put options – These pertain to the liabilities of IMI Group arising from the written put options over the non-controlling interest of VIA and STI. The fair value of the financial liabilities is estimated using the discounted, probability-weighted cash flow method. The future cash flows were projected using the equity forward pricing formula with reference to the current equity value of the acquiree and the forecasted interest rate which is the risk-free rate in Germany and UK. The risk-free rate used is 0.17% and 0.26% for VIA and 0.74% and 0.91% for STI for 2019 and 2018. Management applied weights on the estimated future cash flows, based on management's judgment on the chance that the trigger events for the put option will occur.

The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

For STI, management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronics services solutions to derive its current equity value. Management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization. Another significant assumption is the probability of trigger event occurring within the put option period.

Other financial liabilities - noncurrent – The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. This also include the contingent consideration related to the acquisition of STI determined based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital. The discount rate is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital. The discount rates used for Peso-denominated loans were 3.18% to 7.02% in 2019 and 7.28% to 8.79% in 2018 while the discount rates used for the foreign currency-denominated loans ranged 3.02% to 7.42% in 2019 and 5.22% to 7.53% in 2018.

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

The following table shows the fair value hierarchy of the Group's assets and liabilities as at December 31, 2019 and 2018 (amounts in thousands):

2019

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVTPL	**₽–**	**₽85,724**	**₽11,945,758**	**₽12,031,482**
Derivative assets				
Embedded	**–**	**–**	**–**	**–**
Freestanding	**–**	**–**	**338,612**	**338,612**
Total Financial assets at FVTPL	**–**	**85,724**	**12,284,370**	**12,370,094**
Financial assets at FVOCI				
Quoted equity investments	**1,114,880**	**518,883**	**–**	**1,633,763**
Unquoted equity investments	**–**	**–**	**4,269,733**	**4,269,733**
	₽1,114,880	**₽605,607**	**₽16,554,103**	**₽18,273,590**

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVTPL	**₱–**	**₱85,724**	**₱11,945,758**	**₱12,031,482**
Derivative assets				
Embedded	**–**	**–**	**–**	**–**
Freestanding	**–**	**–**	**338,612**	**338,612**
Total Financial assets at FVTPL	**–**	**85,724**	**12,284,370**	**12,370,094**
Financial assets at FVOCI				
Quoted equity investments	**1,114,880**	**518,883**	**–**	**1,633,763**
Unquoted equity investments	**–**	**–**	**4,269,733**	**4,269,733**
Recurring financial assets for which fair values are disclosed:				
Noncurrent trade and nontrade receivables	**₱–**	**₱–**	**₱44,437,771**	**₱44,437,771**
Deposits	**–**	**–**	**3,570,171**	**3,570,171**
	₱–	**₱–**	**₱48,007,942**	**₱48,007,942**
Recurring financial liabilities measured at fair value				
Financial liabilities on put option	**₱–**	**₱–**	**₱1,584,703**	**₱1,584,703**
Derivative liabilities				
Freestanding	**–**	**238,411**	**–**	**238,411**
	₱–	**₱238,411**	**₱1,584,703**	**₱1,823,114**
Recurring financial liabilities for which fair values are disclosed:				
Long–term debt	**₱–**	**₱–**	**₱370,299,700**	**₱370,299,700**
Service concession obligation	**–**	**–**	**66,020**	**66,020**
Deposits and other noncurrent liabilities	**–**	**–**	**48,496,423**	**48,496,423**
	₱–	**₱–**	**₱418,862,143**	**₱418,862,143**
Nonfinancial assets for which fair values are disclosed:				
Investment properties	**₱–**	**₱–**	**₱495,845,136**	**₱495,845,136**
Investments in associates and joint ventures*	**278,883,519**	**–**	**–**	**278,883,519**
	₱278,883,519	**₱–**	**₱495,845,136**	**₱774,728,655**

**Fair value of investments in listed associates and joint ventures for which there are published price quotations*

2018

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVTPL	₱–	₱85,724	₱9,151,080	₱9,236,804
Derivative assets				
Embedded	–	–	65,324	65,324
Freestanding	–	–	464	464
Total Financial assets at FVTPL		85,724	9,216,868	9,302,592
Financial assets at FVOCI				
Quoted equity investments	2,200,447	–	–	2,200,477
Unquoted equity investments	–	–	833,798	833,798
	₱2,200,447	₱85,724	₱10,050,666	₱12,336,837
Recurring financial assets for which fair values are disclosed:				
Trade and nontrade receivables	₱–	₱–	₱36,926,034	₱36,926,034
Concession financial receivable	–	–	2,358,369	2,358,369
Deposits	–	–	2,801,248	2,801,248
	₱–	₱–	₱42,085,651	₱42,085,651
Recurring financial liabilities measured at fair value				
Financial liabilities on put option	₱–	₱–	₱1,371,226	₱1,371,226
Derivative liabilities				
Freestanding			15,700	15,700
Contingent consideration (noncurrent liability)	–	–	195,920	195,920
	₱–	–	₱1,582,846	₱1,582,846

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial liabilities for which fair values are disclosed:				
Long–term debt	–	–	₱360,945,172	₱360,945,172
Service concession obligation	–	–	8,693,080	8,693,080
Deposits and other noncurrent liabilities	–	–	31,241,007	31,241,007
	₱–	₱–	₱400,879,259	₱400,879,259
Nonfinancial assets for which fair values are disclosed:				
Investment properties	₱–	₱–	₱495,845,136	₱495,845,136
Investments in associates and joint ventures*	296,311,034	–	–	296,311,034
	₱296,311,034	₱–	₱495,845,136	₱792,156,170

**Fair value of investments in listed associates and joint ventures for which there are published price quotations*

There was no change in the valuation techniques used by the Group in determining the fair market value of the assets and liabilities.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table presents the valuation techniques and unobservable key inputs used to value the Group's financial assets and liabilities categorized as Level 3:

December 31, 2019

	Valuation Technique	Unobservable inputs	Range of unobservable inputs	Sensitivity of the input to the fair value
Financial assets at FVTPL	Market comparable	Weighted average cost of capital (WACC)	5% to 10%	5% increase / (decrease) in WACC would result in increase / (decrease) in fair value by US$5,200,723/ (US$5,200,723)
				10% increase / (decrease) in WACC would result in increase / (decrease) in fair value by US$10,401,445/ (US$10,401,445)
Financial liabilities on put options	Discounted, probability-weighted cash flow method	Growth rate	0% - 2% (1%)	1% increase in growth rate would result in an increase in fair value by US$1.59 million. Decrease in growth rate by 1% would result in a fair value decrease of US$1.25 million.
		Discount rate	8% - 10% (9%)	1% increase in discount rate would result in a decrease in fair value by US$1.83 million. Decrease in discount rate by 1% would result in a fair value increase of US$2.31 million.
		Probability of trigger events occurring	1% - 10% (5%)	Increase in the probability to 10% would result in an increase in fair value by US$0.77 million. Decrease in the probability to 1% would result in a decrease in fair value by US$1.17 million.

December 31, 2018

	Valuation Technique	Unobservable inputs	Range of unobservable inputs	Sensitivity of the input to the fair value
Financial assets at FVTPL	Market comparable	Weighted average cost of capital (WACC)	5% to 10%	5% increase / (decrease) in WACC would result in increase / (decrease) in fair value by US$5,200,723/ (US$5,200,723)
				10% increase / (decrease) in WACC would result in increase / (decrease) in fair value by US$10,401,445/ (US$10,401,445)
Financial liabilities on put options	Discounted, probability-weighted cash flow method	Growth rate	0% - 2% (1%)	1% increase in growth rate would result in an increase in fair value by US$1.78 million. Decrease in growth rate by 1% would result in a fair value decrease of US$1.40 million.
		Discount rate	10% - 12% (11%)	1% increase in discount rate would result in a decrease in fair value by US$1.82 million. Decrease in discount rate by 1% would result in a fair value increase of US$2.32 million.
		Probability of trigger events occurring	1% - 10% (5%)	Increase in the probability to 10% would result in an increase in fair value by US$0.71 million. Decrease in the probability to 1% would result in a decrease in fair value by US$1.08 million.
Other noncurrent liabilities (contingent consideration)	Discounted, probability-weighted payout	Discount rate	7% - 9% (8%)	1% increase in growth rate for the remaining period of the contingent consideration would result in an increase in contingent liability of US$1.87 million. Decrease in growth rate by 1% would result to a decrease in contingent liability of US$0.01 million.
		Probability of pay-out	£0 to £23.3 million ($0 to $30.20 million)	£0 to £2.9 million (US$0 to US$3.7 million)

ALI Group categorizes trade receivable, receivable from employees, long-term debt and deposits and other noncurrent liabilities under Level 3. The fair value of these financial instruments is determined by discounting future cash flows using the applicable rates of similar types of instruments plus a certain spread. This spread is the unobservable input and the effect of changes to this is that the higher the spread, the lower the fair value.

A reconciliation of the beginning and closing balances of Level 3 financial assets and liabilities at FVTPL are summarized below:

Financial Assets at FVTPL	**2019**	2018
At January 1	**₱9,236,804**	₱5,980,607
Additions	**3,132,039**	4,939,944
Recognized in consolidated statement of income	**528,011**	996,170
Adoption of PFRS 9	**–**	1,087,593
Disposals/redemptions/return of capital	**–**	(3,253,958)
Exchange difference and others	**(865,372)**	(513,552)
At December 31	**₱12,031,482**	₱9,236,804

Financial Liabilities at FVTPL	**2019**	2018
At January 1	**₱1,567,146**	₱2,341,131
Additions	**–**	–
Recognized in consolidated statement of income	**114,373**	(837,144)
Exchange difference and others	**(96,816)**	63,159
At December 31	**₱1,584,703**	₱1,567,146

Derivatives

	2019	2018
Derivative Assets		
Call option of AC Industrial	**₱332,485**	₱–
Currency forward of AIVPL	**5,857**	–
Forward contract of IMI	**270**	–
Prepayment option of ACEI	**–**	65,788
	₱338,612	₱65,788
Derivative Liabilities		
Forward contract of ACEI	**₱238,411**	₱15,700

Financial liabilities on put options
The acquisition of VIA in 2016 and STI in 2017 included call and put options over the non-controlling interests. The put options resulted in a financial liability of US$22.4 million and US$26.1 million as of December 31, 2019 and 2018, respectively.

Minority shareholder of C-CON Group have the right to require MT Technologies to purchase and acquire all its shares. The option can be exercised after the holding period, which is defined as the 8th anniversary year after the acquisition date, April 1, 2019. Based on the management's judgment, the put options will be exercise by the minority shareholders on April 1, 2027 or the 8th anniversary year after the acquisition date.

Free standing derivatives
As of December 31, 2019, the outstanding forward contracts have a net fair value of $5,321. The changes in fair value of currency forwards recognized in 2019 amounted to $0.02 million. The changes in fair value of currency forwards are recognized in the consolidated statements of income under "Foreign exchange gains (losses)" account.

AC Industrials call option – Majority shareholder of MT Technologies have the right to require C-CON Holding (Exit Call Option) to sell all of its shares if NCI is no longer member of the C-CON management. Strike price is based on 6.0x of weighted average EBITDA less Net Debt (Cash) multiplied by the shareholding rate (25.1%). Based on the management's judgment, the earliest time that MT can exercise its option is after 10 years or upon retirement of NCI.

Embedded derivatives
BHL
Convertible bonds
In June 2014, BHL invested VND113 billion (equivalent to USD5.3 million) in CII convertible bonds through its wholly owned subsidiary, VIP. These bonds have a maturity of 5 years, and a coupon rate of 5% per annum.

On June 23, 2016, the third bond conversion exercise, BHL Group converted 69,235 bonds into 6,293,461 shares at a closing price of VND 26,500 per share. Based on the initial bond offering submission made by CII, the conversion ratio would be 90.9:1 (1 convertible bond to 90.9 shares), where the number of converted shares will be rounded down to the next last whole number. This conversion increased the investment in CII shares by VND 166.6 billion (equivalent to US$7.5 million).

BHL Group recognized a total gain of VND 37.9 million (US$1.7 million) on the conversion exercise, out of which VND 28.3 million (US$1.3 million) was the gain on the difference between the CII share price on the date of conversion and the carrying amount of convertible bond, and VND 9.6 million (US$ 0.4 million) was the gain on the realization of the valuation reserve previously recorded on the convertible bonds (see Note 24).

In 2017, the last bond conversion exercise, BHL Group converted 43,755 bonds into 3,977,329 shares at a closing price of VND 37,250 per share. Based on the initial bond offering submission made by CII, the conversion ratio would be 90.9:1 (1 convertible bond to 90.9 shares), where the number of converted shares will be rounded down to the next last whole number. This conversion increased the investment in CII shares by VND 148.2 billion (equivalent to US$6.7 million). BHL Group recognized a total gain of VND91.4 billion (US$4.0 million) on the conversion exercise, out of which VND 35.7 billion (US$1.6 million) was the gain on the difference between the CII share price on the date of conversion and the carrying amount of convertible bond, and VND 55.7 million (US$ 2.4 million) was the gain on the realization of the valuation reserve previously recorded on the convertible bonds (see Note 24).

ACEI
On January 31, 2017, the Group executed a five (5) year contract with SLPGC, which owns and operates 2 x 150 MW coal-fired power generating plant in Calaca, Batangas. The contract is effective from February 26, 2017 up to December 25, 2021 and covers contracted capacity of 50MW which enables AC Energy to meet the electricity requirements of its retail customers. Under the contract, the Group has the obligation to pay SLPGC the Exposure Adjustment and the Group or SLPGC, as the case may be has the obligation to pay the Exposure Adjustment in accordance with the fee computation formula agreed to by both parties.

On June 26, 2017, ACEI entered into a three (3) year contract with DirectPower Services Inc. ("DPSI") (an affiliate) effective from June 26, 2017 up to June 25, 2020. The contract enables DPSI to meet the electricity requirements of its customers. Under the contract, the Parent Company or DPSI, as the case may be has the obligation to pay the Exposure Fee in accordance with the fee computation formula agreed to by both parties.

The contracts with SLPGC and DPSI resulted to a fair value losses in 2019 and 2018 amounting to ₱222.7 million and ₱15.7 million, respectively. The fair value of derivative liability as of December 31, 2019 and 2018 amounted to ₱238.4 million and ₱15.70 million, respectively.

Fair Value Changes on Derivatives
The net movements in fair values of the Group's derivative instruments as of December 31, 2019 and 2018 follow (amounts in thousands):

Derivative Assets

	2019	2018
Balance at beginning of year	**₱65,324**	₱85,347
Additions during the year	**365,273**	–
Fair value of currency forwards	**–**	–
Net changes in fair value of derivatives	**287,780**	45,035
	718,377	130,382
Fair value of settled instruments	**–**	(65,058)
Reclassification to PFRS 5	**(379,765)**	–
Balance at end of year	**₱338,612**	₱65,324

Derivative Liabilities

	2019	2018
Balance at beginning of year	**₱15,700**	₱7,328
Net changes in fair value of derivatives	**222,711**	15,700
	238,411	23,028
Fair value of settled instruments	**–**	(7,328)
Balance at end of year	**₱238,411**	₱15,700

No other financial assets or liabilities are carried at fair value as of December 31, 2019 and 2018.

Net changes in fair value of derivative asets and liabilities was recognized in the consolidated statement of income under “Other Income”. However, the net changes in fair value of IMI Group’s freestanding currency forward are recognized in the consolidated income under “Foreign exchange gains (losses)” (see Note 23).

35. Notes to Consolidated Statements of Cash Flows

Changes in liabilities arising from financing activities follow:

	January 1, 2019	Cash Flows	Non-cash Changes	Foreign Exchange Movement	December 31, 2019
Short-term debt and Long-term debt	**₱412,261,632**	**₱87,004,660**	**(₱37,737,749)***	**₱160,600**	**₱461,689,143**
Dividends payable	**4,131,317**	**(11,919,555)**	**12,284,524****	**–**	**4,496,286**
Other noncurrent liabilities	**53,844,163**	**(749,826)**	**(4,646,967)**	**–**	**48,447,370**
Lease liabilities	**–**	**(2,051,769)**	**24,481,711*****	**(48,776)**	**22,381,166**
Service concession obligation	**7,839,013**	**(838,286)**	**(6,934,708)*******	**–**	**66,019**
Total liabilities from financing activities	**₱478,076,125**	**₱71,445,224**	**(₱12,553,189)**	**₱111,824**	**₱537,079,984**

**includes accounts of segments reclassified to PFRS 5 (GNPK and MWC), result of business combination (Generika Group, ACEPH and SLTEC) and conversion of exchangeable bonds*
***Pertains to dividends declared by the Parent Company and by its subsidiaries to the non-controlling shareholders during the year*
****includes adoption of PFRS 16 and additions during the year*
*****Pertains to additions to service concession obligation and reclassification to PFRS 5*

	January 1, 2018	Cash Flows	Non-cash Changes	Foreign Exchange Movement	December 31, 2018
Short-term debt and Long-term debt	₱350,611,952	₱51,310,587	₱4,318,490	₱6,020,603	₱412,261,632
Dividends payable	3,618,607	(10,769,923)	11,282,633*	–	4,131,317
Other noncurrent liabilities	43,233,816	3,572,007	(1,591,894)	–	45,213,929
Service concession obligation	7,447,677	(955,120)	1,386,684	49,286	7,928,527
Total liabilities from financing activities	₱404,912,052	₱43,157,551	₱15,395,913	₱6,069,889	₱469,535,405

**This amount pertains to dividends declared by the Parent Company and by the subsidiaries to the non-controlling shareholders during the year.*

The Group’s noncash investing and financing activities are as follows:

2019

- Recognition of right-of-use assets and lease liabilities amounting to ₱18,532.7 million and ₱21,564.1 million, respectively, upon adoption of PFRS 16
- Additions to right-of-use assets and lease liabilities during the year amounting to ₱1,632.1 million and ₱1,711.5 million
- Conversion of $292.8 million bonds from AYCFL US$300.0 million guaranteed exchangeable bonds to 377,465,612 ALI ordinary shares (see Note 19)
- Reclassification of assets and liabilities of MWC and GNPK to PFRS 5 (see Note 25)
- Merger of AC Education, Inc. and iPeople, Inc. (see Notes 10 and 24)
- Transfer from investment properties to inventories amounting to ₱11,830.0 million
- Transfer from inventories to investment properties amounting to ₱674.9 million
- Transfer from investment properties to property and equipment amounting to ₱644.1 million
- Transfer from property and equipment to investment properties amounting to ₱133.1 million
- Transfer from right-of-use assets to investment properties amounting to 98.7 million
- Unpaid acquisition of investment properties amounting to ₱7,392.2 million

2018

- Transfer from investment properties to inventories amounting to ₱7,446.2 million.
- Transfer from inventories to investment properties amounting to ₱116.4 million.
- Transfer from investment properties to property and equipment amounting to ₱4,900.6 million.

- Transfer from investment properties to other noncurrent assets amounting to ₱60.0 million.
- Acquisitions of property, plant and equipment amounting to ₱346.2 million
- Acquisitions of SCA amounting to ₱20.8 million.
- Capitalization of depreciation related to the development phase of certain projects amounting to ₱80.4 million.
- Consolidation of previously held interest in MCT amounting to ₱6.9 billion.
- Reclassification of investments in GMCP and GNPD to noncurrent asset held for sale amounting to ₱5.6 billion.

2017
- Tansfer from land and improvements to inventories amounting to ₱10,908.5 million.
- Transfer from inventories to investment properties amounting to ₱2,454.9 million.
- Transfer from land and improvements to investment properties amounting to ₱1,905.0 million.
- Transfer from investment properties to land and improvements amounting to ₱646.2 million.
- Transfer from investment properties to property and equipment amounting to ₱1,764.6 million.
- Transfer from investment properties to other current and noncurrent assets amounting to ₱86.3 million and ₱62.1 million, respectively.
- Transfer from advances to contractors to land and improvements amounting to ₱1,581.2 million
- Capitalization of depreciation related to the development phase of certain projects amounting to ₱ 57.4 million.
- Transfer from other noncurrent assets to intangible assets mounting to ₱1,195.4 million.
- Conversion of BHL's 69,235 investment in CII bonds to 6,293,461 shares.

36. Commitments

Parent Company
The Parent Company acted as guarantor to AYCFL's term loans and credit facilities as follows:

Description of Facility	Date Contracted	Amount drawn as of December 31, 2019	2019	2018
			Outstanding balance	
				(In Thousands)
US$200 million Revolving Credit Facility	March 18, 2016	**US$200,000**	**US$–**	US$10,000
US$200 million Transferrable Loan Facility	February 1, 2018	**100,000**	**–**	10,000
		US$300,000	**US$–**	US$20,000

On February 1, 2018, AYCFL entered a US$200.0 million revolving credit facility with an availability period of up to one (1) month prior to February 1, 2023. The first drawdown of the credit facility amounted to US$10.0 million on September 6, 2018 with a quarterly repricing rate. The second drawdown of the credit facility amounting to US$30.0 million was made on February 22, 2019 and the third drawdown amounting to US$60.0 million was made on March 7, 2019. The outstanding balance of the credit facility were fully settled on various dates during the year.

On September 6, 2018, AYCFL drew down US$10.0 million with a quarterly repricing rate from its US$200 million revolving credit facility contracted on March 18, 2016. The second drawdown of the credit facility amounting to US$100.0 million was made on April 2, 2019 and the third drawdown amounting to US$90.0 million was made on April 8, 2019. The outstanding balance of the credit facility were fully settled on various dates during the year.

The Parent Company unconditionally guarantees the due and punctual payment of these loan drawdowns if, for any reason AYCFL does not make timely payment of the amount due. The Parent Company waived all rights of subrogation, contribution, and claims of prior exhaustion of remedies.

The Parent Company's obligation as guarantor will remain in full force until no sum remains to be lent by the lenders, and the lenders recover the outstanding loan drawdowns.

On May 2, 2014, AYCFL issued at face US$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.50% per annum, payable semi-annually. The Bonds are guaranteed by the Parent Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds were listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options. The Bondholders have the right to exchange their Bonds for shares at any time during the exchange period. AYCFL shall lodge sufficient shares in its securities account to service Exchange Rights. In consideration for the reservation of the shares and by way of deposit for the exercise by the Bondholders of the Exchange Right, AYCFL shall remit to the Parent Company from time to time such amount as may be agreed between them, as defined in the Exchange Protocol agreed between AC and AYCFL.

On April 30, 2019, the remaining AYCFL US$292.8 million guaranteed exchangeable bonds as of December 31, 2018 was exchanged and converted into total of 377.5 million ALI ordinary common shares. On May 2, 2019, the Bonds has zero outstanding balance.

On September 7, 2017, the Parent Company announced that AYCFL had successfully set the terms of a US dollar-denominated fixed-for-life senior perpetual issuance at an aggregate principal amount of US$400 million with an annual coupon of 5.125% for life with no reset and step-up. The issuer, AYCFL, may redeem the Notes in whole but not in part on September 13, 2022 (first redemption date) or any interest payment date falling after the first redemption date at 100% of the principal amount of the Notes plus any accrued but unpaid interest. The Parent Company unconditionally guarantees the due and punctual payment of this note if, for any reason AYCFL does not make timely payment of the amount due.

On October 23, 2019, the Parent Company announced that it had successfully set the terms of a US dollar-denominated fixed-for-life (non-deferrable) senior perpetual issuance at an aggregate principal amount of US$400 million with a fixed coupon of 4.850% for life with no step-up and no reset, payable semi-annually. The bonds will be issued by AYCFL and will be unconditionally and irrevocably guaranteed by the Parent Company. The bonds were priced at par with a re-offer yield of 4.850%, reflecting a 27.5 basis points compression from the initial price guidance. The final order book was over four times oversubscribed with the order book allocated predominantly to Asia, with the rest to Europe, reflecting the strong investors' confidence in the Ayala name. By investor type, more than half of the offering was allocated to fund managers, insurance companies and pension funds, around one-quarter to banks and financial institutions and the remainder to private banks. The transaction was settled on October 30, 2019.

ALI Group
ALI-NTDCC
On December 8, 2017, ALI assigned to NTDCC development rights on certain portions of the North Triangle lot pads covered by a Deed of Assignment and Encroachment Settlement Agreement amounting to ₱631.2 million.

ALI-LT Group
ALI and LT Group, Inc. (LTG) entered into an agreement on January 21, 2016 to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portions of Pasig City and Quezon City. A new company named, ALI-ETON Property Development Corporation (ALI-ETON), was incorporated on March 13, 2016.

On January 15, 2018, the estate, named Parklinks was launched and is the greenest urban estate of Ayala Land in partnership with Eton Properties Inc. The first residential project of Ayala Land Premier, Parklinks North Tower was launched on the same year, while the Parklinks lifestyle mall broke ground as well, expected to provide a new destination for residents and office workers within the area when it opens in 2023. With the brisk residential sales of ALP's first project, the Parklinks

South tower was launched in 2019, together with Alveo's first residential development "The Lattice".

Also set to rise within the estate will be an iconic bridge that will conveniently connect the QC and Pasig parcels, offering a new route that can help ease vehicular traffic in the north eastern and eastern portions of Metro Manila. The bridge is expected to be completed by early 2021.

ITS South Project
On August 11, 2015, ALI won the bid for the Integrated Transport System Project - South Terminal (the ITS South Project). ALI was awarded by the Department of Transportation and Communications (DOTC) with a 35-year concession agreement to build and operate the ITS South Project and will likewise have the right to develop and operate commercial leasing facilities on the same 5.57 hectare Food Terminal Inc. property on which the future transport terminal will be built. The site of the ITS South Project is right next to ARCA South, where ALI is developing an integrated mixed-use estate. It is estimated that up to 4,000 buses and 160,000 passengers will feed into ITS South from SLEX every day. Full blast construction of the terminal started in the 2nd half of 2018 and targeted to be operational by 1st half of 2020.

SM-ALI Group Consortium
On June 30, 2015, ALI, through SM-ALI Group consortium (the Consortium), participated and won in the bidding for Lot No. 8-B-1, containing an area of 263,384 square meters, which is portion of Cebu City-owned lot located at the South Road Properties, Cebu City covered by Transfer Certificate of Title No. 107-2011000963. The Consortium is a consortium among SM Prime Holdings, Inc. (SMPHI), ALI and CHI (collectively referred to as the ALI Group). Consistent with the agreed payment schedule in the Deed of Absolute Sale, the ALI Group has paid ₱3.8 billion, excluding taxes, as of August 1, 2017. The SM-ALI Group has finished with the joint masterplan and has secured the development permit last November 2019 from the Cebu City Council.

Assignment Agreement between Metro Rail Transit Corporation (Metro Rail) and MRTDC
On August 8, 1997, an Assignment Agreement was executed between Metro Rail whereby MRTDC agreed to be bound by all obligations in respect of the Development Rights and make payments to DOTC.

Assignment Agreement between MRTDC and NTDCC
On February 21, 2002, MRTDC and NTDCC entered into an assignment agreement wherein the development rights of MRTDC over an 8.3 hectare portion of the MRT Depot (inclusive of project development costs incurred in relation thereto) was assigned to NTDCC in exchange for 32.6 million shares of stock to be issued out of the increase in the authorized capital stock of NTDCC, each share with a par value of ₱10, or an aggregate par value of ₱326.0 million. The amount of development rights in excess of the aggregate par value of the shares subscribed was credited to additional paid-in capital.

On January 13, 2006, the deed of assignment between MRTDC and NTDCC was acknowledged by DOTC making MRTDC and NTDCC jointly and severally liable for the DRP and all other obligations attached thereto. NTDCC has been paying rent to DOTC in behalf of MRTDC since January 1, 2006. The DRP obligation is payable annually for 42 years from the date of assumption, renewable upon expiration. As of December 31, 2019 and 2018, the DRP obligation amounted to ₱3,778.2 million and ₱1,001.1 million, respectively. Total DRP obligation paid amounted to ₱236.4 million and ₱229.8 million in 2019 and 2018, respectively. Total rent expense recognized in the statements of comprehensive income under the "Cost of sales" account included in direct operating expenses amounted to nil and ₱318.0 million in 2019 and 2018, respectively.

Memorandum of Agreement between DOTC, NHA, MRTDC, NTDCC
On March 21, 2007, DOTC, National Housing Authority (NHA), MRTDC, and NTDCC entered into a MOA whereby DOTC assigns, transfers and conveys to NHA, its successors or assigns, the right to demand and collect the Depot DRP Payable and Depot DRP. In the MOA, DOTC authorizes

MRTDC/NTDCC to remit the Depot DRP Payable and the Depot DRP to NHA directly which shall be credited by DOTC in favour of MRTDC/ NTDCC as payment for the DRP.

Funding and Repayment Agreement between NTDCC, MRTDC and MRTDC Shareholders
On December 17, 2014, NTDCC, MRTDC and MRTDC shareholders executed a "Funding and Repayment Agreement" wherein the latter agrees to repay NTDCC, for the account of MRTDC, its respective pro rata share in the Total Depot DRP Advances (the Pre-2006 DRP Payables and the Residual Depot DRP, including 15% interest rate accrued on such DRP payables).

Long-term Management Agreement between AHRC and Mandarin Oriental Hotel Group
On June 4, 2014, AHRC, a wholly owned subsidiary of ALI has signed a long-term management agreement with the Mandarin Oriental Hotel Group to develop and operate luxury hotel in Makati City. Set to open its doors by 2020, the new Mandarin Oriental Manila will be featuring 275 spacious rooms complemented by an extensive range of modern amenities including premium selection of restaurants and a signature spa. ALI Group is committed to pay US$5 million (₱223.6 million) to Manila Mandarin Hotel, Inc. upon the opening of the New Hotel or June 30, 2017, whichever is earlier. In 2017, ALI fully paid the said amount.

ALI-SPI
On May 12, 2014, ALI has signed the terms of reference with Sureste Properties, Inc. (SPI), a wholly owned subsidiary of Bloomberry Resorts Corp. (BLOOM) for the retail area to be opened in the new Phase 1-A of Solaire Resort & Casino. ALI will be the leasing and marketing agent of the said area with gross leasable area of more than 5,000 sqm.

Concession Agreements
Concession Agreement between ASITI and DOTr
On January 26, 2016, ALI Group through ASITI entered into a Concession Agreement (CA) with the Department of Transportation (DOTr). The CA sets forth the rights and obligations of ASITI as concessionaire, including the construction and operation of the South Integrated Transport System Project (the Project) of DOTr. During the concession period, DOTr will monitor and review the performance of the concessionaire.

The concession will run for a period of 35 years from the start of the construction of the Project. Under the terms of the concession agreement, ASITI will design, engineer, construct, operate and maintain a mass transportation intermodal terminal at the outskirts of Metro Manila. The operation of the Project includes the collection and remittance of terminal fees to DOTr of the concessionaire during the concession period. In addition, ASITI will be permitted to develop and operate commercial leasing facilities.

Upon the start of the construction the Project, DOTr will give to ASITI the full, exclusive and uninterrupted use and possession of a 5.57 hectare property known as the Project Land. Ownership of the Project Land shall remain with DOTr at all times while the possession, custody and risk of loss or deterioration of the Project and commercial assets shall vest in the concessionaire during the concession period. ASITI shall transfer the Project and the related assets, free from any liens or encumbrances, to DOTr at the end of the concession period. ASITI will be entitled to annual payments from DOTr amounting to ₱277.9 million during the 35-year concession period, subject to meeting benchmarks set for certain key performance indicators enumerated in the CA.

As of December 31, 2019, construction of the Project has not yet commenced.

Parent Company's Concession Agreement
In 2012, the Parent Company entered into a concession agreement with the DPWH to finance, design, construct, operate and maintain the Daang Hari - SLEX Link Road, now known as the Muntinlupa-Cavite Expressway(MCX) [the Project]. Under the concession agreement, the Parent Company will:

a. Purchase the advance works on Segment I of the Project and finance and construct the remaining works thereof;

b. Finance, design, and construct Segment II of the Project;
c. Undertake the operations and maintenance of the Project;
d. Impose and collect tolls from the users of the Project; and
e. Grant business concessions and charge and collect fees for non-toll user related facilities and toll user related facilities situated in the Project.

The Parent Company is authorized to adjust the toll rates once every two years in accordance with a prescribed computation as set out in the concession agreement and upon compliance with the rules and regulations on toll rate implementation as issued or may be issued by the Toll Regulatory Board.

In the event that the Parent Company is disallowed from charging and collecting the authorized amounts of the toll rates as prescribed in the concession agreement from the users of the Project, the Parent Company shall be entitled to either of the following:

a. Compensation from the DPWH of the toll income forgone by the Parent Company which shall be calculated based on a prescribed computation under the concession agreement.
b. Extension of the concession period to compensate the Parent Company for the forgone toll income which shall be mutually agreed by the Parent Company and the DPWH.

The Parent Company shall pay the DPWH an amount equal to 5% of all gross revenues arising from non-toll user and toll user related facilities situated within the Project.

The concession period shall commence on the date of the issuance of the Notice to Proceed with Segment II and shall end on the date that is 30 years thereafter, unless otherwise extended or terminated in accordance with the concession agreement. Any extension of the concession period shall in no event be beyond 50 years after the date of the issuance of the Notice to Proceed with Segment II.

At the end of the Concession Period, the Project shall be turned over by the Parent Company to the DPWH in the condition required for turnover under the Concession Agreement.

In accordance with the Concession Agreement, the Parent Company shall have the right to impose and collect toll fees (inclusive of value-added tax) from the users of the MCX at the following rates:

Vehicle Class	Initial Toll Rate (flat rate)
Class 1: Light vehicles	₱17.00
Class 2: Medium-weight vehicles	34.00
Class 3: Heavy vehicles	51.00

Periodic Toll Adjustment
On September 27, 2016, the Parent Company has filed for a Petition for Approval of Periodic Toll Adjustment. Under Section 13.2 of the Concession Agreement, Concessionaire is authorized to adjust the Toll Rate every two years. Since MCX commercially operated on July 24, 2015, the Parent Company is entitled to adjust its toll for MCX effective July 24, 2017. However, under Section 3 of the 2013 Revised Rules of Procedure of the Toll Regulatory Board (TRB), the petition has to be filed on or before 30 September. Thus, the Petition was filed knowing fully well that the effectivity of the adjusted toll rate will still be on July 24, 2017.

On June 19, 2017, TRB sent an order directing the publication of the full petition in a newspaper of general circulation, along with the notice to expressway users that they may file an opposition within the period provided for under the Rules. Accordingly, the full petition was published on July 25, 2017. On November 8, 2017, all TRB requirements for the approval of the toll rate increase were submitted.

On September 28, 2018, the second toll rate increase petition has been submitted to the TRB and the order directing the publication of the full petition in a newspaper of general circulation, along with the notice to expressway users that they may file an opposition within the period provided for under the

Rules, was sent by TRB on October 26, 2018. Accordingly, the petition was published on November 13, 2018. No opposition has been reported until the prescribed filing period.

On March 26, 2019, the approved resolution of the TRB on the petition with Application for Provisional Relief was received. The approved new toll rates are as follows.

Vehicle Class	AdjustedToll Rate (flat rate)
Class 1: Light vehicles	₱17.00
Class 2: Medium-weight vehicles	35.00
Class 3: Heavy vehicles	52.00

As indicated in the resolution, prior to TRB's issuance of the Notice to Start Collection, the Parent Company is directed to publish the approved new rates applicable to MCX Expressway (in accordance with TRB rules) and to submit proof of such publication.

Interoperability Agreement
On July 21, 2015, the Parent Company, MCX Tollway, Inc. (MCXI) (an 80% owned subsidiary of AC Infra), South Luzon Tollway Corporation (SLTC), and Manila Toll Expressway Systems, Inc. (MATES) signed a Memorandum of Agreement on the Interoperability together with an Addendum thereto ("MOA on Interoperability") of the Project and the SLEX. The MOA on Interoperability provides the framework that will govern the interface and integration of the technical operations and toll collection systems between the Project and SLEX, and to ensure seamless travel for road users.

On the same date, MATES and MCXI also executed a Toll Collection Services Agreement, under which, MATES was appointed as sub-contractor of MCXI for the provision of toll collection services for the MCX toll plaza.

On September 15, 2017, the Parent Company and MCXI together with San Miguel Holdings Corporation, Private Infra Development Corporation, Citra Metro Manila Tollways Corporation, Skyway O&M Corporation, Citra Central Expressway Corporation, Vertex Tollways Development Incorporated, SLTC, MATES, Star Infrastructure Development Corporation, Star Tollway Corporation, Metro Pacific Tollways Corporation, NLEX Corporation, Cavitex Infrastructure Corporation, MPCala Holdings Inc., Bases and Conversion Development Authority, Department of Transportation, Department of Public Works and Highways, Land Transportation Office and Toll Regulatory Board signed the Memorandum of Agreement for Toll Collection Interoperability (MOA). The MOA aims for a timely, smoothly, and fairly implementation of the ETC Systems and Cash Payment Systems' interoperability of the covered expressways. As of December 31, 2019, discussions are ongoing among and between the parties for the implementation of the MOA.

Operations and Maintenance Contracts
The Parent Company shall have the exclusive right and corresponding obligation to undertake the O&M of the Project. As such, on December 19, 2014, the Parent Company entered into an Operations and Maintenance Agreement (OMA) wit h MCXI for the operations and maintenance of the Project. The OMA has a term of seven (7) years, renewable for another seven (7) years, with the right of first offer in favor of MCXI. As compensation, the Parent Company shall pay an annual recurring fee of ₱77.6 million, exclusive of VAT, subject to yearly escalation using the Consumer Price Indexation formula.

On the same date, MCXI signed two contracts with EGIS Projects Philippines, Inc. (Egis):

a. Operations Advisory Contract – to provide advice, among others, on the establishment and implementation of procedures to enforce traffic regulations and safety measures in MCX; and
b. Maintenance Contract – to provide cleaning, inspection, repairs and maintenance on all parts of MCX, its landscaping, traffic signs and others.

Both contracts have a term of seven (7) years and renewable for another seven (7) years. The annual recurring fee for both contracts is ₱18.2 million, exclusive of VAT, and ₱40.9 million, exclusive for VAT, respectively and subject to yearly escalation to the effect of changes in labor index rates and consumer price index as provided by the Department of Labor and Employment.

In 2016, the Parent Company amended its existing O&M agreement with MCXI reducing the annual fee to ₱29.52 million and novated the existing agreement among MCXI and Egis to include the Parent Company as another party to the Operation Advisory Contract and Maintenance contract.

Non-Toll User Related Facilities
On October 24, 2016, the Parent Company entered into an agreement with Isuzu Automotive Dealership, Inc. (the Lessee) for the lease of 15,000 square meters of the concession area. The lease term is 20 years from October 1, 2016 to September 30, 2036, renewable for another period not exceeding June 28, 2045 upon mutual agreement. The fixed initial basic rent of the leased concession area shall be ₱1,275,000, exclusive of VAT, per month. Basic rent shall escalate by 5% at the start of the third year and every two years thereafter. The Lessee shall be given a rent free construction period of 3 months from October 1, 2016 to December 31, 2016.

The leased concession area shall be used by the Lessee for the purpose of developing and operating a dealership showroom and service center and to carry out other related retail, services and support activities incidental and complementary to its business and may be customary to the trade.

On February 2, 2017, the Parent Company entered into a lease agreement with Premier Petrol Distributors, Inc. (the Lessee) for the lease of an approximately 10,667 square meters of the concession area. The lease term is 20 years from September 1, 2017 to August 31, 2037, renewable for another period not exceeding June 28, 2045 upon mutual agreement. The fixed initial basic rent of the leased concession area shall be ₱1.1 million, exclusive of VAT, per month. Basic rent shall escalate by 5% at the start of the second year and every year thereafter. As of December 31, 2019, the lease terms are being re-negotiated.

On July 6, 2017, the Parent Company signed the contract of lease with Globe Telecom, Inc. (the Lessee) for the use of the following locations:

a. Macro Site – 64 square meters of land within the concession area
b. Small Cell (Easy Macro) Site – 7 lamp posts locations
c. Atom Cells' Site – 4 locations in the tunnel underneath SLEX

The lease term shall be twenty-eight (28) years and eleven (11) months, commencing on August 1, 2016 and continuing until June 28, 2045. The fixed initial basic rent of the leased concession area shall be ₱31,400 per month, exclusive of VAT, subject to annual escalation of 4.5% starting at the beginning of the second year.
On November 13, 2018, the Parent Company and Pilipinas Shell Petroleum Corporation executed a twenty (20) years lease contract for an approximate area of 9,689 square meters. The lease contract was effective July 15, 2018 and ending on July 14, 2038, renewable for another period not exceeding December 28, 2044 upon mutual agreement. The fixed initial monthly basic rent of the leased concession area shall be ₱823,565, exclusive of VAT. Basic rent shall escalate by 5% at the start of the third year and every year thereafter.

For all non-toll user related agreements, including short-term advertising leases, concerning the concession area, the Parent Company will remit, to the DPWH, 5% of its share on the gross revenues in accordance with Section 12.6.b of the Concession Agreement.

MWC's Concession Agreement (the "Agreement")
On February 21, 1997, MWC entered into a Concession Agreement (the Concession Agreement) with MWSS, a government corporation organized and existing pursuant to Republic Act (RA) No. 6234, as amended, with respect to the MWSS East Zone (East Zone). The Concession Agreement sets forth the rights and obligations of MWC throughout a 25-year concession period. MWSS Regulatory Office

(MWSS-RO) monitors and reviews the performance of each of the Concessionaires - MWC and Maynilad Water Services, Inc. (Maynilad), the West Zone Concessionaire.

Under the Concession Agreement, MWSS grants MWC (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone for a period of 25 years commencing on August 1, 1997 (the Commencement Date) up to May 6, 2022 (the Expiration Date) or the early termination date as the case may be. While MWC has the right to manage, operate, repair and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to the existing MWSS system by MWC during the Concession remains with MWC until the Expiration Date (or until the early termination date) at which time all rights, titles and interest in such assets will automatically vest in MWSS.

On Commencement Date, MWC officially took over the operations of the East Zone and rehabilitation works for the service area commenced immediately thereafter. As provided in MWC's project plans, operational commercial capacity will be attained upon substantial completion of the rehabilitation work.

Under the Agreement, MWC is entitled to the following rate adjustments:

a. Annual standard rate adjustment to compensate for increases in the consumer price index (CPI);
b. Extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the Concession Agreement;
c. Foreign Currency Differential Adjustment (FCDA) to recover foreign exchange losses including accruals and carrying costs thereof arising from MWSS loans and any Concessionaire loans used for capital expenditures and concession fee payments, in accordance with the provisions set forth in Amendment No. 1 of the Concession Agreement dated October 12; and
d. Rebasing Convergence Adjustment for the purposes of calculating the Rates Adjustment Limit for each of the five Charging Years of the Rebasing Period determined based on the following:
    i. where the Rebasing Adjustment is found to be positive, the Rebasing Convergence Adjustment for the first Charging Year of the Rate Rebasing Period shall be equal to the Rebasing Adjustment, and the Rebasing Convergence Adjustment for each of the following four (4) Charging Years shall be zero; and

    ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five (5) Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five (5).

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence Adjustment as defined in the Concession Agreement. The Concession Agreement also provides a general rate setting policy for rates chargeable by MWC for water and sewerage services as follows:

1. For the period through the second Rate Rebasing date (January 1, 2008), the maximum rates chargeable by MWC (subject to interim adjustments) are set out in the Concession Agreement.
2. From and after the second Rate Rebasing date, the rates for water and sewerage services shall be set at a level that will permit MWC to recover, over the 25-year term of the concession, its investment including operating, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on MWSS loans and MWC's loans incurred to finance such expenditures, and to earn a rate of return equal to the appropriate discount rate (ADR) on these expenditures for the remaining term of the concession.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five (5)-year intervals commencing on the second Rate Rebasing date, provided that the MWSS-RO may exercise its discretion to make a general adjustment of such rates.

On April 16, 2009, the MWSS Board of Trustees passed Resolution No. 2009-072 approving the 15-year extension of the Concession Agreement (the Extension) from May 7, 2022 to May 6, 2037. This resolution was confirmed by the Department of Finance (DOF), by authority from the office of the President of the Republic of the Philippines, on October 23, 2009. The significant commitments under the Extension follow:

a. To mitigate tariff increases such that there will be reduction of the balance of the approved 2008 rebased tariff by 66%, zero increase of the rebased tariff in 2009 and a ₱1.00 increase for years 2010 to 2016, subject to CPI and FCDA adjustments.
b. To increase the share in the current operating budget support to MWSS by 100% as part of the concession fees starting 2009.
c. To increase the total investments from the approved ₱187.00 billion for the periods 2008 to 2022 to ₱450.00 billion for 2008 to 2037.

With the approval of the Extension, the recovery period for MWC's investment is now extended by another 15 years from 2022 to 2037.

On December 5, 2019, MWSS BOT issued Resolution No. 2019-201-CO revoking Resolution No. 2009-072 dated April 16, 2009 pertaining to the Extension of the Concession Agreement of the Parent Company from May 7, 2022 to May 6, 2037.

On December 20, 2019, MWSS released a press statement clarifying Resolution No. 2019-201-CO and confirming that the action of MWSS BOT did not result in the rescission or outright cancellation of the Concession Agreement.
On January 29, 2020, MWC received a response letter from the MWSS RO confirming that the twenty-five (25)-year Concession Agreement from 1997 to 2022 and the Memorandum of Agreement and Confirmation between MWC and the MWSS providing for the fifteen (15)-year Extension from 2022 to 2037 have not yet been cancelled.

Rate Rebasing Tariff Adjustments
In March 2012, MWC submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The rate rebasing activity is done every five (5) years. MWSS conducted a review of the proposal including MWC's last five (5) years' financial performance. The financial review process extended up to the third quarter of 2013. On September 10, 2013, MWSS-RO issued Resolution No. 13-09-CA providing for a negative rate rebasing adjustment of 29.47% on MWC's 2012 average basic water rate of ₱24.57 per cubic meter shall be implemented in 5 equal tranches of negative 5.894% per charging year. MWC objected to the MWSS' Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process, as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).

On December 10, 2013, MWSS Board of Trustees, through MWSS-RO Resolution No. 13-012 CA, approved the implementation of a status quo for MWC's Standard Rates including FCDA until such time that the Appeals Panel has rendered a final award on the 2013 Rate Rebasing determination.

On April 21, 2015, MWC received the final award of the Appeals Panel in the arbitration which final award included the following tariff component determination:

a. ₱28.1 billion Opening Cash Position (OCP) which restored ₱11.0 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
b. ₱199.6 billion capital expenditures and concession fees which restores ₱29.5 billion from the September 2013 future capital and concession fee expenditure of ₱170.1 billion;
c. 7.61% Appropriate Discount Rate (ADR) which was an improvement of 79 bps from the post-tax ADR of 6.82% in September 2013; and
d. Exclusion of corporate income tax from cash flows beginning January 1, 2013.

Consequently, the final award resulted in a rate rebasing adjustment for the period 2013 to 2017 of negative 11.05% on the 2012 basic average water charge of ₱25.07 per cubic meter. This adjustment translates to a decrease of ₱2.77 per cubic meter from the tariff during the intervening years before the 2018 rate rebasing. Annual CPI adjustments and the quarterly FCDA will continue to be made consistent with the MWC Group's Concession Agreement with MWSS.

On September 27, 2018, the MWSS BOT (MWSS Resolution No. 2018-145-RO) approved the MWC Group's Rebasing Adjustment for the Fifth Rate Rebasing Period (2018 to 2022) as recommended by the MWSS-RO (MWSS-RO Resolution No. 2018-10-CA). To mitigate the impact on the tariff of its customers, MWC shall stagger its implementation over a five-year period. The first tranche took effect on October 16, 2018 amounting to ₱1.46 per cubic meter or 5.70% of the pre-rebased 2017 basic tariff. MWSS BOT also approved the implementation of the subsequent partial Rebasing Convergence Adjustment on a staggered basis as scheduled below:

- ₱2.00 on January 1, 2020
- ₱2.00 on January 1, 2021
- ₱0.76 on January 1, 2022

On December 13, 2018, MWSS BOT (MWSS Resolution No. 2018-190-RO) approved MWC's implementation of the 5.70% CPI Adjustment to be applied to the 2018 average basic charge of ₱26.98 per cubic meter and the 2.62% FCDA to be applied to the 2019 average basic charge. These adjustments are recommended by MWSS-RO (MWSS-RO Resolution No. 2018-12-CA) and took effect on January 1, 2019.

Effective January 1, 2022, subject to the validation of MWSS RO of the feasibility and cost of Wawa Bulk Water Source to Calawis Project as MWC's medium term water source, an additional partial Rebasing Convergence Adjustment of up to ₱0.28 per cubic meter on top of the basic partial Rebasing Convergence Adjustment" of ₱0.76 per cubic meter, as approved by MWSS BOT on September 27, 2018.

Arbitration under the United Nations Commission on International Trade Law (UNCITRAL) Rules (1976)
On April 23, 2015, the MWC served on the Republic of the Philippines (the "Republic"), through the Department of Finance, its Notice of Claim of even date demanding that the Republic indemnify MWC in accordance with the indemnity clauses in the Republic's Letter Undertaking dated July 31, 1997 and Letter Undertaking dated October 19, 2009.

On November 29, 2019, the MWC received from its legal counsel the Award (the "Award") rendered by the Arbitral Tribunal (the "Tribunal") in the arbitration proceedings between MWC and the Republic constituted under the Permanent Court of Arbitration, with proceedings held in Singapore.

The Tribunal ruled that MWC has a right to indemnification for actual losses suffered by it on account of the Republic's breach of its obligation. The Tribunal ordered the Republic to indemnify MWC the amount of ₱7.39 billion representing the actual losses it suffered from June 1, 2015 to November 22, 2019 and to pay 100% of the amounts paid by MWC to the Permanent Court of Arbitration and 85% of the MWC's other claimed costs.
On December 11, 2019, during the meeting of the Committee on Good Government and Public Accountability and the Committee on Public Accounts of the House of Representatives, the MWC's President and Chief Executive Officer made the following pronouncements in deference to President Rodrigo Roa Duterte:

a. The Parent Company will not collect the ₱7.39 billion Award rendered by the Tribunal in the arbitration proceedings between MWC and the Republic.
b. The MWC will defer implementation of the Approved Rate Adjustment effective January 1, 2020 and has signed its intention to establish a suitable arrangement with the MWSS.
c. The MWC has agreed to and started discussions with the MWSS on the provisions of the Concession Agreement identified for renegotiation and amendment.

As of December 31, 2019, MWC has yet to received a copy of the proposed revisions to the Concesion Agreement.

Foreign Currency Diferrential Adjustment (FCDA)
The MWSS Board of Trustees approves the FCDA adjustment quarterly. The FCDA has no impact on the net income of MWC, as the same is a recovery or refund mechanism of foreign exchange losses or gains. During 2017 and 2016, the following FCDA adjustments and their related foreign exchange basis took effect in 2016 to 2018.

Approval Date	Effective Date	FCDA	Foreign Exchange Rate Basis
March 10, 2016	April 1, 2016	₱0.26 per cubic meter	USD1: ₱47.51 / JPY1: ₱0.40
June 14, 2016	July 1, 2016	₱0.25 per cubic meter	USD1: ₱46.29 / JPY1: ₱0.42
April 5, 2017	April 22, 2017	₱0.69 per cubic meter	USD1: ₱49.74 / JPY1: ₱0.37
July 27, 2017	August 13, 2017	₱0.97 per cubic meter	USD1: ₱49.86 / JPY1: ₱0.45
September 14, 2017	October 1, 2017	₱1.21 per cubic meter	USD1: ₱50.64 / JPY1: ₱0.45
December 13, 2017	January 1, 2018	₱0.63 per cubic meter	USD1: ₱51.34 / JPY1: ₱0.45
March 13, 2018	April 1, 2018	₱0.59 per cubic meter	USD1: ₱50.51 / JPY1: ₱0.46
June 14, 2018	July 1, 2018	₱1.58 per cubic meter	USD1: ₱52.10 / JPY1: ₱0.48
September 14, 2018	October 1, 2018	₱1.56 per cubic meter	USD1: ₱53.43 / JPY1: ₱0.48
December 14, 2018	January 1, 2019	₱0.75 per cubic meter	USD1: ₱53.94 / JPY1: ₱0.48

There were no FCDA adjustments for the third and fourth quarters of 2016 and for the first quarter of 2017 due to the vacancies in the MWSS BOT resulting in a lack of quorum necessary for the approval of any MWSS-RO resolution, including the FCDA. Meanwhile, there were no FCDA adjustments for the third quarter of 2019 as the MWSS BOT did not approve the adjustments until the fourth quarter of 2019.

The significant commitments of MWC under the Concession Agreement and Extension are as follows:

a. To pay MWSS concession fees;

b. To post a performance bond, bank guarantee or other security acceptable to MWSS in favor of MWSS as a bond for the full and prompt performance of the MWC Group's obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

Rate Rebasing Period	Aggregate amount drawable under performance bond (in US$ millions)
First (August 1, 1997 - December 31, 2002)	US$70.00
Second (January 1, 2003 - December 31, 2007)	70.00
Third (January 1, 2008 - December 31, 2012)	60.00
Fourth (January 1, 2013 - December 31, 2017)	60.00
Fifth (January 1, 2018 - December 31, 2022)	50.00
(Forward)	
Sixth (January 1, 2023 - December 31, 2027)	50.00
Seventh (January 1, 2028 - December 31, 2032)	50.00
Eighth (January 1, 2033 - May 6, 2037)	50.00

Within 30 days from the commencement of each renewal date, MWC Company shall cause the performance bond to be reinstated in the full amount set forth above as applicable for that year. With a minimum of 10-day written notice to MWC, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS by MWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid;

c. With the Extension, MWC agreed to increase its annual share in MWSS operating budget by 100% from ₱100.0 million to ₱395.0 million, subject to annual CPI;

d. To meet certain specific commitments in respect of the provision of water and sewerage services in the East Zone, unless deferred by MWSS-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;

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

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

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

h. To ensure that no debt or liability that would mature after the life of the Agreement will be incurred unless with the approval of MWSS.

MWC is committed to perform its obligations under the Concession Agreement and Extension to safeguard its continued right to operate the Concession.

LAWC's Concession Agreement
On April 9, 2002, LAWC entered into a concession agreement (as amended on March 31, 2004, July 22, 2009, and June 30, 2015) with PGL, a local government unit organized and existing under Philippine Laws.

Under the terms of the concession agreement, the PGL grants LAWC (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services to specific areas for an operational period of 25 years which commenced on October 20, 2004.

While LAWC has the right to manage, occupy, operate, repair, maintain, decommission and refurbish specified PGL facilities, legal title to these assets remains with PGL. Legal title to all assets procured by LAWC in the performance of its obligations under the agreement remains with LAWC and shall not pass to PGL until the end of the concession period at which time, LAWC will transfer, or if the ownership is vested in another person, cause the transfer to PGL. LAWC has the exclusive rights to provide water services in the service areas specified in the concession agreement. Concession fees set forth in the concession agreement are computed as a percentage of revenue from water services.

Seventy percent (70%) of the concession fees are applied against any advances made by LAWC to PGL. The remaining thirty percent (30%) of the concession fees are payable annually 30 days after the submission of the audited financial statements by LAWC, from the start of the operational period.

On June 30, 2015, LAWC and the PGL signed an amendment to the concession agreement which expands the concession area to cover all cities and municipalities in the province of Laguna, as well as the service obligation to include the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

In connection with the amendment to the concession agreement, the Sangguniang Bayan of the municipality of Calauan, Laguna approved the resolution allowing LAWC to provide water and wastewater services to the municipality of Calauan. The provision of services by LAWC in the municipality of Calauan is being implemented in phases, with full coverage of the area targeted by the first quarter of 2020.

Furthermore, the concession period's commencement date was amended to mean the later of either: (i) three (3) years from the takeover date (i.e., October 20, 2004); or (ii) availment by at least 25,000 customers of the services (i.e., September 30, 2010). The concession period is deemed to have commenced on September 30, 2010 and shall end on September 30, 2035.

On August 23, 2017, the Sangguniang Bayan of Victoria, Laguna, has approved the inclusion of its municipality within the service area of Laguna Water.

On May 3, 2018, the concession agreement was amended to include the approval of Environmental Charge amounting to twenty percent (20%) of the water tariff for wastewater services, desludging services, and other environmental-related costs which was implemented on September 22, 2018.

Laguna Water implemented a tariff adjustment of 10% on December 1, 2018.

The significant commitments of LAWC under its concession agreement with PGL are as follows:

a. To pay PGL concession fees;
b. To manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;
c. To design, construct and commission the new facilities during the cooperation period;
d. To provide and manage the services;
e. To bill and collect payment from the customer for all services;
f. To extract raw water exclusively from all sources of raw water; and
g. To negotiate in good faith with PGL any amendment or supplement to the concession agreement to establish, operate and maintain wastewater facilities if doing such is financially and economically feasible.

Simultaneous to the signing of the amendment to the joint venture agreement between PGL and MWPVI on June 30, 2015, and consequent to the amendment of the joint venture agreement of LAWC, LAWC signed an amendment to its concession agreement with the PGL which includes the following:

a) Expansion of its concession area to cover all cities and municipalities in the PGL; and
b) Inclusion in the service obligations of LAWC the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

<u>BIWC's Concession Agreement</u>
On December 17, 2009, BIWC entered into a concession agreement with TIEZA, formerly Philippine Tourism Authority (PTA). The concession agreement sets forth the rights and obligations of BIWC as concessionaire throughout the 25-year concession period. The TIEZA Regulatory Office will monitor and review the performance of the concessionaire throughout the concession period.

Under the concession agreement, TIEZA grants BIWC the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the entire Boracay Island. The legal title to all fixed assets contributed to the existing TIEZA system by BIWC during the concession remains with BIWC until the expiration date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in TIEZA.

On January 1, 2010, BIWC officially took over the operations of the service area. Rehabilitation works for the service area commenced immediately thereafter. As provided in BIWC's project plans, operational commercial capacity will be attained upon completion of the rehabilitation works. Under its concession agreement, BIWC is entitled to the following rate adjustments:

a. Annual standard rate adjustment to compensate for increases in the consumer CPI;
b. EPA to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the concession agreement; and
c. FCDA to recover foreign exchange losses including accruals and carrying costs thereof arising from TIEZA loans and any loans used for capital expenditures and concession fee payments.

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence adjustment as defined in BIWC's concession agreement.

The rate rebasing date is set every 5 years starting January 1, 2011. Hence, the first rate rebasing period commenced on January 1, 2010 and ended on December 31, 2010 and, in the case of subsequent rate rebasing periods, the period commencing on the last rate rebasing date and ending on December 31 of the fifth year thereafter.

In January 2016, BIWC implemented an increase of 8.18% comprising of rate rebasing adjustment of 6.97% and CPI of 1.21%. The downward FCDA adjustment of 14.34% was continuously implemented throughout the year.

On June 7, 2017, TIEZA approved the new water rates of BIWC which is equivalent to an increase of 57.83% from its existing rate to be implemented on a staggered basis for a period of three (3) years with an increase of 30.14%, 11.99% and 10.79% in 2017, 2018 and 2019, respectively. The first tranche of tariff increase was implemented on July 1, 2017.
On December 15, 2017, TIEZA approved Boracay Water's implementation of the second tranche of tariff increase of 15.53% effective January 1, 2018.

On August 1, 2018, TIEZA-RO approved the suspension of the 14.34% downward adjustment, which resulted to the implementation of 0.00% FCDA effective August 17, 2018.

On December 4, 2018, TIEZA approved Boracay Water's implementation of the third tranche of tariff increase equivalent to 18.08% of the basic water and sewer charge, inclusive of CPI, arising from its 2017 rate rebasing. Furthermore, a 3.00% increase shall be applied to the basic water and sewer charge to account for FCDA. The new rates shall take effect on January 1, 2019.

BIWC's concession agreement also provides a general rate setting policy for rates chargeable by BIWC for water and sewerage services as follows:

a. For the period through the second rate rebasing date (January 1, 2016), the maximum rates chargeable by BIWC (subject to interim adjustments) are set out in the Agreement; and

b. From and after the second rate rebasing date, the rates for water and sewerage services shall be set at a level that will permit BIWC to recover, over the 25-year term of its concession, its investment including operating expenses, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on the TIEZA loans incurred to finance such expenditures, and to earn a rate of return on these expenditures for the remaining term of the concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second rate rebasing date, provided that the TIEZA may exercise its discretion to make a general adjustment of such rates.

Also part of the concession agreement, BIWC assumed certain property and equipment of BIWC Sewerage System (BWSS), as well as its outstanding loan from Japan International Cooperation Agency (JICA), considered as part of its TIEZA loans under the concession agreement, and regulatory costs.

As a result of the above terms of the concession agreement, BIWC recognized a total of ₱986.9 million service concession assets on commencement date. It includes the JICA loan assumed by BIWC, regulatory costs, construction costs for the improvement and expansion of the water and wastewater facilities and the advanced concession fees.

The significant commitments of BIWC under its concession agreement with TIEZA are as follows:

a. To meet certain specific commitments in respect of the provision of water and sewerage services in the service area, unless deferred by the TIEZA Regulatory Office (TIEZA-RO) due to unforeseen circumstances or modified as a result of rate rebasing exercise;

b. To pay concession fees, subject to the following provisions:

   i. Assumption of all liabilities of the BWSS as of commencement date and service such liabilities as they fall due. BWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Boracay Island prior to commencement date. The servicing of such liabilities shall be applied to the concession fees;

   ii. Payment of an amount equivalent to 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes. Such payments shall be subject to adjustment based on the gross revenue of BIWC as reflected in its separate financial statements;

   iii. Provision of the amount of the TIEZA BOD's approved budget in 2012, payable semi-annually and not exceeding:

Month	Maximum Amount
January	₱10,000,000
July	10,000,000

   iv. Provision of the annual operating budget of the TIEZA-RO, payable in 2 equal tranches in January and July and not exceeding:

Year	Maximum Amount
2011	₱15,000,000
2012	20,000,000
2013 and beyond	Previous year, subject to annual CPI adjustment

c. To establish, at Boracay Island, a TIEZA-RO building with staff house, the cost of which should be reasonable and prudent;

d. To pay an incentive fee pegged at ₱1.00 per tourist, local and foreign, entering the service area;

e. To raise financing for the improvement and expansion of the BWSS water and wastewater facilities;

f. To operate, maintain, repair, improve, renew and, as appropriate, decommission facilities, as well as to operate and maintain the drainage system upon its completion, in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the service area is capable of meeting the service obligations (as such obligations may be revised from time to time by the TIEZA-RO following consultation with BIWC);

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

h. To ensure that at all times, BIWC has sufficient financial, material and personnel resources available to meet its obligations under the concession agreement.

In addition, MWC, as the main proponent of BIWC shall post a bank security in the amount of US$2.50 million to secure MWC's and BIWC's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by MWC following the schedule below:

Rate Rebasing Period	Amount of Performance Security (in US$ millions)
First	US$2.50
Second	2.50
Third	1.10
Fourth	1.10
Fifth	1.10

On or before the start of each year, BIWC shall cause the performance security to be reinstated in the full amount set forth as applicable for that year.

With a minimum of ten (10) days written notice period to BIWC, TIEZA may take one or more drawings under the performance security relating to a Rate Rebasing Period to cover amounts due to TIEZA during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Arbitration Panel for adjudication until the Arbitration Panel has handed its decision on the matter.
In the event that any amount payable to TIEZA by BIWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid.

Failure of BIWC to perform any of its obligations that is deemed material by TIEZA-RO may cause the concession agreement to be terminated.

CWC's Concession Agreement
On March 16, 2000, Vivendi Water Philippines, Inc., which subsequently changed its name to Veolia Water Philippines, Inc (VWPI), entered into a concession agreement with CDC, a government corporation organized and existing under Executive Order No. 80, series of 1993. The concession agreement sets out the terms and conditions under which VWPI will finance, design, construct, operate and maintain the water and sewerage system inside the Clark Freeport Zone (CFZ) commencing on October 1, 2000 and ending on the date falling 25 years thereafter or as may be extended by the terms of the concession agreement. As the implementing arm of the Bases Conversion Development Authority and the regulatory and development body for the CFZ, CDC has the power and authority to regulate and monitor the performance and compliance of VWPI, or its assignee, with its obligations under the concession agreement.

On September 1, 2000, in accordance with the terms of the concession agreement, VWPI assigned its rights and obligations under the concession agreement to CWC by virtue of an assignment and assumption agreement between VWPI and CWC. As consideration for the grant of the concession and franchise to develop, operate and maintain the water and sewerage system within the CFZ, CWC pays CDC an annual franchise fee of ₱1.50 million. Any new construction, change, alteration, addition or improvement on the facilities is permitted to the extent allowed under the agreement with CDC or with the prior written consent of CDC. Legal title, free of all liens and encumbrances, to improvements made or introduced by CWC on the facilities as well as title to new facilities procured by CWC in the performance of its obligations under the concession agreement shall automatically

pass to CDC on the date when the concession period expires or the date of receipt of a validly served termination notice, in the latter case, subject to payment of the amount due as termination payments as defined in the concession agreement.

On September 29, 2000, CDC leased in favor of CWC the existing facilities in compliance with the condition precedent to the effectivity of and the respective obligations of CWC and CDC under the concession agreement. Under the lease agreement, CWC was required to make a rental deposit amounting to ₱2.8 million equivalent to six months lease rental and a performance security amounting to ₱6.7 million to ensure the faithful compliance of CWC with the terms and conditions of the lease agreement. CWC pays semi-annual rental fees of ₱2.8 million amounting to a total of ₱138.3 million for the entire concession period. The lease term shall be co-terminus with the concession period unless sooner terminated for any of the reasons specified in the concession agreement.

On August 15, 2014, the CWC and CDC signed an amendment agreement to the concession agreement dated March 16, 2000. The Amendment provides for the following:

a. Extension of the original concession period for another 15 years up to October 1, 2040;

b. Additional investment of ₱4.0 billion provided under the amended concession agreement to be spent for further improvement and expansion water and waste water services in the area. Investment requirement under the original concession agreement amounted to ₱3.0 billion and the amended concession agreement required an additional investment of ₱2.0 billion. Total investment prior to the amendment of the concession agreement amounted to ₱1.0 billion;

c. Introduction of rate rebasing mechanism for every four years starting 2014;

d. Reduction in tariff rates by 3.9% (from ₱25.63/m^3 to ₱24.63/m^3) effective September 1, 2014, subject to the Extraordinary Price Adjustment; and

e. Increase in tariff rates by:
   - ₱0.41/m3 (from ₱24.63/m^3 to ₱25.04/m^3) in 2018
   - ₱0.42/m3 (from ₱25.04/m^3 to ₱25.45/m^3) in 2019
   - ₱0.42/m3 (from ₱25.45/m^3 to ₱25.87/m^3) in 2020
   - ₱0.43/m3 (from ₱25.87/m^3 to ₱26.30/ m^3) in 2021

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.6 million. Further, the recovery period of the CWC's investment is now extended by another 15 years from 2025 to 2040.

On May 26, 2017, CWC submitted its proposed 2018 rate rebasing plan following the four (4)-year rebasing period stated in the concession agreement. As of December 31, 2019, the rate rebasing is still ongoing.

The significant commitments of CWC under its concession agreement with CDC are follows:

a. To pay franchise and rental fees of CDC;

b. Finance, design, and construct new facilities - defined as any improvement and extension works to (i) all existing facilities - defined as all fixed and movable assets specifically listed in the concession agreement; (ii) construction work - defined as the scope of construction work set out in the concession agreement; and (iii) other new works that do not constitute refurbishment or repair of existing facilities undertaken after commencement date;

c. Manage, exclusively possess, occupy, operate, repair, maintain, decommission and refurbish the existing facilities, except for the private deep wells set out in the concession agreement, the negotiations for the acquisition and control of which shall be the sole responsibility and for the account of the CWC; and manage, own, operate, repair, maintain, decommission and refurbish the new facilities;

d. Treat raw water and wastewater in CSEZ;

e. Provide and manage all water and wastewater related services like assisting locator of relocating of pipes and assess internal leaks;

f. Bill and collect payment from the customers for the services (with the exception of SM City Clark). SM City Clark has been carved out by virtue of Republic Act 9400 effective 2007 even if it is located within the franchise area; and

g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in CFZ free of charge by CDC.

MW Consortium Agreement with PGC
On March 21, 2012, MW Consortium signed a joint investment agreement with the PGC for the formation of a joint venture company with 51% and 49% equity participation for MW Consortium and the PGC, respectively. Under the joint investment agreement, the parties agreed to develop and operate a bulk water supply system that will supply 35.0 million liters of water per day to target areas in the province of Cebu with the joint venture company serving as a bulk water supplier. The term of the agreement is 30 years starting March 2012 and renewable for another 25 years. MW Consortium and the PGC incorporated Cebu Manila Water Development, Inc. (CMWDI), with an ownership of 51% and 49%, respectively, pursuant to the joint investment agreement.

On December 13, 2013, CMWDI received a Notice of Award for the bulk supply of water to the MCWD. On December 18, 2013, CMWDI and MCWD signed a 20-year Bulk Water Supply Contract for the supply of 18.0 million liters per day of water for the first year and 35.00 million liters per day of water for years 2 up to 20. CMWDI delivered its initial 18.0 million liters per day bulk water supply to MCWD on January 5, 2015. CMWDI will increase its bulk water delivery to 35.0 million liters per day in 2016.

On August 29, 2019, MW Consortium received a Notice of Breach/Default of the JIA from the PGC. On December 10, 2019, PGC issued a Notice of Termination of the JIA. Pursuant to the JIA, MW Consortium issued a Notice of Existence of a Dispute on PGC on December 12, 2019, which triggered the dispute resolution mechanism under the JIA, and prevented the termination from taking effect.

On February 3, 2020, MW Consortium and the PGC signed the Terms of Reference for the interim protocol between both parties pending Settlement with Finality of the Dispute between MW Consortium and PGC.

Bulk Water Supply Agreement with MCWD
On December 18, 2013, CMWD entered into a bulk water supply agreement with MCWD. The significant commitments of CMWD under its agreement with MCWD are as follows:

a. Provide potable and treated water at an aggregate volume of 18,000 cubic meters per day for the first year and 35,000 cubic meters per day for the succeeding years up to 20 years at ₱24.59 per cubic meter;
b. Ensure that the source shall be sustainable and 100% reliable at any day the duration of the agreement; and
c. Construct a facility capable of delivering a production capacity of 35,000 cubic meters per day and maintain the same on its account.

ZWC's Concession Arrangement
On December 19, 2014, the MWC Group received a notice from the ZCWD awarding the project for NRW reduction in Zamboanga City, Zamboanga. On January 30, 2015, the MWC Group and ZCWD signed and executed a JVA in relation to the NRW reduction project in Zamboanga City. On April 10, 2015, the MWC Group and ZCWD incorporated ZWC to implement the NRW project.

On June 2, 2015, ZWC entered into a NRWSA with ZCWD. Under the NRWSA, ZCWD grants ZWC the right to implement Network Restructuring and NRW Reduction Programs for ZCWD's water distribution system.

In October 2019, Zamboanga Water and ZCWD jointly formed a Technical Working Group to negotiate and resolve all the pending issues or disputes arising during the implementation of the NRW Reduction Project.

The NRWSA sets forth the rights and obligations of the ZWC throughout the ten (10)-year period. The significant provisions under the agreement with ZCWD consist of:

a. ZWC is required to implement Network Restructuring and NRW Reduction Programs for ZCWD's water distribution system; and

b. ZWC has the right to restructure and maintain the facilities in the ZCWD service area but legal title to these assets remains with ZCWD. The legal title to all fixed assets contributed to the existing ZCWD system by ZWC during the project tenure remains with ZWC until the expiration date (or an early termination date) at which time all rights, titles and interest in such assets will automatically vest in ZCWD.

Bulk Water Supply Agreements between Davao Water and Tagum Water District (TWD)
On July 28, 2015, the TWD awarded the Tagum City Bulk Water Supply Project to Davao del Norte Water Infrastructure Company, Inc. (Davao Water), the joint venture company of MWC and iWater, Inc.

On October 15, 2015, Davao Water has signed and executed a Joint Venture Agreement (JVA) with TWD. The JVA governs the relationship of Davao Water and TWD as joint venture partners in the Tagum Bulk Water Project. Pursuant to the JVA, Davao Water and the TWD caused the incorporation of a joint venture company, namely, TWC, which shall implement the Tagum Bulk Water Project for fifteen (15) years from the Operations Start Date as defined in the JVA.

On February 26, 2016, Tagum Water and TWD signed and executed a Bulk Water Sales and Purchase Agreement for the supply of bulk water to TWD for a period of fifteen (15) years, subject to renewal upon mutual agreement by both parties. Tagum Water shall supply treated water exclusively to TWD. The quantity of treated water to be supplied to TWD will be 26.00 million liters of water per day for the first year, 32.00 million liters of water per day for years 4 to 6, and 38.00 million liters of water per day for years 7 to 15.

On June 26, 2019, TWD approved a 120-day construction period extension requested by Tagum Water due to delays caused by unforeseen conditions in the project site which was discovered only after construction had already commence.

On July 17, 2019, Tagum Water issued to TWD the Certificate of Substantial Completion of the Water Treatment plant to begin the pre-commissioning period. On August 27, 2019, Tagum Water started the commissioning period with 5.00 to 8.00 million liters per day of treated water delivery to TWD.

On September 9, 2019, Tagum Water BOD ratified the implementation of the design, supply of materials, installation of equipment and construction of two (2) units 300mm shallow wells in Tagum City, Davao del Norte. On October 28, 2019, Tagum Water informed TWD of the completion of the two (2) wells and the results of the water quality analysis.

On December 11, 2019, Tagum Water commenced the extension of the commissioning period for 120-days with the consent of TWD BOD.

TWC will have the sole and exclusive right and responsibility during the term of the agreement to:

a. Develop raw surface water sources in Hijo River;
b. Plan, develop, design, build and test the facilities;
c. Implement the Project;
d. Manage, use, occupy, operate, repair, maintain, upgrade and develop the facilities; and
e. Supply treated water to TWD for distribution to its network.

Facilities and any and all assets, equipment and properties used by TWC to implement the bulk water project will be owned by TWC even after the expiration of the BWSPA.

MWPVI's Memorandum of Agreement (MOA) with ALI Group
On January 15, 2016, MWPVI entered into a MOA with ALI Group, whereby MWPVI shall exclusively provide water and used water services and facilities to all property development projects of the ALI Group.

MWPVI Memorandum of Agreement (MOA) with SM Group
On December 8, 2016, MWPVI entered into a similar MOA with each of SM Prime Holdings Inc.'s and the latter's affiliates and subsidiaries, SM Development Corporation and SM Residences Corp. (collectively, the SM Group). Pursuant to the MOA, MWPVI will provide the water and/or used water services and facilities to the property development projects of the SM Group identified in each of the MOA.

On October 5, 2017, Aqua Centro was incorporated to handle property development projects, other than those within the ALI Group, by engaging in the development, improvement, maintenance, and expansion of water, sewerage, wastewater, and drainage facilities, and provide services necessary or incidental thereto.

On December 28, 2017, MWPVI entered into a Novation Agreement with the SM Group and Aqua Centro to transfer its rights, duties and obligations to provide water and/or used water services and facilities to the property development projects of the SM Group to Aqua Centro, effective from the inception of the MOA.

As of December 31, 2019 and 2018, Aqua Centro has eight (8) and six (6) signed MOAs with the SM Group, respectively. MWPVI has one (1) signed MOA with SM Group as of December 31, 2019 and 2018.

Calasiao Water's Concession Agreement with CWD
On December 9, 2016, MWC received a Notice of Award from the CWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system of the CWD in Calasiao, Pangasinan.
On June 19, 2017, MWC signed a JVA with CWD which will govern the relationship of the two in undertaking the joint venture project. Under the JVA, MWC and CWD shall cause the incorporation of a joint venture company where MWC and CWD shall own 90.00% and 10.00%, respectively, of the outstanding capital stock.

On August 2, 2017, the SEC approved the incorporation of Calasiao Water Company, Inc.

On October 23, 2017, Calasiao Water and CWD signed and executed a concession agreement. Under the concession agreement, the CWD grants Calasiao Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564) the sole right to develop, manage, operate, maintain, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery in the entire Municipality of Calasiao for a period of twenty five (25) years commencing on December 29,

2017 (the Commencement Date) until December 29, 2042 (the Expiration Date) or the early termination date as the case may be. While Calasiao Water has the right to manage, operate, repair, and refurbish specified CWD facilities in the service area, legal title to these assets remains with the CWD. The legal title to all fixed assets contributed to the existing CWD system by Calasiao Water during the concession remains with Calasiao Water until the Expiration Date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in CWD.

Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by the CWD.

The ground for EPA means any of the following circumstances:

a. change in law or change in the interpretation of the terms of the concession agreement;
b. extraordinary cost incurred due to prolonged force majeure;
c. a material change has been made to the basis of calculation or definition of the CPI or replacement index agreed; or
d. the concessionaire has incurred significant additional costs as a result of an event of force majeure which are not covered by insurance.

The significant commitments of Calasiao Water under its concession agreement with CWD are as follows:

a. To finance, design, engineer, and construct new facilities for water and sanitation;
b. To upgrade existing water and sanitation facilities;
c. To operate, manage, and maintain water and sanitation facilities and services; and
d. To bill and collect tariff for water and sanitation services.

MWPVI APA with Asian Land and Incorporation of Bulacan MWPV Development Corp. (BMDC)
On January 4, 2017, MWPVI entered into an APA with Asian Land to acquire and operate the latter's assets used in the water business operations in Asian Land's developments in the province of Bulacan. The intention of MWPVI was to assign the rights under the APA to its wholly owned subsidiary upon its incorporation.
On April 11, 2017, BMDC was incorporated to design, construct, rehabilitate, maintain, operate, finance, expand, and manage water supply system and sanitation facilities. BMDC is the ultimate entity that will own and operate the assets acquired from Asian Land.

On July 31, 2017, MWPVI assigned all its rights and obligations on the APA to BMDC, a wholly-owned subsidiary of MWPVI, under a Deed of Assignment. On the same day, the Deed of Absolute Sale was also executed between Asian Land and BMDC.

Obando Water's Concession Agreement with the OWD
On January 24, 2017, the consortium of MWC and MWPVI received the Notice of Award from the OWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of the OWD in Obando, Bulacan.

On February 2, 2017, Obando Water Consortium_Holdings Corp. was registered with the SEC. Obando Water Holdings is the consortium between MWC and MWPVI with an equity share of 49.00% and 51.00%, respectively. The primary purpose of Obando Water Holdings is to engage in the business of a holding company without acting as stockbroker or dealer in securities.

On July 26, 2017, Filipinas Water signed and executed a JVA with OWD. The JVA governs the relationship of Filipinas Water and OWD as joint venture partners in the Obando Water Concession Project (the "Obando Concession Project"). On October 10, 2017, Obando Water was incorporated. Obando Water is 90% and 10% owned by Filipinas Water and OWD, respectively.

For the implementation of the Obando Concession Project, OWD and the joint venture company shall execute a concession agreement. On October 10, 2017, the SEC approved the incorporation Obando Water Company, Inc.

On October 12, 2017, Obando Water and OWD signed and executed a concession agreement without the necessity for another bidding and subject to mutual agreement by Obando Water and the OWD. Under the concession agreement, OWD grants Obando Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564), the sole right to manage, operate, maintain, repair, refurbish, and expand the fixed and movable assets required to provide water and sanitation services in the entire Municipality of Obando for a period of twenty five (25) years commencing on January 1, 2018 (the Commencement Date) until January 1, 2043 (the Expiration Date) or the early termination date, as the case may be.

The initial water tariff, exclusive of value-added tax (VAT) and/or any applicable tax, to be charged to the customers for the first three (3) years of the concession agreeement shall be based on the 2005 Local Water Utilities Administration (LWUA) approved tariff table of OWD. Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by OWD.

The grounds for EPA means any of the following circumstances:

a. change in law or change in the interpretation of the terms of the concession agreement;
b. extraordinary cost incurred due to prolonged force majeure;
c. a material change has been made to the basis of calculation or definition of the CPI or replacement index agreed;
d. change in assumptions at the time of the execution of the concession agreement; or
e. the concessionaire has incurred significant additional costs as a result of an event of force majeure which are not covered by insurance.

On March 28, 2019, LWUA has approved a new loan repayment scheme of thirteen (13) years with OWD. Upon initial payment, which shall not be later than May 15, 2019, LWUA shall no longer collect interests and penalties from OWD.

The significant commitments of Obando Water under its concession agreement with OWD are as follows:

a. To finance, design, engineer, and construct new facilities for water and sanitation;
b. To upgrade existing water and sanitation facilities;
c. To operate, manage, and maintain water and sanitation facilities and services; and
d. To bill and collect tariff for water and sanitation services.

BMDC APA with Solar Resources
On July 26, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar Resources developments in the province of Bulacan.

On July 31, 2017, Solar Resources executed a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC.

BMDC APA with Borland
On December 14, 2017, BMDC and Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale between the parties for the sale, assignment, transfer, and conveyance of Borland's assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan to BMDC.

Notice of Award from the Leyte Metropolitan Water District (LMWD)
On December 6, 2017, MWC received the Notice of Award from the LMWD for the implementation of the joint venture project (the "Leyte Project") for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of LMWD in the Province of Leyte.

The conditions precedent specified in the Notice of Award include the incorporation of a special purpose vehile (SPV) which will implement the Leyte Project under a contractual joint venture with the LMWD.

Upon completion of the conditions precedent specified in the Notice of Award, the SPV and the LMWD shall enter into a joint venture agreement that will grant the SPV, as contractor to perform certain functions and as agent for the exercise of, the sole and exclusive right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities of LMWD in its Service Area, including the right to bill and collect tariff for the provision of water supply and sanitation services in the Service Area of LMWD.

LMWD's service area covers the City of Tacloban and seven other municipalities namely Palo, Tanauan, Dagami, Tolosa, Pastrana, TabonTabon, and Santa Fe.

On February 20, 2019, the Parent Company wrote to the LMWD, now represented by the City-Appointed BOD, and requested the LMWD to honor the Notice of Award.

On April 12, 2019, the LMWD advised that it had already rescinded/terminated the JVA negotiations with the Parent Company.

In June 21 2019, the Parent Company initiated available legal course of action to compel the LMWD to honor the Notice of Award granted to the Parent Company.

As of December 31, 2019, the case remains pending with the Supreme Court.
MWPVI JVA with Tubig Pilipinas Group, Inc. (TPGI)
On December 11, 2017, the Municipality of Malasiqui granted a franchise to MWPVI and TPGI for the implementation of a joint venture project to establish, construct, operate, manage, repair, and maintain water supply and wastewater system and facilities in the municipality of Malasiqui, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On February 20, 2018, the BOD of MWPVI approved the creation of a SPV for this project.

On November 16, 2018, MWPVI has signed and executed a JVA with TPGI. Under the agreement, MWPVI and TPGI shall incorporate a joint venture company, with 50% and 50% ownership, respectively, which shall implement the project.

MWPVI Lease Agreement with the Philippine Economic Zone Authority (PEZA)
On December 18, 2017, MWPVI entered into a Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ), whereby MWPVI agrees to lease, operate, and maintain the existing water and used water facilities in the CEZ for the provision of water and used water services to the locators therein. The lease agreement has a term of twenty-five (25) years from signing of the contract and shall be effective on its commencement date on February 1, 2018.

MWPVI's MOA with LTI
On April 16, 2016, the MWPVI entered into a MOA with LTI, whereby through its division, Estate Water, MWPVI shall exclusively provide water and used water services to LTI's Cavite Technopark to be located in Barangay Sabang, Naic, Cavite, and in pursuit of this objective, to construct, develop, finance, and own the water facilities and used water facilities under the terms and conditions set out in the MOA.

For and in consideration of the construction and development of the water facilities and used water facilities and the rendition of the services by MWPVI, LTI shall pay a capacity charge. Capacity charge, included under “Supervision fees,” amounted to ₱4.99 million and ₱5.12 million in 2019 and 2018, respectively

Asset Purchase Agreement with LTI
On December 23, 2013, LAWC entered into an asset purchase agreement with LTI to acquire and operate its water operations division in Laguna. The significant commitments of LAWC under its agreement with LTI follow:

a. Offer water supply and sewerage services to all current or future locators in the Laguna Technopark, including future area(s) of expansion;

b. Ensure the availability of an uninterrupted 24-hour supply of water to all current and future locators, subject to interruptions resulting from the temporary failure of items of the Water Facilities (where LAWC acts promptly to remedy such failure) or required for the repair of the construction of the Water Facilities where such repairs or construction cannot be performed without interruption to the supply of water;

c. Upon request from a current or future locator in the LTI for a connection to a water main, make such a connection as soon as reasonably practicable, upon payment of reasonable connection fees as determined by LAWC;

d. Ensure at all times that the water supplied to current and future locators in LTI complies with Philippine National Standards for Drinking Water as published by the Department of Health (or successor entity responsible for such standards) and prevailing at such time and shall observe any requirement regarding sampling, record keeping or reporting as may be specified by law;

e. Make available an adequate supply of water for firefighting and other public purposes as the municipality and/or barangay in which LTI may reasonably request. LAWC shall not assess for such water used for firefighting purposes but may charge for all other water used for public purposes; and

f. LAWC shall make a supply of water available to current and future locators in LTI, including the areas of expansion in the future.

Notice of Award from Ilagan City Water District (ICWD) and JVA with ICWD
On January 26, 2018, the MWC Group and MWPVI (collectively the "Consortium") received the Notice of Award from ICWD for the implementation of the joint venture project for the development, financing, operation and management of a raw water source, provision of bulk water supply with system expansion, and the development of septage management in Ilagan City, Isabela (the “Ilagan Project”).

On November 16, 2018, the Consortium signed and executed a JVA with the ICWD. Under the JVA, the Consortium and ICWD shall incorporate a joint venture company, with 90.00% and 10.00% ownership, respectively, which shall implement the Ilagan Project.

Upon completion of conditions precedent set out in the JVA, the joint venture company will consequently enter into a Bulk Water Sales and Purchase Agreement and Septage Management Agreement with ICWD for the implementation of the Ilagan Project for twenty five (25) years from the commencement date.

On February 15, 2019, Ilagan Water was incorporated and registered with the Philippine SEC to implement the Ilagan Project.

On March 18, 2019, Ilagan Water’s BOD approved the execution of a Bulk Water Sales and Purchase Agreement and Septage Management Agreement with CIWD.

Notice of Award from Balagtas Water District (BWD)
On April 25, 2018, the MWC Group and MWPVI (collectively the "Consortium") received the Notice of Award from BWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of BWD in the municipality of Balagtas, Bulacan.

Notice of Award from Bulacan Water District (BuWD) and JVA with BuWD
On April 26, 2018, the MWC Group and MWPVI (collectively the "Consortium") received the Notice of Award from BuWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of the BuWD in the Municipality of Bulacan in Bulacan.

On August 16, 2018, Filipinas Water signed and executed a JVA with the BuWD for the implementation of the project. Under the JVA, Filipinas Water and BuWD shall incorporate a joint venture company, with 90.00% and 10.00% ownership, respectively, which shall be granted a concession by BuWD. On October 16, 2018, the joint venture company, Bulakan Water, was incorporated and was registered with the SEC.

On June 14, 2019, Bulakan Water and the BuWD signed and executed a concession agreement for the design, construction, rehabilitation, operation, maintenance, financing, expansion, and management of water facilities and the provision of water and sanitation services in the Municipality of Bulakan for a period of twenty-five (25) years from the commencement date.

Notice of Award from Pagsanjan Water District (PAGWAD)
On July 12, 2018, Laguna Water received the Notice of Award from PAGWAD for the implementation of the contractual joint venture project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of the PAGWAD, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in the PAGWAD’s service area.

On January 21, 2019, Laguna Water signed and executed a contractual JVA with PAGWAD. Under the agreement, Laguna Water shall serve as the contractor or agent of PAGWAD tasked with the operations, management, and maintenance as well as the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities within the service area of PAGWAD in Pagsanjan, Laguna. Upon completion of conditions precedents in the JVA, Laguna Water and PAGWAD shall execute the project for a period of sixteen (16) years until September 30, 2035. The agreement was executed on March 1, 2019.

Incorporation of EcoWater
On July 27, 2018, MWPVI incorporated EcoWater MWPV Corp. which will eventually handle the Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ).

Notice of Award from Tanauan Water District
On October 12, 2018, MWC and MWPVI (collectively, the “Consortium”) received the Notice of Award from TnWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services in the service area of TnWD in Tanauan City, Batangas.

On February 4, 2019, the Consortium signed and executed a JVA with the TnWD for the implementation of the project. Upon completion of the conditions precedent set out in the JVA, the Consortium, through an SPV, and the TnWD shall execute the Tanauan Project for a period of twenty-five (25) years from the commencement date.

On May 20, 2019, MWPV South Luzon Water Corp. (South Luzon Water), the joint venture company, was incorporated to execute the Tanauan Project.

On September 30, 2019, South Luzon Water's BOD approved to accept the assignment by MWC and MWPVI of their respective rights and obligations under their JVA with the TnWD.

<u>Notice of Award from Lambunao Water District</u>
On November 27, 2018, the MWC Group received a Notice of Award from Lambunao Water District for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of Lambunao Water District in the Municipality of Lambunao, Iloilo.

Upon completion of conditions precedent specified in the notice, MWC and LWD shall enter into a JVA, the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

On July 3, 2019, the MWC and LWD entered into a JVA to implement the design, improvement, upgrade, rehabilitation, and expansion of water supply including the financing and construction of such facilities and infrastructure in the service area of LWD, and the management, operation and maintenance of such water supply and the provision of the services necessary or incidental thereto in the service area.

On August 8, 2019, MWC's BOD ratified its Executive Committee's approval of the assignment to Aqua Centro of the implementation of the concession project awarded by LWD to MWC.

On August 30, 2019, MWC formally notified LWD of the designation of Aqua Centro as the Project Company to implement and carry out the concession project.

On September 1, 2019, Aqua Centro officially commenced operations on the joint venture activity. On the same date, Aqua Centro's BOD approved the Deed of Accession between MWC and LWD.

On September 18, 2019, LWD gave its consent to, and confirmation of, the designation of Aqua Centro as the project company for the implementation of the project pursuant to the JVA.

On December 11, 2019, LWD signed the Deed of Accession between MWC and Aqua Centro.

<u>Notice of Award from Calinog Water District</u>
On November 27, 2018, the MWC Group received a Notice of Award from Calinog Water District for a joint venture for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system of Calinog Water District in the Municipality of Calinog, Iloilo.

Upon completion of conditions precedent specified in the notice, the MWC Group and Calinog Water District shall enter into a JVA, the implementation of the joint venture activity of which shall be undertaken by Aqua Centro.

On June 10, 2019, the Executive Committee of the MWC approved the joint venture with the Calinog Water District. It also approved the assignment to Aqua Centro of the joint venture with Calinog Water District.

<u>Aqua Centro and Laguna Water APAs with Extraordinary Development Corporate Group (EDCG)</u>
On December 11, 2018, Aqua Centro entered into seven (7) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to the provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic in the province of Cavite. These subsidiaries are Earth Aspire Corporation, First Advance Development Corporation, Ambition Land Inc., Prosperity Builders Resources Inc., Tahanang Yaman Homes Corporation, Extraordinary Development Corp., and Earth + Style Corporation.

On December 11, 2018, Laguna Water entered into four (4) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to or used in its water service provision operations in Biñan, Laguna. The APAs are with the following EDCG subsidiaries, namely, Earth Aspire Corporation, Earth Prosper Corporation, Earth and Style Corporation and Extraordinary Development Corp.

As of December 31, 2019 and 2018, Aqua Centro has already started operations in nine (9) and six (6) out of the ten (10) subdivisions. As of December 31, 2019, Aqua Centro shall operate the one (1) remaining subdivision once all the conditions precedent under the APAs have been fulfilled.

Notice of Award from San Jose City Water District
On December 21, 2018, the consortium of MWPVI and TPGI received a Notice of Award from San Jose City Water District (SJCWD) for the implementation of the joint venture project for the design, construction, improvement, upgrade, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and the provision of water and sanitation services of SJCWD in San Jose City, Nueva Ecija.

Upon the completion of the conditions precedent specified in the Notice of Award, the consortium and SJCWD shall enter into a JVA for the implementation of the joint venture project. As of December 31, 2019, the consortium and SJCWD have not yet signed the JVA.

Notice of Award from Calbayog City Water District
On December 27, 2018, the MWC Group received the Notice of Award from Calbayog City Water District for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water and wastewater systems of Calbayog City Water District in the Calbayog City, as well as other areas which may eventually form part of the service coverage of the Calbayog City Water District in the Province of Samar.

Upon completion of the conditions precedent specified in the notice, the MWC Group shall enter into a JVA with the Calbayog City Water District for the implementation of the joint venture project over a twenty five (25) year contract period.

On April 17, 2019, Calbayog Water was incorporated to engage in the development, construction, improvement, upgrade, rehabilitation, expansion, management, operation and maintenance of water supply and wastewater facilities, and to provide services necessary or incidental thereto.

On June 10, 2019, the Executive Committee MWC approved the joint venture with the CCWD. It also approved the assignment to Calbayog Water of the joint venture with CCWD.

On July 3, 2019, the MWC signed and executed a joint venture agreement with the CCWD for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water and wastewater system of CCWD in the City of Calbayog.

North Luzon Water's MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag in Pangasinan
On April 27, 2018, MWPVI was granted a franchise by the Municipality of Sta. Barbara, Pangasinan for the provision of water supply and the improvement, operation, maintenance, management, financing, and expansion of water supply facilities, and the provision of septage management in Sta. Barbara, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On June 11, 2018, MWPVI received a Notice to Proceed from the Municipality of Sta. Barbara for the implementation of the project.

On August 13, 2018, MWPVI was granted a franchise by the Municipality of San Fabian, Pangasinan to establish, construct, operate, manage, repair, and maintain a water supply system and facilities, and the provision of septage management in the municipality of San Fabian, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On December 3, 2018, MWPVI was granted a franchise by the Municipality of Manaoag, Pangasinan to establish, construct, operate, manage, repair, and maintain a water supply system and facilities, and the provision of septage management in the municipality of Manaoag, Pangasinan. The franchise has a term of twenty-five (25) years from the commencement date.

On January 25, 2019, MWPVI received a notice to proceed for the implementation of the said project.

In 2019, MWPVI signed each of the MOAs with the Municipalities of Sta. Barbara, San Fabian, and Manaoag.

On September 16, 2019, MWPVI incorporated North Luzon Water to operate the franchises granted in Sta. Barbara, San Fabian, and Manaoag in Pangasinan.

MWPVI's Grant of Franchise from Sangguniang Panlungsod of Iloilo
On March 26, 2019, the Sangguniang Panlungsod of Iloilo City granted a non-exclusive franchise to the joint venture between MWPVI and TPGI to construct, establish, commission, operate and maintain a water supply system to service the population of the Iloilo City.

The frachise granted to MWPVI shall be for a term of twenty-five (25) years, covering all the barangays under the governance and jurisdiction of Iloilo City.

Aqua Centro and Laguna Water MOAs with Raemulan Lands, Inc (RLI)
On July 10, 2019, Aqua Centro and Laguna Water entered into three (3) MOAs with Raemulan Lands, Inc. (RLI) for the construction, operation, and management of water distribution facilities in Pasinaya North and Tradizo Enclaves in Cavite and Jubilation Enclave in Laguna.

Aqua Centro and Laguna Water have started operations in 2019.

MWTS's Integrated Waste Management Facility with the City of Marikina
On July 31, 2019, MWTS received the Certificate of Acceptance and Grant of Original Proponent Status from the Office of the Mayor of the City of Marikina to build and operate an Integrated Waste Management Facility to treat and process the city solid waste of Marikina City. The Certificate authorizes the commencement of detailed negotiations with respect to the terms and conditions of the project.

Raw Water Supply Offtake Agreement among the Parent Company, MWSS, and WawaJVCo, Inc.
On August 6, 2019, MWSS along with the Parent Company signed a thirty (30)-year Raw Water Supply Offtake Agreement with WawaJVCo, Inc., a joint venture company formed between Prime Metroline Infrastructure Holdings Corporation and San Lorenzo Builders and Developers Corporation. This will involve the supply of 518 million liters per day of raw water from the Wawa and Tayabasan rivers and is among the medium-term water supply augmentation measures identified to provide water security and sustainability to the consumers of the East Service Area. The effectivity of the agreement shall be subject to the fulfillment of conditions precedent including the approval of the MWSS RO.

ACEI

Feed-in-Tariff (FIT)

On June 10, 2015, San Lorenzo Wind Project (SLWP) was issued a Certificate of Endorsement for Feed-In Tariff Eligibility by the DOE. On December 1, 2015, PHINMA Renewable received its Certificate of Compliance from the ERC which entitles PHINMA Renewable to recognize its FIT at an approved rate of ₱7.40, with a retroactive period beginning December 27, 2014, for a guaranteed period of twenty (20) years until December 26, 2034. Outstanding receivable under the FIT System amounted to ₱129.97 million and ₱190.89 million as at December 31, 2019 and December 31, 2018, respectively.

Power Supply Agreement with MERALCO

Baseload Demand

On September 9, 2019, the bid submitted by ACEPH was declared as one of the best bids of MERALCO's 1200 MW. ACEPH will supply MERALCO a baseload demand of 200MW from December 26, 2019 until December 25, 2029 subject to the approval of the Energy Regulatory Commission (ERC).

Mid-merit Supply

On September 11, 2019, the bid submitted by ACEPH was declared as one of the best bids of MERALCO's 500 MW. ACEPH will supply MERALCO a baseload demand of 110MW from December 26, 2019 until December 25, 2024 subject to the approval of the ERC. Power Purchase Agreement / Contract to Purchase Generated Electricity ACEPH entered into contracts with MGI and third parties where ACEPH will purchase the entire or a portion of the net electricity output of the power plants for a period ranging from three (3) to twenty (20) years at an agreed price, subject to certain adjustments.

Power Administration and Management Agreement (PAMA)

ACEPH entered into PAMA with its subsidiaries PHINMA Power, CIPP and One Subic Power. Under the terms of PAMA, ACEPH will administer and manage the entire generation output of the plants and will pay for all electricity delivered by the power plant based on a formula as set forth in PAMA and shall be payable monthly. PAMAs with PHINMA Power and CIPP are valid for ten (10) years and are subject to regular review, while PAMA with One Subic Power is valid throughout the life of the related Facilities Lease Agreement with SBMA

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On January 12, 2018, PAMAs with CIPP and PHINMA Power were amended, providing for certain capacity rates based on nominated capacity and billing of fuel recovery and utilization fee. The new PAMAs became effective starting March 26, 2018 and valid for 10 years and are subject to regular review.

Ancillary Services Procurement Agreements (ASPA) with NGCP

ACEPH and certain subsidiaries executed ASPAs with NGCP. Under the ASPA, the power plants will provide contingency and dispatchable reserves to NGCP to ensure reliability in the operation of the transmission system and the electricity supply in the Luzon Grid for five (5) years upon the effectivity of the provisional approval or final approval issued by the ERC. ERC's provisional approval is extended every year.

Other Electricity Supply Agreements (ESA) / Contract for the Sale of Electricity (CSE) with customers

ACEPH signed contracts to supply the energy requirements of various bilateral and RES contestable customers with a duration ranging from one (1) to fifteen (15) years.

SC 14 (North Matinloc)

ACEPH holds a 6.103% participating interest in SC 14 Block B-1 which hosts the North Matinloc-2 (NM-2) production well. The well is produced on cyclical mode with rest period longer than the flow phase, to enable the reservoir to build up enough pressure to push the crude to surface. In 2016, the well produced a total of 9,123 barrels of crude oil for an average 760 barrels monthly production.

Solar Energy Service Contract (SESC) (Bugallon, Pangasinan)
On May 22, 2017, the DOE awarded a SESC to the ACEPH which grants ACEPH the exclusive right to explore, develop and utilize the solar energy resource in a 648-hectare area in the Municipality of Bugallon, Province of Pangasinan. Pre-development activities, such as, yield assessment, environmental impact study and system impact study are underway and are expected to be completed within the year. ACEPH hopes to construct a 45MW ground mount fixed-tilt grid tied solar PV plant in the service contract area. The term of the service contract is twenty-five (25) years, extendable for another 25 years. As at November 13, 2019, all costs of the Bugallon Solar project were not capitalized as these were costs incurred prior to exploration and development activities.

Solar Energy Service Contract (Lipa City and Padre Garcia, Batangas)
On July 18, 2017, the DOE awarded a SESC to the ACEPH, which grants ACEPH the exclusive right to explore, develop and utilize the solar energy resource in a 486 hectare area in the City of Lipa and Municipality of Padre Garcia, Province of Batangas. ACEPH hopes to construct a 45MW ground mount fixed-tilt grid connected solar plant in the service contract area. All technical studies were completed and necessary permits were secured such as the ECC as well as local government endorsement. The term of the service contract is twenty-five (25) years, extendable for another 25 years. As at November 13, 2019, all costs of the Lipa and Padre Garcia Solar project were not capitalized as these were costs incurred prior to exploration and development activities.

On August 11, 2016, ACEI executed a Fee Agreement with Blackstone Capital Partners (Cayman) VI L.P. (Blackstone) to perform certain services and undertake certain obligations in relation to Blackstone's investments in the Philippines. Pursuant to the Fee Agreement, the Group entered into a Trust Agreement with BPI to administer the release of the fee. On June 18, 2018, the Trustee released a total of US$10.83 million (or P579.02 million). Consequently, the Group recognized income the same amount as Other revenue in the consolidated statement of comprehensive income.

On December 22, 2016, ACEI SG and AC Energy Cayman, a wholly-owned subsidiary of ACEI, executed an Assignment Agreement whereby the former assigned all its rights, titles and interest under the Fee Agreement to the latter. Since the assignment was made in relation to the GNPD project, where Blackstone was an investor, ACEI SG and AC Energy Cayman agreed that the release of the fee (under the Fee Agreement) to AC Energy Cayman shall be made based on the agreed milestone.

ACEI SG and AC Energy Cayman also agreed to cause Blackstone to deposit the fee to a trust account with a trust bank that would administer the release of the fee.

On December 23, 2016, ACEI SG entered into a Trust Agreement with BPI Trust. As the trustee, BPI Trust has the sole power and authority to manage the fund and operate the trust account (i.e. invest, reinvest or lend the fund). The amount deposited in the trust account amounted to US$41.7 million as of December 31, 2016.

On September 15, 2017, ACEI SG signed an Amended and Restated Trust Agreement with BPI to revise the mechanics for the release of the fee.

On September 18, 2017, BPI Asset Management Trust Corp., as Trustee under the Trust Agreement, released a total of US$14.1 million to AC Energy Cayman in consideration for the achievement of the GNPD loan drawdown milestone per the Trust Agreement. Consequently, AC Energy Cayman recognized income of the same amount equivalent to ₱1.5 billion.

On June 18, 2018 and December 20, 2018, the Trustee released a total of US$10.8 million (₱579.0 million) and US$4.7 million (₱248.2 million), respectively to AC Energy Cayman in consideration for the achievement of the GNPD loan drawdown milestone per the Trust Agreement (see Note 19).

Investment in Star Energy Salak-Darajat B.V.
On December 22, 2016, ACEI, as part of an Indonesian and a Philippine consortium, signed the share Sale and Purchase Agreements with Chevron Global Energy, Inc., Union Oil Company of California, and their relevant affiliates for the purchase of its geothermal operations in Indonesia and Philippines.

The Indonesian consortium consists of ACEI, Star Energy Group Holdings Pte. Ltd. Star, Star Energy Geothermal Pte. Ltd., DGA SEG BV and Electricity Generating Public Co. Ltd. The acquisition was made through the consortium's company, namely Star Energy Geothermal (Salak-Darajat) B.V., which is 19.8%-owned by ACEI, subject to the satisfaction of certain agreed conditions.

On March 31, 2017, ACEI completed the purchase and acquisition of Chevron's geothermal assets and operations in Indonesia amounting to US$170.18 million (or ₱8,536.43 million). The Indonesia assets and operations include the Darajat and Salak geothermal fields in West Java, Indonesia, with a combined capacity of 637MW of steam and power.

On July 24, 2017, ACEI together with Star Energy Geothermal Holdings Pte. Ltd., entered into definitive agreements for the transfer of 99% of their consortium interests in ACEI-STAR Holdings, Inc. to AllFirst Equity Hodings, Inc. (AllFirst). AllFirst is Chevron's current partner, and directly holds a 60% ownership interest in Philippine Geothermal Production Company.

In 2018, ACEI earned management fees from Salak Darajat amounting to ₱21.99 million (nil in 2017).

AC Infra
On September 12, 2015, LRMC took over the operations of LRT Line 1. In December 2015, LRMC started its rehabilitation of the existing line. On June 28, 2019, the Structural Restoration Project, which includes the parapets, faulty concrete and repair of river bridges, of the existing line was completed. As of December 31, 2019, the Engineering, Procurement and Construction (EPC) Works related to the Existing System Rehabilitation, the Re-engineering Project, the RSS Rehabilitation Project and the Security Network Systems Project are 55.4%, 93.3% (project management to on-site installation) and 85.0% (defect liability period and tuning phases), 73.4%, 80.1% complete, respectively.

Construction of the Cavite extension is expected to commence once right of way is delivered by the Grantors and is targeted to complete four years thereafter. On May 30, 2017, LRMC received the Permit to Enter certificate from the Grantors allowing LRMC to enter the concerned properties and commence the construction of Cavite extension. As of December 31, 2019, the EPC Works related to the Cavite Extension Works is 33.9% complete.

On February 12, 2018, the NAIA Consortium composed of Aboitiz InfraCapital, Inc., AC Infrastructure Holdings Corporation, Alliance Global Group Inc., Asia's Emerging Dragon Corporation, Changi Airport International Capital Pte. Ltd., Filinvest Development Corporation, JG Summit Holdings, Inc. and Metro Pacific Investments Corporation submitted its unsolicited proposal for the rehabilitation, upgrade, expansion, operation, and maintenance of the Ninoy Aquino International Airport.

AITHI Group
On December 5, 2018, AITHI signed a Distributorship Agreement with Kia Motors Corporation (KMC) to distribute the Kia brand in the Philippines. A joint venture company, with AITHI as majority stockholder, will be established in collaboration with Columbian Autocar Corporation (CAC) to undertake this new business and re-establish the Kia brand in the Philippines. KMC was incorporated on January 17, 2019.

On September 28, 2018, SAIC MAXUS Automotive Co., Ltd. (Maxus) has appointed AITHI as the official distributor of Maxus vehicles in the Philippines. Maxus is a wholly-owned subsidiary of SAIC Motor Corporation Limited, with an emerging portfolio focused on light commercial vehicles.

37. Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of the Group's management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations.

MWC

Real Property Tax Assessment

On October 13, 2005, the Municipality of Norzagaray, Bulacan assessed MWC and Maynilad Water Services, Inc. (jointly, the Concessionaires) real property taxes on certain common purpose facilities registered in the name of and owned by MWSS purportedly due from 1998 to 2005 amounting to ₱357.1 million. On November 15, 2010, the local government of Quezon City demanded the payment of ₱302.7 million for deficiency real property taxes from MWSS on MWSS properties within its territorial jurisdiction. The assessments from the municipality of Norzagaray and Quezon City have been questioned by the Concessionaires and MWSS, and are pending resolution before the Central Board of Assessment Appeals and Supreme Court, respectively. On November 7, 2018, the Supreme Court issued its decision declaring that the real properties of the MWSS located in Quezon City are exempt from the real estate tax imposed by the local government of Quezon City. Total provision for these assessments amounted to nil and ₱416.2 as of December 31, 2019 and 2018 (see Note 13).

38. Assets Held in Trust

MWSS

MWC was granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or MWC.

The Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both East and West Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to MWC on Commencement Date based on MWSS' closing audit report amounted to ₱4.6 billion with a sound value of ₱10.4 billion.

In 2019, MWC engaged the services of Royal Asia Appraisal Corporation to conduct a re-appraisal of the assets managed by MWC as of December 31, 2019. Total appraised value as of December 31, 2019 amounted to ₱28.1 billion.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. On August 28, 2012, additional office space was leased by MWC. The lease was last renewed on July 8, 2019. In 2019, MWC made payments amounting to ₱36.0 million recorded as deduction to lease liabilities. In 2018 and 2017, total rent payments amounted to ₱32.3 million and ₱27.8 million, respectively, which are included under "General and administrative expenses" in the consolidated statements of comprehensive income.

In March 2015, MWC and MWSS entered into an agreement for the lease of a portion of the San Juan Reservoir and Aqueduct Complex being utilized by MWC as stockyard for its pipes and other materials. The lease agreement shall continue to be in effect until the termination of the Concession Agreement. Rent payments made from 2017 to 2019 amounted to ₱16.2 million each year which is recorded in 2019 as deduction to lease liabilities and included under "General and administrative expenses" in the consolidated statement of comprehensive income.

PGL
LAWC was granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with PGL. The legal title of all property in existence at the commencement date shall be retained by PGL. Upon expiration of the useful life of any such property as may be determined by LAWC, such property shall be returned to PGL in its then condition at no charge to PGL or LAWC.

In 2014, LAWC engaged the services of Cuervo Appraisers to conduct a re-appraisal of PGL assets on record as of December 31, 2013. Total replacement cost as of December 31, 2013 amounted to ₱2.1 billion with a sound value of ₱1.6 billion.

TIEZA
BIWC was granted the right to operate, maintain in good working order, repair, decommission and refurbish all fixed and movable property (except retained assets) required to provide the water and sewerage services under its concession agreement with TIEZA. The legal title to all theses assets in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of any such assets as may be determined by BIWC, such assets shall be returned to TIEZA in its then-current condition at no charge to TIEZA or BIWC.

The net book value of the facilities transferred to MWC on commencement date based on TIEZA's closing audit report amounted to ₱618.2 million.

In 2015, BIWC engaged the services of Cuervo Appraisers, Inc. to conduct an appraisal of its assets as of August 18 to 20, 2015. Total replacement cost as of December 31, 2015 amounted to ₱1.1 billion with a sound value of ₱793. 4 million.

CDC
Clark Water was granted the right to finance, design and construct new facilities and to manage, exclusively possess, occupy, operate, repair, maintain, decommission, and refurbish all facilities, except private deepwells, to provide and manage the water and wastewater-related services in the CFZ.

OWD
On October 12, 2017, Obando Water was granted the right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Obando. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Obando Water, shall remain with OWD.

CWD
On October 23, 2017, Calasiao was granted the right to develop, manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Calasiao. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Calasiao Water, shall remain with CWD.

PAGWAD
On January 21, 2019, Laguna Water was granted the right to operate, finance, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required and exclusively used to provide water delivery and sanitation services in the service area of PAGWAD.

TnWD
On February 4, 2019, South Luzon Water was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water supply and sanitation services in the service area of TnWD.

BuWD
On June 14, 2019, BuWD was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the service area of BuWD.

LWD On July 3, 2019, Aqua Centro was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water supply in the service area of LWD.

CCWD
On July 3, 2019, CCWD was granted the right to operate, maintain, repair, improve, expand, renew, and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water supply and sanitation services in the service area of CCWD.

39. Renewable Energy Act of 2008

Republic Act No. 9513, *An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes*, which shall be known as the “Renewable Energy Act of 2008” (the Act), became effective on January 30, 2009. The Act aims to: (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country’s dependence on fossil fuels and thereby minimize the country’s exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems,and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, Renewable Energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the Board of Investments, shall be entitled to the following incentives, among others:

i. Income Tax Holiday (ITH) – For the first seven (7) years of its commercial operations, the duly registered RE developer shall be exempt from income taxes levied by the National Government;

ii. Duty-free Importation of RE Machinery, Equipment and Materials – Within the first ten (10) years upon issuance of a certification of an RE developer, the importation of machinery and equipment, and materials and parts thereof, including control and communication equipment, shall not be subject to tariff duties;

iii. Special Realty Tax Rates on Equipment and Machinery – Any law to the contrary notwithstanding, realty and other taxes on civil works, equipment, machinery, and other improvements of a registered RE developer actually and exclusively used for RE facilities shall not exceed 1.5% of their original cost less accumulated normal depreciation or net book value;

iv. NOLCO – the NOLCO of the RE developer during the first three (3) years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss;

v. Corporate Tax Rate – After seven (7) years of ITH, all RE developers shall pay a corporate tax of 10% on its net taxable income as defined in the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337;

vi. Accelerated Depreciation – If, and only if, an RE project fails to receive an ITH before full operation, it may apply for accelerated depreciation in its tax books and be taxed based on such;

vii. Zero Percent VAT Rate – The sale of fuel or power generated from renewable sources of energy shall be subject to 0% VAT;

viii. Cash Incentive of RE Developers for Missionary Electrification – An RE developer, established after the effectivity of the Act, shall be entitled to a cash generation-based incentive per kilowatt-hour rate generated, equivalent to 50% of the universal charge for power needed to service missionary areas where it operates the same;

ix. Tax Exemption of Carbon Credits – All proceeds from the sale of carbon emission credits shall be exempt from any and all taxes; and

Tax Credit on Domestic Capital Equipment and Services – A tax credit equivalent to 100% of the value of the value-added tax and customs duties that would have been paid on the RE machinery, equipment, materials and parts had these items been imported shall be given to an RE operating contract holder who purchases machinery, equipment, materials, and parts from a domestic manufacturer for purposes set forth in the Act.

In addition, to accelerate the development of emerging renewable energy resources, a feed-in tariff system for electricity produced from wind, solar, ocean, run-of-river hydropower and biomass will be promulgated which shall include, but not limited to, the following:

a. Priority connections to the grid for electricity generated from emerging renewable energy resources;
b. The priority purchase and transmission of, and payment for, such electricity by the grid system operators; and
c. Determine the fixed tariff to be paid to electricity produced from each type of emerging renewable energy and the mandated number of years for the application of these rates, which shall not be less than twelve (12) years.

The feed-in tariff to be set shall be applied to the emerging renewable energy to be used in compliance with the renewable portfolio standard as provided for in the Act and in accordance with the feed-in-tariff rules to be promulgated by the Energy Regulatory Commission (ERC) in consultations with the National Renewable Energy Board. On July 27, 2012, ERC approved the feed-in tariff of 8.53 kilowatt per hour (kWh) for wind renewable energy resource. The approved subsidy

will be reviewed and readjusted, if necessary, after its three-year initial implementation or when the target installed capacity for each renewable resource set by the DOE has been met.

RE developers and local manufacturers, fabricators and suppliers of locally-produced RE equipment shall register with the DOE, through the Renewable Energy Management Bureau (REMB). Upon registration, a certification shall be issued to each RE developer and local manufacturer, fabricator and supplier of locally-produced renewable energy equipment to serve as the basis of their entitlement to the incentives provided for in the Act. All certifications required to qualify RE developers to avail of the incentives provided for under the Act shall be issued by the DOE through the REMB.

Within six (6) months from the effectivity of the Act, the DOE shall, in consultation with the Senate and House of Representatives Committee on Energy, relevant government agencies and RE stakeholders, promulgate the Implementing Rules and Regulations of the Act. On May 25, 2009, the DOE issued the Implementing Rules and Regulations of the Act which became effective on June 12, 2009.

ACEI and its subsidiaries expect that the Act will impact their future operations and financial results. The impact of the Act will be disclosed as the need arises.

Northwind
On January 18, 2010, Northwind filed its intent with the REMB for the conversion of its Negotiated Commercial Contract into Wind Energy Service Contract and Registration as RE Developer as provided for under the Act. On November 9, 2010, the DOE issued a Provisional Certificate of Registration as an RE Developer in favor of Northwind, subject to negotiation and execution of a Wind Energy Service Contract to replace the Negotiated Commercial Contract.

On April 6, 2011, Northwind filed with the ERC an application for a Feed-In Tariff (FiT). The FiT will provide for a fixed rate per kilowatt of electricity produced over a period of fifteen years. On June 6, 2011, the ERC granted Northwind a provisional FiT rate of ₱9.30 per kilowatt hour which shall be effective and collected only upon the final approval of the FiT for emerging renewable energy technologies, specifically for wind energy.

On October 10, 2014, the DOE granted Northwind a Certificate of Endorsement for Feed-In Tariff (FIT) Eligibility (COE-FIT No. 2014-10-001) for its Phase III expansion project. The endorsement qualifies the Phase III expansion under the FIT System and accordingly, will be granted the national FIT for wind projects amounting to 8.53/kWh. The endorsement shall be the basis for the Energy Regulatory Commission (ERC) to issue a FIT Certificate of Compliance.

On November 11, 2014, commercial operations of the wind farm projects started in accordance with the COE. On April 13, 2015, the FIT COC was subsequently issued for both the 19-MW wind farm expansion in Bangui under Northwind and the 81-MW wind farm in Caparispisan, Pagudpud under NLREC for a period of 20 years. The FIT rate covers the period October 10, 2014 to October 9, 2034 for Northwind's 19MW Phase III wind farm and November 11, 2014 to November 10, 2034 for NLREC's 81MW project.

For the period from November 11, 2014 to December 31, 2014, the Northwind generated 30.07 million kilowatt-hours of electricity from the Wind Farm Project which was entirely sold to WESM. Such generation resulted to revenue (earned from WESM) amounting to ₱75.21 million (Ph2.50/kWh) from November 11 to December 31, 2014. The Actual FIT Differential amounted to ₱183.02 million.

On June 5, 2015, Northwind and NLREC collected the first FIT differential payment from Transco.
Monte Solar
On June 13, 2016, the DOE, through its issuance of the Certificate of Endorsement, certified the Montesolar's Solar Farm Project as an eligible project under the FiT system. On July 4, 2016, the ERC issued a provisional authority to operate until January 31, 2017. On December 28, 2016, Montesolar received another provisional authority to operate by the ERC dated December 8,

2016 but this time, as a renewable energy generation company, which allows Monte Solar to be entitled to a FiT rate of ₱8.69/Kwh for a period of twenty (20) years from March 13, 2016.

On August 8, 2017, Montesolar collected the first FIT differential payment from Transco.

As of December 31, 2017, Montesolar recognized FIT differential totalling ₱233.3 million covering the period March to August 2016 and January to September 2017.

Last February 2018, Northwind received FIT adjustment from ₱5.76 to ₱5.96 applied from billing periods July 25, 2015 to January 25, 2018.

40. Events after the Reporting Period

Parent Company

a) On January 7, 2020, 9,716 common shares were exercised under the Parent Company's ESOP.

b) On January 15, 2020, the Parent Company has fully utilized the proceeds from the reissuance of Preferred B Series 2 shares.

c) In January 2020, AC Parent made capital infusion to AC Industrials amounting to ₱206.5 million to support its automotive business unit's operations.

d) On February 7, 2020, 33,751 common shares were exercised under the Parent Company's ESOP.

e) In February 2020, the Parent Company purchased its 1,016,210 common shares pursuant to the share buyback program of ₱10.0 billion worth of shares approved by the BOD on December 5, 2019.

f) On various dates in January to March 2020, the Parent Company made a capital infusion to AHHI amounting to ₱1,929.5 million mainly to support new businesses as follows: Healthway (₱1,478.1 million), Zapfam (₱121.4 million), Vigos Ventures, Inc. (₱104 million) and Zodiac Zodiac Prime Ventures Holdings, Inc. (₱87 million).

g) On March 12, 2020, the Parent Company's BOD approved an additional funding of up to ₱600.0 million to fund investment of AC Infra in Entrego.

h) On March 12, 2020, the Parent Company's BOD approved the consolidation of ACEI's international and Philippine assets under an asset-for-share swap of ACEPH shares to Presage shares (common and redeemable preferred shares) subject to certain conditions and terms. This will result in transfer of direct ownership of Presage from ACEI to ACEPH. Certain renewables assets and business of ACEI are under Presage.

ALI

a) On February 7, 2020, ALI's subsidiary, AREIT, Inc., filed its application for a REIT offering to the SEC, following the release of the Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9856, or the Real Estate Investment Trust Act of 2009 last January 20, 2020.

   ALI seeks to do an Initial Public Offering (IPO) of AREIT, Inc. after receiving the regulatory approvals from the SEC and PSE.

b) On February 20, 2020, the BOD approved the raising of up to ₱10 billion through the issuance of retail bonds under its current Shelf Registration program and will be listed on the PDEx to partially finance general corporate requirements and to refinance maturing loans.

c) The BOD also approved the increase of additional ₱25 billion to ALI's current share buyback program bringing the available balance to ₱26.1 billion. The program will be implemented through open market purchases executed via the trading facilities of the Philippine Stock Exchange.

AHHI

a) On December 6, 2019, AHHI signed a binding agreement to acquire a 100% stake in Healthway Philipines, Inc. (Healthway) from Healthway Asia Ltd. Healthway Philippines, Inc. owns, through its wholly-owned subsidiary HMC, Inc., the Healthway chain of clinics that comprises of 7 mall-based specialty clinics and 40 corporate clinics in the country.

   On January 15, 2020, AHHI and Healthway Asia Ltd. completed the transaction, making AHHI the new sole owner of Healthway Philippines, Inc. As of March 12, 2020, the acquisition-date fair value is still incomplete.

b) On various dates in January to March 2020, the Parent Company made a capital infusion to AHHI amounting to ₱1,929.5 million mainly to support new businesses as follows:
   Healthway (₱1,478.1 million), Zapfam, Inc. (₱121.4 million), Vigos Ventures, Inc. (₱104 million) and Zodiac Prime Ventures Holdings, Inc. (₱87 million).

AC Infra

a) On January 24, 2020, AC Infra made a capital infusion of ₱100.0 million into Entrego for the subscription to additional 100.0 million preferred shares at ₱1.00 per share.

b) On January 28, 2020, AC Infra Group received capital infusion from the Parent Company amounting to ₱362.5 million for the issuance of 362,500 common shares. The shares are issued at a subscription price of ₱1,000.00 per share, ₱900.00 per share in excess of par, resulting to ₱326.25 million APIC.

c) On January 30, 2020, AC Infra made a capital infusion of ₱262.50 million into LRMHI for the subscription to 131,250,000 additional common shares at ₱2.00 per share, ₱1.00 per share in excess of par. The infusion is proportionate to its equity share in LRMHI.

d) On March 12, 2020, the Parent Company's BOD approved an additional funding of up to ₱600 million to fund investment of AC Infra in Entrego.

MWC

a) On January 29, 2020, MWC received a response letter from the MWSS RO confirming that the twenty-five (25)-year Concession Agreement from 1997 to 2022 and the Memorandum of Agreement and Confirmation between MWC and MWSS providing for the fifteen (15)-year extension from 2022 to 2037 have not yet been cancelled.

b) On January 31, 2020, the BOD approved the amendment of the Seventh Article of the Articles of Incorporation to increase the authorized capital stock from ₱3.5 billion to ₱4.4 billion, which increase will consist of an additional 900.0 million common shares. The BOD also approved the increase in the carved-out shares from 300.0 million to 900.0 million unissued common shares and to allow the issuance of the carved-out shares "for cash, properties or assets to carry out" the corporate purposes" of MWC as approved by the BOD.

c) On February 1, 2020, MWC and Prime Metroline Holdings, Inc., on behalf of a company to be incorporated (to be named Trident Water), signed a subscription agreement for the acquisition of 820.0 million common shares (equivalent to 24.96% economic rights) of MWC at ₱13.00 per share.

   On February 6, 2020, the Parent Company, as part of the shareholder agreement to be executed among itself, its wholly owned subsidiary Philwater and Trident Water, Ayala's Executive Committee approved the grant of proxy rights by Philwater to Trident Water over its 4.0 billion preferred shares to enable the latter to achieve 51.0% voting interest in MWC, subject to the

fulfillment of the conditions set forth in the subscription agreement. Upon the grant of proxy rights to Trident Water, the Parent Company's effective voting interest in MWC will stand at 31.60%. This arrangement aims to strategically rationalize the economic and voting stakes between the Parent Company and Trident Water as strategic partners in MWC.
On February 7, 2020, MWC received a letter from Prime Metroline Holdings, Inc. that it has announced through publication in a newspaper of general circulation, its intention to make a mandatory offer for the shares of MWC at an offer price of ₱13.00 per share.

The subscription agreement will become effective after certain conditions precedent are met, including relevant third party consents and regulatory approvals.

d) On February 3, 2020, MW Consortium and the PGC signed the Terms of Reference for the interim protocol between both parties pending Settlement with Finality of the Dispute between MW Consortium and PGC.

e) On February 17, 2020, the BOD of MWPVI approved the extension of Zamboanga Water's shareholder loan amounting to ₱76.0 million which will be used by Zamboanga Water for the prepayment in 2020 of its outstanding loan with DBP.

IMI

a) In January 2020, the outbreak of Coronavirus Disease 2019 (COVID-19) in China caused delayed resumptions of work in all China manufacturing facilities in conformance with local government notices.

   As at reporting date, all subsidiaries in China were operational at different levels of capacity.

   The IMI Group will monitor the developments of the COVID-19 situation closely and continue to assess its impact on the 2020 financial position and performance of the Group. However, the IMI Group does not expect that this will have significant impact on the 2019 judgments and estimates.

b) On February 24, 2020, the BOD of IMI authorized and approved the execution of a shareholders' agreement among Coöperatief IMI Europe U.A. (Cooperatief), the noncontrolling shareholder of VIA, and VIA Optronics AG to extend the exercise period of the noncontrolling shareholder's 5% put option right, subject to, among others, Cooperatief having a right of first refusal over said non-controlling shareholder's shares including those transferred to his immediate family.

ACEI

a) On September 16, 2019, ACEPH signed a baseload Power Purchase Agreement ("PSA") and a midmerit PSA both with MERALCO for the supply of 200MW baseload and 110MW mid-merits capacity, respectively, to MERALCO. The baseload PSA and the mid-merit PSA have been applied for approval with the Energy Regulatory Commission ("ERC"), the review of which is on-going. On December 10, 2019, the ERC issued provisional authorities for the two (2) PSAs, while hearings for the issuance of final authority is on-going. On February 7 2020, ACEPH filed motions for reconsideration with the ERC to ask for a re-evaluation of the provisional authorities and an increase in the provisionally approved rates.

b) On November 14, 2019, ACEPH signed a First Amended and Restated Share Purchase Agreement with the investors of the Philippine Investment Alliance for Infrastructure (PINAI) for the acquisition of PINAI's indirect ownership interest in NLR. PINAI is a fund composed of Macquarie Infrastructure Holdings (Philippines) Pte. Limited, the Government Service Insurance System, and Langoer Investments Holding, B.V. It has a 31% preferred equity ownership and 15% common equity ownership in NLR. The acquisition is subject to certain conditions precedent including the approval by the PCC. PCC approval was obtained on February 4, 2020. The acquisition was thereafter completed on February 27, 2020, with GIGA ACE 1, ACEPH's designated affiliate as buyer, purchasing PINAI's ownership interest in NLR.

c) On December 2, 2019, ACEPH signed a Share Purchase Agreement with PINAI for the acquisition of PINAI's ownership interest in Sacasol. PINAI is a fund composed of Macquarie Infrastructure Holdings (Philippines) Pte. Ltd., the Government Service Insurance System, and Langoer Investments Holding, B.V. PINAI has a 96% economic interest in Sacasol. The acquisition is subject to certain conditions precedent including the approval by PCC. PCC approval was obtained on February 18, 2020.

   On December 2, 2019, ACEPH signed a Share Purchase Agreement with the PINAI for the acquisition of PINAI's ownership interest in Islasol. PINAI is a fund composed of Macquarie Infrastructure Holdings (Philippines) Pte. Ltd., the Government Service Insurance System, and Langoer Investments Holding, B.V. PINAI has a 98% economic interest in Islasol. The acquisition is subject to certain conditions precedent including the approval by PCC. PCC approval was obtained on February 28, 2020

d) On March 12, 2020, the Parent Company's BOD approved the consolidation of ACEI's international and Philippine assets under an asset-for-share swap of ACEPH shares to Presage Presage shares (common and redeemable preferred shares) subject to certain conditions and terms. This will result in transfer of direct ownership of Presage from ACEI to ACEPH. Certain renewables assets and business of ACEI are under Presage.

AC Industrial

a) In January 2020, the Parent Company made a capital infusion to AC Industrials amounting to ₱206.5 million to support its automotive business unit's operations.

BHL

a) On January 23, 2020, VIP infrastructure Holdings Pte. Ltd., disbursed US$82.5 million into FMI via a convertible loan facility. This represents the second tranche of investment after completion of the conditions precedent for disbursement, including approval by the Central Bank of Myanmar of the convertible loan. The transaction forms part of the VIP's $237.5 million investment in Yoma Group.

Globe

a) On January 17, 2020, Globe Telecom, Dito Telecommunity and Smart Communications incorporated a joint venture company, Telecommunications Connectivity, Inc. (TCI) in line with the new mobile number portability initiative of the government under RA 11202 also known as the "Mobile Number Portability Act" ("the MNP Act").

   TCI is expected to bring in the technical infrastructure to fulfill its primary function as a clearinghouse for the three mobile operators to ensure the smooth implementation of number porting services.

41. Approval of the Consolidated Financial Statements

The consolidated financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 were endorsed for approval by the Audit Committee on March 6, 2020 and authorized for issue by the BOD on March 12, 2020.

III. 2019 Consolidated Financial Statements of Associate and Joint Venture

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
Ayala North Exchange
Ayala Avenue corner Salcedo Street, Legaspi Village,
Makati City

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying consolidated financial statements of the Bank of the Philippine Islands and Subsidiaries (the "BPI Group") and the parent financial statements of the Bank of the Philippine Islands (the "Parent Bank") present fairly, in all material respects, the financial position of the BPI Group and of the Parent Bank as at December 31, 2019 and 2018, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards.

What we have audited

The financial statements comprise:

- the consolidated and parent statements of condition as at December 31, 2019 and 2018;
- the consolidated and parent statements of income for each of the three years in the period ended December 31, 2019;
- the consolidated and parent statements of comprehensive income for each of the three years in the period ended December 31, 2019;
- the consolidated and parent statements of changes in capital funds for each of the three years in the period ended December 31, 2019;
- the consolidated and parent statements of cash flows for each of the three years in the period ended December 31, 2019; and
- the notes to the consolidated and parent financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence

We are independent of the BPI Group and the Parent Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the consolidated and parent financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Our Audit Approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and parent financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and parent financial statements as a whole, taking into account the structure of the BPI Group and the Parent Bank, the accounting processes and controls, and the industry in which the BPI Group and the Parent Bank operate.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit pertains to the impairment losses on loans and advances, which applies to both the BPI Group's and the Parent Bank's financial statements.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment losses on loans and advances	
We focused on this account because of the complexity involved in the estimation process, and the significant judgments that management makes in ascertaining the provision for loan impairment. The calculation of impairment losses is inherently judgmental for any bank. As at December 31, 2019, the total allowance for impairment for loans and advances amounted to PHP25,974 million for the BPI Group and PHP18,605 million for the Parent Bank while provision for loan losses recognized in profit or loss for the year then ended amounted to PHP6,073 million for the BPI Group and PHP5,011 million for the Parent Bank. Refer to Notes 10 and 26 of the financial statements for the details of the impairment losses on loans and advances. Provision for impairment losses on loans that are assessed to be individually credit impaired is determined in reference to the estimated future cash repayments and proceeds from the realization of collateral held by the BPI Group and Parent Bank. For other loan accounts which are not individually credit impaired, they are included in a group of loans with similar risk characteristics and are collectively assessed on a portfolio basis using internal models developed by the BPI Group and Parent Bank.	We assessed the design and tested the operating effectiveness of key controls over loan loss provisioning. These key controls included: • governance over the development, validation and approval of the BPI Group's ECL models to assess compliance with Philippine Financial Reporting Standard (PFRS) 9, *Financial instruments*; including continuous re-assessment by the BPI Group that the impairment models are operating in a way which is appropriate for the credit risks in the BPI Group and Parent Bank's loan portfolios; • review and approval of key judgments, assumptions and forward-looking information used in the ECL models; • reconciliations of data from source systems to the detailed ECL model analyses; • assessment of credit quality of loans and advances relative to the established internal credit risk rating system; and • the review and approval process for the outputs of the impairment models. Our work over the impairment of loans and advances included: • assessment of the methodology applied by the BPI Group and Parent Bank in the development of the ECL models vis-a-vis the requirements of PFRS 9; • testing of key assumptions in the ECL models such as PD, LGD, EAD built from historical data. Our assessment included the involvement of our internal specialist;

Key Audit Matter	How our audit addressed the Key Audit Matter
(cont'd.) Key elements in the impairment of loans and advances include: • the identification of credit-impaired loans, and estimation of cash flows (including the expected realizable value of any collateral held) supporting the calculation of individually assessed provisions; and • the application of appropriate impairment models for the collectively assessed accounts. This include the use of key assumptions in the impairment models (i.e., staging of accounts, significant increase in credit risk, forward-looking information), the exposure at default (EAD), the probability of default (PD) and the loss given default (LGD). In calculating the loan loss provisioning, the BPI Group and Parent Bank applied the expected credit loss (ECL) model prescribed by PFRS 9, which is a complex process that takes into account forward-looking information reflecting the BPI Group and Parent Bank's view on potential future economic events.	• assessment of the appropriateness of the BPI Group's and Parent Bank's definition of significant increase in credit risk and staging of accounts through analysis of historical trends and past credit behavior of loan portfolios; • independent comparison of economic information used within, and weightings applied to, forward-looking scenarios in the ECL models against available macro-economic data; • testing of the accuracy and completeness of data in the ECL models by comparing them with the information obtained from source systems; • for a sample of individually assessed loans identified as credit-impaired, examined relevant supporting documents such as the latest financial information of the borrower or valuation of collateral used as a basis in estimating the recoverable amount and measuring the loan loss allowance; and • recalculation of the collective loan loss allowance for selected accounts and portfolios at reporting date using the ECL models adopted by the BPI Group and Parent Bank.

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Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report, but does not include the consolidated and parent financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and parent financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated and parent financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and parent financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

In preparing the consolidated and parent financial statements, management is responsible for assessing the ability of each entity within the BPI Group and of the Parent Bank 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 entities within the BPI Group and the Parent Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and parent 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 Philippine Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and parent financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and parent 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 BPI Group's and of the Parent Bank'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 ability of each entity within the BPI Group and the Parent Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent 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 entities within the BPI Group and the Parent Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and parent financial statements, including the disclosures, and whether the consolidated and parent 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.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent financial statements of the current period and is therefore the key audit matter. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP) and Bureau of Internal Revenue (BIR)

Out audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 30 and BIR Revenue Regulations 15-2010 in Note 31 to the financial statements is presented for purposes of filing with the BSP and BIR, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of the BPI Group. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Zaldy D. Aguirre.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 7, 2020, Makati City
SEC A.N. (individual) as general auditors 1176-AR-2, Category A; effective until June 20, 2021
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
TIN 221-755-698
BIR A.N. 08-000745-77-2018, issued on January 29, 2018; effective until January 28, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
February 26, 2020

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2019 and 2018
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2019	2018	**2019**	2018
A S S E T S					
CASH AND OTHER CASH ITEMS	4	**47,256**	43,536	**45,982**	42,419
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	**207,845**	225,907	**181,815**	202,487
DUE FROM OTHER BANKS	4	**22,356**	12,477	**18,356**	8,615
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	**22,570**	34,323	**18,364**	22,659
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	6,7	**24,105**	16,721	**17,688**	10,346
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8	**53,905**	37,206	**48,320**	30,583
INVESTMENT SECURITIES AT AMORTIZED COST, net	9	**275,105**	287,571	**252,006**	267,497
LOANS AND ADVANCES, net	10	**1,475,336**	1,354,896	**1,231,776**	1,125,956
ASSETS HELD FOR SALE, net		**3,155**	3,363	**342**	455
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	**23,748**	16,252	**16,595**	10,146
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	12	**6,746**	5,659	**10,031**	9,942
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2,4	**17,790**	16,582	**-**	-
DEFERRED INCOME TAX ASSETS, net	13	**9,706**	8,536	**6,653**	5,723
OTHER ASSETS, net	14	**15,407**	22,199	**9,910**	16,313
Total assets		**2,205,030**	2,085,228	**1,857,838**	1,753,141

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2019 and 2018
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2019	2018	**2019**	2018
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	15	**1,695,343**	1,585,746	**1,456,458**	1,347,207
DERIVATIVE FINANCIAL LIABILITIES	7	**2,877**	3,891	**2,877**	3,888
BILLS PAYABLE AND OTHER BORROWED FUNDS	16	**150,837**	166,901	**126,529**	150,880
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**2,946**	3,988	**2,946**	3,988
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**8,299**	6,931	**6,421**	5,354
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**9,865**	9,057	**7,418**	6,875
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	**14,061**	14,056	**-**	-
DEFERRED CREDITS AND OTHER LIABILITIES	17	**47,768**	43,120	**38,939**	35,793
Total liabilities		**1,931,996**	1,833,690	**1,641,588**	1,553,985
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	18				
Share capital		**44,999**	44,961	**44,999**	44,961
Share premium		**74,449**	74,181	**74,449**	74,181
Reserves		**5,108**	4,096	**4,892**	3,977
Surplus		**147,460**	127,459	**94,226**	76,958
Accumulated other comprehensive loss		**(2,439)**	(2,176)	**(2,316)**	(921)
		269,577	248,521	**216,250**	199,156
NON-CONTROLLING INTERESTS		**3,457**	3,017	**-**	-
Total capital funds		**273,034**	251,538	**216,250**	199,156
Total liabilities and capital funds		**2,205,030**	2,085,228	**1,857,838**	1,753,141

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos, Except Per Share Amounts)

		Consolidated			Parent		
	Notes	**2019**	2018	2017	**2019**	2018	2017
INTEREST INCOME							
On loans and advances		**87,151**	69,401	54,615	**67,895**	51,901	38,752
On investment securities		**12,709**	9,616	9,185	**11,776**	8,942	8,403
On deposits with BSP and other banks		**1,723**	1,173	2,049	**808**	548	977
		101,583	80,190	65,849	**80,479**	61,391	48,132
INTEREST EXPENSE							
On deposits	15	**28,874**	21,255	16,660	**21,476**	15,645	11,413
On bills payable and other borrowed funds	16	**6,764**	3,092	1,150	**6,031**	2,588	885
		35,638	24,347	17,810	**27,507**	18,233	12,298
NET INTEREST INCOME		**65,945**	55,843	48,039	**52,972**	43,158	35,834
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	5,9,10,14	**5,822**	4,923	3,795	**4,666**	4,279	3,519
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		**60,123**	50,920	44,244	**48,306**	38,879	32,315
OTHER INCOME							
Fees and commissions		**9,062**	8,224	7,716	**8,502**	7,219	6,224
Income from foreign exchange trading		**2,102**	2,128	2,136	**1,930**	1,831	1,798
Income attributable to insurance operations	2	**1,223**	1,223	1,413	**-**	-	-
Securities trading gain		**4,010**	719	923	**3,678**	258	754
Other operating income	19	**11,992**	10,387	10,793	**10,487**	5,919	14,171
		28,389	22,681	22,981	**24,597**	15,227	22,947
OTHER EXPENSES							
Compensation and fringe benefits	21	**17,487**	15,315	13,897	**13,479**	11,834	10,691
Occupancy and equipment-related expenses	11,20	**16,123**	13,146	11,344	**12,943**	10,570	9,062
Other operating expenses	21	**16,467**	15,141	13,292	**12,058**	11,257	9,626
		50,077	43,602	38,533	**38,480**	33,661	29,379
PROFIT BEFORE INCOME TAX		**38,435**	29,999	28,692	**34,423**	20,445	25,883
INCOME TAX EXPENSE	22						
Current		**10,037**	7,404	6,418	**8,788**	5,793	4,248
Deferred	13	**(685)**	(734)	(462)	**(583)**	(776)	(462)
		9,352	6,670	5,956	**8,205**	5,017	3,786
NET INCOME FOR THE YEAR		**29,083**	23,329	22,736	**26,218**	15,428	22,097
Attributable to:							
Equity holders of BPI		**28,803**	23,078	22,416	**26,218**	15,428	22,097
Non-controlling interests		**280**	251	320	**-**	-	-
		29,083	23,329	22,736	**26,218**	15,428	22,097
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	18	**6.39**	5.35	5.69	**5.82**	3.57	5.61

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

		Consolidated			Parent		
	Note	**2019**	2018	2017	**2019**	2018	2017
NET INCOME FOR THE YEAR		**29,083**	**23,329**	22,736	**26,218**	15,428	22,097
OTHER COMPREHENSIVE (LOSS) INCOME	18						
Items that may be subsequently reclassified to profit or loss							
Share in other comprehensive income (loss) of associates		**1,286**	(1,281)	(252)	**-**	-	-
Net change in fair value reserve on investments in debt instruments measured at FVOCI, net of tax effect		**262**	(771)	-	**249**	(461)	-
Fair value reserve on investments of insurance subsidiaries, net of tax effect		**545**	(400)	196	**-**	-	-
Currency translation differences and others		**(202)**	(26)	126	**(124)**	-	-
Net change in fair value reserve on AFS, net of tax effect		**-**	-	713	**-**	-	449
Items that will not be reclassified to profit or loss							
Remeasurements of defined benefit obligation		**(1,418)**	612	(272)	**(1,141)**	431	(338)
Share in other comprehensive (loss) income of associates		**(32)**	596	(528)	**-**	-	-
Net change in fair value reserve on investments in equity instruments measured at FVOCI, net of tax effect		**(313)**	(19)	-	**(379)**	320	-
Total other comprehensive (loss) income, net of tax effect		**128**	(1,289)	(17)	**(1,395)**	290	111
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**29,211**	22,040	22,719	**24,823**	15,718	22,208
Attributable to:							
Equity holders of BPI		**28,769**	21,878	22,406	**24,823**	15,718	22,208
Non-controlling interests		**442**	162	313	**-**	-	-
		29,211	22,040	22,719	**24,823**	15,718	22,208

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

	Consolidated							
	Attributable to equity holders of BPI (Note 18)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total equity
Balance, January 1, 2017	**39,308**	**29,591**	**2,711**	**98,602**	**(5,078)**	**165,134**	**2,550**	**167,684**
Comprehensive income								
Net income for the year	-	-	-	22,416	-	22,416	320	22,736
Other comprehensive loss for the year	-	-	-	-	(10)	(10)	(7)	(17)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**22,416**	**(10)**	**22,406**	**313**	**22,719**
Transactions with owners								
Exercise of stock option plans	28	180	31	-	-	239	-	239
Cash dividends	-	-	-	(7,091)	-	(7,091)	-	(7,091)
Total transactions with owners	**28**	**180**	**31**	**(7,091)**	**-**	**(6,852)**	**-**	**(6,852)**
Transfer from surplus to reserves	-	-	90	(90)	-	-	-	-
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-	-	-
	-	**-**	**(2,488)**	**2,488**	**-**	**-**	**-**	**-**
Balance, December 31, 2017	**39,336**	**29,771**	**254**	**116,415**	**(5,088)**	**180,688**	**2,863**	**183,551**
Impact of PFRS 9 adoption	-	-	-	(62)	4,111	4,049	(8)	4,041
Restated balance, January 1, 2018	**39,336**	**29,771**	**254**	**116,353**	**(977)**	**184,737**	**2,855**	**187,592**
Comprehensive income								
Net income for the year	-	-	-	23,078	-	23,078	251	23,329
Other comprehensive loss for the year	-	-	-	-	(1,200)	(1,200)	(89)	(1,289)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**23,078**	**(1,200)**	**21,878**	**162**	**22,040**
Transactions with owners								
Proceeds from stock rights offering	5,587	44,120	-	-	-	49,707	-	49,707
Exercise of stock option plans	38	290	(25)	-	-	303	-	303
Cash dividends	-	-	-	(8,104)	-	(8,104)	-	(8,104)
Total transactions with owners	**5,625**	**44,410**	**(25)**	**(8,104)**	**-**	**41,906**	-	**41,906**
Transfer from surplus to reserves	-	-	3,867	(3,867)	-	-	-	-
Other movements	-	-	-	(1)	1	-	-	-
	-	**-**	**3,867**	**(3,868)**	**1**	**-**	**-**	**-**
Balance, December 31, 2018	**44,961**	**74,181**	**4,096**	**127,459**	**(2,176)**	**248,521**	**3,017**	**251,538**
Comprehensive income								
Net income for the year	-	-	-	28,803	-	28,803	280	29,083
Other comprehensive loss for the year	-	-	-	-	(34)	(34)	162	128
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**28,803**	**(34)**	**28,769**	**442**	**29,211**
Transactions with owners								
Exercise of stock option pans	38	268	30	-	-	336	-	336
Cash dividends	-	-	-	(8,113)	-	(8,113)	-	(8,113)
Total transactions with owners	**38**	**268**	**30**	**(8,113)**	**-**	**(7,777)**	**-**	**(7,777)**
Transfer from surplus to reserves	-	-	2,002	(2,002)	-	-	-	-
Transfer from reserves to surplus	-	-	(1,020)	1,020	-	-	-	-
Other movements	-	-	-	293	(229)	64	(2)	62
	-	**-**	**982**	**(689)**	**(229)**	**64**	**(2)**	**62**
Balance, December 31, 2019	**44,999**	**74,449**	**5,108**	**147,460**	**(2,439)**	**269,577**	**3,457**	**273,034**

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

	Parent (Note 18)					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2017	**39,308**	**29,591**	**2,695**	**56,095**	**(4,807)**	**122,882**
Comprehensive income						
Net income for the year	-	-	-	22,097	-	22,097
Other comprehensive income for the year	-	-	-	-	111	111
Total comprehensive income for the year	**-**	**-**	**-**	**22,097**	**111**	**22,208**
Transactions with owners						
Exercise of stock option plans	28	180	25	-	-	233
Cash dividends	-	-	-	(7,091)	-	(7,091)
Total transactions with owners	**28**	**180**	**25**	**(7,091)**	**-**	**(6,858)**
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-
Balance, December 31, 2017	**39,336**	**29,771**	**142**	**73,679**	**(4,696)**	**138,232**
Impact of PFRS 9 adoption	-	-	-	(178)	3,485	3,307
Restated balance, January 1, 2018	**39,336**	**29,771**	**142**	**73,501**	**(1,211)**	**141,539**
Comprehensive income						
Net income for the year	-	-	-	15,428	-	15,428
Other comprehensive income for the year	-	-	-	-	290	290
Total comprehensive income for the year	**-**	**-**	**-**	**15,428**	**290**	**15,718**
Transactions with owners						
Proceeds from stock rights offering	5,587	44,120	-	-	-	49,707
Exercise of stock option plans	38	290	(32)	-	-	296
Cash dividends	-	-	-	(8,104)	-	(8,104)
Total transactions with owners	**5,625**	**44,410**	**(32)**	**(8,104)**	**-**	**41,899**
Transfer from surplus to reserves	**-**	**-**	3,867	(3,867)	-	-
Balance, December 31, 2018	**44,961**	**74,181**	**3,977**	**76,958**	**(921)**	**199,156**
Comprehensive income						
Net income for the year	-	-	-	26,218	-	26,218
Other comprehensive loss for the year	-	-	-	-	(1,395)	(1,395)
Total comprehensive income for the year	**-**	**-**	**-**	**26,218**	**(1,395)**	**24,823**
Transactions with owners						
Exercise of stock option plans	38	268	43	-	-	349
Cash dividends	-	-	-	(8,113)	-	(8,113)
Total transactions with owners	**38**	**268**	**43**	**(8,113)**	**-**	**(7,764)**
Transfer from surplus to reserves	-	-	1,892	(1,892)	-	-
Transfer from reserves to surplus	-	-	(1,020)	1,020	-	-
Other movements	-	-	-	35	-	35
	-	**-**	**872**	**(837)**	**-**	**35**
Balance, December 31, 2019	**44,999**	**74,449**	**4,892**	**94,226**	**(2,316)**	**216,250**

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2019**	2018	2017	**2019**	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before income tax		**38,435**	29,999	28,692	**34,423**	20,445	25,883
Adjustments for:							
Impairment losses	5,9,10,14	**5,822**	4,923	3,795	**4,666**	4,271	3,519
Depreciation and amortization	11,14	**7,132**	4,797	4,255	**4,767**	2,916	2,783
Share in net income of associates	12	**(372)**	(700)	(772)	**-**	-	-
Dividend and other income	19	**(77)**	(76)	(68)	**(3,794)**	(904)	(9,492)
Share-based compensation	18	**30**	(25)	31	**42**	(32)	25
Interest income		**(101,583)**	(80,190)	(68,053)	**(83,279)**	(61,391)	(49,783)
Interest received		**100,293**	77,715	66,816	**83,294**	59,960	48,753
Interest expense		**35,638**	24,347	17,810	**27,507**	18,233	12,298
Interest paid		**(35,300)**	(23,440)	(17,495)	**(27,375)**	(17,494)	(11,901)
(Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		**1,898**	(821)	595	**1,895**	(966)	(353)
Financial assets at fair value through profit or loss		**(8,472)**	(2,257)	9,272	**(8,469)**	(236)	6,498
Loans and advances, net		**(125,028)**	(154,077)	(164,957)	**(109,711)**	(140,860)	(168,485)
Assets held for sale		**400**	655	313	**353**	509	447
Assets attributable to insurance operations		**287**	465	(944)	**-**	-	-
Other assets		**5,611**	(8,096)	(3,940)	**5,702**	(3,761)	(6,745)
Increase (decrease) in:							
Deposit liabilities		**109,598**	23,546	130,900	**109,252**	23,244	139,485
Due to Bangko Sentral ng Pilipinas and other banks		**(1,041)**	2,770	548	**(1,041)**	2,770	548
Manager's checks and demand drafts outstanding		**1,368**	(91)	(557)	**1,067**	(408)	(131)
Accrued taxes, interest and other expenses		**303**	1,033	(51)	**411**	562	(252)
Liabilities attributable to insurance operations		**5**	(457)	146	**-**	-	-
Derivative financial instruments		**(38)**	52	(311)	**(28)**	45	(306)
Deferred credits and other liabilities		**7,335**	2,493	7,550	**6,094**	2,506	6,037
Net cash from (used in) operations		**42,244**	(97,435)	13,575	**45,776**	(90,591)	(1,172)
Income taxes paid		**(10,363)**	(7,115)	(6,505)	**(9,135)**	(5,560)	(4,395)
Net cash from (used in) operating activities		**31,881**	(104,550)	7,070	**36,641**	(96,151)	(5,567)

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2019
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2019**	2018	2017	**2019**	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Investment securities, net	8,9	**(4,343)**	(25,828)	(7,029)	**(3,574)**	(31,400)	727
Bank premises, furniture, fixtures and equipment, net	11	**(13,400)**	(5,048)	(4,191)	**(10,285)**	(2,518)	(2,018)
Investment properties, net	14	**(57)**	1	-	**(55)**	12	-
Investment in subsidiaries and associates, net	12	**933**	305	745	**(89)**	(899)	(95)
Assets attributable to insurance operations		**(1,368)**	364	58	**-**	-	-
Dividends received	18	**77**	76	68	**3,794**	904	9,492
Net cash (used in) from investing activities		**(18,158)**	(30,130)	(10,349)	**(10,209)**	(33,901)	8,106
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid	17,18	**(12,167)**	(7,598)	(7,089)	**(12,165)**	(7,598)	(7,089)
Proceeds from share issuance	18	**306**	50,035	207	**306**	50,035	207
(Decrease) increase in bills payable and other borrowed funds	16	**(16,064)**	83,384	21,544	**(24,351)**	80,158	18,466
Net cash (used in) from financing activities		**(27,925)**	125,821	14,662	**(36,210)**	122,595	11,584
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(14,202)**	(8,859)	11,383	**(9,778)**	(7,457)	14,123
CASH AND CASH EQUIVALENTS							
January 1	4,5	**313,270**	322,129	310,746	**273,122**	280,579	266,456
December 31		**299,068**	313,270	322,129	**263,344**	273,122	280,579

(The notes on pages 1 to 109 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2019 and 2018 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2019

Note 1 - General Information

Bank of the Philippine Islands ("BPI" or the "Parent Bank") is a domestic commercial bank with an expanded banking license and was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. The Parent Bank's license was extended for another 50 years on January 4, 1993.

In 2019, the Bank's office address, which also serves as its principal place of business, was transferred to Ayala North Exchange, Ayala Avenue corner Salcedo Street, Legaspi Village, Makati City. Prior to 2019, BPI's registered office address and principal place of business were both located at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City.

BPI and its subsidiaries (collectively referred to as the "BPI Group") offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At December 31, 2019, the BPI Group has 21,429 employees (2018 - 18,911 employees) and operates 1,167 branches (2018 - 1,056 branches) and 2,822 ATMs (2018 - 3,034 ATMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet.

The Parent Bank is considered a public company under Rule 3.1 of Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public company as any corporation with a class of equity securities listed on an exchange, or with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities.

These financial statements have been approved and authorized for issuance by the Board of Directors (BOD) of the Parent Bank on February 19, 2020. There are no material events that occurred subsequent to February 19, 2020 until February 26, 2020.

The consolidated financial statements comprise the financial statements of the Parent Bank and the following subsidiaries:

Subsidiaries	Country of incorporation	Principal activities	% of ownership 2019	2018
BPI Family Savings Bank, Inc.	Philippines	Banking	**100**	100
BPI Capital Corporation	Philippines	Investment house	**100**	100
BPI Direct BanKo, Inc., A Savings Bank	Philippines	Banking	**100**	100
BPI Asset Management and Trust Corporation	Philippines	Asset management	**100**	100
BPI International Finance Limited	Hong Kong	Financing	**100**	100
BPI Europe Plc.	England and Wales	Banking (deposit)	**100**	100
BPI Securities Corp.	Philippines	Securities dealer	**100**	100
BPI Payments Holdings Inc.	Philippines	Financing	**100**	100
Filinvest Algo Financial Corp.	Philippines	Financing	**100**	100
BPI Investment Management, Inc.	Philippines	Investment management	**100**	100
Santiago Land Development Corporation	Philippines	Land holding	**100**	100
BPI Operations Management Corp.	Philippines	Operations management	**100**	100
BPI Computer Systems Corp.	Philippines	Business systems service	**100**	100
BPI Forex Corp.	Philippines	Foreign exchange	**100**	100
BPI Express Remittance Corp. USA	USA	Remittance	**100**	100
BPI Remittance Centre (HK) Ltd.	Hong Kong	Remittance	**100**	100
Green Enterprises S. R. L. in Liquidation	Italy	Remittance	**100**	100
First Far - East Development Corporation	Philippines	Real estate	**100**	100
FEB Stock Brokers, Inc.	Philippines	Securities dealer	**100**	100
BPI Express Remittance Spain S.A	Spain	Remittance	**100**	100
FEB Speed International	Philippines	Remittance	**100**	100
Ayala Plans, Inc.	Philippines	Pre-need	**98.93**	98.67
FGU Insurance Corporation	Philippines	Non-life insurance	**94.62**	94.62
BPI Century Tokyo Lease and Finance Corporation	Philippines	Leasing	**51**	51
BPI Century Tokyo Rental Corporation	Philippines	Rental	**51**	51
CityTrust Securities Corporation	Philippines	Securities dealer	**51**	51
BPI/MS Insurance Corporation	Philippines	Non-life insurance	**50.85**	50.85

Note 2 - Assets and Liabilities Attributable to Insurance Operations

Details of assets and liabilities attributable to insurance operations at December 31 are as follows:

	2019	2018
	(In Millions of Pesos)	
Assets		
Cash and cash equivalents (Note 4)	**217**	89
Insurance balances receivable, net	**5,010**	5,596
Investment securities		
Financial assets at fair value through profit or loss	**5,382**	1,788
Financial assets at fair value through other comprehensive income (OCI)	**4,344**	6,522
Financial assets at amortized cost	**153**	202
Investment in associates	**167**	167
Accounts receivable and other assets, net	**2,320**	2,106
Land, building and equipment	**197**	112
	17,790	16,582

	2019	2018
	(In Millions of Pesos)	
Liabilities		
Reserves and other balances	**12,544**	12,909
Accounts payable, accrued expenses and other payables	**1,517**	1,147
	14,061	14,056

Details of income attributable to insurance operations before income tax and minority interest for the years ended December 31 are as follows:

	2019	2018	2017
	(In Millions of Pesos)		
Premiums earned and related income	**3,841**	3,750	3,624
Investment and other income	**712**	755	864
	4,553	4,505	4,488
Benefits, claims and maturities	**1,942**	2,049	2,006
Decrease in actuarial reserve liabilities	**(412)**	(379)	(524)
Commissions	**938**	800	789
Management and general expenses	**838**	799	791
Other expenses	**24**	13	13
	3,330	3,282	3,075
Income before income tax and minority interest	**1,223**	1,223	1,413

Note 3 - Business Segments

Operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer (CEO), who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the BPI Group individually meet the definition of a reportable segment under Philippine Financial Reporting Standards (PFRS) 8, *Operating Segments*.

The BPI Group has determined the operating segments based on the nature of the services provided and the different clients/markets served representing a strategic business unit.

The BPI Group's main operating business segments follow:

- Consumer banking - this segment serves the individual and retail markets. Services cover deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. The segment also includes the entire transaction processing and service delivery infrastructure consisting of network of branches and ATMs as well as phone and internet-based banking platforms.

- Corporate banking - this segment caters both high-end corporations and middle market clients. Services offered include deposit taking and servicing, loan facilities, leasing, trade and cash management for corporate and institutional customers.

- Investment banking - this segment includes the various business groups operating in the investment markets and dealing in activities other than lending and deposit taking. These services cover corporate finance, securities distribution, asset management, trust and fiduciary services as well as proprietary trading and investment activities.

The performance of the Parent Bank is assessed as a single unit using financial information presented in the separate or Parent only financial statements. Likewise, the CEO assesses the performance of the insurance business as a standalone business segment separate from the banking and allied financial undertakings. Information on the assets, liabilities and results of operations of the insurance business is fully disclosed in Note 2.

The BPI Group and the Parent Bank mainly derive revenue (more than 90%) within the Philippines, accordingly, no geographical segment is presented.

The segment report forms part of management's assessment of the performance of the segment, among other performance indicators.

There were no changes in the reportable segments during the year. Transactions between the business segments are carried out at arm's length. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the BPI Group's cost of capital.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis. Inter-segment revenues however, are deemed insignificant for financial reporting purposes, thus, not reported in segment analysis below.

The BPI Group's management reporting is based on a measure of operating profit comprising net interest income, impairment charge, fees and commission income, other income and operating expenses.

Segment assets and liabilities comprise majority of operating assets and liabilities, measured in a manner consistent with that shown in the statements of condition, but exclude items such as taxation.

The segment assets, liabilities and results of operations of the reportable segments of the BPI Group as at and for the years ended December 31 are as follows:

	2019			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
	(In Millions of Pesos)			
Net interest income	41,494	17,168	11,860	**70,522**
Provision for credit and impairment losses	3,489	2,328	5	**5,822**
Net interest income after provision for credit and impairment losses	38,005	14,840	11,855	**64,700**
Fees, commissions and other income, net	14,313	4,020	8,329	**26,662**
Total income	52,318	18,860	20,184	**91,362**
Compensation and fringe benefits	14,373	2,598	1,108	**18,079**
Occupancy and equipment-related expenses	10,147	2,126	314	**12,587**
Other operating expenses	15,057	3,389	1,721	**20,167**
Total other expenses	39,577	8,113	3,143	**50,833**
Operating profit	12,741	10,747	17,041	**40,529**
Share in net income of associates				**563**
Income tax expense				**9,352**
Total assets	539,093	1,208,553	427,571	**2,175,217**
Total liabilities	1,211,212	552,549	145,398	**1,909,159**

	2018			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	33,973	11,019	16,148	61,140
Provision for credit and impairment losses	1,712	3,206	6	4,924
Net interest income after provision for credit and impairment losses	32,261	7,813	16,142	56,216
Fees, commissions and other income, net	12,292	3,260	5,280	20,832
Total income	44,553	11,073	21,422	77,048
Compensation and fringe benefits	12,554	2,132	1,002	15,688
Occupancy and equipment-related expenses	8,570	1,977	231	10,778
Other operating expenses	14,484	3,006	1,716	19,206
Total other expenses	35,608	7,115	2,949	45,672
Operating profit	8,945	3,958	18,473	31,376
Share in net income of associates				700
Income tax expense				6,670
Total assets	534,234	1,113,367	409,797	2,057,398
Total liabilities	1,124,800	552,969	137,872	1,815,641

	2017			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	28,083	10,195	13,384	51,662
Provision for credit and impairment losses	2,085	1,710	5	3,800
Net interest income after provision for credit and impairment losses	25,998	8,485	13,379	47,862
Fees, commissions and other income, net	12,148	2,657	6,694	21,499
Total income	38,146	11,142	20,073	69,361
Compensation and fringe benefits	9,311	1,335	1,020	11,666
Occupancy and equipment-related expenses	4,242	1,210	125	5,577
Other operating expenses	13,512	2,706	1,652	17,870
Total other expenses	27,065	5,251	2,797	35,113
Operating profit	11,081	5,891	17,276	34,248
Share in net income of associates				772
Income tax expense				5,956
Total assets	476,749	1,007,058	389,085	1,872,892
Total liabilities	1,063,069	550,367	85,946	1,699,382

Reconciliation of segment results to consolidated results of operations:

	2019		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
		(In Millions of Pesos)	
Net interest income	**70,522**	(4,577)	**65,945**
Provision for credit and impairment losses	**5,822**	-	**5,822**
Net interest income after provision for credit and impairment losses	**64,700**	(4,577)	**60,123**
Fees, commissions and other income, net	**26,662**	1,727	**28,389**
Total income	**91,362**	(2,850)	**88,512**
Compensation and fringe benefits	**18,079**	(592)	**17,487**
Occupancy and equipment-related expenses	**12,587**	3,536	**16,123**
Other operating expenses	**20,167**	(3,700)	**16,467**
Total other expenses	**50,833**	(756)	**50,077**
Operating profit	**40,529**	(2,094)	**38,435**
Share in net income of associates (included in Other income)	**563**		**563**
Income tax expense	**9,352**		**9,352**
Total assets	**2,175,217**	29,813	**2,205,030**
Total liabilities	**1,909,159**	22,837	**1,931,996**

	2018		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
		(In Millions of Pesos)	
Net interest income	61,140	(5,297)	55,843
Impairment charge	4,924	(1)	4,923
Net interest income after impairment charge	56,216	(5,296)	50,920
Fees, commissions and other income, net	20,832	1,849	22,681
Total income	77,048	(3,447)	73,601
Compensation and fringe benefits	15,688	(373)	15,315
Occupancy and equipment - related expenses	10,778	2,368	13,146
Other operating expenses	19,206	(4,065)	15,141
Total operating expenses	45,672	(2,070)	43,602
Operating profit	31,376	(1,377)	29,999
Share in net income of associates (included in Other income)	700	-	700
Income tax expense	6,670	-	6,670
Total assets	2,057,398	27,830	2,085,228
Total liabilities	1,815,641	18,049	1,833,690

	2017		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	51,662	(3,623)	48,039
Provision for credit and impairment losses	3,800	(5)	3,795
Net interest income after provision for credit and impairment losses	47,862	(3,618)	44,244
Fees, commissions and other income, net	21,499	1,482	22,981
Total income	69,361	(2,136)	67,225
Compensation and fringe benefits	11,666	2,231	13,897
Occupancy and equipment-related expenses	5,577	5,767	11,344
Other operating expenses	17,870	(4,578)	13,292
Total other expenses	35,113	3,420	38,533
Operating profit	34,248	(5,556)	28,692
Share in net income of associates (included in Other income)	772	-	772
Income tax expense	5,956	-	5,956
Total assets	1,872,892	31,013	1,903,905
Total liabilities	1,699,382	20,972	1,720,354

"Consolidation adjustments/Others" pertain to amounts of insurance operations, support units and inter-segment elimination in accordance with the BPI Group's internal reporting.

Note 4 - Cash and Cash Equivalents

The account at December 31 consists of:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Cash and other cash items	**47,256**	43,536	**45,982**	42,419
Due from Bangko Sentral ng Pilipinas (BSP)	**207,845**	225,907	**181,815**	202,487
Due from other banks	**22,356**	12,477	**18,356**	8,615
Interbank loans receivable and securities purchased under agreements to resell (Note 5)	**21,394**	31,261	**17,191**	19,601
Cash and cash equivalents attributable to insurance operations (Note 2)	**217**	89	**-**	-
	299,068	313,270	**263,344**	273,122

Note 5 - Interbank Loans Receivable and Securities Purchased under Agreements to Resell (SPAR)

The account at December 31 consists of transactions with:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
BSP	**20,306**	24,791	**16,947**	14,000
Other banks	**2,293**	9,552	**1,451**	8,686
	22,599	34,343	**18,398**	22,686
Accrued interest receivable	**11**	30	**6**	23
	22,610	34,373	**18,404**	22,709
Allowance for impairment	**(40)**	(50)	**(40)**	(50)
	22,570	34,323	**18,364**	22,659

As at December 31, 2019, Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P21,394 million (2018 - P31,261 million) for BPI Group and P17,191 million (2018 - P19,601 million) for the Parent Bank are classified as cash equivalents in the statements of cash flows (Note 4).

Government bonds are pledged by the BSP as collateral under reverse repurchase agreements. The aggregate face value of securities pledged approximates the total balance of outstanding placements as at reporting date.

The range of average interest rates (%) of interbank loans receivable and SPAR for the years ended December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
Peso-denominated	**3.49 - 5.74**	2.65 - 5.40	**4.33 - 10.48**	3.12 - 7.37
US dollar-denominated	**1.55 - 2.62**	1.50 - 2.34	**1.55 - 2.62**	1.50 - 2.34

Note 6 - Financial Assets at Fair Value through Profit or Loss (FVTPL)

The account at December 31 consists of:

		Consolidated		Parent	
	Note	**2019**	2018	**2019**	2018
		(In Millions of Pesos)			
Debt securities					
Government securities		**17,017**	8,953	**14,482**	5,515
Commercial papers of private companies		**4,082**	3,497	**283**	800
Listed equity securities		**73**	238	**-**	-
Derivative financial assets	7	**2,933**	4,033	**2,923**	4,031
		24,105	16,721	**17,688**	10,346

Note 7 - Derivative Financial Instruments

Derivatives held by the BPI Group consist mainly of the following:

- Foreign exchange forwards represent commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlement can be made via full delivery of forward proceeds or via payment of the difference (non-deliverable forward) between the contracted forward rate and the prevailing market rate at maturity.

- Foreign exchange swaps refer to spot purchase or sale of one currency against another with an offsetting agreement to sell or purchase the same currency at an agreed forward rate in the future.

- Interest rate swaps refer to agreement to exchange fixed rate versus floating interest payments (or vice versa) on a reference notional amount over an agreed period.

- Cross currency swaps refer to an exchange of notional amounts on two currencies at a given exchange rate where the parties on the transaction agree to pay a stated interest rate on the received notional amount and accept a stated interest rate on the delivered notional amount, payable and receivable or net settled (non-deliverable swaps) periodically over the term of the transaction.

The BPI Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the BPI Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts and fair values of derivative financial instruments as at December 31 are set out below:

Consolidated

	Fair Values			
	Assets		Liabilities	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Held for trading				
Foreign exchange derivatives				
Currency swaps	**630**	1,077	**950**	830
Currency forwards	**436**	250	**450**	219
Interest rate derivatives				
Interest rate swap	**1,856**	2,702	**1,414**	2,839
Interest rate futures	**-**	-	**-**	3
Warrants	**2**	4	**-**	-
Equity option	**9**	-	**-**	-
Held for hedging				
Cross currency swap	**-**	-	**63**	-
	2,933	4,033	**2,877**	3,891

Parent

	Fair Values			
	Assets		Liabilities	
	2019	2018	**2019**	2018
Held for trading				
Foreign exchange derivatives				
Currency swaps	**630**	1,077	**950**	827
Currency forwards	**436**	250	**450**	219
Interest rate derivatives				
Interest rate swap	**1,855**	2,702	**1,414**	2,839
Interest rate futures	**-**	-	**-**	3
Warrants	**2**	2	**-**	-
Held for hedging				
Cross currency swap	**-**	-	**63**	-
	2,923	4,031	**2,877**	3,888

Cash flow hedge of foreign currency-denominated bond
Consistent with its established risk management framework and asset liability management strategies, the Parent Bank decided to hedge the foreign currency exposure arising from the CHF-denominated debt (hedged item) issued in 2019 (Note 16).

The Parent Bank aims to minimize or reduce the volatility in the overall portfolio brought about by the movement of CHF against the US Dollar through a hedging instrument - cross currency interest rate swap (CCIRS). Under the terms of the CCIRS, the Parent Bank agrees to receive CHF in exchange for US Dollar at settlement date which coincides with the maturity date of the hedged item. The volatility arising from movement of US Dollar against the functional currency (Philippine Peso), however, is managed in conjunction with the Parent Bank's overall foreign currency risk management. The hedge ratio of 1:1 is observed so as not to create an imbalance that would create hedge ineffectiveness. The hedge has been assessed to be effective as of reporting date.

Critical accounting estimate - Determination of fair value of derivatives and other financial instruments
The fair values of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, discounted cash flow models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Inputs used in these models are from observable data and quoted market prices in respect of similar financial instruments.

All models are approved by the BOD before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect reported fair value of financial instruments. The BPI Group considers that it is impracticable, however, to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

Note 8 - Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

Details of the account at December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Debt securities				
Government securities	**39,751**	32,718	**36,409**	27,814
Commercial papers of private companies	**10,624**	2,695	**9,914**	2,090
	50,375	35,413	**46,323**	29,904
Accrued interest receivable	**704**	118	**686**	89
	51,079	35,531	**47,009**	29,993
Equity securities				
Listed	**1,738**	1,129	**972**	406
Unlisted	**1,088**	546	**339**	184
	2,826	1,675	**1,311**	590
	53,905	37,206	**48,320**	30,583

The range of average effective interest rates (%) of financial assets at FVOCI for the years ended December 31 follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
Peso-denominated	**4.09 - 5.40**	1.18 - 4.20	**4.42 - 5.75**	1.65 - 5.43
Foreign currency-denominated	**2.14 - 2.94**	2.09 - 2.85	**2.14 - 2.94**	2.33 - 2.85

Interest income from debt instruments recognized in the statement of income for the year ended December 31, 2019 amounts to P1,937 million (2018 - P278 million; 2017 - P200 million) and P1,871 million (2018 - P160 million; 2017 - P323 million) for the BPI Group and Parent Bank, respectively.

Dividend income from equity instruments recognized in the statement of income for the year ended December 31, 2019 amounts to P76 million (2018 - P64 million; 2017 - P53 million) and P48 million (2018 - P41 million; 2017 - P26 million) for the BPI Group and Parent Bank, respectively.

Note 9 - Investment Securities at Amortized cost, net

Details of the account at December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Government securities	**190,773**	196,957	**170,366**	180,044
Commercial papers of private companies	**80,644**	86,826	**78,285**	83,964
	271,417	283,783	**248,651**	264,008
Accrued interest receivable	**3,688**	3,790	**3,355**	3,491
	275,105	287,573	**252,006**	267,499
Allowance for impairment	**-**	(2)	**-**	(2)
	275,105	287,571	**252,006**	267,497

The range of average effective interest rates (%) for the years ended December 31 follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
Peso-denominated	**3.62 - 4.03**	3.53 - 3.90	**3.64 - 4.05**	3.55 - 3.93
Foreign currency-denominated	**3.08 - 4.69**	2.80 - 3.16	**3.11 - 4.83**	2.84 - 3.19

Interest income from these investment securities recognized in the statements of income for the year ended December 31, 2019 amounts to P10,318 million (2018 - P9,035 million; 2017 - P8,631 million) and P9,675 million (2018 - P8,514 million; 2017 - P7,912 million) for the BPI Group and the Parent Bank, respectively.

Investment securities are expected to be realized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
		(In Millions of Pesos)		
Current (within 12 months)	**15,165**	30,159	**10,686**	28,038
Non-current (over 12 months)	**259,940**	257,414	**241,320**	239,461
	275,105	287,573	**252,006**	267,499

Critical accounting judgment- Classification of investment securities at amortized cost
The BPI Group classifies its financial assets at initial recognition as to whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. The BPI Group determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The BPI Group determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

Note 10 - Loans and Advances, net

Details of this account at December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
Corporate loans		(In Millions of Pesos)		
Large corporate customers	**1,147,643**	1,043,855	**1,121,050**	1,019,626
Small and medium enterprise	**73,357**	87,998	**54,553**	62,058
Retail loans				
Credit cards	**75,100**	60,843	**72,785**	59,228
Real estate mortgages	**137,380**	126,088	**11**	12
Auto loans	**53,789**	51,845	**-**	-
Others	**11,421**	5,145	**499**	14
	1,498,690	1,375,774	**1,248,898**	1,140,938
Accrued interest receivable	**9,660**	8,454	**6,958**	5,963
Unearned discount/income	**(7,040)**	(6,430)	**(5,475)**	(4,978)
	1,501,310	1,377,798	**1,250,381**	1,141,923
Allowance for impairment	**(25,974)**	(22,902)	**(18,605)**	(15,967)
	1,475,336	1,354,896	**1,231,776**	1,125,956

Loans and advances aggregating P19,628 million (2017 - P31,520 million) are used as security for bills payable of the Parent Bank (Note 16).

Loans and advances include amounts due from related parties (Note 25).

Loans and advances are expected to be realized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Within 12 months (Current)	**552,190**	554,183	**517,516**	515,723
Over 12 months (Non-current)	**949,120**	823,615	**732,865**	626,200
	1,501,310	1,377,798	**1,250,381**	1,141,923

Finance lease operations (the BPI Group as the lessor)
The BPI Group, through BPI Century Tokyo Lease and Finance Corporation, is engaged in the leasing out of transportation equipment under various finance lease arrangements which typically run for a non-cancellable period of five years. The lease contracts generally include an option for the lessee to purchase the leased asset after the lease period at a price that approximates to about 5% to 40% of the fair value of the asset at the inception of the lease. Likewise, the lease contract requires the lessee to put up a guarantee deposit equivalent to the residual value of the leased asset at the end of lease term. In the event that the residual value of the leased asset exceeds the guaranteed deposit liability at the end of the lease term, the BPI Group receives additional payment from the lessee prior to the transfer of the leased asset.

Details of finance lease receivables (included in "Corporate loans" category above) arising from lease contracts are as follows:

	Consolidated	
	2019	2018
	(In Millions of Pesos)	
Total future minimum lease collections	**12,666**	11,203
Unearned finance income	**(1,395)**	(1,321)
Present value of future minimum lease collections	**11,271**	9,882
Allowance for credit losses	**(628)**	(304)
	10,643	9,578

Details of future gross minimum lease payments receivable follow:

	Consolidated	
	2019	2018
	(In Millions of Pesos)	
Not later than one year	**1,532**	4,299
Later than one year but not later than five years	**10,373**	6,270
More than five years	**761**	634
	12,666	11,203
Unearned finance income	**(1,395)**	(1,321)
	11,271	9,882

There are no contingent rents arising from lease contracts outstanding at December 31, 2019 and 2018.

The range of average interest rates (%) of loans and advances for the years ended December 31 follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
Commercial loans				
Peso-denominated loans	**5.00 - 5.95**	4.11 - 5.52	**5.24 - 5.88**	3.98 - 5.44
Foreign currency-denominated loans	**4.18 - 4.91**	3.61 - 4.86	**4.18 - 4.91**	3.61 - 4.86
Real estate mortgages	**7.30 - 7.74**	6.61 - 6.97	**0.10 - 4.26**	7.04 - 8.00
Auto loans	**8.31 - 10.69**	7.46 - 10.93	**-**	-

Details of the loans and advances portfolio at December 31 as to collateral (amounts net of unearned discounts and exclusive of accrued interest receivable) are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**278,099**	220,587	**138,607**	97,170
Chattel mortgage	**57,037**	54,731	**10**	9
Others	**148,385**	172,503	**146,038**	168,260
	483,521	447,821	**284,655**	265,439
Unsecured loans	**1,008,129**	921,523	**958,768**	870,521
	1,491,650	1,369,344	**1,243,423**	1,135,960

Other collaterals include hold-out deposits, mortgage trust indentures, government and corporate securities and bonds, quedan/warehouse receipts, standby letters of credit, trust receipts, and deposit substitutes.

Note 11 - Bank Premises, Furniture, Fixtures and Equipment, net

The details of and movements in the account are summarized below:

Consolidated

		2019				
	Note	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	**Total**
		(In Millions of Pesos)				
Cost						
January 1, 2019, as previously reported		3,028	10,889	16,496	5,580	**35,993**
Impact of adoption of PFRS 16	20,29	-	9,051	-	-	**9,051**
January 1, 2019, as restated		3,028	19,940	16,496	5,580	**45,044**
Additions		-	2,607	1,326	1,570	**5,503**
Disposals		(9)	(224)	(707)	(1,019)	**(1,959)**
Transfers		-	(367)	(92)	-	**(459)**
December 31, 2019		**3,019**	**21,956**	**17,023**	**6,131**	**48,129**
Accumulated depreciation						
January 1, 2019		-	5,511	13,040	1,190	**19,741**
Depreciation and amortization		-	2,829	1,712	1,364	**5,905**
Disposals		-	(141)	(383)	(687)	**(1,211)**
Transfers		-	(20)	(12)	(22)	**(54)**
December 31, 2019		**-**	**8,179**	**14,357**	**1,845**	**24,381**
Net book value, December 31, 2019		**3,019**	**13,777**	**2,666**	**4,286**	**23,748**

	2018				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2018	3,023	9,591	15,278	5,502	33,394
Additions	-	1,443	2,052	1,875	5,370
Disposals	(1)	(145)	(840)	(1,765)	(2,751)
Transfers	6	-	6	(32)	(20)
December 31, 2018	3,028	10,889	16,496	5,580	35,993
Accumulated depreciation					
January 1, 2018	-	4,849	11,749	1,739	18,337
Depreciation and amortization	-	755	1,831	1,269	3,855
Disposals	-	(93)	(541)	(1,800)	(2,434)
Transfers	-	-	1	(18)	(17)
December 31, 2018	-	5,511	13,040	1,190	19,741
Net book value, December 31, 2018	3,028	5,378	3,456	4,390	16,252

Parent

	2019				
	Note	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)				
	(In Millions of Pesos)				
Cost					
January 1, 2019, as previously reported		2,677	9,615	14,708	**27,000**
Impact of adoption of PFRS 16	20,29	-	7,900	-	**7,900**
January 1, 2019, as restated		2,677	17,515	14,708	**34,900**
Additions		-	1,767	1,036	**2,803**
Disposals		(9)	(223)	(567)	**(799)**
Transfers		-	(103)	-	**(103)**
December 31, 2019		**2,668**	**18,956**	**15,177**	**36,801**
Accumulated depreciation					
January 1, 2019		-	5,040	11,814	**16,854**
Depreciation and amortization		-	2,352	1,484	**3,836**
Disposals		-	(141)	(324)	**(465)**
Transfers		-	(19)	-	**(19)**
December 31, 2019		-	7,232	12,974	**20,206**
Net book value, December 31, 2019		**2,668**	**11,724**	**2,203**	**16,595**

	2018			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2018	2,661	8,582	13,850	25,093
Additions	(1)	1,178	1,590	2,767
Disposals	-	(145)	(732)	(877)
Transfers	17	-	-	17
December 31, 2018	2,677	9,615	14,708	27,000
Accumulated depreciation				
January 1, 2018	-	4,492	10,696	15,188
Depreciation and amortization	-	642	1,634	2,276
Disposals	-	(94)	(516)	(610)
December 31, 2018	-	5,040	11,814	16,854
Net book value, December 31, 2018	2,677	4,575	2,894	10,146

Depreciation and amortization charges are included in "Occupancy and equipment-related expenses" category in the statements of income.

In 2019, the Parent Bank realized a gain of P855 million (2018 - P969 million) (Note 19) from disposal of certain properties.

Critical accounting estimate - Useful lives of bank premises, furniture, fixtures and equipment
The BPI Group determines the estimated useful lives of its bank premises, furniture, fixtures and equipment based on the period over which the assets are expected to be available for use. The BPI Group annually reviews the estimated useful lives of bank premises, furniture, fixtures and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the carrying values of bank premises, furniture, fixtures and equipment.

Note 12 - Investments in Subsidiaries and Associates, net

This account at December 31 consists of investments in shares of stock as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	**6,746**	5,659	**-**	-
Investments at cost method	**-**	-	**10,031**	9,942
	6,746	5,659	**10,031**	9,942

Investments in associates accounted for using the equity method in the consolidated statements of condition are as follows:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest 2019	Percentage of ownership interest 2018	Acquisition cost 2019	Acquisition cost 2018
		(in %)		(In Millions of Pesos)	
BPI-Philamlife Assurance Corporation (BPLAC)	Philippines	**47.96**	47.67	**389**	371
AF Payments, Inc. (AFPI)	Philippines	**20.00**	20.00	**820**	750
National Reinsurance Corporation of the Philippines*	Philippines	**13.69**	13.69	**204**	204
Beacon Property Ventures, Inc.	Philippines	**20.00**	20.00	**72**	72
CityTrust Realty Corporation	Philippines	**40.00**	40.00	**2**	2
Global Payments Asia-Pacific Philippines, Incorporated	Philippines	**49.00**	49.00	**1,342**	1,342
				2,829	2,741

**The Parent Bank has a significant influence due to its representation in the governing body of National Reinsurance Corporation of the Philippines*

The movements in investments in associates accounted for using the equity method in the consolidated financial statements are summarized as follows:

	2019	2018
	(In Millions of Pesos)	
Acquisition cost		
At January 1	**2,741**	2,681
Additions during the year	**88**	60
At December 31	**2,829**	2,741
Accumulated equity in net income		
At January 1	**3,264**	3,239
Share in net income for the year	**372**	700
Dividends received	**(629)**	(675)
At December 31	**3,007**	3,264
Accumulated share in other comprehensive income (loss)		
At January 1	**(206)**	466
Share in other comprehensive income (loss) for the year	**1,256**	(672)
At December 31	**1,050**	(206)
Allowance for impairment	**(140)**	(140)
	6,746	5,659

No associate is deemed individually significant for financial reporting purposes. Accordingly, the relevant unaudited financial information of associates as at and for the years ended December 31 has been aggregated as follows:

	2019	2018
	(In Millions of Pesos)	
Total assets	**132,126**	122,616
Total liabilities	**113,282**	105,960
Total revenues	**25,911**	18,618
Total net income	**2,007**	1,425

The details of equity investments accounted for using the cost method in the separate financial statements of the Parent Bank follow:

	Acquisition cost		Allowance for impairment		Carrying value	
	2019	2018	2019	2018	2019	2018
			(In Millions of Pesos)			
Subsidiaries						
BPI Europe Plc.	**1,910**	1,910	**-**	-	**1,910**	1,910
BPI Asset Management and Trust Corporation (BPI AMTC)	**1,502**	1,502	**-**	-	**1,502**	1,502
BPI Direct BanKo, Inc., A Savings Bank	**1,009**	1,009	**-**	-	**1,009**	1,009
Ayala Plans, Inc. (API)	**864**	863	**-**	-	**864**	863
BPI Capital Corporation	**623**	623	**-**	-	**623**	623
BPI Payments Holdings Inc.	**573**	503	**(299)**	(299)	**274**	204
BPI Century Tokyo Lease and Finance Corporation	**329**	329	**-**	-	**329**	329
FGU Insurance Corporation	**303**	303	**-**	-	**303**	303
BPI Forex Corp.	**195**	195	**-**	-	**195**	195
BPI Express Remittance Corp. USA	**191**	191	**-**	-	**191**	191
BPI Family Savings Bank, Inc.	**150**	150	**-**	-	**150**	150
BPI Remittance Centre (HK) Ltd. (BERC HK)	**132**	132	**-**	-	**132**	132
First Far-East Development Corporation	**91**	91	**-**	-	**91**	91
Green Enterprises S.R.L. in Liquidation	**54**	54	**-**	-	**54**	54
FEB Stock Brokers, Inc.	**25**	25	**-**	-	**25**	25
BPI Computer Systems Corp.	**23**	23	**-**	-	**23**	23
BPI Express Remittance Spain S.A	**26**	26	**-**	-	**26**	26
Others	**321**	321	**-**	-	**321**	321
Associates	**2,009**	1,991	**-**	-	**2,009**	1,991
	10,330	10,241	**(299)**	(299)	**10,031**	9,942

No non-controlling interest arising from investments in subsidiaries is deemed material to the BPI Group.

In 2019, the Parent Bank made an additional capital infusion to BPHI amounting to P70 million (2018 - P60 million). Likewise, the Parent Bank in 2018, recognized impairment loss of P299 million on its investment in BPHI due financial losses incurred by BPHI's associate, AFPI, as disclosed above.

On November 21, 2018, BPI International Finance Limited (included in "Others" subsidiaries in the table above) distributed its shares in BERC HK valued at P132 million as a property dividend to the Parent Bank. BERC HK became an immediate subsidiary of the Parent Bank following the property dividend declaration.

On October 17, 2018, the Parent Bank made additional investment to BPI AMTC via transfer of contractual customer relationships (included in "Intangible assets" in Note 14) valued at P902 million.

Note 13 - Deferred Income Taxes

Details of deferred income tax assets and liabilities at December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for credit and impairment losses	**8,345**	7,833	**5,644**	5,329
Pension liability	**1,129**	661	**897**	454
Provisions	**394**	329	**313**	248
Others	**354**	225	**263**	195
Total deferred income tax assets	**10,222**	9,048	**7,117**	6,226
Deferred income tax liabilities				
Unrealized gain on property appraisal	**(483)**	(491)	**(483)**	(491)
Others	**(33)**	(21)	**19**	(12)
Total deferred income tax liabilities	**(516)**	(512)	**(464)**	(503)
Deferred income tax assets, net	**9,706**	8,536	**6,653**	5,723

Movements in net deferred income tax assets are summarized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**8,536**	8,091	**5,723**	5,180
Amounts recognized in statements of income	**685**	734	**583**	776
Amounts recognized in other comprehensive income	**485**	(289)	**347**	(233)
At December 31	**9,706**	8,536	**6,653**	5,723

Details of deferred income tax items recognized in the statements of income are as follows:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
	(In Millions of Pesos)					
Allowance for impairment	**(946)**	(547)	(443)	**(718)**	(593)	(563)
Provisions	**-**	(1)	(27)	**-**	6	(9)
Pension	**18**	68	174	**9**	9	(65)
NOLCO	**83**	129	(66)	**-**	-	-
Others	**160**	(383)	(100)	**126**	(198)	175
	(685)	(734)	(462)	**(583)**	(776)	(462)

Critical accounting judgment - Realization of deferred income tax assets
Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax assets will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Note 14 - Other Assets, net

The account at December 31 consists of the following:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Intangible assets	**2,797**	3,070	**2,435**	2,416
Accounts receivable	**2,358**	2,761	**2,218**	2,509
Residual value of equipment for lease	**2,781**	2,601	**-**	-
Sundry debits	**1,663**	3,392	**1,518**	3,292
Prepaid expenses	**944**	1,343	**578**	1,007
Accrued trust and other fees	**747**	540	**338**	131
Rental deposits	**734**	671	**623**	573
Creditable withholding tax	**503**	408	**107**	79
Investment properties	**156**	129	**143**	118
Miscellaneous assets	**3,239**	8,108	**2,260**	6,853
	15,922	23,023	**10,220**	16,978
Allowance for impairment	**(515)**	(824)	**(310)**	(665)
	15,407	22,199	**9,910**	16,313

Sundry debits are float items caused by timing differences in recording of transactions. These float items are normally cleared within seven days.

Miscellaneous assets include prepaid expenses, postage stamps, stationery and supplies.

The allowance for impairment as at December 31, 2019 and 2018 mainly pertains to accounts receivable. The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**825**	848	**665**	701
Provision for (reversal of) impairment losses	**54**	89	**5**	(69)
Transfer/reallocation	**(38)**	(34)	**(36)**	110
Write-off	**(326)**	(79)	**(324)**	(77)
At December 31	**515**	824	**310**	665

Other assets are expected to be realized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(in millions of pesos)			
Current (within 12 months)	**10,089**	17,143	**7,632**	14,434
Non-current (over 12 months)	**5,833**	5,880	**2,588**	2,544
	15,922	23,023	**10,220**	16,978

Note 15 - Deposit Liabilities

The account at December 31 consists of:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Demand	**272,020**	256,279	**262,149**	245,620
Savings	**899,181**	883,650	**795,936**	778,246
Time	**524,142**	445,817	**398,373**	323,341
	1,695,343	1,585,746	**1,456,458**	1,347,207

Deposit liabilities include amounts due to related parties (Note 25).

Deposit liabilities are expected to be settled as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(in millions of pesos)			
Current (within 12 months)	**796,447**	602,031	**711,910**	534,119
Non-current (over 12 months)	**898,896**	983,715	**744,548**	813,088
	1,695,343	1,585,746	**1,456,458**	1,347,207

In 2019, the Parent Bank issued the first tranche of long-term negotiable certificates of deposit (LTNCD) amounting to P3 billion out of the established P50-billion LTNCD program approved by the BSP. The LTNCDs pay interest on a quarterly basis at a rate 4% per annum and carry a tenor of 5.5 years maturing on April 25, 2025. The proceeds from the LTNCD issuance are included in "Time deposits" category

Related interest expense on deposit liabilities is presented below:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
	(In Millions of Pesos)					
Demand	**628**	687	616	**574**	630	557
Savings	**6,738**	7,384	6,723	**5,541**	6,061	5,489
Time	**21,508**	13,184	9,321	**15,361**	8,954	5,367
	28,874	21,255	16,660	**21,476**	15,645	11,413

BSP reserve requirement
The Parent Bank and its bank and non-bank subsidiaries with quasi-banking functions should comply with a minimum reserve requirement on deposit and deposit substitute liabilities in local currency.

In 2018, the reserve ratio decreased to 18% from 20% following the BSP's decision to reduce the requirements. In 2019, the BSP approved further reductions in reserves which brought the requirement down to 14% effective December 6, 2019 by virtue of BSP Circular 1063. Further, the BSP requires a 4% reserve requirement for LTNCDs.

Reserves must be set aside in deposits with the BSP. As at December 31, 2019, the reserves (included in Due from BSP) amounted to P178,591 million (2018 - P214,196 million) for the BPI Group and P169,303 million (2018 - P195,883 million) for the Parent Bank. The BPI Group is in full compliance with the reserve requirement as at December 31, 2019 and 2018.

Note 16 - Bills Payable and Other Borrowed Funds

The account at December 31 consists of:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Bills payable				
Local banks	**34,364**	58,810	**21,810**	46,761
Foreign banks	**31,417**	51,813	**29,255**	47,841
Other borrowed funds	**85,056**	56,278	**75,464**	56,278
	150,837	166,901	**126,529**	150,880

Bills payable
Bills payable include mainly funds borrowed from various banking institutions which were lent out to customers of the BPI Group in accordance with the agreed financing programs. Loans and advances arising from these financing programs serve as collateral for this liability (Note 10). The average payment term of these bills payable is 0.90 years (2018 - 0.39 years).

The range of average interest rates (%) of bills payable for the years ended December 31 follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
Private firms and local banks - Peso-denominated	**2.20 - 6.67**	2.75 - 7.35	**2.25 - 6.25**	2.75 - 5.06
Foreign banks - Foreign currency-denominated	**0.63 - 4.20**	1.32 - 4.20	**1.45 - 3.66**	1.32 - 3.26

Other borrowed funds
This represents funds raised via debt issuance programs as follows:

a) Peso Bond and Commercial Paper Program

In 2018, the Parent Bank established a Peso Bond and Commercial Paper Program in the aggregate amount of up to P50,000 million, out of which a total of P25,000 million notes were issued with a coupon of 6.7970% per annum, payable quarterly to mature on March 6, 2020. Last 20 November 2019, BPI's Board of Directors approved the issuance of peso-denominated bonds and commercial papers of up to Php 100Bn, in one or more tranches, under an updated Bank Bond Issuance Program.

Likewise, on October 31, 2019, the BOD of BPI Family Savings Bank, Inc. (BPI Family), a subsidiary, approved the establishment of a Peso Bond Program in the aggregate amount of P35,000 million. In line with the said program, on December 16, 2019, BPI Family issued P9,600 million with a coupon of 4.30% per annum, payable quarterly to mature on June 16, 2022.

b) Medium-Term Note (MTN) Program

On June 21, 2018, the BOD of the Parent Bank approved the establishment of the MTN Program in the aggregate amount of up to US$2,000 million with drawdowns as follows:

Description of instrument	Date of drawdown	Interest rate	Maturity	Amount (In Millions of Pesos)
US$ 600 million, 5-year senior unsecured Bonds	September 4, 2018	4.25%	September 4, 2023	32,000
US$ 300 million, 5-year senior unsecured Green Bonds	September 10, 2019	2.5%	September 10, 2024	15,572
CHF 100 million, 2-year senior unsecured Green Bonds	September 24, 2019	-	September 24, 2021	5,250

The CHF-denominated bonds are designated as hedged items in a cash flow hedge initiated by the Parent Bank in 2019. See Note 7 for the related disclosures.

Interest expense for the years ended December 31 is summarized as follows:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
			(In Millions of Pesos)			
Bills payable	**3,549**	2,517	1,150	**2,834**	2,013	885
Other borrowed funds	**3,215**	575	-	**3,197**	575	-
	6,764	3,092	1,150	**6,031**	2,588	885

The movements in bills payable and other borrowed funds are summarized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
		(In Millions of Pesos)		
At January 1	**166,901**	83,517	**150,880**	70,722
Additions	**374,332**	706,779	**291,585**	651,065
Maturities	**(387,343)**	(623,196)	**(313,027)**	(570,594)
Amortization of discount	**(17)**	121	**(19)**	120
Exchange differences	**(3,036)**	(320)	**(2,890)**	(433)
At December 31	**150,837**	166,901	**126,529**	150,880

Bills payable and other borrowed funds are expected to be settled as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
		(In Millions of Pesos)		
Current (within 12 months)	**48,291**	99,381	**35,948**	84,086
Non-current (over 12 months)	**102,546**	67,520	**90,581**	66,794
	150,837	166,901	**126,529**	150,880

Note 17 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Notes	Consolidated		Parent	
		2019	2018	**2019**	2018
		(In Millions of Pesos)			
Bills purchased - contra		**15,301**	12,872	**15,299**	12,862
Lease liabilities	20,29	**7,856**	-	**6,739**	-
Accounts payable		**4,738**	8,096	**3,078**	5,635
Outstanding acceptances		**3,855**	2,394	**3,855**	2,394
Deposits on lease contracts		**2,639**	2,438	**-**	-
Other deferred credits		**1,576**	810	**323**	67
Withholding tax payable		**1,062**	674	**892**	514
Due to the Treasurer of the Philippines		**947**	650	**827**	575
Vouchers payable		**51**	-	**51**	-
Dividends payable		**-**	4,053	**-**	4,052
Miscellaneous liabilities		**9,743**	11,133	**7,875**	9,694
		47,768	43,120	**38,939**	35,793

Bills purchased - contra represents liabilities arising from the outright purchases of checks due for clearing as a means of immediate financing offered by the BPI Group to its clients.

Miscellaneous liabilities include pension liability, insurance, allowance for credit losses for undrawn committed credit facilities and other employee-related payables.

The account is expected to be settled as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Current (within 12 months)	**36,818**	41,343	**36,455**	34,753
Non-current (over 12 months)	**10,950**	1,777	**2,484**	1,040
	47,768	43,120	**38,939**	35,793

Note 18 - Capital Funds

a) Share capital

Details of authorized share capital of the Parent Bank follow:

	2019	2018	2017
	(In Millions of Pesos, except par value per share)		
Authorized capital (at P10 par value per share)			
Common shares	**49,000**	49,000	49,000
Preferred A shares	**600**	600	600
	49,600	49,600	49,600

Details of outstanding common shares are as follows:

	2019	2018	2017
		(In Number of Shares)	
Issued common shares			
At January 1	**4,502,449,501**	3,939,412,661	3,937,043,603
Issuance of shares during the year	**4,622,143**	563,036,840	2,369,058
At December 31	**4,507,071,644**	4,502,449,501	3,939,412,661
Subscribed common shares	**7,163,739**	6,341,738	5,785,721

The BPI common shares are listed and traded in the PSE since October 12, 1971.

On February 10, 2014, additional 370,370,370 common shares were listed as a result of the stock rights offer. Likewise, on April 25, 2018, BPI completed its P50 billion stock rights offer, which paved the way for the issuance of 558,659,210 new common shares at P89.50 per share. The new shares were issued to shareholders as of record date April 6, 2018, at a ratio of 1:7.0594, or 1 new common share for every 7 shares held, or 14.2% of BPI's outstanding common shares. These new shares were listed on the Philippine Stock Exchange (PSE) on May 4, 2018.

As at December 31, 2019, 2018 and 2017, the Parent Bank has 12,396, 12,588, and 11,488 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2019, 2018 and 2017.

b) Reserves

The account consists of:

	Consolidated			Parent		
	2019	2018	2017	2019	2018	2017
			(In Millions of Pesos)			
General loan loss provision	**4,739**	3,867	-	**4,739**	3,867	-
Reserve for trust business	**199**	90	90	**-**	-	-
Executive stock option plan amortization	**136**	105	130	**119**	76	108
Reserve for self-insurance	**34**	34	34	**34**	34	34
	5,108	4,096	254	**4,892**	3,977	142

General loan loss provision (GLLP)
In 2018, the BSP issued Circular 1011 which mandates among others, banks to set up GLLP equal to 1% of all outstanding "Stage 1" on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Under the said Circular, if the PFRS 9 "Stage 1" loan loss provision is lower than the required GLLP, the deficiency shall be recognized as an appropriation of retained earnings or surplus. Accordingly, the BPI Group appropriated P4,739 million at December 31, 2019 (2018 - P3,867 million) representing the excess of GLLP over PFRS 9 loan loss provision out of surplus earnings to meet the requirement of the BSP.

Reserve for trust business
In compliance with existing BSP regulations, 10% of BPI AMTC's income from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business reaches 20% of the authorized capital of BPI AMTC.

Reserve for self-insurance
Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of personnel and third parties.

Share-based compensation plan
The BOD of the Parent Bank approved to grant the Executive Stock Option Plan (ESOP) and Executive Stock Purchase Plan (ESPP) to qualified beneficiaries/participants up to the following number of shares for future distribution:

Date	Approved ESOP shares	Approved ESPP shares
December 11, 2019	4,035,000	9,100,000
December 11, 2018	4,168,000	11,500,000
December 13, 2017	3,560,000	7,500,000
December 14, 2016	3,560,000	4,500,000
December 18, 2015	3,575,000	8,000,000

The ESOP has a three-year vesting period from grant date while the ESPP has a five-year payment period.

The exercise price for ESOP is equal to the volume weighted average of BPI share price for the 30-trading days immediately prior to the grant date. The weighted average fair value of options granted determined using the Black-Scholes valuation model was P6.50 and P17.41 for the years ended December 31, 2018 and 2017 respectively.

Movements in the number of share options under the ESOP are summarized as follows:

	2019	2018	2017
At January 1	**11,773,334**	11,338,333	9,100,000
Granted	**4,000,000**	3,480,000	3,485,000
Exercised	**(1,116,666)**	(2,786,665)	(746,667)
Cancelled	**(691,667)**	(258,334)	(500,000)
At December 31	**13,965,001**	11,773,334	11,338,333
Exercisable	**6,733,334**	5,120,000	6,745,000

The impact of ESOP is not considered material to the financial statements; thus, the disclosures were limited only to the information mentioned above.

The subscription price for ESPP is equivalent to 15% below the volume weighted average of BPI share price for the 30-trading days immediately prior to the grant date. The subscription dates for ESPP were on February 4, 2020, January 7, 2019 and February 15, 2017.

c) Accumulated other comprehensive loss

Details of and movements in the account are as follows:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
			(In Millions of Pesos)			
Fair value reserve on available-for-sale securities						
At January 1	**-**	(3,125)	(3,838)	**-**	(3,275)	(3,724)
Effect of PFRS 9 adoption	**-**	3,125	-	**-**	3,275	-
Unrealized fair value loss before tax	**-**	-	264	**-**	-	23
Amount recycled to profit or loss	**-**	-	447	**-**	-	424
Deferred income tax effect	**-**	-	2	**-**	-	2
At December 31	**-**	-	(3,125)	**-**	-	(3,275)
Fair value reserve on financial assets at FVOCI						
At January 1	**(33)**	-	-	**69**	-	-
Unrealized fair value loss before tax	**(424)**	(364)	-	**(94)**	(12)	-
Amount recycled to profit or loss	**387**	(390)	-	**(32)**	(128)	-
Effect of PFRS 9 adoption	**-**	757	-	**-**	210	-
Deferred income tax effect	**(14)**	(36)	-	**(4)**	(1)	-
At December 31	**(84)**	(33)	-	**(61)**	69	-
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	**(36)**	45	(158)	**-**	-	-
Share in other comprehensive income (loss) for the year, before tax	**389**	(316)	175	**-**	-	-
Effect of PFRS 9 adoption	**(229)**	229	-	**-**	-	-
Deferred income tax effect	**(6)**	6	28	**-**	-	-
At December 31	**118**	(36)	45	**-**	-	-
Share in other comprehensive income (loss) of associates						
At January 1	**(206)**	479	1,259	**-**	-	-
Share in other comprehensive income (loss) for the year	**1,254**	(685)	(780)	**-**	-	-
At December 31	**1,048**	(206)	479	**-**	-	-
Translation adjustment on foreign operations						
At January 1	**(704)**	(678)	(804)	**-**	-	-
Translation differences and others	**(202)**	(26)	126	**(124)**	-	-
At December 31	**(906)**	(704)	(678)	**(124)**	-	-
Remeasurements of defined benefit obligation, net						
At January 1	**(1,197)**	(1,809)	(1,537)	**(990)**	(1,421)	(1,083)
Actuarial (losses) gains for the year	**(1,851)**	877	(387)	**(1,508)**	616	(358)
Deferred income tax effect	**433**	(265)	115	**367**	(185)	20
At December 31	**(2,615)**	(1,197)	(1,809)	**(2,131)**	(990)	(1,421)
	(2,439)	(2,176)	(5,088)	**(2,316)**	(921)	(4,696)

d) Dividend declarations

Cash dividends declared by the BOD of the Parent Bank are as follows:

Date declared	Amount of dividends Per share	Total (In Millions of Pesos)
For the year ended December 31, 2019		
May 15, 2019	0.90	4,056
November 20, 2019	0.90	4,057
		8,113
For the year ended December 31, 2018		
June 20, 2018	0.90	4,052
December 19, 2018	0.90	4,052
		8,104
For the year ended December 31, 2017		
June 15, 2017	0.90	3,545
December 15, 2017	0.90	3,546
		7,091

e) Earnings per share (EPS)

EPS is calculated as follows:

	Consolidated			**Parent**		
	2019	2018	2017	**2019**	2018	2017
	(In Millions of Pesos, except earnings per share amounts)					
a) Net income attributable to equity holders of the Parent Bank	**28,803**	23,078	22,416	**26,218**	15,428	22,097
b) Weighted average number of common shares outstanding during the year	**4,507**	4,316	3,939	**4,507**	4,316	3,939
c) Basic EPS (a/b)	**6.39**	5.35	5.69	**5.82**	3.57	5.61

The basic and diluted EPS are the same for the years presented as the impact of stock options outstanding is not significant to the calculation of weighted average number of common shares.

Note 19 - Other Operating Income

Details of other operating income are as follows:

	Consolidated			**Parent**		
	2019	2018	2017	**2019**	2018	2017
	(In Millions of Pesos)					
Credit card income	**3,525**	3,197	2,953	**3,423**	3,126	2,894
Trust and asset management fees	**2,868**	2,818	3,516	**4**	-	190
Rental income	**2,047**	1,898	1,672	**267**	254	219
Gain on sale of assets	**1,165**	1,243	1,204	**898**	658	302
Dividend income	**77**	76	68	**3,794**	904	9,492
Miscellaneous income	**2,310**	1,155	1,380	**2,101**	977	1,074
	11,992	10,387	10,793	**10,487**	5,919	14,171

Dividend income recognized by the Parent Bank substantially pertains to dividend distributions of subsidiaries.

Miscellaneous income includes recoveries on charged-off assets and fees arising from service arrangements with customers and related parties.

Note 20 - Leases

The BPI Group (as lessee) has various lease agreements which mainly pertain to branch premises and equipment that are renewable under certain terms and conditions. Rental contracts are typically made for fixed periods of 4 to 6 years. The balances arising from these leases are presented below:

a) Right-of-use assets and lease liabilities (PFRS 16)

On January 1, 2019, the BPI Group adopted PFRS 16, *Leases* which requires recognition of both right-of-use assets and lease liability arising from long-term leases. The impact of initial adoption of PFRS 16 are summarized in Note 29.

Details of right-of-use assets and lease liabilities at December 31, 2019 are as follows:

	Note	Consolidated	Parent
		(In Millions of Pesos)	
Right-of-use assets	11		
Buildings and leasehold improvements		**7,787**	6,733
Lease liabilities (included in "Deferred credits and other liabilities")	17		
Current		**1,485**	1,251
Non-current		**6,371**	5,488
		7,856	6,739

Additions to the right-of-use assets (Note 11) in 2019 aggregated P669 million and P442 million for BPI Group and BPI Parent, respectively. Total cash outflow for leases in 2019 amounted to P1,869 million and P1,466 million for BPI Group and BPI Parent, respectively.

Amounts recognized in the statement of income relating to leases:

	Note	Consolidated	Parent
		(In Millions of Pesos)	
Depreciation expense	11		
Buildings and leasehold improvements		**1,933**	1,609
Interest expense (included in "Interest expense")		**398**	315
Expense relating to short-term leases (included in "Occupancy and equipment-related expenses")		**228**	203
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in "Occupancy and equipment-related expenses")		**55**	43
		2,614	2,170

Critical accounting judgment - Determining the lease term

In determining the lease term, the BPI Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Critical accounting judgment - Determining the incremental borrowing rate

To determine the incremental borrowing rate, each entity within the BPI Group:

- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; or
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held which do not have recent third-party financing, and
- makes adjustments specific to the lease, (e.g. term, currency and security).

The BPI Group's weighted average incremental borrowing rates applied to the lease liabilities ranged from 6.6% to 6.9%. The rates were determined in reference to the borrowing rates arising from the most recent debt issuances of the Parent Bank.

b) Operating leases (PAS 17)

Prior to January 1, 2019, the BPI Group's lease contracts were accounted for as operating leases following the provisions of PAS 17. The rentals pertaining to branch premises (included in Occupancy and equipment-related expenses) under these lease contracts were as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
2018	1,809	1,503
2017	1,495	1,211

The future minimum lease payments under non-cancellable operating leases of the BPI Group as of December 31, 2018 are as follows:

	Amount
No later than 1 year	107
Later than 1 year but no later than 5 years	214
More than 5 years	57
	378

Note 21 - Operating Expenses

Details of compensation and fringe benefits expenses are as follows:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
			(In Millions of Pesos)			
Salaries and wages	**14,613**	12,624	11,642	**11,231**	9,702	8,891
Retirement expense (Note 23)	**631**	755	720	**536**	608	574
Other employee benefit expenses	**2,243**	1,936	1,535	**1,712**	1,524	1,226
	17,487	15,315	13,897	**13,479**	11,834	10,691

Details of other operating expenses are as follows:

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
			(In Millions of Pesos)			
Insurance	**4,162**	4,105	3,940	**2,861**	2,789	2,448
Advertising	**1,492**	1,310	1,215	**1,316**	1,123	1,002
Travel and communication	**1,203**	1,002	902	**974**	825	748
Management and other professional fees	**506**	606	501	**388**	626	419
Supervision and examination fees	**653**	587	542	**506**	441	401
Litigation expenses	**558**	526	598	**308**	255	348
Taxes and licenses	**492**	791	714	**657**	539	491
Office supplies	**480**	592	328	**389**	490	267
Amortization expense	**311**	293	296	**30**	11	289
Shared expenses	**-**	-	-	**39**	26	16
Others	**6,610**	5,329	4,256	**4,590**	4,132	3,197
	16,467	15,141	13,292	**12,058**	11,257	9,626

Other expenses mainly include fees and incentives paid to agents, outsourcing fees, freight charges and other business expense such as those incurred in staff meetings, donations, periodicals and magazines.

Note 22 - Income Taxes

The reconciliation between the income tax expense at the statutory tax rate and the effective income tax for the years ended December 31 is shown below:

	Consolidated					
	2019		2018		2017	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	**11,531**	**30.00**	9,000	30.00	8,608	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(1,553)**	**(4.04)**	(517)	(1.72)	(696)	(2.42)
Tax-exempt income	**(2,926)**	**(7.61)**	(1,582)	(5.27)	(4,350)	(15.16)
Others, net	**2,300**	**5.98**	(231)	(0.77)	2,394	8.34
Effective income tax	**9,352**	**24.33**	6,670	22.24	5,956	20.76

	Parent					
	2019		2018		2017	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	**10,327**	**30.00**	6,134	30.00	7,765	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(1,445)**	**(4.20)**	(519)	(2.54)	(606)	(2.34)
Tax-exempt income	**(1,637)**	**(4.76)**	(495)	(2.42)	(2,907)	(11.23)
Others, net	**960**	**2.79**	(103)	(0.50)	(466)	(1.80)
Effective income tax	**8,205**	**23.83**	5,017	24.54	3,786	14.63

Note 23 - Retirement Plans

The BPI Group maintains both defined benefit and defined contribution retirement plans. Assets of both retirement plans are held in trust and governed by local regulations and practices in the Philippines. The key terms of these pension plans are discussed below.

a) Defined benefit retirement plan

BPI Group (excluding insurance operations)

BPI has a unified plan which covers all subsidiaries except insurance entities. Under this plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

The net defined benefit cost and contributions to be paid by the entities within the BPI Group are determined by an independent actuary.

Non-life insurance subsidiary

BPI/MS has a separate trusteed defined benefit plan. Under the plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 175% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered as least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service.

Death or disability benefit for all employees of the non-life insurance subsidiary shall be determined on the same basis as in normal or voluntary retirement as the case may be.

Following are the amounts recognized based on recent actuarial valuations:

(a) Pension liability as at December 31 recognized in the statements of condition

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Present value of defined benefit obligation	**14,892**	10,892	**12,545**	9,171
Fair value of plan assets	**(12,172)**	(9,851)	**(10,130)**	(8,195)
Pension liability recognized in the statements of condition	**2,720**	1,041	**2,415**	976
Effect of asset ceiling	**46**	-	**-**	-
	2,766	1,041	**2,415**	976

Pension liability is shown as part of "Miscellaneous liabilities" within Deferred credits and other liabilities (Note 17).

The movements in plan assets are summarized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**9,851**	10,710	**8,195**	9,003
Contributions	**861**	781	**715**	627
Interest income	**648**	616	**535**	513
Benefit payments	**(1,187)**	(1,206)	**(985)**	(1,072)
Remeasurement - return on plan assets	**1,999**	(1,050)	**1,665**	(876)
Transfer to defined contribution plan	**-**	-	**5**	-
At December 31	**12,172**	9,851	**10,130**	8,195

The carrying values of the plan assets represent their fair value as at December 31, 2019 and 2018.

The plan assets are comprised of the following:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Debt securities	**3,773**	3,054	**3,140**	2,540
Equity securities	**5,721**	4,630	**4,761**	3,852
Others	**2,678**	2,167	**2,229**	1,803
	12,172	9,851	**10,130**	8,195

The plan assets of the unified retirement plan include investment in BPI's common shares with aggregate fair value of P421 million at December 31, 2019 (2018 - P451 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

The movements in the present value of defined benefit obligation are summarized as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**10,892**	12,718	**9,171**	10,508
Interest cost	**944**	712	**795**	582
Current service cost	**545**	659	**456**	539
Remeasurement - change in assumptions and experience adjustment	**3,698**	(1,991)	**3,096**	(1,386)
Benefit payments	**(1,187)**	(1,206)	**(985)**	(1,072)
Transfers to defined contribution plan	**-**	-	**12**	-
At December 31	**14,892**	10,892	**12,545**	9,171

The BPI Group has no other transactions with the plan other than the regular funding contributions.

(b) Expense recognized in the statements of income

	Consolidated			Parent		
	2019	2018	2017	**2019**	2018	2017
	(In Millions of Pesos)					
Current service cost	**545**	659	619	**456**	539	507
Net interest cost	**86**	96	82	**80**	69	56
Settlement loss	**-**	-	9	**-**	-	9
Past service cost	**-**	-	(5)	**-**	-	(5)
	631	755	705	**536**	608	567

The principal assumptions used for the actuarial valuations of the unified plan are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
Discount rate	**5.57%**	8.66%	**5.57%**	8.66%
Future salary increases	**5.00%**	5.00%	**5.00%**	5.00%

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the BPI Group to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the BPI Group. However, the BPI Group believes that due to the long-term nature of the pension liability and the strength of the BPI Group itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the BPI Group's long-term strategy to manage the plan efficiently.

The BPI Group ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The BPI Group's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustor, as necessary to better ensure the appropriate asset-liability matching.

The BPI Group contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary engaged by management. The expected contributions for the year ending December 31, 2019 for the BPI Group and the Parent Bank amount to P1,001 million and P836 million, (2018 - P659 million and P539 million, respectively) respectively. The weighted average duration of the defined benefit obligation under the BPI unified retirement plan as at December 31, 2019 is 9.65 years (2018 - 8 years).

The projected maturity analysis of retirement benefit payments as at December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Up to one year	**1,135**	1,310	**873**	1,076
More than 1 year to 5 years	**3,967**	3,632	**3,470**	3,036
More than 5 years to 10 years	**8,200**	7,437	**6,923**	6,388
More than 10 years to 15 years	**11,617**	11,116	**9,765**	9,310
More than 15 years to 20 years	**6,825**	8,014	**5,853**	6,869
Over 20 years	**25,238**	27,103	**19,527**	21,193

The sensitivity of the defined benefit obligation as at December 31 to changes in the weighted principal assumptions follows:

Consolidated

2019

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 4.60%	Increase by 5.00%
Salary growth rate	1.0%	Increase by 10.40%	Decrease by 9.10%

2018

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 3.34%	Increase by 3.57%
Salary growth rate	1.0%	Increase by 7.59%	Decrease by 6.73%

Parent

2019

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 4.60%	Increase by 5.00%
Salary growth rate	1.0%	Increase by 10.30%	Decrease by 9.00%

2018

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 3.90%	Increase by 4.17%
Salary growth rate	1.0%	Increase by 8.86%	Decrease by 7.86%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the statements of condition.

b) Defined contribution retirement plan

All non-unionized employees hired on or after the January 1, 2016 are automatically under the new defined contribution plan. Employees hired prior to the effective date shall have the option to elect to become members of the new defined contribution plan.

Under the normal or late retirement, employees are entitled to a benefit equal to the total of the following amounts:

- The higher between (a) cumulative fund balance equivalent to 8% of the basic monthly salary and (b) the minimum legal retirement benefit under the Labor Code
- Employee contributions fund

The defined contribution retirement plan has a defined benefit minimum guarantee 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 Republic Act ("RA") No. 7641.

Accordingly, the liability for the defined benefit minimum guarantee is actuarially calculated similar to the defined benefit plan.

The funding status of the defined contribution plan is shown below:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Fair value of plan assets	**1,748**	1,254	**1,325**	930
Present value of defined benefit obligation	**(811)**	(298)	**(604)**	(219)
	937	956	**721**	711
Effect of asset ceiling	**945**	956	**721**	711
	(8)	-	**-**	-

The movements in the present value of the defined benefit obligation follow:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**298**	239	**219**	172
Interest cost	**27**	15	**20**	10
Current service cost	**59**	48	**40**	31
Benefit payments	**(56)**	(20)	**(41)**	(18)
Remeasurement - change in assumptions and experience adjustment	**483**	16	**366**	24
At December 31	**811**	298	**604**	219

The movements in the fair value of plan assets follow:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
At January 1	**1,254**	916	**930**	707
Contribution paid by employer	**237**	183	**163**	139
Interest income	**114**	62	**88**	48
Benefit payments	**(56)**	(20)	**(41)**	(18)
Transfer to the plan	**-**	-	**2**	54
Remeasurement - return on plan assets	**199**	113	**183**	-
At December 31	**1,748**	1,254	**1,325**	930

Total retirement expense for the year ended December 31, 2019 under the defined contribution plan for the BPI Group and Parent Bank is P142 million (2018 - P43 million) and P98 million (2018 - P27 million).
The components of plan assets of the defined contributions as at December 31, 2019 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Debt securities	**663**	966	**506**	716
Equity securities	**962**	213	**730**	214
Others	**123**	75	**89**	-
	1,748	1,254	**1,325**	930

The weighted average duration of the defined contribution retirement plan for the BPI Group and Parent Bank is 20.83 years (2018 - 19 years).

Critical accounting estimate – Calculation of defined benefit obligation
The BPI Group estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, the discount rate and future salary increases. The BPI Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. The present value of the defined benefit obligations of the BPI Group at December 31, 2019 and 2018 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the BPI Group's assumptions are reflected as remeasurements in other comprehensive income. The BPI Group's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends.

Note 24 - Asset Management Business

At December 31, 2019, the net asset value of trust and fund assets managed by the BPI Group through BPI AMTC amounts to P731 billion (2018 - P591 billion).

As required by the General Banking Act, BPI AMTC has deposited government securities with the BSP valued at P377 million (2018 - P349 million).

Note 25 - Related Party Transactions

In the normal course of business, the Parent Bank transacts with related parties consisting of its subsidiaries and associates. Likewise, the BPI Group has transactions with Ayala Corporation (AC) and subsidiaries (Ayala Group), on an arm's length basis. AC is a significant stockholder of BPI as at reporting date.

The Parent Bank has a Board-level Related Party Transaction Committee that vets and endorses all significant related party transactions, including those involving directors, officers, stockholders and their related interests (DOSRI), for which the latter shall require final Board approval. The Committee consists of three directors, majority of whom are independent directors including the Chairman, and two non-voting members from management, namely, the Chief Audit Executive and the Chief Compliance Officer.

Transactions with related parties have terms and conditions that are generally comparable to those offered to non-related parties or to similar transactions in the market.

A summary of significant related party transactions and outstanding balances as at and for the years ended December 31 is shown below (transactions with subsidiaries have been eliminated in the consolidated financial statements):

Consolidated

	2019		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**5**	**58**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 4.18% to 10.69% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	**(38)**	**350**	
Ayala Group	**27,306**	**59,885**	
Other related parties	**275**	**736**	
	27,548	**61,029**	
Deposits from:			
Subsidiaries	**1,024**	**9,746**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.27% Savings - 0.59% to 0.62% Time - 3.61% to 5.15%
Associates	**1,486**	**1,903**	
Ayala Group	**(3,517)**	**13,287**	
Key management personnel	**694**	**1,238**	
	(313)	**26,174**	

	2018		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	(81)	53	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 3.87% to 8.25% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	190	387	
Ayala Group	5,026	32,579	
Other related parties	159	461	
	5,294	33,480	
Deposits from:			
Subsidiaries	373	8,722	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.31% Savings - 0.62% to 0.68% Time - 2.61% to 4.37%
Associates	38	417	
Ayala Group	12,263	16,804	
Key management personnel	162	543	
	12,836	26,486	

	2017		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	59	134	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	152	197	
Ayala Group	(609)	27,553	
Key management personnel	-	-	
Other related parties	(592)	302	
	(990)	28,186	
Deposits from:			
Subsidiaries	1,111	8,349	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.25% Savings - 0.70% to 0.79% Time - 2.15% to 2.22%
Associates	(469)	379	
Ayala Group	(7,665)	4,541	
Key management personnel	(959)	381	
	(7,982)	13,650	

Parent

	2019		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**5**	**58**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 0.10% to 5.88% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	**(38)**	**350**	
Ayala Group	**27,306**	**59,885**	
Other related parties	**275**	**736**	
	27,548	**61,029**	
Deposits from:			
Subsidiaries	**1,083**	**9,715**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.26% Savings - 0.55% to 0.58% Time - 3.27% to 5.41%
Associates	**1,473**	**1,887**	
Ayala Group	**(2,053)**	**12,921**	
Key management personnel	**642**	**1,105**	
	1,145	**25,628**	

	2018		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	(81)	53	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 3.87% to 8.25% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	190	387	
Ayala Group	5,026	32,579	
Key management personnel	-	-	
Other related parties	159	461	
	5,294	33,480	
Deposits from:			
Subsidiaries	388	8,631	These are demand, savings and time deposits bearing the following average interest rates:
Associates	55	414	Demand - 0.21% to 0.30%
Ayala Group	10,446	14,974	Savings - 0.58% to 0.64%
Key management personnel	103	463	Time - 2.33 to 4.67%
	10,992	24,482	

	2017		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	59	134	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	152	197	
Ayala Group	(609)	27,553	
Key management personnel	-	-	
Other related parties	(592)	302	
	(990)	28,186	
Deposits from:			
Subsidiaries	1,098	8,243	These are demand, savings and time deposits bearing the following average interest rates:
Associates	(482)	359	Demand - 0.21% to 0.24%
Ayala Group	(7,452)	4,528	Savings - 0.66% to 0.75%
Key management personnel	(772)	360	Time - 1.68% to 1.80%
	(7,608)	13,490	

The aggregate amounts included in the determination of income before income tax (prior to elimination) that resulted from transactions with each class of related parties are as follows:

Consolidated

	2019	2018	2017
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**99**	84	39
Associates	**21**	14	-
Ayala Group	**2,867**	1,346	966
Other related parties	**44**	20	15
	3,031	1,464	1,020
Other income			
Subsidiaries	**2,260**	1,801	1,485
Associates	**1,511**	1,222	977
Ayala Group	**580**	203	247
	4,351	3,226	2,709
Interest expense			
Subsidiaries	**99**	84	38
Associates	**3**	2	1
Ayala Group	**128**	119	21
Key management personnel	**9**	3	1
	239	208	61
Other expenses			
Subsidiaries	**2,148**	1,698	1,371
Associates	**22**	51	34
Ayala Group	**435**	501	319
	2,605	2,250	1,724
Retirement benefits			
Key management personnel	**51**	47	44
Salaries, allowances and other short-term benefits			
Key management personnel	**871**	800	744
Directors' remuneration	**121**	93	87

Parent

	2019	2018	2017
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**-**	1	3
Associates	**21**	14	-
Ayala Group	**2,867**	1,346	966
Other related parties	**44**	20	15
	2,932	1,381	984
Other income			
Subsidiaries	**2,157**	1,620	1,433
Associates	**1,272**	1,035	977
Ayala Group	**372**	137	155
	3,801	2,792	2,565
Interest expense			
Subsidiaries	**99**	84	34
Associates	**3**	2	1
Ayala Group	**123**	98	20
Key management personnel	**5**	3	1
	230	187	56
Other expenses			
Subsidiaries	**28**	145	27
Ayala Group	**435**	501	319
	463	646	346
Retirement benefits			
Key management personnel	**44**	40	37
Salaries, allowances and other short-term benefits			
Key management personnel	**751**	697	629
Directors' remuneration	**92**	77	73

Other income mainly consists of rental income and revenue from service arrangements with related parties.

Other expenses mainly consist of rental expenses and management fees.

Details of DOSRI loans are as follows:

	Consolidated		**Parent**	
	2019	2018	**2019**	2018
		(In Millions of Pesos)		
Outstanding DOSRI loans	**10,026**	8,248	**10,024**	8,248

As at December 31, 2019, allowance for credit losses amounting to P10 million (2018 - P40 million) have been recognized against receivables from related parties.

Note 26 - Financial Risk Management

The BOD carries out its risk management function through the Risk Management Committee (RMC). The RMC is tasked with nurturing a culture of risk management across the enterprise. The RMC sets the risk appetite; proposes and approves risk management policies, frameworks, and guidelines; and regularly reviews risk management structures, metrics, limits, and issues across the BPI Group, in order to meet and comply with regulatory and international standards on risk measurement and management.

At the management level, the Risk Management Office (RMO) is headed by the Chief Risk Officer (CRO). The CRO is ultimately responsible in leading the formulation of risk management policies and methodologies in alignment with the overall business strategy of BPI, ensuring that risks are prudently and rationally undertaken and within its risk appetite, as well as commensurate and disciplined to maximize returns on shareholders' capital. Risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience. BPI's risk managers regularly monitor key risk indicators and report exposures against carefully established financial and business risk metrics and limits approved by the RMC. Finally, independent reviews are regularly conducted by the Internal Audit group and regulatory examiners to ensure that risk controls and mitigants are in place and functioning effectively as intended.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely negative to be avoided. Risk-taking actions present opportunities if risks are fully identified and accounted, deliberately taken, and are kept within prudent and rationalized limits.

The most important financial risks that the BPI Group manages are credit risk, liquidity risk and market risk.

26.1 Credit risk

The BPI Group takes on exposure to credit risk, which is the risk that may arise if a borrower or counterparty fails to meet its obligations in accordance with agreed terms. Credit risk is the single largest risk for the BPI Group's business; management therefore carefully manages its exposure to credit risk as governed by relevant regulatory requirements and international benchmarks.

Credit risk may also arise due to substantial exposures to a particular counterparty which the BPI Group manages by adopting proper risk controls and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The most evident source of credit risk is loans and advances; however, other sources of credit risk exist throughout the activities of the BPI Group, including in credit-related activities recorded in the banking, investment securities in the trading books and off-balance sheet transactions.

26.1.1 Credit risk management

The Credit Policy and Risk Management (CPRM) division is responsible for the overall management of the Bank's credit risk. CPRM supports the senior management in coordination with various business lending and operations units in identifying, measuring and managing credit risk.

The BPI Group employs a range of policies and practices to mitigate credit risk. The BPI Group monitors its portfolio based on different segmentation to reflect the acceptable level of diversification and concentration. Concentration risk in credit portfolios is inherent in banking and cannot be totally eliminated. However, said risk may be reduced by adopting proper risk control and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The BPI Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when deemed necessary. Limits on large exposures and credit concentration are approved by the BOD through the RMC.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly. Methodologies for measuring credit risk vary depending on several factors, including type of asset, risk measurement parameters and risk management and collection processes. Credit risk measurement is based on the probability of default of an obligor or counterparty, the loss severity given a default event and the exposure at default.

A rigorous control framework is applied in the determination of expected credit loss (ECL) models. The BPI Group has policies and procedures that govern the calculation of ECL. All ECL models are regularly reviewed by the Risk Management Office to ensure that necessary controls are in place and the models are applied accordingly.

The review and validation of ECL models are performed by groups that are independent of the team that prepares the calculations, e.g., Risk Models Validation and Internal Auditors. Expert judgments on measurement methodologies and assumptions are reviewed by a group of internal experts from various functions.

Credit loss estimates are based on estimates of the probability of default (PD) and loss severity given a default. The probability of default is the likelihood that a borrower will default on its obligation; the loss given default (LGD) is the estimated loss on the loan that would be realized upon the default and takes into consideration collateral and structural support for each credit facility. The estimation process includes assigning risk ratings to each borrower and credit facility to differentiate risk within the portfolio. These risk ratings are reviewed regularly by Credit Risk Management and revised as needed to reflect the borrower's current financial position, risk profile and related collateral. The calculations and assumptions are based on both internal and external historical experience and management judgment and are reviewed regularly.

Settlement risk arises in any situation where a payment in cash, securities, foreign exchange currencies, or equities is made in the expectation of a corresponding receipt in cash, securities, foreign exchange currencies, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the BPI Group's market transactions on any single day. For certain securities, the introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

The BPI Group employs specific control and risk mitigation measures, some of which are outlined below:

(a) Collateral or guarantees

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The BPI Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The BPI Group assesses the valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The common collateral types for loans and advances are:

- Mortgages over physical properties (e.g., real estate and personal);
- Mortgages over financial assets (e.g., guarantees); and
- Margin agreement for derivatives, for which the BPI Group has also entered into master netting agreements

In order to minimize credit loss, the BPI Group seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

The BPI Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collaterals held by the BPI Group since the prior period.

(b) Market Limits

The BPI Group maintains market limits on net open derivative positions (i.e., the difference between purchase and sale contracts). Credit risk is limited to the net current fair value of instruments, which in relation to derivatives is only a portion of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments (except where the BPI Group requires margin deposits from counterparties).

(c) Master netting arrangements

The BPI Group further restricts its exposure to credit losses by entering into master netting arrangements with certain counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts (asset position) is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The BPI Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(d) Credit-related commitments

Documentary and commercial letters of credit - which are written undertakings by the BPI Group on behalf of a customer authorizing a third party to draw drafts on the BPI Group up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods and therefore carry less risk than a direct loan.

26.1.2 Credit risk rating

The BPI Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The BPI Group uses its internal credit risk rating system, credit models or external ratings from reputable credit rating agencies. Specific data about the borrower and loan are collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) and are fed into the internal credit scoring models. In addition, the internal models allow expert judgment from the Credit Risk Rating Committee and consideration of other data inputs not captured into the model in the determination of the final internal credit score for each loan.

The BPI Group has adopted a credit classification system that aims to identify deteriorating exposures on a timely basis. Exposures are classified into each of the following categories:

- *Standard monitoring* - This category includes accounts which do not have a greater-than-normal risk and do not possess the characteristics of special monitoring and defaulted loans. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.

- *Special monitoring* - This category includes accounts which need closer and frequent monitoring to prevent any further credit deterioration. The counterparty is assessed to be vulnerable to highly vulnerable and its capacity to meet its financial obligations is dependent upon favorable business, financial, and economic conditions.

- *Default* - This category includes accounts which exhibit probable to severe weaknesses wherein probability of non-repayment of loan obligation is ranging from high to extremely high.

i. Corporate (including cross-border loans) and SMEs loans

The BPI Group's internal credit risk rating system comprises a 22-scale rating with eighteen (18) 'pass' rating levels for large corporate accounts; 14-scale rating system with ten (10) 'pass' rating grades for SME; and 26-scale rating system with thirteen (13) pass ratings for cross-border accounts mapped based on reputable external rating agency.

The BPI Group uses the following set of classifications:

Classifications	Large corporate	Cross-border	SME
Standard monitoring	AAA to B- or unrated and based on prescribed days past due (dpd) threshold	Investment grade (IG) or Non-IG with no SICR; or based on prescribed dpd threshold	AAA to B- or unrated and based on prescribed dpd threshold
Special monitoring	CCC to C or based on prescribed dpd threshold	Non-IG with SICR but assessed to be non-impaired; based on prescribed dpd threshold	CCC to C or based on prescribed dpd threshold
Default	Adversely classified accounts (ACA) or based on prescribed dpd threshold or Item in litigation (IL)	Default, with objective evidence of impairment; or based on prescribed dpd threshold	ACA or based on prescribed dpd threshold or IL

ii. Retail loans

The BPI Group uses automated scoring models to assess the level of risk for retail accounts. Behavioral indicators are considered in conjunction with other forward-looking information (e.g., industry forecast) to assess the level of risk of a loan. After the date of initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score which is mapped to a probability of default (PD).

Classifications	Credit cards	Personal, auto and housing	SEME*
Standard monitoring	Current to 29 dpd	Current to 30 dpd	Current to 7 dpd
Special monitoring	30 to 89 dpd	31 to 90 dpd	Not applicable
Default	90 dpd and up or IL	>90, IL, Loss	8 dpd and up

**Self-employed micro-entrepreneurs*

iii. Treasury and other investment debt securities

Investments in high grade securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements. The level of credit risk for treasury and other investment debt securities and their associated PD are determined using reputable external ratings and/or available and reliable qualitative and quantitative information. In the absence of credit ratings, a comparable issuer or guarantor rating is used. Should there be a change in the credit rating of the chosen comparable, evaluation is made to ascertain whether the rating change is applicable to the security being assessed for impairment.

Classifications	**Credit risk grade following S&P or its equivalent**
Standard monitoring	IG (AAA to BBB-)
Special monitoring	Non-IG (BB+ to C)
Default	Default (D)

iv. Other financial assets at amortized cost

For other financial assets (non-credit receivables), the BPI Group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss methodology. These financial assets are grouped based on shared risk characteristics and aging profile. For some of these, impairment is assessed individually at a counterparty level.

26.1.3 Maximum exposure to credit risk

26.1.3.1 Loans and advances

Credit risk exposures relating to on-balance sheet loans and advances are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Corporate and SME loans, net	**1,204,950**	1,122,610	**1,167,582**	1,074,782
Retail loans, net	**270,386**	232,286	**64,194**	51,174
	1,475,336	1,354,896	**1,231,776**	1,125,956

The carrying amount of loans and advances above also represents the BPI Group's maximum exposure to credit risk.

Credit quality of loans and advances, net

The following tables contain an analysis of the credit risk exposure of each financial instrument for which an ECL allowance is recognized.

Consolidated

Corporate and SME loans

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
				(In Millions of Pesos)				
Credit grade								
Standard monitoring	1,091,916	28,701	-	1,120,617	1,034,673	23,243	-	1,057,916
Special monitoring	45,963	41,416	-	87,379	48,392	16,077	-	64,469
Default	-	-	13,091	13,091	-	-	13,564	13,564
Gross carrying amount	**1,137,879**	**70,117**	**13,091**	**1,221,087**	**1,083,065**	**39,320**	**13,564**	**1,135,949**
Loss allowance	(6,870)	(3,110)	(6,157)	(16,137)	(5,768)	(1,843)	(5,728)	(13,339)
Carrying amount	**1,131,009**	**67,007**	**6,934**	**1,204,950**	**1,077,297**	**37,477**	**7,836**	**1,122,610**

Retail loans

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
				(In Millions of Pesos)				
Credit grade								
Standard monitoring	251,736	10,638	-	262,374	217,645	8,531	-	226,176
Special monitoring	322	6,764	-	7,086	1,002	5,727	-	6,729
Default	-	-	10,763	10,763	-	-	8,944	8,944
Gross carrying amount	**252,058**	**17,402**	**10,763**	**280,223**	**218,647**	**14,258**	**8,944**	**241,849**
Loss allowance	(3,236)	(1,780)	(4,821)	(9,837)	(4,114)	(1,405)	(4,044)	(9,563)
Carrying amount	**248,822**	**15,622**	**5,942**	**270,386**	**214,533**	**12,853**	**4,900**	**232,286**

Parent

Corporate and SME loans

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
				(In Millions of Pesos)				
Credit grade								
Standard monitoring	1,064,720	25,034	-	1,089,754	995,540	22,727	-	1,018,267
Special monitoring	42,297	39,478	-	81,775	43,147	14,737	-	57,884
Default	-	-	9,824	9,824	-	-	9,772	9,772
Gross carrying amount	**1,107,017**	**64,512**	**9,824**	**1,181,353**	**1,038,687**	**37,464**	**9,772**	**1,085,923**
Loss allowance	(5,972)	(2,990)	(4,809)	(13,771)	(5,108)	(1,734)	(4,299)	(11,141)
Carrying amount	**1,101,045**	**61,522**	**5,015**	**1,167,582**	**1,033,579**	**35,730**	**5,473**	**1,074,782**

Retail loans

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
				(In Millions of Pesos)				
Credit grade								
Standard monitoring	59,732	4,277	-	64,009	51,886	338	-	52,224
Special monitoring	183	1,323	-	1,506	203	935	-	1,138
Default	-	-	3,513	3,513	-	-	2,638	2,638
Gross carrying amount	**59,915**	**5,600**	**3,513**	**69,028**	**52,089**	**1,273**	**2,638**	**56,000**
Loss allowance	(808)	(941)	(3,085)	(4,834)	(1,839)	(482)	(2,505)	(4,826)
Carrying amount	**59,107**	**4,659**	**428**	**64,194**	**50,250**	**791**	**133**	**51,174**

The tables below present the gross amount of "Stage 2" loans and advances by age category.

Consolidated

	2019			2018		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			(In Millions of Pesos)		
Current	68,517	5,999	**74,516**	35,632	5,697	41,329
Past due up to 30 days	505	4,749	**5,254**	175	2,834	3,009
Past due 31 - 90 days	1,095	6,654	**7,749**	3,513	5,727	9,240
Past due 91 - 180 days	-	-	**-**	-	-	-
Over 180 days	-	-	**-**	-	-	-
	70,117	**17,402**	**87,519**	39,320	14,258	53,578

Parent

	2019			2018		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			(In Millions of Pesos)		
Current	63,673	3,494	**67,167**	34,696	241	34,937
Past due up to 30 days	400	783	**1,183**	47	97	144
Past due 31 - 90 days	439	1,323	**1,762**	2,721	935	3,656
Past due 91 - 180 days	-	-	**-**	-	-	-
Over 180 days	-	-	**-**	-	-	-
	64,512	**5,600**	**70,112**	37,464	1,273	38,737

26.1.3.2 Treasury and other investment securities

Credit risk exposures arising from treasury and other investment securities are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Due from BSP	**207,845**	225,907	**181,815**	202,487
Due from other banks	**22,356**	12,477	**18,356**	8,615
Interbank loans receivable and SPAR	**22,570**	34,323	**18,364**	22,659
Financial assets at FVTPL	**24,032**	16,483	**17,688**	10,346
Financial assets at FVOCI	**51,079**	35,531	**47,009**	29,993
Investment securities at amortized cost	**275,105**	287,571	**252,006**	267,497
	602,987	612,292	**535,238**	541,597

Credit quality of treasury and other investment securities

Consolidated

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	(In Millions of Pesos)							
Credit grade								
Standard monitoring								
Due from BSP	207,845	-	-	207,845	225,907	-	-	225,907
Due from other banks	22,356	-	-	22,356	12,480	-	-	12,480
Interbank loans receivable and SPAR	22,561	-	-	22,561	34,306	-	-	34,306
Financial assets at FVTPL	24,032	-	-	24,032	16,483	-	-	16,483
Financial assets at FVOCI	51,079	-	-	51,079	35,531	-	-	35,531
Investment securities at amortized cost	275,105	-	-	275,105	287,573	-	-	287,573
Default								
Interbank loans receivable and SPAR	-	-	49	49	-	-	67	67
Gross carrying amount	**602,978**	**-**	**49**	**603,027**	**612,280**	**-**	**67**	**612,347**
Loss allowance	-	-	(40)	(40)	(5)	-	(50)	(55)
Carrying amount	**602,978**	**-**	**9**	**602,987**	**612,275**	**-**	**17**	**612,292**

Parent

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	(In Millions of Pesos)							
Credit grade								
Standard monitoring								
Due from BSP	181,815	-	-	181,815	202,487	-	-	202,487
Due from other banks	18,356	-	-	18,356	8,615	-	-	8,615
Interbank loans receivable and SPAR	18,355	-	-	18,355	22,642	-	-	22,642
Financial assets at FVTPL	17,688	-	-	17,688	10,346	-	-	10,346
Financial assets at FVOCI	47,009	-	-	47,009	29,993	-	-	29,993
Investment securities at amortized cost	252,006	-	-	252,006	267,499	-	-	267,499
Default								
Interbank loans receivable and SPAR	-	-	49	49	-	-	67	67
Gross carrying amount	**535,229**	**-**	**49**	**535,278**	**541,582**	**-**	**67**	**541,649**
Loss allowance	-	-	(40)	(40)	(2)	-	(50)	**(52)**
Carrying amount	**535,229**	**-**	**9**	**535,238**	**541,580**	**-**	**17**	**541,597**

26.1.3.3 Other financial assets at amortized cost

Other financial assets at amortized cost that are exposed to credit risk are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Accounts receivable, net	**1,509**	1,916	**1,785**	1,315
Other accrued interest and fees receivable	**264**	671	**209**	573
Rental deposits	**734**	360	**623**	131
Sales contracts receivable, net	**-**	541	**-**	360
Others, net	**84**	2,179	**150**	2,047
	2,591	5,667	**2,767**	4,426

The carrying amounts of the above financial assets represent the BPI Group's maximum exposure to credit risk.

The BPI Group's other financial assets at amortized cost (shown under Other assets, net) generally arise from transactions with various unrated counterparties with good credit standing. The BPI Group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss methodology for other financial assets.

26.1.3.4 Loan commitments

Credit risk exposures arising from undrawn loan commitments are as follows:

Consolidated

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	(In Millions of Pesos)							
Credit grade								
Standard monitoring	389,148	3,608	-	392,756	232,257	74	-	232,331
Special monitoring	11,417	-	-	11,417	3,246	264	-	3,510
Default	-	-	411	411	-	-	63	63
Gross carrying amount	**400,565**	**3,608**	**411**	**404,584**	**235,503**	**338**	**63**	**235,904**
Loss allowance*	(506)	(104)	(40)	(650)	(710)	(30)	(13)	(753)
Carrying amount	**400,059**	**3,504**	**371**	**403,934**	**234,793**	**308**	**50**	**235,151**

**Included in "Miscellaneous liabilities" in Note 17*

Parent

	2019				2018			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
	(In Millions of Pesos)							
Credit grade								
Standard monitoring	382,750	3,374	-	386,124	229,849	69	-	229,918
Special monitoring	11,417	-	-	11,417	3,242	258	-	3,500
Default	-	-	408	408	-	-	63	63
Gross carrying amount	**394,167**	**3,374**	**408**	**397,949**	**233,091**	**327**	**63**	**233,481**
Loss allowance*	(488)	(92)	(39)	(619)	(682)	(28)	(13)	(723)
Carrying amount	**393,679**	**3,282**	**369**	**397,330**	**232,409**	**299**	**50**	**232,758**

**Included in "Miscellaneous liabilities" in Note 17*

26.1.4 Credit impaired loans and advances

The BPI Group closely monitors collaterals held for financial assets considered to be credit-impaired (Stage 3), as it becomes more likely that the BPI Group will take possession of collateral to mitigate potential credit losses. Loans and advances that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Consolidated

	2019			2018		
	Gross exposure	**Impairment allowance**	**Net carrying amount**	**Gross exposure**	**Impairment allowance**	**Net carrying amount**
			(In Millions of Pesos)			
Credit-impaired assets						
Corporate and SME loans	13,091	6,157	6,934	13,564	5,728	7,836
Retail loans	10,763	4,821	5,942	8,944	4,044	4,900
Total credit-impaired assets	**23,854**	**10,978**	**12,876**	22,508	9,772	12,736
Fair value of collateral	**11,662**			12,611		

Parent

	2019			2018		
	Gross exposure	**Impairment allowance**	**Carrying amount**	**Gross exposure**	**Impairment allowance**	**Carrying amount**
			(In Millions of Pesos)			
Credit-impaired assets						
Corporate and SME loans	9,824	4,809	5,015	9,772	4,299	5,473
Retail loans	3,513	3,085	428	2,638	2,505	133
Total credit-impaired assets	**13,337**	**7,894**	**5,443**	12,410	6,804	5,606
Fair value of collateral	**6,354**			7,704		

The BPI Group acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2019, the BPI Group's foreclosed collaterals have carrying amount of P3,155 million (2018 - P3,363 million). The related foreclosed collaterals have aggregate fair value of P9,583 million (2018 - P9,859 million). Foreclosed collaterals include real estate (land, building, and improvements), auto and chattel. Repossessed properties are sold as soon as practicable and are classified as Assets held for sale in the statements of condition.

26.1.5 Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period and releases for financial instruments de-recognized in the period;
- Write-offs of allowances related to assets that were written off during the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Foreign exchange translations for assets denominated in foreign currencies and other movements.

The following tables summarize the changes in the loss allowance for loans and advances between the beginning and the end of the annual period. No movement analysis of allowance for impairment is presented for treasury and other investment debt securities and other financial assets subject to impairment as the related loss allowance is deemed insignificant for financial reporting purposes.

Consolidated

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**5,768**	**1,843**	**5,728**	**13,339**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(2,072)	2,707	1,691	2,326
Transfer from Stage 2	6	(680)	291	(383)
Transfer from Stage 3	10	2	(177)	(165)
New financial assets originated	3,688	-	-	3,688
Financial assets derecognized during the period	(1,959)	(295)	(1,203)	(3,457)
Changes in assumptions and other movements in provision	1,521	(508)	70	1,083
	1,194	1,226	672	3,092
Write-offs and other movements	(92)	41	(243)	(294)
Loss allowance, at December 31, 2019	**6,870**	**3,110**	**6,157**	**16,137**

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**4,114**	**1,405**	**4,044**	**9,563**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(1,031)	1,418	2,456	2,843
Transfer from Stage 2	33	(716)	559	(124)
Transfer from Stage 3	3	33	(161)	(125)
New financial assets originated	1,070	-	-	1,070
Financial assets derecognized during the period	(308)	(115)	(339)	(762)
Changes in assumptions and other movements in provision	(613)	(190)	882	79
	(846)	430	3,397	2,981
Write-offs and other movements	(32)	(55)	(2,620)	(2,707)
Loss allowance, at December 31, 2019	**3,236**	**1,780**	**4,821**	**9,837**

Parent

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**5,108**	**1,734**	**4,299**	**11,141**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(1,846)	2,614	1,360	2,128
Transfer from Stage 2	3	(658)	251	(404)
Transfer from Stage 3	6	1	(88)	(81)
New financial assets originated	3,450	-	-	3,450
Financial assets derecognized during the period	(1,844)	(279)	(842)	(2,965)
Changes in assumptions and other movements in provision	1,205	(469)	23	759
	974	1,209	704	2,887
Write-offs and other movements	(110)	47	(194)	(257)
Loss allowance, at December 31, 2019	**5,972**	**2,990**	**4,809**	**13,771**

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2019	**1,839**	**482**	**2,505**	**4,826**
Provision for credit losses for the year				
Transfers:				
Transfer from Stage 1	(558)	877	1,749	2,068
Transfer from Stage 2	11	(286)	350	75
Transfer from Stage 3	-	1	(9)	(8)
New financial assets originated	217	-	-	217
Financial assets derecognized during the period	(36)	(41)	(205)	(282)
Changes in assumptions and other movements in provision	(667)	(41)	762	54
	(1,033)	510	2,647	2,124
Write-offs and other movements	2	(51)	(2,067)	(2,116)
Loss allowance, at December 31, 2019	**808**	**941**	**3,085**	**4,834**

Consolidated

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	6,905	1,136	4,372	12,413
Provision for credit losses for the year				
Transfers:				
Transfer in (out of) Stage 1	(1,344)	1,661	1,701	2,018
Transfer in (out of) Stage 2	161	(661)	161	(339)
Transfer in (out of) Stage 3	-	-	(3)	(3)
New financial assets originated	3,761	-	-	3,761
Financial assets derecognized during the period	(1,951)	(250)	(515)	(2,716)
Changes in assumptions and other movements in provision	(1,782)	(49)	331	(1,500)
	(1,155)	701	1,675	1,221
Write-offs and other movements	18	6	(319)	(295)
Loss allowance, at December 31, 2018	5,768	1,843	5,728	13,339

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	3,148	1,188	3,925	8,261
Provision for credit losses for the year				
Transfers:				
Transfer in (out of) Stage 1	(686)	983	1,866	2,163
Transfer in (out of) Stage 2	36	(509)	392	(81)
Transfer in (out of) Stage 3	18	42	(337)	(277)
New financial assets originated	861	-	-	861
Financial assets derecognized during the period	(145)	(95)	(661)	(901)
Changes in assumptions and other movements in provision	1,085	(210)	643	1,518
	1,169	211	1,903	3,283
Write-offs and other movements	(203)	6	(1,784)	(1,981)
Loss allowance, at December 31, 2018	4,114	1,405	4,044	9,563

Parent

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	6,332	1,029	3,128	10,489
Provision for credit losses for the year				
Transfers:				
Transfer in (out of) Stage 1	(1,053)	1,575	1,223	1,745
Transfer in (out of) Stage 2	133	(621)	104	(384)
Transfer in (out of) Stage 3	-	-	-	-
New financial assets originated	3,286	-	-	3,286
Financial assets derecognized during the period	(1,824)	(213)	(311)	(2,348)
Changes in assumptions and other movements in provision	(1,783)	(42)	388	(1,437)
	(1,241)	699	1,404	862
Write-offs and other movements	17	6	(233)	(210)
Loss allowance, at December 31, 2018	5,108	1,734	4,299	11,141

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	929	205	2,290	3,424
Provision for credit losses for the year				
Transfers:				
Transfer in (out of) Stage 1	(309)	413	1,255	1,359
Transfer in (out of) Stage 2	16	(119)	194	91
Transfer in (out of) Stage 3	1	1	(22)	(20)
New financial assets originated	137	-	-	137
Financial assets derecognized during the period	(41)	(20)	(496)	(557)
Changes in assumptions and other movements in provision	1,106	2	686	1,794
	910	277	1,617	2,804
Write-offs and other movements	-	-	(1,402)	(1,402)
Loss allowance, at December 31, 2018	1,839	482	2,505	4,826

Critical accounting estimate - Measurement of expected credit loss for loans and advances
The measurement of the expected credit loss (ECL) for loans and advances is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Forward-looking scenarios
Three distinct macroeconomic scenarios (baseline, upside and downside) are considered in the BPI Group's estimation of expected credit losses in Stage 1 and Stage 2. These scenarios are based on assumptions supported by economic theories and historical experience. The downside scenario reflects a negative macroeconomic event occurring within the first 12 months, with conditions deteriorating for up to two years, followed by a recovery for the remainder of the period. This scenario is grounded in historical experience and assumes a monetary policy response that returns the economy to a long-run, sustainable growth rate within the forecast period. The probability of each scenario is determined using expert judgment and recession probability tools provided by reputable external service providers. The baseline case incorporates the BPI Group's outlook both for the domestic and global economy. The best- and worst-case scenarios take into account certain adjustments that will lead to a more positive or negative economic outcome.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes is likewise considered, if material.

The most significant period-end assumptions used for the ECL estimate are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

At December 31, 2019

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	6.3	6.6	6.6	7.2	0.0	4.2
Inflation rate (%)	3.0	3.1	2.7	2.4	11.0	5.9
BVAL 5Y (%)	4.5	4.7	4.0	4.3	11.2	10.3
US Treasury 5Y (%)	2.5	2.5	2.8	3.4	1.4	1.3
Exchange rate	52.300	54.874	51.550	52.856	56.970	62.653

At December 31, 2018

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	7.0	6.4	7.3	7.3	4.1	(1.2)
Inflation rate (%)	4.1	3.2	3.5	2.7	6.1	8.8
PDST-R2 5Y (%)	7.0	6.7	6.7	6.4	8.1	10.7
US Treasury 5Y (%)	3.2	2.4	2.7	2.2	6.0	3.7
Exchange rate	54.638	57.796	53.620	52.812	55.829	66.661

Sensitivity analysis
The loan portfolios have different sensitivities to movements in macroeconomic variables, so the above three scenarios have varying impact on the expected credit losses of BPI Group's portfolios. The allowance for impairment is calculated as the weighted average of expected credit losses under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was an increase in the allowance for impairment by P554 million as at December 31, 2019 from the baseline scenario (2018 - P1,850 million).

Transfers between stages
Transfers from Stage 1 and Stage 2 are based on the assessment of **significant increase in credit risk ('SICR')** from initial recognition. The impact of moving from 12 months expected credit losses to lifetime expected credit losses, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in expected credit losses. Assuming all Stage 2 accounts are considered as Stage 1, allowance for impairment would have decreased by P1,312 million as at December 31, 2019 (2018 - P1,436 million).

26.1.6 Concentrations of risks of financial assets with credit risk exposure

The BPI Group's main credit exposure at their carrying amounts, as categorized by industry sectors follow:

Consolidated (December 31, 2019)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	207,845	-	-	-	-	-	**207,845**
Due from other banks	22,356	-	-	-	-	-	**22,356**
Interbank loans receivable and SPAR	22,610	-	-	-	-	(40)	**22,570**
Financial assets at FVTPL	6,620	27	1	6	17,378	-	**24,032**
Financial assets at FVOCI	5,034	-	-	258	45,787	-	**51,079**
Investment securities at amortized cost, net	58,564	1,258	4,595	3,189	207,499	-	**275,105**
Loans and advances, net	162,335	124,841	229,745	365,874	618,515	(25,974)	**1,475,336**
Other financial assets	-	-	-	-	3,423	(832)	**2,591**
At December 31, 2019	**485,364**	**126,126**	**234,341**	**369,327**	**892,602**	**(26,846)**	**2,080,914**

Consolidated (December 31, 2018)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	225,907	-	-	-	-	-	225,907
Due from other banks	12,480	-	-	-	-	(3)	12,477
Interbank loans receivable and SPAR	34,373	-	-	-	-	(50)	34,323
Financial assets at FVTPL	4,682	99	3	3	11,696	-	16,483
Financial assets at FVOCI	2,411	-	52	-	33,068	-	35,531
Investment securities at amortized cost, net	65,164	680	4,714	1,777	215,238	(2)	287,571
Loans and advances, net	85,441	110,627	226,604	317,595	637,531	(22,902)	1,354,896
Other financial assets	-	-	-	-	6,225	(558)	5,667
At December 31, 2018	430,458	111,406	231,373	319,375	903,758	(23,515)	1,972,855

Parent (December 31, 2019)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	181,815	-	-	-	-	-	**181,815**
Due from other banks	18,356	-	-	-	-	-	**18,356**
Interbank loans receivable and SPAR	18,404	-	-	-	-	(40)	**18,364**
Financial assets at FVTPL	3,041	110	56	-	14,481	-	**17,688**
Financial assets at FVOCI	4,714	-	-	258	42,037	-	**47,009**
Investment securities at amortized cost, net	56,942	585	4,595	3,189	186,695	-	**252,006**
Loans and advances, net	161,348	68,302	226,235	222,217	572,279	(18,605)	**1,231,776**
Other financial assets	-	-	-	-	3,076	(309)	**2,767**
At December 31, 2019	**444,620**	**68,997**	**230,886**	**225,664**	**818,568**	**(18,954)**	**1,769,781**

Parent (December 31, 2018)

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	202,487	-	-	-	-	-	202,487
Due from other banks	8,615	-	-	-	-	-	8,615
Interbank loans receivable and SPAR	22,709	-	-	-	-	(50)	22,659
Financial assets at FVTPL	4,679	99	2	-	5,566	-	10,346
Financial assets at FVOCI	1,952	-	52	-	27,989	-	29,993
Investment securities at amortized cost, net	63,541	-	4,487	1,777	197,694	(2)	267,497
Loans and advances, net	83,098	57,991	219,927	182,685	598,222	(15,967)	1,125,956
Other financial assets	-	-	-	-	4,816	(390)	4,426
At December 31, 2018	387,081	58,090	224,468	184,462	834,287	(16,409)	1,671,979

26.2 Market risk

The BPI Group is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is managed by the RMO guided by policies and procedures approved by the RMC and confirmed by the Executive Committee/BOD.

Market risk management is incumbent on the BOD through the RMC. Market risk management in BPI covers managing exposures to trading risk, foreign exchange risk, counterparty credit risk, interest rate risk of the banking book and liquidity risk. At the management level, the BPI Group's market risk exposures are managed by the RMO, headed by the Parent Bank's CRO who reports directly to the RMC. In addition, the Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

The BPI Group reviews and controls market risk exposures of both its trading and non-trading portfolios. Trading portfolios include those positions arising from the BPI Group's market-making transactions. Non-trading portfolios primarily arise from the interest rate management of the BPI Group's retail and commercial banking assets and liabilities.

The BPI Group has exposures in interest rate swaps, currency swaps and structured notes as part of its trading and position taking activities. Most derivatives while used to hedge open exposures to mitigate price risk inherent in the BPI Group's portfolios do not qualify as accounting hedges.

Value-at-Risk (VaR) measurement is an integral part of the BPI Group's market risk control system. This metric estimates, at 99% confidence level, the maximum loss that a trading portfolio may incur over a trading day. This metric indicates as well that there is 1% statistical probability that the trading portfolios' actual loss would be greater than the computed VaR. In order to ensure model soundness, the VaR is periodically subject to model validation and back testing. VaR is supplemented by other risk metrics and measurements that would provide preliminary signals to Treasury and to the management to assess the vulnerability of Bank's positions. To control the risk, the RMC sets risk limits for trading portfolios which are consistent with the BPI Group's goals, objectives, risk appetite, and strategies.

Stress tests indicate the potential losses that could arise in extreme conditions that would have detrimental effect to the Bank's positions. The Bank periodically performs stress testing (price risk and liquidity risk) to assess the Bank's condition on assumed stress scenarios. Contingency plans are frequently reviewed to ensure the Bank's preparedness in the event of real stress. Results of stress tests are reviewed by Senior Management and by the RMC.

The average daily VaR for the trading portfolios are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Local fixed-income	**92**	33	**91**	25
Foreign fixed-income	**127**	168	**120**	154
Foreign exchange	**45**	44	**10**	9
Derivatives	**127**	95	**127**	95
Equity securities	**30**	28	**-**	-
Mutual fund	**5**	7	**-**	-
	426	375	**348**	283

26.2.1 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in foreign exchange rates. It arises on financial instruments that are denominated in a foreign currency.

As at reporting date, the BPI Group is mainly exposed to movements of US Dollar (USD) against the Philippine Peso (PhP). Volatilities caused by movement of USD against PhP are regularly monitored in line with the limits established internally.

The table below summarizes the BPI Group's exposure to foreign currency exchange rate risk at December 31.

Consolidated

	2019			2018		
	USD	Others*	**Total**	USD	Others*	Total
			(In Millions of Pesos)			
Financial Assets						
Cash and other cash items	3,060	285	**3,345**	2,742	752	3,494
Due from other banks	16,126	1,583	**17,709**	6,749	2,620	9,369
Interbank loans receivable and SPAR	813	132	**945**	6,639	146	6,785
Financial assets at FVTPL	9,149	178	**9,327**	8,491	119	8,610
Financial assets at FVOCI - debt securities	16,977	-	**16,977**	25,385	172	25,557
Investment securities at amortized cost	127,442	1,414	**128,856**	127,260	1,507	128,767
Loans and advances, net	149,012	7,621	**156,633**	145,995	4,970	150,965
Others financial assets	13,746	1,697	**15,443**	1,230	106	1,336
Total financial assets	**336,325**	**12,910**	**349,235**	324,491	10,392	334,883
Financial Liabilities						
Deposit liabilities	228,362	6,130	**234,492**	241,547	6,692	248,239
Derivative financial liabilities	1,438	75	**1,513**	1,967	118	2,085
Bills payable	80,817	482	**81,299**	82,692	458	83,150
Due to BSP and other banks	942	-	**942**	1,250	-	1,250
Manager's checks and demand drafts outstanding	316	10	**326**	87	61	148
Other financial liabilities	17,749	1,668	**19,417**			
Accounts payable	129	13	**142**	119	3	122
Total financial liabilities	**329,753**	**8,378**	**338,131**	327,662	7,332	334,994
Net on-balance sheet position	**6,572**	**4,532**	**11,104**	(3,171)	3,060	(111)

**Others category includes financial instruments denominated in JPY, EUR and GBP.*

Parent

	2019			2018		
	USD	Others*	**Total**	USD	Others*	Total
			(In Millions of Pesos)			
Financial Assets						
Cash and other cash items	2,858	284	**3,142**	2,552	751	3,303
Due from other banks	14,556	1,553	**16,109**	4,874	2,269	7,143
Interbank loans receivable and SPAR	-	-	**-**	5,260	-	5,260
Financial assets at FVTPL	6,807	78	**6,885**	5,144	119	5,263
Financial assets at FVOCI - debt securities	15,030	-	**15,030**	25,132	172	25,304
Investment securities at amortized cost	117,006	145	**117,151**	117,143	220	117,363
Loans and advances, net	147,803	7,148	**154,951**	144,486	4,787	149,273
Others financial assets	13,445	1,566	**15,011**	1,220	90	1,310
Total financial assets	**317,505**	**10,774**	**328,279**	305,811	8,408	314,219
Financial Liabilities						
Deposit liabilities	214,389	5,965	**220,354**	227,621	6,442	234,063
Derivative financial liabilities	1,438	75	**1,513**	1,967	115	2,082
Bills payable	77,749	-	**77,749**	79,178	-	79,178
Due to BSP and other banks	942	-	**942**	1,250	-	1,250
Manager's checks and demand drafts outstanding	314	10	**324**	81	61	142
Other financial liabilities	17,817	1,588	**19,405**	20,947	1,500	22,447
Accounts payable	121	12	**133**	117	2	119
Total financial liabilities	**312,770**	**7,650**	**320,420**	331,161	8,120	339,281
Net on-balance sheet position	**4,735**	**3,124**	**7,859**	(25,350)	288	(25,062)

**Others category includes financial instruments denominated in JPY, EUR and GBP.*

Presented below is a sensitivity analysis demonstrating the impact on pre-tax income of reasonably possible change in the exchange rate between US Dollar and Philippine Peso. The fluctuation rate is based on the historical movement of US Dollar against the Philippine Peso year on year.

Year	Change in currency	Effect on pre-tax income	
		Consolidated	Parent
		(In millions of Pesos)	
2019	**+/- 1.24%**	**-/+ 81**	**-/+ 59**
2018	+/- 1.92%	-/+ 71	-/+ 95

26.2.2 Interest rate risk

Interest rate risk is the risk that cash flows or fair value of a financial instrument will fluctuate due to movements in market interest rates. **Interest rate risk in the banking book arises from the BPI Group's core banking activities. The** BPI Group is subject to re-pricing risk arising from financial assets and liabilities that have different maturities and are re-priced taking into account the prevailing market interest rates.

The BPI Group employs two methods to measure the potential impact of interest rate risk: (i) one that focuses on the economic value of the banking book, and (ii) one that focuses on net interest earnings. The RMC sets limits on the two interest rate risk metrics which are monitored monthly by the Market Risk Division of the RMO.

Interest rate risk in the banking book
Interest rate risk in the banking book (IRRBB) is the current and prospective risk to the Bank's capital and earnings arising from the adverse movements in interest rates that affect its banking book positions. Excessive levels of interest rate risks in the banking book can pose a significant threat to the Bank's earnings and capital base. The Bank has established comprehensive risk management policies, procedures, risk limits structures and employs risk measurement models supported by a robust risk management system.

Interest rate exposures from core banking activities are measured using the following earnings-based and economic value-based models: (a) Earnings-at-Risk (EaR) measures the potential deterioration in net interest income over the next 12 months due to adverse movements in interest rates, and (b) Balance Sheet Value-at-Risk (BS VaR) measures the impact on the economic value of the future cash flows in the banking book due to changes in interest rates.

Earnings-at-Risk (EaR)
The EaR is built on repricing profile of the Bank and considers principal payments only. The Bank projects interest inflows from its financial assets and interest outflows from its financial liabilities in the next 12 months as earnings are affected when interest rate moved against the Bank's position. As of December 31, 2019, the net interest income impact of movement in interest rates amounts to P2,424 million (2018 - P806 million) for the whole BPI Group and P1,986 million (2018 - P715 million) for the Parent Bank.

Balance Sheet Value-at-Risk (BSVaR)
The BS VaR model is also built on repricing gap or the difference between the amount of rate-sensitive financial assets and liabilities which considers both principal and interest payments. It is the present value of the Bank's expected net cash flows based on the current interest rates. As at December 31, the average BSVaR, computed on a monthly basis, for the banking book stood at P13,754 million (2018 - P15,507 million) for the whole BPI Group and P9,530 million (2018 - P13,483 million) for the Parent Bank.

The IRRBB levels are closely monitored against RMC-approved limits and results are reported and discussed regularly at the Management level through the ALCO and at the Board level through the Risk Management Committee (RMC). The BPI Group manages interest rate exposures related to its assets and liabilities through a transfer-pricing system administered by Treasury. Investment securities and interest rate derivatives are also used to hedge interest rate risk and manage repricing gaps in the balance sheet.

The BPI Group also conducts price stress tests in the banking book and EaR stress tests for a variety of interest rate shock scenarios to identify the impact of adverse movements in interest rates on the Bank's economic value and earnings. The design of the price and EaR stress tests include steepening and flattening yield curves, parallel up/down and short rate up/down shocks. The interest rate shocks applied is calibrated for all major currencies in which the Bank has significant positions. The results of the stress test are reported to the RMC and Senior Management and are integrated into the overall risk management framework of the BPI Group.

The risk management process, including its various components, is subject to periodic independent review (i.e. internal audit and model validation) and consistently calibrated to ensure accuracy, relevance, propriety and timeliness of data and assumptions employed. The assumptions and parameters used in building these metrics are properly documented. Any changes in the methodology and assumptions used are duly approved by the Chief Risk Officer and noted by the RMC.

The table below summarizes the BPI Group's exposure to interest rate risk, categorized by the earlier of contractual repricing or maturity dates.

Consolidated (December 31, 2019)

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
	(In Millions of Pesos)				
As at December 31, 2019					
Financial Assets					
Cash and other cash items	-	-	-	47,256	**47,256**
Due from BSP	-	-	-	207,845	**207,845**
Due from other banks	-	-	-	22,356	**22,356**
Interbank loans receivable and SPAR	-	-	-	22,570	**22,570**
Financial assets at FVTPL	334	472	1,050	22,176	**24,032**
Financial assets at FVOCI	-	-	-	51,079	**51,079**
Investment securities at amortized cost	-	-	-	275,105	**275,105**
Loans and advances, net	890,934	136,779	311,924	135,699	**1,475,336**
Other financial assets	-	-	-	2,591	**2,591**
Total financial assets	**891,268**	**137,251**	**312,974**	**786,677**	**2,128,170**
Financial Liabilities					
Deposit liabilities	796,447	359,265	539,631	-	**1,695,343**
Derivative financial liabilities	81	397	936	1,463	**2,877**
Bills payable and other borrowed funds	-	15,415	-	135,422	**150,837**
Due to BSP and other banks	-	-	-	1,288	**1,288**
Manager's checks and demand drafts outstanding	-	-	-	8,299	**8,299**
Other financial liabilities	-	-	-	9,392	**9,392**
Total financial liabilities	**796,528**	**375,077**	**540,567**	**155,864**	**1,868,036**
Total interest gap	**94,740**	**(237,826)**	**(227,593)**	**630,813**	**260,134**

Consolidated (December 31, 2018)

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2018					
Financial Assets					
Cash and other cash items	-	-	-	43,536	43,536
Due from BSP	-	-	-	225,907	225,907
Due from other banks	-	-	-	12,477	12,477
Interbank loans receivable and SPAR	-	-	-	34,323	34,323
Financial assets at FVTPL	70	1,172	1,125	14,116	16,483
Financial assets at FVOCI	-	-	-	35,531	35,531
Investment securities at amortized cost	-	1	-	287,570	287,571
Loans and advances, net	828,847	130,082	270,105	125,862	1,354,896
Other financial assets	-	-	-	5,667	5,667
Total financial assets	828,917	131,255	271,230	784,989	2,016,391
Financial Liabilities					
Deposit liabilities	602,032	831,505	152,209	-	1,585,746
Derivative financial liabilities	43	1,204	1,279	1,365	3,891
Bills payable and other borrowed funds	20,915	10,516	-	135,470	166,901
Due to BSP and other banks	-	-	-	3,988	3,988
Manager’s checks and demand drafts outstanding	-	-	-	6,931	6,931
Other financial liabilities	-	-	-	19,313	19,313
Total financial liabilities	622,990	843,225	153,488	167,067	1,786,770
Total interest gap	205,927	(711,970)	117,742	617,922	229,621

Parent (December 31, 2019)

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
	(In Millions of Pesos)				
As at December 31, 2019					
Financial Assets					
Cash and other cash items	-	-	-	45,982	**45,982**
Due from BSP	-	-	-	181,815	**181,815**
Due from other banks	-	-	-	18,356	**18,356**
Interbank loans receivable and SPAR	-	-	-	18,364	**18,364**
Financial assets at FVTPL	334	472	1,050	15,832	**17,688**
Financial assets at FVOCI	-	-	-	47,009	**47,009**
Investment securities at amortized cost	-	-	-	252,006	**252,006**
Loans and advances, net	824,718	90,806	257,603	58,649	**1,231,776**
Other financial assets	-	-	-	2,767	**2,767**
Total financial assets	**825,052**	**91,278**	**258,653**	**640,780**	**1,815,763**
Financial Liabilities					
Deposit liabilities	711,910	301,381	443,167	-	**1,456,458**
Derivative financial liabilities	81	397	936	1,463	**2,877**
Bills payable and other borrowed funds	-	15,118	-	111,411	**126,529**
Due to BSP and other banks	-	-	-	1,288	**1,288**
Manager's checks and demand drafts outstanding	-	-	-	6,421	**6,421**
Other financial liabilities	-	-	-	4,801	**4,801**
Total financial liabilities	**711,991**	**316,896**	**444,103**	**125,384**	**1,598,374**
Total interest gap	**113,061**	**(225,618)**	**(185,450)**	**515,396**	**217,389**

Parent (December 31, 2018)

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2018					
Financial Assets					
Cash and other cash items	-	-	-	42,419	42,419
Due from BSP	-	-	-	202,487	202,487
Due from other banks	-	-	-	8,615	8,615
Interbank loans receivable and SPAR	-	-	-	22,659	22,659
Financial assets at FVTPL	70	1,172	1,125	7,979	10,346
Financial assets at FVOCI	-	-	-	29,993	29,993
Investment securities at amortized cost	-	1	-	267,496	267,497
Loans and advances, net	757,320	81,133	224,477	63,026	1,125,956
Other financial assets	-	-	-	4,426	4,426
Total financial assets	757,390	82,306	225,602	649,100	1,714,398
Financial Liabilities					
Deposit liabilities	534,119	708,636	104,452	-	1,347,207
Derivative financial liabilities	43	1,204	1,279	1,362	3,888
Bills payable and other borrowed funds	20,915	10,516	-	119,449	150,880
Due to BSP and other banks	-	-	-	3,988	3,988
Manager's checks and demand drafts outstanding	-	-	-	5,354	5,354
Other financial liabilities	-	-	-	13,408	13,408
Total financial liabilities	555,077	720,356	105,731	143,561	1,524,725
Total interest gap	202,313	(638,050)	119,871	505,539	189,673

26.3 Liquidity risk

Liquidity risk is the risk that the BPI Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The BPI Group's liquidity profile is observed and monitored through its metric, the Minimum Cumulative Liquidity Gap (MCLG). The MCLG is the smallest net cumulative cash inflow (if positive) or the largest net cumulative cash outflow (if negative) over the next three (3) months. The MCLG indicates the biggest funding requirement in the short term and the degree of liquidity risk present in the current cash flow profile of the BPI Group. A red flag is immediately raised and reported to management and the RMC when the MCLG level projected over the next 3 months is about to breach the RMC-prescribed MCLG limit.

26.3.1 Liquidity risk management process

The BPI Group's liquidity management process, as carried out within the BPI Group and monitored by the RMC includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or as borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity gaps against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Performing periodic liquidity stress testing on the BPI Group's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. Sources of liquidity are regularly reviewed by the BPI Group to maintain a wide diversification by currency, geography, counterparty, product and term.

The BPI Group also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit.

Liquidity Coverage Ratio (LCR)
Pursuant to BSP Circular No. 905 issued in 2016, the Parent Bank is required to hold and maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that are sufficient to meet its estimated total cash outflows over a 30 calendar-day period of liquidity stress. The LCR is the ratio of HQLAs to total net cash outflows which should be no lower than 100% on a daily basis. It is designed to promote short-term resilience of the BPI Group's liquidity risk profile to withstand significant liquidity shocks that may last over 30 calendar days. HQLA represents the Parent Bank's stock of liquid assets that qualify for inclusion in the LCR which consists mainly of cash, regulatory reserves and unencumbered high-quality liquid securities. HQLAs therefore, serve as defense against potential stress events.

The main drivers of the Parent Bank's LCR comprise the changes in the total stock of HQLA as well as changes in net cash outflows related to deposits, unsecured borrowings, commitment facilities, derivatives cash flows and cash inflows from maturing corporate, business and retail loans, among others. Cash outflows from derivatives contracts are effectively offset by derivatives cash inflows. These two are accorded 100% outflow and inflow factors, respectively.

Net Stable Funding Ratio (NSFR)
On January 1, 2019, the Parent Bank adopted BSP Circular No. 1007 issued in 2018 regarding the NSFR requirement. The NSFR is aimed at strengthening the Parent Bank's long-term resilience by maintaining a stable funding in relation to its assets and off-balance sheet items as well as to limit the maturity transformation risk of the BPI Group. The NSFR is expressed as the ratio of available stable funding and the required stable funding and complements the LCR as it takes a longer view of the BPI Group's liquidity risk profile. The BPI Group's capital, retail deposits and long-term debt are considered as stable funding sources whereas the BPI Group's assets including, but not limited to, performing and non-performing loans and receivables, HQLA and non-HQLA securities as well as off-balance items form part of the required stable funding. The Parent Bank's solo and consolidated NSFRs are well-above the regulatory minimum of 100%.

The Parent Bank maintains a well-diversified funding base and has a substantial amount of core deposits, thereby avoiding undue concentrations by counterparty, maturity, and currency. The Parent Bank manages its liquidity position through asset-liability management activities supported by a well-developed funds management practice as well as a sound risk management system. As part of risk oversight, the Parent Bank monitors its liquidity risk on a daily basis, in terms of single currency and significant currencies, to ensure it is operating within the risk appetite set by the BOD and to assess ongoing compliance with the minimum requirement of the liquidity ratios. Furthermore, the Parent Bank has a set of policies and escalation procedures in place that govern its day-to-day risk monitoring and reporting processes.

The table below shows the actual liquidity metrics of the BPI Group and the Parent Bank:

	Consolidated		**Parent**	
	2019	2018	**2019**	2018
Liquidity ratio	**167.06%**	160.92%	**168.13%**	160.10%
Net stable funding ratio	**130.74%**	141.99%	**122.65%**	139.81%
Leverage ratio	**10.70%**	10.43%	**10.06%**	9.79%
Total exposure measure	**2,224,550**	2,120,270	**1,887,364**	1,795,947

The improvement in the Parent Bank's LCR in 2019 was attained due to growing portfolio of government securities while cash, reserves and claims on the BSP make up on average 53% of the total stock of HQLA.

26.3.2 Maturity profile - Non-derivative financial instruments

The tables below present the maturity profile of non-derivative financial instruments based on undiscounted cash flows (inclusive of interest) which the BPI Group uses to manage the inherent liquidity risk. The maturity analysis is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized or the financial liability will be settled.

Consolidated (December 31, 2019)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2019				
Financial Assets				
Cash and other cash items	47,256	-	-	**47,256**
Due from BSP	207,845	-	-	**207,845**
Due from other banks	22,356	-	-	**22,356**
Interbank loans receivable and SPAR	22,551	17	114	**22,682**
Financial assets at FVTPL	6,862	1,558	16,756	**25,176**
Financial assets at FVOCI	10,575	8,161	47,820	**66,556**
Investment securities at amortized cost	46,278	84,560	221,296	**352,134**
Loans and advances, net	656,088	267,511	581,062	**1,504,661**
Other financial assets	2,591	-	-	**2,591**
Total financial assets	**1,022,402**	**361,807**	**867,048**	**2,251,257**
Financial Liabilities				
Deposit liabilities	796,447	359,265	539,631	**1,695,343**
Bills payable and other borrowed funds	49,564	57,590	46,207	**153,361**
Due to BSP and other banks	1,288	-	-	**1,288**
Manager's checks and demand drafts outstanding	8,299	-	-	**8,299**
Other financial liabilities	9,392	-	-	**9,392**
Total financial liabilities	**864,990**	**416,855**	**585,838**	**1,867,683**
Total maturity gap	**157,412**	**(55,048)**	**281,210**	**383,574**

Consolidated (December 31, 2018)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2018				
Financial Assets				
Cash and other cash items	43,536	-	-	43,536
Due from BSP	225,923	-	-	225,923
Due from other banks	12,477	-	-	12,477
Interbank loans receivable and SPAR	35,028	12	135	35,175
Financial assets at FVTPL	8,740	1,231	4,170	14,141
Financial assets at FVOCI	29,154	1,601	7,730	38,485
Investment securities at amortized cost	42,442	59,550	251,643	353,635
Loans and advances, net	580,825	205,331	604,684	1,390,840
Other financial assets	5,667	-	-	5,667
Total financial assets	983,792	267,725	868,362	2,119,879
Financial Liabilities				
Deposit liabilities	923,895	878,739	195,585	1,998,219
Bills payable and other borrowed funds	97,507	77,117	475	175,099
Due to BSP and other banks	3,988	-	-	3,988
Manager's checks and demand drafts outstanding	6,931	-	-	6,931
Other financial liabilities	19,313	-	-	19,313
Total financial liabilities	1,051,634	955,856	196,060	2,203,550
Total maturity gap	(67,842)	(688,131)	672,302	(83,671)

Parent (December 31, 2019)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2019				
Financial Assets				
Cash and other cash items	45,982	-	-	**45,982**
Due from BSP	181,815	-	-	**181,815**
Due from other banks	18,356	-	-	**18,356**
Interbank loans receivable and SPAR	18,245	17	114	**18,376**
Financial assets at FVTPL	926	1,522	15,612	**18,060**
Financial assets at FVOCI	5,023	8,074	45,980	**59,077**
Investment securities at amortized cost	25,347	76,282	209,930	**311,559**
Loans and advances, net	605,833	196,549	449,524	**1,251,906**
Other financial assets, net	2,767	-	-	**2,767**
Total financial assets	**904,294**	**282,444**	**721,160**	**1,907,898**
Financial Liabilities				
Deposit liabilities	711,910	301,381	443,167	**1,456,458**
Bills payable and other borrowed funds	36,025	45,421	45,988	**127,434**
Due to BSP and other banks	1,288	-	-	**1,288**
Manager's checks and demand drafts outstanding	6,421	-	-	**6,421**
Other financial liabilities	4,801	-	-	**4,801**
Total financial liabilities	**760,445**	**346,802**	**489,155**	**1,596,402**
Total maturity gap	**143,849**	**(64,358)**	**232,005**	**311,496**

Parent (December 31, 2018)

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2018				
Financial Assets				
Cash and other cash items	42,419	-	-	42,419
Due from BSP	202,487	-	-	202,487
Due from other banks	8,615	-	-	8,615
Interbank loans receivable and SPAR	22,705	12	135	22,852
Financial assets at FVTPL	2,530	1,229	4,169	7,928
Financial assets at FVOCI	23,926	1,392	7,390	32,708
Investment securities at amortized cost	39,473	50,821	239,775	330,069
Loans and advances, net	520,744	145,807	479,908	1,146,459
Other financial assets, net	4,426	-	-	4,426
Total financial assets	867,325	199,261	731,377	1,797,963
Financial Liabilities				
Deposit liabilities	814,358	726,595	116,373	1,657,326
Bills payable and other borrowed funds	85,037	76,747	-	161,784
Due to BSP and other banks	3,988	-	-	3,988
Manager's checks and demand drafts outstanding	5,354	-	-	5,354
Other financial liabilities	13,408	-	-	13,408
Total financial liabilities	922,145	803,342	116,373	1,841,860
Total maturity gap	(54,820)	(604,081)	615,004	(43,897)

26.3.3 Maturity profile - Derivative instruments

(a) Derivatives settled on a net basis

The BPI Group's derivatives that are settled on a net basis consist of interest rate swaps, non-deliverable forwards and non-deliverable swaps. The table below presents the contractual undiscounted cash flows of interest rate swaps based on the remaining period from December 31 to the contractual maturity dates that are subject to offsetting, enforceable master netting arrangements and similar agreements.

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2019		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	334	472	1,050	**1,856**
- Outflow	(81)	(397)	(936)	**(1,414)**
- Net inflow	**253**	**75**	**114**	**442**
Non-deliverable forwards and swaps - held for trading				
- Inflow	22	-	-	**22**
- Outflow	(107)	(484)	(356)	**(947)**
- Net outflow	**(85)**	**(484)**	**(356)**	**(925)**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2018		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	99	1,285	1,317	2,701
- Outflow	(59)	(1,296)	(1,485)	(2,840)
- Net inflow	40	(11)	(168)	(139)
Non-deliverable forwards and swaps - held for trading				
- Inflow	36,071	2,103	3,680	41,854
- Outflow	(35,972)	(2,120)	(3,680)	(41,772)
- Net inflow (outflow)	99	(17)	-	82

(a) Derivatives settled on a gross basis

The BPI Group's derivatives that are settled on a gross basis include foreign exchange derivatives mainly currency forwards and currency swaps. The table below presents the contractual undiscounted cash flows of foreign exchange derivatives based on the remaining period from reporting date to the contractual maturity dates.

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
Foreign exchange derivatives - held for trading				
2019				
- Inflow	527	509	11	**1,047**
- Outflow	(451)	(66)	-	**(517)**
- **Net inflow (outflow)**	76	443	11	**530**
2018				
- Inflow	127,002	4,184	-	131,186
- Outflow	(127,082)	(4,136)	-	(131,218)
- Net inflow (outflow)	(80)	48	-	(32)
Foreign exchange derivatives - held for hedging				
- Inflow	-	5,174	-	**5,174**
- Outflow	-	(5,316)	-	**(5,316)**
- Net (outflow)	-	(142)	-	**(142)**

26.4 Fair value measurement

The following tables present the carrying value of assets and liabilities and the level of fair value hierarchy within which the fair value measurements are categorized:

26.4.1 Assets and liabilities measured at fair value on a recurring or non-recurring basis

Consolidated (December 31, 2019)

	Carrying Amount	Fair value		
		Level 1	Level 2	**Total**
Recurring measurements:			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	2,933	-	2,933	**2,933**
Trading assets				
- Debt securities	21,099	17,562	3,537	**21,099**
- Equity securities	73	73	-	**73**
Financial assets at FVOCI				
- Debt securities	51,079	50,995	84	**51,079**
- Equity securities	2,826	1,738	1,088	**2,826**
	78,010	70,368	7,642	**78,010**
Financial liabilities				
Derivative financial liabilities	2,877	-	2,877	**2,877**
Non-recurring measurements:				
Assets held for sale, net	3,155	-	9,583	**9,583**

Consolidated (December 31, 2018)

	Carrying Amount	Fair value		
		Level 1	Level 2	Total
Recurring measurements			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,033	-	4,033	4,033
Trading assets				
- Debt securities	12,450	11,656	794	12,450
- Equity securities	238	238	-	238
Financial assets at FVOCI				
- Debt securities	35,531	35,089	442	35,531
- Equity securities	1,675	1,129	546	1,675
	53,927	48,112	5,815	53,927
Financial liabilities				
Derivative financial liabilities	3,891	-	3,891	3,891
Non-recurring measurements				
Assets held for sale, net	3,363	-	9,859	9,859

Parent Bank (December 31, 2019)

	Carrying Amount	Fair value		
		Level 1	Level 2	**Total**
Recurring measurements			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	2,923	-	2,923	**2,923**
Trading securities - debt securities	14,765	14,765	-	**14,765**
Financial assets at FVOCI				
- Debt securities	47,009	47,009	-	**47,009**
- Equity securities	1,311	972	339	**1,311**
	66,008	62,746	3,262	**66,008**
Financial liabilities				
Derivative financial liabilities	2,877	-	2,877	**2,877**
Non-recurring measurements				
Assets held for sale, net	342	-	3,296	**3,296**

Parent Bank (December 31, 2018)

	Carrying Amount	Fair value		
		Level 1	Level 2	Total
Recurring measurements			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,031	-	4,031	4,031
Trading securities - debt securities	6,315	5,528	787	6,315
Financial assets at FVOCI				
- Debt securities	29,993	29,838	155	29,993
- Equity securities	590	406	184	590
	40,929	35,772	5,157	40,929
Financial liabilities				
Derivative financial liabilities	3,888	-	3,888	3,888
Non-recurring measurements				
Assets held for sale, net	455	-	3,496	3,496

There are no assets and liabilities whose fair values fall under the Level 3 category as at December 31, 2019 and 2018. Likewise, there were no transfers between Level 1 and Level 2 during the years ended December 31, 2019 and 2018.

26.4.2 Fair value disclosures of assets and liabilities not measured at fair value

Consolidated (December 31, 2019)

	Carrying Amount	Fair value		
		Level 1	Level 2	**Total**
Financial assets				
Cash and other cash items	47,256	-	47,256	**47,256**
Due from BSP	207,845	-	207,845	**207,845**
Due from other banks	22,356	-	22,356	**22,356**
Interbank loans receivable and SPAR	22,570	-	22,610	**22,610**
Investment securities at amortized cost	275,105	276,454	-	**276,454**
Loans and advances, net	1,475,336	-	1,480,074	**1,480,074**
Other financial assets	2,591	-	2,591	**2,591**
Financial liabilities				
Deposit liabilities	1,695,343	-	1,678,607	**1,678,607**
Bills payable and other borrowed funds	150,837	84,973	65,461	**150,434**
Due to BSP and other banks	2,946	-	2,946	**2,946**
Manager's checks and demand drafts outstanding	8,299	-	8,299	**8,299**
Other financial liabilities	9,392	-	9,392	**9,392**
Non-financial assets				
Investment properties	155		638	**638**

Consolidated (December 31, 2018)

	Carrying Amount	Fair value		
		Level 1	Level 2	Total
Financial assets				
Cash and other cash items	43,536	-	43,536	43,536
Due from BSP	225,907	-	225,907	225,907
Due from other banks	12,477	-	12,480	12,480
Interbank loans receivable and SPAR	34,323	-	34,373	34,373
Investment securities at amortized cost	287,571	254,850	3,802	258,652
Loans and advances, net	1,354,896	-	1,362,803	1,362,803
Other financial assets	5,667	-	5,667	5,667
Financial liabilities				
Deposit liabilities	1,585,746	-	1,585,746	1,585,746
Bills payable and other borrowed funds	166,901	-	163,545	163,545
Due to BSP and other banks	3,988	-	3,988	3,988
Manager's checks and demand drafts outstanding	6,931	-	6,931	6,931
Other financial liabilities	19,313	-	19,313	19,313
Non-financial assets				
Investment properties	129	-	1,786	1,786

Parent Bank (December 31, 2019)

	Carrying Amount	Fair value		
		Level 1	Level 2	**Total**
Financial assets				
Cash and other cash items	45,982	-	45,982	**45,982**
Due from BSP	181,815	-	181,815	**181,815**
Due from other banks	18,356	-	18,356	**18,356**
Interbank loans receivable and SPAR	18,346	-	18,405	**18,405**
Investment securities at amortized cost	252,006	252,964	-	**252,964**
Loans and advances, net	1,231,776	-	1,230,551	**1,230,551**
Other financial assets	2,767	-	2,767	**2,767**
Financial liabilities				
Deposit liabilities	1,456,458	-	1,450,164	**1,450,164**
Bills payable and other borrowed funds	126,529	75,463	50,663	**126,126**
Due to BSP and other banks	1,288	-	1,288	**1,288**
Manager's checks and demand drafts outstanding	6,421	-	6,421	**6,421**
Other financial liabilities	4,801	-	4,801	**4,801**
Non-financial assets				
Investment properties	143		638	**638**

Parent Bank (December 31, 2018)

	Carrying Amount	Fair value		
		Level 1	Level 2	Total
Fair values disclosed		(In Millions of Pesos)		
Financial assets				
Cash and other cash items	42,419	-	42,419	42,419
Due from BSP	202,487	-	202,487	202,487
Due from other banks	8,615	-	8,615	8,615
Interbank loans receivable and SPAR	22,659	-	22,709	22,709
Investment securities at amortized cost	267,497	236,113	3,775	239,888
Loans and advances, net	1,125,956	-	1,144,903	1,144,903
Other financial assets	4,426	-	4,426	4,426
Financial liabilities				
Deposit liabilities	1,347,207	-	1,347,207	1,347,207
Bills payable and other borrowed funds	150,880	-	150,533	150,533
Due to BSP and other banks	3,988	-	3,988	3,988
Manager's checks and demand drafts outstanding	5,354	-	5,354	5,354
Other financial liabilities	13,408	-	13,408	13,408
Non-financial assets				
Investment properties	118	-	1,786	1,786

26.5 Insurance risk management

The non-life insurance entities decide on the retention, or the absolute amount that they are ready to assume insurance risk from one event. The retention amount is a function of capital, experience, actuarial study and risk appetite or aversion.

In excess of the retention, these entities arrange reinsurances either thru treaties or facultative placements. They also accredit reinsurers based on certain criteria and set limits as to what can be reinsured. The reinsurance treaties and the accreditation of reinsurers require BOD's approval.

Note 27 - Capital management

Capital management is understood to be a facet of risk management. The primary objective of the BPI Group is the generation of recurring acceptable returns to shareholders' capital. To this end, the BPI Group's policies, business strategies and activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various funders and stakeholders.

Cognizant of its exposure to risks, the BPI Group maintains sufficient capital to absorb unexpected losses, stay in business for the long haul, and satisfy regulatory requirements. The BPI Group further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity (CET1) ratio and Tier 1 Capital ratios of 6% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required capital adequacy ratio remains at 10% which includes the capital conservation buffer.

Information on the regulatory capital is summarized below:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Tier 1 capital	**262,873**	244,276	**262,239**	243,519
Tier 2 capital	**14,079**	13,116	**11,500**	10,795
Gross qualifying capital	**276,952**	257,392	**273,739**	254,314
Less: Regulatory adjustments/required deductions	**24,810**	23,152	**72,400**	68,491
Total qualifying capital	**252,142**	234,240	**201,339**	185,823
Risk weighted assets	**1,568,855**	1,455,746	**1,347,976**	1,252,790
CAR (%)	**16.07**	16.09	**14.94**	14.83
CET1 (%)	**15.17**	15.19	**14.08**	13.97

The BPI Group has fully complied with the CAR requirement of the BSP.

Likewise, regulatory capital structures of certain subsidiaries on a standalone basis are managed to meet the requirements of the relevant regulatory bodies (i.e. Insurance Commission, SEC, PSE etc.). These subsidiaries have fully complied with the applicable regulatory capital requirements.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE requires listed entities to maintain a minimum of ten percent (10%) of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Parent Bank is likewise fully compliant with this requirement.

Note 28 - Commitments and Contingencies

At present, there are lawsuits, claims and tax assessments pending against the BPI Group. In the opinion of management, after reviewing all actions and proceedings and court decisions with legal counsels, the aggregate liability or loss, if any, arising therefrom will not have a material effect on the BPI Group's financial position or financial performance.

BPI and some of its subsidiaries are defendants in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial statements.

In the normal course of business, the BPI Group makes various commitments that are not presented in the financial statements. The BPI Group does not anticipate any material losses from these commitments.

Note 29 - Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

29.1 Basis of preparation

The financial statements of the BPI Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

As allowed by the SEC, the pre-need subsidiary of the Parent Bank continues to follow the provisions of the Pre-Need Uniform Chart of Accounts (PNUCA) prescribed by the SEC and adopted by the Insurance Commission.

The financial statements comprise the statements of condition, statements of income and statements of comprehensive income shown as two statements, statements of changes in capital funds, statements of cash flows and the notes.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVTPL, financial assets at FVOCI, and plan assets of the BPI Group's defined benefit plans.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the BPI Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the BPI Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are shown below

Critical accounting estimates

- Fair value of derivatives and other financial instruments (Note 7)
- Calculation of defined benefit obligation (Note 23)
- Useful lives of bank premises, furniture, fixtures and equipment (Note 11)
- Impairment of investments subsidiaries and associates (Note 12)

Critical accounting judgments

- Classification of investment securities at amortized cost (Note 9)
- Realization of deferred income tax assets (Note 13)

29.2 Changes in accounting policy and disclosures

(a) New standards adopted by the BPI Group

The BPI Group has adopted the following standards effective January 1, 2019:

PFRS 16, 'Leases'
PFRS 16 replaces the guidance of PAS 17 that relate to the accounting by lessees and the recognition of almost all leases in the balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right-of-use asset) and a lease liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

On adoption of PFRS 16, the BPI Group recognized lease liabilities and right-of-use assets in relation to leases which had previously been classified as 'operating leases' under the principles of PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.87% and 4.25% for the Subsidiaries and BPI Parent, respectively.

The reconciliation between the operating lease commitments under PAS 17 at December 31, 2018 discounted using the BPI Group's incremental borrowing rate and the lease liability recognized as at January 1, 2019 is as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
Operating lease commitments, December 31, 2018	11,896	10,161
Discounted amount using the incremental borrowing rate	8,926	7,696
Add: Finance lease liabilities recognized at December 31, 2018	-	-
Less: Short-term leases recognized on a straight-line basis as expense	228	203
Low-value leases and contracts reassessed as service agreements	54	44
Lease liability, January 1, 2019	**8,644**	**7,449**

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statements of condition as at December 31, 2018. The amount of prepaid lease payments amount to P452 million and P451 million for BPI Group and Parent Bank, respectively.

In applying PFRS 16 for the first time, the BPI Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease
- apply the provisions of PFRS 16 to contracts that were previously identified as leases applying PAS 7, ***'Statement of cash flows'*** and IFRIC 4, ***'Determining whether an arrangement contains a lease'***.

Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019)
It has been clarified previously that PAS 12, not PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The adoption of the above interpretation did not have a material impact on the financial statements of the BPI Group.

(b) New standards, amendments and interpretations not yet adopted by the BPI Group

The following new accounting standards and interpretations are not mandatory for December 31, 2019 reporting period and have not been early adopted by the BPI Group:

PFRS 17, Insurance Contracts (effective for annual periods beginning on or after January 1, 2022)
PFRS 17 was issued in May 2017 as replacement for PFRS 4, Insurance Contracts. PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Insurance Commission, in coordination with Philippine Insurers and Reinsurers Association, is currently reviewing the impact of PFRS 17 across the entire industry and has established a project team to manage the implementation approach. The BPI Group is assessing the quantitative impact of PFRS 17 as of reporting date.

Likewise, the following amendments are not mandatory for December 31, 2019 reporting period and have not been early adopted by the BPI Group:

- Amendments to PAS 1, Presentation of Financial Statements and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to PFRS 3, Business Combinations
- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures
- Revised Conceptual Framework for Financial Reporting

The adoption of the above amendments is not expected to have a material impact on the financial statements of the BPI Group.

29.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The BPI Group recognizes a financial instrument in the statements of condition when, and only when, the BPI Group becomes a party to the contractual provisions of the instrument.

29.3.1Measurement methods

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired (see definition on Note 29.3.2.2) at initial recognition - the BPI Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the BPI Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the BPI Group commits to purchase or sell the asset.

At initial recognition, the BPI Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, as described in Note 29.3.2.1 below, which results in the loss provision being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the BPI Group recognizes the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

29.3.2 Financial assets

29.3.2.1 Classification and subsequent measurement

The BPI Group classifies its financial assets in the following measurement categories: at fair value through profit or loss, fair value through other comprehensive income and at amortized cost. The classification requirements for debt and equity instruments are described below:

Debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and advances, due from BSP and other banks, government and corporate bonds and other financial receivables.

Classification and subsequent measurement of debt instruments depend on the BPI Group's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the BPI Group classifies its debt instruments into one of the following three measurement categories:

- *Amortized cost*
  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Amortized cost financial assets include cash and other cash items, due from BSP, due from other banks, interbank loans receivables and SPAR, loans and advances, and other financial assets.

- *Fair value through other comprehensive income (FVOCI)*
  Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in the statements of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- *Fair value through profit or loss (FVTPL)*
  Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statements of income within 'Trading gain on securities' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately.

Business model
The business model reflects how the BPI Group manages the assets in order to generate cash flows. That is, whether the BPI Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified and measured at fair value through profit or loss. Factors considered by the BPI Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Solely Payment of Principal and Interest (SPPI)
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the BPI Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the BPI Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The BPI Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments
Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The BPI Group subsequently measures all equity investments at fair value through profit or loss, except where the BPI Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The BPI Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as 'Other income' when the BPI Group's right to receive payments is established. Gains and losses on equity investments at fair value through profit or loss are included in the 'Trading gain on securities' in the statements of income.

29.3.2.2 Impairment of amortized cost and FVOCI financial assets

The BPI Group assesses impairment as follows:
- individually for loans that exceed specified thresholds. Where there is objective evidence of impairment, individually assessed provisions will be recognized; and
- collectively for loans below the specified thresholds noted above or if there is no objective evidence of impairment. These loans are included in a group of loans with similar risk characteristics and collectively assessed for impairment. If there is objective evidence that the group of loans is collectively impaired, collectively assessed provisions will be recognized.

Expected credit losses
The BPI Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The BPI Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

PFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the BPI Group.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. The BPI Group determines SICR based on prescribed benchmarks approved by the Board of the Directors.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 9 is that it should consider forward-looking information.
- POCI financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). The BPI Group has no POCI as at December 31, 2019 and 2018.

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Determination of significant increase in credit risk (SICR)
The BPI Group compares the probabilities of default occurring over its expected life as at the reporting date with the probability of default occurring over its expected life on the date of initial recognition to determine significant increase in credit risk. Since comparison is made between forward-looking information at reporting date against initial recognition, the deterioration in credit risk may be triggered by the following factors:

- substantial deterioration in credit quality as measured by the applicable internal or external ratings or credit score or the shift from investment grade category to non-investment grade category;
- adverse changes in business, financial and/or economic conditions of the borrower;
- early warning signs of worsening credit where the ability of the counterparty to honor his obligation is dependent upon the business or economic condition;
- the account has become past due beyond 30 days where an account is classified under special monitoring category (refer to Note 26.1.2 for the description of special monitoring); and
- expert judgment for the other quantitative and qualitative factors which may result to SICR as defined by the BPI Group.

Measuring ECL -Inputs, assumptions and estimation techniques
The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood that the borrower will default (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining life (lifetime PD) of the asset.

- EAD is based on the amounts the BPI Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining life (lifetime EAD). For example, for a revolving commitment, the BPI Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

  The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

  - For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
  - For committed credit lines, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default.

- LGD represents the BPI Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

  The LGDs are determined based on the factors which impact the recoveries made post-default.

  - For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
  - For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies and historical recoveries.

The ECL is determined by multiplying the PD, LGD and EAD together for each individual exposure or collective segment. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. These assumptions vary by product type.

The assumptions underlying the ECL calculation—such as how the maturity profile of the PDs and how collateral values change—are monitored and reviewed regularly.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period from the time of the adoption of PFRS 9 on January 1, 2018 to the reporting date.

Forward-looking information incorporated in the ECL models
The BPI Group incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and expected credit losses for each portfolio. Macroeconomic variables that affect a specific portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgment. The BPI Group's economics team establishes possible global and domestic economic scenarios. With the use of economic theories and conventions, expert judgment and external forecasts, the economics team develops assumptions to be used in forecasting variables in the next five (5) years, subsequently reverting to long run-averages. The probability-weighted ECL is calculated by running each scenario through the relevant ECL models and multiplying it by the appropriate scenario weighting.

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date. Information regarding the forward-looking economic variables and the relevant sensitivity analysis is disclosed in Note 26.

Financial assets with low credit risk
Loss allowance for financial assets at amortized cost and FVOCI that have low credit risk is limited to 12-month expected credit losses. Management considers "low credit risk" for listed government bonds to be an investment grade credit rating with at least one major rating agency. Other debt instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Definition of default and credit-impaired assets
The BPI Group considers a financial instrument in default or credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria
The borrower is more than 90 days past due on its contractual payments (with the exception of credit cards and micro-finance loans where a borrower is required to be 90 days past due and over 7 days past due, respectively, to be considered in default).

Qualitative criteria
The counterparty is experiencing significant financial difficulty which may lead to non-payment of loan as may be indicated by any or combination of the following events:

- The counterparty is in long-term forbearance;
- The counterparty is insolvent;
- The counterparty is in breach of major financial covenant(s) which lead(s) to event of default;
- An active market for the security has disappeared;
- Granting of concession that would not be otherwise considered due to economic or contractual reasons relating to the counterparty's financial difficulty;
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the BPI Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the probability of default, exposure at default (EAD), and loss given default (LGD) throughout the BPI Group's expected credit loss calculations.

The BPI Group's definition of default is substantially consistent with non-performing loan definition of the BSP. For cross-border, treasury and debt securities, these are classified as defaulted based on combination of BSP and external credit rating agency definitions.

29.3.3 Modification of loans

The BPI Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the BPI Group assesses whether or not the new terms are substantially different to the original terms. The BPI Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the BPI Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the BPI Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in the statements of income as a gain or loss on derecognition.

29.3.4 Derecognition of financial assets other than modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the BPI Group transfers substantially all the risks and rewards of ownership, or (ii) the BPI Group neither transfers nor retains substantially all the risks and rewards of ownership and the BPI Group has not retained control.

The BPI Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the BPI Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the BPI Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the BPI Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

29.3.5 Write-off of financial assets

The BPI Group writes off financial assets when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the BPI Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The BPI Group may write-off financial assets that are still subject to enforcement activity. The write-off of loans is approved by the BOD in compliance with the BSP requirements. Loans written-off are fully covered with allowance.

29.3.6 Financial liabilities

29.3.6.1 Classification of financial liabilities

The BPI Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the BPI Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statements of income and are reported as "Trading gains/losses on securities". The BPI Group has no financial liabilities that are designated at fair value through profit loss.

(b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost include deposits from customers and banks, bills payable, amounts due to BSP and other banks, manager's checks and demand drafts outstanding, subordinated notes and other financial liabilities under deferred credits and other liabilities.

29.3.6.2 Subsequent measurement and derecognition

Financial liabilities at fair value through profit or loss are subsequently carried at fair value. Other liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired). Collateral (shares and bonds) furnished by the BPI Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the BPI Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

29.3.7 Loan commitments

Loan commitments are contracts in which the BPI Group is required to provide loans with pre-specified terms to customers. These contracts, which are not issued at below-market interest rates, and are not settled net in cash or by delivering or issuing another financial instrument, are not recorded in the statements of condition.

29.3.8 Derivative financial instruments

A derivative instrument is initially recognized at fair value on the date a derivative contract is entered into, and is subsequently remeasured to its fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument or is held for trading.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting (and therefore, held for trading) are recognized immediately in profit or loss and are included in "Trading gain on securities".

Hedge accounting
The BPI Group designates derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the BPI Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The BPI Group documents its risk management objective and strategy for undertaking its hedge transactions.

As disclosed in Note 7, the BPI Group has existing cash flow hedge activity. There are no fair value hedges or net investment hedges as of reporting date.

Cash flow hedges that qualify for hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the "Cash flow hedge reserve" within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, within "Other operating income".

When the group excludes the forward element of a forward contract and foreign currency basis spread of financial instruments in the hedge designation, the fair value change of the forward element and currency basis spread that relates to the hedged item ('aligned forward element/currency basis spread') is recognized within OCI in the costs of hedging reserve within equity. If the group designates the full change in fair value of the derivative (including forward points and currency basis spreads) the gains or losses relating to the effective portion of the change in fair value of the entire derivative are recognized in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified to profit or loss within other operating income in the same periods during which the hedged future cash flows affect profit or loss. However, if the amount is a loss and the BPI Group expects that all or a portion of that loss will not be recovered in one or more future periods, the amount that is not expected to be recovered shall immediately be reclassified to profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time shall be reclassified to profit or loss in the same periods during which the future cash flows affect profit or loss. When the future cash flows are no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

29.3.8.1 Embedded derivatives

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the BPI Group assesses the entire contract for classification and measurement in accordance with the policy outlined in Note 29.3.2 above. Otherwise, the embedded derivatives are treated as separate derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in the statements of income unless the BPI Group chooses to designate the hybrid contracts at fair value through profit or loss.

29.3.9 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The BPI Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, PSE, Philippine Dealing and Exchange Corp., etc.).
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter (OTC) derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at December 31, 2019 and 2018.

29.3.10 Interest income and expense

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the BPI Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

29.3.11 Dividend income

Dividend income is recognized in profit or loss when the BPI Group's right to receive payment is established.

29.3.12 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

As at December 31, 2019 and 2018, there are no financial assets and liabilities presented at net amounts due to offsetting.

29.3.13 Cash and cash equivalents

Cash and cash equivalents consist of Cash and other cash items, Due from BSP, Due from other banks, and Interbank loans receivable and securities purchased under agreements to resell with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

29.3.14 Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks and customers and included in the statements of condition under "Interbank loans receivable and securities purchased under agreements to resell". Securities lent to counterparties are also retained in the financial statements.

29.4 Consolidation

The subsidiaries financial statements are prepared for the same reporting year as the consolidated financial statements. Refer to Note 1 for the list of the Parent Bank's subsidiaries.

(a) Subsidiaries

Subsidiaries are all entities over which the BPI Group has control. The BPI Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The BPI Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the BPI Group's voting rights relative to the size and dispersion of holdings of other shareholders give the BPI Group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the BPI Group. They are de-consolidated from the date that control ceases.

The BPI Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the BPI Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the BPI Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

Any contingent consideration to be transferred by the BPI Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the BPI Group's share of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the BPI Group, except for the pre-need subsidiary which follows the provisions of the PNUCA as allowed by the SEC.

When the BPI Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the BPI Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(b) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the Parent Bank are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the statements of income as net income (loss) attributable to non-controlling interests.

(c) Associates

Associates are all entities over which the BPI Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the consolidated financial statements are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The BPI Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

If the ownership interest in an associate is reduced but significant influence is retained, a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The BPI Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in reserves is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the BPI Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the BPI Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The BPI Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the BPI Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit (loss) of an associate' in profit or loss.

Unrealized gains on transactions between the BPI Group and its associates are eliminated to the extent of the BPI Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

29.5 Investments in subsidiaries and associates

Investments in subsidiaries and associates in the Parent Bank's separate financial statements are accounted for using the cost method in accordance with PAS 27. Under this method, income from investment is recognized in profit or loss only to the extent that the investor receives distributions from accumulated profits of the investee arising after the acquisition date. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as reduction of the cost of the investment.

The Parent Bank recognizes a dividend from a subsidiary or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

The Parent Bank determines at each reporting date whether there is any indicator of impairment that the investment in the subsidiary or associate is impaired. If this is the case, the Parent Bank calculates the amount of impairment as the difference between the recoverable amount and carrying value and the difference is recognized in profit or loss.

Investments in subsidiaries and associates are derecognized upon disposal or when no future economic benefits are expected to be derived from the subsidiaries and associates at which time the cost and the related accumulated impairment loss are removed in the statements of condition. Any gains and losses on disposal is determined by comparing the proceeds with the carrying amount of the investment and recognized in profit or loss.

29.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer who allocates resources to, and assesses the performance of the operating segments of the BPI Group.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated upon consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with PFRS 8, the BPI Group has the following main banking business segments: consumer banking, corporate banking and investment banking. Its insurance business is assessed separately from these banking business segments (Note 3).

29.7 Bank premises, furniture, fixtures and equipment

Land and buildings comprise mainly of branches and offices. All bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of an asset which comprises its purchase price, import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the BPI Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Land is not depreciated. Depreciation for buildings and furniture and equipment is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets, as follows:

Building	25-50 years
Furniture and equipment	3-5 years
Equipment for lease	2-8 years

Leasehold improvements are depreciated over the shorter of the lease term (ranges from 5 to 10 years) and the useful life of the related improvement (ranges from 5 to 10 years). Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. There are no bank premises, furniture, fixtures and equipment that are fully impaired as at December 31, 2019 and 2018.

An item of Bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

29.8 Investment properties

Properties that are held either to earn rental income or for capital appreciation or both, and that are not significantly occupied by the BPI Group are classified as investment properties. Transfers to, and from, investment property are made when, and only when, there is a change in use, evidenced by:

(a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) Commencement of development with a view of sale, for a transfer from investment property to real properties held-for-sale and development;
(c) End of owner occupation, for a transfer from owner-occupied property to investment property; or
(d) Commencement of an operating lease to another party, for a transfer from real properties held-for-sale and development to investment property.

Transfers to and from investment property do not result in gain or loss.

Investment properties comprise land and building. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation on investment property is determined using the same policy as applied to Bank premises, furniture, fixtures, and equipment. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher of the property's fair value less costs to sell and value in use.

An item of investment property is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains and losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

29.9 Foreclosed assets

Assets foreclosed shown as Assets held for sale in the statements of condition are accounted for at the lower of cost and fair value less cost to sell similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

Foreclosed assets not classified as Assets held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:

(a) Investment property is accounted for using the cost model under PAS 40;
(b) Bank-occupied property is accounted for using the cost model under PAS 16; and
(c) Financial assets are accounted for under PFRS 9.

29.10 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the BPI Group's share in the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included under Other assets, net in the statements of condition. Goodwill on acquisitions of associates is included in Investments in subsidiaries and associates. Separately recognized goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include carrying amount of goodwill relating to the subsidiary/associate sold.

Goodwill is an indefinite-lived intangible asset and hence not subject to amortization.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit is represented by each primary reporting segment.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relationships have finite useful lives of ten years and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship. Contractual customer relationships are included under Other assets, net in the statements of condition.

(c) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over the expected useful lives (three to five years). Computer software is included under Other assets, net in the statements of condition.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the BPI Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other assets to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

29.11 Impairment of non-financial assets

Assets that have indefinite useful lives - for example, goodwill or intangible assets not ready for use - are not subject to amortization and are tested annually for impairment and more frequently if there are indicators of impairment. Assets that have definite useful lives are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the **amount by which the asset's carrying amount exceeds its recoverable amount**. The recoverable amount is the **higher of an asset's fair value less costs to sell and value in use**. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

29.12 Borrowings and borrowing costs

The BPI Group's borrowings consist mainly of bills payable and other borrowed funds. Borrowings are recognized initially at fair value, which is the issue proceeds, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The BPI Group has no qualifying asset as at December 31, 2019 and 2018.

Borrowings derecognized when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the Statements of Income as other income.

29.13 Fees and commission income

The BPI Group has applied PFRS 15 where revenue is recognized when (or as) The BPI Group satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

The recognition of revenue can be either over time or at a point in time depending on when the performance obligation is satisfied.

When control of a good or service is transferred over time, that is, when the customer simultaneously receives and consumes the benefits, the BPI Group satisfies the performance obligation and recognizes revenue over time. Otherwise, revenue is recognized at the point in time at the point of transfer control of the good or service to the customer.

Variable consideration is measured using either the expected value method or the most likely amount method depending on which method the BPI Group expects to better predict the amount of consideration to which it will be entitled. This is the estimated amount of variable consideration, or the portion, if any, of that amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Where there is a single performance obligation, the transaction price is allocated in its entirety to that performance obligation. Where there are multiple performance obligations, the transaction price is allocated to the performance obligation to which it relates based on stand-alone selling prices.

The BPI Group recognizes revenue based on the price specified in the contract, net of the estimated rebates/discounts and include variable consideration, if there is any. Accumulated experience is used to estimate and provide for the discounts and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

The BPI Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the BPI Group does not adjust any of the transaction prices for the time value of money.

There are no warranties and other similar obligation and refunds agreed with customers.

Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party (i.e. the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses) are recognized on completion of underlying transactions. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period in which the service is provided.

29.14 Credit card income

Credit card arrangements involve numerous contracts between various parties. The BPI Group has determined that the more significant contracts within the scope of PFRS 15 are (1) the contract between the BPI Group and the **credit card holder ('Cardholder Agreement') under which the BPI Group earn miscellaneous fees (e.g., annual** membership fees, late payment fees, foreign exchange fees, etc.) and (2) an implied contract between the BPI Group and merchants who accept the credit cards in connection with the purchase of their goods and/or services **('Merchant Agreement') under which the BPI Group earn interchange fees.**

The Cardholder Agreement obligates the BPI Group, as the card issuer, to perform activities such as process redemption of loyalty points by providing goods, services, or other benefits to the cardholder; provide ancillary services such as concierge services, travel insurance, airport lounge access and the like; process late payments; provide foreign exchange services and others. The amount of fees stated in the contract represents the transaction price for that performance obligation.

The implied contract between the BPI Group and the merchant results in the BPI Group receiving an interchange fee from the merchant. The interchange fee represents the transaction price associated with the implied contract between the BPI Group and the merchant because it represents the amount of consideration to which the BPI Group expects to be entitled in exchange for transferring the promised service (i.e., purchase approval and payment remittance) to the merchant. The performance obligation associated with the implied contract between the BPI Group and the merchant is satisfied upon performance and simultaneous consumption by the customer of the underlying service. Therefore, a portion of the interchange fee is allocated to the performance obligations based on stand-alone transaction price and revenue is recognized when these performance obligations are satisfied.

29.15 Foreign currency translation

(a) Functional and presentation currency

Items in the financial statements of each entity in the BPI Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Philippine Peso, which is the Parent Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated at exchange rates as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss recognized under "Trading gain/loss on securities" in the statements of income. Translation differences on non-monetary financial instruments, such as equities classified as financial assets at FVOCI, are included in Accumulated other comprehensive income (loss) in the capital funds.

(c) Foreign subsidiaries

The results and financial position of BPI's foreign subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at reporting date;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component (Currency translation differences) of Accumulated other comprehensive income (loss) in the capital funds. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

29.16 Accrued expenses and other liabilities

Accrued expenses and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the BPI Group is established.

29.17 Provisions for legal or contractual obligations

Provisions are recognized when all of the following conditions are met: (i) the BPI Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item is included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

29.18 Income taxes

(a) Current income tax

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense for the year except to the extent that current tax is related to items (for example, current tax on financial assets at FVOCI) that are charged or credited in other comprehensive income or directly to capital funds.

The BPI Group has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the final tax paid or withheld is included in Provision for income tax - Current.

(b) Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

The BPI Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, and associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, and associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the BPI Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the BPI Group is unable to control the reversal of the temporary difference for associates except when there is an agreement in place that gives the BPI Group the ability to control the reversal of the temporary difference.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

29.19 Employee benefits

(a) Short-term benefits

The BPI Group recognizes a liability net of amount already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by to its employees include salaries and wages, social security contributions, short-term compensated absences and bonuses, and non-monetary benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(b) Defined benefit retirement plan

The BPI Group has a defined benefit plan that shares risks among entities within the group. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statements of condition in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Defined benefit costs comprise of service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statements of income. Past service costs are recognized when the plan amendment or curtailment occurs.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

For individual financial reporting purposes, the unified plan assets are allocated among the BPI Group entities based on the level of the defined benefit obligation attributable to each entity to arrive at the net liability or asset that should be recognized in the individual financial statements.

(c) Defined contribution retirement plan

The BPI Group also maintains a defined contribution plan that covers certain full-time employees. Under its defined contribution plan, the BPI **Group pays fixed contributions based on the employees' monthly salaries. The** BPI Group, however, is covered under RA No. 7641, otherwise known as The Philippine Retirement Pay Law, which provides for its 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 BPI Group accounts for its 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 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 BPI Group and Parent Bank determine 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 net defined benefit liability (asset) then, 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 and other expenses related to the defined benefit plan are recognized in the statements of income.

The defined contribution liability 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.

Actuarial gains and losses arising from the remeasurements of the net defined contribution liability are recognized immediately in the other comprehensive income.

(d) Share-based compensation

The BPI Group engages in equity-settled share-based payment transactions in respect of services received from certain employees.

The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of employee services received in respect of the shares or share options granted is recognized in profit or loss (with a corresponding increase in reserve in capital funds) over the period that the services are received, which is the vesting period.

The fair value of the options granted is determined using option pricing models which take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

When the stock options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (par value) and share premium for the excess of exercise price over par value.

(e) Profit sharing and bonus plans

The BPI Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Parent Bank's shareholders after certain adjustments. The BPI Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

29.20 Capital funds

Share capital consists of common shares which are instruments that meet the definition of "equity".

Share premium includes any premiums or consideration received in excess of the total par value of the common shares issued.

Incremental costs directly attributable to the issue of new shares are treated as a deduction from the share issuance proceeds.

29.21 Earnings per share (EPS)

Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. In case of a rights issue, an adjustment factor is being considered for the weighted average number of shares outstanding for all periods before the rights issue. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

29.22 Dividends on common shares

Dividends on common shares are recognized as a liability in the BPI Group's financial statements in the period in which the dividends are approved by the BOD.

29.23 Fiduciary activities

The BPI Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the BPI Group (Note 24).

29.24 Leases

29.24.1 BPI Group is the lessee

Until December 31, 2018, leases of bank premises, furniture and fixtures and equipment were classified as either finance leases or operating leases. From January 1, 2019, the BPI Group recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

From January 1, 2019 (PFRS 16)
Assets and liabilities arising from a lease are initially measured on a present value basis. The interest expense is recognized in the statements of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Measurement of lease liabilities
Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the BPI Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the BPI Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third party financing, and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Measurement of right-of-use assets
Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the BPI Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Extension and termination options
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the BPI Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Short-term leases and leases of low-value assets
Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the statements of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Accounting policies prior to January 1, 2019 (PAS 17)

Operating lease
Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to "Occupancy and equipment-related expenses" in the statements of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

Finance lease
Leases of assets, where the BPI Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

29.24.2 BPI Group is the lessor

PFRS 16 substantially carries forward the lessor accounting requirements in PAS 17. Accordingly, the BPI Group (as a lessor) continues to classify its leases as operating leases or finance leases.

Operating lease
Properties (land and building) leased out under operating leases are included in "Investment properties" in the statements of condition. Rental income under operating leases is recognized in profit or loss on a straight-line basis over the period of the lease.

Finance lease
When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

Lease income under finance lease is recognized over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

29.25 Insurance and pre-need operations

(a) Non-life insurance

The more significant accounting policies observed by the non-life insurance subsidiaries follow: (a) gross premiums written from short-term insurance contracts are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method; (b) acquisition costs are deferred and charged to expense in proportion to the premium revenue recognized; reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs; (c) a liability adequacy test is performed which compares the subsidiaries' reported insurance contract liabilities against current best estimates of all contractual future cash flows and claims handling, and policy administration expenses as well as investment income backing up such liabilities, with any deficiency immediately charged to profit or loss; (d) amounts recoverable from reinsurers and loss adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts; and (e) financial assets and liabilities are measured following the classification and valuation provisions of PFRS 9.

(b) Pre-need

The more significant provisions of the PNUCA as applied by the pre-need subsidiary follow: (a) premium income from sale of pre-need plans is recognized as earned when collected; (b) costs of contracts issued and other direct costs and expenses are recognized as expense when incurred; (c) pre-need reserves which represent the accrued net liabilities of the subsidiary to its plan holders are actuarially computed based on standards and guidelines set forth by the Insurance Commission; the increase or decrease in the account is charged or credited to other costs of contracts issued in profit or loss; and (d) insurance premium reserves which represent the amount that must be set aside by the subsidiary to pay for premiums for insurance coverage of fully paid plan holders, are actuarially computed based on standards and guidelines set forth by the Insurance Commission.

29.26 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

29.27 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. There were no changes to the presentation made during the year.

29.28 Subsequent events (or Events after the reporting date)

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

Note 30 - Supplementary information required under BSP Circular No. 1074

Presented below are the additional information required by BSP Circular No. 1074 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements.

(i) Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2019	2018	**2019**	2018
Return on average equity				
- Daily average[1]	**10.97**	10.21	**12.51**	8.50
- Simple average[2]	**11.12**	10.75	**12.62**	9.15
Return on average assets				
- Daily average[3]	**1.38**	1.20	**1.50**	0.96
- Simple average[4]	**1.34**	1.16	**1.45**	0.92
Net interest margin				
- Daily average[5]	**3.35**	3.11	**3.18**	2.87
- Simple average[6]	**3.26**	2.96	**3.08**	2.72

[1]Net income divided by average total equity for the period indicated. Average equity is based on the daily average balance of equity for the years ended December 31, 2019 and 2018.
[2]Net income divided by average total equity for the period indicated. Average total equity is based on the year-on-year balance of equity for the years ended December 31, 2019 and 2018.
[3]Net income divided by average total assets as at period indicated. Average total assets is based on the daily average balance of total assets as at December 31, 2019 and 2018.
[4]Net income divided by average total assets as at period indicated. Average total assets is based on the year-on-year balance of total assets as at December 31, 2019 and 2018.
[5]Net interest income divided by average interest-earning assets. Average interest earning assets is based on the daily average balance of interest earning assets as at December 31, 2019 and 2018.
[6]Net interest income divided by average interest-earning assets. Average interest earning assets is based on the year-on-year balance of interest earning assets as at December 31, 2019 and 2018.

(ii) Description of Capital Instrument Issued

The Bank considers its common shares as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2019 and 2018.

(iii) Significant Credit Exposures

Details of the loans and advances portfolio as to concentration as to industry/economic sector (in %) at December 31 are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
Real estate, renting and other related activities	**24.37**	23.08	**17.77**	16.00
Manufacturing	**15.30**	16.28	**18.09**	19.26
Wholesale and retail trade	**11.35**	12.56	**12.61**	14.16
Consumer	**8.32**	8.16	**5.46**	5.08
Financial institutions	**10.81**	6.09	**12.90**	7.28
Agriculture and forestry	**2.87**	2.74	**3.40**	3.26
Others	**26.98**	31.09	**29.77**	34.96
	100.00	100.00	**100.00**	100.00

(iv) Breakdown of Total Loans

Details of the loans and advances portfolio at December 31 as to collateral (amounts net of unearned discounts and exclusive of accrued interest receivable) are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**278,099**	220,587	**138,607**	97,170
Chattel mortgage	**57,037**	54,731	**10**	9
Others	**148,385**	172,503	**146,038**	168,260
	483,521	447,821	**284,655**	265,439
Unsecured loans	**1,008,129**	921,523	**958,768**	870,521
	1,491,650	1,369,344	**1,243,423**	1,135,960

Other collaterals include hold-out deposits, mortgage trust indentures, government and corporate securities and bonds, quedan/warehouse receipts, standby letters of credit, trust receipts, and deposit substitutes.

Breakdown of performing and non-performing loans net of allowance for credit losses are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Performing loans	**1,389,937**	1,301,712	**1,166,932**	1,090,776
Non-performing loans (NPL)	**24,835**	25,391	**12,174**	12,985
	1,414,772	1,327,103	**1,179,106**	1,103,761
Allowance attributable to performing loans	**(10,106)**	(9,882)	**(6,780)**	(6,947)
Allowance attributable to NPL	**(15,304)**	(12,597)	**(11,685)**	(8,861)
	(25,410)	(22,479)	**(18,465)**	(15,808)
Net carrying amount	**1,389,362**	1,304,624	**1,160,641**	1,087,953

BSP Circular 941, *Amendments to Regulations on Past Due and Non-Performing Loans,* states that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

(v) Information on Related Party Loans

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Outstanding DOSRI loans	**10,026**	8,248	**10,024**	8,248

	In percentages (%)			
	Consolidated		Parent	
	2019	2018	**2019**	2018
% to total outstanding loans and advances	**0.67**	0.60	**0.81**	0.73
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	**17.30**	21.51	**17.30**	21.51
Past due DOSRI loans	**0.01**	-	**0.01**	-
Non-performing DOSRI loans	**-**	-	**-**	-

The BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans. At December 31, 2019 and 2018.

(vi) Secured Liabilities and Assets Pledged as Security

The Bank's Bills payable (Note 16) include mainly funds borrowed from various banking institutions which were lent out to customers of the BPI Group in accordance with the agreed financing programs. Loans and advances arising from these financing programs serve as collateral for this liability (Note 10).

(vii) Contingencies and commitments arising from off-balance sheet items

Credit risk exposures arising from off-balance sheet items, which are mainly composed of undrawn loan commitments and unused letters of credit, are as follows:

	Consolidated		Parent	
	2019	2018	**2019**	2018
	(In Millions of Pesos)			
Gross carrying amount	**404,584**	235,904	**397,949**	233,481
Loss allowance*	**(650)**	(753)	**(619)**	(723)
Carrying amount	**403,934**	235,151	**397,330**	232,758

**Included in "Miscellaneous liabilities" in Note 17*

Note 31 - Supplementary information required by the Bureau of Internal Revenue

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

Below is the additional information required by RR No. 15-2010 that is relevant to the Parent Bank. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

(i) Documentary stamp tax

Documentary stamp taxes paid through the Electronic Documentary Stamp Tax System for the year ended December 31, 2019 consist of:

(In Millions of Pesos)	Amount
Deposit and loan documents	7,208
Trade finance documents	584
Mortgage documents	432
Shares of stocks	-
Others	6
	8,230

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2019 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Income taxes withheld on compensation	1,751	205	1,956
Withholding tax on withdrawal from decedent's account	10	2	12
Final income taxes withheld on interest on deposits and yield on deposit substitutes	3,435	252	3,687
Final income taxes withheld on income payment	642	374	1,016
Creditable income taxes withheld (expanded)	460	44	504
Fringe benefit tax	121	29	150
VAT withholding tax	39	5	44
	6,458	911	7,369

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2019 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Gross receipts tax	3,711	382	4,093
Real property tax	119	-	119
Municipal taxes	209	-	209
Others	9	-	9
	4,048	382	4,430

Local and national taxes imposed by the government which are incurred under the normal courses of business are part of "Taxes and Licenses" within Other Operating Expense (Note 21).

(iv) Tax cases and assessments

As at reporting date, the Parent Bank has pending cases filed in courts, with the tax authorities contesting certain tax assessments, and for various claims for tax refund. Management is of the opinion that the ultimate outcome of the said cases will not have a material impact on the financial statements of the Parent Bank.

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BOA/PRC Reg. No. 0004
SEC Accreditation No. 0001-FR-5

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
GLOBE TELECOM, INC.
The Globe Tower, 32nd Street corner 7th Avenue
Bonifacio Gobal City, Taguig City

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Revenue recognition	**How the matter was addressed in our audit**
Revenue recognition, aside from being an inherent industry risk, has been identified as a key audit matter primarily due to the significant volume of transactions processed through various systems, heavy reliance on automated processes and controls over recording of transactions and complexity of the operation of billing systems used. The disclosures on the accounting for revenue recognition in accordance with PFRS 15, *"Revenue from Contract with Customers"*, are included in Note 2.15, *Revenue Recognition*, to the consolidated financial statements.	In the course of our audit of the Globe Group's consolidated financial statements, we have performed, among others, the following audit procedures in response to the revenue recognition: • We obtained an understanding of the revenue recognition policy in accordance with PFRS 15 and the related business processes, including an understanding of the related Information Technology (IT) environment. • We evaluated the design and operating effectiveness of the General Information Technology Controls, as well as the application controls of the related IT systems, over the capture and recording of the revenue transactions. In doing so, we involved our IT specialists to assist in the audit of automated controls, including interface controls between IT applications. • We evaluated the business process controls in place over the initiation and authorization of rate changes, the introduction of new plans and input of this information into the billing systems. • We performed test on the accuracy of customer bills on a sample basis for existing products as well as for new products introduced in the year. • As part of the substantive tests, we tested key reconciliation used by management to assess the completeness and accuracy of revenue from business support systems to the general ledger. • We performed analytical review over prepaid and postpaid revenues based on underlying data and certain relationships as well as testing, on a sample basis, the accuracy of adjustments on revenues earned including those from carriers and content providers as a result of negotiations. • We profiled the manual journal entries posted to revenue accounts and tested supporting evidence to identify any unusual items.

Adoption of PFRS 16, *Leases*	How the matter was addressed in our audit
The Globe Group has adopted PFRS 16, *Leases,* effective January 1, 2019, which replaced the Philippine Accounting Standards 17, *Leases*. The adoption of PFRS 16 requires policy elections including the determination of specific assumptions and key judgements and estimates relating to, among others, determination of the scope of PFRS 16, duration of the leases, lease payments and discount rates. The assessment of the impact of the new standard is significant to our audit. Considering the above, as well as since the Globe Group adopted the standard for the purpose of the preparation of the consolidated financial statements for the first time, the implementation of PFRS 16 was considered as a key audit matter. In adopting PFRS 16, the Globe Group's Management decided to use the modified retrospective approach. The disclosures related to the impact of the initial application of PFRS 16 are included in Note 3.1, *Adoption of PFRS 16, Leases, Effective January 1, 2019,* and the disclosures related to right-of-use assets and lease liabilities are included in Note 13, *Lease Commitments*, to the consolidated financial statements. The disclosures on accounting policies related to the application of PFRS 16 including key judgements and key estimates are included in Note 2.20, *Leases,* to the consolidated financial statements.	In the course of our audit of the Globe Group's consolidated financial statements, we have performed, among others, the following audit procedures in response to the adoption of PFRS 16: • We obtained an understanding and evaluated Globe Group's adoption and implementation process as well as selection and application of accounting principles in accordance with PFRS 16, including an understanding and assessment of the key controls in this respect. • We evaluated management judgements and estimates, specifically the assessment of the scope of contracts subject to accounting under PFRS 16, determination of the duration of leases and related lease payments, discount rates and applied practical expedients. • We performed test of the related IT system in relation to accounting for contracts under PFRS 16. • We performed test of details to verify the accuracy of parameters used and accuracy in the calculation of lease liabilities and right-of-use assets. • We performed test of completeness of identification of contracts in scope of PFRS 16.

Information Other than the Consolidated Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover this other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Mr. Wilfredo A. Baltazar.

Navarro Amper & Co.
BOA Registration No. 0004, valid from November 12, 2018 to July 16, 2021
SEC Accreditation No. 0001-FR-5, issued on January 15, 2019; effective until January 14, 2022, Group A
TIN 005299331

By:

Wilfredo A. Baltazar
Partner
CPA License No. 0078498
SEC A.N. 0723-AR-3, issued on August 24, 2017; effective until August 23, 2020, Group A
TIN 115858485
BIR A.N. 08-002552-10-2017, issued on June 8, 2017; effective until June 8, 2020
PTR No. A-4689427, issued on January 2, 2020, Taguig City

Taguig City, Philippines
February 3, 2020

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	December 31 2019	2018
		(In Thousand Pesos)	
ASSETS			
Current Assets			
Cash and cash equivalents	5	**₱8,298,092**	₱23,226,386
Trade receivables – net	6	**21,138,950**	20,652,532
Contract assets and deferred contract costs – net	7	**8,339,219**	8,471,550
Inventories and supplies – net	9	**4,713,572**	4,854,939
Derivative assets – current	8	**301,624**	63,180
Prepayments and other current assets	10	**18,948,015**	16,254,796
		61,739,472	73,523,383
Noncurrent Assets			
Property and equipment – net	11	**182,662,528**	169,393,768
Intangible assets and goodwill – net	12	**15,553,097**	13,698,269
Right of use assets – net	13	**3,566,280**	-
Investments in associates and joint ventures	15	**34,473,865**	34,426,776
Deferred income tax assets – net	30	**1,866,591**	2,075,065
Derivative assets – net of current portion	8	**125,331**	2,300,186
Deferred contract costs – net of current portion	7	**289,663**	315,673
Other noncurrent assets	16	**4,013,910**	3,764,989
		242,551,265	225,974,726
TOTAL ASSETS		**₱304,290,737**	₱299,498,109
LIABILITIES AND EQUITY			
Current Liabilities			
Trade payables and accrued expenses	17	**₱56,979,315**	₱56,219,366
Contract liabilities and deferred revenues – current	7	**8,764,803**	8,044,308
Loans payable – current	19	**12,919,898**	16,758,196
Derivative liabilities – current	8	**547,046**	285,751
Lease liabilities - current	13	**981,817**	-
Provisions	18	**2,622,318**	2,549,387
Income tax payable	30	**1,761,984**	1,608,646
		84,577,181	85,465,654
Noncurrent Liabilities			
Loans payable – net of current portion	19	**122,942,837**	131,523,701
Contract liabilities – net of current portion	7	**49,869**	53,642
Deferred income tax liabilities – net	30	**5,057,641**	3,918,493
Derivative liabilities – net of current portion	8	**291,270**	25,903
Lease liabilities – non current	13	**2,681,800**	-
Other long-term liabilities	20	**7,443,142**	5,367,209
		138,466,559	140,888,948
Total Liabilities		**223,043,740**	226,354,602
Equity			
Capital Stock	22	**8,452,995**	8,445,238
Additional paid in capital	22	**36,808,776**	36,528,251
Cost of share-based payments	29	**447,656**	417,345
Other reserves	22.6	**(1,766,610)**	561,103
Retained earnings	22.5	**37,169,604**	27,167,398
Equity attributable to equity holders of the Parent		**81,112,421**	73,119,335
Non-controlling interest		**134,576**	24,172
Total Equity		**81,246,997**	73,143,507
TOTAL LIABILITIES AND EQUITY		**₱304,290,737**	₱299,498,109

See accompanying Notes to Consolidated Financial Statements.

Globe

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the Years Ended December 31 2019	2018	2017
		(In Thousand Pesos, Except Per Share Figures)		
REVENUES				
Service revenues		**₱149,009,963**	₱132,875,310	₱127,905,853
Nonservice revenues		**17,650,374**	18,297,496	7,374,878
	34	**166,660,337**	151,172,806	135,280,731
INCOME (LOSSES)				
Equity share in net losses of associates and joint ventures	15	**(2,554,782)**	(1,249,603)	(846,177)
Interest income	23	**500,437**	391,030	139,581
Gain on disposal of property and equipment – net		**43,012**	73,088	38,455
Gain on fair value of retained interest	15	**-**	-	1,889,901
Other income – net	24	**1,047,007**	695,405	701,653
		(964,326)	(90,080)	1,923,413
COSTS AND EXPENSES				
General, selling and administrative expenses	25	**64,471,409**	57,742,131	56,608,922
Depreciation and amortization	26	**34,143,541**	30,421,721	27,512,689
Cost of inventories sold	9, 34	**18,554,814**	18,645,314	13,013,437
Interconnect costs	35	**3,982,873**	5,677,375	7,852,336
Financing costs	27	**6,802,861**	6,195,225	5,251,692
Impairment and other losses	28	**4,913,137**	4,787,644	5,423,366
		132,868,635	123,469,410	115,662,442
INCOME BEFORE INCOME TAX		**32,827,376**	27,613,316	21,541,702
PROVISIONS FOR INCOME TAX				
Current		**8,488,595**	7,259,985	6,005,420
Deferred		**2,055,024**	1,727,388	452,069
	30	**10,543,619**	8,987,373	6,457,489
NET INCOME		**22,283,757**	18,625,943	15,084,213
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will be reclassified into profit or loss in subsequent periods:				
Transactions on cash flow hedges – net		**(1,213,355)**	863,715	139,412
Exchange differences arising from translations of foreign investments		**(106,988)**	28,524	(23,140)
Changes in fair value of available-for-sale investment in equity securities		**-**	-	26,000
	22.6	**(1,320,343)**	892,239	142,272
Item that will not be reclassified into profit or loss in subsequent periods:				
Changes in fair value of financial assets at fair value through other comprehensive income		**440,349**	151,974	-
Remeasurement gain on defined benefit plan		**(1,373,043)**	49,709	399,993
	22.6	**(932,694)**	201,683	399,993
TOTAL OTHER COMPREHENSIVE INCOME		**(2,253,037)**	1,093,922	542,265
TOTAL COMPREHENSIVE INCOME		**₱20,030,720**	₱19,719,865	₱15,626,478

(Forward)

Globe

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the Years Ended December 31 2019	2018	2017
		(In Thousand Pesos, Except Per Share Figures)		
Total net income attributable to:				
Equity holders of the Parent		**₱22,269,340**	₱18,640,740	₱15,065,779
Non-controlling interest		**14,417**	(14,797)	18,434
		22,283,757	18,625,943	15,084,213
Total comprehensive income attributable to:				
Equity holders of the Parent		**20,016,303**	19,734,662	15,608,044
Non-controlling interest		**14,417**	(14,797)	18,434
		₱20,030,720	₱19,719,865	₱15,626,478
Earnings Per Share				
Basic	31	**₱162.96**	₱135.91	₱109.22
Diluted	31	**₱162.20**	₱135.40	₱109.01
Cash dividends declared per common share	22.3	**₱91.00**	₱91.00	₱91.00

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		For the Year Ended December 31, 2019							
	Notes	Capital Stock (Note 22.2)	Additional Paid-in Capital	Cost of Share-Based Payments	Other Reserves (Note 22.6)	Retained Earnings	Total Equity Attributable to Parent	Non-controlling Interest	Total
					(In Thousand Pesos)				
As of January 1, 2019, as previously stated		₱8,445,238	₱36,528,251	₱417,345	₱561,103	₱27,167,398	₱73,119,335	₱24,172	₱73,143,507
Adjustment on initial application of PFRS 16, net of tax	3.2	-	-	-	-	336,464	336,464	505	336,969
As of January 1, 2019, as restated		8,445,238	36,528,251	417,345	561,103	27,503,862	73,455,799	24,677	73,480,476
Total comprehensive income for the period		-	-	-	(2,253,037)	22,269,340	20,016,303	14,417	20,030,720
Dividends on:	22.3								
Common Stock		-	-	-	-	(12,118,071)	(12,118,071)	-	(12,118,071)
Preferred Stock - voting		-	-	-	-	(50,027)	(50,027)	-	(50,027)
Preferred Stock – non-voting		-	-	-	-	(520,060)	(520,060)	-	(520,060)
Share-based compensation	29	-	-	325,160	-	-	325,160	-	325,160
Exercise of stock options	22.2	499	11,354	(4,300)	-	-	7,553	-	7,553
Issue of shares under share-based compensation plan	22.2	7,258	269,171	(276,429)	-	-	-	-	-
Forfeiture of stock option		-	-	(14,120)	-	9,884	(4,236)	-	(4,236)
Reclassification of accumulated share in an associate's other comprehensive income	22.6	-	-		1,101	(1,101)	-		-
Reclassification of fair value gain on investment in equity securities at FVOCI	22.6	-	-	-	(75,777)	75,777	-	-	-
Minority buyout from subsidiary		-	-	-	-	-	-	(536)	(536)
Non-controlling interest arising from business combination		-	-	-	-	-	-	96,018	96,018
As of December 31, 2019		₱8,452,995	₱36,808,776	₱447,656	(1,766,610)	₱37,169,604	₱81,112,421	₱134,576	₱81,246,997

(Forward)

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		For the Year Ended December 31, 2018							
	Notes	Capital Stock (Note 22)	Additional Paid-in Capital	Cost of Share-Based Payments	Other Reserves (Note 22.6)	Retained Earnings	Total Equity Attributable to Parent	Non-controlling Interest	Total
					(In Thousand Pesos)				
As of January 1, 2018, as previously stated		₱8,438,404	₱36,319,449	₱401,543	(₱352,375)	₱21,708,003	₱66,515,024	₱42,713	₱66,557,737
Adjustment on initial application of PFRS 15, net of tax	3.4	-	-	-	-	4,880,805	4,880,805	954	4,881,759
Adjustment on initial application of PFRS 9, net of tax	3.4	-	-	-	-	(5,581,683)	(5,581,683)	(4,843)	(5,586,526)
As of January 1, 2018, as restated		8,438,404	36,319,449	401,543	(352,375)	21,007,125	65,814,146	38,824	65,852,970
Total comprehensive income for the year		-	-	-	1,093,922	18,640,740	19,734,662	(14,797)	19,719,865
Dividends on:	22.3								
Common Stock		-	-	-	-	(12,104,579)	(12,104,579)	-	(12,104,579)
Preferred Stock – voting		-	-	-	-	(41,752)	(41,752)	-	(41,752)
Preferred Stock – non-voting		-	-	-	-	(520,060)	(520,060)	-	(520,060)
Share-based compensation	29	-	-	236,714	-	-	236,714	-	236,714
Issue of shares under share-based compensation plan	22.2	6,463	202,629	(208,221)	-	-	871	-	871
Exercise of stock options	22.2	371	6,173	(4,862)	-	-	1,682	-	1,682
Forfeiture of stock options		-	-	(7,829)	-	5,480	(2,349)	-	(2,349)
Reclassification remeasurement gains (losses) on defined benefit plans	22.6	-	-	-	(180,444)	180,444	-	-	-
Non-controlling interest arising from business combination		-	-	-	-	-	-	145	145
As of December 31, 2018		₱8,445,238	₱36,528,251	₱417,345	₱561,103	₱27,167,398	₱73,119,335	₱24,172	₱73,143,507

(Forward)

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Capital Stock (Note 22)	Additional Paid-in Capital	Cost of Share-Based Payments	Other Reserves (Note 22.6)	Retained Earnings	Total Equity Attributable to Parent	Non-controlling Interest	Total
		For the Year Ended December 31, 2017							
		(In Thousand Pesos)							
As of January 1, 2017		₱8,430,504	₱36,075,199	₱584,586	(₱1,072,925)	₱19,422,402	₱63,439,766	₱36,536	₱63,476,302
Total comprehensive income for the year		-	-	-	542,265	15,065,779	15,608,044	18,434	15,626,478
Dividends on:	22.3								
Common Stock		-	-	-	-	(12,091,736)	(12,091,736)	-	(12,091,736)
Preferred Stock – voting		-	-	-	-	(33,731)	(33,731)	-	(33,731)
Preferred Stock – non-voting		-	-	-	-	(520,060)	(520,060)	-	(520,060)
Share-based compensation	29	-	-	104,828	-	-	104,828	-	104,828
Issue of shares under share-based compensation plan		7,000	224,298	(231,298)	-	-	-	-	-
Exercise of stock options		900	19,952	(12,939)	-	-	7,913	-	7,913
Forfeiture of stock options		-	-	(43,634)	-	43,634	-	-	-
Reclassification remeasurement gains (losses) on defined benefit plans	22.6	-	-	-	178,285	(178,285)	-	-	-
Non-controlling interest adjustment arising from subscription		-	-	-	-	-	-	(223)	(223)
Non-controlling interest arising from business combination		-	-	-	-	-	-	(12,034)	(12,034)
As of December 31, 2017		₱8,438,404	₱36,319,449	₱401,543	(₱352,375)	₱21,708,003	₱ 66,515,024	₱42,713	₱66,557,737

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the Years Ended December 31 2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		*(In Thousand Pesos)*		
Income before income tax		**₱32,827,376**	₱27,613,316	₱21,541,702
Adjustments for:				
Depreciation and amortization	26	**34,143,541**	30,421,721	27,512,689
Impairment and other losses	28	**4,913,137**	4,787,644	5,423,366
Financing cost	27	**6,802,861**	6,195,225	5,251,692
Equity share in net losses of associates and joint ventures	15	**2,554,782**	1,249,603	846,177
Pension expense	29	**1,161,213**	593,326	621,316
Foreign exchange losses (gains) – net	24	**(848,394)**	900,430	(214,191)
(Gain) loss on derivative instruments	24	**809,540**	(1,004,171)	127,708
Interest income	23	**(500,437)**	(391,030)	(139,581)
Share-based compensation	29	**325,160**	236,714	104,828
Gain on disposal of investment in associate	15,24	**(240,000)**	-	-
Gain on disposal of property and equipment		**(43,012)**	(73,088)	(38,455)
(Gain) loss on settlement and remeasurement of ARO	20, 24	**(5,769)**	(27,894)	4,371
Gain on fair value of retained interest	15	**-**	-	(1,889,901)
Operating income before working capital changes		**81,899,998**	70,501,796	59,151,721
Changes in operating assets and liabilities:				
Decrease (Increase) in:				
Trade Receivables – net		**(2,424,629)**	(5,791,841)	(4,865,124)
Inventories and supplies		**(572,350)**	(1,990,025)	914,923
Contract Assets		**158,341**	(784,314)	-
Prepayments and other current assets		**(5,301,967)**	(2,327,349)	(3,386,918)
Other noncurrent assets		**(258,528)**	(147,569)	(1,177,991)
Increase (Decrease) in:				
Trade payables and accrued expenses		**6,715,399**	2,092,554	6,565,097
Other long-term liabilities		**(780,892)**	(1,127,092)	(1,717,582)
Contract Liabilities and deferred revenues		**697,416**	2,199,814	419,351
Cash generated from operations		**80,132,788**	62,625,974	55,903,477
Income taxes paid		**(6,090,569)**	(4,775,445)	(5,599,215)
Net cash flows from operating activities		**74,042,219**	57,850,529	50,304,262
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Property and equipment	11, 34	**(50,975,224)**	(42,768,194)	(42,121,307)
Investment in joint ventures	15	**(3,305,000)**	(111,200)	(12,234,212)
Intangible assets	12	**(48,532)**	(490,569)	(419,920)
Net cash outflow from acquisition of subsidiaries, net cash acquired	14	**(1,563,649)**	-	-
Collections of loans receivable from related party		**70,000**	180,000	243,780
Proceeds from sale of property and equipment		**101,463**	171,638	118,117
Interest received		**544,739**	352,302	145,234
Dividends received		**21,368**	13,852	93,258
Proceeds from disposal of an investment in equity securities		**124,056**	418	-
Net cash outflow from deconsolidation	15	**-**	-	(1,246,965)
Net cash flows used in investing activities		**(55,030,779)**	(42,651,753)	(55,422,015)

(Forward)

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the Years Ended December 31 2019	2018	2017
		(In Thousand Pesos)		
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings:				
Long-term		**₱5,000,000**	₱24,156,000	₱36,430,730
Short-term		**-**	-	4,600,000
Repayments of borrowings:				
Long-term		**(16,745,816)**	(8,319,604)	(5,953,717)
Short-term		**(300,000)**	-	(9,100,000)
Payments of dividends to stockholders:	22.3			
Common		**(12,118,071)**	(12,104,579)	(12,091,736)
Preferred		**(570,087)**	(561,812)	(553,791)
Exercise of stock options		**7,553**	2,553	7,913
Payments of lease liabilities		**(1,298,341)**	-	-
Interest paid		**(7,232,591)**	(6,607,604)	(5,525,049)
Net cash provided by (used in) financing activities		**(33,257,353)**	(3,435,046)	7,814,350
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(14,245,913)**	11,763,730	2,696,597
NET FOREIGN EXCHANGE DIFFERENCE ON CASH AND CASH EQUIVALENTS		**(682,381)**	240,436	(107,229)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**23,226,386**	11,222,220	8,632,852
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	5	**₱8,298,092**	₱23,226,386	₱11,222,220

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate Information

1.1 Globe Telecom, Inc.

Globe Telecom, Inc. (hereafter referred to as "Globe Telecom" or The "Parent Company") is a stock corporation organized under the laws of the Philippines on January 16, 1935, and enfranchised under Republic Act (RA) No. 7229 and its related laws to render any and all types of domestic and international telecommunications services. Globe Telecom is one of the leading providers of digital wireless communications services in the Philippines under the Globe Postpaid and Prepaid, and Touch Mobile (TM) using a fully digital network. It also offers domestic and international long distance communication services or carrier services. Globe Telecom's head office is located at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig, Metropolitan Manila, Philippines. Globe Telecom is listed in the Philippine Stock Exchange (PSE) and has been included in the PSE composite index since September 17, 2001. Major stockholders of Globe Telecom include Ayala Corporation (AC), Singapore Telecom International Pte Ltd. (Singtel) and Asiacom Philippines, Inc. None of these companies exercise control over Globe Telecom.

1.2 Innove Communications, Inc. (Innove)

Globe Telecom owns 100% of Innove, a stock corporation organized under the laws of the Philippines and enfranchised under RA No. 7372 and its related laws to render any and all types of domestic and international telecommunications services. Innove holds a license to provide digital wireless communication services in the Philippines. Innove also has a license to establish, install, operate and maintain a nationwide local exchange carrier (LEC) service, particularly integrated local telephone service with public payphone facilities and public calling stations, and to render and provide international and domestic carrier and leased line services.

On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal Data Center, Inc. (TechGlobal), a joint venture company formed for the purpose of operating and managing all kinds of data centers, and providing information technology-enabled, knowledge-based and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017.

On December 14, 2018, the President of the Philippines signed House Bill No. 5556 into RA No. 11151, renewing the franchise granted to Innove for another 25 years. RA No. 11151 was published in the Official Gazette on December 27, 2018 and shall take effect 15 days after said date.

1.3 GTI Business Holdings, Inc. (GTI) and Subsidiaries

Globe Telecom owns 100% of GTI. GTI was incorporated and registered under the laws of the Philippines, on November 25, 2008, as a holding company.

GTI Corporation (GTIC)

In July 2009, GTI incorporated a wholly owned subsidiary, GTIC, a company organized under the General Corporation Law of the United States of America, State of Delaware as a wireless and data communication services provider.

Globe Telecom HK Limited (GTHK)

In December 2011, GTI incorporated a wholly owned subsidiary, GTHK, a limited company organized under the Companies Ordinance of Hong Kong as a marketing and distribution company. On March 17, 2015, GTHK applied for a services-based operator license (SBO) with the Office of the Communications Authority in Hong Kong (OFCA) which was subsequently approved on May 7, 2015. GTHK is engaged in the marketing and selling of telecommunication products and services in the international market, except the United States of America and the Philippines, under a distributor arrangement.

Globetel European Limited (GTEU) and Subsidiaries

On May 10, 2013, GTI incorporated a wholly owned subsidiary, GTEU as holding company for the operating companies of the Globe Group located in the United Kingdom, Spain and Italy.

In 2013, GTEU incorporated its wholly owned subsidiaries, UK Globetel Limited (UKGT), Globe Mobilé Italy S.r.l. (GMI), and Globetel Internacional European España, S.L. (GIEE), for the purpose of establishing operations in Europe by marketing and selling mobile telecommunications services to Filipino individuals and businesses located in the United Kingdom, Spain and Italy.

On June 2, 2016, the BOD approved the cessation of the operations of UKGT, GMI and GIEE effective July 31, 2016. UKGT and GMI completed the liquidation process in 2018. On July 30, 2019, GIEE completed its regulatory requirements for liquidation.

Globetel Singapore Pte. Ltd. (GTSG)

On November 12, 2014, GTI incorporated GTSG, a wholly owned subsidiary, for the purpose of offering full range of international data services in Singapore under a facilities-based operations license (FBO) with Infocomm Media and Development Authority (IMDA) in Singapore which was granted on January 7, 2015.

1.4 Kickstart Ventures, Inc. (Kickstart) and a Subsidiary

On March 28, 2012, Globe Telecom incorporated Kickstart, a stock corporation organized under the laws of the Philippines and formed primarily for the purpose of investing in individual, corporate, or start-up businesses, and to do research, technology development and commercializing of new business ventures.

In February 2014, Kickstart acquired 40% equity interest in Flipside Publishing Services, Inc. (FPSI). Since Kickstart was able to demonstrate control over FPSI despite having less than 50% ownership interest, FPSI was assessed to be a subsidiary of Kickstart and is included in the consolidation of Globe Group. FPSI is engaged in acquiring publishing rights to produce, publish, market, and sell printed and electronic books (e-books) and other electronic documents and content for international and domestic sales. FPSI ceased operations in July 2016. FPSI remains a dormant company as of reporting date.

1.5 Asticom Technology, Inc. (Asticom)

On June 3, 2014, Globe Telecom signed an agreement with Azalea Technology Investments Inc. (ASTI) and SCS Computer Systems, Pte. Ltd. acquiring 100% ownership stake in Asticom. Asticom is primarily engaged in providing business process and shared service support, as well as IT system integration and consultancy services.

1.6 Globe Capital Venture Holdings Inc. (GCVHI)

On June 29, 2015, Globe Telecom incorporated its wholly owned subsidiary, GCVHI as an investing and holding company primarily engaged in purchasing, subscribing, owning, holding, assigning real and personal property, shares of stock and other securities. In August 2019, GCVHI was rebranded to "917 Ventures" and will house Globe Telecom's non-telco incubated products.

On October 13, 2015, GCVHI incorporated its wholly owned subsidiary Adspark Holdings, Inc. (AHI), a holding company established for the acquisition of additional investment in Globe Telecom's non-core business. AHI holds 100% of Adspark Inc. (AI), an advertising company. On January 29, 2016, AI acquired 70% of the outstanding shares of Socialytics Inc. (Socialytics), a social media marketing firm.

GCVHI holds 46.30% ownership interest in Globe Fintech Innovations, Inc. (GFI) and 50% ownership interest in Global Telehealth, Inc. (GTHI).

1.7 Bayan Telecommunications Inc. (BTI)

On July 2, 2015, BTI issued additional shares to Globe Telecom following the approval of National Telecommunications Commission (NTC) on the conversion of BTI's Tranche A convertible debt to equity. The conversion increased the ownership of Globe Telecom on BTI's outstanding shares from 38% to 54% controlling interest. On July 20, 2015, Globe Telecom acquired additional voting shares of BTI, which further increased its controlling interest to 99%. BTI is a facilities-based provider of data services and fixed-line telecommunications.

BTI's subsidiaries are: Radio Communications of the Philippines, Inc. (RCPI), Telecoms Infrastructure Corp. of the Philippines (Telicphil), Sky Internet, Incorporated (Sky Internet), GlobeTel Japan (formerly BTI Global Communications Japan, Inc.), and NDTN Land, Inc. (NLI), (herein collectively referred to as "BTI Group").

On May 30, 2017, the Management Committee, with representation of at least 67% of the total voting interest, approved the termination of the Agreement on the Construction, Operation and Maintenance of the National Digital Transmission Network dated November 28, 1996, as well as the dissolution of Telicphil and NLI.

On December 11, 2019, the House of Representatives received House Bill No. 5797, an act to renew and amend the franchise granted to BTI. The proposed law seeks to extend BTI's legislative franchise for another 25 years. The House Committee on Legislative franchises is yet to schedule the bill for public hearing as of February 3, 2020.

1.8 TaoDharma Inc. (Tao)

In March 2013, Globe Telecom entered into a Shareholders' Agreement with four other entities to incorporate Tao. Globe Telecom subscribed to 25% preferred shares of Tao. Tao was established to operate and maintain retail stores in strategic locations within the Philippines that will sell telecommunications or internet-related services, and devices, gadgets and accessories.

On November 4, 2016, Globe Telecom increased its ownership interest on Tao from 25% to 67% controlling interest. The transaction was accounted for as an acquisition of a subsidiary.

1.9 GTowers Inc (GTowers)

On August 17, 2018, GTowers was incorporated as a wholly owned subsidiary of Globe Telecom. GTowers is still under pre-operating stage as of reporting date.

1.10 Yondu, Inc.

Yondu is engaged in the development and creation of wireless products and services accessible through mobile devices or other forms of communication devices. It also provides internet and mobile value-added services, information technology and technical services including software development and related services. Yondu is registered with the Department of Transportation and Communication (DOTC) as a content provider.

As of December 31, 2018, Yondu was 51% owned by Xurpas Inc. (Xurpas) and 49% owned by Globe Telecom. On September 11, 2019, the BOD of Globe Telecom approved the acquisition of 51% of the outstanding shares of Yondu, equivalent to 22,950 shares. The acquisition increased Globe Telecom's ownership interest from 49% to 100% and was accounted for as an acquisition of a subsidiary.

Yondu holds 100% of Rocket Search, Inc. (formerly Yondu Software Labs, Inc.), a company primarily engaged in providing information technology (IT) products and services and engaged in IT placement services.

1.11 Electronic Commerce Payments, Inc. (EC Pay)

On October 25, 2019, Globe Telecom signed and executed an agreement with third parties to complete its transaction to acquire 77% ownership of EC Pay. EC Pay is primarily engaged in the business of providing IT and e-commerce solutions, including, but not limited to, prepaid phone and internet products, bills payments and others.

2 Summary of Significant Accounting Policies

2.1 Basis of Preparation and Presentation

The consolidated financial statements of Globe Telecom, Inc. and its subsidiaries, collectively referred to as the "Globe Group", have been prepared under the historical cost convention method, except for:

- certain financial instruments carried at fair value;
- certain financial instruments and lease liabilities carried at amortized cost;
- inventories carried at net realizable value;
- investments in associates and joint ventures in which equity method of accounting is applied; and,
- retirement benefit obligation measured at the present value of the defined benefit obligation net of the fair value of the plan assets.

The consolidated financial statements of the Globe Group are presented in Philippine Peso (₱), which is Globe Telecom's functional currency, and rounded to the nearest thousands, except when otherwise indicated.

On February 3, 2020, the BOD approved and authorized the release of the consolidated financial statements of Globe Telecom, Inc. and its subsidiaries as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019.

2.2 Statement of Compliance

The consolidated financial statements of the Globe Group have been prepared in accordance

with Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC), and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and the Board of Accountancy, and adopted by the Securities and Exchange Commission (SEC).

2.3 Composition of the Group

The accompanying consolidated financial statements include the accounts of Globe Telecom and the following subsidiaries:

Name of Subsidiary	Place of Incorporation	Principal Activity	Parent Company's Percentage of Ownership 2019	2018
Innove	Philippines	Wireline voice and data communication services	**100%**	100%
GTI	Philippines	Holding company	**100%**	100%
GTIC	United States	Wireless and data communication services	**100%**	100%
GTHK	Hong Kong	Marketing and distributing company	**100%**	100%
GTSG	Singapore	Wireless and data communication services	**100%**	100%
GTEU	United Kingdom	Holding company	**100%**	100%
UKGT[3]	United Kingdom	Wireless and data communication services	**-**	-
GMI[3]	Italy	Wireless and data communication services	**-**	-
GIEE[2]	Spain	Wireless and data communication services	**-**	100%
KVI	Philippines	Venture capital company	**100%**	100%
FPSI[1]	Philippines	E-book solutions	**40%**	40%
Asticom	Philippines	Support and shared services provider	**100%**	100%
GCVHI	Philippines	Holding Company	**100%**	100%
GFI[4]	Philippines	Holding company	**46%**	45%
Fuse[4]	Philippines	Lending company	**46%**	45%
GXI[4]	Philippines	Fintech Company	**46%**	45%
AHI	Philippines	Holding company	**100%**	100%
AI	Philippines	Advertising company	**100%**	100%
Socialytics	Philippines	Advertising company	**70%**	70%
BTI	Philippines	Wireline voice and data communication services	**99%**	99%
RCPI	Philippines	Wireline communication services	**91%**	91%
Telicphil[1]	Philippines	Telco equipment administration and maintenance	**58%**	58%
Sky Internet	Philippines	Data communication services	**100%**	100%
GlobeTel Japan	Japan	Wireless and data communication services	**100%**	100%
NLI	Philippines	Land holding company	**70%**	70%
Tao	Philippines	Distributing company	**67%**	67%
G Towers, Inc.[5]	Philippines	Tower company	**100%**	100%
Yondu[6]	Philippines	Information technology and software development	**100%**	49%
EC Pay[6]	Philippines	Information technology and electronic services	**77%**	-

[1] *Ceased operations*
[2] *Liquidated in 2019*
[3] *Liquidated in 2018*
[4] *Deconsolidated in 2017 due to loss of control*
[5] *Incorporated in 2018*
[6] *Consolidated in 2019*

Globe

2.4 Business Combination and Goodwill

Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Globe Group, liabilities incurred by the Globe Group to the former owners of the acquiree and the equity interest issued by the Globe Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with PAS 12, Income Taxes and PAS 19, Employee Benefits, respectively;
- liabilities and equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangement of the Globe Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with PFRS 2, Share-based Payment, at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with PFRS 5, Non-current assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the consolidated profit or loss as bargain purchase gain.

Goodwill is not amortized but is reviewed for impairment at least annually. For purposes of impairment testing, goodwill is allocated to each of the Globe Group's cash-generating units that are expected to benefit from the synergies of the combination.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in another PFRS.

When the consideration transferred by the Globe Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the changes in fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with PFRS 9, Financial Instruments, or PAS 37, Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Globe Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amount arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Globe Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2.4.1 Consolidation procedures

The assets, liabilities, income and expense of subsidiaries are consolidated from the date on which control is transferred to the Parent Company and ceases to be consolidated from the date on which control is transferred out of the Parent Company.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company as well as accounting policies for like transactions and other events in similar circumstances. When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with the Globe Group's accounting policies.

All significant intercompany balances and transactions, including intercompany profits and losses, were eliminated in full during consolidation.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Globe Group's foreign operations are translated into Philippine Peso using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising from the translation, if any, are recognized in other comprehensive income and accumulated in other equity reserves.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity reserves in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

2.4.2 Determination of control

The Parent Company controls an investee if and only if the Parent Company has:

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

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Globe Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

2.4.3 Non-controlling interest

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Globe Group. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly-owned and are presented in the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position, separately from the equity attributable to the Parent Company.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having deficit balance.

2.4.4 Changes in ownership without loss of control

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The carrying amounts of the Globe Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Parent Company.

2.4.5 Changes in ownership with loss of control

If the Globe Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

2.5 Financial Instruments

2.5.1 Initial Recognition

Financial instruments are recognized in the Globe Group's consolidated statements of financial position when the Globe Group becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, i.e., the date that the Globe Group commits to purchase or sell the asset.

Financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of the Group's financial instruments, except for financial instruments classified at fair value through profit or loss (FVPL).

2.5.2 Classification and Subsequent Measurement of Financial Assets

The Globe Group classifies its financial assets into the following categories: financial assets at FVPL, financial assets at amortized cost and financial assets at fair value through other comprehensive income (FVOCI).

2.5.2.1 Financial assets at FVPL

The Globe Group classifies the following investments as financial assets at FVPL:

- investments in equity securities unless irrevocably elected at initial recognition to be measured at FVOCI;
- investments in debt instruments held within a business model whose objective is to sell prior to maturity or has contractual terms that does not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, unless designated as effective hedging instruments under a cash flow hedge;
- investments that contain embedded derivatives; and
- investment in debt instruments designated as financial assets at FVPL at initial recognition.

Financial assets at FVPL are carried at fair value at the end of each reporting period with any resultant gain or loss recognized in profit or loss.

Financial assets classified under this category are disclosed in Note 33.1.

2.5.2.2 Financial assets at amortized cost

Investments in debt instrument, loans, trade and other receivables that are held within a business model whose objective is to collect the contractual cash flows and has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are classified as financial assets at amortized cost, unless the asset is designated at FVPL under the fair value option.

Subsequent to initial recognition, financial assets classified under this category are measured at amortized cost using effective interest method, less any impairment.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is not material.

Financial assets classified under this category are disclosed in Note 33.1.

2.5.2.3 Financial assets at fair value through other comprehensive income

The Globe Group classifies the following investments as financial assets at FVOCI:

- Investments in debt instrument that is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, unless the asset is designated at FVPL under the fair value option;
- Investments in equity securities irrevocably elected to be measured at FVOCI; and
- Derivative designated as effective hedging instruments under cash flow hedges.

Financial assets at FVOCI are carried at fair value at the end of each reporting period. Changes in the carrying amount financial assets at FVOCI arising from movements in fair value are recognized in other comprehensive income and accumulated in other equity reserves. When the investment is disposed of, the cumulative gain or loss previously accumulated in equity reserves is reclassified directly to retained earnings.

Financial assets classified under this category are disclosed in Notes 33.1.

2.5.3 Impairment of Financial Assets at amortized cost

The Globe Group assesses at end of the reporting date whether a financial asset or group of financial assets is impaired.

The Globe Group recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost, loans, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Globe Group applies the simplified ECL approach and always recognizes lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated based on the characteristics of the product and payment behavior of the subscriber at the reporting date.

For all other financial instruments, the Globe Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Globe Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Globe Group measures ECL on an individual basis, or on a collective basis for portfolios of receivables that share similar economic risk characteristics.

Significant increase in credit risk

In assessing whether the credit risk on non-trade receivables has increased significantly since initial recognition, the Globe Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Globe Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Globe Group presumes that the credit risk on non-trade receivables has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Globe Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Globe Group assumes that the credit risk on non-trade receivables has not increased significantly since initial recognition if the instrument is determined to have low credit risk at the reporting date. The Globe Group considers a financial asset to have low credit risk when the counterparty has a strong financial position and there is no past due amounts. An instrument is determined to have low credit risk if:

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

The Globe Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For subscribers receivable and contract assets, the Globe Group considers that default has occurred when the subscriber has been permanently disconnected.

For all other receivables, The Globe Group considers the following as constituting an event of default as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Globe Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Globe Group considers that default has occurred when a financial asset is more than 90 days past due unless the Globe Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, (e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the Group has effectively exhausted all collection efforts). Financial assets written off may still be subject to enforcement activities under the Globe Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, this is represented by the assets' gross carrying amount at the reporting date.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Globe Group in accordance with the contract and all the cash flows that the Globe Group expects to receive, discounted at the original effective interest rate.

If the Globe Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Globe Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets such as trade receivables and contract assets for which simplified approach was used.

The Globe Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2.5.4 Classification of financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument.

2.5.4.1 Classification and Subsequent Measurement of Financial liabilities

The Globe Group further classifies its financial liabilities into financial liabilities at FVPL and financial liabilities at amortized cost. The classification depends on the nature and purpose of the financial liability and is determined at the time of initial recognition.

2.5.4.1.1 Financial liabilities at FVPL

This category consists of financial liabilities that were designated by management as FVPL on initial recognition and derivative financial liabilities not designated as effective hedging instruments under cash flow hedges.

Financial liabilities at FVPL are carried in the consolidated statements of financial position at fair value, with changes in fair value recognized in profit or loss.

Financial liabilities classified under this category are disclosed in Note 33.

2.5.4.1.2 Financial liabilities at amortized cost

Loans, trade and other payables which are not designated as financial liabilities at FVPL are classified as financial liabilities at amortized cost. Financial liabilities classified under this category are subsequently measured at amortized cost using the effective rate method (see Note 2.5.2.2). Financial liabilities classified under this category is disclosed in Note 33.

2.5.4.1.3 Equity instruments

Capital Stock

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of that transaction and are deducted from additional paid-in capital, net of related income tax benefits.

Additional Paid-in Capital

Additional paid-in capital includes any premium received in excess of par value on the issuance of capital stock.

Retained Earnings

Retained earnings represent accumulated profit attributable to equity holders of the Parent Company after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard’s transitional provisions.

2.5.5 Derivative Instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment. The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in the consolidated profit or loss. To qualify for hedge accounting, the hedging relationship must comply with requirements such as the designation of the derivative as a hedge of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment (both prospective and retrospective bases) and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments.

Upon inception of the hedge, the Globe Group documents the relationship between the hedging instrument and the hedged item, its risk management objective and strategy for undertaking various hedge transactions, and the details of the hedging instrument and the hedged item. The Globe Group also documents its hedge effectiveness assessment methodology, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge effectiveness is likewise measured, with any ineffectiveness being reported immediately in the consolidated profit or loss.

2.5.5.1 Types of Hedges

The Globe Group designates derivatives which qualify as accounting hedges as either:

- a hedge of the fair value of a recognized fixed rate asset, liability or unrecognized firm commitment (fair value hedge); or
- a hedge of the cash flow variability of recognized floating rate asset and liability or forecasted sales transaction (cash flow hedge).

Fair Value Hedges

Fair value hedges are hedges of the exposure to variability in the fair value of recognized assets, liabilities or unrecognized firm commitments. The gain or loss on a derivative instrument designated as a fair value hedge, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in the consolidated profit or loss in the same accounting period. Hedge effectiveness is determined based on the hedge ratio of the fair value changes of the hedging instrument and the underlying hedged item. When the hedge ceases to be highly effective, hedge accounting is discontinued.

Cash Flow Hedges

A cash flow hedge is a hedge of the exposure to variability in future cash flows related to a recognized asset, liability or a forecasted sales transaction. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and accumulated in other equity reserves. Any hedge ineffectiveness is immediately recognized in the consolidated profit or loss.

If the hedged cash flow results in the recognition of a nonfinancial asset or liability, gains and losses previously recognized in other comprehensive income are transferred from equity and included in the initial measurement of the cost or carrying value of the asset or liability. Otherwise, for all other cash flow hedges, gains and losses initially recognized in equity are transferred to consolidated profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect earnings.

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been recognized in OCI is retained in other equity reserves until the hedged transaction impacts consolidated profit or loss. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously recognized in other equity reserves is immediately reclassified in the consolidated profit or loss.

2.5.6 Other Derivative Instruments Not Accounted for as Accounting Hedges

Certain freestanding derivative instruments that provide economic hedges under the Globe Group's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated profit or loss.

2.5.7 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.5.8 Derecognition of Financial Instruments

2.5.8.1 Financial Asset

The Globe Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when the Globe Group transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Globe Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Globe Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Globe Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Globe Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable are recognized in the consolidated profit or loss.

2.5.8.2 Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. On derecognition of financial liabilities, the difference between the carrying amount of the financial liability derecognized and the sum of consideration paid and payable is recognized in the consolidated profit or loss.

2.6 Inventories

Inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value. The costs of inventories are calculated using the moving average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

When the net realizable value of the inventories is lower than the cost, the Globe Group provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in the consolidated profit or loss. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

2.7 Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the consolidated statement of financial position as current assets when the cost of goods or services related to the prepayments are expected to be incurred within one year. Otherwise, prepayments are classified as non-current assets.

2.8 Value Added Tax (VAT)

Input VAT is recognized when the Globe Group purchases goods or services from a VAT registered supplier or vendor. This account is offset against any output VAT previously recognized. Input VAT on capital goods exceeding ₱1 million and input VAT from purchases of goods and services which remain unpaid at each reporting date are recognized as "Deferred input VAT" presented under "Prepayments and Other Current Assets".

2.9 Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Major spare parts and stand-by equipment qualify as property and equipment when the Globe

Group expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property and equipment, they are accounted for as property and equipment.

At the end of each reporting period, items of property and equipment are carried at cost less any subsequent accumulated depreciation and impairment losses.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Globe Group. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Depreciation is computed on the straight-line method based on the estimated useful lives (EUL) of the assets as follows:

	Years
Telecommunications equipment:	
Tower	20
Switch	7-10
Outside plant, cellsite structures and improvements	10-20
Distribution dropwires and other wireline asset	2-10
Cellular equipment and others	3-10
Buildings	20
Cable systems	5-20
Office equipment	3-7
Transportation equipment	3-5

Leasehold improvements are amortized over the shorter of their EUL of 5 years or the corresponding lease terms.

The EUL of property and equipment are reviewed annually based on expected asset utilization of expected future technological developments and market behavior.

Assets in the course of construction are carried at cost, less any recognized impairment loss. These are transferred to the related property and equipment account when the construction or installation and the related activities necessary to prepare the property and equipment for their intended use are complete, and the property and equipment are ready for service. Depreciation of these assets, on the same basis as other property and equipment, commences at the time the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.

2.10 *Intangible Assets*

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially recognized at cost. Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their EUL. The EUL and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following conditions have been demonstrated:

- technical feasibility of completing the intangible asset so that it will be available for use or sale;
- intention to complete the intangible asset and use or sell it;
- ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in the consolidated profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are recognized initially at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortization of intangible asset is computed based on the EUL of the assets below:

	Years
Software	3-10
Spectrum and franchise	10
Customer contracts	4
Merchant networks	4-21

Derecognition of Intangible assets

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.

2.11 Investments in Associate and Joint Venture

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

A joint venture (JV) is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associate or JV are measured initially at cost. Subsequent to initial recognition, the Globe Group's investments in its associate and JV are accounted for using the equity method. Under the equity method, the investments in an associate and JV are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Globe Group's share in net assets of the associate and JV, less any allowance for impairment losses. The consolidated profit or loss includes the Globe Group's share in the results of operations of its associate or JV. Any change in OCI of those investees is presented as part of the Globe Group's OCI. In addition, where there has been a change recognized directly in the equity of the associate or JV, the Globe Group recognizes its share of any changes and discloses this, when applicable, directly in equity.

When the share of losses recognized under the equity method has reduced the investment to zero, the Globe Group shall discontinue recognizing its share of further losses and apply it to other interests that, in substance, form part of the Globe Group's net investment in the associate or JV. If the associate or JV subsequently reports profits, the Globe Group will resume recognizing its share of those profits only after its share of the profits equal the share in losses not recognized.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Globe Group.

Upon loss of significant influence over the associate or joint control over the joint venture, the Globe Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated profit or loss.

2.12 Impairment of Nonfinancial Assets

At the end of each reporting period, the Globe Group assesses whether there is any indication that any of its tangible and intangible assets with finite useful lives may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income. Impairment losses relating to goodwill cannot be reversed in future periods.

2.13 Provisions

Provisions are recognized when the Globe Group has a present obligation, either legal or constructive, as a result of a past event and it is probable that the Globe Group will be required to settle the obligation through an outflow of resources embodying economic benefits, and the amount of the obligation can be estimated reliably.

The amount of the provision recognized is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the cash flows estimated to settle the present obligation; its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at end of each reporting period and adjusted to reflect the current best estimate.

If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.

2.13.1 Asset Retirement Obligation (ARO)

The net present value of legal obligations associated with the retirement of an item of property and equipment that resulted from the acquisition, construction or development and the normal operation of property and equipment is recognized in the period in which it is incurred. The retirement obligation is initially measured at the present value of the estimated future dismantlement or restoration cost using current market borrowing rates. Subsequently, the discount is amortized as interest expense.

Changes in Existing Decommissioning, Restoration and Similar Liabilities

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, are accounted as follows;

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period, except that the amount deducted from the cost of the asset must not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated profit or loss; and
- if the adjustment results in an addition to the cost of an asset, the entity should consider whether this may indicate that the new carrying amount of the asset may not be fully recoverable. If so, the asset should be tested for impairment.

2.14 Contingent liabilities and contingent assets

Contingent liabilities and assets are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Globe Group.

Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are disclosed only if an inflow of economic benefits is probable.

2.15 Revenue Recognition

Revenue is measured based on the consideration specified in an arrangement with the customer, net of any amounts collected on behalf of third parties. The Globe Group recognizes revenue upon transfer of control of a product or service to a customer.

In arrangements where another party is involved in providing the services, the Globe Group assesses whether the nature of its promise in the arrangement is to provide the specified services itself or arrange for those services to be provided by the other party. If the promise in an arrangement is to provide the services itself, the Globe Group recognizes the service revenue at gross amount of consideration, with the amount remitted to the other party being recognized as expense. However, if the promise is to simply arrange for those services to be provided by the other party, the Globe Group recognizes service revenues equivalent only to the extent of fees or commission to which it expects to be entitled in exchange for arranging the services.

The Globe Group recognizes revenues from the following sources:

- Mobile services provided to subscribers at prepaid or postpaid arrangements such as Short Messaging Services (SMS), voice, data communication, and other value added services (Note 2.15.1);
- Wireline services provided to subscribers under subscription arrangements such as, voice, corporate communication, and home broadband internet (Note 2.15.1);
- Inbound traffic originating from other telecommunications providers that terminates at Globe Group's network (Note 2.15.2);
- Inbound roaming due from foreign carriers (Note 2.15.3);
- Postpaid wireless communication services bundled with sale of handsets and other devices (Note 2.15.4);
- Postpaid wireline communication services bundled with equipment installation services (Note 2.15.5);
- Leases, interests and management fees (Note 2.15.7).

2.15.1 Mobile and wireline services

Monthly service fees from mobile and wireline services under postpaid subscriptions are recognized as service revenues throughout the subscription period.

Proceeds from over-the-air reloading channels and sale of prepaid cards are initially recognized as deferred revenues. These are eventually charged as service revenues upon actual usage of load value. Any unused remaining load value after the prescribed validity period are immediately recognized as service revenue.

Subscription to promotional offer of SMS, voice, data communication, broadband internet, and other services, are recognized as service revenue over the promotional period.

2.15.2 Inbound traffic

Inbound traffic originating from other telecommunications providers that terminates at the Globe Group's network are recognized as service revenues in the period the inbound traffic occurred based on agreed rates with the other telecommunication providers.

2.15.3 Inbound roaming services

Service revenues from foreign carriers for inbound roaming transactions at the Globe Group's network are recognized in the period the inbound roaming connection is provided.

2.15.4 Postpaid mobile services and sale of mobile handsets and other devices

The Globe Group provides postpaid wireless communication services which are bundled with sale of mobile handsets and other devices. The postpaid wireless communication services and the sale of devices are considered two separate performance obligations which are capable of being distinct and separately identifiable. The Globe Group allocates the contract consideration between the two performance obligations based on their corresponding relative stand-alone selling prices (SSP). The stand-alone selling prices are determined based on the expected cost plus margin or adjusted market approach. The amount allocated to the postpaid wireless communication service is recognized as service revenue over the period of subscription. Any amount allocated to the sale of device is immediately recognized as non-service revenue upon delivery of the item. Contract assets are recognized for the unbilled portion of the consideration allocated to the sale of devices which are subsequently reduced as the monthly service fees are billed to the subscribers.

The Globe Group does not make any adjustments for the significant financing component on contract assets since it expects that the period between the delivery of the handset up to the date of its full settlement will not exceed one year from the contract inception.

2.15.5 Postpaid subscription to wireline services and equipment installation services

The Globe Group provides equipment installation services which are bundled with postpaid wireline services. The promise to install the equipment is not considered as a distinct service from the postpaid wireline service since the subscriber may not be able to benefit from the installation services without the availability of the postpaid wireline services. Accordingly, the two services are deemed as one performance obligation.

Service revenues from the equipment installation and postpaid wireline services are recognized over time throughout the period of subscription. Outright payments received from the installation services are initially recognized as contract liabilities and subsequently charged as service revenues over the period of subscription.

2.15.6 Globe Rewards

The Globe Group operates Globe Rewards Program through which subscribers accumulate points upon purchase of certain products and services. The Globe Rewards points may be redeemed in the form of mobile promos, bill rebates, gadgets and gift certificates, or use the earned points as cash at partner stores. The promise to provide free products and rebates to the subscribers give rise to a performance obligation that is distinct and separately identifiable. Accordingly, the Globe Group allocates a portion of the transaction price from its service revenues to Globe Rewards points awarded to subscribers based on its relative stand-alone selling price. The stand-alone selling price per point is estimated based on the discount or free products to be given when the points are redeemed by the subscriber. Amounts allocated to Globe Rewards points are initially recognized as deferred revenues and subsequently charged as service revenues either upon redemption of points or upon expiration.

2.15.7 Other income

2.15.7.1 Interest

Interest income is recognized as it accrues using the effective interest rate method.

2.15.7.2 Lease

Lease income from operating lease is recognized on a straight-line basis over the lease term.

In a finance lease arrangement, the present value of the aggregate of the minimum lease receivable and any unguaranteed residual value accruing to the Globe Group are immediately recognized as income.

2.15.7.3 Management fees

Management fee is recognized when services are provided.

2.15.8 Deferred contract costs

Costs to obtain contracts with customers that would not have been incurred if the contracts were not obtained are recognized as deferred contract costs. Deferred contract costs are subsequently recognized as expense on a straight-line basis over the contract period.

Costs to obtain contracts with customers that would have been incurred irrespective of whether the contract were obtained are immediately recognized as expense.

Costs incurred to fulfill a contract are capitalized as deferred contract costs if all of the following conditions are met:

- The costs relate directly to a contract or to an anticipated contract that the Globe Group can specifically identify;
- The costs generate or enhance resources of the Globe Group that will be used in satisfying performance obligation in the future; and
- The costs are expected to be recovered.

2.16 Expense recognition

Expenses are recognized in the consolidated profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the consolidated profit or loss on the basis of: (i) a direct association between the costs incurred and the earning of specific items of income; (ii) 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 (iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the consolidated statements of financial position as an asset.

Expenses in the consolidated statements of comprehensive income are presented using the nature of expense method.

2.17 Staff Costs

2.17.1 Short-term benefits

The Globe Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Globe Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

2.17.2 Post Employee benefits

The Globe Group has a funded non-contributory defined benefit retirement plan. For the defined benefit retirement plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurements, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statements of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Past service cost is recognized in the consolidated profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- Net interest expense or income
- Remeasurement

The Globe Group presents service cost and interest in the consolidated profit or loss in the line item pension costs and finance cost, respectively. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation as reduced by the fair value of plan assets.

Plan assets are assets held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Globe Group, nor can they be paid directly to the Globe Group. Fair value of plan assets is based on market price information.

2.18 Share-based Payment Transactions

The cost of equity-settled transactions with employees and directors is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will vest.

The cost of equity-settled transactions is recognized in the consolidated profit or loss, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the management of the Globe Group at that date, based on the best available estimate of the number of equity instruments, will ultimately vest. Costs of exercised awards plus the corresponding strike amount are reclassified to the appropriate capital accounts.

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 conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. 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 a modification 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 (EPS).

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2.19 Borrowing Costs

Borrowing costs are capitalized if these are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities for the asset's intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. Borrowing costs include interest charges and other related financing charges incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

Other borrowing costs are recognized as expense in the period in which these are incurred.

2.20 Leases

2.20.1 Globe Group as Lessee

The Globe Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

Short-term leases and leases of low value assets

For short-term leases and leases of low value assets, the Globe Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

In identifying the lease term, the Globe Group takes into account the non-cancellable period for which it has the right to use the underlying asset, together with all of the following:

- the periods covered by an enforceable option to extend the lease (if the Globe Group is reasonably certain to exercise that option); and
- the periods covered by an enforceable option to terminate the lease (if the Globe Group is reasonably certain not to exercise that option).

The lease terms in arrangements wherein both the lessor and the lessee has the right to terminate the lease without incurring significant amount of penalty are excluded as part of the non-cancellable period of the lease.

Lease Liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Globe Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Globe Group remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

Right of Use Assets

The right of use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right of use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right of use assets are presented as a separate line in the consolidated statement of financial position.

The Globe Group applies its accounting policy on impairment of non-financial assets in determining whether a right of use asset is impaired and in accounting for any identified impairment loss.

2.21 Foreign Currency Transactions

Transactions in currencies other than functional currency of the entities included in the Globe Group are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in currencies other than the functional currencies of the entities in the Globe Group are retranslated at the rates prevailing at the end of the reporting period. Gains and losses arising on retranslation are included in the consolidated profit or loss for the year. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

2.22 Income Tax

Income tax expense represents the sum of the current tax expense and deferred tax.

Current Income Tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

2.22.1 Deferred Income Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Current tax and deferred tax for the year are recognized in the consolidated profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.23 EPS

Basic EPS is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period.

Diluted EPS is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period, and adjusted for the effect of dilutive options and dilutive convertible preferred shares. Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. If the required dividends to be declared on convertible preferred shares divided by the number of equivalent common shares, assuming such shares are converted, would decrease the basic EPS, then such convertible preferred shares would be deemed dilutive. Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have anti-dilutive effect, basic and diluted EPS are stated at the same amount.

2.24 Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible to the Globe Group.

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 Globe Group 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 the purpose of fair value disclosures, the Globe Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above (see Note 33.3).

2.25 Operating Segment

The Globe Group's major operating business units are the basis upon which the Globe Group reports its primary segment information. The Globe Group's business segments consist of: (1) mobile communication services and (2) wireline communication services.

All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Globe Group generally accounts for intersegment revenues and expenses at agreed transfer prices.

2.26 Events after the Reporting Period

Any post period-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Globe Group's position at the end of reporting period (adjusting event) is reflected in the consolidated financial statements. Any post period-end event that is not an adjusting event is disclosed in the consolidated financial statements when material.

3 Adoption of New Standards, Amendments to Standards and Interpretations

The accounting policies adopted in the preparation and presentation of the consolidated financial statements are consistent with prior years, except for the effects of the adoption of new and revised accounting standards set out below.

3.1 Adoption of PFRS 16, Leases Effective January 1, 2019

Prior to adoption of PFRS 16, the Globe Group recognizes rental expense on its operating leases on a straight line basis over the term of the lease. Upon adoption of PFRS 16 on January 1, 2019, the Globe Group recognizes right of use asset and lease liabilities in the consolidated statements of financial position which are initially measured at the present value of future lease payments of the non-cancellable periods of the lease. Right of use assets are subsequently depreciated on a straight line basis over the lease term. Lease liabilities are subsequently measured at amortized cost using effective interest method. The cash paid to settle the lease liabilities are presented as part of the Globe Group's financing activity in the consolidated statements of cash flows.

For leases with terms of 12 months or less and leases of low value assets, the Globe Group opted to recognize lease expense on a straight-line basis as a practical expedient permitted under PFRS 16.

In identifying the lease term, the Globe Group takes into account the non-cancellable period for which it has the right to use the underlying asset, together with all of the following:

- the periods covered by an enforceable option to extend the lease (if the Globe Group is reasonably certain to exercise that option); and
- the periods covered by an enforceable option to terminate the lease (if the Globe Group is reasonably certain not to exercise that option).

The lease terms in arrangements wherein both the lessor and the lessee has the right to terminate the lease without incurring significant amount of penalty are excluded as part of the non-cancellable period of the lease.

In adopting PFRS 16, the Globe Group used the modified retrospective approach wherein the cumulative effect of the initial application of the standards were recognized at January 1, 2019, and the comparative periods were not restated. The Globe Group also applied transitional reliefs and practical expedients for the measurements of lease liabilities and right of use assets arising from leases previously classified as operating lease.

The following table shows the individual line items affected by the adjustments from the adoption of PFRS 16. Accounts not affected by the new standards are excluded in the presentation.

	December 31, 2018	Effect of PFRS 16	January 1, 2019
ASSETS		*(In Thousand Pesos)*	
Prepayments and other current assets	₱16,254,796	(₱39,915)	₱16,214,881
Right of use – net	-	3,483,205	3,483,205
LIABILITIES AND EQUITY			
Liabilities			
Other long-term liabilities	5,367,209	(481,115)	4,886,094
Deferred income tax liabilities – net	3,918,493	144,146	4,062,639
Lease liabilities	-	3,443,290	3,443,290
Equity			
Retained earnings	27,167,398	336,464	27,503,862
Non-controlling interest	24,172	505	24,677

Operating lease for which the lease term ends within 12 months

As a practical expedient, the Globe Group did not recognize right of use assets and lease liabilities in respect of leases previously classified as operating lease for which the lease term ends within 12 months from the date of initial application. Instead, these leases were accounted for in the same way as short-term leases.

Lease liabilities

Lease liabilities amounting to ₱3,443.29 million in respect of leases previously classified as operating leases were recognized in the consolidated statement of financial position at transition date. The transition lease liabilities were measured using the present value of future lease payments of the non-cancellable periods of the lease, discounted using the Globe Group's incremental borrowing rate at transition date.

Right of use assets

Right of use assets amounting to ₱3,483.21 million in respect of leases previously classified as operating leases were recognized in the consolidated statement of financial position at transition date. The right of use assets at transition date were measured at an amount equal to the lease liability, adjusted by the prepaid rentals relating to those leases that remained outstanding in the consolidated statement of financial position immediately before the date of initial application. Total prepaid rentals reclassified to right of use assets at transition date amounted ₱39.92 million.

Accrued long-term leases

Accrued long-term leases amounting ₱481.12 million at transition date arising from the straight-line recognition of lease expense in respect of leases previously classified as operating leases were derecognized in the statement of financial position with corresponding net of tax adjustment to retained earnings and non-controlling interest amounting to ₱336.46 million and ₱0.51 million, respectively.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Operating lease commitments as of December 31, 2018	₱5,328,989
Weighted average incremental borrowing rate as at January 1, 2019	7.91%
Discounted operating lease commitments as at January 1, 2019	4,578,501
Commitments relating to short-term lease and low value assets	(1,135,211)
Lease liabilities as of January 1, 2019	₱3,443,290

3.2 Adoption of Standards Effective January 1, 2019 With No Material Impact

In the current year, the Globe Group has applied a number of amendments to PFRS and interpretation issued by IASB that are effective for annual period that begins on January 1, 2019. The adoption has not had any material impact on the disclosures or on the amounts reported in the consolidated financial statements.

3.2.1 PFRS 9 - Prepayment Features with Negative Compensation

The amendments to PFRS 9 clarified that for the purpose of assessing whether a prepayment feature meets the Solely Payments of Principal and Interest (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

3.2.2 PAS 28 - Long-term Interests in Associates and Joint Ventures

The amendment clarifies that PFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying PFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by PAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with PAS 28).

3.2.3 PAS 19 - Employee Benefits, Plan Amendment, Curtailment or Settlement

The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for 'significant market fluctuations' in the absence of a plan amendment, curtailment or settlement.

3.2.4 PFRS 3 - Business Combinations

The amendments to PFRS 3 clarified that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

3.2.5 Amendments to PFRS 11 - Joint Arrangements

The amendments to PFRS 11 clarified that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

3.2.6 PAS 12 - Income Tax Consequences of Payments on Financial Instruments Classified as Equity

The amendments clarified that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

3.2.7 PAS 23 - Borrowing Costs Eligible for Capitalization

The amendments clarified that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

3.2.8 IFRIC 23 - Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings;
- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

3.3 New and Revised Standards Not Yet Effective

At the date of authorization of these consolidated financial statements, the Globe Group has not applied the following new and revised PFRS that have been issued but are not yet effective. The Globe Group anticipates that the application of these new and revised standards will not have a material impact on the Globe Group's consolidated financial statements in future periods.

3.3.1 PFRS 10 and PAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to PFRS 10 and PAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

3.3.2 Amendments to IFRS 3 Definition of a Business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired 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 outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020, with early application permitted.

3.3.3 Amendments to PAS 1 and PAS 8 Definition of Material

The amendments are intended to make the definition of material in PAS 1 easier to understand and are not intended to alter the underlying concept of materiality in PFRS. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in PAS 8 has been replaced by a reference to the definition of material in PAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

3.3.4 Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on March 28, 2018, the IASB has also issued Amendments to References to the Conceptual Framework in PFRS Standards. The document contains amendments to PFRS 2, PFRS 3, PFRS 6, PFRS 14, PAS 1, PAS 8, PAS 34, PAS 37, PAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after January 1, 2020, with early application permitted.

3.4 Adoption of Standards Effective January 1, 2018

The Globe Group adopted PFRS 9 and 15 when they became effective on January 1, 2018.

The adoption of expected credit loss method of impairment under PFRS 9 resulted in recognition of additional allowance for doubtful debts on subscribers' receivables at transition date.

In adopting PFRS 15, the Globe Group identified all performance obligations from its contracts with subscribers and assessed whether they are separately identifiable and capable of being distinct. For each identified distinct performance obligation, the Globe Group performed re-allocation of contract consideration based on their relative stand-alone selling prices. These resulted in recognition of contract assets and contract liabilities at transition date. The Globe Group also capitalized certain costs that were identified to be incremental in obtaining and fulfilling its contracts with subscribers which resulted in the recognition of deferred contract costs at transition date.

In adopting PFRS 9 and 15, the Globe Group used the modified retrospective approach wherein the cumulative effect of the initial application of the standards were recognized at January 1, 2018, and the comparative periods were not restated.

The following table shows the individual line items affected by the adjustments from the adoption of PFRS 15 and 9. Accounts not affected by the new standards are excluded in the presentation.

	December 31, 2017	Effect of PFRS 9	Effect of PFRS 15	January 1, 2018
ASSETS		*(In Thousand Pesos)*		
Trade receivables – net	₱27,304,288	(₱7,980,751)	(₱640,605)	₱18,682,932
Contract assets and deferred contract costs-net	-	-	8,002,909	8,002,909
Deferred income tax assets – net	2,761,626	390,432	(276,284)	2,875,774
LIABILITIES AND EQUITY				
Liabilities				
Unearned revenues	5,509,773	-	(5,509,773)	-
Contract liabilities and deferred revenues	-	-	5,898,136	5,898,136
Deferred income tax liabilities – net	2,748,826	(2,003,793)	1,815,898	2,560,931
Equity				
Retained earnings	21,708,003	(5,581,683)	4,880,805	21,007,125
Non-controlling interest	42,713	(4,843)	954	38,824

4 Management's Significant Accounting Judgments and Use of Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such judgments, estimates and assumptions.

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

4.1 Critical Accounting Judgments

4.1.1 Allocation of Goodwill and Investments in Joint Ventures to Cash-Generating Units

For the purpose of performing annual impairment review, the Globe Group allocates the carrying amount of goodwill from acquisition of BTI and investment in VTI, BAHC and BHC to the CGU of mobile communications services or wireless segment. The Globe Group believes that CGUs represent the lowest level within the Globe Group at which the goodwill is monitored for internal management reporting purposes and not larger than an operating segment determined in accordance with PFRS 8.

4.1.2 Contact Assets on Bundled Products

The Globe Group provides wireless communication services to subscribers which are bundled with handset sales. Based on the Globe Group's assessment, the performance obligations from the wireless communication services and the sale of handsets are both capable of being distinct and separately identifiable. Accordingly, the Globe Group allocates the total contract consideration to the two performance obligations based on their corresponding relative SSP. Contract asset is recognized for any unbilled amount allocated to the revenue from handset sales.

4.1.3 Contract Liabilities on Installation Services

The Globe Group provides equipment installation services bundled together with wireline communication services. Based on the Globe Group's assessment, the installation services is not distinct from the wireline communication services and thus, deemed as one performance obligation. Accordingly, revenues from the installation and wireline communication services are recognized over time throughout the period of the subscription contract.

4.1.4 Deferred Contract Costs

The Globe Group incurs certain commissions and installation costs in relation to the service provided to its subscribers. Based on the Globe Group's assessment, these costs are incremental in obtaining and fulfilling its performance obligations. Accordingly, the Globe Group recognizes deferred contracts costs which are amortized as expense throughout the period of the subscription contract.

4.1.5 Determination of SSP in arrangements with multiple performance obligations

In revenue arrangements involving multiple performance obligations, the transaction price are allocated to each separate performance obligation based on the relative SSP of the goods or services being provided to the customer. The best evidence of SSP is the price an entity charges for that good or service when the entity sells it separately in similar circumstances to similar customers. However, goods or services are not always sold separately. In such case, the SSP need to be estimated or derived by other means.

The Globe Group maximized the use of all available observable inputs and applied the expected cost plus margin or adjusted market approach as the estimation method in determining the SSP of the goods and services in arrangements with multiple performance obligations.

4.1.6 Determination of Whether the Globe Group is Acting as a Principal or an Agent

The Globe Group's VAS offers a full range of downloadable content covering multiple topics including news, information, and entertainment wherein another party is involved in providing such services. In such case, the Globe Group assesses each arrangement and determines whether the nature of its promise is to provide the specified services itself or arrange for those services to be provided by the other party.

If the promise in an arrangement is to provide the services itself, the Globe Group recognizes the service revenue at gross amount of consideration. Otherwise, the Globe Group recognizes service revenues equivalent only to the extent of fees or commission to which it expects to be entitled in exchange for arranging the services.

4.1.7 Financial Asset Business Model Assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Globe Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

Except for the derivative instruments, the Globe Group classified all of its non-equity instrument financial assets as financial assets at amortized cost in accordance with the SPPI and business model test requirements of PFRS 9.

4.2 Key Estimation Uncertainties

4.2.1 Deferred Revenues on Globe Rewards

The Globe Group allocates a portion of the transaction price of its service revenues to Globe Rewards points and recognizes the corresponding deferred revenues. The allocation is based on its relative SSP per point which is determined based on the expected discount or free products that will be availed when the points are redeemed by the subscriber. The Globe Group uses historical data and trends in estimating the SSP of rewards points. The amounts and timing of recording revenues would be affected by changes in circumstances and trends. An increase in the estimated SSP per point would increase the recognized deferred revenues and decrease the revenues for the period.

As of December 31, 2019 and 2018, the estimated liability for unredeemed points included in deferred revenues in the consolidated statements of financial position amounted to ₱1,431.10 million and ₱1,542.58 million, respectively (See Note 7.2).

4.2.2 ECL Impairment on Subscribers Receivables and Contract Assets

When measuring ECL the Globe Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

An increase in ECL rates on subscribers receivables and contract assets would increase the loss allowance recognized in the consolidated profit or loss.

Impairment loss recognized using ECL in 2019 and 2018 on subscribers receivable amounted to ₱3,147.13 million and ₱2,955.27 million, and contract assets amounted to ₱256.90 million and ₱457.66 million, respectively (see Note 28).

4.2.3 *Inventory Obsolescence and Market Decline*

The Globe Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally provided for nonmoving items after a certain period. The Globe Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect market decline in the value of the recorded inventories. The Globe Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

The amount and timing of recorded expenses for any period would differ if different estimates were utilized. An increase in allowance for inventory obsolescence and market decline would decrease the profit for the period, and decrease current assets.

Inventory obsolescence and market decline in 2019, 2018 and 2017 amounted to ₱713.72 million, ₱377.78 million and ₱403.04 million, respectively (see Note 9 and 28).

Inventories and supplies, net of allowances, amounted to ₱4,713.57 million and ₱4,854.94 million as of December 31, 2019 and 2018, respectively (see Note 9).

4.2.4 *ARO*

The Globe Group recognizes ARO in relation to its obligations to bear the costs of dismantling the constructed assets in leased properties and to restore such properties to the original condition at the end of the lease period. The recognition of ARO requires the Globe Group to estimate the future restoration and dismantling costs and determine the appropriate discount rate to be applied in the present value calculation. The amount and timing of recorded expenses for any period would differ if different inputs in the estimates were utilized. An increase in ARO would increase recorded expenses and increase noncurrent liabilities.

As of December 31, 2019 and 2018, ARO amounted to ₱2,742.63 million and ₱2,523.94 million, respectively (see Note 20).

4.2.5 *EUL of Property and Equipment, Intangible Assets and Right of Use Assets*

The useful life of each of the item of property and equipment, intangible assets and right of use assets with finite useful lives is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets and expected asset utilization based on future technological developments and market behavior.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property and equipment, intangible assets and right of use assets would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

The carrying amounts of property and equipment with finite useful lives amounted to ₱180,387.74 million and ₱167,118.98 million, as of December 31, 2019 and 2018, respectively (see Note 11).

The carrying amounts of intangible assets with finite useful lives amounted to ₱12,653.78 million and ₱12,558.02 million, as of December 31, 2019 and 2018, respectively (see Note 12).

The carrying amounts of right of use assets amounted to ₱3,556.28 million as of December 31, 2019 (see Note 13).

4.2.6 *Impairment of Nonfinancial Assets Other Than Goodwill*

The Globe Group performs an impairment review when certain impairment indicators are present.

Determining the recoverable amounts of property and equipment, intangible assets, right of use assets and investments in associates and joint ventures requires the Globe Group to make estimates and assumptions on the cash flows expected to be generated from those assets. While the Globe Group believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to impairment charges. Any resulting impairment loss could have a material adverse impact on the financial position and results of operations.

The aggregate carrying value of property and equipment, intangible assets (excluding goodwill), right of use assets and investments amounted to ₱233,356.45 million and ₱216,378.57 million as of December 31, 2019 and 2018, respectively (see Notes 11, 12, 13 and 15).

Impairment loss recognized on property and equipment amounted to ₱59.16 million, ₱61.74 million and ₱28.32 million in 2019, 2018 and 2017, respectively (see Note 28).

Impairment loss recognized on investment in associate amounted to nil in 2019 and 2018, and ₱286.04 million in 2017, respectively (Note 28).

4.2.7 *Impairment of Goodwill*

The Globe Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows of the CGU are derived from the business plan for the next five years and do not include restructuring activities that the Globe Group is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. As of December 31, 2019 and 2018, the carrying value of goodwill amounted to ₱2,899.32 million and ₱1,140.25 million, respectively (see Note 12).

In 2018, management determined that the recoverable amount of goodwill related to the acquisition of TAO and Socialytics are less than its carrying value. Accordingly, the Globe Group recognized impairment loss amounting to ₱140.40 million and ₱2.39 million, respectively (see Notes 12 and 28). No impairment loss on goodwill was recognized in 2019 and 2017.

4.2.8 *Deferred Income Tax Assets*

The carrying amounts of deferred income tax assets are 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 income tax assets to be utilized.

As of December 31, 2019 and 2018, the combined gross deferred tax assets of the Globe Group amounted to ₱10,178.55 million and ₱10,437.19 million, respectively (see Note 30).

4.2.9 Pension Benefits

The determination of the retirement obligation cost and retirement benefits is dependent on the selection of certain assumptions used by independent actuaries in calculating such amounts. Those assumptions include among others, discount rates and rates of compensation increase. Actual results that differ from the assumptions are charged to other comprehensive income and therefore, generally affect the equity and recorded obligation. While the Globe Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

The net pension liability as of December 31, 2019 and 2018 amounted to ₱3,738.43 million and ₱1,459.46 million, respectively. Further details are provided in Note 29.2.

4.2.10 Share-based Compensation

The Globe Group also determines the cost of equity-settled transactions using assumptions on the appropriate pricing model. Significant assumptions for the cost of share-based payments include, among others, share price, exercise price, option life, expected dividend and expected volatility rate. While the Globe Group believes that the assumptions are reasonable and appropriate, significant differences in the assumptions may materially affect the recognized expense and equity.

Cost of share-based payments in 2019, 2018 and 2017 amounted to ₱325.16 million, ₱236.71 million and ₱104.83 million, respectively (see Note 29).

4.2.11 Fair Values of Identifiable Assets and Liabilities in a Business Combination

When a business combination occurs, the fair values of the identifiable assets and liabilities assumed, including intangible assets, are recognized in the consolidated statement of financial position.

The determination of the fair values of acquired assets and liabilities is based, to a considerable extent, on management's judgment and estimates. The Globe Group selects the most appropriate valuation methodologies which may include the net present value techniques, comparison to similar assets for which market observable prices exist and other relevant valuation models. If the purchase consideration exceeds the fair value of the net assets acquired then the difference is recognized as goodwill. If the purchase price consideration is lower than the fair value of the assets acquired then a gain is recognized in the consolidated profit or loss.

The final fair values of the net assets of Yondu at the time of acquisition amounted to ₱462.56 million (see Note 14.1).

The final fair values of the net assets of EC Pay at the time of acquisition amounted to ₱417.47 million (see Note 14.2).

4.2.12 Fair Values of Unquoted Equity Securities

When the fair value of an investment in equity security is required to be measured at fair value and the fair value cannot be derived from active markets, the Globe Group uses valuation techniques including the discounted cash flow analysis and other relevant valuation models to determine the fair value of the instrument. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Changes in assumptions about these factors could affect the reported fair value of the instrument and may also affect the consolidated profit or loss.

The fair value of the Globe Group's investments in unquoted equity instruments classified as financial assets at FVOCI amounted to ₱2,137.78 million and ₱1,442.94 million as of December 31, 2019 and 2018, respectively (see Note 16).

4.2.13 Provisions and Contingencies

The Globe Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsel handling the Globe Group's defense in these matters and is based upon an analysis of potential results. The Globe Group currently does not believe that these proceedings will have a material adverse effect on the consolidated statements of financial position and financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 18).

The Globe Group's provision as of December 31, 2019 and 2018 amount to ₱2,622.32 million and ₱2,549.39 million, respectively (see Note 18).

5 Cash and Cash Equivalents

Cash equivalents are short term highly liquid investments with insignificant risk of changes in value. The cash and cash equivalents account consists of the following as of December 31:

	2019	2018
	(In Thousand Pesos)	
Cash on hand and in banks	**₱3,728,294**	₱2,018,910
Short-term money market placements	**4,569,798**	21,207,476
	₱8,298,092	₱23,226,386

Cash in banks earn interest at respective bank deposit rates.

Interest income from cash and cash equivalents are as follows (see Note 23):

	2019	2018	2017
		(In Thousand Pesos)	
Short-term money market placements	**₱440,402**	₱332,525	₱71,876
Cash on hand and in banks	**17,158**	12,353	18,007
	₱457,560	₱344,878	₱89,883

The ranges of interest rates of the above placements are as follows:

	2019	2018	2017
Placements:			
PHP	**0.175% to 7.00%**	0.375% to 6.00%	0.10% to 3.70%
USD	**0.50% to 2.60%**	0.10% to 2.75%	0.05% to 1.75%

The principal noncash transactions are as follows:

	Notes	2019	2018	2017
		(In Thousand Pesos)		
Unpaid purchase consideration from acquisition of EC Pay	14.2	**₱76,329**	₱-	₱-
Movements in liabilities related to the acquisition of property and equipment		**(6,514,835)**	(7,800,727)	8,076,049
Capitalized ARO	20	**38,997**	9,831	97,079
Uncollected proceeds from sale of AFPI	15.2	**240,000**	-	-

Cash flows from financing activities include non-cash change arising from foreign exchange gains or losses and amortization of debt issue cost and others amounting to ₱1,269.98 million and ₱926.20 million in 2019 and 2018, respectively.

Unpaid cash dividends declared related to non-voting preferred stock amounted to ₱260.03 million as at December 31, 2019 and 2018 (see Note 22.3).

6 Trade receivables - net

This account consists of receivables from:

	Notes	2019	2018
		(In Thousand Pesos)	
Subscribers		**₱23,554,867**	₱27,798,284
Traffic settlements - net	33.2, 35.1	**1,904,982**	2,868,396
Dealers		**1,935,236**	1,527,340
Others		**3,161,346**	981,399
		30,556,431	33,175,419
Less allowance for impairment losses:			
Subscribers		**8,618,104**	11,932,762
Traffic settlements and others		**799,377**	590,125
		9,417,481	12,522,887
		₱21,138,950	₱20,652,532

Trade receivables are noninterest-bearing and are generally due within twelve months.

Subscriber receivables arise from wireless and wireline voice, data communications and broadband internet services provided by the Globe Group under postpaid arrangements.

Traffic settlement receivables are presented net of traffic settlement payables from the same carrier (see Notes 33.2 and 35.1).

Others include trade receivables of non-telco subsidiaries and receivables from credit card companies.

The following is a reconciliation of the changes in the allowance for impairment losses for trade receivables as of December 31:

	Consumer	Key Corporate Accounts	Other Corporations and SME	Traffic Settlements and Others	Total
			(In Thousand Pesos)		
2019					
December 31, 2018	**₱7,292,652**	**₱3,261,130**	**₱1,378,980**	**₱590,125**	**₱12,522,887**
Charges for the period (Note 28)	**2,332,884**	**593,716**	**220,534**	**193,022**	**3,340,156**
Arising from acquisition of a subsidiary	**-**	**-**	**-**	**7,178**	**7,178**
Recoveries and write-offs – net	**(5,385,716)**	**(323,906)**	**(752,170)**	**9,052**	**(6,452,740)**
December 31, 2019	**₱4,239,820**	**₱3,530,940**	**₱847,344**	**₱799,377**	**₱9,417,481**
2018					
December 31, 2017	₱5,475,745	₱1,934,247	₱1,108,220	₱613,399	₱9,131,611
Transition adjustment (Note 3.4)	6,085,336	990,360	905,055	-	7,980,751
January 1, 2018	11,561,081	2,924,607	2,013,275	613,399	17,112,362
Charges for the period (Note 28)	2,244,503	458,421	252,343	17,078	2,972,345
Recoveries and write-offs – net	(6,512,932)	(121,898)	(886,638)	(40,352)	(7,561,820)
December 31, 2018	₱7,292,652	₱3,261,130	₱1,378,980	₱590,125	₱12,522,887

7 Contracts with Customers

7.1 Contract Assets and Deferred Contract Costs – net

The following table provides the components of contract assets and deferred contract costs as of December 31:

	2019	2018
	(In Thousand Pesos)	
Contract assets	**₱7,045,794**	₱7,124,332
Deferred contract costs	**1,583,088**	1,662,891
	8,628,882	8,787,223
Less current portion of deferred contract costs	**8,339,219**	8,471,550
Noncurrent portion	**₱289,663**	₱315,673

7.1.1 Contract Assets

The following table provides information about contract assets with customers:

	Notes	2019	2018
		(In Thousand Pesos)	
Contract assets			
Balance at beginning of the year		**₱8,672,121**	₱-
Transition adjustment	3.4	**-**	7,479,169
Additions during the year		**8,717,202**	9,273,004
Reductions during the year		**(8,538,842)**	(8,080,052)
Write-off		**(889,209)**	-
Balance at end of year		**7,961,272**	8,672,121
Allowance for impairment loss			
Balance at beginning of the year		**(1,547,789)**	-
Transition adjustment	3.4	**-**	(1,090,132)
Impairment loss	28	**(256,898)**	(457,657)
Write-off		**889,209**	-
Balance at end of year		**(915,478)**	(1,547,789)
Contract assets - net		**₱7,045,794**	₱7,124,332

The Globe Group provides wireless communication services to subscribers which are bundled with sale of handsets and other devices. The Globe Group allocates the revenue based on the SSP of each performance obligation. Contract assets are recognized for the unbilled portion of revenue allocated to the sale of handset and other devices which will be reduced as the monthly service fees are billed to the subscribers.

7.1.2 Deferred Contract Costs

Deferred contract costs pertain to incremental costs incurred in the effort to obtain and fulfill the contract with subscribers. Details are as follows:

	2019	2018
	(In Thousand Pesos)	
Cost to obtain contracts with customers:		
Commissions	**₱1,039,265**	₱1,140,838
Cost to fulfill contracts with customers		
Installation costs	**543,823**	522,053
	₱1,583,088	₱1,662,891

Deferred contract costs are capitalized and subsequently amortized on a straight-line basis over the term of the subscription contract. Movements in the deferred contract costs for the period are as follows:

	Note	2019	2018
		(In Thousand Pesos)	
Balance at beginning of the year		**₱1,662,891**	₱-
Transition adjustment	3.4	**-**	1,613,872
Amounts capitalized during the period		**2,051,580**	2,088,422
Amounts recognized as expense		**(2,131,383)**	(2,039,403)
Balance at the end of the year		**₱1,583,088**	₱1,662,891

7.2 Contract Liabilities and Other Deferred Revenues

The following table provides information about the contract liabilities and other deferred revenues:

	2019	2018
	(In Thousand Pesos)	
Current		
Deferred revenue from wireless subscribers under prepaid arrangements	**₱4,094,957**	₱3,280,864
Advance monthly service fees	**2,937,868**	2,903,529
Deferred revenue rewards	**1,431,103**	1,542,584
Contract liability from wireline services	**241,419**	307,101
Others	**59,456**	10,230
	8,764,803	8,044,308
Noncurrent		
Contract liability from wireline services	**49,869**	53,642
	₱8,814,672	₱8,097,950

The following table shows the roll forward analysis of contract liabilities:

	Note	2019	2018
		(In Thousand Pesos)	
Contract liabilities			
Balance at beginning of the year		**₱360,743**	₱-
Transition adjustment	3.4	**-**	388,363
Additions during the year		**469,329**	563,016
Recognized as revenue during the year		**(538,784)**	(590,636)
Balance at end of year		**₱291,288**	₱360,743

Deferred revenues from wireless subscribers under prepaid arrangements are recognized as revenues upon actual usage of airtime value, consumption of prepaid subscription fees or upon expiration of the unused load value prepaid credit.

Advance monthly service fees represent advance collections from postpaid subscribers.

Deferred revenue rewards represent unredeemed customer award credit under customer loyalty program.

Contract liability from wireline services represents collected upfront fees for equipment installation for which revenues are recognized over the subscription period.

8 Derivative Financial Instruments

The Globe Group's freestanding and embedded derivative financial instruments are accounted for as hedges or transactions not designated as hedges. The table below sets out information about the Globe Group's derivative financial instruments and the related fair values as of December 31:

2019

	USD Notional Amount	PHP Notional Amount	Derivative Assets	Derivative Liabilities
		(In Thousands)		
Derivative instruments designated as hedges				
Cash flow hedges				
Cross currency swaps*	**$298,450**	**₱ -**	**₱205,290**	**₱679,628**
Principal only swaps**	**97,700**	**-**	**217,622**	**53,016**
Interest rate swaps	**77,700**	**-**	**2,784**	**34,714**
Derivative instruments not designated as hedges				
Freestandng				
Deliverable forwards*	**82,000**	**-**	**1,259**	**13,273**
Nondeliverable forwards*	**30,000**	**-**	**-**	**57,685**
Net			**₱426,955**	**₱838,316**

2018

	USD Notional Amount	PHP Notional Amount	Derivative Assets	Derivative Liabilities
		(In Thousands)		
Derivative instruments designated as hedges				
Cash flow hedges				
Cross currency swaps*	$300,000	₱ -	₱1,787,777	₱203,983
Principal only swaps**	86,400	-	528,297	32,010
Interest rate swaps	61,400	-	47,292	-
Derivative instruments not designated as hedges				
Freestandng				
Deliverable forwards	80,000	-	-	75,661
Net			₱2,363,366	₱311,654

**Pay-fixed rate 4.15%-6.68%, received floating rate USD LIBOR+(0.60%-1.00%)*
*** Pay-fixed rate 1.31%-2.3%*

The subsequent sections will discuss the Globe Group's derivative financial instruments according to the type of financial risk being managed and the details of derivative financial instruments that are categorized into those accounted for as hedges and those that are not designated as hedges.

8.1 Derivative Instruments Accounted for as Hedges

The following sections discuss in detail the derivative instruments accounted for as cash flow hedges.

- *Currency Swaps and Cross Currency Swaps*

The Globe Group entered into cross currency swap contracts and principal only swaps contract to hedge the foreign exchange and interest rate risk on dollar loans. The cross currency swaps have a notional amount of USD298.45 million and USD300.00 million as of December 31, 2019 and 2018, respectively. Principal only swaps have a notional amount of USD97.70 million and USD86.4 million as of December 31, 2019 and 2018, respectively. The fair values of the currency swaps as of December 31, 2019 and 2018 amounted to net liability of ₱309.73 million and net asset of ₱2,080.08 million, respectively, of which ₱242.09 million and ₱915.81 million (net of tax), respectively is included in "Other reserves" in the equity section of the consolidated statements of financial position (see Note 22.6).

- *Interest Rate Swaps*

As of December 31, 2019 and 2018, the Globe Group has USD77.70 million and USD61.40 million in notional amount of USD interest rate swap that have been designated as cash flow hedge of interest rate risk from USD loans. The interest rate swap effectively fixed the benchmark rate of the hedged USD loan at 2% over the duration of the agreement, which involves quarterly payment intervals up to April 2020 and October 2020 and semi-annual payment intervals up to April 2020.

As of December 31, 2019 and 2018, the fair value of the outstanding swap amounted to a net liability of ₱31.93 million and a net asset of ₱47.29 million, respectively, of which ₱22.35 million and ₱33.10 million (net of tax), respectively, is included in "Other reserves" in the equity section of the consolidated statements of financial position (see Note 22.6).

Swap costs arising from both cross currency and interest rate swaps recognized as financing cost amounted to ₱366.95 million, ₱220.06 million, and ₱208.74 million in 2019, 2018 and 2017, respectively (see Note 27)

8.2 Free Standing Derivatives

Freestanding derivatives that are not designated as hedges consist of currency forwards entered into by the Globe Group. Fair value changes on these instruments are accounted for directly in consolidated profit or loss.

As of December 31, 2019 and 2018, the Globe Group has USD112.00 million and USD80.00 million deliverable and non-deliverable currency forward contracts not designated as hedges, respectively.

8.3 Hedge Effectiveness Results

As of December 31, 2019 and 2018, the effective fair value changes on the Globe Group's cash flow hedges that were deferred in equity amounted to gains of ₱264.44 million and ₱948.92 million, net of tax, respectively. Derivatives designated as cash flow hedges for the years ended December 31, 2019, 2018 and 2017 are fully effective. Accordingly, no hedge ineffectiveness was recognized in the consolidated profit or loss.

The distinction of the results of hedge accounting into "Effective" or "Ineffective" represent designations based on PFRS 9 and are not necessarily reflective of the economic effectiveness of the instruments.

8.4 Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments are as follows:

	2019	2018
	(In Thousand Pesos)	
At beginning of year	**₱2,051,712**	₱735,341
Net changes in fair value of derivatives:		
Designated as cash flow hedges (Note 22.6)	**(2,835,986)**	1,178,226
Not designated as cash flow hedges	**(73,870)**	839,763
	(858,144)	2,753,330
Fair value of settled instruments	**446,783**	(701,618)
At end of period	**(₱411,361)**	₱2,051,712

Details of amounts reclassified from cash flow hedge reserve to profit or loss in relation to hedge accounting transactions are shown below.

	Notes	2019	2018
		(In Thousand Pesos)	
Gain (loss) on derivative instruments – net		**(₱735,670)**	₱164,408
Swap costs	27	**(366,952)**	(220,061)
	22.6	**(₱1,102,622)**	(₱55,653)

9 Inventories and Supplies - net

This account consists of:

	2019	2018
	(In Thousand Pesos)	
Handsets, devices and accessories	**₱2,761,286**	₱2,977,904
Modem and accessories	**844,518**	972,523
Nomadic broadband device	**498,380**	371,976
Spare parts and supplies	**420,142**	357,161
SIM cards and SIM packs	**133,530**	156,940
Call cards and others	**55,716**	18,435
	₱4,713,572	₱4,854,939

Breakdown of cost of inventories recognized as expense are as follows:

	Note	2019	2018	2017
			(In Thousand Pesos)	
Cost of inventories sold		**₱18,554,814**	₱18,645,314	₱13,013,437
Inventory obsolescence	28	**713,717**	377,775	403,037
		₱19,268,531	₱19,023,089	₱13,416,474

Cost of inventories sold consists of:

	2019	2018	2017
	(In Thousand Pesos)		
Handsets, devices and accessories	**₱16,212,378**	₱16,132,844	₱10,752,145
Nomadic broadband device	**1,458,295**	1,686,459	1,289,983
SIM cards and SIM packs	**529,248**	651,342	623,013
Call cards and others	**224,598**	147,267	329,651
Modems and accessories	**116,026**	20,637	13,787
Spare parts and supplies	**14,269**	6,765	4,858
	₱18,554,814	₱18,645,314	₱13,013,437

10 Prepayment and Other Current Assets

This account consists of:

	Notes	2019	2018
		(In Thousand Pesos)	
Advance payments to suppliers and contractors	35.2	**₱10,449,595**	₱9,459,239
Prepayments		**2,740,940**	2,209,300
Non-trade receivables – net		**2,292,367**	1,458,503
Deferred input VAT		**1,162,679**	937,233
Creditable withholding tax		**976,295**	888,971
Input VAT – net		**720,307**	517,810
Others		**605,832**	783,740
		₱18,948,015	₱16,254,796

The “Prepayments” account includes prepaid insurance, rent, maintenance, and licenses fees among others.

Non-trade receivables – net consists of:

	Notes	2019	2018
		(In Thousand Pesos)	
Current portion of loans to related parties	21	**₱656,620**	₱-
Due from related parties	21	**631,490**	562,550
Advances to employees		**192,219**	313,308
Others		**900,931**	713,726
		2,381,260	1,589,584
Allowance for impairment loss		**(88,893)**	(131,081)
		₱2,292,367	₱1,458,503

Impairment loss related to non-trade receivable amounted to nil in 2019 and 2018, and ₱37.47 million in 2017 (see Note 28).

Deferred input VAT pertains to VAT various purchases of goods and services which cannot be claimed yet as credits against output VAT liabilities, pursuant to the existing VAT rules and regulations. Deferred input VAT can be applied against future output VAT liabilities. Details are as follows:

	Note	2019	2018
		(In Thousand Pesos)	
Due for credits within 12 months		**₱1,162,679**	₱937,233
Due for credits beyond 12 months	16	**194,352**	247,543
		₱1,357,031	₱1,184,776

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11 Property and Equipment – net

The rollforward analysis of this account follows:

2019

	Telecommunication Equipment	Buildings and Leasehold Improvement	Cable System	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
			(In Thousand Pesos)					
Cost								
At January 1	₱271,677,263	₱57,423,228	₱26,682,217	₱15,780,704	₱2,975,487	₱2,276,709	₱23,987,705	₱400,803,313
Additions	739,310	22,367	-	58,048	448,380	-	44,482,801	45,750,906
Acquired on acquisition of a subsidiary (Note 14)	27,873	50,443	-	137,027	3,371	-	-	218,714
Retirements/disposals	(748,425)	(12,325)	(13,403)	(82,592)	(242,367)	-	(19,869)	(1,118,981)
Reclassifications (Note 12)	31,454,170	5,385,020	(6,676)	848,549	-	-	(43,033,546)	(5,352,483)
ARO Remeasurements	25,096	-	-	-	-	-	-	25,096
At December 31	303,175,287	62,868,733	26,662,138	16,741,736	3,184,871	2,276,709	25,417,091	₱440,326,565
Accumulated Depreciation and Amortization								
At January 1	170,812,209	27,467,103	16,283,949	13,028,408	1,975,468	-	-	229,567,137
Acquired on acquisition of a subsidiary (Note 14)	17,631	30,602	-	59,712	2,067	-	-	110,012
Depreciation and amortization (Note 26)	21,383,867	2,871,545	1,009,119	1,531,348	387,422	-	-	27,183,301
Retirements/disposals	(661,258)	(7,573)	(3,623)	(73,257)	(225,737)	-	-	(971,448)
ARO Remeasurements	(17,728)	-	-	-	-	-	-	(17,728)
At December 31	191,534,721	30,361,677	17,289,445	14,546,211	2,139,220	-	-	255,871,274
Impairment Losses								
At January 1	1,219,011	23,252	-	-	9,860	1,921	588,364	1,842,408
Additions (Note 28)	-	-	-	-	-	-	59,157	59,157
Write-off/adjustments	-	(9,860)	-	-	(9,860)	-	(89,082)	(108,802)
At December 31	1,219,011	13,392	-	-	-	1,921	558,439	1,792,763
Carrying amount at December 31	₱110,421,555	₱32,493,664	₱9,372,693	₱2,195,525	₱1,045,651	₱2,274,788	₱24,858,652	₱182,662,528

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2018

	Telecommunication Equipment	Buildings and Leasehold Improvement	Cable System	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
			(In Thousand Pesos)					
Cost								
At January 1	₱246,755,268	₱53,507,948	₱26,526,807	₱15,068,540	₱2,916,558	₱2,278,343	₱23,842,575	₱370,896,039
Additions	967,774	14,230	4,465	192,462	434,795	108	34,210,495	35,824,329
Retirements/disposals	(405,081)	(13,078)	(25,305)	(1,136,701)	(378,226)	(1,742)	-	(1,960,133)
Reclassifications (Note 12)	24,379,791	3,914,128	176,250	1,656,403	2,360	-	(34,065,365)	(3,936,433)
ARO Remeasurements	(20,489)	-	-	-	-	-	-	(20,489)
At December 31	271,677,263	57,423,228	26,682,217	15,780,704	2,975,487	2,276,709	23,987,705	400,803,313
Accumulated Depreciation and Amortization								
At January 1	152,241,256	24,775,778	15,177,625	12,345,783	1,965,727	-	-	206,506,169
Depreciation and amortization (Note 26)	18,979,929	2,671,290	1,112,247	1,762,866	369,117	-	-	24,895,449
Retirements/disposals	(364,430)	(784)	(5,923)	(1,135,459)	(359,376)	-	-	(1,865,972)
Reclassifications (Note 12)	(25,037)	20,819	-	55,218	-	-	-	51,000
ARO Remeasurements	(19,509)							(19,509)
At December 31	170,812,209	27,467,103	16,283,949	13,028,408	1,975,468	-	-	229,567,137
Impairment Losses								
At January 1	1,219,011	23,252	-	-	9,860	-	535,101	1,787,224
Additions (Note 28)	-	-	-	-	-	1,921	59,818	61,739
Write-off/adjustments	-	-	-	-	-	-	(6,555)	(6,555)
At December 31	1,219,011	23,252	-	-	9,860	1,921	588,364	1,842,408
Carrying amount at December 31	₱99,646,043	₱29,932,873	₱10,398,268	₱2,752,296	₱990,159	₱2,274,788	₱23,399,341	₱169,393,768

Assets under construction include intangible components of a network system which are reclassified to depreciable intangible assets only when assets become available for use (see Note 12).

Investments in cable systems include the cost of the Globe Group's ownership share in the capacity of certain cable systems under a joint venture or a consortium or private cable set-up and indefeasible rights of use (IRUs) of circuits in various cable systems. It also includes the cost of cable landing station and transmission facilities where the Globe Group is the landing party.

The costs of fully depreciated property and equipment that are still being used as of December 31, 2019 and 2018 amounted to ₱130,754.39 million and ₱105,431.91 million, respectively.

The Globe Group uses its borrowed funds to finance the acquisition of self-constructed property and equipment. Borrowing costs incurred relating to these acquisitions were included in the cost of property and equipment using 5.20% and 4.69% capitalization rates in 2019 and 2018, respectively. The Globe Group's total capitalized borrowing costs amounted to ₱1,251.52 million and ₱846.92 million in 2019 and 2018, respectively (see Note19),

Pursuant to the Amended Rehabilitation Plan (ARP) and Master Restructuring Agreement (MRA), the remaining outstanding restructured debt of BTI to creditors other than Globe Telecom amounting to USD1.7 million (Note 19.1) will be secured by a real estate mortgage on identified real property assets. The processing of the real properties to be mortgaged is still ongoing as of December 31, 2019.

12 Intangible Assets and Goodwill - net

The rollforward analysis of this account follows:

2019

	Application Software and Licenses	Goodwill	Other Intangible Assets	Total Intangible Assets and Goodwill
		(In Thousand Pesos)		
Cost				
At January 1	**₱35,541,741**	**₱1,140,248**	**₱2,174,325**	**₱38,856,314**
Additions	**48,532**	**-**	**-**	**48,532**
Acquired on acquisition of a subsidiary (Note 14)	**48,478**	**1,759,071**	**453,040**	**2,260,589**
Reclassifications (Note 11)	**5,352,483**	**-**	**-**	**5,352,483**
At December 31	**40,991,234**	**2,899,319**	**2,627,365**	**46,517,918**
Accumulated Amortization				
At January 1	**24,174,859**	**-**	**983,186**	**25,158,045**
Amortization (Note 26)	**5,549,460**	**-**	**241,690**	**5,791,150**
Acquired on acquisition of a subsidiary (Note 14)	**15,626**		**-**	**15,626**
At December 31	**29,739,945**	**-**	**1,224,876**	**30,964,821**
Carrying Amount at December 31	**₱11,251,289**	**₱2,899,319**	**₱1,402,489**	**₱15,553,097**

2018

	Application Software and Licenses	Goodwill	Other Intangible Assets	Total Intangible Assets and Goodwill
	(In Thousand Pesos)			
Cost				
At January 1	₱31,119,839	₱1,283,042	₱2,324,649	₱34,727,530
Additions	490,569	-	-	490,569
Retirements/disposals	(5,100)	-	(150,324)	(155,424)
Impairment (Note 28)		(142,794)	-	(142,794)
Reclassifications (Note 11)	3,936,433	-	-	3,936,433
At December 31	35,541,741	1,140,248	2,174,325	38,856,314
Accumulated Amortization				
At January 1	19,013,510	-	830,314	19,843,824
Amortization (Note 26)	5,213,058	-	303,196	5,516,254
Retirements/disposals	(709)	-	(150,324)	(151,033)
Reclassifications (Note 11)	(51,000)	-	-	(51,000)
At December 31	24,174,859	-	983,186	25,158,045
Carrying Amount at December 31	₱11,366,882	₱1,140,248	₱1,191,139	₱13,698,269

Other intangible assets consist of customer contracts, franchise, spectrum and merchant networks.

The Globe Group's goodwill were recognized from acquisition of subsidiaries. Details of the Globe Group's goodwill are as follows:

	2019	2018	2017
	(In Thousand Pesos)		
BTI	**₱1,140,248**	₱1,140,248	₱1,140,248
EC Pay	**1,218,548**	-	-
Yondu	**540,523**	-	-
TAO	**-**	-	140,403
Socialytics	**-**	-	2,391
	₱2,899,319	₱1,140,248	₱1,283,042

The Globe Group conducts its annual impairment test of goodwill in the third fiscal quarter of each year. The Globe Group considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment.

For impairment testing purposes, the Globe Group allocated the carrying amount of goodwill arising from the acquisition of BTI to CGU of mobile communications services or wireless segment. The recoverable amount of the CGU is determined based on value-in-use calculations using cash flow projections from business plans covering a five-year period. The pre-tax discount rate applied to cash flow projections was 8.7% in 2019 and cash flows beyond the five-year period are extrapolated using a 2% long-term growth rate in 2019. No impairment loss on goodwill from acquisition of BTI was recognized in 2019 and 2018.

The Globe Group has determined that the recoverable amount calculations are most sensitive to changes in assumptions on gross margins, discount rates, market share, and growth rates.

In 2018, management determined that the recoverable amount of goodwill related to the acquisition of TAO and Socialytics are less than its carrying value. Accordingly, the Globe Group recognized impairment loss amounting to ₱140.40 million and ₱2.39 million, respectively (see Note 28).

No impairment loss on intangible assets was recognized in 2019. The management believes that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

13 Lease Commitments

13.1 Right of use assets – net

The rollforward analysis of this account follows:

	Network Sites	Transportation Equipment	Corporate Office	Stores	Leased lines	Total
Cost			*(In Thousand Pesos)*			
Transition adjustment (Note 3.1)	**₱2,261,738**	**₱584,297**	**₱552,803**	**₱81,701**	**₱2,666**	**₱3,483,205**
Additions	**631,497**	**371,640**	**118,264**	**144,381**	**-**	**1,265,782**
Pre-terminations	**(4,070)**	**(19,454)**	**-**	**-**	**-**	**(23,524)**
At December 31	**2,889,165**	**936,483**	**671,067**	**226,082**	**2,666**	**4,725,463**
Accumulated Depreciation						
Depreciation (Note 26)	**544,228**	**342,694**	**196,849**	**78,273**	**1,447**	**1,163,491**
Pre-terminations	**(1,180)**	**(3,128)**	**-**	**-**	**-**	**(4,308)**
At December 31	**543,048**	**339,566**	**196,849**	**78,273**	**1,447**	**1,159,183**
Carrying Amount at December 31	**₱2,346,117**	**₱596,917**	**₱474,218**	**₱147,809**	**₱1,219**	**₱3,566,280**

13.2 Lease liabilities

The following table provides the lease liabilities in relation to leased assets:

	2019
	(In Thousand Pesos)
Network sites	**₱2,408,958**
Transportation Equipment	**610,316**
Corporate Office	**489,194**
Stores	**153,843**
Leased lines	**1,306**
	3,663,617
Less current portion	**981,817**
	₱2,681,800

Interest expense on lease liabilities amounted to ₱272.17 million for the year ended December 31, 2019 (see Note 27).

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The table below presents the maturity profile of the Globe Group's lease liabilities using undiscounted cash flows of future lease payments.

	1 year	More than 1 year but not more than 5 years	More than 5 years	Total
		(In Thousand Pesos)		
Network Sites	₱597,545	₱1,795,895	₱747,639	₱3,141,079
Transportation equipment	357,698	297,738	-	655,436
Corporate office	240,989	289,157	3,088	533,234
Stores	96,761	]67,924	10,397	175,082
Leased lines	1,122	211	-	1,333
	₱1,294,115	₱2,450,925	₱761,124	₱4,506,164

Short-term leases and leases of low-value assets charged as operating expenses in the consolidated profit or loss amounted to ₱5,793.30 (see Note 25). Payments of lease liabilities for the year ended December 31, 2019 amounted to ₱1,298.34 million.

14 Business Combinations

14.1 Investment in Yondu

On September 11, 2019, Globe Telecom reacquired 51% of the outstanding shares of Yondu, which increased its controlling interest to 100%, for a total amount of ₱501.25 million. Globe Telecom remeasured its previously held interest in Yondu based on its acquisition-date fair value which resulted to a remeasurement loss of ₱470.65 million (see Notes 21.4 and 28). The transaction was accounted for as an acquisition of a subsidiary. Globe Telecom's acquisition of Yondu is in line with its strategy to expand its business operations in the mobile business industry.

Prior to the reacquisition, investment in Yondu was accounted for as an associate (see Note 15.1).

Details of the fair values upon acquisition of Yondu in 2019 follows:

	Amounts recognized on acquisition
	(In Thousand Pesos)
ASSETS	
Current assets	₱681,644
Property and equipment (Note 11)	90,682
Application software and licenses (Note 12)	244
Other noncurrent assets	36,897
	809,467
LIABILITIES	
Current Liabilities	346,905
Net assets acquired and liabilities assumed	₱462,562
Purchase consideration transferred	₱501,252
Acquisition-date fair value of previously held interest	501,833
Net assets acquired and liabilities assumed	(462,562)
Goodwill arising on acquisition (Note 12)	₱540,523

Globe

Net cash outflow from the acquisition is as follows (in thousand pesos):

Total cash paid on acquisition	(₱501,252)
Cash and cash equivalents acquired from Yondu	114,494
Net cash outflow on acquisition	(₱386,758)

14.2 Investment in EC Pay

On October 25, 2019, Globe Telecom acquired 77% of equity interest in EC Pay for a total amount of ₱1,540.00 million. EC Pay is a company engaged in the provision of information technology and electronic commerce related solutions, and operates a multi-tiered platform that offers secure electronic solutions for various transactions such as load purchases. The transaction was accounted for as an acquisition of a subsidiary. The Globe Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's net assets acquired and liabilities assumed.

Globe's acquisition of EC Pay will add value to Globe's distribution channels, enabling them to offer a suite of mobile communication products and services via a single platform bringing the company a step closer to its vision of a digitally-enabled Philippines. The platform would enable small business owners to offer more mobile communication products and services which in turn would stimulate the e-commerce industry and the digital economy.

Details of the fair values upon acquisition of EC Pay in 2019 follows:

		Amount recognized on acquisition
		(In Thousand Pesos)
ASSETS		
Current assets		₱1,180,885
Property and equipment (Note 11)		18,021
Application and software (Note 12)		603
Other noncurrent assets		4,155
		1,203,664
LIABILITIES		
Current Liabilities		1,125,725
Total net assets at fair value		₱77,939
Intangible assets arising on acquisition (Note 12)		
Contractual merchant network	₱176,190	
Non-contractual merchant network	276,850	
Platform	32,005	485,045
Deferred tax liabilities		(145,514)
Net assets acquired and liabilities assumed		₱417,470

Purchase consideration transferred	₱1,540,000
Net assets acquired and liabilities assumed	(417,470)
Non-controlling interest measured at proportionate share of its interest	96,018
Goodwill arising on acquisition (Note 12)	₱1,218,548

Net cash outflow from the acquisition is as follows (in thousand pesos):

Total purchase consideration	(₱1,540,000)
Unpaid purchase consideration (Note 5)	76,329
Cash and cash equivalents acquired from ECPay	286,780
Net cash outflow on acquisition	(₱1,176,891)

The goodwill comprises the fair value of expected synergies arising from the acquisition and presented under Goodwill and other intangible assets in the statements of the financial position (see Note 12). None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of the identifiable intangible assets is based on valuations performed by an independent appraiser using acceptable valuation techniques within the industry. The application of a different set of assumptions or technique could have a significant effect on the resulting fair value estimates.

15 Investments in associates and joint ventures

This account consists of the following as of December 31:

	2019	2018
	(In Thousand Pesos)	
Investments in associates:		
Yondu	**₱-**	₱940,236
Investments in joint ventures:		
VTI, BAHC and BHC	**32,755,463**	32,481,947
GFI/Mynt	**1,563,980**	862,130
TechGlobal	**90,893**	89,702
Bridge Mobile Pte. Ltd (BMPL)	**51,926**	50,440
Konsulta	**11,603**	2,321
	₱34,473,865	₱34,426,776

Details of the Globe Group's investments in associate and joint ventures and the related percentages of ownership as of December 31, 2019 and 2018 are shown below:

	Country of Incorporation	Principal Activities	2019	2018
Associates				
Yondu **	Philippines	Mobile content and application development services	**100%**	49%
AFPI	Philippines	Construction and establishment of systems, infrastructure	**-**	20%
Joint Ventures				
VTI	Philippines	Telecommunications	**50%**	50%
BAHC	Philippines	Holding company	**50%**	50%
BHC	Philippines	Holding company	**50%**	50%
Konsulta	Philippines	Health hotline facility	**50%**	50%
TechGlobal	Philippines	Installation and management of data centers	**49%**	49%
GFI/Mynt*	Philippines	Holding company	**46%**	45%
BMPL	Singapore	Mobile technology infrastructure and common service	**10%**	10%

**A subsidiary of Globe Telecom through GCVHI until September 2017 (see Note 15.4)*
***An associate of Globe Telecom until September 2019 (Note 14.1)*

Equity share in net loss from investment in associates and joint ventures are as follows:

	2019	2018	2017
	(In Thousand Pesos)		
Investments in associates:			
AFPI	**₱-**	(₱115,745)	(₱129,495)
Yondu	**32,250**	38,258	56,238
Investments in joint ventures:			
GFI/Mynt	**(2,590,650)**	(1,179,871)	(236,304)
VTI, BAHC and BHC	**2,105**	18,760	(511,692)
Konsulta	**(3,218)**	(9,583)	(9,570)
TechGlobal	**1,191**	(3,478)	(22,146)
BMPL	**3,540**	2,056	6,792
	(₱2,554,782)	(₱1,249,603)	(₱846,177)

Investment in associates and joint ventures share in other comprehensive income are as follows:

	2019	2018	2017
	(In Thousand Pesos)		
Investments in associate:			
AFPI	**₱-**	₱-	₱790
Investments in joint ventures:			
VTI, BAHC and BHC	**271,411**	-	-
BMPL	**(2,054)**	2,089	81
	₱269,357	₱2,089	₱871

The movement in investments in joint ventures and associates are as follows:

	Notes	2019	2018
		(In Thousand Pesos)	
Costs			
At January 1		**₱37,608,176**	₱37,536,885
Additional capital contributions during the year			
Investment in GFI/Mynt	15.4	**3,292,500**	-
Investment in Konsulta	15.7	**12,500**	-
Investment in VTI	15.3	**-**	51,200
Investment in AFPI	15.2	**-**	60,000
Disposal		**(1,532,061)**	-
Return on investment	15.1	**-**	(39,909)
At December 31		**39,381,115**	₱37,608,176
Accumulated Equity in Net Losses			
At January 1		**(2,921,697)**	(1,672,094)
Equity share in net losses		**(2,554,782)**	(1,249,603)
Disposal		**272,438**	-
At December 31		**(5,204,041)**	(2,921,697)
Other Comprehensive Income			
At January 1		**26,333**	24,244
Equity share in currency translation adjustment	22.6	**(2,054)**	2,089
Equity share in investment in equity securities	22.6	**275,325**	-
Equity share in retirement obligation	22.6	**(3,914)**	-
Disposal	22.6	**1,101**	-
At December 31		**296,791**	26,333
Impairment Losses			
At January 1		**(286,036)**	(286,036)
Disposal	15.2	**286,036**	-
At December 31		**-**	(286,036)
Carrying Value at December 31		**₱34,473,865**	₱34,426,776

The table below presents the summarized financial information lifted from the unaudited statutory financial statements of the Globe Group's investments in associate and joint ventures:

	Yondu	AFPI	VTI, BAHC and BHC	GFI/Mynt	TechGlobal	BMPL	Konsulta
				(In Thousand Pesos)			
2019							
Statements of Financial Position:							
Current assets	**₱681,643**	**₱644,964**	**₱3,622,452**	**₱5,823,136**	**₱96,739**	**₱614,083**	**₱53,321**
Noncurrent assets	**127,823**	**918,555**	**5,514,863**	**1,285,411**	**197,704**	**12,294**	**1,531**
Current liabilities	**346,904**	**418,396**	**2,793,061**	**6,161,631**	**80,136**	**106,914**	**31,342**
Noncurrent liabilities	**-**	**267,873**	**448,702**	**61,241**	**28,811**	**203**	**304**
Equity	**462,562**	**877,250**	**5,895,552**	**885,675**	**185,496**	**519,260**	**23,206**
Statements of Comprehensive Income:							
Revenue	**89,200**	**65,129**	**3,338,561**	**5,341,656**	**58,836**	**297,243**	**77,770**
Costs and expenses	**(18,027)**	**(797,468)**	**(2,011,962)**	**(10,909,848)**	**(55,260)**	**(261,843)**	**(83,939)**
Income before tax	**71,173**	**(732,339)**	**1,326,599**	**(5,568,192)**	**3,576**	**35,400**	**(6,169)**
Income tax	**(5,356)**	**-**	**(460,328)**	**(54,747)**	**(1,146)**	**-**	**(267)**
Profit (Loss) for the period	**₱65,817**	**(₱732,339)**	**₱866,271**	**(₱5,622,939)**	**₱2,430**	**₱35,400**	**(₱6,436)**
2018							
Statements of Financial Position:							
Current assets	₱551,384	₱585,163	₱3,082,664	₱2,664,868	₱74,229	₱608,627	₱36,141
Noncurrent assets	71,581	1,450,681	4,050,389	931,800	217,996	22,076	517
Current liabilities	220,181	367,113	2,515,135	3,397,668	109,159	129,883	31,980
Noncurrent liabilities	5,871	267,042	659,097	173,057	-	-	38
Equity	396,913	1,401,689	3,958,821	25,943	183,066	500,820	4,640
Statements of Comprehensive Income:							
Revenue	821,322	52,558	2,754,717	1,134,839	43,407	316,640	58,274
Costs and expenses	(711,836)	(659,777)	(1,567,580)	(3,800,622)	(53,475)	(296,078)	(77,440)
Income before tax	109,486	(607,219)	1,187,137	(2,665,783)	(10,068)	20,562	(19,166)
Income tax	(31,409)	-	(367,505)	43,847	2,970	-	-
Profit (Loss) for the period	₱78,077	(₱607,219)	₱819,632	(₱2,621,936)	(₱7,098)	₱20,562	(₱19,166)

Investment in Associates

15.1 Investment in Yondu

Yondu is an associate of Globe Telecom and is engaged in the development and creation of wireless products and services accessible through mobile devices or other forms of communication devices. It also provides internet and mobile value added services, information technology and technical services including software development and related services. Yondu is registered with the Department of Transportation and Communication (DOTC) as a content provider.

On September 11, 2019, Globe Telecom reacquired 51% of the outstanding shares of Yondu, which increased its controlling interest to 100% (see Note 14.1).

Dividend from Yondu amounted to nil and ₱39.90 million in 2019 and 2018, respectively. Dividends receivable as of December 31, 2018 amounted to ₱61.02 million.

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15.2 Investment in AFPI (formerly Automated Fare Collection Service Inc. (AFCS))

On January 30, 2014, following a competitive bidding process, the Department of Transportation and Communication awarded to AF Consortium, composed of AC Infrastructure Holdings Corp., BPI Card Finance Corp., Globe Telecom, Inc., Meralco Financial Services, Inc., Metro Pacific Investments Corp., and Smart Communications, Inc. the rights to design, build and operate the ₱1.72 billion automated fare collection system. This is a public-private partnership project intended to upgrade and consolidate the fare collection systems of the three urban rail transit systems which presently serve Metro Manila.

On February 10, 2014, AF Consortium incorporated AFCS, a special purpose company, which will assume the rights and obligations of the concessionaire. These rights and obligations include the construction and establishment of systems, infrastructure including implementation, test, acceptance and maintenance plans, and operate the urban transit system for a period of 10 years.

On March 11, 2015, AFCS amended its corporate name to AFPI.

In 2019 and 2018, Globe Telecom infused additional capital amounting to nil and ₱60.00 million, respectively.

In 2017, management determined that the recoverable amount of the investment in AFPI is less than the carrying value. Accordingly, the Globe Group recognized as impairment loss as the difference in the investment's recoverable amount and carrying value amounting to ₱286.04 million (see Note 28). No impairment loss was recognized in 2018 and 2019.

On July 22, 2019, Globe Telecom sold its interest in AFPI to Globe Fintech Innovations (GFI) for a total consideration of ₱240.00 million which remained outstanding to date (see Note 5). Accordingly, gain on sale from investment was recognized as other income (see Note 24). The Globe Group's share in other comprehensive income previously accumulated in other reserves account amounting to ₱1.1 million was also reclassified to retained earnings (see Note 22.6).

The Globe Group has no share in any contingent liabilities of any associates as of December 31, 2019 and 2018.

Investment in Joint Ventures

15.3 Investment in VTI, BAHC and BHC

On May 30, 2016, Globe Telecom's BOD, through its Executive Committee, approved the signing of a Sale and Purchase Agreement (SPA) and other related definitive agreements for acquisition of 50% equity interest in the telecommunications business of San Miguel Corporation (SMC), Schutzengel Telecom, Inc. and Grace Patricia W. Vilchez-Custodio (the "Sellers"; SMC being the major seller) through their respective subsidiaries namely, VTI, BAHC and BHC, respectively (the Acquirees). The remaining 50% equity stake in VTI, BAHC and BHC was acquired by Philippine Long Distance Telephone Company (PLDT) under similar definitive agreements.

VTI owns an equity stake in Liberty Telecom Holdings, Inc. (LIB), a publicly-listed company in the Philippine Stock Exchange. It also owns, directly and indirectly, equity stakes in various enfranchised companies, including Bell Telecommunication Philippines, Inc. (Bell Tel), Eastern Telecom Philippines, Inc. (Eastern Telecom), Cobaltpoint Telecommunication, Inc (formerly Express Telecom, Inc.), and Tori Spectrum Telecom, Inc., among others.

The acquisition provided Globe Telecom an access to certain frequencies assigned to Bell Tel in the 700 Mhz, 900 Mhz, 1800 Mhz, 2300 Mhz and 2500 Mhz bands through a co-use arrangement approved by the NTC on May 27, 2016. NTC's approval is subject to the fulfillment of certain conditions including roll-out of telecom infrastructure covering at least 90% of the cities and municipalities in three years to address the growing demand for broadband infrastructure and internet access.

The memorandum of agreement between Globe and PLDT provides for both parties to pool resources and share in the profits and losses of the companies on a 50%-50% basis with a view to being financially self-sufficient and able to operate or borrow funds without recourse to the parties.

The Globe Group invested ₱51.2 million of additional capital in 2018.

15.4 Investment in GFI/Mynt

Prior to September 27, 2017, GCVHI holds 100% ownership interest in GFI and accordingly, GFI's financial position and financial performance are included in the Globe Group's consolidated financial statements. GFI/Mynt is engaged in purchasing, subscribing, owning, holding and assigning real and personal property, shares of stock and other securities. GFI has a wholly-owned subsidiary, Fuse, which operates as a lending company.

Loss of control on investment in GFI/Mynt

As disclosed in Note 1, on February 17, 2017, Globe Telecom and its wholly-owned subsidiaries, GFI and GCVHI entered into an investment agreement with Alipay and Ayala for Alipay and Ayala to invest in the unissued common shares of GFI. PCC released through a memo its affirmative decision on the Alipay acquisition of GFI shares, resulting in the dilution of GCVHI ownership in GFI.

On September 27, 2017, following the approval from PCC, GFI/Mynt received the capital infusion from Alipay and Ayala amounting to ₱2,784.60 million in exchange for GFI/Mynt's 513.00 million common shares. The issuance of shares to Alipay and Ayala diluted GCVHI's ownership interest to 45% and resulted in a loss of control in GFI/Mynt. Thereafter, investment in GFI/Mynt was accounted for as a joint arrangement since no single party controls the arrangement and approvals of all parties are required for business decisions.

Total net assets of GFI/Mynt as of the date of loss of control amounted to ₱388.40 million. The fair value of the retained interest in GFI/Mynt held by GCVHI amounted to ₱2,278.30 million at the date of loss of control. The gain on fair value of retained equity interest in GFI/Mynt amounting to ₱1,889.90 million, was presented as "Gain on fair value of retained interest" in the consolidated profit or loss in 2017. Net cash outflow from deconsolidation amounted to ₱1,246.97 million.

In 2019, the Globe Group made an additional investment to GFI/ Mynt amounting to ₱3,292.50 million.

15.5 Investment in TechGlobal

On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal, a Joint Venture Company, formed to install, own, operate, maintain and manage all kinds of data centers and to provide information technology-enabled services and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017.

15.6 Investment in BMPL

Globe Telecom and other leading Asia Pacific mobile operators (JV partners) signed an Agreement in 2004 (JV Agreement) to form a regional mobile alliance, which will operate through a Singapore-incorporated company, BMPL. The JV company is a commercial vehicle for the JV partners to build and establish a regional mobile infrastructure and common service platform and deliver different regional mobile services to their subscribers.

15.7 Investment in Konsulta

On October 23, 2014, Yondu and Salud Interactiva (SI) signed a shareholder's agreement to enter into a joint venture through a Philippine corporation. The Joint Venture (JV) Company was registered with the Securities and Exchange Commission on June 3, 2015 under the name GTHI as a stock corporation with 50% foreign equity formed to establish, operate, manage and provide a health hotline facility, including ancillary Information Technology services with intent to operate as a domestic market enterprise. GTHI started commercial operations in July 2015.

The Globe Group infused ₱12.5 million of additional capital in 2019.

16 Other Noncurrent Assets

This account consists of:

	Notes	2019	2018
		(In Thousand Pesos)	
Investment in equity securities		**₱2,137,781**	₱1,442,940
Security deposits		**1,261,620**	1,113,465
Loans receivable from related parties	21	**-**	726,620
Deferred input VAT	10	**194,352**	247,543
Others		**420,157**	234,421
		₱4,013,910	₱3,764,989

Others include investment properties with carrying amount of ₱19.92 million and ₱25.8 million as of December 31, 2019 and 2018, respectively. Investment properties consist of building and improvements which are held to earn rentals. Depreciation and amortization of investment properties amounted to ₱5.60 million, ₱10.02 million and ₱11.52 million in 2019, 2018 and 2017, respectively (see Note 26).

Fair value gain from investment in equity securities recognized in consolidated OCI amounted to ₱188.49 million, ₱170.65 million and ₱36.08 million in 2019, 2018 and 2017, respectively (see Note 22.6).

17 Trade Payables and Accrued Expenses

This account consists of:

	Notes	2019	2018
		(In Thousand Pesos)	
Accrued expenses		**₱25,477,531**	₱22,370,377
Accrued project costs	35.2	**12,558,734**	19,172,960
Trade payable		**7,740,150**	5,595,929
Taxes payable		**4,315,397**	4,678,853
Traffic settlements - net	33.2, 35.1	**993,030**	1,102,411
Dividends payable	22.3	**260,030**	260,030
Other creditors		**5,634,443**	3,038,806
		₱56,979,315	₱56,219,366

Traffic settlements payable are presented net of traffic settlements receivable from the same carrier (see Note 33.2).

Accrued expenses consists of the following:

	2019	2018
	(In Thousand Pesos)	
Services	**₱5,795,411**	₱4,552,753
Repairs and maintenance	**4,165,209**	4,163,652
Manpower	**3,907,900**	3,456,156
General, selling and administrative	**3,687,094**	2,957,088
Advertising	**3,022,973**	2,459,640
Lease	**2,899,002**	2,879,730
Utilities	**1,274,691**	967,624
Interest	**725,251**	933,734
	₱25,477,531	₱22,370,377

General, selling and administrative accrued expenses include travel, professional fees, supplies, commissions and miscellaneous, which are individually immaterial.

18 Provisions

The rollforward analysis of this account follows:

	Notes	2019	2018
		(In Thousand Pesos)	
At beginning of year		**₱2,549,387**	₱1,890,415
Provisions for claims	28	**438,724**	806,084
Assumed provision from a business combination		**1,688**	-
Payments and reversals for claims	28	**(367,481)**	(147,112)
At end of year		**₱2,622,318**	₱2,549,387

Provisions pertain to assumed liabilities related to the acquired interest in VTI, BAHC and BHC and various pending unresolved claims over the Globe Group's businesses such as provision for taxes, employee benefits, onerous contracts and various labor cases. As of December 31, 2019 and 2018, Globe Telecom's share in the total assumed liabilities related to the acquired interest in VTI, BAHC and BHC amounts to ₱92.98 million.

The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of these on-going claims and assessments. As of December 31, 2019, the remaining claims are still being resolved.

19 Loans Payable

The table below shows the Globe Group's short term credit facilities (in millions).

	2019	2018
Uncommitted		
Peso	**₱16,350**	₱14,000
Dollar	**USD 93.9**	USD 119
Committed		
Peso	**₱3,000**	3,000

As of December 31, 2019 and 2018, the Globe Group has no long term credit facilities.

The Globe Group's long-term debt consists of the following:

	2019	2018
	(In Thousand Pesos)	
Term Loans:		
Peso	**₱106,697,990**	₱112,287,753
Dollar	**22,200,060**	23,556,854
	128,898,050	135,844,607
Retail bonds	**6,964,685**	12,437,290
	135,862,735	148,281,897
Less current portion	**(12,919,898)**	(16,758,196)
Net of current portion	**₱122,942,837**	₱131,523,701

The maturities of long-term debt at nominal values as of December 31, 2019 follow (in thousands):

Due in:	
2020	₱12,951,649
2021	7,822,680
2022	14,835,657
2023	17,903,968
2024 and thereafter	82,896,115
	₱136,410,069

The interest rates and maturities of the above debts are as follows:

	Maturities	Interest Rates
Term Loans:		
Peso	2020-2031	3.70% to 7.91% in 2019
	2019-2031	2.96% to 7.11% in 2018
Dollar	2020-2027	2.51% to 6.00% in 2019
	2019-2027	2.08% to 5.00% in 2018
Retail bonds	2020-2023	4.89% to 6.00% in 2019
	2019-2023	4.89% to 6.00% in 2018

Unamortized debt issuance costs included in the above long-term debt as of December 31, 2019 and 2018 amounted to ₱547.33 million and ₱657.76 million, respectively.

Total interest expense recognized in the consolidated profit or loss related to long-term debt amounted to ₱5,937.70 million, ₱5,748.85 million and ₱4,776.24 million in 2019, 2018 and 2017, respectively (see Note 27).

Total interest expenses capitalized as part of property and equipment amounted to ₱1,251.52 million and ₱846.92 million in 2019 and 2018, respectively (see Note 11).

19.1 Term Loans and Corporate Notes

Globe Telecom has unsecured term loans and corporate notes, which consist of fixed and floating rate notes and dollar and peso-denominated term loans. The term loans bear interest at stipulated and prevailing market rates. Globe Group also has a secured debt amounting to USD1.7 million as of December 31, 2019 arising from its acquisition of BTI (see Note 11).

The loan agreements with banks and other financial institutions provide for certain restrictions and requirements with respect to, among others, maintenance of financial ratios and percentage of ownership of specific shareholders, incurrence of additional long-term indebtedness or guarantees and creation of property encumbrances.

The financial tests under Globe Group's loan agreements include compliance with the following ratios:

- Total debt* to equity not exceeding 3.0:1,
- Total debt* to EBITDA not exceeding 3.5:1;
- Debt service coverage exceeding 1.3 times; and
- Secured debt ratio not exceeding 0.2 times.

**Composed of notes payable, current portion long term debt, long term debt and net derivative liabilities.*

In December 2018, the loan agreements with Non-bank Financial Institutions were amended to adjust the debt to equity ratio from 2.5:1 to 3:1 and adjust the debt to EBITDA ratio from 3:1 to 3.5:1.

In December 2018, the loan agreements with Financial Institutions were amended to adjust the debt to EBITDA ratio from 3:1 to 3.5:1.

As of December 31, 2019 and 2018, the Globe Group is not in breach of any loan covenants.

19.2 Retail Bonds

On June 1, 2012, Globe Telecom issued ₱10,000.00 million fixed rate bonds. The amount comprises ₱4,500.00 million and ₱5,500.00 million fixed rate bonds due in 2017 and 2019, with interest rate of 5.75% and 6.00%, respectively. The net proceeds of the issue were used to partially finance Globe Telecom's capital expenditure requirements in 2012.

The five-year and seven-year retail bonds may be redeemed in whole, but not in part only, starting two years before maturity date and on the anniversary thereafter at a price equal to 101.00% and 100.50%, respectively, of the principal amount of the bonds and all accrued interest to the date of the redemption. In 2017, Globe Telecom fully redeemed its ₱4,500.00 million retail bonds. In June 2019, Globe Telecom fully redeemed its ₱5,500 million retail bonds.

On July 17, 2013, Globe Telecom issued ₱7,000.00 million fixed rate bond. The amount comprises ₱4,000.00 million and ₱3,000.00 million bonds due in 2020 and 2023, with interest rate of 4.8875% and 5.2792%, respectively. The net proceeds of the issue were used to partially finance Globe Telecom's capital expenditure requirements in 2013.

The seven-year and ten-year retail bonds may be redeemed in whole, but not in part only, starting two years for the seven-year bonds and three years for the ten-year bonds before the maturity date and on the anniversary thereafter at a price ranging from 101.0% to 100.5% and 102.0% to 100.5%, respectively, of the principal amount of the bonds and all accrued interest depending on the year of redemption.

In August 2016, the Bond Trust Indentures were amended to adjust the maximum debt-to-equity ratio from 2:1 to 2.5:1.

In October 2018, the Bond Trust Indentures were amended to adjust the maximum debt to equity ratio from 2:5:1 to 3:0:1.

As of December 31, 2019, the Globe Group is not in breach of any bond covenants.

20 Other Long-term Liabilities

This account consists of:

	Notes	2019	2018
		(In Thousand Pesos)	
Asset retirement obligation (ARO)		**₱2,742,633**	₱2,523,939
Accrued pension	29.2	**3,738,430**	1,459,463
Others		**962,079**	1,383,807
		₱7,443,142	₱5,367,209

ARO represents Globe Group's obligation to restore leased properties to their original condition and estimated dismantling cost of property and equipment. The rollforward analysis of the Globe Group's ARO follows:

	Notes	2019	2018
		(In Thousand Pesos)	
At beginning of year		**₱2,523,939**	₱2,420,224
Accretion expense during the year	27	**155,674**	140,457
Capitalized to property and equipment during the year	5	**38,997**	9,831
Settlements and reversals		**(17,205)**	(11,607)
Remeasurements		**41,228**	(34,966)
At end of year		**₱2,742,633**	₱2,523,939

Gain (loss) on settlement and remeasurement of ARO recognized in consolidated profit or loss amounted to ₱5.77 million, ₱27.89 million and (₱4.37 million) in 2019, 2018 and 2017, respectively (see Note 24).

21 Related Party Transactions

Parties are considered to be related to the Globe Group if they have the ability, directly or indirectly, to control the Globe Group or exercise significant influence over the Globe Group in making financial and operating decisions, or vice versa, or where the Globe Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are under the significant influence of related parties of the Globe Group where those parties are individuals, and post-employment benefit plan which are for the benefit of employees of the Globe Group or of any entity that is a related party of the Globe Group.

The Globe Group, in their regular conduct of business, enter into transactions with their major stockholders, AC and Singtel, associates, joint ventures and certain related parties.

The summary of balances arising from related party transactions for the relevant financial year follows (in thousands):

2019

	Note	Amount of transaction: Revenue and Other Income	Amount of transaction: Costs and Expenses charged to Profit or Loss	Amount of transaction: Cost and Expenses capitalized as Asset	Outstanding Balance: Cash and Cash Equivalents (Note 31)	Outstanding Balance: Amounts Owed by Related Parties	Outstanding Balance: Amounts Owed to Related Parties	Terms	Conditions
Entities with joint control over the Company									
Singtel	21.1	₱466,404	₱333,714	₱-	₱-	₱117,433	₱55,876	Interest-free, settlement in cash	Unsecured, no impairment
AC	21.1	14,413	64,367	-	-	1,175	2,754	Interest-free, settlement in cash	Unsecured, no impairment
Jointly controlled entities									
BMPL	21.2	-	21,459	-	-	-	1,384	Interest-free, settlement in cash	Unsecured, no impairment
GFI/Mynt	21.2	51,786	322,045	-	-	550,141	53,346	Interest-free, settlement in cash	Unsecured, no impairment
Other related parties									
GGRP	21.3	31,093	-	-	-	548,000	-	3 years, 5.5%, settlement in cash	Unsecured, no impairment
BHI	21.3	6,473	-	-	-	108,620	-	3 years, 5.75%, settlement in cash	The ₱250.00 million is covered by a pledge agreement while the ₱45.00 million is fully secured by chattel mortgage agreement.
BEAM	21.3	-	175,604	-	-	-	-	-	-
Altimax	21.3	-	11,765	-	-	-	-	-	-
Key management personnel	21.6	-	470,000	-	-	-	-	-	-
Others	21.5	458,457	357,164	56,898	3,714,646	225,042	38,604	Interest-free excluding cash and cash equivalents, settlement in cash	Unsecured, no impairment
		₱1,028,626	₱1,756,118	₱56,898	₱3,714,646	₱1,550,411	₱151,964		

2018

	Note	Amount of transaction: Revenue and Other Income	Amount of transaction: Costs and Expenses charged to Profit or Loss	Amount of transaction: Cost and Expenses capitalized as Asset	Outstanding Balance: Cash and Cash Equivalents (Note 31)	Outstanding Balance: Amounts Owed by Related Parties	Outstanding Balance: Amounts Owed to Related Parties	Terms	Conditions
Entities with joint control over the Company									
Singtel	21.1	₱639,399	₱348,836	₱-	₱-	₱255,535	₱123,518	Interest-free, settlement in cash	Unsecured, no impairment
AC	21.1	31,363	86,604	-	-	15,515	85	Interest-free, settlement in cash	Unsecured, no impairment
Jointly controlled entities									
BMPL	21.2	-	20,703	-	-	-	348	Interest-free, settlement in cash	Unsecured, no impairment
GFI/Mynt	21.2	51,786	432,145	-		511,632	52,413	Interest-free, settlement in cash	Unsecured, no impairment
Associate									
Yondu	21.4	(46,340)	438,368	90,181	-	68,867	255,343	Interest-free, settlement in cash	Unsecured, no impairment
Other related parties									
GGRP	15	36,366	-	-	-	598,000	-	3 years, 5.5%, settlement in cash	Unsecured, no impairment
BHI	15	7,498	-	-	-	128,620	-	3 years, 5.75%, settlement in cash	The ₱250.00 million is covered by a pledge agreement while the ₱45.00 million is fully secured by chattel mortgage agreement.
BEAM	21.3	-	190,000	-	-	-	-	-	-
Altimax	21.3	-	55,000	-	-	-	-	-	-
Key management personnel	21.6	-	383,900	-	-	-	-	-	-
Others	21.5	606,884	359,767	102,882	1,704,573	-	279,726	Interest-free excluding cash and cash equivalents, settlement in cash	Unsecured, no impairment
		₱1,326,956	₱2,315,323	₱193,063	₱1,704,573	₱1,578,169	₱711,433		

Amounts owed by related parties are presented in the statement of financial position as follows:

	Notes	2019	2018
		(In Thousand Pesos)	
Trade receivables – net		**₱262,301**	₱288,999
Due from related parties	10	**631,490**	562,550
Loans to related parties	10, 16	**656,620**	726,620
		₱1,550,411	₱1,578,169

Amounts owed to related parties are presented in the statement of financial position as part of trade payable ands and accrued expenses.

21.1 Entities with Joint Control over Globe Group - AC and Singtel

Globe Telecom has interconnection agreements with Singtel. Interconnection revenues and costs recognized from the agreements with Singtel are as follows:

	2019	2018	2017
	(In Thousand Pesos)		
Service revenues	**₱466,404**	₱639,399	₱695,985
Interconnection costs	**42,184**	61,423	67,867

Globe Telecom and Singtel have a technical assistance agreement whereby Singtel will provide consultancy and advisory services, including those with respect to the construction and operation of Globe Telecom's networks and communication services, equipment procurement and personnel services. In addition, Globe Telecom has software development, supply, license and support arrangements, and maintenance cost transactions with Singtel.

The details of fees incurred under these agreements are as follows:

	2019	2018	2017
	(In Thousand Pesos)		
Maintenance costs	**₱119,336**	₱83,497	₱150,521
Technical assistance fee	**132,576**	158,117	174,285
Software development, supply, license and support	**39,618**	45,799	65,735
	₱291,530	₱287,413	₱390,541

The outstanding balances due to Singtel arising from these transactions amounted to ₱55.88 million and ₱123.52 million as of December 31, 2019 and 2018, respectively.

Globe Telecom, Innove and BTI earn subscriber revenues from AC. Service revenues recognized from AC amounted to ₱14.41 million, ₱31.36 million and ₱25.58 million in 2019, 2018 and 2017, respectively.

Globe Telecom reimburses AC for certain operating expenses. Total expense recognized by the Globe Group from the transaction amounted to ₱64.37 million, ₱86.60 million and ₱37.35 million in 2019, 2018 and 2017, respectively.

Joint Ventures in which the Globe Group is a venturer

BMPL

Globe Telecom has preferred roaming service contract with BMPL. Under this contract, Globe Telecom will pay BMPL for services rendered by the latter which include, among others, coordination and facilitation of preferred roaming arrangement among JV partners, and procurement and maintenance of telecommunications equipment necessary for delivery of seamless roaming experience to customers. Globe Telecom also incurs commission from BMPL for regional top-up service provided by the JV partners. The net outstanding liabilities to BMPL related to these transactions amounted to ₱1.38 million and ₱0.35 million as of December 31, 2019 and 2018, respectively. Total expenses recognized related to these transactions amounted to ₱21.46 million, ₱20.70 million and ₱20.71 million in 2019, 2018, and 2017, respectively.

GFI/Mynt

The Globe Group renders certain management support services to GXI. The management services also include the use of the Globe Group's network and facilities to conduct GXI's operations. Management fee income amounted to ₱51.79 million in 2019 and 2018 (see Note 24).

The Globe Group also has a VAS sharing agreement with GXI. Under the agreement, GXI shall perform the following services and shall be entitled to a certain percentage of data revenues arising from GCash transactions:

(1) provide an e-commerce system (the application that drives the service) through which mobile wallets get updated for each cash-in and cash-out transaction;

(2) provide cash-in and cash-out distribution channels for the remittance business through its partners (which may include Globe Stores); and

(3) provide customer support.

GXI is also entitled to a certain percentage share for the airtime load purchased by the Globe Group's subscribers and Application Processing Interface (API) fees for the usage of GCash system in continuing service of the various products and services of the Globe Group.

Total amount charged to consolidated profit and loss amounted to ₱322.05 million and ₱432.15 million in 2019 and 2018, respectively.

21.2 Transactions with the GGRP

The Globe Group granted various loans to the GGRP at an interest rate of 5.00%, which matured on September 11, 2017. Upon maturity, the loan was extended until September 11, 2020 with the interest rate increased to 5.50% per annum. Interest income amounted to ₱31.09 million, ₱36.37 million and ₱38.24 million in 2019, 2018 and 2017, respectively (see Note 23). As of December 31, 2019 and 2018, the outstanding balance of loan receivable from GGRP amounted to ₱548.00 million and ₱598.00 million, respectively (see Note 10 and 16).

The retirement plan utilized the loan to fund its investments in BHI, a domestic corporation organized to invest in media ventures. BHI has controlling interest in Altimax Broadcasting Co., Inc. (Altimax) and Broadcast Enterprises and Affiliated Media Inc. (BEAM), respectively.

The Globe Group granted loans amounting to ₱250.00 million and ₱45.00 million to BHI at 5% interest which matured on August 14, 2017. The ₱250.00 million loan is covered by a pledge agreement whereby in the event of default, the Globe Group shall be entitled to offset whatever amount is due to BHI from any unpaid fees to BEAM from the Globe Group. The ₱45.00 million loan is fully secured by a chattel mortgage agreement dated December 21, 2009 between Globe Group and BEAM. Upon maturity, the loan was extended until August 14, 2020 with the interest rate increased to 5.75% per annum.

As of December 31, 2019 and 2018, the outstanding balance of loan receivable from BHI amounted to ₱108.62 million and ₱128.62 million, respectively. (Note 10 and 16). Interest income amounted to ₱6.47 million, ₱7.50 million and ₱7.84 million in 2019, 2018, and 2017, respectively (see Note 23).

On February 1, 2009, the Globe Group entered into a memorandum of agreement (MOA) with BEAM for the latter to render mobile television broadcast service to Globe subscribers using the mobile TV service. The Globe Group recognized expense amounting to ₱175.60 million in 2019 and ₱190.00 million in 2018 and 2017.

On October 1, 2009, the Globe Group entered into a MOA with Altimax for the Globe Group's co-use of specific frequencies of Altimax's for the rollout of broadband wireless access to the Globe Group's subscribers. The Globe Group recognized expense amounting to ₱11.77 million in 2019 and ₱55.00 million in 2018 and 2017.

21.3 Transactions with Yondu

The Globe Group has a VAS sharing agreement with Yondu. Under the agreement, Yondu is entitled to a 30% share on revenue for providing mobile contents to Globe and TM subscribers. The Globe Group's payout to Yondu on mobile content transactions in 2018 amounted to ₱46.34 million.

Yondu also provides various enterprise solutions-based services to the Globe Group for network, platform and applications development under its BPO and mobile content. The Globe Group's related expenses in 2018 amounted to ₱528.55 million out of which ₱90.18 million was capitalized as part of property and equipment.

On September 11, 2019, Globe Telecom reacquired 51% of the outstanding shares of Yondu, which increased its controlling interest to 100%.

21.4 Transactions with other related parties

The Globe Group earns service revenues, maintains money market placements and cash in bank balances, acquires transportation equipment and incurs general, selling and administrative expenses such as rentals, utilities and customer contract services, from entities which are either controlled, jointly controlled or significantly influenced by AC.

21.5 Transactions with key management personnel of the Globe Group

The Globe Group's compensation of key management personnel by benefit type are as follows:

	Note	**2019**	2018
		(In Thousand Pesos)	
Short-term employee benefits	29	**₱275,400**	₱238,500
Share-based payments	29	**181,600**	128,900
Post-employment benefits	29	**13,000**	16,500
		₱470,000	₱383,900

There are no agreements between the Globe Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Globe Group's retirement plans.

22 Equity and Other Comprehensive Income

Globe Telecom's authorized capital stock as of December 31, 2019 and 2018 consists of (amounts in thousand pesos and number of shares):

	Shares	Amount
Voting preferred stock - ₱5 per share	160,000	₱800,000
Non-voting preferred stock - ₱50 per share	40,000	2,000,000
Common stock - ₱50 per share	148,934	7,446,719

Globe Telecom's issued, subscribed and fully paid capital stock consists of:

	2019		2018	
	Shares	**Amount**	Shares	Amount
	(In Thousand Pesos and Number of Shares)			
Voting preferred stock	**158,515**	**₱792,575**	158,515	₱792,575
Non-voting preferred stock	**20,000**	**1,000,000**	20,000	1,000,000
Common stock	**133,208**	**6,660,420**	133,053	6,652,663
Total capital stock		**₱8,452,995**		₱8,445,238

Below is the summary of the Globe Telecom's track record of registration of securities:

	Number of shares registered	Issue/offer price	Date of approval
	(In Thousands, Except for Issue/Offer price)		
Voting preferred stock	158,515	₱5.00	June 2001
Non-voting preferred stock	20,000	500.00	August 11, 2014
Common stock*	30,000	0.50	August 11, 1975

**Initial number of registered shares only*

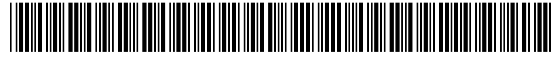
22.1 Preferred Stock

Non-Voting Preferred Stock

On February 10, 2014, Globe Telecom's BOD approved the amendment of Articles of Incorporation (AOI) to reclassify 31 million of unissued common shares with par value of ₱50 per share and 90 million of unissued voting preferred shares with par value of ₱5 per share into a new class of 40 million non-voting preferred shares with par value of ₱50 per share.

On April 8, 2014, the stockholders approved the issuance, offer and listing of up to 20 million non-voting preferred shares, with an issue volume of up to ₱10 billion. The preferred shares shall be redeemable, non-convertible, non-voting, cumulative and may be issued in series.

On June 5, 2014, the SEC approved the amendment of AOI to implement the foregoing reclassification of shares.



On August 8, 2014, the SEC approved the offer of non-voting preferred perpetual shares and on August 15, 2014, the 20 million non-voting preferred shares were fully subscribed and issued. Subsequently, the shares were listed at the Philippines Stock Exchange (PSE) on August 22, 2014.

Non-voting preferred stock has the following features:

- Issued at ₱50 par;
- Dividend rate to be determined by the BOD at the time of issue;
- Redemption - at Globe Telecom's option at such times and price(s) as may be determined by the BOD at the time of issue, which price may not be less than the par value thereof plus accrued dividends;
- Eligibility of investors - Any person, partnership, association or corporation regardless of nationality wherein at least 60% of the outstanding capital stock shall be owned by Filipino;
- No voting rights;
- Cumulative and non-participating;
- No pre-emptive rights over any sale or issuance of any share in Globe Telecom's capital stock; and
- Stocks shall rank ahead of the common shares and equally with the voting preferred stocks in the event of liquidation.

Voting Preferred Stock

Voting preferred stock has the following features:

- Issued at ₱5 par;
- Dividend rate to be determined by the BOD at the time of issue;
- One preferred share is convertible to one common share starting at the end of the 10th year of the issue date at a price to be determined by Globe Telecom's BOD at the time of issue which shall not be less than the market price of the common share less the par value of the preferred share;
- Call option - Exercisable any time by Globe Telecom starting at the end of the 5th year from issue date at a price to be determined by the BOD at the time of issue;
- Eligibility of investors - Only Filipino citizens or corporations or partnerships wherein 60% of the voting stock or voting power is owned by Filipino;
- With voting rights;
- Cumulative and non-participating;
- Preference as to dividends and in the event of liquidation; and
- No pre-emptive right to any share issue of Globe Telecom, and subject to yield protection in case of change in tax laws.

The dividends for preferred stocks are declared upon the sole discretion of Globe Telecom's BOD.

22.2 Common Stock

The rollforward of outstanding common shares follows:

	2019		2018	
	Shares	**Amount**	Shares	Amount
	(In Thousand Pesos and Number of Shares)			
At beginning of year	**133,053**	**₱6,652,663**	132,917	₱6,645,829
Exercise of stock options	**10**	**499**	7	371
Issuance of shares under share-based compensation plan and exercise of stock options	**145**	**7,258**	129	6,463
At end of year	**133,208**	**₱6,660,420**	133,053	₱6,652,663

Holders of fully paid common stock are entitled to voting and dividends rights.

22.3 Cash Dividends

Information on the Globe Telecom's BOD declaration of cash dividends follows:

			Date	
	Per Share	Amount	Record	Payment
	(In Thousand Pesos, Except Per Share Figures)			
Dividends on Voting Preferred stock:				
November 3, 2017	0.21	33,731	November 17, 2017	December 1, 2017
November 5, 2018	0.26	41,752	November 19, 2018	December 5, 2018
December 10, 2019	0.32	50,027	December 26, 2019	December 27, 2019
Dividends on Non-voting Preferred stock:				
May 9, 2017	13.00	260,030	August 10, 2017	August 22, 2017
December 5, 2017	13.00	260,030	January 26, 2018	February 22, 2018
May 4, 2018	13.00	260,030	August 10, 2018	August 22, 2018
December 6, 2018	13.00	260,030	January 28, 2019	February 22, 2019
May 3, 2019	13.00	260,030	July 26, 2019	August 22, 2019
December 10, 2019	13.00	260,030	January 29, 2020	February 24, 2020
Dividends on Common stock:				
February 7, 2017	22.75	3,020,280	February 21, 2017	March 8, 2017
May 9, 2017	22.75	3,023,806	May 23, 2017	June 7, 2017
August 7, 2017	22.75	3,023,806	August 22, 2017	September 6, 2017
November 3, 2017	22.75	3,023,844	November 17, 2017	December 1, 2017
February 5, 2018	22.75	3,023,852	February 20, 2018	March 5, 2018
May 7, 2018	22.75	3,026,804	May 21, 2018	June 1, 2018
August 7, 2018	22.75	3,026,962	August 24, 2018	September 6, 2018
November 5, 2018	22.75	3,026,961	November 19, 2018	December 5, 2018
February 11, 2019	22.75	3,026,961	February 26, 2019	March 13, 2019
May 3, 2019	22.75	3,030,303	May 20, 2019	May 31, 2019
August 2, 2019	22.75	3,030,316	August 19, 2019	August 30, 2019
November 6, 2019	22.75	3,030,491	November 20, 2019	December 6, 2019

Unpaid cash dividends declared related to non-voting preferred stock amounted to ₱260.03 million as of December 31, 2019 and 2018 (see Note 17).

Globe

22.4 Common Stock Dividend

The dividend policy of Globe Telecom as approved by the BOD is to declare cash dividends to its common stockholders on a regular basis as may be determined by the BOD. On November 8, 2011, the BOD approved the current dividend policy of Globe Telecom to distribute cash dividends at the rate of 75% to 90% of prior year's core net income. On August 6, 2013, the BOD further approved the change in distribution from semi-annual dividend payments to quarterly dividend distributions.

On November 5, 2018, the BOD approved the change in the dividend policy from 75% to 90% of prior year's core net income to 60% to 75% of prior year's core net income, to be applied to the 2019 dividend declaration.

The dividend distribution policy is reviewed annually and subsequently each quarter of the year, taking into account Globe Telecom's operating results, cash flows, debt covenants, capital expenditure levels and liquidity.

22.5 Retained Earnings Available for Dividend Declaration

The total unrestricted retained earnings available for dividend declaration amounted to ₱18,281.94 million as of December 31, 2019. This amount excludes the undistributed net earnings of consolidated subsidiaries, accumulated equity in net earnings of joint ventures accounted for under the equity method, and unrealized gains recognized on asset and liability, currency translations and unrealized gains on fair value adjustments. The Globe Group is also subject to loan covenants that restrict its ability to pay dividends (see Note 19).

22.6 Other Comprehensive Income

Other Reserves

2019

	Cash flow hedges	Investment in equity securities	Currency translation adjustment	Remeasurement on defined benefit plan (Note 29.2)	Total
			(In Thousand Pesos)		
As of January 1	**₱948,919**	**₱293,848**	**₱44,365**	**(₱726,029)**	**₱561,103**
Other comprehensive income for the year:					
Fair value changes	**(2,835,986)**	**188,486**	**-**	**-**	**(2,647,500)**
Remeasurement loss on defined benefit plan	**-**	**-**	**-**	**(1,956,549)**	**(1,956,549)**
Transferred to profit or loss	**1,102,622**	**-**	**-**	**-**	**1,102,622**
Exchange differences	**-**	**-**	**(105,292)**	**-**	**(105,292)**
Share in OCI from investment in associate (Note 15)	**-**	**275,325**	**(2,054)**	**(3,914)**	**269,357**
Income tax effect	**520,009**	**(23,462)**	**358**	**587,420**	**1,084,325**
	(1,213,355)	**440,349**	**(106,988)**	**(1,373,043)**	**(2,253,037)**
Reclassification of accumulated share in an associate's OCI	**-**	**1,891**	**-**	**(790)**	**1,101**
Reclassification of fair value gain on investment in equity securities at FVOCI	**-**	**(75,777)**	**-**	**-**	**(75,777)**
As of December 31	**(₱264,436)**	**₱660,311**	**(₱62,623)**	**(₱2,099,862)**	**(₱1,766,610)**

2018

	Cash flow hedges	Investment in equity securities	Currency translation adjustment	Remeasurement on defined benefit plan (Note 29.2)	Total
			(In Thousand Pesos)		
As of January 1	₱85,204	₱141,874	₱15,841	(₱595,294)	(₱352,375)
Other comprehensive income for the year:					
Fair value changes	1,178,226	170,645	-	-	1,348,871
Remeasurement gain on defined benefit plan	-	-	-	71,013	71,013
Transferred to profit or loss	55,653	-	-	-	55,653
Exchange differences	-	-	38,061	-	38,061
Share in OCI from investment in associate (Note 15)	-	-	2,089	-	2,089
Income tax effect	(370,164)	(18,671)	(11,626)	(21,304)	(421,765)
	863,715	151,974	28,524	49,709	1,093,922
Reclassification of remeasurement losses on defined benefit plans	-	-	-	(180,444)	(180,444)
As of December 31	₱948,919	₱293,848	₱44,365	(₱726,029)	₱561,103

2017

	Cash flow hedges	Investment in equity securities (Note 16)	Currency translation adjustment	Remeasurement on defined benefit plan (Note 29.2)	Total
			(In Thousand Pesos)		
As of January 1	(₱54,208)	₱115,874	₱38,981	(₱1,173,572)	(₱1,072,925)
Other comprehensive income for the year:					
Fair value changes	(173,001)	36,076	-	-	(136,925)
Remeasurement gain on defined benefit plan	-	-	-	570,289	570,289
Transferred to profit or loss	372,161	-	-	-	372,161
Income tax effect	(59,748)	(10,076)	-	(171,087)	(240,911)
Share in OCI from investment in associate	-	-	80	791	871
Exchange differences	-	-	(23,220)	-	(23,220)
	139,412	26,000	(23,140)	399,993	542,265
Reclassification of remeasurement gains on defined benefit plans	-	-	-	178,285	178,285
As of December 31	₱85,204	₱141,874	₱15,841	(₱595,294)	(₱352,375)

23 Interest Income

Interest income is earned from the following sources:

	Notes	2019	2018	2017
		(In Thousand Pesos)		
Short-term placements	5	**₱440,402**	₱332,525	₱71,876
Loans receivable:				
GGRP	21.3	**31,093**	36,366	38,244
BHI	21.3	**6,473**	7,498	7,842
Cash in banks	5	**17,158**	12,353	18,007
Others		**5,311**	2,288	3,612
		₱500,437	₱391,030	₱139,581

24 Other Income - net

This account consists of:

	Notes	2019	2018	2017
			(In Thousand Pesos)	
Gain (loss) on derivatives instruments – net		**(₱ 809,540)**	₱1,004,171	(₱127,708)
Foreign exchange gain (loss) - net		**848,394**	(900,430)	214,191
Gain on sale of Investment in associate	15.2	**240,000**	-	-
Management fees	21.2	**51,786**	51,786	12,946
Rent		**23,604**	65,302	52,511
Gain (loss) on settlement and remeasurement of ARO	20	**5,769**	27,894	(4,371)
Others		**686,994**	446,682	554,084
		₱1,047,007	₱695,405	₱701,653

25 General, Selling and Administrative Expenses

This account consists of:

	Notes	2019	2018	2017
		(In Thousand Pesos)		
Staff costs	29	**₱15,479,606**	₱13,271,175	₱12,238,114
Professional and other contracted services		**13,127,917**	11,028,251	9,844,780
Repairs and maintenance		**8,493,916**	7,944,057	7,822,818
Utilities, supplies and other administrative expenses		**6,576,249**	5,957,642	5,215,693
Selling, advertising and promotions		**6,448,214**	5,620,077	9,009,306
Lease	13	**5,793,299**	6,535,147	6,471,461
Taxes and licenses		**3,844,761**	3,106,915	1,951,490
Courier, delivery and miscellaneous expenses		**1,830,987**	1,684,540	1,737,609
Insurance and security services		**1,764,324**	1,607,072	1,685,518
Others		**1,112,136**	987,255	632,133
		₱64,471,409	₱57,742,131	₱56,608,922

26 Depreciation and amortization

The account consists of:

	Notes	2019	2018	2017
		(In Thousand Pesos)		
Property and equipment	11	**₱27,183,301**	₱24,895,449	₱22,825,049
Intangible assets	12	**5,791,150**	5,516,254	4,676,122
Right of use - net	13	**1,163,491**	-	-
Investment properties	16	**5,599**	10,018	11,518
		₱34,143,541	₱30,421,721	₱27,512,689

27 Financing Costs

This account consists of:

	Notes	2019	2018	2017
		(In Thousand Pesos)		
Loans payable	19	**₱5,937,695**	₱5,748,853	₱4,776,242
Swap costs	8.1	**366,952**	220,061	208,740
Lease liabilities	13.2	**272,171**	-	-
Accretion expense	20	**155,674**	140,457	117,188
Pension cost	29.2	**66,690**	84,837	145,663
Others		**3,679**	1,017	3,859
		₱6,802,861	₱6,195,225	₱5,251,692

**This account is net of the amount capitalized borrowing costs (see Notes 11 and 19).*

28 Impairment and other losses

This account consists of:

	Notes	2019	2018	2017
		(In Thousand Pesos)		
Impairment loss on				
Trade receivables	6	**₱3,340,156**	₱2,972,345	₱4,041,510
Remeasurement of investment in associate	14.1	**470,653**	-	-
Contract assets	7.1.1	**256,898**	457,657	-
Property and equipment	11	**59,157**	61,739	28,319
Other assets		**1,313**	116,362	69,926
Goodwill	12	**-**	142,794	-
Non-trade receivables	10	**-**	-	37,467
Investment in associate	15.2	**-**	-	286,036
Provisions for (reversal of):				
Inventory obsolescence	9	**713,717**	377,775	403,037
Other probable losses - net	18	**71,243**	658,972	557,071
		₱4,913,137	₱4,787,644	₱5,423,366

29 Staff Cost

This account consist of:

	2019	2018	2017
	(In Thousand Pesos)		
Short-term	**₱13,993,233**	₱12,441,135	₱11,511,970
Share based compensation	**325,160**	236,714	104,828
Pension	**1,161,213**	593,326	621,316
	₱15,479,606	₱13,271,175	₱12,238,114

29.1 Stock Plans

The Globe Telecom has stock plans for its employees. The number of shares allocated under these plans shall not exceed the aggregate equivalent of 6% of the authorized capital stock.

29.1.1 Executive Stock Option Plan

The following are the stock option grants to key executives and senior management personnel of the Globe Group under the ESOP from 2006 to 2009:

Date of Grant	Number of Options or Grants	Exercise Price	Exercise Dates	Fair Value of Each Option or Grants	Fair Value Measurement
May 17, 2007	604,000	1,270.50 per share	50% of the options become exercisable from May 17, 2009 to May 16, 2017, the remaining 50% become exercisable from May 17, 2010 to May 16, 2017	375.89	Trinomial option pricing model
August 1, 2008	635,750	1,064.00 per share	50% of the options become exercisable from August 1, 2010 to July 31, 2018, the remaining 50% become exercisable from August 1, 2011 to July 31, 2018	305.03	Trinomial option pricing model
October 1, 2009	298,950	993.75 per share	50% of the options become exercisable from October 1, 2011 to September 30, 2019, the remaining 50% become exercisable from October 1, 2012 to September 30, 2019	346.79	Trinomial option pricing model

The exercise price is based on the average quoted market price for the last 20 trading days preceding the approval date of the stock option grant.

A summary of the Globe Group's ESOP activity and related information follows:

	2019		2018	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
	(In Thousand Number of Shares Except per Share Figures)			
Outstanding, at beginning of year	**33**	**₱1,059.55**	93	₱1,038.36
Exercised	**(12)**	**993.75**	(16)	993.75
Expired/forfeited	**(21)**	**993.75**	(44)	1,064.00
Outstanding and exercisable, at end of year	**-**	**₱-**	33	₱1,059.55

The average share prices at dates of exercise of the stock options in 2019, 2018 and 2017 amounted to ₱1,928.40, ₱1,704.96 and ₱1,014.42, respectively.

The following assumptions were used to determine the fair value of the stock options at effective grant dates:

	October 1, 2009	August 1, 2008	May 17, 2007
Share price	₱995.00	₱1,130.00	₱1,340.00
Exercise price	₱993.75	₱1,064.00	₱1,270.50
Expected volatility	48.49%	31.73%	38.14%
Option life	10 years	10 years	10 years
Expected dividends	6.43%	6.64%	4.93%
Risk-free interest rate	8.08%	9.62%	7.04%

The expected volatility measured at the standard deviation of expected share price returns was based on analysis of share prices for the past 365 days.

29.1.2 Long-Term Incentive Plan

In November 2014, the Globe Group obtained approval from the BOD to implement a Long-Term Incentive Plan (LTIP) also called a Performance Share Plan (PSP) covering key executives and senior management. Under the PSP, the grantees are awarded a specific number of shares at the start of the performance period which vest over a specified performance period and contingent upon the achievement of specified long-term goals.

The following are the stock grants to key executives and senior management personnel of the Globe Group under the LTIP:

Date of Grant	Number of Grants at Grant Date	Settlement Dates	Fair Value of Each Grants	Fair Value Measurement
January 1, 2014	106,293	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	₱1,630.35	Market price
January 1, 2015	114,392	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,738.30	Market price
January 1, 2016	107,365	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,904.95	Market price
January 1, 2017	158,687	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,428.85	Market price
January 1, 2018	146,040	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,782.80	Market price
July 31, 2019	289,650	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,997.35	Market price

The fair value is based on the average quoted market price for the last 20 trading days preceding the approval date of the stock option grant.

Cost of share-based payments in 2019, 2018 and 2017 amounted to ₱325.16 million, ₱236.71 million and ₱104.83 million, respectively.

29.2 Pension Plan

The Globe Group has a funded, noncontributory, defined benefit pension plans ("the Plan") covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

The group retirement plan covering Globe Telecom and Innove is managed and administered by a Board of Trustees (BOT) whose members are unanimously appointed by the Globe Group acting through its BOD. The BOT are authorized to appoint one or more fund managers to hold, invest and reinvest the assets of the Plan and execute an Investment Agreement with the said fund managers.

The BOT sets the investment policies and limits of the Plan, and appoints fund managers to assist in the investment management of the Plan. The objective of the portfolio is capital preservation by earning higher than regular deposit rates over a long period given a small degree of risk on principal interest.

Asset - liability matching strategies

The investment policy in managing liquidity is to have sufficient liquidity at all times to meet the Plan's maturing liabilities, including benefit payments to qualified employees who are expected to avail of their retirement benefits when due, without incurring unnecessary funding costs. The investment policy is also geared towards maintaining highly saleable government securities as a significant part of the plan investment portfolio even as other private securities and unquoted securities provided higher yields.

The Plan's liquidity risk is managed on a daily basis by the Plan's investment managers in accordance with the policies and procedures duly approved by the BOT. The Plan's overall liquidity position for the year is monitored on a regular basis by the BOT.

Funding policy

The plan should have at least 100% solvency all levels at all times. If a solvency deficiency exists, the deficit must be immediately funded.

Risks associated with the Plan

The retirement plan typically expose the participants to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan asset is below this rate, it will create a plan deficit.

Interest rate risk

A decrease in the government bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at December 31, 2019 by an Independent Actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The components of pension expense (included in staff costs under "General, selling and administrative expenses" account) in the consolidated statements of comprehensive income are as follows:

	2019	2018	2017
	(In Thousand Pesos)		
Current service cost	**₱523,152**	₱593,326	₱621,316
Past service cost	**638,061**	-	-
Net interest expense (Note 27)	**66,690**	84,837	145,663
Components of defined benefit costs recognized in profit or loss	**1,227,903**	678,163	766,979
Remeasurement on the net defined benefit liability:			
Return on plan assets (excluding amounts included in net interest expense)	**(312,149)**	515,908	2,337
Actuarial gains and losses:			
from changes in assumptions	**1,796,723**	(892,818)	(420,029)
from experience adjustments	**471,975**	305,897	(152,597)
Components of defined benefit costs recognized in other comprehensive income (Note 22.6)	**1,956,549**	(71,013)	(570,289)
	₱3,184,452	₱607,150	₱196,690

The accrued pension is as follows:

	Note	2019	2018
		(In Thousand Pesos)	
Present value of benefit obligation		**₱10,308,731**	₱6,693,681
Fair value of plan assets		**(6,570,301)**	(5,234,216)
Accrued pension	20	**₱3,738,430**	₱1,459,465

The following tables present the changes in the present value of defined benefit obligation and fair value of plan assets:

Present value of defined benefit obligation

	2019	2018
	(In Thousand Pesos)	
Balance at beginning of year	**₱6,693,681**	₱6,635,722
Current service cost	**523,152**	593,326
Interest cost	**489,592**	369,988
Benefits paid	**(318,966)**	(318,434)
Remeasurements in other comprehensive income:		
Actuarial gains and losses arising from changes in assumptions	**1,796,723**	(892,818)
Actuarial gains and losses arising from experience adjustments	**471,975**	305,897
Plan changes/ amendments	**638,061**	-
Effects of business combinations	**14,513**	-
Balance at end of year	**₱10,308,731**	₱6,693,681

Fair value of plan assets

	2019	2018
	(In Thousand Pesos)	
Balance at beginning of year	**₱5,234,216**	₱4,534,407
Remeasurement (gains)/losses:		
Return on plan assets (excluding amounts included in net interest expense)	**312,149**	(515,908)
Contributions from the employer	**920,000**	1,249,000
Interest income	**422,902**	285,151
Benefits paid	**(318,966)**	(318,434)
Balance at end of year	**₱6,570,301**	₱5,234,216
Actual return on plan assets	**₱735,051**	₱230,758

The recommended contribution for the Globe Group retirement fund for the year 2020 amounted to ₱1,758.98 million. This amount is based on the Globe Group's actuarial valuation report as of December 31, 2019.

The allocation of the fair value of the plan assets of the Globe Group as of December 31 is as follows:

	2019	2018
	(In Thousand Pesos)	
Cash and cash equivalents	**₱279,237**	₱248,624
Investment in debt securities	**2,507,227**	1,725,721
Investment quoted in equity shares	**2,783,837**	2,259,612
Investment in unquoted in equity shares	**1,000,000**	1,000,259
	₱6,570,301	₱5,234,216

The assumptions used to determine pension benefits for the Globe Group are as follows:

	2019	2018
Discount rate	**5.00%**	7.50%
Salary rate increase	**4.50%**	4.50%

The assumptions regarding future mortality rates which are based on the 2017 Philippine Intercompany Mortality Table which is based on a recent study by the Actuarial Society of the Philippines.

In 2019 and 2018, the Globe Group applied a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2019 and 2018, assuming all other assumptions were held constant (in thousand pesos):

December 31, 2019

	Increase (decrease) in basis points	**Increase (decrease) on defined benefit obligation**
Discount rates	**+0.50%**	**(₱458,311)**
	-0.50%	**585,889**
Future salary increases	**+0.50%**	**585,889**
	-0.50%	**(462,432)**
Rate of return	**+10.00%**	**1,030**
	-10.00%	**(1,026)**

December 31, 2018

	Increase (decrease) in basis points	Increase (decrease) on defined benefit obligation
Discount rates	+0.50%	(₱177,138)
	-0.50%	217,914
Future salary increases	+0.50%	223,930
	-0.50%	(182,486)
Rate of return	+10.00%	2,005
	-10.00%	(2,005)

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The objective of the plan's portfolio is capital preservation by earning higher than regular deposit rates over a long period given a small degree of risk on principal and interest. Asset purchases and sales are determined by the plan's investment managers, who have been given discretionary authority to manage the distribution of assets to achieve the plan's investment objectives. The compliance with target asset allocations and composition of the investment portfolio is monitored by the BOT on a regular basis.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the Projected Unit Credit Method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statement of financial position.

The plan contributions are based on the actuarial present value of accumulated plan benefits and fair value of plan assets are determined using an independent actuarial valuation.

The average duration of the defined benefit obligation at the end of the reporting period is 16.73 years and 15.17 years in 2019 and 2018, respectively.

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

	2019	2018
	(In Thousand Pesos)	
Within 1 year	**₱397,936**	₱323,327
More than 1 year to 5 years	**2,355,474**	1,795,285
More than 5 years	**4,689,956**	3,521,929
	₱7,443,366	₱5,640,541

30 Income Tax

Net deferred tax assets and liabilities presented in the consolidated statements of financial position on a net basis by entity are as follows:

	2019	2018
		(In Thousand Pesos)
Net deferred income tax assets*	**₱1,866,591**	₱2,075,065
Net deferred income tax liabilities (Globe, GCVH, GTI and KVI)	**(5,057,641)**	(3,918,493)
Net deferred income tax (liabilities) assets	**(₱3,191,050)**	(₱1,843,428)

**2019 consist of Innove, BTI, GCVH, Yondu and GTowers*
**2018 consist of Innove, BTI and Asticom*

The significant components of the deferred income tax assets and liabilities of the Globe Group represent the deferred income tax effects of the following:

	2019					
		Movements				
	2018	Acquired from a business combination	Profit or Loss	Other Comprehensive Income	Other equity item	2019
Deferred tax assets						
Allowance for impairment losses on receivables	₱3,711,267	**₱5,591**	**(₱864,865)**	**₱-**	**₱-**	**₱2,851,993**
Unearned revenues and advances already subjected to income tax	1,967,076	**-**	**75,345**	**-**	**-**	**2,042,421**
Accrued manpower cost	1,123,845	**-**	**178,529**	**-**	**-**	**1,302,374**
Accrued pension	814,264	**(2,158)**	**147,475**	**587,420**	**-**	**1,547,001**
Unrealized foreign exchange losses	810,409	**7**	**(308,266)**	**-**	**-**	**502,150**
ARO	701,327	**-**	**66,346**	**-**	**-**	**767,673**
Provision for claims and assessment	505,719	**-**	**(12,981)**	**-**	**-**	**492,738**
Cost of share-based payments	174,360	**-**	**18,154**	**-**	**(4,236)**	**188,278**
Accumulated impairment losses on property and equipment	159,442	**-** **-**	**(8,977)**	**-**	**-**	**150,465**
(forward)						

	2019					
		Movements				
	2018	Acquired from a business combination	Profit or Loss	Other Comprehensive Income	Other equity item	2019
Deferred tax assets						
Inventory obsolescence and market decline	₱158,722	₱-	₱348	₱-	₱-	₱159,070
Accrued rent expense under PAS 17	144,298	-	(144,145)	-	-	153
Contract liabilities	108,223	-	(20,835)	-	-	87,388
Lease liabilities net of ROU	-	-	173,346	-	(144,145)	29,200
MCIT	21,258	-	(20,460)	-	-	798
NOLCO	556	-	(463)	-	-	93
Others	36,427	(83,843)	104,168	-	-	56,752
	10,437,193	(80,403)	(617,281)	587,420	(148,381)	10,178,547
Deferred tax liabilities						
Excess of accumulated depreciation and amortization of Globe Telecom equipment for (a) tax reporting over (b) financial reporting	(7,921,353)	(145,514)	(1,448,069)	-	-	(9,514,936)
Undepreciated capitalized borrowing costs already claimed as deduction for tax reporting	(1,076,544)	-	(98,667)	-	-	(1,175,211)
Contract asset	(2,330,482)	-	32,922	-	-	(2,297,560)
Unrealized gain on derivative transaction	(615,513)	-	218,912	520,009	-	123,408
Unrealized foreign exchange gain	(12,207)	(1,759)	(14,604)	-	-	(28,570)
Unamortized discount on noninterest bearing liability	(11,113)	-	(195)	-	-	(11,308)
Others	(313,408)	(866)	(128,042)	(23,104)	-	(465,420)
	(12,280,620)	(148,139)	(1,437,743)	496,905	-	(13,369,597)
Net deferred income tax assets (liabilities)	(₱1,843,427)	(₱228,542)	(₱2,055,024)	₱1,084,325	(₱148,381)	(₱3,191,050)

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		2018			
		Movements			
	2017	Profit or Loss	Other Comprehensive Income	Other equity item	2018
Deferred tax assets					
Allowance for impairment losses on receivables	₱2,718,940	(₱1,401,898)	₱-	₱2,394,225	₱3,711,267
Unearned revenues and advances already subjected to income tax	1,504,476	462,600	-	-	1,967,076
Accrued manpower cost	780,993	342,852	-	-	1,123,845
Accrued pension	845,211	(9,643)	(21,304)	-	814,264
Unrealized foreign exchange losses	541,975	268,434	-	-	810,409
ARO	661,388	39,939	-	-	701,327
Provision for claims and assessment	314,759	190,960	-	-	505,719
Cost of share-based payments	120,463	56,246	-	(2,349)	174,360
Accumulated impairment losses on property and equipment	141,496	17,946	-	-	159,442
Inventory obsolescence and market decline	184,780	(26,058)	-	-	158,722
Accrued rent expense under PAS 17	158,915	(14,617)	-	-	144,298
Contract liabilities	-	(8,286)	-	116,509	108,223
MCIT	-	21,258	-	-	21,258
NOLCO	62,339	(61,783)	-	-	556
Others	74,686	(31,490)	-	(6,769)	36,427
	8,110,421	(153,540)	(21,304)	2,501,616	10,437,193
Deferred tax liabilities					
Excess of accumulated depreciation and amortization of Globe Telecom equipment for (a) tax reporting over (b) financial reporting	(6,478,641)	(1,442,712)	-	-	(7,921,353)
Undepreciated capitalized borrowing costs already claimed as deduction for tax reporting	(1,231,218)	154,674	-	-	(1,076,544)
Contract asset	-	(121,791)	-	(2,208,691)	(2,330,482)
Unrealized gain on derivative transaction	(220,602)	(24,747)	(370,164)	-	(615,513)
Unrealized foreign exchange gain	(7,329)	(4,878)	-	-	(12,207)
Unamortized discount on noninterest bearing liability	-	(11,113)	-	-	(11,113)
Others	(159,831)	(123,281)	(30,297)	-	(313,409)
	(8,097,621)	(1,573,848)	(400,461)	(2,208,691)	(12,280,621)
Net deferred income tax assets (liabilities)	₱12,800	(₱1,727,388)	(₱421,765)	₱292,925	(₱1,843,428)

The reconciliation of the provision for income tax at statutory tax rate and the actual current and deferred provision for income tax follows:

	2019	2018	2017
		(In Thousand Pesos)	
Provision at statutory income tax rate	**₱9,848,213**	₱8,283,995	₱6,462,511
Add (deduct) tax effects of:			
Equity in net losses of associates and joint ventures	**766,435**	374,881	253,853
Impairment loss on goodwill	**-**	42,838	-
Deferred tax on unexercised stock options and basis differences on deductible and reported stock compensation expense	**(2,168)**	(1,561)	12,752
Recognition of deferred income tax asset	**-**	78,586	61,806
Income subjected to lower tax rates	**(128,585)**	(71,985)	(489,235)
Others	**59,724**	280,619	155,802
Actual provision for income tax	**₱10,543,619**	₱8,987,373	₱6,457,489

The current provision for income tax includes the following:

	2019	2018	2017
			(In Thousand Pesos)
RCIT or MCIT, whichever is higher	**₱8,335,287**	₱7,151,614	₱5,942,221
Final tax	**153,308**	108,371	63,199
	₱8,488,595	₱7,259,985	₱6,005,420

Deferred tax assets of BTI on the following deductible temporary differences were not recognized since Management believes that it will not be utilized for future taxable income:

	2019	2018
		(In Thousand Pesos)
Deferred tax assets on:		
Allowance for impairment of assets	**₱605,282**	₱605,282
Provision for probable loss	**251,668**	236,298
	₱856,950	₱841,580

31 Earnings Per Share

The Globe Group's earnings per share amounts were computed as follows:

	2019	2018	2017
	(In Thousand Pesos and Number of Shares Except per Share Figures)		
Net income attributable to common shareholders	**₱22,269,340**	₱18,640,740	₱15,065,779
Less dividends on preferred shares:			
Non-voting preferred shares	**520,060**	520,060	520,060
Convertible voting preferred shares	**50,027**	41,752	33,731
Net income attributable to common shareholders for basic earnings per share (a)	**21,699,253**	18,078,928	14,511,988
Add dividends on convertible voting preferred shares	**50,027**	41,752	33,731
Net income attributable to common shareholders for diluted earnings per share (b)	**21,749,280**	18,120,680	14,545,719
Common shares outstanding, beginning	**133,053**	132,917	132,759
Add Weighted average number of exercised shares for stock options	**101**	101	105
Weighted average number of shares for basic earnings per share (c)	**133,154**	133,018	132,864
Add Dilutive shares arising from:			
Convertible preferred shares	**399**	431	400
Share based compensation plans	**535**	371	103
Stock options	**-**	15	67
Adjusted weighted average number of common shares for diluted earnings per share (d)	**134,087**	133,835	133,434
Basic earnings per share (a/c)	**₱162.96**	₱135.91	₱109.22
Diluted earnings per share (b/d)	**₱162.20**	₱135.40	₱109.01

32 Capital and Financial Risk Management and Financial Instruments

The Globe Group adopts an expanded corporate governance approach in managing its business risks. An Enterprise Risk Management Policy was developed to systematically view the risks and to provide a better understanding of the different risks that could threaten the achievement of the Globe Group's mission, vision, strategies, and goals, and to provide emphasis on how management and employees play a vital role in achieving the Globe Group's mission of transforming and enriching lives through communications.

The policies are not intended to eliminate risk but to manage it in such a way that opportunities to create value for the stakeholders are achieved. The Globe Group risk management takes place in the context of the normal business processes such as strategic planning, business planning, operational and support processes.

The application of these policies is the responsibility of the BOD through the Chief Executive Officer. The Chief Finance Officer and concurrent Chief Risk Officer champion oversees the entire risk management function. Risk owners have been identified for each risk and they are responsible for coordinating and continuously improving risk strategies, processes and measures on an enterprise-wide basis in accordance with established business objectives.

The risks are managed through the delegation of management and financial authority and individual accountability as documented in employment contracts, consultancy contracts, letters of authority, letters of appointment, performance planning and evaluation forms, key result areas, terms of reference and other policies that provide guidelines for managing specific risks arising from the Globe Group's business operations and environment.

The Globe Group continues to monitor and manage its financial risk exposures according to its BOD approved policies.

The succeeding discussion focuses on Globe Group's capital and financial risk management.

32.1 Capital Risk Management Objectives and Policies

Capital represents equity attributable to equity holders of the Parent Company.

The primary objective of the Globe Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Globe Group monitors its use of capital using leverage ratios, such as debt to total capitalization and makes adjustments to it in light of changes in economic conditions and its financial position. The ratio of debt to total capitalization for the years ended December 31, 2019 and 2018 was at 67% and 66%, respectively.

The Globe Group is not subject to regulatory imposed capital requirements.

The Globe Group's loan agreements include compliance with certain ratios (see Note 19).

32.2 Financial Risk Management Objectives and Policies

The Globe Group's main risks arising from the use of financial instruments are market risk, credit risk and liquidity risk. Globe Telecom's BOD is ultimately responsible for reviewing and approving the policies for managing each of these risks. The Globe Group's risk management policies are summarized below:

32.2.1 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Globe Group is mainly exposed to two types of market risk: interest rate risk and currency risk.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures. The Globe Group uses a combination of natural hedges and derivative hedging to manage its foreign exchange exposure as discussed in Note 8. It uses interest rate derivatives to reduce earnings volatility related to interest rate movements, and principal only swaps to hedge the foreign exchange risk exposure to principal repayments on USD debt.

It is the Globe Group's policy to ensure that capabilities exist for active but conservative management of its foreign exchange and interest rate risks. The Globe Group does not engage in any speculative derivative transactions. Authorized derivative instruments include currency forward contracts, currency swap contracts, interest rate swap contracts and currency option contracts.

The sensitivity analyses in the following sections relate to the position as of December 31, 2019 and 2018. The analyses exclude the impact of movements in market variables on the carrying value of pension, provisions and on the non-financial assets and liabilities of foreign operation

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The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as of December 31, 2019 and 2018 including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges for the effects of the assumed changes in the underlying.
- The assumed changes in market rates applied in the sensitivity analyses were based on historical information and may not necessarily reflect the actual movements that may occur in the future periods.

32.2.1.1 Interest Rate Risk

The Globe Group's exposure to market risk from changes in interest rates relates primarily to the Globe Group's long-term debt obligations.

Globe Group's policy is to manage its interest cost using a mix of fixed and variable rate debt, targeting a ratio of between 31%-62% fixed rate USD debt to total USD debt, and between 44%-88% fixed rate PHP debt to total PHP debt. To manage this mix in a cost-efficient manner, the Globe Group enters into interest rate swaps, in which Globe Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

After taking into account the effect of interest rate swaps, the ratio of loans with fixed interest rates to total loans are as follows:

	2019	2018
USD fixed rate loans	**57%**	42%
PHP fixed rate loans	**85%**	87%

The loans receivable from related parties are subject to fixed interest rates and therefore not exposed to market interest rate risk.

Due the short term maturities of cash and cash equivalents, its exposure to interest rate risk is not considered to be significant.

The following tables demonstrate the sensitivity of income before tax to and equity a reasonably possible change in interest rates after the impact of hedge accounting, with all other variables held constant.

	Increase/ Decrease in basis Points	Effect on income before income tax Increase (Decrease)	Effect on equity Increase (Decrease)
		(In Thousand Pesos)	
2019			
USD	**+50bps**	**₱6,547**	**(₱372)**
	-50bps	**(6,547)**	**372**
PHP	**+120bps**	**87,957**	**7,438**
	-120bps	**(87,957)**	**(7,443)**
2018			
USD	+75bps	(₱24,787)	(₱731)
	-75bps	24,787	731
PHP	+150bps	11,130	9,821
	-150bps	(11,130)	(9,830)

32.2.1.2 Foreign Exchange Risk

The Globe Group's foreign exchange risk results primarily from movements of the PHP against the USD with respect to USD-denominated financial assets, USD-denominated financial liabilities and certain USD-denominated revenues. Majority of revenues are generated in PHP, while substantially all of capital expenditures are in USD. In addition, 16.33% and 15.88% of debt as of December 31, 2019 and 2018, respectively, are denominated in USD before taking into account any swap and hedges.

Information on the Globe Group's foreign currency-denominated monetary assets and liabilities and their PHP equivalents are as follows:

	2019		2018	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
		(In Thousand Pesos)		
Assets				
Cash and cash equivalents	**$68,305**	**₱3,470,052**	$95,989	₱5,045,457
Trade Receivables	**83,492**	**4,241,541**	100,211	5,267,417
	151,797	**7,711,593**	196,200	10,312,874
Liabilities				
Trade payable and accrued expenses	**463,249**	**23,533,959**	413,556	21,737,770
Loans payable	**437,734**	**22,237,758**	442,569	23,262,732
	900,983	**45,771,717**	856,125	45,000,502
Net foreign currency - denominated liabilities	**$749,186**	**₱38,060,124**	$659,925	₱34,687,628

The following table demonstrates the sensitivity to a reasonably possible change in the PHP to USD exchange rate, with all other variables held constant, of the Globe Group's income before tax (due to changes in the fair value of foreign currency-denominated assets and liabilities).

	Increase/Decrease in Peso to US Dollar exchange rate	Effect on income before income tax Increase (Decrease)	Effect on equity Increase (Decrease)
		(In Thousand Pesos)	
2019			
	+.60	**(₱401,161)**	**₱241,255**
	-.60	**401,161**	**(241,255)**
2018			
	+.40	(₱231,977)	₱157,469
	-.40	231,977	(157,469)

The movement in equity arises from changes in the fair values of derivative financial instruments designated as cash flow hedges.

The Globe Group's foreign exchange risk management policy is to maintain a hedged financial position, after taking into account expected USD flows from operations and financing transactions. The Globe Group enters into short-term foreign currency forwards and long-term foreign currency swap contracts in order to achieve this target.

32.2.2 Credit Risk

Credit Risk Exposure

The table below details the Globe Group's exposure to credit risk:

	2019	2018
	(In Thousand Pesos)	
Cash and cash equivalents	**₱8,298,092**	₱23,226,386
Trade receivables – net	**21,138,950**	20,652,532
Contract assets – net	**7,045,794**	7,124,332
Derivative assets	**426,955**	2,363,366
Loans receivable from related parties	**656,620**	726,620
Non-trade receivables*	**1,635,747**	1,458,503
	₱39,202,158	₱55,551,739

**2019 figure for non-trade receivable does not include current portion of loans receivable from related party.*

The Globe Group has not executed any credit guarantees in favor of other parties.

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Credit Risk Management

Credit exposures from subscribers are managed closely by the Credit, Billing and Risk Management of the Globe Group. Applications for postpaid service are subjected to standard credit evaluation and verification procedures. The Credit, Billing and Risk Management of the Globe Group continuously reviews credit policies and processes and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of postpaid subscribers are being monitored on a regular basis and appropriate credit treatments are applied at various stages of delinquency. Likewise, net receivable balances from carriers of traffic are also being monitored and subjected to appropriate actions to manage credit risk.

The Globe Group analyzes its subscribers' receivables and contract assets based on internal credit risk rating. The table below shows the analysis of the Globe Group's subscribers' receivables and contract assets as of December 31, 2019 and 2018.

	High Quality	Medium Quality	Low Quality	Terminated Accounts	Total
		(In Thousand Pesos)			
2019					
Wireless subscribers receivables:					
Consumer	₱4,308,644	₱1,337,781	₱771,013	₱2,255,493	₱8,672,931
Key corporate accounts	418,062	80,521	54,425	1,162,158	1,715,166
Other corporations and SMEs	495,137	73,159	3,143	151,044	722,483
	5,221,843	1,491,461	828,581	3,568,695	11,110,580
Wireline subscribers receivables:					
Consumer	687,389	539,126	287,567	2,359,190	3,873,272
Key corporate accounts	3,919,246	849,667	518,313	2,185,751	7,472,977
Other corporations and SMEs	150,774	164,219	48,307	734,738	1,098,038
	4,757,409	1,553,012	854,187	5,279,679	12,444,287
Total subscribers' receivables	9,979,252	3,044,473	1,682,768	8,848,374	23,554,867
Wireless contract assets					
Consumer	₱4,907,241	₱1,342,050	₱273,103	₱97,684	₱6,620,078
Key corporate accounts	460,551	75,944	2,926	13,958	553,379
Other corporations and SMEs	697,806	58,551	18,069	13,389	787,815
	6,065,598	1,476,545	294,098	125,031	7,961,272
Total subscribers' receivables and contracts assets	₱16,044,850	₱4,521,018	₱1,976,866	₱8,973,405	₱31,516,139

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	High Quality	Medium Quality	Low Quality	Terminated Accounts	Total
			(In Thousand Pesos)		
2018					
Wireless subscribers receivables:					
Consumer	₱3,867,223	₱1,318,821	₱863,317	₱ 5,708,844	₱11,758,205
Key corporate accounts	398,964	145,801	13,828	457,431	1,016,024
Other corporations and SMEs	1,592,325	262,086	258,407	1,200,103	3,312,921
	5,858,512	1,726,708	1,135,552	7,366,378	16,087,150
Wireline subscribers receivables:					
Consumer	114,172	147,503	76,908	2,359,190	3,873,272
Key corporate accounts	3,847,729	608,622	321,906	1,866,643	6,644,900
Other corporations and SMEs	107,829	130,825	78,924	734,738	1,098,038
	4,069,730	886,950	477,738	5,279,679	12,444,287
Total subscribers' receivables	9,928,242	2,613,658	1,613,290	8,848,374	23,554,867
Wireless contract assets					
Consumer	4,323,538	2,015,704	239,176	686,339	7,264,757
Key corporate accounts	669,418	137,343	15,574	16,542	838,877
Other corporations and SMEs	374,298	141,618	4,416	48,155	568,487
	5,367,254	2,294,665	259,166	751,036	8,672,121
Total subscribers' receivables and contracts assets	₱15,295,496	₱4,908,323	₱1,872,456	₱8,973,405	₱31,516,139

The Globe Group's credit risk rating comprises the following categories:

- High quality accounts are accounts considered to be of good quality, have consistently exhibited good paying habits, and are unlikely to miss payments. High quality accounts primarily include strong corporate and consumer accounts with whom the Globe Group has excellent payment experience.
- Medium quality accounts are accounts that exhibited good paying habits but may require minimal monitoring with the objective of moving accounts to high quality rating. Medium quality accounts primarily include subscribers whose creditworthiness can be moderately affected by adverse changes in economic and financial conditions, but will not necessarily, reduce the ability of the subscriber to fulfill its obligations. It includes customers with whom the Globe Group has limited experience and therefore, creditworthiness needs to be further established over time.
- Low quality accounts are accounts which exhibit characteristics that are identified to have increased likelihood to miss payments. Low quality accounts are subject to closer monitoring and scrutiny with the objective of managing risk and moving accounts to improved rating category. It primarily includes mass consumer, corporate and SME customers whose creditworthiness are easily affected by adverse changes in economic and financial conditions.
- Terminated accounts are accounts in cancelled status. Although there is a possibility that terminated accounts may still be collected by exhausting collection efforts, the probability of recovery has significantly deteriorated.

For traffic settlements and other trade receivables, the Globe Group uses delinquency and past due information to analyze the credit risk. The tables below show the aging analysis of the Globe Group's traffic settlements and other trade receivables as of December 31, 2019 and 2018.

2019

	Current	Less than 30 days past due	31 to 60 days past due	61 to 90 days past due	Over 90 days past due	Total
	(In Thousand Pesos)					
Traffic receivables:						
Foreign	**₱765,314**	**₱-**	**₱193,377**	**₱166,732**	**₱502,133**	**₱1,627,556**
Local	**50,017**	**7,622**	**5,675**	**5,389**	**208,723**	**277,426**
	₱815,331	**7,622**	**199,052**	**172,121**	**710,856**	**₱1,904,982**
Other trade receivables	**3,379,480**	**530,089**	**311,039**	**121,312**	**754,662**	**5,096,582**
Total	**₱4,194,811**	**₱537,711**	**₱510,091**	**₱293,433**	**₱1,465,518**	**₱7,001,564**

2018

	Current	Less than 30 days past due	31 to 60 days past due	61 to 90 days past due	Over 90 days past due	Total
	(In Thousand Pesos)					
Traffic receivables:						
Foreign	₱1,141,976	₱28	₱206,240	₱320,262	₱764,916	₱2,433,422
Local	171,717	29,229	19,026	3,137	211,865	434,974
	1,313,693	29,257	225,266	323,399	976,781	2,868,396
Other trade receivables	1,284,369	187,629	197,197	92,384	747,160	2,508,739
Total	₱2,598,062	₱216,886	₱422,463	₱415,783	₱1,723,941	₱5,377,135

With respect to receivables from related parties, the exposure to credit risk is managed on a group basis.

For investments with banks and other counterparties, the Globe Group has a risk management policy which allocates investment limits based on counterparty credit rating and credit risk profile. The Globe Group makes a quarterly assessment of the credit standing of its investment counterparties, and allocates investment limits based on size, liquidity, profitability, and asset quality. The usage of limits is regularly monitored.

For its derivative counterparties, the Globe Group deals only with counterparty banks with investment grade ratings and large local banks. Credit ratings of derivative counterparties are reviewed quarterly.

Following are the Globe Group exposures with its investment counterparties for time deposits as of December 31:

	2019	2018	2017
Local bank deposits	**100%**	59%	43%
Onshore foreign bank	**-**	31%	47%
Offshore bank deposit	**-**	10%	10%

32.2.3 Liquidity Risk

The Globe Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Globe Group intends to use internally generated funds and available long-term and short-term credit facilities.

The following table shows the Globe Group's available credit facilities (in millions):

	2019	2018
Long-term committed	**₱-**	₱-
Short term		
Committed	**₱3,000**	₱3,000
Uncommitted		
USD	**$93.9**	$119
PHP	**₱16,350**	₱14,000

As part of its liquidity risk management, the Globe Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans, export credit agency facilities, and capital market issues.

The following tables show comparative information about the Globe Group's financial instruments as of December 31 that are exposed to liquidity risk and interest rate risk and presented by maturity profile including forecasted interest payments for the next five years from December 31 figures.

Loans Payable

2019

	Less than 1 year	1 to 3 years	Over 3 years
		(In Thousands)	
Loans Payable			
Fixed Rate			
USD notes	**$454**	**$1,266**	**$-**
Philippine peso	**₱6,157,500**	**₱26,005,000**	**₱63,187,500**
Floating rate			
USD notes	**$129,150**	**$150,250**	**$157,250**
Philippine peso	**₱210,000**	**₱6,860,000**	**₱11,720,000**
Interest payable*			
PHP debt	**₱6,014,003**	**₱15,105,917**	**₱13,598,501**
USD debt	**$11,147**	**$21,454**	**$8,900**

Used month-end USD LIBOR and Philippine Dealing and Exchange Corporation (PDEX) rates.

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2018

	Less than 1 year	1 to 3 years	Over 3 years
Loans Payable		*(In Thousands)*	
Fixed Rate			
USD notes	$410	$1,493	$227
Philippine peso	₱11,110,000	₱22,922,500	₱72,427,500
Floating rate			
USD notes	$11,150	$235,850	$200,800
Philippine peso	₱5,040,000	₱630,000	₱13,160,000
Interest payable*			
PHP debt	₱6,523,381	₱16,834,502	₱18,179,506
USD debt	$16,484	$34,623.00	$18,914

Used month-end USD LIBOR and Philippine Dealing and Exchange Corporation (PDEX) rates.

The following tables present the maturity profile of the Globe Group's other liabilities and derivative instruments (undiscounted cash flows including swap costs payments/receipts except for other long-term liabilities) as of December 31, 2019 and 2018.

2019

Other Financial Liabilities

	Less than 1 year	1 to 5 years	Over 5 years	Total
Trade payables and accrued expenses*	**₱52,663,918**	**₱-**	**₱-**	**₱52,663,918**
Other long-term liabilities	**-**	**-**	**962,079**	**962,079**
	₱52,663,918	**₱-**	**₱962,079**	**₱53,625,997**

Excludes taxes payable which is not a financial instrument.

Derivative Instrument

	Less than 1 year		1 to 3 years		Over 3 years	
	Receive	Pay	Receive	Pay	Receive	Pay
Projected Swap Coupons:						
Interest Rate Swaps-USD	**₱63,489**	**₱67,811**	**₱46,945**	**₱74,596**	**₱-**	**₱-**
Cross Currency Swaps	**₱355,228**	**₱657,151**	**₱719,408**	**₱1,585,458**	**₱446,786**	**₱805,836**
Principal Only Swaps	**₱583,719**	**₱76,245**	**₱1,167,439**	**₱80,912**	**₱-**	**₱-**

	Less than 1 year		1 to 3 years		Over 3 years	
	Receive	Pay	Receive	Pay	Receive	Pay
Projected Principal Exchanges:						
FX Swap, Buys USD Forward	**$112,000**	**₱5,766,580**	**$-**	**₱-**	**$-**	**₱-**
Cross Currency Swaps- PHP	**₱-**	**₱4,589,271**	**₱-**	**₱2,666,662**	**₱-**	**₱8,050,948**
Cross Currency Swaps- USD	**$90,550**	**$-**	**$50,650**	**$-**	**$157,250**	**$-**
Principal Only Swaps- PHP	**₱-**	**₱1,795,721**	**₱-**	**₱2,986,508**	**₱-**	**₱-**
Principal Only Swaps- USD	**$37,700**	**$-**	**$60,000**	**$-**	**$-**	**$-**

2018

Other Financial Liabilities

	Less than 1 year	1 to 5 years	Over 5 years	Total
Trade payables and accrued expenses*	₱51,540,513	₱-	₱-	₱51,540,513
Other long-term liabilities	-	-	865,354	865,354
	₱51,540,513	₱-	₱865,354	₱52,405,867

Excludes taxes payable which is not a financial instrument.

Derivative Instrument

	Less than 1 year		1 to 3 years		Over 3 years	
	Receive	Pay	Receive	Pay	Receive	Pay
Projected Swap Coupons:						
Interest Rate Swaps-USD	₱89,644	₱54,151	₱79,146	₱59,574	₱-	₱-
Cross Currency Swaps	₱583,720	₱808,957	₱1,103,598	₱1,742,079	₱953,765	₱1,324,365
Principal Only Swaps	₱-	₱73,732	₱-	₱93,982	₱-	₱-

	Less than 1 year		1 to 3 years		Over 3 years	
	Receive	Pay	Receive	Pay	Receive	Pay
Projected Principal Exchanges:						
FX Swap, Buys USD Forward	$80,000	₱4,283,050	$-	₱-	$-	₱-
Cross Currency Swaps- PHP	₱-	₱79,221	₱-	₱4,957,711	₱-	₱10,349,168
Cross Currency Swaps- USD	$1,550	$-	$97,650	$-	$200,800	$-
Principal Only Swaps- PHP	₱-	₱410,241	₱-	₱3,742,229	₱-	₱-
Principal Only Swaps- USD	$8,700	$-	$77,700	$-	$-	$-

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33 Financial Assets and Liabilities

33.1 Categories of Financial Assets and Financial Liabilities

The table below presents the carrying value of Globe Group's financial instruments by category as of December 31 based on the classification requirements of PFRS 9:

	2019	2018
	(In Thousand Pesos)	
Financial Assets		
Derivative assets:		
Derivative assets designated as cash flow hedges (FVOCI)	**₱425,696**	₱2,363,366
Derivative assets not designated as hedges (FVPL)	**1,259**	-
Financial assets at FVOCI:		
Investment in equity securities - net	**2,137,781**	1,442,940
Financial assets at amortized cost		
Cash and cash equivalents	**8,298,092**	23,226,386
Trade receivables – net	**21,138,950**	20,652,532
Contract assets – net	**7,045,794**	7,124,331
Non-trade receivables	**1,635,747**	1,458,503
Loans receivable from related parties	**656,620**	726,620
	₱41,339,939	₱56,994,678
Financial Liabilities:		
Derivative liabilities		
Derivative liabilities designated as cash flow hedges (FVOCI)	**₱767,358**	₱235,993
Derivative liabilities not designated as hedges (FVPL)	**70,958**	75,661
Financial liabilities at amortized cost		
Trade payables and accrued expenses*	**52,663,918**	51,540,513
Loans payable	**135,862,735**	148,281,897
Other long term liabilities**	**962,079**	1,383,807
	₱190,327,048	₱201,517,871

**Trade payables and accrued expenses do not include taxes payables which are not considered financial liabilities.*
***Other long term liabilities do not include ARO and accrued pension which are not considered financial liabilities.*

33.2 Offsetting Financial Assets and Financial Liabilities

The Globe Group has derivative financial instruments that have offsetting arrangements as follows:

	Gross amounts	Amounts offset under PAS 32	Reported amounts in the consolidated statements of financial position	Amounts offset under master netting arrangements or other similar contracts	Net exposure
			(In Thousand Pesos)		
December 31, 2019					
Derivative assets	**₱426,955**	**₱-**	**₱426,955**	**(₱168,291)**	**₱258,664**
Derivative liabilities	**838,316**	**-**	**838,316**	**(168,291)**	**670,025**
Traffic settlements receivable (Note 6)	**2,948,547**	**(1,043,565)**	**1,904,982**	**-**	**1,904,982**
Traffic settlements payable (Note 14)	**2,036,595**	**(1,043,565)**	**993,030**	**-**	**993,030**
December 31, 2018					
Derivative assets	₱2,363,366	₱-	₱2,363,366	(₱204,606)	₱2,158,760
Derivative liabilities	311,654	-	311,654	(204,606)	107,048
Traffic settlements receivable (Note 6)	3,661,635	(793,239)	2,868,396	-	2,868,396
Traffic settlements payable (Note 14)	1,895,650	(793,239)	1,102,411	-	1,102,411

The Globe Group makes use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Master netting arrangements do not normally result in an offset of balance sheet assets and liabilities unless certain conditions for offsetting under PAS 32 apply.

Although master netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realized; and
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement and fluctuations in market factors.

33.3 Fair Values of Financial Assets and Financial Liabilities

The table below presents a comparison of carrying amounts and estimated fair values of all the Globe Group's financial instruments as of December 31:

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousand Pesos)		
Financial Assets				
Derivative assets[1]	**₱426,955**	**₱426,955**	₱2,363,366	₱2,363,366
Investment in equity securities[1]	**2,137,781**	**2,137,781**	1,442,940	1,442,940
	₱2,564,736	**₱2,564,736**	₱3,806,306	₱3,806,306
Financial Liabilities				
Derivative liabilities[1]	**₱838,316**	**₱838,316**	₱311,654	₱311,654
Loans payables [2]	**135,862,735**	**145,473,115**	148,281,897	137,834,270
	₱136,701,051	**₱146,311,431**	₱148,593,551	₱138,145,924

[1] *Measured at fair value on a recurring basis*
[2] *Fair value is disclosed only in the Notes to Financial Statements*

The following discussions are methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

33.3.1 Non-Derivative Financial Instrument

The fair value of loans receivable from related parties was estimated based on the present value of all future cash flows discounted using the prevailing market rate of interest for a similar instrument. The resulting fair value of loans receivable from related parties approximates the carrying amount.

The fair value of investments in equity securities are based on quoted prices of similar instruments.

For variable rate financial instruments that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

For variable rate financial instruments that reprice every six months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date. The discount rate used is 1.9302% for USD floating loans.

For noninterest bearing obligations, the fair value was estimated as the present value of all future cash flows discounted using the prevailing market rate of interest for a similar instrument.

33.3.2 *Derivative Instrument*

The fair value of freestanding and embedded forward exchange contracts is calculated by using the interest rate parity concept.

The fair values of interest rate swaps and cross currency swap transactions are determined using valuation techniques with inputs and assumptions that are based on market observable data and conditions and reflect appropriate risk adjustments that market participants would make for credit and liquidity risks existing at the end each of reporting period. The fair value of interest rate swap transactions is the net present value of the estimated future cash flows. The fair values of currency and cross currency swap transactions are determined based on changes in the term structure of interest rates of each currency and the spot rate.

The fair values were tested to determine the impact of credit valuation adjustments. However, the impact is immaterial given that the Globe Group deals its derivatives with large foreign and local banks with very minimal risk of default.

33.3.3 *Fair Value Hierarchy*

The following tables provide the fair value measurement hierarchy of the Globe Group's assets and liabilities:

	Fair value measurement using			
	Level 1)	Level 2	Level 3	Total
2019				
Financial Assets		*(In Thousand Pesos)*		
Derivative assets:				
Cross currency swaps	**₱-**	**₱205,290**	**₱-**	**₱205,290**
Principal only swaps	**-**	**217,622**	**-**	**217,622**
Interest rate swaps	**-**	**2,784**	**-**	**2,784**
Deliverable forwards	**-**	**1,259**		**1,259**
Investment in equity securities	**402,200**	**1,735,581**	**-**	**2,137,781**
Financial Liabilities				
Derivative liabilities:				
Cross currency swaps	**-**	**679,628**	**-**	**679,628**
Principal only swaps	**-**	**53,016**	**-**	**53,016**
Interest rate swaps	**-**	**34,714**	**-**	**34,714**
Non deliverable forwards	**-**	**57,685**	**-**	**57,685**
Deliverable forwards	**-**	**13,273**	**-**	**13,273**
Loans payable	**-**	**145,473,115**	**-**	**145,473,115**

	Fair value measurement using			
	Level 11)	Level 2	Level 3	Total
2018				
Financial Assets		*(In Thousand Pesos)*		
Derivative assets:				
Cross currency swaps	₱-	₱1,787,777	₱-	₱1,787,777
Principal only swaps	-	528,297	-	528,297
Interest rate swaps	-	47,292	-	47,292
Investment in equity securities	357,200	1,085,740	-	1,442,940
Financial Liabilities				
Derivative liabilities:				
Cross currency swaps	-	203,983	-	203,983
Principal only swaps	-	32,010	-	32,010
Deliverable forwards	-	75,661	-	75,661
Loans payable	-	137,834,270	-	137,834,270

There were no transfers from Level 1 and Level 2 fair value measurements for the years ended December 31, 2019 and 2018. The Globe Group has no financial instruments classified under Level 3.

34 Operating Segment Information

The Globe Group's reportable segments consist of: (1) mobile communications services; and (2) wireline communication services; which the Globe Group operates and manages as strategic business units and organize by products and services. The Globe Group presents its various operating segments based on segment net income.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

Most of the Globe Group's revenues are derived from operations within the Philippines, hence, the Globe Group does not present geographical information required by PFRS 8, *Operating Segments*. The Globe Group does not have a single customer that will meet the 10% reporting criteria.

The Globe Group also presents the different product types that are included in the report that is regularly reviewed by the chief operating decision maker in assessing the operating segments performance.

Segment assets and liabilities are not measures used by the chief operating decision maker since the assets and liabilities are managed on a group basis.

The Globe Group's segment information is as follows (in thousand pesos):

	2019		
	Mobile Communications Services	Wireline Communications Services	Consolidated
		(In Thousand Pesos)	
REVENUES:			
Service revenues:			
External customers:			
Data	₱71,801,472	₱12,827,652	₱84,629,124
Voice	24,275,585	2,668,413	26,943,998
SMS	15,690,309	-	15,690,309
Broadband	-	21,746,532	21,746,532
	111,767,366	37,242,597	149,009,963
Nonservice revenues:			
External customers	17,256,871	393,503	17,650,374
Segment revenues	129,024,237	37,636,100	166,660,337
EBITDA	63,935,268	12,096,165	76,031,433
Depreciation and amortization	(21,554,284)	(12,589,257)	(34,143,541)
EBIT	42,380,984	(493,092)	41,887,892
NET INCOME (LOSS) BEFORE TAX[2]	33,255,371	(427,995)	32,827,376
Provision for income tax	(7,774,908)	(2,768,711)	(10,543,619)
NET INCOME (LOSS)	₱25,480,463	(₱3,196,706)	₱22,283,757
Core net income after tax			₱22,450,847
Intersegment revenues	(₱4,359,314)	(₱1,541,929)	(₱5,901,243)
Interest income	261,238	239,199	500,437
Financing costs	(6,702,880)	(99,981)	(6,802,861)
Equity in net losses of associates and joint ventures	(2,554,782)	-	(2,554,782)
Impairment losses and others	3,111,133	1,802,004	4,913,137
Total additions to property and equipment and intangible assets	36,603,944	9,195,494	45,799,438
Cost of inventories sold	(18,122,606)	(432,208)	(18,554,814)
Operating expenses	(43,109,543)	(24,981,725)	(68,091,268)
Cash Flows			
Net cash from (used in):			
Operating activities	₱64,828,975	₱9,213,244	₱74,042,219
Investing activities	(46,034,742)	(8,996,037)	(55,030,779)
Financing activities	(28,273,799)	(4,983,554)	(33,257,353)

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	2018		
	Mobile Communications Services	Wireline Communications Services	Consolidated
	(In Thousand Pesos)		
REVENUES:			
Service revenues:			
External customers:			
Data	₱50,960,555	₱11,761,929	₱62,581,757
Voice	28,407,830	2,977,017	31,496,677
SMS	20,162,343	-	20,191,240
Broadband	-	18,605,636	18,605,636
	99,530,728	33,344,582	132,875,310
Nonservice revenues:			
External customers	17,905,545	391,951	18,297,496
Segment revenues	117,436,273	33,736,533	151,172,806
EBITDA	54,813,431	10,313,684	65,127,115
Depreciation and amortization	(18,515,035)	(11,906,686)	(30,421,721)
EBIT	36,298,396	(1,593,002)	34,705,394
NET INCOME (LOSS) BEFORE TAX	28,329,140	(715,824)	27,613,316
Provision for income tax	(6,105,079)	(2,882,294)	(8,987,373)
NET INCOME (LOSS)	₱22,224,061	(₱3,598,118)	₱18,625,943
Core net income after tax			₱18,734,587
Intersegment revenues	(₱4,101,948)	(₱1,697,538)	(₱5,799,486)
Interest income	265,706	125,324	391,030
Financing cost	(6,178,927)	(16,298)	(6,195,225)
Equity in net losses of associates and joint ventures	(1,249,603)	-	(1,249,603)
Impairment losses and others	3,126,709	1,660,935	4,787,644
Total additions to property and equipment and intangible assets	26,601,407	9,713,380	36,314,787
Cost of inventories sold	(18,142,817)	(502,497)	(18,645,314)
Operating expenses	(44,480,026)	(22,920,353)	(67,400,379)
Cash Flows			
Net cash from (used in):			
Operating activities	₱41,727,279	₱16,123,250	₱57,850,529
Investing activities	(33,616,425)	(9,035,328)	(42,651,753)
Financing activities	752,364	(4,187,410)	(3,435,046)

	2017		
	Mobile Communications Services	Wireline Communications Services	Consolidated
	(In Thousand Pesos)		
REVENUES:			
Service revenues:			
External customers:			
Data	₱43,058,894	₱10,287,868	₱53,346,762
Voice	32,274,474	3,490,350	35,764,824
SMS	23,149,293	-	23,149,293
Broadband	-	15,644,974	15,644,974
	98,482,661	29,423,192	127,905,853
Nonservice revenues:			
External customers	7,103,490	271,388	7,374,878
Segment revenues	105,586,151	29,694,580	135,280,731
EBITDA	46,412,954	6,912,717	53,325,671
Depreciation and amortization	(14,719,797)	(12,792,892)	(27,512,689)
EBIT	31,693,157	(5,880,175)	25,812,982
NET INCOME (LOSS) BEFORE TAX	27,495,220	(5,953,518)	21,541,702
Provision for income tax	(4,965,817)	(1,491,672)	(6,457,489)
NET INCOME (LOSS)	₱22,529,403	(₱7,445,190)	₱15,084,213
Core net income after tax			₱13,546,018
Intersegment revenues	(₱3,796,463)	(₱1,678,432)	(₱5,474,895)
Interest income	112,222	27,359	139,581
Financing cost	(5,234,518)	(17,174)	(5,251,992)
Equity in net losses of associates and joint ventures	(846,177)	-	(846,177)
Impairment losses and others	(5,326,363)	(97,003)	(5,423,366)
Total additions to property and equipment and intangible assets	39,553,734	11,878,600	51,432,334
Cost of inventories sold	(12,625,881)	(387,556)	(13,013,437)
Operating expenses	(46,567,834)	(22,373,725)	(68,941,559)
Cash Flows			
Net cash from (used in):			
Operating activities	₱34,396,520	₱15,907,742	₱50,304,262
Investing activities	(55,344,717)	(77,298)	(55,422,015)
Financing activities	7,814,350	-	7,814,350

The reconciliation of the EBITDA to income before income tax presented in the consolidated statements of comprehensive income is shown below:

	Notes	2019	2018	2017
		(In Thousand Pesos)		
EBITDA		**₱76,031,433**	₱65,127,115	₱53,325,671
Depreciation and amortization	26	**(34,143,541)**	(30,421,721)	(27,512,689)
Financing costs	27	**(6,802,861)**	(6,195,225)	(5,251,692)
Equity in net losses of associates and joint ventures	15	**(2,554,782)**	(1,249,603)	(846,177)
Foreign exchange gain (loss) - net	24	**848,394**	(900,430)	214,191
Gain (loss) on derivative instruments	24	**(809,540)**	1,004,171	(127,708)
Interest income	23	**500,437**	391,030	139,581
Remeasurement loss on investment in associate	28	**(470,653)**	-	-
Gain on sale of Investment in associate	24	**240,000**	-	-
Gain on disposal of property and equipment - net		**43,012**	73,088	38,455
Impairment of goodwill	28	**-**	(140,403)	-
Gain on fair value of retained interest		**-**	-	1,889,901
Other items		**(54,523)**	(74,706)	(327,831)
Income before income tax		**₱32,827,376**	₱27,613,316	₱21,541,702

The reconciliation of core net income after tax (core NIAT) to NIAT is shown below:

	2019	2018	2017
	(In Thousand Pesos)		
Core NIAT	**₱22,450,847**	₱18,734,587	₱13,546,018
Gain (loss) on derivatives instruments	**(566,678)**	702,919	(89,396)
Foreign exchange gains (losses)	**593,876**	(630,301)	149,934
Remeasurement loss on investment in associate	**(432,975)**	-	-
Gain on sale of Investment in associate	**240,000**	-	-
Impairment of goodwill	**-**	(140,403)	-
Gain on fair value of retained interest	**-**	-	1,794,237
Others	**(1,313)**	(40,859)	(316,580)
NIAT	**₱22,283,757**	₱18,625,943	₱15,084,213

34.1 Mobile Communications Services

This reporting segment is made up of digital cellular telecommunications services that allow subscribers to make and receive local, domestic long distance and international long distance calls, international roaming calls and other value added services (VAS) in any place within the coverage areas.

34.1.1 Mobile communication voice net service revenues include the following:

- Pro-rated monthly service fees on postpaid plans;
- Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments (CERA) net of loyalty discounts credited to subscriber billings;
- Airtime fees for intra-network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs 365 days after activation of prepaid load credit net of (i) bonus credits and (ii) prepaid reload discounts;
- Revenues generated from inbound international and national long distance calls and international roaming calls; and
- Mobile service revenues of GTI.

34.1.2 Mobile SMS service revenues consist of local and international revenues from VAS such as inbound and outbound SMS and MMS, and infotext, subscription fees on unlimited and bucket prepaid SMS services, net of any payouts to content providers.

34.1.3 Mobile communication data net service revenues consist of local and international revenues from value-added services such as mobile internet browsing and content downloading, mobile commerce services, other add-on VAS net of payouts to content providers.

34.1.4 Globe Telecom offers its wireless communications services to consumers, corporate and small and medium enterprise (SME) clients through the following three (3) brands: Globe Postpaid, Globe Prepaid and Touch Mobile.

34.2 Wireline Communications Services

This reporting segment is made up of fixed line telecommunications services which offer subscribers local, domestic long distance and international long distance voice services in addition to broadband and a number of VAS in various areas covered by the Certificate of Public Convenience and Necessity (CPCN) granted by the NTC.

34.2.1 Wireline voice service revenues consist of the following:

- Monthly service fees including CERA of voice-only subscriptions;
- Revenues from local, international and national long distance calls made by postpaid and prepaid wireline subscribers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid call card discounts;
- Revenues from inbound local, international and national long distance calls from other carriers terminating on Globe Telecom’s network;
- Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features;
- Installation charges and other one-time fees associated with the establishment of the service; and
- Revenues from DUO and SUPERDUO (fixed line portion) service consisting of monthly service fees for postpaid and subscription fees for prepaid.

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34.2.2 Wireline data service revenues consist of the following:

- Monthly service fees from international and domestic leased lines;
- Other wholesale transport services;
- Revenues from value-added services; and
- One-time connection charges associated with the establishment of service.

34.2.3 Broadband service revenues consist of the following:

- Monthly service fees of wired, fixed wireless and bundled voice and data subscriptions;
- Browsing revenues from all postpaid and prepaid wired, fixed wireless in excess of allocated free browsing minutes and expiration of unused value of prepaid load credits;
- Value-added services such as games; and
- Installation charges and other one-time fees associated with the service.

34.2.4 The Globe Group provides wireline voice communications (local, national and international long distance), data and broadband and data services to consumers, corporate and SME clients in the Philippines.

- *Consumers* - the Globe Group's postpaid voice service provides basic landline services including toll-free NDD calls to other Globe landline subscribers for a fixed monthly fee. For wired broadband, consumers can choose between broadband services bundled with a voice line, or a broadband data-only service. The Globe Group offers broadband packages bundled with voice, or broadband data-only service. For subscribers who require full mobility, Globe Broadband service come in postpaid and prepaid packages and allow them to access the internet via LTE, 3G with HSDPA, Enhanced Datarate for GSM Evolution (EDGE), General Packet Radio Service (GPRS) or WiFi at hotspots located nationwide.
- *Corporate/SME clients* - for corporate and SME enterprise clients wireline voice communication needs, the Globe Group offers postpaid service bundles which come with a business landline and unlimited dial-up internet access. The Globe Group also provides a *full* suite of telephony services from basic direct lines to Integrated Services Digital Network (ISDN) services, 1-800 numbers, International Direct Dialing (IDD) and National Direct Dialing (NDD) access as well as managed voice solutions such as Voice Over Internet Protocol (VOIP) and managed Internet Protocol (IP) communications. Value-priced, high speed data services, wholesale and corporate internet access, data center services and segment-specific solutions customized to the needs of vertical industries.

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35 Agreements and Commitments

35.1 Agreements and Commitments with Other Carriers

Globe Telecom, Innove and BTI have existing international telecommunications service agreements with various foreign administrations and interconnection agreements with local telecommunications companies for their various services. Globe Telecom also has international roaming agreements with other foreign operators, which allow its subscribers access to foreign networks. The agreements provide for sharing of toll revenues derived from the mutual use of telecommunication networks.

The interconnect costs for the period 2019, 2018 and 2017 amounted to ₱3.982.87 million, ₱5,677.38 million and ₱7,852.34 million, respectively.

Net traffic settlement receivables amounted to ₱1,904.98 million and ₱2,868.40 million while net traffic settlement payables amounted to ₱993.03 million and ₱1,102.41 million as of December 31, 2019 and 2018, respectively (see Notes 6 and 17).

35.2 Arrangements and Commitments with Suppliers

The Globe Group has entered into agreements with various suppliers for the development or construction, delivery and installation of property and equipment. Under the terms of these agreements, advance payments and down payments are made to suppliers upon submission of required documentation. While the development or construction is in progress, project costs are accrued based on the project status. Billings are based on the progress of the development or construction and advance payments are being applied proportionately to the milestone billings. When development or construction and installation are completed and the property and equipment is ready for service, the value of unbilled but delivered goods or services from the related purchase orders is accrued.

The accrued project costs as of December 31, 2019 and 2018 included in the "Trade payables and accrued expenses" account in the consolidated statements of financial position amounted to ₱12,558.73 million and ₱19,172.96 million , respectively (see Note 17). The settlement of these liabilities is dependent on the payment terms and project milestones agreed with the suppliers and contractors. As of December 31, 2019 and 2018, the unapplied advances made to suppliers and contractors relating to purchase orders issued amounted to ₱10,449.60 million and ₱9,459.24 million, respectively (see Note 10).

35.3 Network Sharing Arrangement with ABS-CBN Convergence Inc.

On May 27, 2013, Globe Telecom, Innove and ABS-CBN Convergence Inc. (ABS-C) entered into a network sharing arrangement to provide capacity and coverage for new mobile telephony, data and value-added services to be offered by ABS-C nationwide to its subscribers using shared network and interconnect assets of the parties.

This arrangement will enable Globe Telecom, Innove and ABS-C to improve public service by enhancing utility, capacity, inter-operability and quality of mobile and local exchange telephone and data services to the public and allow ABS-C to modernize its existing service and expand to a retail base on top of its existing subscriber base.

On May 31, 2013, NTC approved the network sharing agreement and co-use of the number blocks assigned to Globe Telecom.

On November 30, 2018, ABS-C discontinued its mobile phone services business and terminated the mobile network sharing arrangement with Globe Telecom.

35.4 Agreements with Huawei International, Pte. Ltd., Huawei Technology Co. Ltd and Huawei Technology Phils.

In 2014, Globe Telecom and Innove engaged Huawei for a period of ten (10) years to perform the design, engineering, manufacture, assembly and delivery of certain equipment and all its ancillary equipment and related software and documentation, and to provide services, including subsequent training and technical support, in an end-to-end full-turn key outcome based technical solution. Globe Telecom's payments to Huawei as of December 31, 2019 totaled ₱37,646.36 million for the services and ₱1,214.57 million and USD1,311.68 million for the equipment.

35.5 Agreements with Premium Content Providers

The Globe Group has entered into various content and license distribution agreements with various developers for periods ranging from 2 to 5 years. Under the agreements, the developers granted the Globe Group the right to market, reproduce and distribute the premium content in the form of portable music streaming, videos, movies or other forms of content to its subscribers. The agreement also provides for the Globe Group to provide advertising and/or promotions support at certain agreed amounts.

In consideration of the agreements, Globe agreed to pay royalty or service fees based on its net revenues or active subscribers.

36 Contingencies

The Globe Group is contingently liable for various claims arising in the ordinary conduct of business and certain tax assessments which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and legal counsel, the possibility of outflow of economic resources to settle the contingent liability is remote.

Interconnection Charge for Short Messaging Service

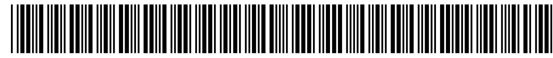
On October 10, 2011, the NTC issued Memorandum Circular (MC) No. 02-10-2011 titled Interconnection Charge for Short Messaging Service requiring all public telecommunication entities to reduce their interconnection charge to each other from ₱0.35 to ₱0.15 per text, which Globe Telecom complied as early as November 2011. On December 11, 2011, the NTC One Stop Public Assistance Center (OSPAC) filed a complaint against Globe Telecom, Smart and Digitel alleging violation of the said MC No. 02-10-2011 and asking for the reduction of SMS off-net retail price from P1.00 to P0.80 per text. Globe Telecom filed its response maintaining the position that the reduction of the SMS interconnection charges does not automatically translate to a reduction in the SMS retail charge per text.

On November 20, 2012, the NTC rendered a decision directing Globe Telecom to:

- Reduce its regular SMS retail rate from P1.00 to not more than ₱0.80;
- Refund/reimburse its subscribers the excess charge of ₱0.20; and
- Pay a fine of ₱200.00 per day from December 1, 2011 until date of compliance.

On May 7, 2014, NTC denied the Motion for Reconsideration (MR) filed by Globe Telecom last December 5, 2012 in relation to the November 20, 2012 decision. Globe Telecom's assessment is that Globe Telecom is in compliance with the NTC Memorandum Circular No. 02-10-2011. On June 9, 2014, Globe Telecom filed petition for review of the NTC decision and resolution with the Court of Appeals (CA).

The CA granted the petition in a resolution dated September 3, 2014 by issuing a 60-day temporary restraining order on the implementation of Memorandum Circular 02-10-2011 by the NTC. On October 15, 2014, Globe Telecom posted a surety bond to compensate for possible damages as directed by the CA.

Globe 

On June 27, 2016, the CA rendered a decision reversing the NTC's abovementioned decision and resolution requiring telecommunications companies to cut their SMS rates and return the excess amount paid by subscribers. The CA said that the NTC order was baseless as there is no showing that the reduction in the SMS rate is mandated under MC No. 02-10-2011; there is no showing, either that the present P1.00 per text rate is unreasonable and unjust, as this was not mandated under the memorandum. Moreover, under the NTC's own MC No. 02-05-2008, SMS is a value added service (VAS) whose rates are deregulated. The respective motions for reconsideration filed by NTC and that of intervenor Bayan Muna Party List (Bayan Muna) Representatives Neri Javier Colmenares and Carlos Isagani Zarate were both denied.

The NTC thus elevated the CA's ruling to the Supreme Court (SC) via a Petition for Review on Certiorari dated September 15, 2017.

For its part, Bayan Muna filed its own Petition for Review on Certiorari of the CA's Decision. On January 4, 2018, Globe received a copy of the SC's Resolution dated November 6, 2017, requiring it to comment on said petition of Bayan Muna. Subsequently, on February 21, 2018, Globe received a copy of the SC's Resolution dated December 13, 2017 consolidating the Petitions for Review filed by Bayan Muna and NTC, and requiring Globe to file its comment on the petition for review filed by NTC. Thus, on April 2, 2018, Globe filed its Consolidated Comment on both Bayan Muna and the NTC's petitions for review. On September 18, 2018, Globe received a copy of Bayan Muna's Consolidated Reply to Globe's Consolidated Comment and Digitel and Smart's Comment.

Globe Telecom believes that it did not violate NTC MC No. 02-10-2011 when it did not reduce its SMS retail rate from Php 1.00 to Php 0.80 per text, and hence, would not be obligated to refund its subscribers. However, if it is ultimately decided by the Supreme Court (in case an appeal is taken thereto by the NTC from the adverse resolution of the CA) that Globe Telecom is not compliant with said circular, Globe may be contingently liable to refund to its subscribers the ₱0.20 difference (between ₱1.00 and ₱0.80 per text) reckoned from November 20, 2012 until said decision by the SC becomes final and executory. Management does not have an estimate of the potential claims currently.

Guidelines on Unit of Billing of Mobile Voice Service

On July 23, 2009, the NTC issued NTC MC No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the Cellular Mobile Telephone System (CMTS) whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first two (2) pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme.

On December 28, 2010, the Court of Appeals (CA) rendered its decision declaring null and void and reversing the decisions of the NTC in the rates applications cases for having been issued in violation of Globe Telecom and the other carriers' constitutional and statutory right to due process. However, while the decision is in Globe Telecom's favor, there is a provision in the decision that NTC did not violate the right of petitioners to due process when it declared via circular that the per pulse billing scheme shall be the default.

On January 21, 2011, Globe Telecom and two other telecom carriers, filed their respective Motions for Partial Reconsideration (MPR) on the pronouncement that "the Per Pulse Billing Scheme shall be the default". The petitioners and the NTC filed their respective Motion for Reconsideration, which were all denied by the CA on January 19, 2012.

On March 12, 2012, Globe and Innove elevated to the SC the questioned portions of the Decision and Resolution of the CA dated December 28, 2010 and its Resolution dated January 19, 2012. The other service providers, as well as the NTC, filed their own petitions for review. The adverse parties have filed their comments on each other's petitions, as well as their replies to each other's comments. Parties were required to file their respective Memoranda and Globe filed its Memorandum on May 25, 2018. The case is now submitted for resolution.

Right of Innove to Render Services and Build Telecommunications Infrastructure in BGC

- PLDT and its affiliate, Bonifacio Communications Corporation (BCC) and Innove and Globe Telecom are in litigation over the right of Innove to render services and build telecommunications infrastructure in the Bonifacio Global City (BGC). In the case filed by Innove before the NTC against BCC, PLDT and the Fort Bonifacio Development Corporation (FBDC), the NTC has issued a Cease and Desist Order preventing BCC from performing further acts to interfere with Innove's installations in the BGC.

  On January 21, 2011, BCC and PLDT filed with the CA a Petition for Certiorari and Prohibition against the NTC, et al. seeking to annul the Order of the NTC dated October 28, 2008 directing BCC, PLDT and FBDC to comply with the provisions of NTC MC 05-05-02 and to cease and desist from performing further acts that will prevent Innove from implementing and providing telecommunications services in the Fort Bonifacio Global City pursuant to the authorization granted by the NTC. On April 25, 2011, Innove Communications, filed its comment on the Petition.

  On August 16, 2011, the CA ruled that the petition against Innove and the NTC lacked merit, holding that neither BCC nor PLDT could claim the exclusive right to install telecommunications infrastructure and providing telecommunications services within the BGC. Thus, the CA denied the petition and dismissed the case. PLDT and BCC filed their motions for reconsideration thereto, which the CA denied.

  On July 6, 2012, PLDT and BCC assailed the CA's rulings via a petition for review on certiorari with the Supreme Court. Innove and Globe filed their comment on said petition on January 14, 2013, to which said petitioners filed their reply on May 21, 2013. The case remains pending with the SC.

- In a case filed by BCC against FBDC, Globe Telecom, and Innove before the RTC of Pasig, which case sought to enjoin Innove from making any further installations in the BGC and claimed damages from all the parties for the breach of the exclusivity of BCC in the area, the court did not issue a TRO and has instead scheduled several hearings on the case. The defendants filed their respective motions to dismiss the complaint on the grounds of forum shopping and lack of jurisdiction, among others. On March 30, 2012, the RTC of Pasig, as prayed for, dismissed the complaint on the aforesaid grounds. The motion for reconsideration filed by BCC on July 20, 2012 remains pending with the trial court.

Acquisition by Globe Telecom and PLDT of the Entire Issued and Outstanding Shares of VTI

In a letter dated June 7, 2016 issued by Philippine Competition Commission (PCC) to Globe Telecom, PLDT, SMC and VTI regarding the Joint Notice filed by the aforementioned parties on May 30, 2016, disclosing the acquisition by Globe Telecom and PLDT of the entire issued and outstanding shares of VTI, the PCC claims that the Notice was deficient in form and substance and concludes that the acquisition cannot be claimed to be deemed approved.

On June 10, 2016, Globe Telecom formally responded to the letter reiterating that the Notice, which sets forth the salient terms and conditions of the transaction, was filed pursuant to and in accordance with MC No. l6-002 issued by the PCC. MC No. 16-002 provides that before the implementing rules and regulations for RA No. 10667 (the Philippine Competition Act of 2015) come into full force and effect, upon filing with the PCC of a notice in which the salient terms and conditions of an acquisition are set forth, the transaction is deemed approved by the PCC and as such, it may no longer be challenged. Further, Globe Telecom clarified in its letter that the supposed deficiency in form and substance of the Notice is not a ground to prevent the transaction from being deemed approved. The only exception to the rule that a transaction is deemed approved is when a notice contains false material information. In this regard, Globe Telecom stated that the Notice does not contain any false information.

On June 17, 2016, Globe Telecom received a copy of the second letter issued by PCC stating that notwithstanding the position of Globe Telecom, it was ruling that the transaction was still subject for review.

On July 12, 2016, Globe Telecom asked the CA to stop the government's anti-trust body from reviewing the acquisition of SMC's telecommunications business. Globe Telecom maintains the position that the deal was approved after Globe Telecom notified the PCC of the transaction and that the anti-trust body violated its own rules by insisting on a review. On the same day, Globe Telecom filed a Petition for Mandamus, Certiorari and Prohibition against the PCC, docketed as CA-G.R. SP No. 146538. On July 25, 2016, the CA, through its 6th Division issued a resolution denying Globe Telecom’s application for TRO and injunction against PCC’s review of the transaction. In the same resolution, however, the CA required the PCC to comment on Globe Telecom's petition for certiorari and mandamus within 10 days from receipt thereof. The PCC filed said comment on August 8, 2016. In said comment, the PCC prayed that the ₱70.00 billion deal between PLDT-Globe Telecom and San Miguel be declared void for PLDT and Globe Telecom’s alleged failure to comply with the requirements of the Philippine Competition Act of 2015. The PCC also prayed that the CA direct Globe Telecom to: cease and desist from further implementing its co-acquisition of the San Miguel telecommunications assets; undo all acts consummated pursuant to said acquisition; and pay the appropriate administrative penalties that may be imposed by the PCC under the Philippine Competition Act for the illegal consummation of the subject acquisition. The case remains pending with the CA.

Meanwhile, PLDT filed a similar petition with the CA, docketed as CA G.R. SP No. 146528, which was raffled off to its 12th Division. On August 26, 2016, PLDT secured a TRO from said court. Thereafter, Globe Telecom’s petition was consolidated with that of PLDT, before the 12th Division. The consolidation effectively extended the benefit of PLDT’s TRO to Globe Telecom. The parties were required to submit their respective Memoranda, after which, the case shall be deemed submitted for resolution.

On February 17, 2017, the CA issued a Resolution denying PCC’s Motion for Reconsideration dated September 14, 2016 for lack of merit. In the same Resolution, the Court granted PLDT’s Urgent Motion for the Issuance of a Gag Order and ordered the PCC to remove the offending publication from its website and also to obey the sub judice rule and refrain from making any further public pronouncements regarding the transaction while the case remains pending. The Court also reminded the other parties, PLDT and Globe, to likewise observe the sub judice rule. For this purpose, the Court issued its gag order admonishing all the parties “to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to Intervene, and Admit the Petition-in Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.

On April 18, 2017, PCC filed a petition before the SC docketed as G.R. No. 230798, to lift the CA's order that has prevented the review of the sale of San Miguel Corp.'s telecommunications unit to PLDT Inc. and Globe Telecom. On April 25, 2017, Globe filed before the SC a Motion for Intervention with Motion to Dismiss the petition filed by the PCC.

As of June 30, 2017, the SC did not issue any TRO on the PCC's petition to lift the injunction issued by the CA. Hence, the PCC remains barred from reviewing the SMC deal.

On July 26, 2017, Globe received the SC en banc Resolution granting Globe's Extremely Urgent Motion to Intervene. In the same Resolution, the Supreme Court treated as Comment, Globe's Motion to Dismiss with Opposition Ad Cautelam to PCC's Application for the Issuance of a Writ of Preliminary Injunction and/or TRO.

On August 31, 2017, Globe received another Resolution of the SC en banc, requiring the PCC to file a Consolidated Reply to the Comments respectively filed by Globe and PLDT, within ten (10) days from notice. Globe has yet to receive the Consolidated Reply of PCC since the latter requested for extension of time to file the same.

In the meantime, in a Decision dated October 18, 2017, the CA, in CA-G.R. SP No. 146528 and CA-G.R. SP No. 146538, granted Globe and PLDTs Petition to permanently enjoin and prohibiting PCC from reviewing the acquisition and compelling the PCC to recognize the same as deemed approved. PCC elevated the case to the SC via Petition for Review on Certiorari.

Co-use of frequencies by PLDT/Smart and Globe Telecom as a result of the acquisition of controlling shares in VTI

On January 21, 2019, Globe filed its Comment to a petition filed by lawyers Joseph Lemuel Baligod and Ferdinand Tecson before the Supreme Court, against the NTC, PCC, Liberty Broadcasting Network, Inc., (LBNI), Bell Telecommunications Inc. (BellTel), Globe, PLDT and Smart, docketed as G.R. No. 242353. The petition sought to, among others, enjoin PLDT/Smart and Globe from co-using the frequencies assigned to LBII and BellTel in view of alleged irregularities in NTC's assignment of these frequencies to these entities. In its Comment, Globe argued that the frequencies were assigned in accordance with existing procedures prescribed by law and that to prevent the use of the frequencies will only result to its being idle and unutilized. Moreover, in view of the substantial investments made by Globe, for the use of these frequencies, enjoining its use will cause grave and irreparable injury not only to Globe but to subscribers who will be deprived of the benefits of fast and reliable telecommunications services. The other Respondents have likewise filed their respective Comments to the petition.

37 NTC Regulation

On February 8, 2019, the RA 11202 or the "Mobile Number Portability Act" was signed into law. The act allows subscribers to change their subscription plans or service providers and still keep their current mobile numbers. Moreover, no interconnection fee or charge shall be imposed for domestic calls and SMS made by a subscriber. This act shall take effect fifteen days after its publication in the Official Gazette or in any newspaper of general circulation.

Within ninety (90) days from the effectivity of the act, NTC shall coordinate with the Department of Information and Communications Technology, The National Privacy Commission, the Philippine Competition Commission, and other concerned agencies, and promulgate rules and regulations and other issuances to ensure the effective implementation of the Act. Within six (6) months from the promulgation of the rules and regulations, service providers shall comply with the provisions of the act and set up a mechanism for the purpose of implementing nationwide.

38 Events After Reporting Period

On February 3, 2020, the BOD approved the declaration of the first quarter cash dividend of ₱27 per common share, payable to common stockholders of record as of February 17, 2020. Total dividends amounting to ₱3.6 billion will be payable on March 4, 2020.

On January 17, 2020, Globe Telecom, Dito Telecommunity and Smart Communications incorporated a joint venture company, Telecommunications Connectivity, Inc. (TCI) in line with the new mobile number portability initiative of the government under RA 11202 also known as the "Mobile Number Portability Act" ("the MNP Act").

TCI is expected to bring in the technical infrastructure to fulfill its primary function as a clearinghouse for the three mobile operators to ensure the smooth implementation of number porting services.

IV. 2019 Ayala Corporation and Subsidiaries Special Form for Financial Statements (SFFS)

Certification

I, Josephine G. de Asis, Comptroller, a duly authorized representative of Ayala Corporation (Company) with SEC registration number 34218 with principal office at 32F to 35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, do hereby certify and state that:

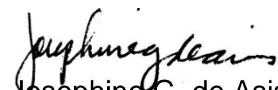
1) In compliance with the guidelines issued by the Securities and Exchange Commission (SEC) for the filing of structured and current reports by publicly listed companies with the SEC in light of the imposition of an Enhanced Community Quarantine and Stringent Social Distancing Measures over the entire region of Luzon to prevent the spread of the 2019 Coronavirus Disease (COVID-2019), the Company is timely filing its SEC Form PFHS dated April 8, 2020 by uploading the same through the PSE EDGE in accordance with the relevant PSE rules and procedures.

2) The information contained in SEC Form PHFS dated April 8, 2020 is **true and correct** to the best of my knowledge.

3) On behalf of the Company, I hereby **undertake** to a) submit hard or physical copies of SEC Form PHFS dated April 8, 2020 with proper notarization and certification, b) pay the filing fees (where applicable) c) pay the penalties due (where applicable) d) other impositions (where applicable), within ten (10) calendar days from the date of the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours.

4) I am fully aware that non-submission of hard/physical copies of reports as well as certification that they refer to one and the same document submitted online, within ten (10) calendar days from the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours, shall invalidate the reports, applications, compliance, requests and other documents submitted via email. Hence, the corresponding penalties under existing rules and regulations of the Commission shall apply without prejudice to the imposition of penalties under Section 54 of the Securities Regulation Code and other applicable existing rules and regulations for failure to comply with the orders of the Commission.

5) I am executing this certification this April 8, 2020 to attest to the truthfulness of the foregoing facts and for whatever legal purpose it may serve.



Josephine G. de Asis
Comptroller
Passport No. P0174919B

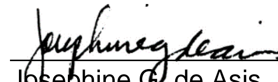
CERTIFICATION

This certifies that Ayala Corporation, with principal office at 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, and with Securities and Exchange Commission (SEC) Registration Number 34218, hereby undertakes to submit to SEC the Ayala Corporation and Subsidiaries' (Ayala Group) Special Form for Financial Statements of Publicly-Held and Investment Companies in diskette form (SFFS Form) in compliance with Section 27 of RA 8792 otherwise known as the "Electronic Commerce Act" and Sec. 37 of its Implementing Rules and Regulations within ten (10) calendar days from the date of the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours following the guidelines on alternative filing dated March 30, 2020. The SFFS Form in printed pdf form uploaded to the PSE Edge/sent by electronic mail to SEC contains the basic and material data in the financial statements submitted to the SEC for the calendar year 2019.

AYALA CORPORATION

By:

Jose Teodoro K. Limcaoco
Chief Finance Officer, Chief Risk Officer
Chief Sustainability Officer
and Finance Group Head



Josephine G. de Asis
Comptroller

SUBSCRIBED AND SWORN to before me this _____________ at Makati City, affiants exhibiting to me their respective passports/driver's license, to wit:

Name	Passport No.	Date and Place of Issue
Jose Teodoro K. Limcaoco	P6682433A	April 5, 2018 - DFA Manila
Josephine G. De Asis	P0174919B	January 9, 2019 - DFA Manila

Doc. No. ________
Page No. ________
Book No. ________
Series of 2020

Control No.:
Form Type: *PHFS (rev 2006)*

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: **AYALA CORPORATION AND SUBSIDIARIES**
CURRENT ADDRESS: **32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City**
TEL. NO.: **(632) 908-3000** **FAX NO.:** **(632) 848-5846**
COMPANY TYPE : **Holding Company** **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA	2019 (in P'000)	2018 (as restated) (in P'000)
A. ASSETS (A.1 + A.2 + A.3 + A.4 + A.5 + A.6 + A.7 + A.8 + A.9 + A.10)	**1,345,285,958**	**1,197,925,619**
A.1 Current Assets (A.1.1 + A.1.2 + A.1.3 + A.1.4 + A.1.5)	609,285,431	412,759,422
A.1.1 Cash and cash equivalents (A.1.1.1 + A.1.1.2 + A.1.1.3)	93,405,253	60,624,263
A.1.1.1 On hand	275,281	98,645
A.1.1.2 In domestic entities	47,727,767	50,028,280
A.1.1.3 In foreign banks/entities	45,402,205	10,497,338
A.1.2 Trade and Other Receivables (A.1.2.1 + A.1.2.2)	134,028,386	157,728,030
A.1.2.1 Due from domestic entities (A.1.2.1.1 + A.1.2.1.2 + A.1.2.1.3 + A.1.2.1.4)	115,903,209	138,814,212
A.1.2.1.1 Due from customers (trade)	85,443,929	105,292,183
A.1.2.1.2 Due from related parties	13,110,555	6,322,396
A.1.2.1.3 Others	19,380,789	29,523,840
A.1.2.1.3. Contract assets	3,159,675	3,736,447
A.1.2.1.3. Advances, dividends and other receivable	16,221,114	25,787,393
A.1.2.1.4 Allowance for doubtful accounts (negative entry)	(2,032,064)	(2,324,207)
A.1.2.2 Due from foreign entities, specify (A.1.2.2.1 + A.1.2.2.2 + A.1.2.2.3 + A.1.2.2.4)	18,125,177	18,913,818
A.1.2.2.1 Due from customers (trade)	16,212,899	18,098,561
A.1.2.2.2 Due from related parties	1,380,673	5,288
A.1.2.2.3 Other receivables	696,420	915,876
A.1.2.2.4 Allowance for doubtful accounts (negative entry)	(164,815)	(105,907)
A.1.3 Inventories (A.1.3.1 + A.1.3.2 + A.1.3.3 + A.1.3.4 + A.1.3.5 + A.1.3.6)	135,064,303	120,560,493
A.1.3.1 Raw materials and supplies	8,399,817	10,990,222
A.1.3.2 Goods in process (including unfinished goods, growing crops, unfinished seeds)	1,214,536	681,059
A.1.3.3 Finished goods	551,462	108,929
A.1.3.4 Merchandise/Goods in transit	-	-
A.1.3.5 Unbilled Services (in case of service providers)	-	-
A.1.3.6 Others, specify (A.1.3.6.1 + A.1.3.6.2 + A.A.3.6.3)	124,898,488	108,780,283
A.1.3.6.1 Real Estate (Residential, commercial lots, condominium units and offices)	120,287,686	103,959,585
A.1.3.6.2 Vehicles, Parts and Accessories	4,142,126	4,669,650
A.1.3.6.3 Others	468,676	151,048
A.1.4 Financial Assets other than Cash/Receivables/Equity investments (A.1.4.1 + A.1.4.2 + A.1.4.3 + A.1.4.4 + A.1.4.5 + A.1.4.6)	13,387,801	5,956,489
A.1.4.1 Financial Assets at Fair Value through Profit or Loss - issued by domestic entities:	-	-
A.1.4.1.1 National Government		
A.1.4.1.2 Public Financial Institutions		
A.1.4.1.3 Public Non-Financial Institutions		
A.1.4.1.4 Private Financial Institutions	-	-
A.1.4.1.5 Private Non-Financial Institutions		
A.1.4.2 Held to Maturity Investments - issued by domestic entities: (A.1.4.2.1 + A.1.4.2.2 + A.1.4.2.3 + A.1.4.2.4 + A.1.4.2.5)	-	-
A.1.4.2.1 National Government	-	-
A.1.4.2.2 Public Financial Institutions		
A.1.4.2.3 Public Non-Financial Institutions		
A.1.4.2.4 Private Financial Institutions		
A.1.4.2.5 Private Non-Financial Institutions		

NOTE:

This special form is applicable to Investment Companies and Publicly-held Companies (enumerated in Section 17.2 of the Securities Regulation Code (SRC), except banks and insurance companies). As a supplemental form to PHFS, it shall be used for reporting Consolidated Financial Statements of Parent corporations and their subsidiaries.

Domestic corporations are those which are incorporated under Philippine laws or branches/subsidiaries of foreign corporations that are licensed to do business in the Philippines where the center of economic interest or activity is within the Philippines. On the other hand, foreign corporations are those that are incorporated abroad, including branches of Philippine corporations operating abroad.

Financial Institutions are corporations principally engaged in financial intermediation, facilitating financial intermediation, or auxiliary financial services. Non-Financial institutions refer to corporations that are primarily engaged in the production of market goods and non-financial services.

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES
NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 FAX NO.: (632) 848-5846
COMPANY TYPE : Holding Company PSIC:
If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA	2019 (in P'000)	2018 (as restated) (in P'000)
A.1.4.3 Loans and Receivables - issued by domestic entities: (A.1.4.3.1 + A.1.4.3.2 + A.1.4.3.3 + A.1.4.3.4 + A.1.4.3.5)	13,387,801	5,956,489
A.1.4.3.1 National Government		
A.1.4.3.2 Public Financial Institutions		
A.1.4.3.3 Public Non-Financial Institutions		
A.1.4.3.4 Private Financial Institutions	13,387,801	5,956,489
A.1.4.3.5 Private Non-Financial Institutions		
A.1.4.4 Available-for-sale financial assets - issued by domestic entities: (A.1.4.4.1 + A.1.4.4.2 + A.1.4.4.3 + A.1.4.4.4 + A.1.4.4.5)		
A.1.4.4.1 National Government		
A.1.4.4.2 Public Financial Institutions		
A.1.4.4.3 Public Non-Financial Institutions		
A.1.4.4.4 Private Financial Institutions		
A.1.4.4.5 Private Non-Financial Institutions		
A.1.4.5 Financial Assets issued by foreign entities:	-	-
A.1.4.5.1 Financial Assets at fair value through profit or loss	-	-
A.1.4.5.2 Held-to-maturity investments		
A.1.4.5.3 Loans and Receivables		
A.1.4.5.4 Available-for-sale financial assets	-	-
A.1.4.6 Allowance for decline in market value (negative entry)		
A.1.5 Other Current Assets (state separately material items) (A.1.5.1 + A.1.5.2 + A.1.5.3)	233,399,688	67,890,147
A.1.5.1 Input VAT	15,877,481	15,694,759
A.1.5.2 Prepaid expenses	15,374,122	13,546,821
A.1.5.3 Advances to contractors	13,260,900	11,452,729
A.1.5.4 Financial assets at FVTPL	9,726,080	9,236,804
A.1.5.5 Creditable withholding tax	5,546,478	4,771,550
A.1.5.6 Derivative assets and Deposits in escrow	578,138	388,454
A.1.5.7 Assets under PFRS 5	170,466,694	10,162,121
A.1.5.8 Others (including Concession financial receivable)	2,569,795	2,636,909
A.2 Property, plant, and equipment (A.2.1 + A.2.2 + A.2.3 + A.2.4 + A.2.5 + A.2.6 + A.2.7+ A.2.8)	88,781,755	104,492,357
A.2.1 Land	-	-
A.2.2 Land, buildings and improvements including leasehold improvement	35,911,906	27,212,611
A.2.3 Machinery and equipment (on hand and in transit)	46,209,533	29,176,676
A.2.4 Transportation/motor vehicles, automotive equipment, autos and trucks, and	5,367,559	6,005,215
A.2.5 Others, specify (A.2.5.1 + A.2.5.2 + A.2.5.3 + A.2.5.4 + A.2.5.5)	33,418,956	72,275,936
A..2.5.1 Construction in progress	1,885,665	44,914,550
A..2.5.2 Hotel property and equipment	18,686,025	14,441,262
A..2.5.3 Furniture and fixtures	12,847,266	12,920,124
A..2.5.4		
A..2.5.5		
A.2.6 Appraisal increase, specify (A.2.6.1 + A.2.6.2 + A.2.6.3 + A.2.6.4 + A.2.6.5)		
A..2.6.1		
A..2.6.2		
A..2.6.3		
A..2.6.4		
A..2.6.5		
A.2.7 Accumulated Depreciation (negative entry)	(32,126,199)	(30,178,081)
A.2.8 Impairment Loss or Reversal (if loss, negative entry)		
A.3 Investments accounted for using the equity method (A.3.1 + A.3.2 + A.3.3 + A.3.4)	246,731,276	240,140,558
A.3.1 Equity in domestic subsidiaries/affiliates	228,865,481	208,999,434
A.3.2 Equity in foreign subsidiaries/affiliates	17,865,795	31,141,124
A.3.3 Others, specify (A.3.3.1 + A.3.3.2 + A.3.3.3 + A.3.3.4 + A.3.3.5)		
A.3.3.1		
A.3.3.2		
A.3.3.3		
A.3.3.4		
A.3.3.5		
A.4 Investment in bonds and other securities	8,208,898	3,034,245
A.5 Investment Property and Land and Improvements	246,732,338	227,645,548
A.6 Intangible Assets	16,625,926	16,553,369
A.6.1 Major item/s, specify (A.6.1.1 + A.6.1.2)	15,500,609	16,193,031
A.6.1.1 Goodwill	9,545,520	9,026,238
A.6.1.2 UnpatentedTechnology/Intellectual Properties	1,096,858	1,261,058
A.6.1.3 Project Development Cost	985,351	1,011,341
A.6.1.4 Leasehold and other rights	3,636,872	4,590,933
A.6.1.5 Licenses	236,008	303,461
A.6.2 Others, specify (A.6.2.1 + A.6.2.2)	1,125,317	360,338
A.6.2.1 Trademarks	879,828	115,070
A.6.2.2 Developed software, customer relationships and others	245,489	245,268
A.7 Service Concession Assets	1,638,516	98,404,486
A.8 Assets included in Disposal Groups Classified as Held for Sale		

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR CONSOLIDATED FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT
NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 FAX NO.: (632) 848-5846
COMPANY TYPE : Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA	2019 (in P'000)	2018 (as restated) (in P'000)
A.9 Long-term receivables (net of current portion) (A.9.1 + A.9.2 + A.9.3)	55,720,290	42,296,240
A.9.1 From domestic entities, specify (A.9.1.1 + A.9.1.2 + A.9.1.3)	50,909,088	42,488,482
A.9.1.1 Trade Receivables	46,241,200	38,003,893
A.9.1.2 Noncurrent contract assets	-	492,943
A.9.1.3 Related parties and Other receivables	4,667,888	3,991,646
A.9.2 From foreign entities, specify (A.9.2.1 + A.9.2.2 + A.9.2.3)	5,042,685	393,881
A.9.2.1 Related parties and Other receivables	5,042,685	393,881
A.9.2.2		
A.9.2.3		
A.9.3 Allowance for doubtful accounts, net of current portion (negative entry)	(231,483)	(586,123)
A.10 Other Assets (A.10.1 + A.10.2 + A.10.3 + A.10.4 + A.10.5)	71,561,528	52,599,394
A.10.1 Deferred Tax Assets	14,246,325	15,546,040
A.10.2 Advances to contractors	13,664,137	10,272,615
A.10.3 Deferred charges	11,517,876	9,650,001
A.10.4 Others, specify (A.10.4.1 + A.10.4.2 + A.10.4.3 + A.10.4.4+A.10.4.5)	32,133,190	17,130,738
A.10.4.1 Right-of-use assets	18,220,572	-
A.10.4.2 Deposits - others	3,330,646	2,478,582
A.10.4.3 Creditable withholding taxes	2,208,663	500,700
A.10.4.4 Deferred input VAT	2,045,667	6,907,123
A.10.4.5 Others (incl. Pension, Deferred FCDA and Concession financial receiv	6,327,642	7,244,333
A.10.5 Allowance for write-down of deferred charges/bad accounts (negative entry)		
B. LIABILITIES (B.1 + B.2 + B.3 + B.4 + B.5)	**835,972,400**	**728,817,264**
B.1 Current Liabilities (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5 + B.1.6 + B.1.7)	402,656,865	330,102,855
B.1.1 Trade and Other Payables to Domestic/Foreign Entities (B.1.1.1 + B.1.1.2 + B.1.1.3 + B.1.1.4 + B.1.1.5 + B.1.1.6)	167,681,567	184,125,450
B.1.1.1 Loans/Notes Payables		
B.1.1.2 Trade Payables	104,887,772	120,312,117
B.1.1.3 Payables to Related Parties	1,084,061	1,072,551
B.1.1.4 Advances from Directors, Officers, Employees and Principal Stockholders		
B.1.1.5 Accruals, specify material items (B.1.1.5.1 + B.1.1.5.2 + B.1.1.5.3)	47,582,498	53,197,511
B.1.1.5.1 Accrued expenses (project, personnel cost, etc.)	20,773,961	28,371,851
B.1.1.5.2 Taxes payable	23,436,569	20,688,048
B.1.1.5.3 Interest payable	3,371,968	4,137,612
B.1.1.6 Others, specify (B.1.1.6.1 + B.1.1.6.2 + B.1.1.6.3)	14,127,236	9,543,271
B.1.1.6.1 Liability for purchase of land	9,936,887	2,544,623
B.1.1.6.2 Retention payable	4,190,349	6,762,286
B.1.1.6.3 DRP obligation	-	236,362
B.1.2 Trade and Other Payables to Foreign Entities (specify) (B.1.2.1 + B.1.2.2 + B.1.2.3)	23,238,394	16,501,477
B.1.2.1 Accounts payable and accrued expenses	23,238,394	16,501,477
B.1.2.2		
B.1.2.3		
B.1.3 Provisions		
B.1.4 Financial Liabilities (excluding Trade and Other Payables and Provisions) (B.1.4.1 + B.1.4.2 + B.1.4.3 + B.1.4.4 + B.1.4.5)	30,040,984	39,632,414
B.1.4.1 Short-term debt	29,788,643	39,518,245
B.1.4.2 Estimated liabilities for land and property development		
B.1.4.3 Cumulative redeembale preferred shares-current		
B.1.4.4 Unealized gain on real estate sales		
B.1.4.5 Contract liabilities	252,341	114,169
B.1.5 Income tax payable	2,396,901	3,406,921
B.1.6 Service concession obligation	13,607	820,802
B.1.7 Others, specify (If material, state separately; indicate if the item is payable to public/private or financial/non-financial institutions) (B.1.7.1 + B.1.7.2 + B.1.7.3	179,285,412	85,615,791
B.1.7.1 Dividends declared and not paid at balance sheet date	4,496,286	4,131,317
B.1.7.2 Acceptances Payable	-	-
B.1.7.3 Liabilities under Trust Receipts/ Lease liabilities	1,028,067	-
B.1.7.4 Portion of Long-term Debt Due within one year	23,878,725	48,480,559
B.1.7.5 Deferred Income/ Liabilities under PFRS 5	121,487,625	1,075,272
B.1.7.6 Any other current liability in excess of 5% of Total Current Liabiilities,	28,394,709	31,928,643
B.1.7.6.1 Customers' deposits	25,481,979	29,043,778
B.1.7.6.2 Financial liabilities on put option	1,823,114	1,386,926
B.1.7.6.3 Other liabilities	1,089,616	1,497,939

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES
NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 **FAX NO.:** (632) 848-5846
COMPANY TYPE : Holding Company **PSIC:**
If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA		2019 (in P'000)	2018 (as restated) (in P'000)
B.2 Long-term Debt - Non-current Interest-bearing Liabilities (B.2.1 + B.2.2 + B.2.3 + B.2.4 + B.2.5)		351,670,789	324,262,828
B.2.1 Domestic Public Financial Institutions			
B.2.2 Domestic Public Non-Financial Institutions			
B.2.3 Domestic Private Financial/Non-Financial Institutions		307,907,853	305,807,467
B.2.4 Domestic Private Non-Financial Institutions			
B.2.5 Foreign Financial Institutions		43,762,936	18,455,361
B.3 Indebtedness to Affiliates and Related Parties (Non-Current)			
B.4 Liabilities Included in the Disposal Groups Classified as Held for Sale			
B.5 Service concession obligation - net of current portion		52,412	7,018,211
B.6 Other Liabilities (B.5.1 + B.5.2)		81,592,334	67,433,370
B.6.1 Deferred Tax Liabilities		8,035,817	10,999,354
B.6.2 Others, specify (B.5.2.1 + B.5.2.2 + B.5.2.3 + B.5.2.4 + B.5.2.5)		73,556,517	56,434,016
B.6.2.1 Lease liabilities - net of current portion		21,353,099	-
B.6.2.2 Deposits and deferred credits		23,073,011	29,702,272
B.6.2.3 Retentions payable		6,751,643	5,721,123
B.6.2.4 Contractors payable		6,595,611	7,264,642
B.6.2.5 Other liabilities (including pension, liability for purchase of land, DRP obligation, deferred		15,783,153	13,745,979
EQUITY (C.3 + C.4 + C.5 + C.6 + C.7 + C.8 + C.9+C.10)		**509,313,558**	**469,108,355**
C.1 Authorized Capital Stock (no. of shares, par value and total value; show details) (C.1.1+C.1.2+C.1.3)			
C.1.1 Common shares	(900,000,000 x P50 par value in 2019 and 2018)	45,000,000	45,000,000
C.1.2 Preferred Shares A	(12,000,000 x P100 par value in 2019 and 2018)	1,200,000	1,200,000
C.1.3 Preferred Shares B	(58,000,000 x P100 par value in 2019 and 2018)	5,800,000	5,800,000
C.1.4 Preferred Shares C	(40,000,000 x P100 par value in 2019 and 2018)	4,000,000	4,000,000
C.1.5 Voting Preferred Shares	(200,000,000 x P1 par value in 2019 and 2018)	200,000	200,000
C.2 Subscribed Capital Stock (no. of shares, par value and total value) (C.2.1 + C.2.2 + C.2.3)		36,534,180	36,431,375
C.2.1 Common shares	(626,683,595 x P50 par value in 2019); (630,627,482 x P50 par value in 2018)	31,334,180	31,531,375
C.2.2 Preferred Shares A	(12,000,000* x P100 par value; *all are in Treasury shares)	-	-
C.2.3 Preferred Shares B	(50,000,000* x P100 par value in 2019); (47,000,000* x P100 par value in 2018) *net of Treas	5,000,000	4,700,000
C.2.4 Voting Preferred Shares	(200,000,000 x P1 par value in 2019 and 2018)	200,000	200,000
C.3 Paid-up Capital Stock (C.3.1 + C.3.2 + C.3.3 + C.3.4)		37,038,979	37,205,657
C.3.1 Common shares		29,838,979	30,005,657
C.3.2 Preferred Shares A		1,200,000	1,200,000
C.3.3 Preferred Shares B		5,800,000	5,800,000
C.3.4 Voting Preferred Shares		200,000	200,000
C.4 Additional Paid-in Capital / Capital in excess of par value / Paid-in Surplus		47,837,246	46,156,018
C.5 Minority Interest		180,506,293	178,500,886
C.6 Others, specify (C.6.1 + C.6.2 + C.6.3)		24,214,316	12,630,805
C.6.1 Share-based payments		214,617	238,871
C.6.2 Other Comprehensive Income (CTA, FV reserve of financial assets at FVOCI and Remeasurement		184,206	432,795
C.6.3 Equity reserve / Equity conversion option		25,282,942	11,959,139
C.6.4 Reserves under PFRS 5		(1,467,449)	-
C.7 Appraisal Surplus/Revaluation Increment in Property/Revaluation Surplus		-	-
C.8 Retained Earnings (C.8.1 + C.8.2)		225,454,620	196,914,989
C.8.1 Appropriated		-	-
C.8.2 Unappropriated		225,454,620	196,914,989
C.9 Head / Home Office Account (for Foreign Branches only)		-	-
C.10 Cost of Stocks Held in Treasury/Preferred shares held by a subsdiary (negative entry)		(5,737,896)	(2,300,000)
TOTAL LIABILITIES AND EQUITY (B + C)		**1,345,285,958**	**1,197,925,619**

Control No.:
Form Type: *PHFS (rev 2006)*

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES

CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City

TEL. NO.: (632) 908-3000 FAX NO.: (632) 848-5846

COMPANY TYPE : Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 2. Income Statement

FINANCIAL DATA	2019 (in P'000)	2018 (as restated) (in P'000)	2017 (as restated) (in P'000)
A. REVENUE / INCOME (A.1 + A.2 + A.3)	330,905,559	295,293,483	258,512,729
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from Primary Activity)	233,219,459	228,368,867	201,247,020
A.2 Share in the Profit or Loss of Associates and Joint Ventures	22,344,352	19,760,662	18,037,250
A.3 Other Revenue (A.3.1 + A.3.2 + A.3.3 + A.3.4 + A.3.5)	39,700,950	35,671,301	30,384,981
A.3.1 Rental Income	31,687,075	28,522,420	24,321,316
A.3.2 Receipts from Sale of Merchandise (trading) (from Secondary Activity)	-	-	-
A.3.3 Sale of Real Estate or other Property and Equipment	-	-	-
A.3.4 Royalties, Franchise Fees, Copyrights (books, films,	-	-	-
A.3.5 Others, specify (A.3.5.1 + A.3.5.2 + A.3.5.3 + A.3.5.4 + A.3.5.5 + A.3.5.6 + A.3.5.7 + A.3.5.8)	8,013,875	7,148,881	6,063,665
A.3.5.1 Interest income from real estate	7,890,972	7,042,078	5,409,944
A.3.5.2 Dividend income	122,903	106,803	653,721
A.3.5.3			
A.3.5.4			
A.3.5.5			
A.3.5.6			
A.3.5.7			
A.3.5.8			
A.4 Other Income (non-operating) (A.4.1 + A.4.2 + A.4.3 + A.4.4)	35,640,798	11,492,653	8,843,478
A.4.1 Interest Income	3,352,308	2,293,765	1,047,050
A.4.2 Dividend Income			
A.4.3 Gain / (Loss) from selling of Assets, specify (A.4.3.1 + A.4.3.2 + A.4.3.3 + A.4.3.4)	25,416,784	2,573,072	2,300,450
A.4.3.1 Gain on sale of investments	24,696,571	1,514,439	1,394,560
A.4.3.2 Gain on sale of financial assets at FVTPL	528,011	996,170	779,553
A.4.3.3 Gain on sale of other assets	192,202	62,463	126,337
A.4.3.4			
A.4.4 Others, specify (A.4.4.1 + A.4.4.2 + A.4.4.3 + A.4.4.4)	6,871,706	6,625,816	5,495,978
A.4.4.1 Gain / (Loss) on Foreign Exchange	(258,223)	(222,845)	(126,365)
A.4.4.2 Remeasurement gain (loss) on previously held inte	2,020,662	(1,968,599)	-
A.4.4.3 Revenue from management contracts	909,212	622,149	960,851
A.4.4.4 Others	4,200,055	8,195,111	4,661,492
B. COST OF GOODS SOLD (B.1 + B.2 + B.3)			
B.1 Cost of Goods Manufactured (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5)			
B.1.1 Direct Material Used	-	-	-
B.1.2 Direct Labor	-	-	-
B.1.3 Other Manufacturing Cost / Overhead	-	-	-
B.1.4 Goods in Process, Beginning	-	-	-
B.1.5 Goods in Process, End (negative entry)	-	-	-
B.2 Finished Goods, Beginning	-	-	-
B.3 Finished Goods, End (negative entry)	-	-	-
C. COST OF SALES (C.1 + C.2 + C.3)	189,983,258	189,706,638	168,671,311
C.1 Purchases/ Cost of sales and rendering of services	189,983,258	189,706,638	168,671,311
C.2 Merchandise Inventory, Beginning	-	-	-
C.3 Merchandise Inventory, End (negative entry)	-	-	-
D. GROSS PROFIT (A - B - C)	140,922,301	105,586,845	89,841,418

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 **FAX NO.:** (632) 848-5846
COMPANY TYPE : Holding Company **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 2. Income Statement

FINANCIAL DATA	2019 (in P'000)	2018 (as restated) (in P'000)	2017 (as restated) (in P'000)
E. OPERATING EXPENSES (E.1 + E.2 + E.3 + E.4)	**32,112,815**	**25,956,728**	**21,644,500**
E.1 Selling or Marketing Expenses			
E.2 Administrative Expenses			
E.3 General Expenses	32,112,815	25,956,728	21,644,500
E.4 Other Expenses, specify (E.4.1 + E.4.2 + E.4.3 + E.4.4 + E.4.5 + E.4.6 + E.4.7 + E.4.8 + E.4.9 + E.4.10)	-	-	-
E.4.1			
E.4.2			
E.4.3			
E.4.4			
E.4.5			
E.4.6			
E.4.7			
E.4.8			
E.4.9			
E.4.10			
F. FINANCE COSTS (F.1 + F.2 + F.3 + F.4 + F.5)	**22,409,526**	**17,378,936**	**13,080,794**
F.1 Interest on Short-term Promissory Notes/Short-term debt	1,307,581	595,375	659,044
F.2 Interest on Long-term Promissory Notes/Long-term debt	18,971,380	16,216,479	11,954,115
F.3 Interest on bonds, mortgages and other long-term loans	-	-	-
F.4 Amortization of discount on long-term debt	-	7,259	386,843
F.5 Other interests, specify (F.5.1 + F.5.2 + F.5.3 + F.5.4 + F.5.5)	2,130,565	559,823	80,792
F.5.1 Accretion of lease liability	1,202,425	-	-
F.5.2 Others	928,140	559,823	80,792
F.5.3			
F.5.4			
G. NET INCOME (LOSS) BEFORE TAX (D - E - F)	**86,399,960**	**62,251,181**	**55,116,124**
H. INCOME TAX EXPENSE (negative entry)	**(13,984,137)**	**(13,367,201)**	**(10,579,218)**
I. INCOME(LOSS) AFTER TAX	**72,415,823**	**48,883,980**	**44,536,906**
J. Amount of (i) Post-Tax Profit or Loss of Discontinued Operations; and (ii) Post-Tax Gain or Loss Recognized on theMeasurement of Fair Value less Cost to Sell or on the Disposal of the Assets or Disposal Group(s) constituting the	**(30,433,493)**	**6,181,134**	**5,329,869**
J.1 Operations of the segment under PFRS 5	(30,433,493)	6,181,134	5,329,869
J.2			
K. PROFIT OR LOSS ATTRIBUTABLE TO MINORITY INTEREST	**6,703,000**	**23,247,393**	**19,602,933**
L PROFIT OR LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**35,279,330**	**31,817,721**	**30,263,842**
M. EARNINGS (LOSS) PER SHARE			
M.1 Basic	54.12	48.80	46.67
M.2 Diluted	53.93	48.35	45.99

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 FAX NO.: (632) 848-5846
COMPANY TYPE Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 3. Cash Flow Statements

FINANCIAL DATA	2019 (in P'000)	2018 (as restated) (in P'000)	2017 (as restated) (in P'000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) Before Tax and Extraordinary Items	54,415,747	70,184,839	62,126,534
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	18,641,311	13,561,593	12,297,860
Amortization, specify: Amortization of discount on long-term debt-net	-	-	-
Others, specify: Cost of share-based payments	135,946	(9,001)	(504)
Interest & other financing charges-net of amount capitalized	24,484,235	19,101,077	14,441,334
Provision for impairment/ losses/ write-downs	41,092,857	1,464,387	1,183,846
Mark to market gain on financial assets at FVTPL and gain on sale of financial assets at FVTPL	(133,231)	(996,170)	(760,740)
Dividend income	(122,903)	(106,803)	(653,721)
Other income	(220,960)	(1,637,720)	18,528
Gain on sale of investments and other assets	(24,888,773)	(1,576,902)	(1,520,897)
Remeasurement gain on previously held interest	(2,020,662)	-	-
Interest Income	(11,647,937)	(9,747,726)	(6,813,481)
Share of profit of associates and joint ventures	(22,997,854)	(20,459,804)	(18,494,458)
Write-down of Property, Plant, and Equipment			
Changes in Assets and Liabilities:			
Decrease (Increase) in:			
Accounts and notes receivable – trade	12,256,330	(34,762,405)	(20,003,368)
Inventories	(3,419,900)	6,422,504	8,575,205
Service Concession Asset	(12,011,636)	(10,445,119)	(10,667,636)
Others, specify: Contract assets	(401,809)	(1,332,372)	-
Other current assets	(2,838,291)	2,733,232	(9,028,474)
Increase (Decrease) in:			
Accounts payable and accrued expenses	(11,394,983)	29,311,790	5,305,175
Income and Other Taxes Payable			
Others, specify: Contact liabilities	483,816	(166,729)	-
Net pension liabilities	977,070	(291,599)	462,117
Other current liabilities	(3,992,761)	7,301,018	7,857,053
Net cash provided by operating activities associated with noncurrent assets held for sale			
A. Net Cash Provided by (Used in) Operating Activities (sum of above rows)	**26,117,553**	**43,946,142**	**21,106,298**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of financial assets FVOCI	65,660	23,447	1,834,186
Sale/maturities of financial assets at FVTPL	765,763	71,690	3,408,555
Sale/redemptions of investments in associates and joint ventures	30,353,702	1,106,080	944,104
Disposal of property, plant and equipment and intangible assets	766,655	4,687,018	1,016,548
Disposal of investment properties	1,632,666	1,754,974	165
Maturities of (additions to) short-term investments	(7,540,567)	(556,250)	(4,391,533)
Additions to:			
Investments in associates and joint ventures	(11,898,192)	(37,633,169)	(11,779,429)
Property, plant and equipment	(20,965,834)	(14,006,370)	(25,189,980)
Investment properties	(29,306,538)	(37,287,003)	(30,430,200)
Accounts and notes receivable - nontrade	(3,580,862)	(11,265,591)	(1,336,144)
Financial assets at FVTPL	(1,435,128)	(1,122,194)	(1,555,243)
Financial assets at FVOCI	(3,137,883)	(92,673)	(799,529)
Service concession assets	(29,525)	(10,725)	(26,290)
Intangible assets	849,934	(488,357)	(492,057)
Dividends received from associates and joint ventures	9,004,700	7,478,203	8,953,251
Acquisitions through business combinations - net of cash acquired	(1,143,592)	(6,831,376)	(5,322,990)
Decrease (increase) in other noncurrent assets	(14,448,144)	(13,819,311)	5,775,538
Net cash provided by (used in) investing activities associated with noncurrent assets held for sale, including cash balance			
B. Net Cash Provided by (Used in) Investing Activities (sum of above rows)	**(50,047,185)**	**(107,991,607)**	**(59,391,048)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Loans			
Long-term debt and short-term debt	289,335,723	188,614,111	225,841,869
Issuance of preferred shares	15,000,000	-	-
Issuance of common shares	-	8,069,960	-
Others, specify: Collections of (additions to) subscriptions receivable	274,677	303,904	374,371
Payments of:			
Dividends paid	(11,919,555)	(10,769,921)	(10,864,490)
Long-term debt and short-term debt	(202,331,063)	(137,303,524)	(172,070,751)
Cost of issuance of shares	(120,327)	(13,703)	-
Service concession obligation paid	(838,286)	(712,941)	(778,819)
Increase in:			
Other noncurrent liabilities	(749,826)	12,202,242	1,181,105
Non-controlling interests in consolidated subsidiaries	(3,692,798)	20,321	(1,362,580)
Net cash used in financing activities assoicated with noncurrent assets held for sale			
C. Net Cash Provided by (Used in) Financing Activities (sum of above rows)	**65,668,880**	**60,410,449**	**42,320,705**
NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)	41,739,248	(3,635,016)	4,035,955
Cash and Cash Equivalents			
Beginning of year	60,624,262	64,259,279	60,223,324
End of year	**102,363,510**	**60,624,263**	**64,259,279**

Control No.:
Form Type: GFFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 **FAX NO.:** (632) 848-5846
COMPANY TYPE : Holding Company **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 4. Statement of Changes in Equity

	(Amount in P'000)												
F I N A N C I A L D A T A	Capital Stock	Subscribed	Additional Paid-in Capital	Subscriptions receivable	Share-based Payments	Cumulative Translation Adj	Retained Earnings	Remeasurement Gain (Loss) on Defined Benefit Plans/Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets/Fair Value Reserve of Financial Assets at FVOCI	Other Reserves	Reserves under PFRS 5	Treasury Stock	Minority Interest	TOTAL
A. Balance, *At January 1, 2017*	**38,039,021**	**172,209**	**36,928,326**	**(759,796)**	**495,759**	**1,414,550**	**145,622,311**	**(2,014,868)**	**13,325,020**	**-**	**(2,300,000)**	**140,073,346**	**370,995,878**
A.1 Correction of Error(s)	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Effect of adoption of new and revised accounting standards	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Effect of adoption of Philippine Interpretation IFRIC 12	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Restated Balance	**38,039,021**	**172,209**	**36,928,326**	**(759,796)**	**495,759**	**1,414,550**	**145,622,311**	**(2,014,868)**	**13,325,020**	**-**	**(2,300,000)**	**140,073,346**	**370,995,878**
C. Surplus	-	-	-	-	-	-	-	-	-	-	-	-	-
C.1 Surplus (Deficit) on Revaluation of Properties	-	-	-	-	-	-	-	-	-	-	-	-	-
C.2 Surplus (Deficit) on Revaluation of Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
C.3 Currency Translation Differences	-	-	-	-	-	1,379,753	-	-	-	-	-	-	1,379,753
C.4 Other Surplus (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.1 Net unrealized gains for the year recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.2 Net Income	-	-	-	-	-	-	30,263,842	-	-	-	-	19,602,933	49,866,775
C.4.3 Other comprehensive income	-	-	-	-	-	-	-	(396,382)	-	-	-	1,194,857	798,475
C.4.4 Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.5 Changes in fair value of available-for-sale financial	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.6 Cost of share-based payments of Ayala Cororation	-	-	-	-	(504)	-	-	-	-	-	-	-	(504)
C.4.7 Equity-conversion option	-	-	-	-	-	-	-	-	7,864	-	-	2,048	9,912
C.4.8 Change in non-controlling interests	-	-	-	-	-	-	-	-	(619,600)	-	-	(732,980)	(1,352,580)
D. Dividends (negative entry)	-	-	-	-	-	-	(5,584,125)	-	-	-	-	(5,395,567)	(10,979,692)
E. Appropriation for (specify) others	-	-	-	-	-	-	-	-		-	-	-	-
E.1	-	-	-	-	-	-	-	-		-	-	-	-
E.2	-	-	-	-	-	-	-	-		-	-	-	-
E.3	-	-	-	-	-	-	-	-		-	-	-	-
E.4	-	-	-	-	-	-	-	-		-	-	-	-
E.5	-	-	-	-	-	-	-	-		-	-	-	-
F. Issuance of Capital Stock	-	-	-	-	-	-	-	-		-	-	-	-
F.1 Common Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
F.2 Preferred Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
F.3 Collection of subscription receivables	55,377	(55,377)	-	374,485	-	-	-	-	-	-	-	-	374,485
F.4 Exercise/cancellation of ESOP/ESOWN	5,479	47,893	1,001,601	(808,044)	(247,043)	-	-	-	-	-	-	-	(114)
F.5 Redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-
G. Balance, *At December 31, 2017*	**38,099,877**	**164,725**	**37,929,927**	**(1,193,355)**	**248,212**	**2,794,303**	**170,302,028**	**(2,411,250)**	**12,713,284**	**-**	**(2,300,000)**	**154,744,637**	**411,092,388**
G.1 Correction of Error (s)	-	-	-	-	-	-	-	-	-	-	-	-	-
G.2 Effect of adoption of Pre-need Rule 31	-	-	-	-	-	-	-	-	-	-	-	-	-
G.3 Effect of adoption of new accounting standards	-	-	-	-	-	-	413,714	1,261,195	-	-	-	227,531	1,902,440
H. Restated Balance	**38,099,877**	**164,725**	**37,929,927**	**(1,193,355)**	**248,212**	**2,794,303**	**170,715,742**	**(1,150,055)**	**12,713,284**	**-**	**(2,300,000)**	**154,972,168**	**412,994,828**
I. Surplus	-	-	-	-	-	-	-	-	-	-	-	-	-
I.1 Surplus (Deficit) on Revaluation of Properties	-	-	-	-	-	-	-	-	-	-	-	-	-
I.2 Surplus (Deficit) on Revaluation of Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
I.3 Currency Translation Differences	-	-	-	-	-	(517,634)	-	-	-	-	-	-	(517,634)
I.4 Other Surplus (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.1 Net unrealized gains for the year recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.2 Net Income	-	-	-	-	-	-	31,817,721	-	-	-	-	23,247,393	55,065,114
I.4.3 Other comprehensive income	-	-	-	-	-	-	-	(693,819)	-	-	-	(86,212)	(780,031)
I.4.4 Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.5 Changes in fair value of available-for-sale financial	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.6 Cost of share-based payments	-	-	-	-	(9,001)	-	-	-	-	-	-	-	(9,001)
I.4.7 Equity-conversion option	-	-	-	-	-	-	-	-	262,173	-	-	77,840	340,013
I.4.8 Change in non-controlling interests	-	-	-	-	-	-	-	-	(1,016,318)	-	-	5,953,856	4,937,538
J. Dividends (negative entry)	-	-	-	-	-	-	(5,618,474)	-	-	-	-	(5,664,159)	(11,282,633)
K. Appropriation for (specify)	-	-	-	-	-	-	-	-		-	-	-	-
K.1	-	-	-	-	-	-	-	-		-	-	-	-
K.2	-	-	-	-	-	-	-	-		-	-	-	-
K.3	-	-	-	-	-	-	-	-		-	-	-	-
K.4	-	-	-	-	-	-	-	-		-	-	-	-

Control No.:
Form Type: GFFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 **FAX NO.:** (632) 848-5846
COMPANY TYPE : Holding Company **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 4. Statement of Changes in Equity

	(Amount in P'000)												
F I N A N C I A L D A T A	Capital Stock	Subscribed	Additional Paid-in Capital	Subscriptions receivable	Share-based Payments	Cumulative Translation Adj	Retained Earnings	Remeasurement Gain (Loss) on Defined Benefit Plans/Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets/Fair Value Reserve of Financial Assets at FVOCI	Other Reserves	Reserves under PFRS 5	Treasury Stock	Minority Interest	TOTAL
K.5	-	-	-	-	-	-	-	-		-	-	-	-
L. Issuance of Capital Stock		-	-	-	-	-	-	-		-	-	-	-
L.1 Common Stock	8,056,257	-	-	-	-	-	-	-	-	-	-	-	8,056,257
L.2 Preferred Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
L.3 Collection of subscription receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
L.4 Exercise/cancellation of ESOP/ESOWN	304,244	-	-	-	(340)	-	-	-	-	-	-	-	303,904
L.5 Redemption of preferred shares	-	-	-	-	-	-	-	-		-	-	-	-
M. Balance, *At December 31, 2018*	**46,460,378**	**164,725**	**37,929,927**	**(1,193,355)**	**238,871**	**2,276,669**	**196,914,989**	**(1,843,874)**	**11,959,139**	**-**	**(2,300,000)**	**178,500,886**	**469,108,355**
M.1 Correction of Error (s)	-	-	-	-	-	-	-	-	-	-	-	-	-
M.2 Effect of adoption of Pre-need Rule 31	-	-	-	-	-	-	-	-	-	-	-	-	-
M.3 Effect of adoption of new accounting standards	-	-	-	-	-	-	(275,471)	-	-	-	-	-	(275,471)
N. Restated Balance	**46,460,378**	**164,725**	**37,929,927**	**(1,193,355)**	**238,871**	**2,276,669**	**196,639,518**	**(1,843,874)**	**11,959,139**	**-**	**(2,300,000)**	**178,500,886**	**468,832,884**
O. Surplus	-	-	-	-	-	-	-	-	-	-	-	-	-
O.1 Surplus (Deficit) on Revaluation of Properties	-	-	-	-	-	-	-	-	-	-	-	-	-
O.2 Surplus (Deficit) on Revaluation of Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
O.3 Currency Translation Differences	-	-	-	-	-	1,086,855	-	-	-	-	-	-	1,086,855
O.4 Other Surplus (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
O.5 O.4.1 Net unrealized gains for the year recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
O.4.2 Net Income	-	-	-	-	-	-	35,279,330	-	-	-	-	6,703,000	41,982,330
O.4.3 Other comprehensive income	-	-	-	-	-	-	-	(1,255,056)	-	-	-	(1,762,016)	(3,017,072)
O.4.4 Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-
O.4.5 Changes in fair value of available-for-sale financial	-	-	-	-	-	-	-	-	-	-	-	-	-
O.4.6 Cost of share-based payments	-	-	-	-	(23,311)	-	-	-	-	-	-	-	(23,311)
O.4.7 Exercise of exchange option	-	-	-	-	-	-	-	-	11,236,284	-	-	3,901,950	15,138,234
O.4.8 Change in non-controlling interests	-	-	-	-	-	-	-	-	539,682	-	-	(1,017,231)	(477,549)
P. Dividends (negative entry)	-	-	-	-	-	-	(6,464,228)	-	-	-	-	(5,820,296)	(12,284,524)
Q. Appropriation for (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.1 Reserves under PFRS 5	-	-	-	-	-	(128,906)	-	48,518	1,547,837	(1,467,449)	-	-	-
Q.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.5	-	-	-	-	-	-	-	-	-	-	-	-	-
R. Issuance of Capital Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
R.1 Issuance of common shares	-	-	-	-	-	-	-	-	-	-	-	-	-
R.2 Issuance of preferred stock	1,079,931	-	-	-	-	-	-	-	-	-	13,800,000	-	14,879,931
R.3 Collection of subscription receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
R.4 Exercise/cancellation of ESOP/ESOWN	434,619	-	-	-	(943)	-	-	-	-	-	-	-	433,676
R.5 Buy-back of common shares	-	-	-	-	-	-	-	-	-	-	(3,737,896)	-	(3,737,896)
R.6 Redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	(13,500,000)	-	(13,500,000)
S. Balance, *At December 31, 2019*	**47,974,928**	**164,725**	**37,929,927**	**(1,193,355)**	**214,617**	**3,234,618**	**225,454,620**	**(3,050,412)**	**25,282,942**	**(1,467,449)**	**(5,737,896)**	**180,506,293**	**509,313,558**

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 **FAX NO.:** (632) 848-5846
COMPANY TYPE : Holding Compnay **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 5. Details of Income and Expenses, by source
(applicable to corporations transacting with foreign corporations/entities)

FINANCIAL DATA	2019 (in P'000)	2018 (as restated) (in P'000)	2017 (as restated) (in P'000)
A. REVENUE / INCOME (A.1 + A.2)	**330,905,559**	**295,293,483**	**258,512,729**
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from	264,906,534	256,891,287	225,568,336
A.1.1 Domestic	222,229,365	187,752,446	166,590,849
A.1.2 Foreign	42,677,169	69,138,841	58,977,487
A.2 Other Revenue (A.2.1 +A.2.2)	65,999,025	38,402,196	32,944,393
A.2.1 Domestic	39,115,194	34,667,235	30,862,884
A.2.2 Foreign, specify (A.2.2.1+A.2.2.2+ A.2.2.3+ A.2.2.4+ A.2.2.5+ A.2.2.6+ A.2.2.7+ A.2.2.8+A.2.2.9+A.2.2.10)	26,883,831	3,734,961	2,081,509
A.2.2.1 Gain on sale of shares/assets	23,764,032	775,155	1,009,542
A.2.2.2 Share of profit (loss) of associates and joint ventures	826,525	-	-
A.2.2.3 Other income	269,687	826,768	372,143
A.2.2.4 Interest income	1,095,430	93,737	29,331
A.2.2.5 Mark to market gain on financial assets at FVPL	607,031	996,170	379,154
A.2.2.6 Gain on marked to market financial assets	214,403	482,282	316,435
A.2.2.7 Forex gain (loss)	(311,317)	(559,317)	(25,097)
A.2.2.8 Rental	418,040	1,120,166	-
A.2.2.9			
A.2.2.1			
B. EXPENSES (B.1 + B.2)	**244,505,599**	**233,042,302**	**203,396,605**
B.1 Domestic	173,791,569	156,857,296	148,967,119
B.2 Foreign, specify (B.2.1+B.2.2+B.2.3+B.2.4+B.2.5+B.2.6+B.2.7+B.2.8+B.2.9+B.2.10	70,714,030	76,185,006	54,429,486
B.2.8			
B.2.9			
B.2.1			
B.2.1			

V. 2019 Parent Company Financial Statements (with BIR ITR Filing Reference) and SFFS

REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

FILING REFERENCE NO.

TIN	: 000-153-610-000
Name	: AYALA CORPORATION
RDO	: 125
Form Type	: 1702
Reference No.	: 122000035318519
Amount Payable (Over Remittance)	: -271,318,836.00
Accounting Type	: C - Calendar
For Tax Period	: 12/31/2019
Date Filed	: 04/05/2020
Tax Type	: IT

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Building a better working world

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Ayala Corporation
32F-35F Tower One, Ayala Triangle
Ayala Avenue, Makati City

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Ayala Corporation (the Parent Company), which comprise the parent company statements of financial position as at December 31, 2019 and 2018, and the parent company statements of income, 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 Parent Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Parent 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 Parent 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 Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Parent 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 Parent 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 Parent 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 Parent 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 Note 31 to the parent company financial statements 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 Ayala 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 Lucy L. Chan.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-5 (Group A),
November 16, 2018, valid until November 15, 2021
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125221, January 7, 2020, Makati City

March 12, 2020

AYALA CORPORATION
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 21 and 24)	**₱7,252,450**	₱3,537,096
Short-term investments (Notes 4, 21 and 24)	**25,318**	25,844
Accounts and notes receivable (Notes 5, 21 and 24)	**343,393**	1,616,874
Other current assets (Note 6)	**5,859**	8,032
Total Current Assets	**7,627,020**	5,187,846
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 5 and 24)	**428,515**	411,435
Investments in subsidiaries, associates and joint ventures (Note 7)	**193,377,477**	183,652,654
Investment properties (Note 8)	**1,109,980**	1,130,861
Financial assets at fair value through other comprehensive income (OCI) (Notes 9 and 24)	**534,470**	508,211
Service concession assets (Note 10)	**1,740,561**	1,817,474
Property and equipment (Note 11)	**283,931**	352,760
Other noncurrent assets (Note 6)	**929,734**	718,507
Total Noncurrent Assets	**198,404,668**	188,591,902
	₱206,031,688	₱193,779,748
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 13, 21 and 24)	**₱2,345,335**	₱3,148,918
Dividends payable (Notes 16 and 21)	**3,860,742**	3,466,986
Current portion of:		
Long-term debt (Notes 15, 21 and 24)	**4,387,500**	525,500
Provision for maintenance obligation (Note 12)	**13,606**	11,396
Income tax payable (Note 19)	**15,307**	10,764
Other current liabilities (Notes 14, 21 and 24)	**2,081,269**	1,797,592
Total Current Liabilities	**12,703,759**	8,961,156
Noncurrent Liabilities		
Long-term debt (Notes 15, 21 and 24)	**61,156,566**	66,642,481
Pension liability (Note 22)	**836,848**	437,153
Provision for maintenance obligation - net of current portion (Note 12)	**52,413**	35,455
Total Noncurrent Liabilities	**62,045,827**	67,115,089
	74,749,586	76,076,245
Equity		
Paid-in capital (Note 16)	**84,876,225**	83,361,675
Share-based payments (Note 23)	**214,617**	238,871
Remeasurement gains and losses arising on defined benefit pension plan (Note 22)	**(648,611)**	(214,619)
Fair value reserve of financial assets through OCI (Note 9)	**305,675**	282,726
Retained earnings (Note 16)	**52,272,092**	36,334,850
Treasury stock (Note 16)	**(5,737,896)**	(2,300,000)
Total Equity	**131,282,102**	117,703,503
	₱206,031,688	₱193,779,748

See accompanying Notes to Parent Company Financial Statements.

AYALA CORPORATION
PARENT COMPANY STATEMENTS OF INCOME
(Amounts in Thousands)

	Years Ended December 31	
	2019	2018
REVENUE		
Revenue from contracts with customers (Note 18)	**₱945,675**	₱915,963
Dividends (Note 21)	**13,570,687**	11,621,993
	14,516,362	12,537,956
COSTS AND EXPENSES		
General and administrative (Note 17)	**5,763,347**	3,115,185
Depreciation and amortization (Notes 8, 10 and 11)	**260,941**	294,844
	6,024,288	3,410,029
OTHER INCOME (EXPENSE)		
Other income (Note 17)	**17,542,411**	691,461
Interest and other financing charges (Notes 12, 15, 17 and 21)	**(4,008,126)**	(3,663,101)
Interest income (Notes 4, 5, 17 and 21)	**493,991**	212,988
Other expenses (Notes 7, 10 and 18)	**(30,756)**	(6,931)
	13,997,520	(2,765,583)
INCOME BEFORE INCOME TAX	**22,489,594**	6,362,344
PROVISION FOR INCOME TAX (Note 19)	**107,086**	41,297
NET INCOME	**₱22,382,508**	₱6,321,047
EARNINGS PER SHARE (Note 20)		
Basic	**₱33.61**	₱8.05
Diluted	**₱33.54**	₱8.02

See accompanying Notes to Parent Company Financial Statements.

AYALA CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31	
	2019	**2018**
NET INCOME	**₱22,382,508**	₱6,321,047
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss:		
Remeasurement loss arising on defined benefit pension plans (Note 22)	**(433,992)**	(251,502)
Unrealized fair value gains on financial assets at fair value through OCI (Note 9)	**41,911**	81,812
	(392,081)	(169,690)
TOTAL COMPREHENSIVE INCOME	**₱21,990,427**	₱6,151,357

See accompanying Notes to Parent Company Financial Statements.

AYALA CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Amounts in Thousands)

	Paid-in Capital (Note 16)	Share-based Payments (Note 23)	Remeasurement Gains and Losses Arising on Defined Benefit Pension Plans (Note 22)	Fair value Reserve of Financial Assets Through OCI (Note 9)	Retained Earnings (Note 16)	Treasury Stock (Note 16)		Total
						Common Stock	Preferred Stock	
At January 1, 2019	**₱83,361,675**	**₱238,871**	**(₱214,619)**	**₱282,726**	**₱36,334,850**	**₱–**	**(₱2,300,000)**	**₱117,703,503**
Net income	–	–	–	–	22,382,508	–	–	22,382,508
Other comprehensive income	–	–	(433,992)	41,911	–	–	–	(392,081)
Total comprehensive income	–	–	(433,992)	41,911	22,382,508	–	–	21,990,427
Redemption of Preferred B Series 2 shares	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Re-issuance of redeemed Preferred B Series 2 shares	–	–	–	–	–	–	13,500,000	13,500,000
Issuance of additional Preferred B Series 2 shares	1,079,931	–	–	–	–	–	300,000	1,379,931
Buy-back of common shares	–	–	–	–	–	(3,737,896)	–	(3,737,896)
Sale of Financial assets at fair value through OCI	–	–	–	(18,962)	18,962	–	–	–
Exercise/cancellation of Executive Stock Option Plan (ESOP)/Employee Stock Ownership Plan (ESOWN)/collection of subscription receivable	434,619	(943)	–	–	–	–	–	433,676
Cost of share-based payments	–	(23,311)	–	–	–	–	–	(23,311)
Cash dividends	–	–	–	–	(6,464,228)	–	–	(6,464,228)
At December 31, 2019	**₱84,876,225**	**₱214,617**	**(₱648,611)**	**₱305,675**	**₱52,272,092**	**(₱3,737,896)**	**(₱2,000,000)**	**₱131,282,102**

	Paid-in Capital (Note 16)	Share-based Payments (Note 23)	Remeasurement Gains and Losses Arising on Defined Benefit Pension Plans (Note 22)	Fair value Reserve of Financial Assets Through OCI (Note 9)	Retained Earnings (Note 16)	Treasury Stock (Note 16)	Total
	For the year ended December 31, 2018						
As of January 1, 2018	₱75,001,174	₱248,212	₱36,883	₱212,460	₱35,620,731	(₱2,300,000)	₱108,819,460
Net income	–	–	–	–	6,321,047	–	6,321,047
Other comprehensive income	–	–	(251,502)	81,812	–	–	(169,690)
Total comprehensive income	–	–	(251,502)	81,812	6,321,047	–	6,151,357
Issuance of new shares	8,056,257	–	–	–	–	–	8,056,257
Sale of Financial assets at fair value through OCI	–	–	–	(11,546)	11,546	–	–
Exercise/cancellation of Executive Stock Option Plan (ESOP)/Employee Stock Ownership Plan (ESOWN)	304,244	(340)	–	–	–	–	303,904
Cost of share-based payments	–	(9,001)	–	–	–	–	(9,001)
Cash dividends	–	–	–	–	(5,618,474)	–	(5,618,474)
At December 31, 2018	₱83,361,675	₱238,871	(₱214,619)	₱282,726	₱36,334,850	(₱2,300,000)	₱117,703,503

See accompanying Notes to Parent Company Financial Statements.

AYALA CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱22,489,594**	₱6,362,344
Adjustments for:		
Dividend income (Note 21)	**(13,570,687)**	(11,621,993)
Interest expense (Note 18)	**3,994,476**	3,654,648
Depreciation and amortization (Notes 8, 10 and 11)	**260,941**	294,844
Pension expense (Note 22)	**209,835**	224,557
Expected maintenance expense on service concession (Note 12)	**16,538**	15,139
Provision for impairment losses on subsidiaries, associates and joint ventures (Notes 7 and 18)	**2,503,000**	–
Interest income (Note 18)	**(493,991)**	(212,988)
Loss on retirement of property and equipment (Note 11)	**–**	511
Loss on retirement of service concession assets (Note 10)	**–**	121
Loss (gain) on sale/return of:		
Investments in subsidiaries, associates and joint venture - net (Notes 7 and 18)	**(17,035,763)**	(386,088)
Investment properties (Notes 8 and 18)	**(290,826)**	(100,940)
Property and equipment (Notes 11 and 18)	**(3,372)**	(4,793)
Share-based payments (Notes 18, 21 and 23)	**135,946**	126,324
Operating loss before changes in working capital	**(1,784,309)**	(1,648,314)
Changes in working capital:		
Decrease (increase) in:		
Accounts and notes receivable	**167,125**	(196,994)
Other current and noncurrent assets	**(200,152)**	(58,615)
Decrease in accounts and other payables	**(49,844)**	(267,103)
Net cash used in operations	**(2,625,312)**	(2,563,858)
Interest received	**488,314**	211,283
Interest paid	**(3,941,400)**	(3,309,660)
Income tax paid	**(102,543)**	(44,876)
Contribution to pension fund (Note 22)	**(214,492)**	(174,086)
Net cash used in operating activities	**(5,637,301)**	(5,488,365)
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from subsidiaries, associates and joint ventures	**14,817,565**	11,465,173
Proceeds from:		
Disposal of shares of subsidiaries (Note 7)	**16,256,299**	–
Partial return of capital from subsidiaries (Note 7)	**5,784,900**	–
Sale of investment properties (Note 8)	**149,892**	100,940
Sale of property and equipment (Note 11)	**18,445**	21,939
Disposal of financial assets at FVOCI (Note 9)	**16,739**	11,655
Short-term investments (Note 4)	**526**	2,864

(Forward)

	Years Ended December 31	
	2019	2018
Additions to:		
Investments in subsidiaries, associates and joint ventures (Note 7)	**(₱17,707,714)**	(₱27,205,052)
Property and equipment (Note 11)	**(88,425)**	(79,699)
Service concession assets (Notes 10 and 28)	**(29,571)**	(6,931)
Financial assets at FVOCI (Note 9)	**(3,473)**	–
Net cash provided (used in) by investing activities	**19,215,183**	(15,689,111)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Re-issuance of preferred shares (Note 15)	**15,000,000**	–
Availment of long-term debt (Note 15)	**13,440,090**	24,193,948
Collections of subscription receivable (Note 16)	**274,677**	168,579
Issuance of common shares (Note 16)	**–**	8,069,960
Payment of long-term debt	**(15,148,600)**	(6,109,250)
Redemption of preferred shares	**(13,500,000)**	–
Cash dividends paid	**(6,070,472)**	(5,407,797)
Purchase of common shares	**(3,737,896)**	–
Costs of issuance of shares	**(120,327)**	(13,703)
Net cash provided by (used in) financing activities	**(9,862,528)**	20,901,737
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,715,354**	(275,739)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,537,096**	3,812,835
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱7,252,450**	₱3,537,096

See accompanying Notes to Parent Company Financial Statements.

1. Corporate Information

Ayala Corporation (the Parent Company) is incorporated in the Republic of the Philippines on January 23, 1968. On April 15, 2016, during the annual meeting of its stockholders, the stockholders ratified the amendment of the Fourth Article of the Articles of Incorporation (AOI) to extend the corporate term for 50 years from January 23, 2018. The amendment to the AOI was approved by the Securities and Exchange Commission (SEC) on April 5, 2017. The Parent Company's registered office address and principal place of business is 32F-35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The Parent Company is a publicly listed company which is 47.33% owned by Mermac, Inc. and the rest by the public.

The Parent Company is the holding company of the Ayala Group of Companies (the Group), with principal business interests in real estate and hotels, financial services and insurance, telecommunications, water infrastructure, electronics solutions and manufacturing, industrial technologies, automotive, transport infrastructure, power generation, education, healthcare, international real estate and others.

The parent company financial statements were endorsed for approval by the audit committee on March 6, 2020 and authorized for issue by the Board of Directors (BOD) on March 12, 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying parent company financial statements have been prepared on a historical cost basis, except for financial assets at fair value through OCI that have been measured at fair value. The parent company financial statements are presented in Philippine Peso (₱), which is the Parent Company's functional currency and all values are rounded to the nearest thousand pesos (₱000) unless otherwise indicated.

Statement of Compliance
The financial statements of the Parent Company, which are prepared for submission to the Philippine SEC and the Bureau of Internal Revenue (BIR), have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC). The Parent Company also prepares and issues consolidated financial statements presented in compliance with PFRSs, which include the availment of the relief granted by the SEC under Memorandum Circular Nos. 14-2018 and 3-2019 as of 2018 for the following implementation issues of PFRS 15 affecting the real estate industry:

a. Exclusion of land in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E
b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D
c. Accounting to Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H
d. Adoption of PIC Q&A No. 2018-14: *PFRS 15 – Accounting for Cancellation of Real Estate Sales*

PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

Changes in Accounting Policies and Disclosures
Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted in the preparation of the parent company financial statements are consistent with those of the previous financial years except for the new PFRS, amended PFRS and

improvements to PFRS which were adopted beginning January 1, 2019. The nature and the impact of each new standards and amendments is described below:

PFRS 16, *Leases*
PFRS 16 supersedes PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transaction Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.
Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify leases as either operating of finance leases using similar principles in PAS 17. Therefore, PFRS 16 does not have an impact for leases where the Parent Company is the lessor.

The Parent Company adopted PFRS 16, with the date of initial application of January 1, 2019. The Parent Company elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases).

Upon adoption, there are no material impact on the Parent Company's financial statements as all lease contracts in which the Parent Company is the lessee are all short-term leases and do not contain purchase options.

Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

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

The Parent Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Upon adoption of the interpretation, the Parent Company considered whether it has any uncertain tax positions, particularly those relating to gain on sale of investments. The Parent Company obtained a legal tax opinion and filed for the BIR ruling confirming the non-recognition of gain or loss on the merger pursuant to the provisions of Section 40(c)(2) and Section 199(m) of the Philippine Tax Code. Based on these, the Parent Company determined that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the financial statements of the Parent Company.

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

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

Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in OCI.

The amendments had no impact on the financial statements of the Parent Company as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

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

These amendments had no impact on the financial statements as the Parent Company does not have long-term interests in its associate and joint venture.

Annual Improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

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

- An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application

permitted. These amendments had no impact on the financial statements of the Parent Company as there is no transaction where joint control is obtained.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.
  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments had no impact on the financial statements of the Parent Company because dividends declared by the Parent Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Parent Company has no qualifying assets, they had no impact on the financial statements of the Parent Company.

Standards and Interpretation Issued but not yet Effective

Effective beginning on or after January 1, 2020

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

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

  These amendments will apply on future business combinations of the Parent Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

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

Effective beginning on or after January 1, 2021

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

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

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

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. These amendments will have no impact on the Parent Company's financial statements as the Parent Company does not have insurance contracts.

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

Significant Accounting Policies
The significant accounting policies that have been used in the preparation of the parent company financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Current versus Noncurrent Classification
The Parent Company presents assets and liabilities in the parent company statement of financial position based on a current and noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve 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.

All other liabilities are classified as noncurrent.
Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

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

Short-term Investments
Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.

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

Initial recognition and measurement
Financial assets are classified, at initial recognition, as amortised cost, fair value through OCI, and FVPL.

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

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Parent 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 Parent Company commits to purchase or sell the asset.

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

- Financial asets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss (FVPL)

Financial assets at amortised cost (debt instruments)
This category is the most relevant to the Parent Company. The Parent Company measures financial assets at amortised 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 SPPI on the principal amount outstanding.

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

The Parent Company's financial assets at amortised cost includes cash and cash equivalents, short-term investments, and accounts and notes receivable.

Financial assets at fair value through OCI (debt instruments)
The Parent Company measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the parent company statement of income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value changes recognized in OCI are recycled to profit or loss.

The Parent Company does not have any financial assets under this category.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Parent Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI 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 revenue from others in the parent company statement of income when the right of payment has been established, except when the Parent 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 fair value through OCI are not subject to impairment assessment.

The Parent Company elected to classify irrevocably its listed and unquoted equity investments under this category.

Financial assets at FVPL
Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the

business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, 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 parent company statement of income.

The Parent Company does not have any financial assets carried at FVPL.

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 recognised 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 parent company statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Parent 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 Parent Company has transferred substantially all the risks and rewards of the asset, or (b) the Parent Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Parent 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 Parent Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Parent Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Parent 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 Parent Company could be required to repay.

Impairment of financial assets
Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions (see Note 3)
- Equity instruments at fair value through OCI (see Note 9)
- Trade receivables (see Note 5)

For non-trade receivables, estimated credit losses (ECLs) are recognised 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).

The Parent Company's cash and cash equivalents and short-term investments with banks are graded in the top investment category by Moody's Investors Service and Fitch Ratings, Inc. and, therefore, are considered to be low credit risk investments. It is the Parent Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Parent Company uses the ratings from the Moody's Investors Service and Fitch Ratings, Inc. to determine whether the cash and cash equivalents and short-term investments with banks has significantly increased in credit risk and to estimate ECLs.

For trade receivables, the Parent Company applies a simplified approach in calculating ECLs. Therefore, the Parent Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Parent 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 Parent Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Parent Company may also consider a financial asset to be in default when internal or external information indicates that the Parent Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Parent Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Parent Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Parent Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Parent Company debtors operate, information obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Parent Company core operations, which revolves on various industry fields.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Parent Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Parent Company has reasonable and supportable information that demonstrates otherwise.

The Parent Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the

criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

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 recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Parent Company's financial liabilities include accounts payable and accrued expenses (other than output VAT payable), dividends payable, subscription payable, long term debt and financial guarantee obligation.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

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

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

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

Loans and borrowings
This is the category most relevant to the Parent Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised 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 amortisation is included as interest and other financing charges in the parent company statement of income.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 15.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as accounts payable and accrued expenses where the substance of the contractual arrangement results in the Parent Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the

equity component being assigned the residual amount, after deducting from the instrument the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effect of restatement of foreign currency-denominated liabilities is recognized in profit or loss.

This accounting policy applies to the Parent Company's accounts payable and accrued expenses, dividends payables and subscriptions payable (other than liabilities covered by other accounting standards such as pension liability and income tax payable).

Derecognition
A financial liability is derecognised 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 recognised in the parent company statement of income.

Financial guarantee contracts
Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are measured at the higher of the amount of ECL determined in accordance with the policy set out in Note 25 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised over the period of the guarantee.

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

Investments in Subsidiaries, Associates and Joint Ventures
The Parent Company's investments in subsidiaries, associates and joint ventures are accounted for under the cost method less accumulated provision for impairment losses, if any.

A subsidiary is an entity in which the Parent Company exercises control over the company. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has:
a. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
b. Exposure, or rights, to variable returns from its involvement with the investee, and
c. The ability to use its power over the investee to affect its returns

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
a. The contractual arrangement with the other vote holders of the investee
b. Rights arising from other contractual arrangements
c. The Parent Company's voting rights and potential voting rights

An associate is an entity over which the Parent Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

On acquisition of the investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is included in the carrying amount of the investment and not amortized.

The Parent Company recognizes income from the investment only to the extent that the Parent Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

The Parent Company reduces the carrying value of its investment based on average acquisition cost per share (historical cost) when the Parent Company disposes the investment or the investee reacquires its own equity instruments from the Parent Company.

Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or for both and are not occupied by the Parent Company. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. Depreciation and amortization on building and improvements are computed on a straight-line basis over a 25-year period.

Additions, renewals and betterments are capitalized while minor expenditures for repairs and maintenance are directly charged to operations.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use on which no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell. Transfers among investment properties, owner-occupied properties and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and any impairment in value. The initial cost of an item of property and equipment consists of its construction cost or purchase price and any directly attributable costs of bringing the item of property and equipment to its working condition and location for its intended use.

Construction in progress are carried at cost and transferred to the related property and equipment account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation or use.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Parent Company and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation of property and equipment commences once the property and equipment are available for use and is computed using the straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years
Condominium units	25
Condominium improvements	5
Furniture, fixtures and equipment	3-5
Transportation equipment	5

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

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and accumulated impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Service Concession Arrangement

The Parent Company accounts for its service concession arrangement with the Department of Public Works and Highway (DPWH) under the intangible asset model as it receives the right (license) to charge users of the public service. The concession agreement sets out the terms and condition under which the Parent Company will finance, design, construct, operate and maintain the entire infrastructure as an open-system tolled expressway. The legal title to these assets shall remain with the DPWH at the end of the concession period.

The Parent Company recognizes and measures revenue and cost from construction works in accordance with IFRIC 12 for the services it performs. When the Parent Company provides construction or upgrade services, the consideration received or receivable by the Parent Company is recognized at its fair value.

The Parent Company recognizes its contractual obligations to restore certain parts of the infrastructure to a specified level of condition in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as the obligations arise.

Service Concession Asset

The “Service Concession Asset” (SCA) includes the MCX business of the Parent Company which is recognized initially at the fair value of the works performed by the Parent Company. Following initial recognition, the SCA is carried at cost less accumulated amortization and any impairment in value.

Amortization of SCA commences once the SCA are available for use and is computed using the straight-line basis over the estimated useful lives of the SCA as follows:

	Years
Road	30
Building	25
Furniture, fixtures and equipment	5
Computer hardware and software	3

The amortization period and method is reviewed at each financial year-end to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits. Changes in the expected useful life or the expected pattern of consumption of future economic benefits

embodied in the SCA is accounted for as changes in accounting estimates. Regular repairs and maintenance incurred on the SCA is charged against current operation as incurred. The Parent Company appoints a facility operator and engages a maintenance and operations advisor to carry out the Operation and Maintenance (O&M) of the MCX in accordance with the Concession Agreement. The Parent Company shall pay the recurring annual fees, subject to yearly fee escalations. O&M cost is included in the "General and administrative expense" account in the parent company statements of income (see Notes 10 and 18).

The SCA will be derecognized upon turnover to the DPWH. No gain or loss will be recognized upon derecognition since the SCA is expected to be fully amortized at the end of the concession period.

Impairment of Nonfinancial Assets

The Parent Company assesses at each reporting date whether there is an indication that its nonfinancial assets (e.g. investment properties, SCAs, property and equipment, and investments in subsidiaries, associates and joint ventures) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Parent Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

Investments in subsidiaries, associates and joint ventures

The Parent Company determines at each end of the reporting period whether there is any objective evidence that the investment in the investee company is impaired. If this is the case, the Parent Company calculates the amount of impairment as being the difference between the recoverable amount of the investee company and the carrying cost and recognizes the amount in profit or loss.

Creditable withholding taxes

CWTs are carried at the amount withheld by the customers for services provided by the Parent Company. CWTs are recognized when payments are received from customers and the related withholding taxes were made. CWTs can be utilized as credits against the Parent Company's income tax liability provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation and may also be reduced by impairment losses, if any. CWTs, which are expected to be utilized as payment for income taxes within 12 months, are classified as "other current assets". Otherwise, these are classified as noncurrent assets.

Value-added Tax (VAT)
The Parent Company recognizes revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the parent company statement of financial position under “other current liabilities”. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the parent company statement of financial position to the extent of the recoverable amount under “other current assets”.

Fair Value Measurement
The Parent Company measures financial instruments such as derivatives and financial assets at FVOCI at each reporting date. Also, fair values of financial instruments measured at amortized cost and nonfinancial assets such as investment properties are disclosed in Note 25 and 8, respectively, to the parent company financial statements.

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

For the purpose of fair value disclosures, the Parent Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Equity
Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the shares are sold at premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are deducted from additional paid-in capital. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares and are presented as deduction from equity.

Retained earnings represent accumulated earnings of the Parent Company less dividends declared.

Own equity instruments which are reacquired (treasury stocks) are recognized at cost and deducted from equity. No gain or loss is recognized in the parent company statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Parent Company and no dividends are allocated to them. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

For the Preferred A treasury shares, the amount reflected under treasury stock pertains to par value.

Share-based Payments
The Parent Company has equity-settled, share-based compensation plans with its employees.

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will ultimately vest. The fair value is determined by using the Black-Scholes model, further details of which are provided in Note 23 to the parent company financial statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense 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 conditions are satisfied.

Where the terms of an equity-settled award are modified, at a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. 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 a modification of the original award, as described in the previous paragraph.

The exercise of the options will result in the issuance of the corresponding number of common shares with an increase in “Paid-in capital” and a decrease in “Share-based payments” accounts.

Pre-PFRS 2 Options
For options granted before November 7, 2002 that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

Employee Share Purchase Plans
The Parent Company has employee share purchase plans (ESOWN) which allow the grantees to purchase the Parent Company’s shares. The Parent Company recognizes stock compensation expense over the holding period. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. The Parent Company treats its ESOWN plan as option exercisable within a given period. For the measurement of the fair value of options at the grant date, the Parent Company uses a Black-Scholes Merton Formula and Binomial Tree Model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 23.

Revenue
Revenue from contracts with customers
The Parent Company is the holding company of the Ayala Group of Companies (see Note 1). Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Parent Company expects to be entitled in exchange for those goods or services. The Parent Company has generally concluded that it is the principal in its revenue arrangements.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

Management fees for services rendered are recognized over time since its customers simultaneously receives and consumes the benefits provided by the Parent Company’s performance as the Parent Company performs.

Toll revenue is recognized upon entry of vehicles in the toll road facility and receipt of cash payment.

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

Trade receivables
A receivable represents the Parent Company’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of consideration is due).

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Parent Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Parent Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Parent Company performs under the contract. As at December 31, 2019 and 2018, the Parent Company does not have any contract liabilities.

<u>Dividends</u>
Dividend income is recognized when the Parent Company's right to receive payment is established.

<u>Other income</u>
Rental income
Rental income from investment properties is recognized on a straight-line basis over the lease term, or based on a certain percentage of the net sales of the tenants, as provided under the terms of the lease contract.

Construction revenue
Construction revenue is recognized and measured by the Parent Company in accordance with Philippine Interpretations IFRIC 12 for the services it performs and is recognized as part of SCA. The recognized Construction revenue is equal to the related costs.

Others
Gain on sale of other assets is computed as the excess of proceeds of the disposal over its carrying amount.

Gain on sale of investment in shares of stock is recognized in profit or loss if the Parent Company disposes some of its investment in a subsidiary, associate or joint venture. Gain as recognized by the Parent Company is the excess of the selling price over the average cost of the shares sold and is net of direct expenses.

<u>Interest income</u>
Interest income is recognized as it accrues using the EIR method.

<u>Expense Recognition</u>
Expenses are recognized in the parent company statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are recognized in the parent company statement of income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association 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 or cease to qualify, for recognition in the parent company statement of financial position as an asset.

Direct operating expenses and general and administrative expenses are recognized as they are incurred.

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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

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

The Parent Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Income Tax

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 taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investment in domestic subsidiaries, associates and interests in joint ventures.

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

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

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

Leases effective January 1, 2019

The Parent Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract coveys right to control the use of an identified asset for a period of time in exchange for consideration.

Parent Company as a lessee

The Parent Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Parent Company recognizes lease liabilities to make lease payments and right-of-use of assets representing the right to use the underlying assets.

Short-term leases

The Parent Company applies the short-term lease recognition exemption to its short-term leases of office area (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). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Parent Company as a lessor

Leases in which the Parent Company does not transfer substantially all the risk and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease term, or based on a certain percentage of the net

sales of the tenants, as provided under the terms of the lease contract and included in revenue in the statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Leases prior to January 1, 2019
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

Parent Company as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments are recognized as an expense in the statements of comprehensive income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Parent Company as lessor
Leases where the Parent Company does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the statements of comprehensive income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign Currency Transactions
Transactions denominated in foreign currencies are initially recorded in Philippine Peso at the exchange rate based on the Bankers Association of the Philippines (BAP) rate at the date of transaction. Foreign currency-denominated monetary assets and liabilities are retranslated at the closing BAP rate at reporting date. Exchange gains or losses arising from foreign currency transactions are recognized in parent company statement of income.

Provisions
Provisions are recognized when the Parent Company has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Where the Parent Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each reporting and adjusted to reflect the current best estimate.

Provision for Maintenance Obligation
Provision for maintenance obligation pertains to the Parent Company's obligation to perform routine and periodic maintenance under the concession agreement. Routine maintenance pertains to day-to-day activities to maintain the road infrastructures while periodic maintenance comprises of preventive activities against major defects and reconstruction. Moreover, the Parent Company is required to perform maintenance and repair work in a manner that complies with the Minimum Performance Standards and Specifications (MPSS) once it hands the asset back to the Grantor. The provision is a

product of the best estimate of the expenditure required to settle the obligation based on the usage of the road during the operating phase. The amount is reduced by the actual obligations paid for heavy maintenance of the SCA.

Contingencies
Contingent liabilities are not recognized in the parent company financial statements. These are disclosed 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 disclosed when an inflow of economic benefits is probable.

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

3. Significant Accounting Judgments and Estimates

The preparation of the accompanying parent company financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the parent company financial statements and accompanying notes. The estimates and assumptions used in the accompanying parent company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Judgments
In the process of applying the Parent 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:

Business model assessment
Classification and measurement of financial assets depends on the results of the business model test and SPPI model. The Parent Company determines the business model at a level that reflects how the financial assets are managed to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the asset is evaluated and their performance measured and the risks that affect the performance of the assets.

The Parent Company classified all of its financial assets as amortized cost, except for equity instruments, as the Parent Company has determined that the financial assets are held in order to collect contractual cash flows.

Determining the stage for impairment
At each reporting date, the Parent Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Parent Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis. Quantitative criteria may include downgrade in investment grade, defaulted assets, counterparties with objective evidence of impairment. A significant increase in credit risk is also presumed if a debtor is more than 90 days past due in making a contractual payment. Qualitative criteria may include significant adverse changes in business, financial or economic conditions in which the counterparty operates, actual or expected restructuring.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Parent Company's investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL.

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

For cash and cash equivalents and short-term investments, the Parent Company assessed that these financial instruments have low credit risk. As such, expected loss is measured on a 12-month ECL.

The Parent Company has determined that its credit risk on its non-trade receivable has not significantly increased since origination as of December 31, 2019.

Incorporation of Forward-looking Information
The Parent Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Parent Company has identified and documented key drivers of credit risk and credit losses of each financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables identified and credit risk and credit losses. Predicted relationship between the key indicators and default and loss rates on financial assets have been developed based on analyzing historical data.

Definition of default
The Parent Company defines a financial instrument as in default based on quantitative and qualitative criteria. When the debtor is more than 90 days past due on its contractual payment, the Parent Company considers the debtor to be in default. The Parent Company also applied qualitative criteria, such as the debtor being insolvent, an active market for the financial asset has disappeared, it is becoming probable that the debtor will enter bankruptcy or other financial reorganization.

These criteria have been applied to all financial assets held by the Parent Company and consistently throughout to model the PD, LGD and EAD throughout the ECL calculations.

Service concession arrangement
In applying Philippine Interpretation IFRIC 12, the Parent Company has made a judgment that its service concession agreements qualify under the Intangible Asset model. The accounting policy on the Parent Company's SCAs under the Intangible Asset model is discussed in Note 2 to the parent company financial statements.

The Parent Company also recognizes its contractual obligations to restore its service concession asset to a specified level of serviceability. The Company recognizes a provision following PAS 37. Further details on provision for maintenance obligation are given in Note 12.

Receivable from DPWH
A receivable is recognized if an amount of consideration that is unconditional is due from the customer or third-party (i.e., only the passage of time is required before payment of the consideration is due). Estimated value of the receivable from DPWH as of reporting period is being made depending on the expected recovery period of the receivable and the time value of money. The Parent Company has assessed that the receivable from DPWH will qualify as a financial asset at amortized cost as this will give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding.

Financial Guarantee Obligation
The Parent Company has guaranteed AYCFL's exchangeable bonds, undated notes payable and revolving credit facility ("the Facility"). The accounting policy on the Parent Company's financial guarantee obligation is discussed in Note 2 to the parent company financial statements. The Parent Company has assessed whether the arrangement meets the definition of financial guarantee under PFRS 9. In making the assessment, the Parent Company determined the value of the financial guarantee based on the level of credit risk in the instrument if issued with or without the financial guarantee. The value is driven mainly by the issuer's capacity to pay the Facility based on expected

return and payback cash flows from several investments. It also considers the individual and joint credit risk assessment of the issuer and the guarantor.

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

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

Provision for ECL
Cash and Cash Equivalents, Short-term Investments and Non-trade Receivables
The Parent Company measures its ECL on cash and cash equivalents, short-term investments, and non-trade receivables in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes and the time value of money. In measuring ECL, the Parent Company consider whether there is a significant increase in credit risk. The Parent Company uses an ECL model that considers the PD, LGD and EAD. In estimating the ECL, the Parent Company uses all available information in measuring ECL, such as available credit rating of the instruments and the debtor, default assessment on the debtor, and history of experience with the debtor. A forward-looking information, such as interest rate, inflation rate and changes in the gross domestic product, is incorporated and its relationship with the credit loss is analyzed at each reporting date.

The correlation of forecast economic conditions and ECL is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Parent Company's forecast of economic conditions may also not be representative of the debtor's actual default in the future.

For cash and cash equivalents and short-term investments, the Parent Company assessed that these financial instruments have low credit risk. As such, expected loss is measured on a 12-month ECL.

Trade receivables
The Parent Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on the individual loss patterns for each nature of receivables.

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

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Parent Company's historical credit loss

experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Parent Company's trade receivables is disclosed in Note 5.

Evaluation of asset impairment and recoveries
The Parent Company reviews investments in subsidiaries, associates and joint ventures, investment properties, SCAs and property and equipment for impairment of value. This includes considering certain indicators of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

The Parent Company estimates the recoverable amount as the higher of the net selling price and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Parent Company is required to make estimates and assumptions that may affect investments in subsidiaries, associates and joint ventures, investment properties, SCAs and property and equipment.

Impairment losses recognized on investments in subsidiaries, associates and joint ventures amounted to ₱7,425.0 million and nil in 2019 and 2018, respectively. Recoverable amounts of investments in subsidiaries, associates and joint ventures that have been determined to have impairment indicators as of December 31, 2019 were based on its value in use with discount rates ranging from 9% to 15%, revenue growth rates ranging from 1.5% to 10% and terminal values. Recoverable amounts as of December 31, 2018 were based on fair value less cost to sell with reference to market prices and dividend yields. Impairment losses previously recognized on investments in subsidiaries, associates and joint ventures amounting to ₱4,922.0 million in 2019 (see Notes 7 and 18) was reversed as a result of return of investment received during the year.

Further details on investments in subsidiaries, associates and joint ventures, investment properties, SCAs and property and equipment are given in Notes 7, 8, 10 and 11.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Parent Company.

Further details on share-based payments are given in Note 23.

Estimating pension obligation
The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

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

Further details about the pension obligation and the assumptions used are given in Note 22.

Estimating provision for maintenance obligation
The Parent Company's obligations under the SCA include the financing of the MCX's periodic maintenance, which includes the renewal and restoration of toll roads and toll road facilities prior to the turnover of the asset to DPWH. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, management's best estimate of the expenditure to settle the obligation based on the usage of the road during the operating phase, and the expected timing of the cost. The carrying amount of the provision as at December 31, 2019 and 2018 amounts to ₱66.0 million and ₱46.9 million, respectively (see Note 10).

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the parent company statement of financial position or disclosed in the notes to the parent company financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Further details about the fair value of financial instruments are provided in Note 24.

4. Cash and Cash Equivalents and Short-term Investments

Cash and Cash equivalents

This account consists of:

	2019	2018
	(In Thousands)	
Cash on hand and in banks (Note 21)	**₱184,772**	₱187,855
Cash equivalents (Note 21)	**7,067,678**	3,349,241
	₱7,252,450	₱3,537,096

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents pertain to short-term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Parent Company, and earn interest ranging from 0.20% to 6.25% and 0.38% to 6.7% in 2019 and 2018, respectively.

Short-term investments
Short-term investments pertain to money market placements and short-term notes with varying periods of more than three months but less than one year and earn interest ranging from 2.00% to 5.88% and 1.88% to 5.75% in 2019 and 2018, respectively.

Interest income earned from cash in banks, cash equivalents and short-term investments amounted to ₱482.2 million and ₱200.4 million in 2019 and 2018, respectively (see Note 18).

5. **Accounts and Notes Receivable**

This account consists of:

	2019	2018
	(In Thousands)	
Notes receivable (Notes 21 and 24)	**₱244,221**	₱235,189
Receivables from related parties (Note 21)	**221,070**	227,294
Dividends receivable (Note 21)	**34,600**	1,281,478
Receivable from other companies	**25,378**	34,963
Rent receivable (Note 21)	**22,775**	27,874
Interest receivable (Note 21)	**10,203**	4,525
Other receivables (Note 10)	**219,055**	222,380
	777,302	2,033,703
Less allowance for credit losses	**5,394**	5,394
	771,908	2,028,309
Less noncurrent portion	**428,515**	411,435
	₱343,393	₱1,616,874

The classes of receivables of the Parent Company are as follows:

Notes receivable
Pertains to housing, car, salary and other loans granted by the Parent Company to its officers and employees which are collectible through salary deduction and bears interest rate of 5.0% to 6.0% per annum and has various maturity dates from 2020 to 2033.

As of December 31, 2019 and 2018, notes receivable with nominal amounts of ₱234.9 million and ₱225.5 million, respectively, were recorded initially at fair value. The fair value of the notes receivable was obtained by discounting future cash flows using the applicable rate of similar instruments. The unamortized net premium amounted to ₱9.2 million and ₱9.6 million as of December 31, 2019 and 2018, respectively.

Interest income net of amortization and accretion amounted to ₱11.1 million and ₱8.6 million in 2019 and 2018, respectively (see Note 18). This is included as part of “Interest income” in the parent company statements of income.

Receivables from related parties
Pertain to the unpaid management fees of the Parent Company’s various related parties which are non-interest bearing and are due and demandable.

Dividends receivable
Pertains to dividends receivable from subsidiaries, associates and joint ventures. These receivables are non-interest bearing and collectible within one year.

Receivable from other companies
Pertains to receivable from non-related parties. These receivables are non-interest bearing.

Rent receivable
Pertains to accrued rent on investment properties of the Parent Company which are non-interest bearing and collectible within one year.

Interest receivable
Pertains to accrued interest on cash in banks, cash equivalents and short-term investments.

Other receivables
Pertains to the Parent Company's receivable from the DPWH pertaining to the additional costs incurred in the construction of the Muntinlupa-Cavite Expressway (MCX) arising from the DPWH's directive to revise the interconnection design of the toll road (see Note 10).

Allowance for credit losses
Receivables amounting to ₱5.4 million as of December 31, 2019 and 2018 was impaired and fully provided for.

6. Other Assets

This account consists of:

	2019	2018
	(In Thousands)	
Creditable withholding taxes (CWTs)	**₱1,021,800**	₱825,487
Deferred charges	**41,338**	32,437
Refundable deposits	**10,367**	10,174
Others	**–**	(3,647)
	1,073,505	864,451
Less allowance for impairment	**137,912**	137,912
	935,593	726,539
Less noncurrent portion	**929,734**	718,507
	₱5,859	₱8,032

CWTs pertain to taxes withheld by third parties. CWTs can be utilized as payments for income taxes provided that these are properly supported by certificates of CWTs at source subject to the rules of income taxation.

Deferred charges pertain to the commitment fees on the undrawn loan with a local bank. The commitment fees are recognized over loan commitment period on a straight-line basis.

Refundable deposits pertain to deposit paid for the installation of electric wirings to an electric company. These will be refunded after the termination of the subscription period of the Parent Company.

Input VAT pertain to VAT imposed on the Parent Company for the acquisition of goods from suppliers as required by Philippine taxation laws and regulations, net of output VAT.

Allowance for impairment pertains to the Parent Company's assessment of uncollectible CWTs. The impairment loss recognized in 2019 and 2018 amounted to nil. (see Note 18).

7. Investments in Subsidiaries, Associates and Joint Ventures

The Parent Company's investees and the corresponding direct percentages of ownership are shown below:

	Nature of Business	Percentage of Ownership 2019	2018	Amounts 2019	2018
		Percentage (%)		(In Thousands)	
Subsidiaries:					
AC Energy, Inc. (ACEI)	Power	**100.0**	100.0	**₱33,537,221**	₱24,374,721
AC Industrial Technology Holdings, Inc. (AITHI)	Industrial Technology and Automotive	**100.0**	100.0	**15,007,473**	13,167,173
AC International Finance Limited (ACIFL)*	Investment Holding	**100.0**	100.0	**12,303,985**	18,018,134
Manila Water Company, Inc. (MWC)	Water	**35.1**	35.1	**7,255,118**	7,255,118
Ayala Healthcare Holdings, Inc. (AHHI)	Healthcare	**100.0**	100.0	**6,485,165**	2,860,165
AC Infrastructure Holdings Corporation (AC Infra)	Transport and Infrastructure	**100.0**	100.0	**6,406,745**	4,035,744
Ayala Land, Inc. (ALI)	Real Estate and Hotels	**44.5**	47.0	**6,207,584**	6,495,401
Azalea International Venture Partners, Ltd. (AIVPL)**	Business Process Outsourcing (BPO)	**100.0**	100.0	**5,840,484**	5,840,484
Michigan Holdings, Inc. (MHI)	Investment Holding	**100.0**	100.0	**4,400,691**	4,400,691
Bestfull Holdings, Ltd. (BHL)***	Investment Holding-International	**100.0**	100.0	**1,908,013**	1,908,013
AC Ventures Holding Corp. (AVHC) (*formerly Water Capital Works, Inc).*	Investment Holding	**100.0**	100.0	**1,893,640**	1,893,640
Philwater Holdings, Inc. (Philwater)	Investment Holding	**100.0**	100.0	**1,884,099**	1,884,099
Ayala Aviation Corporation (AAC)	Air Charter	**100.0**	100.0	**1,663,790**	1,504,990
AYC Finance Ltd. (AYCFL)*	Investment Holding	**100.0**	100.0	**704,460**	704,460
Ayala International Pte. Ltd. (AIPL)****	International	**100.0**	100.0	**555,570**	555,570
HCX Technology Partners, Inc. (HCX)	HR Technology Services	**100.0**	100.0	**142,500**	142,500
Purefoods International Limited (PFIL)**	Investment Holding	**100.0**	100.0	**107,348**	107,348
Technopark Land, Inc. (TLI)	Real Estate	**78.8**	78.8	**97,983**	97,983
AG Counselors Corporation (AGCC)	Consultancy Services	**100.0**	100.0	**21,000**	21,000
Darong Agricultural Development Corporation (DADC)	Agriculture	**100.0**	100.0	**7,141**	7,141
Integrated Microelectronics, Inc. (IMI)	Industrial Technologies	**0.1**	0.1	**3,384**	3,384
AC Education, Inc. (AEI) (*formerly Ayala Education Inc.*)	Education	**–**	100.0	**–**	4,144,300
Associates:					
Bank of the Philippine Islands (BPI)	Banking	**30.9**	30.9	**63,292,974**	63,292,974
iPeople, Inc. (IPO)	Education	**33.5**	–	**5,192,488**	–
Ayala Hotels, Inc. (AHI)	Real Estate and Hospitality	**50.0**	50.0	**258,024**	258,024
Lagdigan Land Corporation (LLC)	Real Estate	**40.0**	40.0	**66,000**	42,000
Joint Ventures:					
Liontide Holdings Inc. (LHI)	Investment Holding	**78.1**	78.1	**29,021,473**	29,021,473
Globe Telecom, Inc. (Globe)	Telecommunications	**30.9**	30.9	**13,101,397**	13,101,397
Asiacom Philippines, Inc. (Asiacom)	Investment Holding	**60.0**	60.0	**397,977**	397,977
				217,763,727	205,535,904
Less allowance for impairment losses				**24,386,250**	21,883,250
				₱193,377,477	₱183,652,654

**Incorporated in Cayman Island*
***Incorporated in British Virgin Islands*
****Incorporated in Hong Kong*
*****Incorporated in Singapore*

Unless otherwise indicated, the principal place of business and country of incorporation of the Parent Company's investments in subsidiaries, associates and joint ventures is the Philippines.

Except as discussed below, the voting rights held by the Parent Company in its investments in subsidiaries, associates and joint ventures are in proportion to its ownership interest. The following significant transactions affected the Parent Company's investments in investee companies:

Investment in ACEI
On January 19, 2018, the BOD of the Parent Company approved the restructuring of ACEI as follows:

On June 7, 2018, Ingrid Power Holdings, Inc., a wholly owned subsidiary of ACEI was incorporated.

On July 12, 2018, ACEI restructured Gigasol2, Inc. to include AC Laguna Solar, Inc., AC La Mesa Solar, Inc., AC Subic Solar, Inc., Gigasol1, Inc., Gigasol3, Inc., SolarAce1, Inc. and SolarAce2. These companies were previously owned by Presage Corporation.

On September 7, 2018, ACE Thermal, Inc., a wholly owned subsidiary of ACEI was incorporated.

On September 20, 2018, AA Thermal, Inc., a wholly owned affiliate of ACEI was incorporated.

On September 24, 2018, ACEI, Inc. transferred 100% of its limited partnership interest in each of ACE Mariveles Power Ltd. Co. and Dinginin Power Holdings Ltd. Co. to AA Thermal, Inc. The transfer is part of the ACEI Group's restructuring plan for its thermal assets.

On September 26, 2018, Aboitiz Power Corporation (Aboitiz Power) entered into a share purchase agreement with Arlington Mariveles Netherlands Holding BV, an affiliate of ACEI, and a shareholders' agreement with ACEI, a wholly-owned subsidiary of the Parent Company, for the proposed acquisition of a 49% voting stake and 60% economic stake in AA Thermal, Inc.

On May 2, 2019, ACEI completed the AA Thermal Transaction valued at US$572.9 million after applying the agreed adjustments pursuant to the Share Purchase Agreement (SPA).

As of December 31, 2019, the Parent Company infused a total of ₱5.1 billion additional capital for the acquisition of AC Energy Philippines, Inc. (ACEPH) (formerly Phinma Energy Corporation) which included a payment of prior year outstanding subscription of ₱1.7 billion. The Parent Company also infused another ₱5.8 billion via subscription on ACEI's redeemable preferred shares.

Investment in AITHI
On various dates in 2018 and 2017, the Parent Company infused ₱3.7 billion and ₱7.8 billion to AITHI, respectively, to fund the following:
i. Subscription to entitlement in IMI's stock offering; and
ii. Planned business expansion and various investments.

On September 28, 2018, SAIC MAXUS Automotive Co., Ltd. (Maxus) has appointed AITHI as the official distributor of Maxus vehicles in the Philippines. Maxus is a wholly-owned subsidiary of SAIC Motor Corporation Limited, with an emerging portfolio focused on light commercial vehicles.

On December 5, 2018, AITHI signed a Distributorship Agreement with Kia Motors Corporation (KMC) to distribute the Kia brand in the Philippines. A joint venture company, with AITHI as majority stockholder, will be established in collaboration with Columbian Autocar Corporation (CAC) to undertake this new business and re-establish the Kia brand in the Philippines.

On January 17, 2019, KP Motor Corporations (KPMC), a wholly-owned subsidiary of AITHI, was incorporated. KPMC is primarily engaged to assemble, manufacture, construct, purchase, import, sell on wholesale basis, distribute, export, exchange, mortgage, pledge and otherwise dispose of, and generally to deal in or engage in any commerce relating to automobiles, cars, automobile products, and all kinds of component parts of Kia brand.

On January 30, 2019, AITHI relaunched the Kia brand in the Philippines wherein three (3) new vehicle models were introduced. In 2019, the Parent Company infused capital which amounted to ₱1.8 billion for AITHI's acquisition of the Kia distributorship business.

Investment in ACIFL
In May 2019, ACIFL repurchased its 110.0 million shares which were issued and registered in the name of the Parent Company, ACIFL's sole shareholder. The repurchase price was at par of US$1.00 per share for a total amount of US$110.0 million. ACIFL remained a wholly owned subsidiary of the Parent Company after the transaction.

On various dates in 2019, ACIFL infused additional capital to ACI Singapore amounting to US$115.4 million to fund its various investments particularly its subscription to redeemable cumulative preferred stock (RCPS) of IMI Singapore.

Investment in MWC
On April 24, 2019, Metropolitan Waterworks and Sewerage System (MWSS) imposed a financial penalty of ₽534.05 million on MWC for its failure to meet its service obligation to provide 24/7 water supply to its customers. The financial penalty would be distributed to MWC's customers through rebates.

On September 18, 2019, MWC received a copy of the Decision of the Supreme Court on the case of 'Manila Water Company, Inc. vs. The Secretary of the Department of Environment and Natural Resourses, et.al.' with G.R. No. 206823 promulgated on August 6, 2019. The Supreme Court found MWC liable for fines which earn legal interest of 6% per annum from finality and until full satisfaction thereof. On October 2, 2019, MWC filed a Motion for Reconsideration with the Supreme Court. As of December 31, 2019, MWC has not received any resolution from the Supreme Court.

On February 3, 2020, MWC and Prime Metroline Holdings, Inc., on behalf of Trident Water, a company to be incorporated, signed a subscription agreement for the acquisition of 25% ownership interest in MWC or 820.0 million newly issued common shares at ₽13.00, subject to fulfillment of conditions. Subsequently, the Parent Company will grant Trident Water its proxy rights over MWC's preferred shares held through the Parent Company's wholly-owned subsidiary, Philwater Holdings Company, Inc. Upon completion of the transaction which is expected to be within one year from the reporting period, Trident Water will have 51.00% voting interest and thus, obtain control over MWC. Accordingly, MWC qualified as a group held for deemed disposal as of December 31, 2019 in the consolidated financial statements of the Parent Company.

As of December 31, 2019 and 2018, ownership interest of the Parent Company in MWC is at 35.1%. The fair value of the MWC shares held by the Parent Company amounted to ₽9.0 billion and ₽23.1 billion as of December 31, 2019 and 2018, respectively. The voting rights held by the Parent Company and Philwater in MWC is 80.2% and 80.3% as of December 31, 2019 and 2018, respectively.

Investment in AHHI
In April 2019, AHHI subscribed to additional 5,126 common shares to be issued out of the increase in authorized capital stock of Medgrocer with a total subscription price of ₱5.13 million at ₱1,000 per share.

In June 2019, AHHI agreed to convert the loan advances provided to Medgrocer amounting to ₱1.3 million in exchange for 1,300 common shares to be issued out of the increase in the authorized capital stock of Medgrocer, each share with a par value of ₱1,000 per share.

On June 3, 2019, AHHI received the approval of the PCC on its proposed increase in stake in the Generika companies which increased AHHI's ownership from 50% to 52.5%.

On November 27, 2019, the BOD approved the incorporation of Vigos Ventures Inc. (VVI). On January 7, 2020 VVI was approved by the SEC for incorporation with an authorized capital stock ₱200 million. AC Health subscribed to 0.45 million common shares and 0.05 common shares at a subscription price of ₱10 per share.

AHHI, through its technology arm, Vigos, expanded its digital portfolio with a recent investment in Fibronostics, a global US-based healthcare technology company focusing on non-invasive algorithm-based solutions for diagnostic testing. The agreement was signed on May 31, 2019 between AHHI and SPRIM, the bioscience R&D firm from which Fibronostics was spun off.

On various dates in 2019, the Parent Company infused ₱1,666.7 million to AHHI for certain capital expenditure, clinic expansion and new business development. Outstanding subscription as of December 31, 2019 amounted to ₱1,959.7 million. In 2018, the Parent Company infused ₱389.8 million to fund AHHI's various investments.

Investment in AC Infra
On various dates in 2019 and 2018, the Parent Company infused additional capital to AC Infra amounting to ₱2,371.0 million and ₱1,649.3 million, respectively. The additional capital was used for the following:

i. Operating and capital expenditures of AC Infra;
ii. Investment in Light Rail Manila Holdings, Inc.;
iii. Rehabilitation project of Ninoy Aquino International Airport;
iv. Funding for E-commerce center; and
v. Funding for Entrego, a company to be engaged in logistics business.

Investment in ALI
On April 24, 2019, ALI's subsidiary, AyalaLand REIT, Inc. (AREIT), announced its plan to publicly list as a Real Estate Investment Trust (REIT) under the current Implementing Rules and Regulations of the SEC on REITs and following the minimum public ownership requirement of 67%.

On June 20, 2019, ALI sold its 20% equity interest or 8,051 common shares in Laguna Technopark, Inc. (LTI) to AyalaLand Logistics Holdings Corp. (ALLHC) for a consideration of ₱800 million.

On September 9, 2019, Orion Land, Inc, (OLI) sold through a special block sale, 215,090,031 common shares of ALLHC to Avida Land Corporation for a total consideration of ₱628.1 million. Subsequently, these shares were acquired by ALI through a special block sale for a total consideration of ₱628.1 million. This resulted to increasing ALI's effective ownership in ALLHC to 71.46%.

ALI shares with carrying value of ₱258.9 million as of December 31, 2019 and 2018 were collateralized to secure the Parent Company's loan facility. The fair value of ALI shares collateralized amounted to ₱15.4 billion and ₱14.0 billion as of December 31, 2019 and 2018, respectively.

On various dates in 2019 and 2018, the holders of AYCFL's US$300.0 million guaranteed exchangeable bonds claimed the option to convert $292.8 million bonds to 377,465,612 ALI ordinary shares, and $7.0 million bonds to 8,844,704 ALI ordinary shares, respectively. In 2019 and 2018, ALI shares were sold for a total settlement amount of ₱17,014.4 million, ₱758.1 million of which was received as deposits in prior years and ₱392.8 million, which was also received as deposits in prior years, respectively, resulting to a gain on sale of investment in shares of stock amounting to ₱16.7 billion and ₱386.1 million, respectively, recognized as other income in the Parent Company financial statements (see Notes 18 and 26).

The fair value of the ALI shares held by the Parent Company amounted to ₱297.8 billion and ₱281.1 billion as of December 31, 2019 and 2018, respectively. The voting rights held by the Parent Company in ALI is 67.3% and 68.7% as of December 31, 2019 and 2018, respectively.

Investment in MHI
On June 30, 2018, the BOD of MHI approved and authorized the increase in the authorized capital stock from ₱350.0 million divided into 350.0 million shares with a par value of ₱1.0 per share to ₱388.1 million divided into 388.1 million shares with a par value of ₱1.0 per share.

In 2018, the Parent Company subscribed to MHI shares for ₱1.03 billion to fund its entitlement for BPI's stock offering.

On May 27, 2019, the Securities and Exchange Commission (SEC) approved the increase in the authorized capital stock of MHI.

Investment in BHL
In November 2019, the Parent Company through BHL's wholly-owned subsidiary, VIP Infrastructure Holdings Pte. Ltd. (VIP), signed definitive agreements to acquire 20% stake each in Yoma Strategic Holdings, Inc. (YSH) and First Myanmar Investment Public Co. (FMI). As of December 31, 2019, VIP and YSH closed the first tranche of the placement shares, with VIP owning 14.9% of the outstanding shares of YSH.

Investment in AVHC
In 2018, the Parent Company infused a total of ₱18.6 million to AVHC for its additional investment in BF Jade.

On July 12, 2019, the BOD of AVHC approved the amount of ₱63.75 million for a 25.5% ownership in a joint venture with BPI Capital Corporation and Telly Systems, Inc. for the development of an integrated payment exchange platform.

In 2019, the Parent Company, through AC Ventures, established the Technology Innovation Venture Fund (Active Fund). Active Fund will be the capital fund platform to understand disruptive trends and innovations which is key to staying relevant and future-ready as a Group. The platform allows participation and active involvement of business units within the Group. Active Fund will be managed by AC Ventures and will be participated in by the following subsidiaries of the Group (with their investment commitment): AC Ventures (US$100 million), Globe (US$25 million), AC Energy (US$25 million), BPI (US$20 million), AC Industrials (US$20 million), ALI (US$15 million) and MWCI (US$5 million).

Investment in AAC
On various dates in 2019, the Parent Company infused ₱119.4 million to AAC to fund its various expenditures.

Investment in IMI
The fair value of the IMI common shares held by the Parent Company amounted to ₱10.9 million and ₱14.9 million as of December 31, 2019 and 2018, respectively. The voting rights held by the Parent Company in IMI, directly and indirectly, through AITHI, is 52.3% and 52.1% as of December 31, 2019 and 2018, respectively.

Investment in AEI
In 2018, the Parent Company infused additional capital to AEI amounting to ₱2,597 million to fund the following:

i. Merger of IPO and AEI with IPO as the surviving corporation;
ii. AEI's purchase of National Teacher's College amounting to ₱1,231.9 million; and
iii. Affordable Private Education Canter (APEC) funding needs for school year 2018 - 2019.

On October 1, 2018, AEI and IPO executed a memorandum of agreement (MOA) for the merger, with IPO as the surviving entity and with House of Investments (HI) and the Parent Company owning 48.18% and 33.5%, respectively. The merger, which was approved by the stockholders of IPO and AEI on December 12, 2018 and December 5, 2018, respectively, was approved by the PCC on December 12, 2018. On January 31, 2019, AEI and IPO executed the Plan and Articles of merger, as approved by their respective BOD and stockholders. The Plan and Articles of Merger were submitted to the SEC on February 8, 2019 and were approved by the SEC on April 24, 2019 with effectivity date of May 2, 2019.

Upon SEC approval, IPO issued 295,329,976 common shares in exchange for 1,993,477,338 AEI shares, which constitutes 28.28% of IPO. This transaction resulted to the Parent Company recognizing ₱238.4 million gain on disposal of AEI shares. Post-merger, the Parent Company acquired additional 54,500,000 IPO common shares from existing HI affiliates for a consideration of ₱809.8 million, inclusive of directly-related fees.

The fair value of IPO shares held by the Parent Company amounted to ₱3,319.9 million as of December 31, 2019.

Investment in BPI
On January 17, 2018, the BOD of BPI approved the offering for subscription of up to 567.0 million shares of BPI by way of a stock rights offering (SRO) up to ₱50.0 billion. The rights offered involved the issuance of 14.2% of BPI outstanding shares to shareholders on record as of April 6, 2018. The Parent Company subscribed to 190.7 million shares amounting to ₱17.2 billion which resulted in a minimal increase in ownership of BPI from 30.5% to 30.9%.

The fair value of the BPI shares held by the Parent Company amounted to ₱122.2 billion and ₱130.7 billion as of December 31, 2019 and 2018, respectively.

Investment in LLC
In May 2019, the Parent Company infused ₱24.0 million to LLC for construction works. The Parent Company's ownership of LLC remained at 40% after the transaction.

Investment in LHI
In May 2018, LHI completed the subscription to 112.2 million shares proportionate and unsubscribed rights share in BPI's SRO.

As of December 31, 2019 and 2018, LHI owns 904.2 million common shares of BPI representing a direct ownership interest in BPI of 20.1%. The Parent Company and GIC Special Investments (GICSI) Pte Ltd., the entity controlling Arran Investments Pte. Ltd., as joint venture partners, agreed to vote its BPI shares based on the common position reached jointly by them as shareholders. The fair value of BPI shares held by LHI amounted to ₱79.5 billion and ₱85.0 billion as of December 31, 2019 and 2018, respectively.

Investment in Globe
The fair value of the Globe shares held by the Parent Company amounted to ₱83.2 billion and ₱78.2 billion as of December 31, 2019 and 2018, respectively.

Allowance for probable impairment loss
Movements in Allowance for probable impairment losses on investments in subsidiaries, associates and joint ventures follow:

	2019	2018
	(In Thousands)	
At January 1	**₱21,883,250**	₱21,883,250
Provision (Note 18)	**7,425,040**	–
Reversals (Note 18)	**(4,922,040)**	–
At December 31	**₱24,386,250**	₱21,883,250

In 2019, the Parent Company reversed impairment loss of ₱4,922.0 million which resulted from a return of capital at cost for which an allowance for impairment was previously provided for.

Also in 2019, the Parent Company recognized additional impairment losses on certain investments where the carrying amount exceeded the recoverable amount (see Note 18). Recoverable amounts of investments in subsidiaries, associates and joint ventures that have been determined to have impairment indicators as of December 31, 2019 were based on value in use with discount rates of 9%

to 15%, revenue growth rates ranging from 1.5% to 10%, and terminal values. Recoverable amounts as of December 31, 2018 were based on fair value less cost to sell with reference to market prices and dividend yields.

8. Investment Properties

The movements in investment properties follow:

	2019			
	Land	**Buildings and Improvements**	**Construction in progress**	**Total**
		(In Thousands)		
Cost				
At January 1	**₱1,035,433**	**₱457,072**	**₱44,643**	**₱1,537,148**
Disposal	**(8,605)**	**–**	**–**	**(8,605)**
At December 31	**1,026,828**	**457,072**	**44,643**	**1,528,543**
Accumulated depreciation and impairment losses				
At January 1	**26,616**	**379,671**	**–**	**406,287**
Depreciation and provisions	**–**	**12,276**	**–**	**12,276**
At December 31	**26,616**	**391,947**	**–**	**418,563**
Net Book Value	**₱1,000,212**	**₱65,125**	**₱44,643**	**₱1,109,980**

	2018			
	Land	Buildings and Improvements	Construction in progress	Total
		(In Thousands)		
Cost				
At January 1	₱1,035,433	₱457,072	₱44,643	₱1,537,148
Additions	–	–	–	–
Disposal	–	–	–	–
At December 31	1,035,433	457,072	44,643	1,537,148
Accumulated depreciation and impairment losses				
At January 1	26,616	364,640	–	391,256
Depreciation and provisions	–	15,031	–	15,031
At December 31	26,616	379,671	–	406,287
Net Book Value	₱1,008,817	₱77,401	₱44,643	₱1,130,861

The construction in progress pertains to the construction of the Philippine Cerebral Palsy Building located at Sacred Heart Street, San Antonio Village, Makati City, Philippines.

Certain parcels of land and buildings are leased to related parties (see Note 21). Rental from investment is based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Rental income from investment properties included under “Other income’ in the parent company statements of income amounted to ₱179.9 million and ₱185.1 million in 2019 and 2018, respectively (see Note 18). Depreciation expense related to the investment properties held to earn rentals amounted to ₱12.3 million and ₱15.0 million in 2019 and 2018.

In July 2016, the Parent Company entered into an operating lease agreement with Crans Montana Property Holdings Corp. (Crans Montana), a wholly-owned subsidiary of ALI, for the lease of a land in Legaspi Village, Makati City. The lease is for a period of 25 years commencing on the start of commercial operations of the apartment building to be built by the Lessee.

The apartment building started its commercial operation on September 1, 2018. Rental income recognized in 2019 and 2018 amounted to ₱1.6 million and ₱0.8 million, respectively (see Note 21).

In December 2018, the Parent Company sold a parcel of land in San Antonio, Makati to Crans Montana for a total consideration of ₱99.4 million. The Parent Company recognized a total gain on disposal of San Antonio property and other investment properties amounting to ₱100.9 million in 2018 (see Note 18).

In August 2019, the Parent Company sold a parcel of land located in the Province of Misamis Oriental to Laguna Technopark, Inc. (LTI) for a total consideration of ₱299.1 million (see Note 18).

The fair value of the Parent Company's land and buildings and improvements amounted to ₱10.1 billion, including certain investment properties which were not covered by previous appraisal, and ₱10.3 billion as of December 31, 2019 and 2018, respectively. The fair value of the investment properties was determined based on valuations performed by independent professionally qualified appraisers. The valuation techniques and key inputs to valuation of investment properties are presented in Note 24 to the parent company financial statements.

The Parent Company has determined that the highest and best use of the land and buildings leased to related parties is its current use. The Parent Company owns certain parcels of idle land which is intended to be sold or developed in the future. The highest and best use of these parcels of land has been determined to be for commercial and agricultural land utilization.

The fair value of the investment properties was arrived using the Market Data Approach and Cost Approach for land and building and improvements, respectively.

In Market Data Approach, the value of the land is based on sales and listing of comparable property registered within the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

Cost Approach is a comparative approach to the value of the building and improvements or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of, or equivalent to, the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction cost (new) of the subject property or asset, less total (accrued) depreciation, plus indirect costs attributed to the improvement.

9. Financial Assets at Fair Value through OCI

This account consists of equity investments, which are presented as financial assets at fair value through OCI as at December 31, 2019 and 2018, as follows:

	2019	2018
	(In Thousands)	
Quoted investments		
Alabang Country Club	**₱329,400**	₱338,500
Manila Golf Club	**76,000**	50,000
Manila Polo Club	**46,000**	40,000
Wack Wack Golf Club	**35,000**	35,000
Sta. Elena Golf Club	**9,500**	10,000
Manila Electric Company	**6,656**	8,097
Makati Sports Club	**5,400**	3,750
The Philodrill Corporation	**2,069**	2,445
Canlubang Golf Club	**2,000**	2,400
Others	**22,445**	18,019
	₱534,470	₱508,211

The movements in fair value reserve of financial assets through OCI is as follows:

	2019	2018
	(In Thousands)	
At January 1 (see Note 2)	**₱282,726**	₱212,460
Disposals	**(18,962)**	(11,546)
Fair value gain recognized in OCI	**41,911**	81,812
At December 31	**₱305,675**	₱282,726

10. **Service Concession Assets**

The movements in this account follow:

	2019	2018
	(In Thousands)	
Cost		
At January 1	**₱2,237,735**	₱2,230,982
Construction revenue	**29,571**	6,931
Retirement	**–**	(178)
At December 31	**2,267,306**	2,237,735
Accumulated Amortization		
At January 1	**420,261**	294,449
Amortization	**106,484**	125,869
Retirement	**–**	(57)
At December 31	**526,745**	420,261
Net Book Value	**₱1,740,561**	₱1,817,474

In 2019 and 2018, the Parent Company performed civil and structural works on the concession assets which were recorded as construction revenue. The recognized revenue is equal to the related costs (see Note 18).

Concession Agreement with the DPWH
The Parent Company entered into a concession agreement with the DPWH to finance, design, construct, operate and maintain the Daang Hari - SLEX Link Road, otherwise known as MCX (the Project) in April 2, 2012. Under the concession agreement, the Parent Company will:

a. Purchase the advance works on Segment I of the Project from Alabang - Sto. Tomas Development, Inc. and finance and construct the remaining works thereof;
b. Finance, design, and construct Segment II of the Project;
c. Undertake the operations and maintenance (O&M) of the Project;
d. Impose and collect tolls from the users of the Project; and
e. Grant business concessions and charge and collect fees for non-toll and toll user related facilities situated within the basic and additional right of way of the project.

The Parent Company is authorized to adjust the toll rates once in every two years in accordance with the prescribed computation set out in the Concession Agreement and upon compliance with the rules and regulations on toll rate implementation as issued or may be issued by the Toll Regulatory Board (TRB).

In the event that the Parent Company is disallowed from charging and collecting the authorized amounts of the toll rates as prescribed in the Concession Agreement from the users of the MCX, the Parent Company shall be entitled to either of the following:

a. Compensation from the DPWH of the toll income forgone by the Parent Company which shall be calculated based on the prescribed computation under the Concession Agreement.
b. Extension of the Concession Period to compensate the Parent Company for the forgone toll income, the length of the extension shall be mutually agreed by the Parent Company and the DPWH.

The Parent Company shall remit to the DPWH 5%, as their share, of the gross revenues arising from the grant of business concessions of its non-toll related facilities situated within the basic and additional right of way of the MCX.

The Concession Period commenced on the date of the issuance of the Notice to Proceed with Segment II and shall end on the date that is 30 years thereafter, unless otherwise extended or terminated in accordance with the provisions of the Concession Agreement. Notice to Proceed was issued last June 29, 2015. Any extension of the Concession Period shall in no event be beyond 50 years after the date of the issuance of the Notice to Proceed with Segment II.

At the end of the Concession Period, MCX shall be turned over by the Parent Company to the DPWH in the condition required for turnover, as provided for in the Concession Agreement.

On July 24, 2015, MCX was opened to the public.

In accordance with the Concession Agreement, the Parent Company shall have the right to impose and collect toll fees (inclusive of value-added tax) from the users of the MCX at the following rates:

Vehicle Class	Initial Toll Rate (flat rate)
Class 1: Light vehicles	₱17.00
Class 2: Medium-weight vehicles	34.00
Class 3: Heavy vehicles	51.00

Periodic Toll Adjustment
On September 27, 2016, the Parent Company has filed for a Petition for Approval of Periodic Toll Adjustment. Under Section 13.2 of the Concession Agreement, Concessionaire is authorized to adjust the Toll Rate every two years. Since MCX started commercial operations on July 24, 2015, the Parent Company is entitled to adjust its toll for MCX effective July 24, 2017. However, under Section 3 of the 2013 Revised Rules of Procedure of the Toll Regulatory Board (TRB), the petition has to be filed on or before 30 September. Thus, the Petition was filed knowing fully well that the effectivity of the adjusted toll rate will still be on July 24, 2017.

On June 19, 2017, TRB sent an order directing the publication of the full petition in a newspaper of general circulation, along with the notice to expressway users that they may file an opposition within the period provided for under the Rules. Accordingly, the full petition was published on July 25, 2017. On November 8, 2017, all TRB requirements for the approval of the toll rate increase were submitted.

On September 28, 2018, the second toll rate increase petition has been submitted to the TRB and the order directing the publication of the full petition in a newspaper of general circulation, along with the notice to expressway users that they may file an opposition within the period provided for under the Rules, was sent by TRB on October 26, 2018. Accordingly, the petition was published on November 13, 2018. No opposition has been reported until the prescribed filing period.

On March 26, 2019, the approved resolution of the Toll Regulatory Board (TRB) on Ayala's 2016 Petition for Approval of Periodic Toll Rate Adjustment with Application for Provisional Relief was received. The approved new toll rates are as follows:

	Vat Inclusive Rates (Php)		
Vehicle Class	Current	Adjusted	Increment
Class I	17.00	17.00	0.00
Class II	34.00	35.00	1.00
Class III	51.00	52.00	1.00

As indicated in the resolution, prior to TRB's issuance of the Notice to Start Collection, Ayala is directed to publish the approved new rates applicable to MCX Expressway (in accordance with TRB rules) and to submit proof of such publication.

Variation Order
On February 25, 2013, the DPWH sent a Variation Notice to Pertconsult International, the Project's Independent Consultant (IC), instructing the IC to advise the Parent Company to submit a request for Prior Clearance and Variation Proposal in connection with TRB's directive to include in the Project's design a provision for future expansion of SLEX to accommodate possible fifth lane for both directions at the Filinvest to Susana Heights Section. IC, in its letter to the Project's Management Consultant dated March 4, 2013, effectively directed the Parent Company to comply with the DPWH letter dated February 25, 2013.

Such proposal was made in accordance with the Concession Agreement which provides that in the event the DPWH initiates a variation, the Parent Company as concessionaire, shall prepare a proposal setting out the necessary details and additional cost estimates.

On April 10, 2014, the Parent Company submitted a variation proposal to the DPWH and sought for approval of (1) Direct payment of the construction cost for the works related to the provisioning of the SLEX future expansion amounting to ₱251.2 million inclusive of VAT and (2) Extension of the concession period by 3 ½ years due to the delays encountered as a result of the variation order.

DPWH, in its letter to IC dated February 6, 2015, advised the same that it has issued the approved Prior Clearance/Authority to Issue Variation Order No. 1 with a cap of ₱223.0 million.

On May 27, 2015, the DPWH approved the adjusted cost of the variation order in the amount of ₱223.0 million (which was rectified by the Bureau of Construction) variation proposal and endorsed it to the National Economic and Development Authority (NEDA) for information and appropriate action. Accordingly, the Parent Company reclassified the amount of ₱223.0 million from service concession account to receivables from the Government upon DPWH's approval of the variation order.

NEDA in its meeting held on July 15, 2015 confirmed the recommendation of the variation order.

On May 31, 2016, variation order for the project amounting to ₱16.6 million was reclassified to SCA under investment in toll road. Also, various reimbursement for expenses incurred during the acquisition of the right of way amounting to ₱1.1 million was received from the DPWH under the Reimbursement Agreement.

On November 21, 2016, the IC recommended to the DPWH that a Certificate of Final Completion be issued for the project. Subsequently, DPWH, in its letter dated December 21, 2016, issued the certificate of completion. As of December 31, 2019 and 2018, the Parent Company's other receivables includes receivable from DPWH amounting to ₱215.9 million pertaining to variation order and reimbursement of right-of-way acquisition claims.

Interoperability Agreement
On July 21, 2015, the Parent Company, MCX Tollway, Inc. (MCXI) (an 80% owned subsidiary of AC Infra), South Luzon Tollway Corporation (SLTC), and Manila Toll Expressway Systems, Inc. (MATES) signed a Memorandum of Agreement on Interoperability, together with an Addendum thereto (“MOA on Interoperability”), of the Project and SLEX. The MOA on Interoperability provides the framework that will govern the interface and integration of the technical operations and toll collection systems between the Project and SLEX, and to ensure seamless travel for road users.

On the same date, MCXI and MATES signed the Toll Collection Services Agreement which appoints MATES to perform toll collections services in MCX.

On September 15, 2017, the Parent Company and MCXI together with San Miguel Holdings Corporation, Private Infra Development Corporation, Citra Metro Manila Tollways Corporation, Skyway O&M Corporation, Citra Central Expressway Corporation, Vertex Tollways Development Incorporated, SLTC, MATES, Star Infrastructure Development Corporation, Star Tollway Corporation, Metro Pacific Tollways Corporation, NLEX Corporation, Cavitex Infrastructure Corporation, MPCala Holdings Inc., Bases and Conversion Development Authority, Department of Transportation, Department of Public Works and Highways, Land Transportation Office and Toll Regulatory Board signed the Memorandum of Agreement for Toll Collection Interoperability (MOA). The MOA aims for a timely, smoothly, and fairly implementation of the ETC Systems and Cash Payment Systems’ interoperability of the covered expressways. As of December 31, 2019, discussions are ongoing among and between the parties for the implementation of the MOA.

Operations and Maintenance Contracts
The Parent Company shall have the exclusive right and corresponding obligation to undertake the O&M of the Project. As such, on December 19, 2014, the Parent Company entered into an Operations and Maintenance Agreement (OMA) with MCXI for the operations and maintenance of the Project. The OMA has a term of seven (7) years, renewable for another seven (7) years, with the right of first offer in favor of MCXI. As compensation, the Parent Company shall pay an annual recurring fee of ₱77.6 million, exclusive of VAT, subject to yearly escalation using the Consumer Price Indexation formula.

On the same date, MCXI signed two contracts with EGIS Projects Philippines, Inc. (Egis):

a. Operations Advisory Contract - to provide advice, among others, on the establishment and implementation of procedures to enforce traffic regulations and safety measures in MCX; and
b. Maintenance Contract - to provide cleaning, inspection, repairs and maintenance on all parts of MCX, its landscaping, traffic signs and others.

Both contracts have a term of seven (7) years and renewable for another seven (7) years. The annual recurring fee for both contracts is ₱18.2 million, exclusive of VAT, and ₱40.9 million, exclusive of VAT, respectively and subject to yearly escalation to the effect of changes in labor index rates and consumer price index as provided by the Department of Labor and Employment.

In 2016, the Parent Company amended its existing O&M agreement with MCXI reducing the annual fee to ₱29.52 million, subject to yearly escalation, and novated the existing contracts of MCXI and Egis for the Parent Company to replace MCXI as the principal contracting party to the Operations Advisory and Maintenance contracts.

Non-Toll and Toll User Related Facilities
On October 24, 2016, the Parent Company entered into a lease agreement with Isuzu Automotive Dealership, Inc. (the Lessee) for the lease of an approximately 15,000 square meters of the concession area. The lease term is 20 years from October 1, 2016 to September 30, 2036, renewable for another period not exceeding June 28, 2045 upon mutual agreement. The fixed initial basic rent of the leased concession area shall be ₱1.3 million, exclusive of VAT, per month. Basic rent shall escalate by 5% at the start of the third year and every two years thereafter. The Lessee shall be given a rent free construction period of 3 months from October 1, 2016 to December 31, 2016.

The leased concession area shall be used by the Lessee for the purpose of developing and operating a dealership showroom and service center and to carry out other related retail, services and support activities incidental and complementary to its business and may be customary to the trade.

On February 2, 2017, the Parent Company entered into a lease agreement with Premier Petrol Distributors, Inc. (the Lessee) for the lease of an approximately 10,667 square meters of the concession area. The lease term is 20 years from September 1, 2017 to August 31, 2037, renewable for another period not exceeding June 28, 2045 upon mutual agreement. The fixed initial basic rent of the leased concession area shall be ₱1.1 million, exclusive of VAT, per month. Basic rent shall escalate by 5% at the start of the second year and every year thereafter. As of December 31, 2019, the lease terms are being re-negotiated.

On July 6, 2017, the Parent Company signed the contract of lease with Globe Telecom, Inc. (the Lessee) for the use of the following locations:

a. Macro Site - 64 square meters of land within the concession area
b. Small Cell (Easy Macro) Site - 7 lamp posts locations
c. Atom Cells' Site - 4 locations in the tunnel underneath SLEX

The lease term shall be twenty-eight (28) years and eleven (11) months, commencing on August 1, 2016 and continuing until June 28, 2045. The fixed initial basic rent of the leased concession area shall be ₱31 thousand per month, exclusive of VAT, subject to annual escalation of 4.5% starting at the beginning of the second year.

On November 13, 2018, the Parent Company and Pilipinas Shell Petroleum Corporation executed a twenty (20) years lease contract for an approximate area of 9,689 square meters. The lease contract was effective July 15, 2018 and ending on July 14, 2038, renewable for another period not exceeding December 28, 2044 upon mutual agreement. The fixed initial monthly basic rent of the leased concession area shall be ₱823,565, exclusive of VAT. Basic rent shall escalate by 5% at the start of the third year and every year thereafter.

For all non-toll user related agreements, including short-term advertising leases, concerning the concession area, the Parent Company will remit, to the DPWH, 5% of its share on the gross revenues in accordance with Section 12.6.b of the Concession Agreement.

11. Property and Equipment

The movements of property and equipment follow:

	2019					
	Condominium Units	Condominium Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
				(In Thousands)		
Cost						
At January 1	₱412,178	₱291,586	₱363,568	₱199,372	₱2,647	₱1,269,351
Reclassification	–	–	1,422	–	(1,422)	–
Additions	17,174	–	11,948	42,549	16,754	88,425
Disposals	–	–	(229)	(40,318)	–	(40,547)
Retirement	–	–	(80)	–	–	(80)
At December 31	429,352	291,586	376,629	201,603	17,979	1,317,149
Accumulated Depreciation						
At January 1	359,808	197,038	278,725	81,020	–	916,591
Depreciation	16,888	58,318	28,875	38,101	–	142,182
Disposals	–	–	(78)	(25,397)	–	(25,475)
Retirement	–	–	(80)	–	–	(80)
At December 31	376,696	255,356	307,442	93,724	–	1,033,218
Net Book Value	₱52,656	₱36,230	₱69,187	₱107,879	₱17,979	₱283,931

	2018					
	Condominium Units	Condominium Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
				(In Thousands)		
Cost						
At January 1	₱412,178	₱288,278	₱360,371	₱210,886	₱263	₱1,271,976
Additions	–	3,308	22,857	51,150	2,384	79,699
Disposals	–	–	(82)	(62,664)	–	(62,746)
Retirement	–	–	(19,578)	–	–	(19,578)
At December 31	412,178	291,586	363,568	199,372	2,647	1,269,351
Accumulated Depreciation						
At January 1	343,321	138,997	259,949	85,049	–	827,316
Depreciation	16,487	58,041	37,895	41,521	–	153,944
Disposals	–	–	(52)	(45,550)	–	(45,602)
Retirement	–	–	(19,067)	–	–	(19,067)
At December 31	359,808	197,038	278,725	81,020	–	916,591
Net Book Value	₱52,370	₱94,548	₱84,843	₱118,352	₱2,647	₱352,760

Depreciation on property and equipment charged to operations amounted to ₱142.2 million and ₱153.9 million in 2019 and 2018, respectively.

The Parent Company recognized gain on disposal which amounted to ₱3.4 million and ₱4.8 million in 2019 and 2018, respectively. These were included as part of gain on sale of property and equipment in "Other income" (see Note 18).

12. **Provision for Maintenance Obligation**

Provision for maintenance obligation pertains to the present value of the estimated contractual obligations of the Parent Company to undertake the financing of the Project's periodic maintenance, which includes renewal and restoration of toll roads and toll road facilities prior to turnover of the asset to DPWH, the grantor.

Under the Minimum Performance Standards and Specifications (MPSS), the Parent Company has the obligation to perform routine and periodic maintenance. Routine maintenance pertains to day-to-day activities to maintain the road infrastructures while periodic maintenance comprises of preventive activities against major defects and reconstruction. Moreover, the Parent Company is required to perform maintenance and repair work in a manner that complies with the MPSS once it hands the asset back to the DPWH. The provision is a product of the best estimate of the expenditure required to settle the obligation based on the usage of the road during the operating phase. The amount is reduced by the actual obligations paid for heavy maintenance of the SCA.
The movements in the account follow:

	2019	2018
	(In Thousands)	
At January 1	**₱46,851**	₱29,949
Provisions for the period (Note 18)	**16,538**	15,139
Accretion of interest (Note 18)	**2,630**	1,763
	66,019	46,851
Noncurrent portion	**(52,413)**	(35,455)
Current portion	**₱13,606**	₱11,396

13. **Accounts Payable and Accrued Expenses**

This account consists of:

	2019	2018
	(In Thousands)	
Accrued expenses	**₱1,194,196**	₱1,233,704
Interest payable (Note 21)	**577,827**	603,075
Accounts payable	**302,143**	279,407
Payables to related parties (Note 21)	**242,549**	265,716
Deposit payable (Note 21)	**–**	758,132
Others	**28,620**	8,884
	₱2,345,335	₱3,148,918

Accrued expenses pertain mainly to accrual for short-term employee benefits and various general and administrative expenses of the Parent Company. Total accrual for short-term employee benefits amounted to ₱728.3 million and ₱723.8 million as of December 31, 2019 and 2018, respectively.

Interest payable pertains to interest incurred on bank loans and fixed bonds but not yet paid. Accounts payable pertains to payables to non-related parties. These payables are non-interest bearing.

Payables to related parties consist of non-interest bearing liabilities to related parties and others that are due and demandable.

Deposit payable pertains to deposits from AYCFL for the exchangeable bonds convertible into ALI shares (see Note 26).

Other payables are non-interest bearing and are normally settled within one year. This also includes output VAT amounting to ₱17.63 million and nil as of December 31, 2019 and 2018, respectively, and expanded withholding tax payable.

14. **Other Current Liabilities**

This account consists of:

	2019	2018
	(In Thousands)	
Subscriptions payable (Notes 7 and 21)	**₱2,069,413**	₱1,785,734
Others	**11,856**	11,858
	₱2,081,269	₱1,797,592

As of December 31, 2019, the subscriptions payable pertains to the Parent Company's investment in AHHI, AVHC and AAC amounting to ₱1,959.7 million, ₱70.3 million, and ₱39.4 million, respectively.

While as of December 31, 2018, the subscriptions payable pertains to the Parent Company's investment in ACEI, AVHC and AHHI amounting to ₱1,687.5 million, ₱96.9 million and ₱1.4 million, respectively.

15. **Long-term Debt**

This account consists of the following:

	2019	2018
	(In Thousands)	
Bank loans - with fixed interest rates ranging from 5.3% to 6.0% and floating interest rates based on applicable benchmark plus credit spread ranging from 0.5% to 0.70% with varying maturity dates up to 2028 (Note 25)	**₱25,833,141**	₱27,405,387
Bonds	**39,710,925**	39,762,594
Total long-term debt	**65,544,066**	67,167,981
Less current portion	**4,387,500**	525,500
	₱61,156,566	₱66,642,481

Reconciliation of carrying amount against nominal amount follows:

	2019	2018
	(In Thousands)	
Nominal amount	**₱65,864,650**	₱67,513,250
Less unamortized discount	**320,584**	345,269
	₱65,544,066	₱67,167,981

Generally, the Parent Company's long-term loans are unsecured. Due to certain regulatory constraints in the local banking system regarding loans to directors, officers, stockholders and related interest, some of the Parent Company's credit facilities with a local bank are secured by shares of stock of a subsidiary with a fair value of ₱15.4 billion and ₱13.8 billion as of December 31, 2019 and 2018, respectively, in accordance with Bangko Sentral ng Pilipinas (BSP) regulations (see Note 7). A portion of the Parent Company's loans with BPI are also secured by dollar deposits of a subsidiary amounting to ₱4.3 billion as of December 31, 2019. All credit facilities of the Parent Company outside of BPI are unsecured, and their respective credit agreements provide for this exception.

The Parent Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions.

In November and December 2013, the Parent Company availed a ₱2.0 billion and a ₱4.3 billion loan from various banks to mature in 2018 and 2020, respectively. The ₱2.0 billion loan shall have interest rate per annum equal to the 3-month PDST-R2 plus a spread of 100 basis points (1%) per annum, or BSP overnight reverse repurchase (RRP) rate plus a spread of 25 basis points (0.25%), whichever is higher. In February 2016 and November 2017, the Parent Company paid the first and second principal payment for the ₱2.0 billion loan which amounted to ₱100.0 million each. In November 2018, the Parent Company paid the final principal payment which amounted to ₱1.8 billion.
The ₱4.3 billion loan shall have interest rate per annum equal to the 6-month PDST-R1 plus a spread of thirty basis points (0.30%) for the first six months and 3-month PDST-R1 plus a spread of sixty basis points (0.60%) thereafter. In December 2015, 2016, 2017, 2018 and 2019, the Parent Company paid the five principal payments for the ₱4.3 billion loan which amounted to ₱42.5 million each.

In August 2015, the Parent Company availed a 7-year loan from a local bank amounting to ₱3.0 billion which bears fixed interest rate of 5.2883% per annum. Principal repayments amounting to ₱30.0 million shall be made at the end of the third year until the sixth year and payment of remaining principal balance amounting to ₱2.9 billion at maturity date.

In December 2016, the Parent Company entered into a revolving term loan agreement amounting to ₱10.0 billion. The first drawdown of the loan amounted to ₱300.0 million on December 22, 2017 with a quarterly repricing rate and a tenor of three years. The ₱300.0 million shall have interest rate equivalent to (i) the Benchmark Rate-Floating plus a margin of seventy basis points (0.70%) per annum or (ii) the 28-day BSP Deposit Facility Rate plus a margin of forty-five basis points (0.45%) per annum, whichever is higher. On February 23, 2018 and July 19, 2018, the Parent Company drew an additional ₱2.5 billion for three years and ₱0.5 billion for four years, respectively. Both drawdowns are repriced quarterly similar to the terms of the initial drawdown. The Parent Company paid the first principal payment for the ₱300.0 million and ₱0.5 billion drawdowns amounting to ₱3.0 million and ₱12.5 million, respectively, in 2018. In 2019, the Parent Company paid the final principal payments of ₱297.0 million for the first drawdown, ₱2.5 billion for the second drawdown, and ₱0.5 billion for the third drawdown.

On November 4, 2019, the Parent Company drew down a 45-day ₱10 billion loan from its revolving term loan agreement dated December 1, 2016. The principal and interest were fully paid on December 9, 2019.

On January 30, 2018, the Parent Company signed the following loan facilities with BPI that are secured by collateral:

a. ₱1.9 billion 10-year loan facility with ALI shares as collateral (70% of outstanding loan on 2:1 collateral ratio). The loan shall have interest rate equivalent to (i) the Benchmark Rate-Floating plus a margin of sixty basis points (0.60%) per annum or (ii) the average of BSP Overnight Deposit Facility (ODF) and BSP Term Deposit Auction Facility (TDF) Rate of the tenor nearest the interest period, whichever is higher; and

b. ₱10.0 billion 10-year loan facility with US$ deposits as collateral (1:1 ratio). The loan shall have interest rate equivalent to (i) the Benchmark Rate-Floating plus a margin of sixty basis points (0.60%) per annum or (ii) the average of BSP Overnight Deposit Facility (ODF) and BSP Term Deposit Auction Facility (TDF) Rate of the tenor nearest the interest period, whichever is higher.

₱1.9 Billion 10-year Loan Facility with ALI Shares as Collateral

On February 26, 2018, the Parent Company drew down the full amount of the ₱1.9 billion loan with ALI shares as collateral. In 2019 and 2018, the Parent Company paid four and three principal payments, respectively, for the ₱1.9 billion loan amounting to ₱23.8 million each.

₱10.0 Billion 10-year Loan Facility with US$ Deposits as Collateral

On April 30, 2018, the Parent Company drew ₱6.0 billion from its ₱10.0 billion 10-year loan facility secured by an assignment of AYCFL's deposits amounting to $115.7 million. In 2018, the Parent Company made two principal payments of ₱75.0 million each, and pre-paid ₱4.0 billion in October 2018. In 2019, the Parent Company made one principal payment of ₱75.0 million and three principal payments of ₱12.5 million each, and pre-paid ₱812.5 million in January 2019.

On May 15, 2018, the Parent Company drew down ₱0.5 billion from the same facility secured by an assignment of AYCFL's deposits amounting to $9.6 million. The Parent Company made two principal payments worth ₱6.3 million each in 2018, and one principal payment of ₱6.3 million in 2019. The Parent Company pre-paid the remaining balance of ₱481.3 million on January 30, 2019.

In January 2019, the Parent Company drew down the remaining ₱3.5 billion from the loan facility secured by an assignment of AYCFL's deposits amounting to $67.2 million. In 2019, Parent Company paid four principal payments amounting to ₱43.8 million each.

In April 2018, the Parent Company signed an ₱11 billion fixed term loan facility with a local bank with a tenor of 8 years. The loan shall have a fixed interest rate of 6.0043% for the first five years, which was based on the prevailing 5-year PDST-R2 benchmark plus a spread of 65 basis points and will reprice at the prevailing 3-year benchmark plus a spread of 65 basis points. The amount was fully drawn on April 30, 2018.

Also in April 2018, the Parent Company signed a ₱5.0 billion term loan facility with a local bank. The Parent Company drew down ₱2.0 billion with a tenor of 5 years with fixed interest rate of 6.0043%, which was based on the prevailing PDST-R2 benchmark plus a spread of 65 basis points.

Bonds

Below is the summary of the outstanding Peso bonds issued by the Parent Company:

Year Issued	Term	Interest rate	Principal Amount (In thousands)	Carrying Value (In thousands) 2019	2018	Features
2011	10 years	6.80%	9,903,400	**9,885,752**	9,970,466	20% balance puttable on the 5th anniversary of the issue date; balance puttable on the 8th anniversary issue date
2012	15 years	6.875%	10,000,000	**9,952,651**	9,946,221	Callable from the 10th anniversary issue until every year thereafter until the 14th anniversary issue date
2016	7 years	3.92%	10,000,000	**9,942,735**	9,927,904	Callable from the 5.5th anniversary issue at a call option price of 100.25%
2017	8 years	4.82%	10,000,000	**9,929,787**	9,918,003	Callable from the 6.5th anniversary issue at a call option price of 100.25%
			₱39,903,400	**₱39,710,925**	₱39,762,594	

The outstanding Peso bonds of the Parent Company have been rated "PRS AAA" by PhilRatings.

Bonds due 2021

In May 2019, the Parent Company paid ₱96.6 million on the ₱10.0 billion bonds issued in May 2011.

Bonds due 2025

On February 10, 2017, the Parent Company issued ₱10.0 billion, 4.82% bonds due in 2025. This pertains to the second and final tranche of the ₱20.0 billion fixed rate bonds program approved by the BOD on March 10, 2016.

The long-term debt of the Parent Company provides for certain restrictions and requirements with respect to maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Parent Company as of December 31, 2019 and 2018.

Interest paid amounted to ₱3.9 billion and ₱3.3 billion in 2019 and 2018, respectively (see Note 18).

16. Equity

The details of the Parent Company's preferred and common shares follow:

	Preferred A shares		Preferred B shares		Preferred C shares		Voting Preferred shares		Common shares	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	(In Thousands, except par value per share)									
Authorized shares	**12,000**	12,000	**58,000**	58,000	**40,000**	40,000	**200,000**	200,000	**900,000**	900,000
Par value per share	**₱100**	₱100	**₱100**	₱100	**₱100**	₱100	**₱1**	₱1	**₱50**	₱50
Issued and subscribed shares	**12,000**	12,000	**58,000**	58,000	**–**	–	**200,000**	200,000	**631,162**	630,627
Outstanding shares										
At beginning of year	**–**	–	**47,000**	47,000	**–**	–	**200,000**	200,000	**630,627**	621,292
Issuance of shares	**–**	–	**–**	–	**–**	–	**–**	–	**–**	8,810
Issued shares on exercise of share options	**–**	–	**–**	–	**–**	–	**–**	–	**19**	7
Subscribed shares	**–**	–	**–**	–	**–**	–	**–**	–	**516**	518

(Forward)

	Preferred A shares		Preferred B shares		Preferred C shares		Voting Preferred shares		Common shares	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	(In Thousands, except par value per share)									
Treasury shares										
Redemption	**–**	–	**(27,000)**	–	**–**	–	**–**	–	**–**	–
Re-issuance	**–**	–	**30,000**	–	**–**	–	**–**	–	**–**	–
Acquisition	**–**	–	**–**	–	**–**	–	**–**	–	**(4,479)**	–
At end of year	**–**	–	**50,000**	47,000	**–**	–	**200,000**	200,000	**626,683**	630,627

Details of Preferred B shares as follows *(in Thousands, except par value per share):*

	Series 1		Series 2		Total	
Preferred B	**2019**	2018	**2019**	2018	**2019**	2018
Par value per share	**₱100**	₱100	**₱100**	₱100		
Issued and subscribed shares	**28,000**	28,000	**30,000**	30,000	**58,000**	58,000
Outstanding shares	**20,000**	20,000	**30,000**	27,000	**50,000**	47,000
Treasury shares	**8,000**	8,000	**–**	3,000	**8,000**	11,000
Cost of treasury shares	**₱800,000**	₱800,000	**₱–**	₱300,000	**₱800,000**	₱1,100,000

Preferred Shares

Preferred A shares

On November 11, 2008, the Parent Company filed a primary offer in the Philippines of its Preferred A shares at an offer price of ₱500.00 per share to be listed and traded on the PSE.

Preferred A shares are cumulative, nonvoting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 8.88% per annum. The Preferred A shares may be redeemed at the option of the Parent Company starting on the fifth year.

On June 28, 2013, the BOD approved and authorized the exercise of call option on Preferred A shares effective November 25, 2013 based on the dividend rate of 8.88% per annum. The redemption of Preferred A shares is presented as part of treasury stock.

Preferred B shares

In July 2006, the Parent Company filed a primary offer in the Philippines of its Preferred B shares at an offer price of ₱100.00 per share to be listed and traded in the PSE. The Preferred B shares are cumulative, nonvoting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of shares and with dividend rate of 9.4578% per annum. The Preferred B shares may be redeemed at the option of the Parent Company starting on the fifth year from the date of issuance.

On March 14, 2011, the BOD approved and authorized the exercise of call option on its Preferred B shares effective July 21, 2011 based on the dividend rate of 9.5% per annum. The redemption of Preferred B shares is presented as part of treasury stock.

Preferred B Series 1 shares

In September 2013, the BOD approved and authorized the re-issuance and offering of 20.0 million Preferred B Series 1 shares from its 58.0 million authorized Class "B" preferred treasury share capital for an aggregate amount of ₱10.0 billion. The Preferred B Series 1 shares were offered at a price of ₱500.00 per share with a dividend rate of 5.25% per annum.

Preferred B Series 2 shares

On August 22, 2014, the BOD approved and authorized the re-issuance and offering of ₱27.0 million Preferred B Series 2 shares, which comprise a second and separate series from the Parent Company's outstanding 5.25% Preferred B Series 1 shares, from its 58.0 million authorized Class "B" preferred treasury share capital, for an aggregate amount of ₱13.5 billion. The Preferred B Series 2 shares were offered at a price of ₱500.00 per share with a dividend rate of 5.575%. The reissuance

resulted to the Parent Company recognizing ₱10.7 billion additional paid-in capital net of direct expenses from re-issuance.

On September 13, 2019, the BOD approved and authorized the redemption by the Parent Company of its 27.0 million Preferred B Series 2 shares representing all of the outstanding Preferred B Series 2 shares shares at the redemption price equal to the issue price plus all accrued and unpaid dividends until November 5, 2019 based on the dividend rate of 5.575% per annum. On the same date, the BOD also approved and authorized the re-issuance and offering of 30.0 million Preferred B Series 2 shares for an offer price of ₱500.00 per share with initial dividend rate of 4.8214% per annum which will be applicable until its next dividend rate resetting date which is 5 years from issue date. The re-issuance resulted to the Parent Company recognizing ₱1.1 billion additional paid-in capital net of direct expenses from re-issuance.

Preferred C shares
Preferred C shares are cumulative, non-participating, non-voting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of the shares.

Voting Preferred shares
On March 15, 2010, the BOD approved the reclassification of 4.0 million unissued common shares with a par value of ₱50.00 per share into 200.0 million Voting Preferred shares with a par value of ₱1.00 per share and the amendment of the Parent Company's amended Articles of Incorporation to reflect the reclassification of the unissued common shares into new Voting Preferred shares.
On April 16, 2010, the Parent Company's stockholders ratified the reclassification.

On April 22, 2010, the SEC approved the amendments to the Parent Company's Articles of Incorporation embodying the reclassification of the unissued common shares to new Voting Preferred shares.

The Voting Preferred shares are cumulative, voting and redeemable at the option of the Parent Company under such terms that the BOD of the Parent Company may approve at the time of the issuance of shares and with a dividend rate of 5.3% per annum. In 2016, the dividend rate was repriced to 3.6950%.

On July 16, 2019, the BOD approved the re-pricing of dividend rate to 5.7730% per annum, which is equal to the 3-year PHP BVAL reference rate as of May 20, 2019 and will be applicable until May 20, 2022, the next re-pricing date.

<u>Common Shares</u>
The common shares may be owned or subscribed by or transferred to any person, partnership, association or corporation regardless of nationality, provided that at any time at least 60% of the outstanding capital stock shall be owned by citizens of the Philippines or by partnerships, associations or corporations with 60% of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

In July 2013, the SEC approved the amendments to the Parent Company's Articles of Incorporation for the exemption of 100 million common shares from the exercise of pre-emptive rights of holders of common shares. These shares are allocated to support the financing activities of the Parent Company.

On July 21, 2018, the Parent Company issued 8.8 million common shares at a price of ₱916.0 per share to an institutional investor and paid documentary stamp taxes and listing fee amounting to ₱4.4 million and ₱9.0 million, respectively.

On May 22, 2019, the Parent Company purchased its 3,805,644 common shares at ₱838.00 from Mitsubishi Corporation ("Mitsubishi") pursuant to the share buyback program approved by the BOD on September 10, 2007, June 2, 2010, and December 10, 2010.

On December 11, 2019, the Parent Company also purchased its 613,000 common shares at ₱815.00 pursuant to the share buyback program of ₱10.0 billion worth of shares approved by the BOD on December 5, 2019. The Company purchased another 60,000 common shares at ₱752.00 on December 16, 2019.

Treasury shares
As of December 31, 2019, treasury shares include 12.0 million Preferred A shares amounting ₱1.2 billion, 8.0 million Preferred B shares amounting to ₱800.0 million and 4.5 million common shares amounting to ₱3.7 billion.

As of December 31, 2018, treasury shares include 12.0 million Preferred A shares and 11.0 million Preferred B shares amounting to ₱1.2 billion and ₱1.1 billion, respectively.

The details of the Parent Company's paid-in capital follow:

2019

	Preferred Stock - A	**Preferred Stock - B**	**Voting Preferred**	**Common Stock**	**Subscribed**	**Additional Paid-in Capital**	**Subscriptions Receivable**	**Total Paid-in Capital**	**Treasury Stock**
				(In Thousands)					
At beginning of year	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱31,340,717**	**₱190,658**	**₱46,156,018**	**(₱1,525,718)**	**₱83,361,675**	**(₱2,300,000)**
Issuance of new shares	–	–	–	–	–	–	–	–	–
Redemption of Preferred B Series 2 shares	–	–	–	–	–	–	–	–	**(13,500,000)**
Re-issuance of redeemed Preferred B Series 2 shares	–	–	–	–	–	–	–	–	**13,500,000**
Issuance of additional Preferred B Series 2 shares	–	–	–	–	–	**1,079,931**	–	**1,079,931**	**300,000**
Exercise/Cancellation/ Subscription of ESOP/ ESOWN	–	–	–	**943**	**25,795**	**601,297**	**(468,093)**	**159,942**	–
Collection of subscription receivables	–	–	–	–	–	–	**274,677**	**274,677**	–
Buyback of common shares	–	–	–	–	–	–	–	–	**(3,737,896)**
At end of year	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱31,341,660**	**₱216,453**	**₱47,837,246**	**(₱1,719,134)**	**₱84,876,225**	**(₱5,737,896)**

2018

	Preferred Stock - A	Preferred Stock - B	Voting Preferred	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital	Treasury Stock
				(In Thousands)					
At beginning of year	₱1,200,000	₱5,800,000	₱200,000	₱30,899,877	₱164,725	₱37,929,927	(₱1,193,355)	₱75,001,174	(₱2,300,000)
Issuance of new shares	–	–	–	440,500	–	7,615,757	–	8,056,257	–
Exercise/Cancellation/ Subscription of ESOP/ESOWN	–	–	–	340	25,933	610,334	(500,942)	135,665	–
Collection of subscription receivables	–	–	–	–	–	–	168,579	168,579	–
At end of year	₱1,200,000	₱5,800,000	₱200,000	₱31,340,717	₱190,658	₱46,156,018	(₱1,525,718)	₱83,361,675	(₱2,300,000)

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

	Number of shares registered	Issue/offer price	Date of approval	**2019** **Number of holders of securities as of December 31**	2018 Number of holders of securities as of December 31
Common shares	200,000,000*	₱1.00 par value**; ₱4.21 issue price	July 1976	**6,424**	6,507
Preferred A shares***	12,000,000	₱100 par value; ₱500 issue price	November 2008	**–**	–
Preferred B shares	8,000,000	₱100 par value; ₱500 issue price	July 2006	**–**	–
Preferred B shares- Series 1****	20,000,000	₱100 par value; ₱500 issue price	October 2013	**19**	19
Preferred B shares- Series 2*****	30,000,000	₱100 par value; ₱500 issue price	November 2019	**2**	–
	27,000,000	₱100 par value; ₱500 issue price	October 2014	**–**	10
Voting preferred shares	200,000,000	₱1 par value; ₱1 issue price	March 2010	**1,039**	1,031

**Initial number of registered shares only.*
***Par value now is ₱50.00*
****The Preferred A shares were fully redeemed on November 25, 2013.*
*****The Preferred B- Series 1 shares were re-issued on November 15, 2013.*
******The Preferred B-Series 2 share were re-issued on November 29, 2019.*

Retained Earnings

Retained earnings are restricted for the payment of dividends to the extent of the cost of shares held in treasury.

In accordance with Revised SRC Rule 68, Annex 68-D, the Parent Company's retained earnings available for dividend declaration as of December 31, 2019 and 2018 amounted to ₱46.5 billion and ₱34.0 billion, respectively.

Dividends consist of the following:

2019

	Per share	**Amount** *(In Thousands)*
Dividends to common shares declared on:		
July 16	**4.15**	**₱2,603,486**
December 5	**4.15**	**2,600,986**
Dividends to equity preferred shares declared on:		
December 5		
Preferred Shares B - Series 1	**5.2500%**	**525,000**
Preferred Shares B - Series 2	**4.8214%**	**723,210**
Voting Preferred shares	**5.7730%**	**11,546**

2018

	Per share	Amount *(In Thousands)*
Dividends to common shares declared on:		
June 22	₱3.46	₱2,151,488
December 6	3.46	2,181,971
Dividends to equity preferred shares declared on:		
December 1		
Preferred Shares B - Series 1	5.2500%	525,000
Preferred Shares B - Series 2	5.5750%	752,625
Voting Preferred shares	3.6950%	7,390

As of December 31, 2019 and 2018, the Parent Company has dividend payable to common and preferred stockholders amounting to ₱3.9 billion and ₱3.5 billion.

Capital Management
The primary objective of the Parent Company's capital management policy is to ensure that it maintains a robust statement of financial position in order to support its business and maximize shareholder value.

The Parent 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 Parent Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2019 and 2018.

The Parent Company monitors capital using a gearing ratio of debt to equity and net debt to equity. Debt consists of short-term and long-term debt. Net debt includes short-term and long-term debt less cash and cash equivalents and short-term investments.

Debt to Equity and Net Debt to Equity ratios

	2019	2018
	(In Thousands)	
Long-term debt	**₱65,544,066**	₱67,167,981
Less:		
Cash on hand and in banks	**184,772**	187,855
Cash equivalents	**7,067,678**	3,349,241
Short-term investments	**25,318**	25,844
Net debt	**₱58,266,298**	₱63,605,041
Equity	**₱131,282,102**	₱117,703,503
Debt to equity	**50%**	57%
Net debt to equity	**44%**	54%

The long-term debt of the Parent Company provide for certain restrictions and requirements with respect to maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Parent Company as of December 31, 2019 and 2018.

17. **Revenue from Contracts with Customers**

This account consists of the categories of revenue from contracts with customers:

	2019	2018
	(In Thousands)	
Management fees (Note 21)	**₱717,551**	₱707,337
Toll revenue	**221,214**	199,064
Others	**6,910**	9,562
	₱945,675	₱915,963

18. **Cost and Expenses and Other Income (Expense)**

General and administrative expenses consist of:

	2019	2018
	(In Thousands)	
Provision for impairment of investments in subsidiaries, associates and joint ventures – net of reversals	**₱2,503,000**	₱–
Personnel costs (Note 21)	**1,877,506**	1,671,075
Contract labor	**212,416**	173,170
Pension expense (Note 22)	**209,835**	224,557
Professional fees (Note 21)	**194,526**	207,392
Donations and contributions	**153,267**	149,405
Share-based payments (Notes 21 and 23)	**135,946**	126,324
Advertising and promotions	**134,430**	165,407
Transportation and travel	**62,141**	60,016
Repairs and maintenance (Note 12)	**44,114**	46,566
Rental	**42,558**	43,963
Business development	**41,436**	62,704
Taxes, licenses and fees	**35,132**	33,434
Postal and communication	**20,011**	19,368
Entertainment, amusement and recreation	**12,499**	15,323
Dues and fees	**11,841**	24,899
Condominium dues	**10,310**	10,301
Utilities	**9,722**	10,963
Supplies	**7,241**	7,431
Insurance	**5,861**	49,779
Others	**39,555**	13,108
	₱5,763,347	₱3,115,185

"Others" include certain accrued expenses and provisions associated with clearing, relocation costs for certain properties.

Other income consists of:

	2019	2018
	(In Thousands)	
Gain on sale of investment in shares of stock (Note 7)	**₱16,725,940**	₱386,088
Gain on sale of investment properties (Notes 8 and 21)	**290,826**	100,940
Gain on merger (Note 7)	**238,397**	–
Rental income (Notes 8, 10 and 21)	**179,958**	185,105
Gain on return of capital	**70,751**	–
Construction revenue (Note 10)	**29,571**	6,931
Gain on sale of property and equipment (Note 11)	**3,372**	4,793
Foreign exchange gains	**3,280**	6,710
Others	**316**	894
	₱17,542,411	₱691,461

Interest income consists of interest on:

	2019	2018
	(In Thousands)	
Cash in banks, cash equivalents and short-term investments (Notes 4 and 21)	**₱482,205**	₱200,434
Notes receivable including amortization (Note 5)	**11,079**	8,558
Others	**707**	3,996
	₱493,991	₱212,988

Interest and other financing charges consist of:

	2019	2018
	(In Thousands)	
Interest expense on long-term debt (Notes 15 and 21)	**₱3,916,153**	₱3,488,083
Amortization of transaction costs of long-term debt (Notes 15 and 21)	**75,693**	164,802
Accretion of provision for maintenance obligation (Note 12)	**2,630**	1,763
Others	**13,650**	8,453
	₱4,008,126	₱3,663,101

Other expenses consist of:

	2019	2018
	(In Thousands)	
Construction costs	**₱29,571**	₱6,931
Others	**1,185**	–
	₱30,756	₱6,931

19. **Income Tax**

Provision for income tax consists of:

	2019	2018
	(In Thousands)	
MCIT	**₱15,307**	₱10,764
Final tax and capital gains tax	**91,779**	33,533
Deferred	**–**	(3,000)
	₱107,086	₱41,297

The reconciliation between the statutory and the effective income tax rates follows:

	2019	2018
Statutory income tax rate	**30.00%**	30.00%
Tax effects of:		
Nontaxable dividend income	**(18.10)**	(54.80)
Interest income and capital gains subjected to final/lower taxes	**(22.83)**	(2.60)
Change in unrecognized deferred tax assets	**7.19**	24.46
Others	**4.22**	3.59
Effective income tax rate	**0.48%**	0.65%

As of December 31, 2019 and 2018, the Parent Company has not recognized deferred tax assets.

The Parent Company has deductible temporary differences, NOLCO and MCIT that are available for offset against future taxable income or tax payable for which deferred tax assets have not been recognized. These deductible temporary differences, NOLCO and MCIT follow:

	2019	2018
	(In Thousands)	
NOLCO	**₱14,693,911**	₱13,879,584
Pension liability	**836,848**	437,153
MCIT	**37,412**	32,256
Unrealized foreign exchange (gain) loss	**171**	(421)
Allowance for doubtful accounts	**5,394**	5,394
Provision for maintenance obligation	**13,606**	11,396

As of December 31, 2019, MCIT and NOLCO that can be claimed as deduction from future income tax liabilities or taxable income, respectively, are as follows (amounts in thousands):

Year incurred	MCIT	NOLCO	Expiry year
2017	₱11,342	₱4,296,081	2020
2018	10,763	5,055,697	2021
2019	15,307	5,342,133	2022
	₱37,412	₱14,693,911	

The movements in NOLCO and MCIT are as follows:

NOLCO:

	2019	2018
	(In Thousands)	
At January 1	**₱13,879,584**	₱12,652,311
Additions	**5,342,133**	5,055,697
Expiration	**(4,527,806)**	(3,828,424)
At December 31	**₱14,693,911**	₱13,879,584

MCIT:

	2019	2018
	(In Thousands)	
At January 1	**₱32,256**	₱39,817
Additions	**15,307**	10,763
Expiration	**(10,151)**	(18,324)
At December 31	**₱37,412**	₱32,256

There are no income tax consequences attaching to the payment of dividends by the domestic subsidiaries, associates and joint ventures to the Parent Company.

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same did not have any significant impact on the financial statement balances as of the reporting date.

To complement the TRAIN law, House Bill 8083 or the Tax Reform for Attracting Better and High-Quality Opportunities (TRABAHO) was approved last September 10, 2018 by the House of Representatives. TRABAHO proposes to gradually lower the corporate income tax rate and rationalize corporate incentives. The management is currently assessing the impact on the financial statement balances once this will be signed into a law.

20. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to owners of the Parent Company:

	2019	2018
	(In Thousands, except EPS figures)	
Net income	**₱22,382,508**	₱6,321,047
Less dividends on preferred stock	**(1,259,756)**	(1,285,015)
	₱21,122,752	₱5,036,032
Weighted average number of common shares	**₱628,558**	₱625,644
Dilutive shares arising from stock options	**1,312**	2,119
Adjusted weighted average number of common shares for diluted EPS	**629,870**	627,763
Basic EPS	**₱33.61**	₱8.05
Diluted EPS	**₱33.54**	₱8.02

21. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

Terms and Conditions of Transactions with Related Parties
The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Except as stated otherwise, outstanding balances at year-end are unsecured and interest free and settlement occurs in cash. For the year ended December 31, 2019 and 2018, allowance for credit losses relating to receivable from related parties amounted to nil. This assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

In the ordinary course of business, the Parent Company transacts with its related parties. The transactions and balances of accounts with related parties follow:

a. Transaction with MCXI
   The Parent Company appointed MCXI as the Facility Operator of MCX (see Note 10).

b. Transaction with Mermac, Inc.
   On December 15, 2014, Mermac, Inc ("the Lessor") and the Parent Company ("the Lessee") made and entered into a Contract of Lease. The Lessor leases, lets, and demises unto the Lessee, an office space constituting the Leased Premises, located at the 35th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The term of the lease shall be five (5) years, commencing on November 15, 2014 and ending on November 14, 2019. The lease is subject to annual escalation clause of 5% for the first 2 years and 10% for the next 2 years (see Note 28).

   In 2019, the contract of lease was renewed with lease term of one year commencing on November 15, 2019.

c. Transaction with ALI
   In July 2016, Parent Company entered into an operating lease agreement with Crans Montana Property Holdings Corp., a wholly-owned subsidiary of ALI, for the lease of a land in Legaspi Village, Makati City. As of December 31, 2019 and 2018, rental income amounting to ₱1.6 million and ₱0.8 million, respectively, was recognized (see Note 8).

   In December 2018, the Parent Company sold a parcel of land in San Antonio, Makati to Crans Montana for a total consideration of ₱99.4 million (see Note 8).

   In August 2019, the Parent Company sold a parcel of land located in the Province of Misamis Oriental to Laguna Technopark, Inc. (LTI) for a total consideration of ₱299.1 million (see Note 8).

d. Transaction with AC Industrial Technology Holdings, Inc. (AITHI)
   The Parent Company entered into a contract of lease with Honda Cars Makati Inc. (HCMI) and Isuzu Automotive Dealership, Inc. (IADI) for the lease of land and buildings. Lease fee ranges from 1.0% to 2.0% of the net sale of the lessees (see Note 28).

e. Transactions with BPI
   i. As of December 31, 2019 and 2018, the Parent Company maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows:

	2019	2018
	(In Thousands)	
Cash in bank	**₱172,493**	₱172,813
Cash equivalents	**5,266,611**	3,342,335
Short-term investment	**25,318**	25,844

   Cash in bank and cash equivalents in BPI earn interest ranging from 0.375% to 6.15% per annum.

   ii. As of December 31, 2019 and 2018, the Parent Company has long-term debt with BPI as follows:

	2019	**2018**
	(In Thousands)	
Long-term debt	**₱9,976,494**	₱8,210,324

   As of December 31, 2019 and 2018, outstanding long-term debt with BPI is composed of 10-year floating-rate loans with varying maturity dates up to 2028.

iii. As of December 31, 2019 and 2018, the Parent Company has outstanding receivable from and payable to BPI as follows:

	2019	2018
	(In Thousands)	
Interest receivable	**₱8,641**	₱4,525
Interest payable	**42,320**	44,650

iv. Income and expenses incurred with BPI are as follow:

	2019	2018
	(In Thousands)	
Interest income	**₱341,742**	₱115,211
Interest expense	**550,342**	376,241

Outstanding balances from related parties follow:

Dividends	**Receivables**		**Payables**	
	2019	2018	**2019**	2018
		(In Thousands)		
Subsidiaries:				
AGCC	**₱30,000**	₱30,000	**₱–**	₱–
DADC	**4,600**	–	**–**	–
	34,600	30,000	**–**	–
Associates:				
BPI	–	1,251,478	**–**	–
	–	1,251,478	**–**	–
Others:				
Mermac Inc.	**–**	–	**1,230,997**	1,026,323
Mitsubishi Corporation	**–**	–	**156,753**	130,689
	–	–	**1,387,750**	1,157,012
	₱34,600	₱1,281,478	**₱1,387,750**	₱1,157,012

Rentals	**Receivables**		**Payables**	
	2019	2018	**2019**	2018
		(In Thousands)		
Subsidiaries:				
IADI	**₱15,760**	₱16,660	**₱3,825**	₱3,825
HCMI	**7,015**	11,214	–	–
	22,775	27,874	**3,825**	3,825
Joint Ventures:				
Globe	**–**	–	**98**	98
Asiacom	**–**	–	**94**	94
	–	–	**192**	192
	₱22,775	₱27,874	**₱4,017**	₱4,017

Subscriptions	**Receivables**		**Payables**	
	2019	2018	**2019**	2018
		(In Thousands)		
Subsidiaries:				
AHHI	**₱–**	₱–	**₱1,959,695**	₱1,345
AVHC	**–**	–	**70,318**	96,889
AAC	**–**	–	**39,400**	–
ACEI	**–**	–	**–**	1,687,500
	–	–	**2,069,413**	1,785,734
Others	**1,719,134**	1,525,718	**–**	–
	₱1,719,134	₱1,525,718	**₱2,069,413**	₱1,785,734

Other outstanding balances	Receivables		Payables	
	2019	2018	**2019**	2018
		(In Thousands)		
Subsidiaries:				
Laguna Technopark, Inc.	**₱149,539**	₱–	**₱–**	₱2,144
Crans Montana Property Holdings Corp.	**51,785**	50,425	**–**	–
Reliant Expressdel Services	**13,699**	7,842	**–**	–
MWC	**3,209**	1,657	**–**	–
AITHI	**912**	29,940	**–**	–
AHHI	**177**	30,643	**–**	–
ALI	**–**	–	**214,440**	214,563
Avida Land Corporation	**–**	–	**19,965**	19,965
HCX	**–**	–	**3,428**	2,264
Ayala Group Club, Inc.	**–**	–	**444**	2,223
AIPL	**–**	–	**138**	138
Asticom Technology, Inc.	**–**	–	**108**	–
AYCFL	**–**	–	**–**	758,132
IMI	**–**	76,102	**–**	–
IADI	**–**	3,699	**–**	–
AC Infra	**–**	2,300	**–**	–
HCMI	**–**	2,220	**–**	–
Liveit Investments Ltd. (LIL)	**–**	231	**–**	–
AC Automotive Business Services Inc.	**–**	157	**–**	–
AGCC	**–**	–	**–**	18,284
Honda Cars Alabang, Inc.	**–**	–	**–**	1,596
Ayala Life Assurance, Inc.	**–**	–	**–**	25
AFIMPC	**–**	–	**–**	2
	219,321	205,216	**238,523**	1,019,336
Associates:				
BPI	**536**	₱18,610	**₱–**	₱–
BPI Family	**26**	51	**9**	9
BPI Trust	**26**	51	**–**	–
GN Power Kauswagan	**–**	2,525	**–**	–
	588	21,237	**9**	9
Joint Ventures:				
Globe	**1,161**	841	**–**	486
	1,161	841	**–**	486
	₱221,070	₱227,294	**₱238,532**	₱1,019,831

Receivables:

i. Dividends receivables pertain to accrued dividend declarations from subsidiaries, associates and joint ventures. These are non-interest bearing and usually collectible within one year.
ii. Rental receivables pertain to accrued rent on investment properties of the Parent Company. These are non-interest bearing and usually collectible within one year.
iii. Subscriptions receivables pertain to subscriptions of key management personnel to the Parent Company's common shares as a result of the Parent Company's ESOWN grants (see Note 16).
iv. Other receivables from Crans Montana Property Holdings, Corp. pertain to sale of inner wheel lots in San Antonio, Makati (see Note 8).
v. Other receivables from LTI pertain to sale of parcel of land in the Province of Misamis Oriental (see Note 8).
vi. Other Receivables from IMI, AHHI and AITHI pertain to management fees.

Payables:

i. Dividends payable pertains to accrued dividends declarations of the Parent Company to its stockholders. These are non-interest bearing and usually paid within one year.
ii. Rental payable pertains to refundable deposits received by the Parent Company in relation to its lease agreements with related parties.
iii. Subscriptions payable pertains to additional subscriptions to the common or preferred shares of the subsidiaries, associates and joint ventures (see Note 14).
iv. Other payable to AYCFL in 2018 pertain to deposits received for AYCFL's exchangeable bonds which is convertible to ALI shares (see Note 26).
v. Other payables to ALI pertain to deposit of future purchase of the Parent Company properties and accrual of security cost for the year. The payable is to be settled once the ownership for the property is transferred to the buyer.
vi. Other payables to Avida pertain to advances made for the expenses related to the development of land in Sta. Rosa, Laguna which are non-interest bearing and due and demandable.
vii. Other payables to AGCC pertains to accrual of legal fees for services rendered to the Parent Company.

f. Notes receivable amounting to ₱244.2 million pertains to housing, car, salary and other loans granted to the Parent Company's officers and employees which are collectible through salary deduction, bears 5.0% to 6.0% interest per annum and have various maturity dates ranging from 2020 to 2033.

g. Income and expenses from related parties follow:

Income	**Management Fee**		**Other Income**	
	2019	2018	**2019**	2018
		(In Thousands)		
Subsidiaries:				
MWCI	**₱168,390**	₱218,819	**₱30**	₱–
ACEI	**127,051**	123,259	**1,181**	548
IMI	**96,952**	86,410	**–**	–
AC Infra	**52,627**	54,128	**3,926**	2,356
Ayala Healthcare	**46,344**	26,308	**161**	5,283
AITHI	**29,689**	143	**148,072**	–
IADI	**10,784**	3,813	**–**	–
ALI	**8,337**	8,374	**2,550**	–
Adventure Cycle	**5,392**		**12**	
UNC	**5,000**		**393**	
Automobile Central Enterprise, Inc.	**4,044**	533	**–**	–
BF Jade	**3,319**	3,015	**–**	–
NTC	**2,500**	4,250	**175**	–
TLI	**600**	600	**–**	–
AGCC	**–**	–	**79**	–
Crans Montana Holdings, Inc.	**–**	–	**2,938**	100,919
AABSI	**–**	–	**118**	–
HCMI	**–**	2,288	**–**	–
AEI	**–**	1,062	**–**	–
MCXI	**–**	485	**–**	–
AIVPL	**–**	206	**–**	–
Isuzu Mandaue	**–**	–	**–**	62,516
AYCFL	**–**	–	**16,725,940**	386,088
LTI	**–**	–	**290,474**	–
ACIFL	**–**	–	**70,751**	–
AHCHI	**–**	30,276	**–**	380,048
	561,029	563,969	**17,246,800**	937,758

(Forward)

Income	Management Fee		Other Income	
	2019	2018	**2019**	2018
		(In Thousands)		
Associates:				
BPI	**46,073**	46,306	**341,742**	115,211
Light Rail Manila Corporation	**14,750**	18,441	**–**	–
Entrego Fulfillment Solutions Inc.	**14,123**	8,084	**–**	–
iPeople	**8,938**	–	**238,397**	–
PPI Prime Ventures, Inc.	**339**	339	**–**	–
SLTEC	**188**	–	**2,021**	–
GNPK	**–**	2,332	**59**	–
NLRC	**–**	–	**303**	–
	84,411	75,502	**582,522**	115,211
Joint Ventures:				
GLOBE	**53,179**	56,758	**771**	706
Asiacom	**10,299**	10,334	**289**	255
BPI Family	**402**	348	**–**	–
	63,880	67,440	**1,060**	961
Others:				
Ayala Group Club	**5,062**	–	**–**	–
ALFM	**293**	–	**–**	–
Sonoma Services	**–**	426	**–**	–
	5,355	426	**–**	–
	₱714,675	₱707,337	**₱17,830,382**	₱1,053,930

a) Other income consists of interest income and rental income.

Income	Dividend Income	
	2019	2018
	(In Thousands)	
Subsidiaries		
ALI	**₱3,535,062**	₱3,547,278
ACEI	**2,000,000**	–
MWCI	**788,230**	743,458
Philwater	**400,000**	343,000
MHI	**300,000**	–
AITHI	**121,626**	271,125
TLI	**36,234**	43,324
AGCC	**30,000**	30,000
DADC	**24,300**	2,500
IMI	**146**	324
	7,235,598	4,981,009
Associates		
Globe	**3,745,312**	3,745,312
BPI	**2,502,957**	2,502,957
iPeople	**4,803**	–
	6,253,072	6,248,269
Joint ventures		
LHI	**81,976**	392,706
	81,976	392,706
	₱13,570,646	₱11,621,984

Expenses	Professional Fees		Rental	
	2019	2018	**2019**	2018
		(In Thousands)		
Owners:				
Mermac Inc.	**₱–**	₱–	**₱8,802**	₱9,128
Subsidiaries:				
MCXI	**39,319**	31,129	**–**	–
AGCC	**23,500**	20,853	**–**	–
HCXI	**4,129**	6,679	**–**	–
APMC	**3,480**	3,820	**–**	–
Ayala Healthcare	**284**	–	**–**	–
ALI	**–**	2	**180**	359
	70,712	62,483	**180**	359
Associates:				
BPI	**₱28,053**	₱492	**₱–**	₱–
Affinity Express, Inc.	**–**	7	**–**	–
	28,053	499	**–**	–
Joint ventures:				
GLOBE	**64**	195	**–**	–
ASTI	**172**	–	**–**	–
	236	195	**–**	–
Others:				
Ayala Group Club	**2,168**	–	–	–
Fort Bonifacio Development Corp.	**–**	–	**13,890**	12,128
	2,168	–	**13,890**	12,128
	₱101,169	₱63,177	**₱22,872**	₱21,615

Expenses	Interest		Others	
	2019	2018	**2019**	2018
		(In Thousands)		
Subsidiaries:				
ACIFL	**₱–**	₱–	**₱–**	₱–
Associates:				
BPI	**550,342**	376,241	**–**	–
Joint ventures:				
GLOBE	**–**	–	**5,298**	6,343
	₱550,342	₱376,241	**₱5,298**	₱6,343

h. Compensation of key management personnel by benefit type follows:

	2019	2018
	(In Thousands)	
Short-term employee benefits (Note 18)	**₱657,091**	₱565,965
Post-employment benefits (Note 22)	**51,760**	48,757
	₱708,851	₱614,722

22. **Retirement Plan**

The Parent Company has a funded, noncontributory tax-qualified defined benefit type of retirement plan covering its regular employees. The benefits are based on a defined benefit formula with a minimum lump-sum guarantee of 1.5 months' effective salary per year of service upon retirement. Pension expense charged to operations amounted to ₱209.83 million and ₱224.6 million in 2019 and 2018, respectively (see Note 18).

The Parent Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Parent Company, governed by a board of trustees appointed under a Trust Agreement between the Parent Company and the initial trustees. It holds common and preferred shares of the Parent Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by the Retirement Committee composed of the Parent Company's Chief Finance Officer, Group Head of Corporate Governance, General Counsel, Corporate Secretary and Compliance Officer, Group Head of Corporate Resources, Group Head of Corporate Strategy and Business Development, Treasurer and Comptroller. ACEWRF has not exercised voting rights over any shares of the Parent Company that it owns.

Changes in net defined benefit liability of funded funds in 2019 and 2018 are as follows:

2019

		Net benefit cost in statement of income				Remeasurements in other comprehensive income						
	January 1	**Current service cost**	**Net interest**	**Subtotal**	**Benefits paid**	**Return on plan assets***	**Actuarial loss due to liability experience**	**Actuarial Loss (gain) due to liability assumption changes**	**Subtotal**	**Transfer payments**	**Contribution by employer and affiliates**	**December 31**
						(In Thousands)						
Present value of defined benefit obligation	**₱3,972,155**	**₱197,196**	**₱246,314**	**₱443,510**	**(₱1,627,546)**	**₱–**	**₱264,936**	**₱343,335**	**₱608,271**	**(₱10,594)**	**₱–**	**₱3,385,796**
Fair value of plan assets	**(3,535,002)**	**–**	**(233,675)**	**(233,675)**	**1,627,546**	**(174,279)**	**–**	**–**	**(₱174,279)**	**4,229**	**(237,767)**	**(2,548,948)**
Net defined benefit liability (asset)	**₱437,153**	**₱197,196**	**₱12,639**	**₱209,835**	**₱–**	**(₱174,279)**	**₱264,936**	**₱343,335**	**₱433,992**	**(₱6,365)**	**(₱237,767)**	**₱836,848**

Excluding amount included in net interest

2018

		Net benefit cost in statement of income				Remeasurements in other comprehensive income						
	January 1	Current service cost	Net interest	Subtotal	Benefits paid	Return on plan assets*	Actuarial loss due to liability experience	Actuarial gain due to liability assumption changes	Subtotal	Transfer payments	Contribution by employer and affiliates	December 31
						(In Thousands)						
Present value of defined benefit obligation	₱3,880,504	₱221,214	₱185,911	₱407,125	(₱197,526)	₱–	₱127,040	(₱269,286)	(₱142,246)	₱24,298	₱–	₱3,972,155
Fair value of plan assets	(3,719,212)	–	(182,568)	(182,568)	197,526	393,748	–	–	393,748	(24,298)	(200,198)	(3,535,002)
Net defined benefit liability (asset)	₱161,292	₱221,214	₱3,343	₱224,557	₱–	₱393,748	₱127,040	(₱269,286)	₱251,502	₱–	(200,198)	₱437,153

Excluding amount included in net interest

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The fair value of plan assets as at the end of the reporting period are as follow:

	2019	2018
	(In Thousands)	
Assets		
Cash	**₱139**	₱82
Investments		
Domestic equities		
Listed - Common	**889,799**	667,443
Listed - Preferred	**283,460**	307,044
Unlisted - Common	**1**	1
Unlisted - Preferred	**1,271**	3,330
Unit investment trust fund	**186,466**	109,906
Fixed Income		
Government securities	**165,949**	824,485
Corporate bonds	**834,404**	833,848
Fixed Income - Loans		
Loans	**20,000**	67,000
Other securities and debt instruments	**65,241**	80,303
Money market placements	**97,647**	566,978
Investments in real estate	**45**	88
Miscellaneous assets	**10,138**	493
Receivables	**1,802**	17,432
	2,556,362	3,478,433
Liabilities		
Trust fee and other payables	**7,414**	2,445
Net Asset Value*	**₱2,548,948**	₱3,475,988

**The difference of ₱59.0 million in the fair value of plan assets as of December 31, 2018 pertains to movements after the valuation date. The actuary used the fair value of plan assets as of September 30, 2018.*

All equity and debt instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plan as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension obligations for the defined benefit plans are shown below:

	2019	2018
Discount rates	**4.50%**	7.50%
Future salary increases	**7.50%**	7.50%
Expected rate of return on plan assets	**7.68%**	8.75%

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

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

	December 31, 2019		
	Increase (decrease)	**Sensitivity Analysis**	**Effect on DBO**
Discount rates	**5.50%**	**1%**	**(3.76%)**
	3.50%	**(1%)**	**4.23%**
Rate of salary increase	**8.50%**	**1%**	**4.07%**
	6.50%	**(1%)**	**(3.70%)**

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Parent Company's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Parent Company's current strategic investment strategy consists of 50% of equity instrument and 50% of fixed income instrument.

Amounts for the current and previous annual periods are as follows:

	2019	2018	2017	2016	2015
			(In Thousands)		
Defined benefit obligation	**₱3,385,796**	₱3,972,155	₱3,880,504	₱3,585,209	₱3,554,124
Plan assets	**(2,548,948)**	(3,535,002)	(3,719,212)	(3,293,156)	(3,050,602)
Deficit (surplus)	**₱836,848**	₱437,153	₱161,292	₱292,053	₱503,522

The Parent Company expects to contribute ₱254.0 million to its defined benefit pension plan in 2020.

As of December 31, 2019 and 2018, the plan assets include shares of stock of the Parent Company with total fair value of ₱322.3 million and ₱327.0 million, respectively. Unrealized gain on investment in the shares of stock of the Parent Company as of December 31, 2019 and 2018 is ₱3.9 million and ₱2.0 million, respectively.

As of December 31, 2019 and 2018, the fund includes investment in debt and equity securities of related parties. Details of the investment per type of security are as follows:

2019

	Historical Cost	**Fair Value**	**Unrealized Gain(Loss)**
		(In Thousands)	
Equity securities	**₱392,069**	**₱392,069**	**₱–**
Debt securities	**119,700**	**117,720**	**1,980**
Total	**₱511,769**	**₱509,789**	**₱1,980**

2018

	Historical Cost	Fair Value	Unrealized Gain(Loss)
		(In Thousands)	
Equity securities	₱445,430	₱449,890	₱4,460
Debt securities	539,100	503,016	(36,084)
Total	₱984,530	₱952,906	(₱31,624)

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

In 2019 and 2018, total contributions made to the retirement fund by affiliates amounted to ₱23.3 million and ₱26.1 million, respectively. This pertains to the retirement contributions in behalf of the seconded employees of the Parent Company to ALI, Globe, HCMI and IADI.

The Parent Company's transactions with the fund mainly pertain to contributions, benefit payments and settlements.

23. Stock Option Purchase Plans

The Parent Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (ESOWN) covering 3.0% of the Parent Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a defined period of time.

ESOP

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Parent Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he/she is given 3 years to exercise his/her vested and unvested options. In case the grantee resigns, he/she is given 90 days to exercise his/her vested options.

A summary of the Parent Company's stock option activity and related information for the years ended December 31, 2019 and 2018 follows:

	2019		2018	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, at beginning of year	**1,024,067**	**₱287.82**	1,032,703	₱287.32
Exercised	**(89,611)**	**341.61**	(8,636)	227.53
Outstanding, at end of year	**934,456**	**₱282.66**	1,024,067	₱287.82

The options have a contractual term of 10 years. As of December 31, 2019 and 2018, the weighted average remaining contractual life of options outstanding is 1.64 years and 2.53 years, respectively, and the exercise prices ranged from ₱227.5 to ₱500.0.

The fair value of each option is estimated on the date of grant using the Black-Scholes Merton Formula and Binomial Tree Model. The fair values of stock options granted under ESOP at each grant date and the assumptions used to determine the fair value of the stock options are as follows:

	April 26, 2013	April 18, 2011	April 16, 2010
Weighted average share price	₱640.00	₱352.08	₱303.70
Exercise price	₱500.00	₱264.06	₱227.53
Expected volatility	42.40%	41.21%	41.31%
Option life	10 years	10 years	10 years
Expected dividends	0.54%	0.86%	0.92%
Risk-free interest rate	3.04%	6.64%	8.56%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

ESOWN
The Parent Company also has ESOWN granted to qualified officers and employees wherein grantees may subscribe in full to the shares awarded to them based on the average market price determined by the Personnel and Compensation Committee as the offer price set at grant date. For any share awards unsubscribed, grantees still have the option to subscribe from the start of the fifth year but not later than on the start of the seventh year from date of grant.

To subscribe, the grantee must be an employee of the Parent Company or any of its subsidiaries during the 10-year payment period. In case the grantee resigns, the unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, and payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may continue to subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Parent Company's Right to Repurchase.

In 2015, the Parent Company introduced a revised ESOWN plan wherein grantees are given one (1) month from the time an allocation is awarded to subscribe in full, with any unsubscribed awards forfeited.

ESOWN grants totaling 515,904 and 492,875 were subscribed in 2019 and 2018, respectively. Movements in the number of options outstanding under ESOWN as of December 31, 2019 and 2018 follow:

	2019		2018	
	Number of ESOWN grants	**Weighted average exercise price**	Number of ESOWN grants	Weighted average exercise price
At January 1			–	₽–
Granted	**767,942**	**883.83**	494,683	926.00
Subscribed	**(515,904)**	**(883.83)**	(492,875)	(926.00)
Expired	**252,038**	**883.83**	(1,808)	(926.00)
At December 31	**–**	**₽–**	–	₽–

The ESOWN grants are effectively treated as options on shares exercisable within a given period, considering both the subscription period allowed to grantees and the subscription payment pattern. As such, the fair values of these options are estimated on the date of grant using the Black-Scholes Merton Formula and Binomial Tree Model, taking into account the terms and conditions upon which the options were granted. These models require six inputs to produce the stock option value, which are namely: share price, exercise price, time to maturity, volatility rate, dividend yield, and risk-free rate.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	April 26, 2019	April 20, 2018	April 18, 2017	December 16, 2016	December 23, 2015	April 11, 2014
Number of unsubscribed shares	–	–	–	–	–	8,344
Fair value of each option	**₽263.51**	₽256.30	₽222.49	₽176.82	₽444.59	₽619.00
Share price	**₽895.00**	₽919.00	₽859.00	₽732.00	₽718.88	₽673.96
Exercise price	**₽883.83**	₽926.00	₽837.53	₽717.30	₽611.05	₽480.00
Expected volatility	**29.17%**	30.28%	29.55%	30.31%	38.23%	42.13%
Dividend yield	**0.78%**	0.75%	0.61%	0.70%	0.67%	0.74%
Interest rate	**5.64%**	3.68%	2.89%	1.46%	4.81%	4.38%

In 2019 and 2018, the Parent Company recognized ₱135.9 million and ₱126.3 million, respectively, as share-based payments expense.

Subscriptions receivable from the stock option plans covering the Parent Company's shares are presented under equity.

24. Fair Value Measurement

Fair value hierarchy
The Parent Company uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2019 and 2018 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows the fair value hierarchy of the Parent Company's assets and liabilities follows (amounts in thousands):

2019

	Level 1	Level 2	Level 3	Total
Assets for which fair value was disclosed:				
Financial assets at FVOCI	**₱19,595**	**₱514,875**	**₱–**	**₱534,470**
Notes receivable			**192,347**	**192,347**
Other receivable			**219,055**	**219,055**
Investments in subsidiaries, associates and joint ventures*	**515,508,493**	**–**	**–**	**515,508,493**
Investment properties				
Land	**–**	**4,992,352**	**–**	**4,992,352**
Buildings and improvements	**–**	**–**	**5,085,482**	**5,085,482**
	₱515,528,088	**₱5,507,227**	**₱5,496,884**	**₱526,532,199**
Liabilities for which fair value was disclosed:				
Long-term debt	**–**	**56,973,903**	**–**	**56,976,903**
	₱–	**₱56,973,903**	**₱–**	**₱56,976,903**

**Fair value of investments in listed subsidiaries, associates and joint ventures for which there are published price quotations*

2018

	Level 1	Level 2	Level 3	Total
Assets for which fair value was disclosed:				
Financial assets at FVOCI	₱28,561	₱479,650	₱–	₱508,211
Notes receivable	–	–	171,499	171,499
Other receivable			222,379	222,379
Investments in subsidiaries, associates and joint ventures*	584,319,973	–	–	584,319,973
Investment properties				
Land	–	5,291,431	–	5,291,431
Buildings and improvements	–	–	5,085,482	5,085,482
	₱584,348,534	₱5,771,081	₱5,479,360	₱595,598,975
Liabilities for which fair value was disclosed:				
Long-term debt	–	58,987,772	–	58,987,772
	₱–	₱58,987,772	₱–	₱58,987,772

**Fair value of investments in listed subsidiaries, associates and joint ventures for which there are published price quotations*

The table below summarizes the valuation techniques and the inputs used in the valuation for assets and liabilities categorized under Level 2 and Level 3 in 2019 and 2018.

2019

	Valuation Technique	**Significant Unobservable Input**	**Range (weighted average)**
Assets for which fair value was disclosed:			
Financial assets at FVOCI	Mark to market Approach	Published price quotations	₱50,000 to ₱76,000,000 per share
Notes receivable	DCF method	Discount rate	3.35% to 4.79%
Other receivable	DCF method	Discount rate	3.20%
Investment properties			
Land	Market data Approach	Price per square meter	₱10 to ₱675,000 per square meter
Buildings and Improvements	Cost Approach	Reproduction cost (new) adjusted for depreciation	₱9,297 to ₱150,000 per square meter
Liabilities for which fair value was disclosed:			
Long-term debt	DCF method	Discount rate	3.13% - 6.68%

2018

	Valuation Technique	Significant Unobservable Input	Range (weighted average)
Assets for which fair value was disclosed:			
Financial assets at FVOCI	Mark to market Approach	Published price quotations	₱50,000 to ₱50,000,000 per share
Notes receivable	DCF method	Discount rate	5.18% - 7.49%
Other receivable	DCF method	Discount rate	3.925%
Investment properties			
Land	Market data Approach	Price per square meter	₱10 to ₱675,000 per square meter
Buildings and Improvements	Cost Approach	Reproduction cost (new) adjusted for depreciation	₱9,297 to ₱150,000 per square meter
Liabilities for which fair value was disclosed:			
Long-term debt	DCF method	Discount rate	5.72% - 9.97%

There was no change in the valuation techniques used by the Parent Company in determining the fair market value of the assets and liabilities. There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Fair Value of Financial Instruments

The table below presents a comparison by category of carrying amounts and estimated fair values of the Parent Company's financial instruments (amounts in thousands):

	December 31			
	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At Amortized Cost				
Notes receivable	**₱244,221**	**₱192,347**	₱235,189	₱171,499
Other receivable	**219,055**	**219,055**	222,379	222,379
Financial Assets at Fair Value through OCI				
Quoted equity investments	**534,470**	**534,470**	508,211	508,211
Total financial assets	**₱997,746**	**945,872**	₱965,779	₱902,089
Other Financial Liabilities				
Long-term debt	**65,544,066**	**56,973,903**	67,168,190	58,987,772
Total financial liabilities	**₱65,544,066**	**₱56,973,903**	₱67,168,190	₱58,987,772

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

a. Notes receivable - The fair values are based on the discounted value of future cash flows using the applicable rates for similar instruments. The discount rates used ranged from 3.35% to 4.79% and 5.18% to 7.49% in 2019 and 2018, respectively.

b. Other receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar instruments. The discount rates used are 3.20% and 3.925% in 2019 and 2018, respectively.

c. Financial assets through OCI - The fair values are based on quoted prices.

d. Long-term debt - The fair value are estimated using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used ranged from 3.13% to 6.68% in 2019 and 5.72% to 9.97% in 2018. For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

The carrying amounts of cash and cash equivalents, dividends receivable, receivable from related parties, rent receivable, receivable from other companies and interest receivable, accounts payables and accrued expenses and dividends payables approximates the fair values of these financial instruments due to the short-term nature of these accounts.

25. Financial Instruments

Financial Risk Management

General

Like any other risks, financial risks are inherent in its business activities and are typical of any large holding company. The financial risk management of the Parent Company seeks to effectively contribute to better decision making, enhance performance, and satisfy compliance demands.

The Parent Company defines financial risks as risk that relates to the Parent Company's ability to meet financial obligations and mitigate funding risk, credit risk and exposure to broad market risks, including volatility in foreign currency exchange rates and interest rates. Funding risk refers to the potential inability to meet contractual or contingent financial obligations as they arise and could potentially impact the Parent Company's financial condition or overall financial position. Credit risk is the risk of financial loss arising from a counterparty's failure to meet its contractual obligations or non-payment of an investment. These exposures may result in unexpected losses and volatilities in the Parent Company's profit and loss accounts.

The Parent Company maintains a strong focus on its funding strategy to help provide access to sufficient funding to meet its business needs and financial obligations throughout business cycles. The Parent Company's plans are established within the context of its annual strategic and financial planning processes. The Parent Company also take into account capital allocations and growth objectives, including dividend pay-out. As a holding company, the Parent Company generates cash primarily on dividend payments of its subsidiaries, associates and joint ventures and other sources of funding.

The Parent Company also established credit policies setting up limits for counterparties that are reviewed quarterly and monitoring of any changes in credit standing of counterparties.

In 2014, the Parent Company formalized the foreign exchange and interest rate risk management policy. The Parent Company actively monitors foreign exchange exposure and interest rate changes. And in addition, the Parent Company ensures that all loan covenants and regulatory requirements are complied with.

The Parent Company continues to monitor and manage its financial risk exposures in accordance with Board approved policies. The succeeding discussion focuses on the Parent Company's financial risk management.

Financial Risk Management Objectives and Policies

The Parent Company's principal financial instruments comprise cash and cash equivalents, short-term investments, financial assets at fair value through OCI, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Parent Company's operations. The Parent Company has various financial assets such as cash and cash equivalents, short-term investments, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The Parent Company's main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, price risk, liquidity risk, and credit risk.

The Parent Company's risk management policies relevant to financial risks are summarized below:

Interest rate risk
The Parent Company's exposure to market risk for changes in interest rates relates primarily to the Parent Company's long-term debt obligations with floating interest rates. The policy is to keep a certain level of the total obligations as fixed to minimize earnings volatility due to fluctuation in interest rates.

The following table demonstrates the sensitivity of the Parent Company's profit before tax and equity to a reasonably possible change in interest rates as of December 31, 2019 and 2018, with all variables held constant.

	Change in basis points (bps)	Effect on income before income tax Increase (Decrease)
		(In Thousands)
2019	**+100 bps**	**(₱100,213)**
	-100 bps	**100,213**
2018	+100 bps	(₱115,433)
	-100 bps	115,433

There is no other impact on the Parent Company's equity other than those already affecting net income.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with the corresponding nominal amounts and carrying values, are shown in the following tables (amounts in thousands):

2019

	Interest Terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Cash and cash equivalents*	Fixed at the date of investment	Various	**₱7,251,116**	**₱7,251,116**	**₱–**	**₱–**	**₱7,251,116**
Short-term investments	Fixed at the date of investment	Various	**25,318**	**25,318**	**–**	**–**	**25,318**
Notes receivable	Fixed at the date of transaction	Various	**244,221**	**31,634**	**38,625**	**173,962**	**244,221**
			₱7,520,655	**7,308,068**	**38,625**	**173,962**	**₱7,520,655**
Long-term debt							
Fixed							
Peso	Fixed at 6.0043%	8 years	**₱11,000,000**	**₱–**	**₱1,744,919**	**₱9,187,892**	**₱10,932,811**
Peso	Fixed at 6.875%	15 years	**10,000,000**	**–**	**–**	**9,952,651**	**9,952,651**
Peso	Fixed at 3.92%	7 years	**10,000,000**	**–**	**9,942,735**	**–**	**9,942,735**
Peso	Fixed at 4.82%	8 years	**10,000,000**	**–**	**–**	**9,929,787**	**9,929,787**
Peso	Fixed at 6.80%	10 years	**9,903,400**	**–**	**9,885,752**	**–**	**9,885,752**
Peso	Fixed at 5.2883%	7 years	**2,940,000**	**30,000**	**2,933,817**	**–**	**2,963,817**
Peso	Fixed at 6.0043%	5 years	**2,000,000**	**–**	**1,990,018**	**–**	**1,990,018**
Floating							
Peso	Variable at 0.60% to 0.70% over 3-month PDST R2 or 0.45% over 28-day BSP TDF Rate	3 months	**10,021,250**	**4,357,500**	**1,493,703**	**4,095,292**	**9,946,495**
			₱65,864,650	**₱4,387,500**	**₱27,990,944**	**₱33,165,622**	**₱65,544,066**

**Excludes cash on hand*

2018

	Interest Terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Cash and cash equivalents*	Fixed at the date of investment	Various	₱3,535,748	₱3,535,748	₱–	₱–	₱3,535,748
Short-term investments	Fixed at the date of investment	Various	25,844	25,844	–	–	25,844
Notes receivable	Fixed at the date of transaction	Various	235,189	39,681	131,174	64,334	235,189
			₱3,796,781	₱3,601,273	₱131,174	₱64,334	₱3,796,781
Long-term debt							
Fixed							
Peso	Fixed at 6.0043%	8 years	₱11,000,000	₱–	₱875,760	₱10,071,238	₱10,946,998
Peso	Fixed at 3.92%	7 years	10,000,000	–	9,927,904	–	9,927,904
Peso	Fixed at 4.82%	8 years	10,000,000	–	–	9,918,003	9,918,003
Peso	Fixed at 6.80%	10 years	10,000,000	–	9,970,466	–	9,970,466
Peso	Fixed at 6.875%	15 years	10,000,000	–	–	9,946,221	9,946,221
Peso	Fixed at 5.2883%	7 years	2,970,000	29,916	2,931,726	–	2,961,642
Peso	Fixed at 6.0043%	5 years	2,000,000	–	2,017,241	–	2,017,241
Floating							
Peso	Variable at 0.60% to 0.70% over 3-month PDST R2 or 0.45% over 28-day BSP TDF Rate	3 months	11,543,250	492,212	8,563,559	2,423,735	11,479,506
			₱67,513,250	₱522,128	₱34,286,656	₱32,359,197	₱67,167,981

**Excludes cash on hand*

Foreign Exchange Risk
The Parent Company's foreign exchange risk results primarily from movements of the Philippine Peso (Php) against the United States Dollar (US$).

The table below summarizes the Parent Company's exposure to foreign exchange risk as of December 31, 2019 and 2018.

	2019		2018	
	US$	**Php Equivalent***	US$	Php Equivalent*
		(In Thousands)		
Foreign currency denominated assets				
Cash and cash equivalents	**US$1,253**	**₱63,434**	US$916	₱48,152
Short-term investments	**500**	**25,318**	–	–
	US$1,753	**₱88,752**	US$916	₱48,152

**Translated using the exchange rate at the reporting date (US$1equivalent to ₱50.635 and ₱52.58 in 2019 and 2018, respectively).*

The following table demonstrates the sensitivity to a reasonably possible change in the Php:US$ exchange rate, with all variables held constant, of the Parent Company's income before income tax (due to changes in the fair value of monetary assets).

	Increase (decrease) in Peso per US$ depreciation (appreciation)	**Effect on income before income tax Increase (decrease)**
		(In Thousands)
2019	**₱1.00**	**(₱88,752)**
	(1.00)	**88,752**
2018	₱1.00	(₱48,152)
	(1.00)	48,152

There is no other impact on the Parent Company's equity other than those already affecting net income.

Equity Price risk
Quoted financial assets at fair value through OCI are acquired at certain prices in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers, or factors affecting all instruments traded in the market. Depending on several factors such as interest rate movements, the country's economic performance, political stability, and domestic inflation rates, these prices change, reflecting how market participants view the developments. The Parent Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each sector and market.

The analysis below is performed for a reasonable possible movement of the market index, of the Parent Company's equity with all other variables held constant.

	Market Index	**Change in Variables**	**Effect on Equity Increase (decrease)**
			(In Thousands)
2019	**PSEi**	**5%**	**₱455**
		-5%	**(455)**
2018	PSEi	5%	₱544
		-5%	(544)

There is no impact on the parent company statements of income.

Liquidity Risk
Liquidity risk is defined by the Parent Company as the risk of losses arising from funding difficulties due to deterioration in market conditions and/or the financial position of the Parent Company that make it difficult to raise the necessary funds or that forces the Parent Company to raise funds at significantly higher interest rates than usual.

This is also the possibility of experiencing losses due to the inability to sell or convert marketable securities into cash immediately or in instances where conversion to cash is possible but at loss due to wider than normal bid-offer spreads.

The Parent Company seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Parent Company maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Parent Company regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues, both on-shore and off-shore.

Cash and cash equivalents and short-term investments are used for the Parent Company's liquidity requirements. Please refer to the terms and maturity profile of these financial assets under the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section.

The Parent Company has access to sufficient variety of sources of funding with existing lenders. The credit facilities are as follows *(in thousands)*:

Description of Facility	**Date Contracted**	**Amount undrawn as of December 31, 2019**	**Outstanding loan balance as of December 31, 2019**
₱10 billion 5-year loan facility, fixed and/or floating rate	December 1, 2016	**₱10,000,000**	**₱–**
₱10 billion loan facility, fixed and/or floating rate, with a maximum tenor of 10 years	January 30, 2018	**5,500,000**	**4,250,000**
₱1.9 billion loan facility, fixed and/or floating rate, with a maximum tenor of 10 years	January 30, 2018	**–**	**1,733,750**
₱5 billion loan facility, fixed and/or floating rate, with a maximum tenor of 5 years	April 4, 2018	**3,000,000**	**2,000,000**
₱11 billion loan facility, fixed and/or floating rate, with a maximum tenor of 8 years	April 16, 2018	**–**	**11,000,000**
		₱18,500,000	**₱18,983,750**

The table below summarizes the maturity profile of the Parent Company's financial liabilities as of December 31, 2019 and 2018 based on contractual undiscounted payments (amounts in thousands).

	December 31, 2019				
	< 1 year	**1 to < 2 years**	**2 to < 3 years**	**> 3 years**	**Total**
Accounts payable and accrued expenses					
Accrued expenses	**₱1,194,196**	**₱–**	**₱–**	**₱–**	**₱1,194,196**
Deposits payable	–	–	–	–	–
Accounts payable	**302,143**	–	–	–	**302,144**
Payables to related parties	**242,549**	–	–	–	**242,549**
Other payables*	**10,990**	–	–	–	**10,990**
Dividends payable	**3,860,742**	–	–	–	**3,860,742**
Other current liabilities					
Subscriptions payable	**2,069,413**	–	–	–	**2,069,413**
Others	**11,856**	–	–	–	**11,856**
Long-term debt	**4,387,500**	**9,903,400**	**14,910,000**	**36,663,750**	**65,864,650**
	₱12,079,389	**₱9,903,400**	**₱14,910,000**	**₱36,663,750**	**₱73,556,540**
Interest payable	**₱3,718,807**	**₱3,139,521**	**₱2,807,477**	**₱8,155,944**	**₱17,821,749**

Excludes output VAT

	December 31, 2018				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
Accounts payable and accrued expenses					
Accrued expenses	₱1,233,704	₱–	₱–	₱–	₱1,233,704
Deposits payable	758,132	–	–	–	758,132
Accounts payable	279,407	–	–	–	279,407
Payables to related parties	265,716	–	–	–	265,716
Other payables	8,884	–	–	–	8,884
Dividends payable	3,466,986	–	–	–	3,466,986
Other current liabilities					
Subscriptions payable	1,785,734	–	–	–	1,785,734
Others	11,858	–	–	–	11,858
Long-term debt	525,500	4,911,500	13,105,000	48,971,250	67,513,250
	₱8,335,921	₱4,911,500	₱13,105,000	₱48,971,250	₱75,323,671
Interest payable	₱3,760,094	₱3,750,848	₱3,124,796	₱10,167,846	₱20,803,584

Credit Risk

Credit risk is the risk that the Parent Company's counterparties to its financial assets will fail to discharge their contractual obligations. The Parent Company's holding of cash and short-term investments and receivables from customers and other third parties exposes the Parent Company to credit risk of the counterparty. Credit risk management involves dealing with institutions for which credit limits have been established. The Parent Company's Treasury Policy sets credit limits for each counterparty. The Parent Company trades only with recognized, creditworthy third parties and has a well-defined credit policy and established credit procedures.

Impairment of financial assets

The gross carrying amount of financial assets not subject to impairment also represents the Parent Company's maximum exposure to credit risk, as follows:

	2019	2018
	(In Thousands)	
Financial assets		
Cash in bank and cash equivalents	**₱7,251,116**	₱3,535,748
Short-term investments	**25,318**	25,844
Notes receivable	**244,221**	235,189
Receivable from related parties	**221,070**	227,294
Dividends receivable	**34,600**	1,281,478

(Forward)

	2019	2018
	(In Thousands)	
Receivable from other parties	**₱25,378**	₱34,963
Rent receivable	**22,775**	27,874
Interest receivable	**10,203**	4,525
Other receivables	**219,055**	222,380
	₱8,053,736	₱5,595,295

The identified impairment losses were immaterial.

The Parent Company has other receivables that are related to government and employees with on-going transactions and/or progressive payments. Based on past experience, management believes that these receivables are fully collectible, thus, are not impaired.

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Parent Company would have to pay if the guarantees are called upon.

The credit quality of the Parent Company's financial assets follows (amounts in thousands):

2019

	Neither past due nor impaired				**Past due**		
	High Grade	**Medium Grade**	**Low Grade**	**Total**	**but not impaired**	**Impaired**	**Total**
Financial assets carried at amortized cost							
Cash and cash equivalents*	**₱7,251,116**	**₱–**	**₱–**	**₱7,251,116**	**₱–**	**₱–**	**₱7,251,116**
Short-term investments	**25,318**	**–**	**–**	**25,318**	**–**	**–**	**25,318**
Accounts and notes receivable							
Dividends receivable	**34,600**	**–**	**–**	**34,600**	**–**	**–**	**34,600**
Notes receivable	**244,221**	**–**	**–**	**244,221**	**–**	**–**	**244,221**
Receivable from related parties	**221,070**	**–**	**–**	**221,070**	**–**	**–**	**221,070**
Rent receivable	**22,775**	**–**	**–**	**22,775**	**–**	**–**	**22,775**
Receivable from other companies	**19,984**	**–**	**–**	**19,984**	**–**	**5,394**	**25,378**
Interest receivable	**10,203**	**–**	**–**	**10,203**	**–**	**–**	**10,203**
Other receivables	**–**	**–**	**–**	**–**	**219,055**	**–**	**219,055**
Financial assets through OCI							
Quoted	**534,470**	**–**	**–**	**534,470**	**–**	**–**	**534,470**
	₱8,363,757	**₱–**	**₱–**	**₱8,363,757**	**₱219,055**	**₱5,394**	**₱8,588,206**

**Excludes cash on hand*

2018

	Neither past due nor impaired				Past due		
	High Grade	Medium Grade	Low Grade	Total	but not impaired	Impaired	Total
Financial assets carried at amortized cost							
Cash and cash equivalents*	₱3,535,748	₱–	₱–	₱3,535,748	₱–	₱–	₱3,535,748
Short-term investments	25,844	–	–	25,844	–	–	25,844
Accounts and notes receivable							
Dividends receivable	1,281,478	–	–	1,281,478	–	–	1,281,478
Notes receivable	235,189	–	–	235,189	–	–	235,189
Receivable from related parties	227,294	–	–	227,294	–	–	227,294
Rent receivable	27,874	–	–	27,875	–	–	27,874

(Forward)

	Neither past due nor impaired				Past due		
	High Grade	Medium Grade	Low Grade	Total	but not impaired	Impaired	Total
Receivable from other companies	₱29,569	₱–	₱–	₱29,569	₱–	₱5,394	₱34,963
Interest receivable	4,525	–	–	4,525	–	–	4,525
Other receivables	–	–	–	–	222,380	–	222,380
Financial assets through OCI							
Quoted	508,211	–	–	508,211	–	–	508,211
	₱5,875,732	₱–	₱–	₱5,875,732	₱222,380	₱5,394	₱6,103,506

**Excludes cash on hand*

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

High grade pertains to cash and cash equivalents and short-term investments, quoted financial assets, related party transactions and receivables with high probability of collection.

Medium grade pertains to unquoted financial assets other than cash and cash equivalents and short-term investments with nonrelated counterparties and receivables from counterparties with average capacity to meet their obligation.

Low grade pertains to financial assets with the probability to be impaired based on the Parent Company's past experience.

26. AYCFL's loans and borrowings

The Parent Company acted as guarantor to AYCFL's loans and borrowings as follows:

Description of loans and borrowings	Date Contracted	**2019**	2018
		Outstanding balance	
		(Amounts in thousands)	
US$400.0 million Perpetual Undated Notes	October 31, 2019	**US$400,000**	US$–
US$400.0 million Perpetual Undated Notes	September 13, 2017	**400,000**	400,000
US$300.0 million Exchangeable Bonds	May 2, 2014	**–**	292,800
US$200 million Transferrable Loan Facility	February 1, 2018	**–**	10,000
US$200 million Revolving Credit Facility	March 18, 2016	**–**	10,000
US$200 million Transferrable Term Loan Facility	March 18, 2016	**–**	–
		US$800,000	US$712,800

US$200 million Transferrable Loan Facility

On February 1, 2018, AYCFL entered a US$200.0 million revolving credit facility with an availability period of up to one (1) month prior to February 1, 2023. The first drawdown of the credit facility amounted to US$10.0 million on September 6, 2018 with a quarterly repricing rate. In April 2019, AYCFL drew down US$100.0 million and US$ 90.0 million from the facility with a monthly repricing period. All outstanding obligations from this facility worth US$ 200.0 million were pre-paid on June 10, 2019.

US$200 million Revolving Credit Facility

On September 6, 2018, AYCFL drew down US$10.0 million with a quarterly repricing rate from its US$200 million revolving credit facility contracted on March 18, 2016. On February 22, 2019, AYCFL drew down US$30.0 million with a monthly repricing rate. Both obligations were pre-paid on June 24, 2019.

On March 7, 2019, AYCFL drew US$60 million with a monthly repricing rate. This obligation was pre-paid on June 10, 2019.

US$200 million Transferrable Term Loan Facility

In April 2019, AYCFL drew US$60.0 million and US$20.0 million from its US$200 million Transferrable Loan Facility with an interest repricing date of one month. Both obligations were pre-paid on June 28, 2019.

The Parent Company unconditionally guarantees the due and punctual payment of these loan drawdowns if, for any reason AYCFL does not make timely payment of the amount due. The Parent Company waived all rights of subrogation, contribution, and claims of prior exhaustion of remedies. The Parent Company's obligation as guarantor will remain in full force until no sum remains to be lent by the lenders, and the lenders recover the outstanding loan drawdowns.

On May 2, 2014, AYCFL issued at face US$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.50% per annum, payable semi-annually. The Bonds are guaranteed by the Parent Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds were listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options. The Bondholders have the right to exchange their Bonds for shares at any time during the exchange period. AYCFL shall lodge sufficient shares in its securities account to service Exchange Rights. In consideration for the reservation of the shares and by way of deposit for the exercise by the Bondholders of the Exchange Right, AYCFL shall remit to the Parent Company from time to time such amount as may be agreed between them, as defined in the Exchange Protocol agreed between AC and AYCFL.

On April 30, 2019, the remaining AYCFL US$292.8 million guaranteed exchangeable bonds as of December 31, 2018 was exchanged and converted into total of 377.5 million ALI ordinary common shares. On May 2, 2019, the Bonds has zero outstanding balance.

The total cumulative exchanges of the Bonds into shares resulted in an overall gain of ₱16.7 billion which was booked under other income (see Note 18).

On September 7, 2017, the Parent Company announced that AYCFL had successfully set the terms of a US dollar-denominated fixed-for-life senior perpetual issuance at an aggregate principal amount of US$400 million with an annual coupon of 5.125% for life with no reset and step-up. The issuer, AYCFL, may redeem the Notes in whole but not in part on September 13, 2022 (first redemption date) or any interest payment date falling after the first redemption date at 100% of the principal amount of the Notes plus any accrued but unpaid interest. The Parent Company unconditionally guarantees the due and punctual payment of this note if, for any reason AYCFL does not make timely payment of the amount due.

On October 23, 2019, the Parent Company announced that AYCFL had successfully priced a similar US dollar denominated fixed-for-life senior perpetual issuance at an aggregate principal amount of US$400 million with an annual coupon of 4.85% for life with no reset and step-up. The issuer, AYCFL, may redeem the Notes in whole but not in part on October 30, 2024 (first redemption date) or any interest payment date falling after the first redemption date at 100% of the principal amount of the Notes plus any accrued but unpaid interest. The Parent Company unconditionally guarantees the due and punctual payment of this note if, for any reason AYCFL does not make timely payment of the amount due.

27. **Contingencies**

The Parent Company is contingently liable for lawsuits or claims filed by third parties which are either pending decision by the courts or are under negotiation, the outcomes of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the parent company financial statements. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

28. **Leases**

Operating Leases – Parent Company as Lessor

The Parent Company is a party under various operating leases which have lease terms between one to thirty years with an annual escalation rate of 4.5% to 10%.

Future minimum rentals receivable under non-cancellable operating leases of the Parent Company follow:

	2019	2018
	(In Thousands)	
Within one year	**₱31,449**	₱29,290
More than one (1) year but less than five (5) years	**165,839**	162,923
More than five (5) years	**535,330**	565,060
	₱732,618	₱757,273

Total contingent rent income amounted to ₱125.9 million and ₱153.3 million in 2019 and 2018, respectively.

Operating Leases – Parent Company as Lessee

Future minimum rentals payable under non-cancellable operating leases follow (see Note 18):

	2019	2018
	(In Thousands)	
Within one year	**₱8,166**	₱7,242
	₱8,166	₱7,242

29. Note to Parent Company Statements of Cash Flows

Changes in liabilities arising from financing activities follow:

	2018	Cash Flows	Non-cash Changes	Others	2019
			(In Thousands)		
Long-term debt	**₱66,642,481**	**(₱1,183,010)**	**₱84,595**	**(₱4,387,500)**	**₱61,156,566**
Current portion of long-term debt	**525,500**	**(525,500)**	**–**	**4,387,500**	**4,387,500**
Dividends payable (Notes 16 and 21)	**3,466,986**	**(6,070,472)**	**–**	**6,464,228***	**3,860,742**
Total liabilities from financing activities	**₱70,634,967**	**(₱7,778,982)**	**₱84,595**	**₱6,464,228**	**₱69,404,808**

**Pertains to cash dividends declared by the Parent Company.*

The Parent Company's noncash investing and financing transactions in 2019 and 2018 are as follows:

2019

- Disposal of investment properties resulted in a receivable of ₱149.54 million.
- Conversion of $292.8 million bonds from AYCFL US$300.0 million guaranteed exchangeable bonds to 377,465,612 ALI ordinary shares. Deposits received from AYCFL in prior years amounting to ₱758.1 million were used for the conversion.
- The Parent Company has unpaid subscriptions to shares of AHHI, ACEI, AVHC and AAC amounting to ₱1,959.7 million, ₱70.3 million, and ₱39.4 million, respectively.
- Disposal of 1,993,477,338 AEI shares in exchange for 295,329,976 IPO shares.
- Disposal of financial assets at fair value through OCI resulted in a receivable of ₱2.4 million.

2018

- Disposal of investment properties resulted in a receivable of ₱49.7 million.
- Conversion of $7.0 million bonds from AYCFL US$300.0 million guaranteed exchangeable bonds to 8,844,704 ALI ordinary shares.
- The Parent Company has unpaid subscriptions to shares of ACEI, AVHC and AHCHI amounting to ₱1,687.5 million, ₱96.9 million, and ₱1.4 million, respectively.

30. Events after the Reporting Period

a) On January 15, 2020, the Parent Company have fully utilized the proceeds from the re-issuance of Preferred B Series 2 shares.

b) On January 23, 2020, the Parent Company through VIP, disbursed US$82.5 million into FMI via a convertible loan facility. The investment followed the completion of the conditions precedent for disbursement, including approval by the Central Bank of Myanmar of the convertible loan. The transaction forms part of the Parent Company's $237.5 million investment in YSH.

c) In January 2020, the Parent Company made capital infusion amounting to ₱205.6 million to AITHI to support the operations of its automotive business unit, and ₱362.5 million to AC Infra to fund its working capital requirements.

d) On February 7, 2020, 33,751 common shares were exercised under the Parent Company's ESOP.

e) In February 2020, the Parent Company purchased its 1,016,210 common shares amounting to ₱764.0 million pursuant to the share buyback program of ₱10.0 billion worth of shares approved by the BOD on December 5, 2019.

31. **Supplementary Information Required Under Revenue Regulations 15-2010**

In compliance with the requirements set forth by Revenue Regulations 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

Output Value Added Tax (VAT)

a. The Parent Company is a VAT-registered company with VAT output tax declaration as follows (in thousands):

	Net Sales/Receipts	Output VAT
Taxable Sales:		
Sale of investment properties – excess of assessed value over selling price	₱1,244,036	₱149,284
Management fee	717,551	86,106
Sale of investment properties and property and equipment	323,155	38,779
Toll revenue	221,214	26,546
Rental income	169,648	20,358
Other income	1,605	192
	₱2,677,209	₱321,265

Input VAT

The amount of VAT input taxes claimed are broken down as follows (in thousands):

Current year's domestic purchases/payments for:	
Capital goods not subject to amortization and services and goods lodged under other accounts	₱40,619
Capital goods subject to amortization	27,991
Total input VAT claimed during the year	₱68,610

Documentary stamp tax (DST)

The DST paid/accrued on the following transactions are (in thousands):

Transaction	Amount	DST thereon
Long term debt	₱13,500,000	₱35,497
Issuance of shares	3,025,795	22,758
Others	−	34
	₱16,525,795	₱58,289

Taxes and Licenses

The following are the taxes, licenses and permit fees lodged under the 'Taxes, licenses and fees' account under general and administrative expenses in 2019 (in thousands):

a. Local

License and permit fees	₱10,862
Real estate taxes	5,383
	₱16,245

b. National

Fringe benefits tax	₱16,264
Documentary stamp tax	34
Other taxes	2,589
	₱18,887

Withholding Taxes
Details of withholding taxes for the year are as follows (in thousands):

Final withholding taxes	₱807,111
Withholding taxes on compensation	585,070
Expanded withholding taxes (EWT)	70,985
	₱1,463,166

Tax Contingencies
In April 2011, the Parent Company filed a claim for issuance of Tax Credit Certificate (TCC) with the Court of Tax Appeals (CTA) for its excess and unutilized Creditable Withholding Taxes (CWTs) incurred in 2008 and 2009 in the aggregate amount of ₱102.2 million. The case was raffled to CTA Second Division and docketed under CTA Case No. 8262. In November 2012, the CTA Second Division issued a decision in CTA Case No. 8262 granting a portion of the claim amounting to ₱65.0 million. The Parent Company filed a Motion for Partial Reconsideration (PR) on the disallowed portion of the claim. In March 2014, the CTA Second Division issued an amended decision in CTA Case No. 8262 granting the Parent Company's claim for issuance of TCC for its excess and unutilized CWTs incurred in 2008 and 2009 in the total amount of ₱99.1 million. The BIR appealed the amended decision to the CTA En Banc and the case was docketed under CTA EB No. 1152.

The CTA En Banc sustained the Decision of the CTA Second Division granting the Parent Company's claim for refund. In February 2016, BIR filed a Motion for Reconsideration (MR) contesting the CTA En Banc decision which was denied in June 2016. The BIR appealed the CTA En Banc decision to the Supreme Court by way of petition for review under GR No. 225420. In December 2016, the Supreme Court denied the BIR's petition for review. An MR was filed by the BIR. In June 2018, the Supreme Court denied with finality BIR's MR. Thereafter, an Entry of Judgment was issued by the Supreme Court declaring its decision final and executory. On April 3, 2019, the CTA Second Division issued a writ of execution ordering the BIR to issue a TCC in favor of the Parent Company in the total amount of ₱99.1 million.

In April 2013, the Parent Company filed a claim for issuance of TCC with the CTA for its excess and unutilized CWTs incurred in 2010 and 2011 in the aggregate amount of ₱127.1 million. The case was raffled to CTA Second Division and docketed under CTA Case No. 8629. In October 2015, the CTA issued a decision in CTA Case No. 8629 granting its claim for issuance of TCC in the total amount of ₱67.7 million. The Parent Company filed a Motion for PR on the disallowed portion of the claim. In March 2016, the CTA issued an amended decision in CTA Case No. 8629 granting the Parent Company's claim for issuance of TCC for its excess and unutilized CWTs incurred in 2010 and 2011 in the total amount of ₱97.1 million. Not satisfied with the said CTA amended decision, the Parent Company and BIR appealed the amended decision to the CTA En Banc. The separate appeals by the Parent Company and BIR were consolidated under CTA EB No. 1442 and CTA EB No. 1443. In September 2017, the CTA En Banc issued a Consolidated Decision affirming, in effect, the CTA Second Division Decision's granting the Parent Company's claim for issuance of TCC in the total amount of ₱97.1 million. An MR was filed by the BIR with the Court En Banc. In September 2018, the Court En Banc denied the MR. The BIR appealed the Court En Banc Decision to the Supreme Court by way of petition for review and docketed under GR No. 242356. On March 25, 2019, the Supreme Court issued a notice denying the BIR's petition for review. Thereafter, an Entry of Judgment was recorded by the Supreme Court on July 8, 2019 in its Books of Entries and Judgment declaring the denial of the petition for review as final and executory.

In April 2015, the Parent Company filed a claim for issuance of TCC with the CTA for its excess and unutilized CWTs incurred in 2012 and 2013 in the aggregate amount of ₱128.7 million. The case was raffled to CTA First Division and docketed under CTA Case No. 9024. In February 2018, the CTA First Division issued a decision in CTA Case No. 9024 partially granting Parent Company's claim for issuance of TCC in the total amount of ₱81.7 million. Not satisfied with the decision, both parties filed a Motion for PR. The Parent Company filed a Motion for PR on the disallowed portion of the claim. In May 2018, the CTA First Division gave due course to the Parent Company's Motion for PR by allowing it to recall its witness and identify relevant documentary evidence in support to the partial

reconsideration. On March 25, 2019, the CTA First Division issued an amended decision denying the BIR's Motion for PR. In the said amended decision, the CTA First Division granted the Parent Company's Motion for PR thereby increasing the amount subject for issuance of TCC to ₱127.2 million. The BIR appealed the amended decision to the CTA En Banc and the case was docketed under CTA EB No. 2118.

In March 2017, the Parent Company filed a claim for issuance of TCC with the CTA for its excess and unutilized CWT incurred in 2014 in the aggregate amount of P62.7 million. The case was raffled to the CTA First Division and docketed under CTA Case No. 9556. The presentation of evidence was already terminated and the parties had submitted their respective Memoranda. The case is now submitted for decision by CTA First Division.

In April 2019, the Parent Company filed a claim for issuance of TCC with the CTA for its excess and unutilized CWTs incurred in 2016 and 2017 in the aggregate amount of ₱212.9 million. The case was raffled to CTA First Division and docketed under CTA Case No. 10056. The Parent Company started the presentation of evidence.

Further, the Parent Company received a Formal Letter of Demand (FLD) on December 27, 2018 for deficiency internal revenue taxes including interest and compromise for both taxable years ended December 31, 2013 and 2014 amounting to ₱506.4 million and ₱964.5 million, respectively. In January 2019, the Parent Company has made protest on both FLDs for lack of factual and legal bases. In June 2019, the Parent Company received a Final Decision on Disputed Assessment (FDDA) in connection to the 2014 FLD. Remaining deficiency tax assessments amounted to ₱23.7 million which was paid by the Parent Company on June 27, 2019.

32. Approval of the Parent Company Financial Statements

The Parent Company financial statements of Ayala Corporation as of December 31, 2019 and 2018 were endorsed for approval by the Audit Committee on March 6, 2020 and authorized for issue by the BOD on March 12, 2020.

Certification

I, Josephine G. de Asis, Comptroller, a duly authorized representative of Ayala Corporation (Company) with SEC registration number 34218 with principal office at 32F to 35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, do hereby certify and state that:

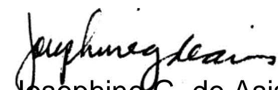
1) In compliance with the guidelines issued by the Securities and Exchange Commission (SEC) for the filing of structured and current reports by publicly listed companies with the SEC in light of the imposition of an Enhanced Community Quarantine and Stringent Social Distancing Measures over the entire region of Luzon to prevent the spread of the 2019 Coronavirus Disease (COVID-2019), the Company is timely filing its SEC Form PFHS dated April 8, 2020 by uploading the same through the PSE EDGE in accordance with the relevant PSE rules and procedures.

2) The information contained in SEC Form PHFS dated April 8, 2020 is **true and correct** to the best of my knowledge.

3) On behalf of the Company, I hereby **undertake** to a) submit hard or physical copies of SEC Form PHFS dated April 8, 2020 with proper notarization and certification, b) pay the filing fees (where applicable) c) pay the penalties due (where applicable) d) other impositions (where applicable), within ten (10) calendar days from the date of the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours.

4) I am fully aware that non-submission of hard/physical copies of reports as well as certification that they refer to one and the same document submitted online, within ten (10) calendar days from the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours, shall invalidate the reports, applications, compliance, requests and other documents submitted via email. Hence, the corresponding penalties under existing rules and regulations of the Commission shall apply without prejudice to the imposition of penalties under Section 54 of the Securities Regulation Code and other applicable existing rules and regulations for failure to comply with the orders of the Commission.

5) I am executing this certification this April 8, 2020 to attest to the truthfulness of the foregoing facts and for whatever legal purpose it may serve.



Josephine G. de Asis
Comptroller
Passport No. P0174919B

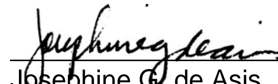
CERTIFICATION

This certifies that Ayala Corporation, with principal office at 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, and with Securities and Exchange Commission (SEC) Registration Number 34218, hereby undertakes to submit to SEC the Ayala Corporation's (Parent Company) Special Form for Financial Statements of Publicly-Held and Investment Companies in diskette form (SFFS Form) in compliance with Section 27 of RA 8792 otherwise known as the "Electronic Commerce Act" and Sec. 37 of its Implementing Rules and Regulations within ten (10) calendar days from the date of the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours following the guidelines on alternative filing dated March 30, 2020. The SFFS Form in printed pdf form uploaded to the PSE Edge/sent by electronic mail to SEC contains the basic and material data in the financial statements submitted to the SEC for the calendar year 2019.

AYALA CORPORATION

By:

Jose Teodoro K. Limcaoco
Chief Finance Officer, Chief Risk Officer
Chief Sustainability Officer
and Finance Group Head



Josephine G. de Asis
Comptroller

SUBSCRIBED AND SWORN to before me this ______________ at Makati City, affiants exhibiting to me their respective passports/driver's license, to wit:

Name	Passport No.	Date and Place of Issue
Jose Teodoro K. Limcaoco	P6682433A	April 5, 2018 - DFA Manila
Josephine G. De Asis	P0174919B	January 9, 2019 - DFA Manila

Doc. No. ________
Page No. ________
Book No. ________
Series of 2020

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION(Parent Company)
CURRENT ADDRESS: Tower One,Ayala Triangle,Ayala Avenue, Makati City
TEL. NO.: FAX NO.:
COMPANY TYPE : Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA	2019 (in P'000)	2018 (in P'000)
A. ASSETS (A.1 + A.2 + A.3 + A.4 + A.5 + A.6 + A.7 + A.8 + A.9 + A.10+A.11)	206,031,688	193,779,748
A.1 Current Assets (A.1.1 + A.1.2 + A.1.3 + A.1.4 + A.1.5+A.1.6)	7,627,020	5,187,846
A.1.1 Cash and cash equivalents (A.1.1.1 + A.1.1.2 + A.1.1.3)	7,252,450	3,537,096
A.1.1.1 On hand	1,333	1,346
A.1.1.2 In domestic banks/entities	7,250,387	3,533,335
A.1.1.3 In foreign banks/entities	730	2,415
A.1.2 Short-term investments	25,318	25,844
A.1.3 Trade and Other Receivables (A.1.3.1 + A.1.3.2)	343,393	1,616,874
A.1.3.1 Due from domestic entities (A.1.3.1.1 + A.1.3.1.2 + A.1.3.1.3 + A.1.3.1.4)		
A.1.3.1.1 Due from customers (trade)		
A.1.3.1.2 Due from related parties	221,070	227,294
A.1.3.1.3 Others, specify (A.1.2.1.3.1 + A.1.2.1.3.2)	127,717	1,394,974
A.1.3.1.3.1 Dividend Receivable	34,600	1,281,478
A.1.3.1.3.2 Others	93,117	113,496
A.1.3.1.4 Allowance for doubtful accounts (negative entry)	(5,394)	(5,394)
A.1.3.2 Due from foreign entities, specify (A.1.3.2.1 + A.1.3.2.2)		
A.1.3.2.1		
A.1.3.2.2 Allowance for doubtful accounts (negative entry)		
A.1.4 Inventories (A.1.4.1 + A.1.4.2 + A.1.4.3 + A.1.4.4 + A.1.4.5 + A.1.4.6)		
A.1.4.1 Raw materials and supplies		
A.1.4.2 Goods in process (including unfinished goods, growing crops, unfinished seeds)		
A.1.4.3 Finished goods		
A.1.4.4 Merchandise/Goods in transit		
A.1.4.5 Unbilled Services (in case of service providers)		
A.1.4.6 Others, specify (A.1.4.6.1 + A.1.4.6.2)		
A.1.4.6.1		
A.1.4.6.2		
A.1.5 Financial Assets other than Cash/Receivables/Equity investments (A.1.5.1 + A.1.5.2 + A.1.5.3 + A.1.5.4 + A.1.5.5)		-
A.1.5.1 Financial Assets at Fair Value through Profit or Loss - issued by domestic entities: (A.1.5.1.1 + A.1.5.1.2 + A.1.5.1.3 + A.1.5.1.4 + A.1.5.1.5)		
A.1.5.1.1 National Government		
A.1.5.1.2 Public Financial Institutions		
A.1.5.1.3 Public Non-Financial Institutions		
A.1.5.1.4 Private Financial Institutions		
A.1.5.1.5 Private Non-Financial Institutions		
A.1.5.2 Held to Maturity Investments - issued by domestic entities: (A.1.5.2.1 + A.1.5.2.2 + A.1.5.2.3 + A.1.5.2.4 + A.1.5.2.5)		-
A.1.5.2.1 National Government		
A.1.5.2.2 Public Financial Institutions		
A.1.5.2.3 Public Non-Financial Institutions		
A.1.5.2.4 Private Financial Institutions		
A.1.5.2.5 Private Non-Financial Institutions		

NOTE:

This special form is applicable to Investment Companies and Publicly-held Companies (enumerated in Section 17.2 of the Securities Regulation Code (SRC), except banks and insurance companies). As a supplemental form to PHFS, it shall be used for reporting Consolidated Financial Statements of Parent corporations and their subsidiaries.

Domestic corporations are those which are incorporated under Philippine laws or branches/subsidiaries of foreign corporations that are licensed to do business in the Philippines where the center of economic interest or activity is within the Philippines. On the other hand, foreign corporations are those that are incorporated abroad, including branches of Philippine corporations operating abroad.

Financial Institutions are corporations principally engaged in financial intermediation, facilitating financial intermediation, or auxiliary financial services. Non-Financial institutions refer to corporations that are primarily engaged in the production of market goods and non-financial services.

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: Ayala Corporation(Parent Company)
CURRENT ADDRESS: Tower One,Ayala Triangle,Ayala Avenue, Makati city
TEL. NO.: FAX NO.:
COMPANY TYPE : Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA	2019 (in P'000)	2018 (in P'000)
A.1.5.3 Loans and Receivables - issued by domestic entities: (A.1.5.3.1 + A.1.5.3.2 + A.1.5.3.3 + A.1.5.3.4 + A.1.5.3.5)	-	-
A.1.5.3.1 National Government		
A.1.5.3.2 Public Financial Institutions		
A.1.5.3.3 Public Non-Financial Institutions		
A.1.5.3.4 Private Financial Institutions		
A.1.5.3.5 Private Non-Financial Institutions		
A.1.5.4 Financial Assets issued by foreign entities: (A.1.5.4.1+A.1.5.4.2+A.1.5.4.3+A.1.5.4.4)	-	-
A.1.5.4.1 Financial Assets at fair value through profit or loss		
A.1.5.4.2 Held-to-maturity investments		
A.1.5.4.3 Loans and Receivables		
A.1.5.4.4 Available-for-sale financial assets		
A.1.5.5 Allowance for decline in market value (negative entry)		
A.1.6 Other Current Assets (state separately material items) (A.1.6.1 + A.1.6.2 + A.1.6.3)	5,859	8,032
A.1.6.1 Creditable W/holding Tax		
A.1.6.2 Input VAT	-	(3,647.00)
A.1.6.3 Others	5,859	11,679
A.2 Property, plant, and equipment (A.2.1 + A.2.2 + A.2.3 + A.2.4 + A.2.5 + A.2.6 + A.2.7+ A.2.8)	283,931	352,760
A.2.1 Land		
A.2.2 Building and improvements including leasehold improvement	720,938	703,764
A.2.3 Machinery and equipment (on hand and in transit)	376,629	363,568
A.2.4 Transportation/motor vehicles, automotive equipment, autos and trucks, and delivery equipment	201,603	199,372
A.2.5 Others, specify (A.2.5.1 + A.2.5.2)	17,979	2,647
A..2.5.1 Construction in Progress	17,979	2,647
A..2.5.2		
A.2.6 Appraisal increase, specify (A.2.6.1 + A.2.6.2)		
A..2.6.1		
A..2.6.2		
A.2.7 Accumulated Depreciation (negative entry)	(1,033,218)	(916,591)
A.2.8 Impairment Loss or Reversal (if loss, negative entry)		
A.3 Investments accounted for using the cost method (A.3.1 + A.3.2 + A.3.3)	193,377,477	183,652,654
A.3.1 Investment cost in domestic subsidiaries/affiliates	190,893,046	176,455,688
A.3.2 Investment cost in foreign subsidiaries/affiliates	2,484,431	7,196,966
A.3.3 Others, specify (A.3.3.1 + A.3.3.2)		
A.3.3.1		
A.3.3.2		
A.4 Investment Property	1,109,980	1,130,861
A.5 Biological Assets		
A.6 Intangible Assets(A.6.1 + A.6.2)		
A.6.1 Major item/s, specify (A.6.1.1 + A.6.1.2)		
A.6.1.1		
A.6.1.2		
A.6.2 Others, specify (A.6.2.1 + A.6.2.2)		
A.6.2.1		
A.6.2.2		
A.7 Assets Classified as Held for Sale		
A.8 Assets included in Disposal Groups Classified as Held for Sale		
A.9 Long-term receivables (net of current portion) (A.9.1 + A.9.2 + A.9.3)	428,515	411,435
A.9.1 From domestic entities, specify (A.9.1.1 + A.9.1.2)	428,515	411,435
A.9.1.1 Notes Receivable	212,588	195,508
A.9.1.2 Accounts Receivable	215,927	215,927
A.9.2 From foreign entities, specify (A.9.2.1 + A.9.2.2)		
A.9.2.1		
A.9.2.2		
A.9.3 Allowance for doubtful accounts, net of current portion (negative entry)		
A.10 Financial Assets other than Cash/Receivables/Equity investments (A.1.10.1 + A.10.2 + A.10.3 + A.10.4 + A.10.5)	534,470	508,211
A.10.1.1 Held to Maturity Investments - issued by domestic entities: (A.10.1.1 + A.10.1.2 + A.10.1.3 + A.10.1.4 + A.10.1.5)		-
A.10.1.1 National Government		
A.10.1.2 Public Financial Institutions		

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR CONSOLIDATED FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: Ayala Corporation(Parent Company)
CURRENT ADDRESS: Tower One,Ayala Triangle,Ayala Avenue, Makati City
TEL. NO.: FAX NO.:
COMPANY TYPE : Holding Company PSIC:
If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA	2019 (in P'000)	2018 (in P'000)
A.10.1.3 Public Non-Financial Institutions		
A.10.1.4 Private Financial Institutions		
A.10.1.5 Private Non-Financial Institutions		
A.10.2 Loans and Receivables - issued by domestic entities: (A.10.2.1 + A.10.2.2 + A.10.2.3 + A.10.2.4 + A.10.2.5)	-	-
A.10.2.1 National Government		
A.10.2.2 Public Financial Institutions		
A.10.2.3 Public Non-Financial Institutions		
A.10.2.4 Private Financial Institutions		
A.10.2.5 Private Non-Financial Institutions		
A.10.3 Available-for-sale financial assets - issued by domestic entities: (A.10.3.1 + A.10.3.2 + A.10.3.3 + A.10.3.4 + A.10.3.5)	-	-
A.10.3.1 National Government		
A.10.3.2 Public Financial Institutions		
A.10.3.3 Public Non-Financial Institutions		
A.10.3.4 Private Financial Institutions	-	-
A.10.3.5 Private Non-Financial Institutions		
A.10.4 Financial Assets issued by foreign entities: (A.10.4.1+A.10.4.2+A.10.4.3)		
A.10.4.1 Held-to-maturity investments		
A.10.4.2 Loans and Receivables		
A.10.4.3 Available-for-sale financial assets		
A.10.5 Other Comprehensive Income financial assets - issued by domestic entities: (A.10.5.1 + A.10.5.2 + A.10.5.3 + A.10.5.4 + A.10.5.5)	534,470	508,211
A.10.5.1 National Government		
A.10.5.2 Public Financial Institutions		
A.10.5.3 Public Non-Financial Institutions		
A.10.5.4 Private Financial Institutions	534,470	508,211
A.10.5.5 Private Non-Financial Institutions		
A.10.5 Allowance for decline in market value (negative entry)	-	-
A.11 Other Noncurrent Assets (A.11.1 + A.11.2 + A.11.3 + A.11.4 + A.11.5)	2,670,295	2,535,981
A.11.1 Deferred charges - net of amortization	35,479	20,758
A.11.2 Deferred Income Tax	-	-
A.11.3 Advance/Miscellaneous deposits	10,367	10,174
A.11.4 Others, specify (A.11.4.1 + A.11.4.2 + A.11.4.3)	2,762,361	2,642,961
A.11.4.1 Creditable W/holding tax	1,021,800	825,487
A.11.4.2 Input Vat/(Output Vat)		
A.11.4.3 Service Concession Assets	1,740,561	1,817,474
A.11.5 Allowance for write-down of deferred charges/impairment loss (negative entry)	(137,912)	(137,912)
B. LIABILITIES (B.1 + B.2 + B.3 + B.4 + B.5)	74,749,586	76,076,245
B.1 Current Liabilities (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5 + B.1.6)	12,703,759	8,961,156
B.1.1 Trade and Other Payables to Domestic Entities (B.1.1.1 + B.1.1.2 + B.1.1.3 + B.1.1.4 + B.1.1.5 + B.1.1.6)	2,345,335	2,390,786
B.1.1.1 Loans/Notes Payables	-	-
B.1.1.2 Trade Payables		
B.1.1.3 Payables to Related Parties	242,549	265,716
B.1.1.4 Advances from Directors, Officers, Employees and Principal Stockholders		
B.1.1.5 Accruals, specify material items (B.1.1.5.1 + B.1.1.5.2 + B.1.1.5.3)	2,102,786	2,125,070
B.1.1.5.1 Accrued expenses	1,194,196	1,233,704
B.1.1.5.2 Interest Payable	577,827	603,075
B.1.1.5.3 Accounts Payable and other payable	330,763	288,291
B.1.1.6 Others, specify (B.1.1.6.1 + B.1.1.6.2)	-	-
B.1.1.6.1		
B.1.1.6.2		
B.1.2 Trade and Other Payables to Foreign Entities (specify) (B.1.2.1 + B.1.2.2)	-	758,132
B.1.2.1 Deposit payable	-	758,132
B.1.2.2		
B.1.3 Provisions for Maintenance Obligations	13,606	11,396
B.1.4 Financial Liabilities (excluding Trade and Other Payables and Provisions) (B.1.4.1 + B.1.4.2)		
B.1.4.1		
B.1.4.2		
B.1.5 Liabilities for Current Tax	15,307	10,764
B.1.6 Deferred Tax Liabilities		
B.1.7 Others, specify (If material, state separately; indicate if the item is payable to public/private or financial/non-financial institutions) (B.1.6.1 + B.1.6.2 + B.1.6.3 + B.1.6.4 + B.1.6.5 + B.1.6.6)	10,329,511	5,790,078
B.1.7.1 Dividends declared and not paid at balance sheet date	3,860,742	3,466,986

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: Ayala Corporation(Parent Company)
CURRENT ADDRESS: Tower One,Ayala Triangle,Ayala Avenue,Makati City
TEL. NO.: FAX NO.:
COMPANY TYPE : Holding Company PSIC:
If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA		2019 (in P'000)	2018 (in P'000)
B.1.7.2 Acceptances Payable			
B.1.7.3 Liabilities under Trust Receipts			
B.1.7.4 Portion of Long-term Debt Due within one year		4,387,500	525,500
B.1.7.5 Deferred Income			
B.1.7.6 Any other current liability in excess of 5% of Total Current Liabilities, specify:		2,081,269	1,797,592
B.1.7.6.1 Other Current Liabilities		2,081,269	1,797,592
B.1.7.6.2			
B.2 Long-term Debt - Non-current Interest-bearing Liabilities (B.2.1 + B.2.2 + B.2.3 + B.2.4 + B.2.5)		61,156,566	66,642,481
B.2.1 Domestic Public Financial Institutions			
B.2.2 Domestic Public Non-Financial Institutions		39,710,925	39,762,594
B.2.3 Domestic Private Financial Institutions		21,445,641	26,879,887
B.2.4 Domestic Private Non-Financial Institutions			
B.2.5 Foreign Financial Institutions			
B.3 Indebtedness to Affiliates and Related Parties (Non-Current)			
B.4 Liabilities Included in the Disposal Groups Classified as Held for Sale			
B.5 Other Liabilities (B.5.1 + B.5.2)		889,261	472,608
B.5.1 Deferred Tax		-	-
B.5.2 Others, specify (B.5.2.1 + B.5.2.2)		889,261	472,608
B.5.2.1 Pension Liablity		836,848	437,153
B.5.2.2 Prov for maintenance obligation		52,413	35,455
C. EQUITY (C.2+C.3 + C.4 + C.5 + C.6 + C.7 + C.8 + C.9+C.10)		131,282,102	117,703,503
C.1 Authorized Capital Stock (no. of shares, par value and total value; show details, in thousands except par per share) (C.1.1+C.1.2+C.1.3)		56,200,000	56,200,000
C.1.1 Common shares	(900,000shares @ P50)	45,000,000	45,000,000
C.1.2 Preferred Shares	Pref A(12,000 shares @p100) Pref B (58,000 shares@P100) Pref C(40,000shares@P100)	11,000,000	11,000,000
C.1.3 Others	Voting Pref (200,000 shares @ P1)	200,000	200,000
C.2 Issued Capital Stock (no. of shares, par value and total value) (C.2.1 + C.2.2 + C.2.3)		38,541,660	38,540,717
C.2.1 Common shares	(626,833shares@P50par):(626,814shares@P50par)	31,341,660	31,340,717
C.2.2 Preferred Shares	Pref A(12,000 shares @p100) Pref B (58,000share @P100)	7,000,000	7,000,000
C.2.3 Others	Voting Pref (200,000 shares @ P1)	200,000	200,000
C.3 Subscribed Capital Stock (no. of shares, par value and total value) (C.3.1 + C.3.2 + C.3.3)		216,453	190,658
C.3.1 Common shares	(4,329 shares @P50par):(3,813 shares @P50par)	216,453	190,658
C.3.2 Preferred Shares		-	-
C.3.3 Others		-	-
C.4 Additional Paid-in Capital / Capital in excess of par value / Paid-in Surplus		47,837,246	46,156,018
C.5 Minority Interest			
C.6 Others, specify (C.6.1 + C.6.2 + C.6.3)		(2,153,128)	(1,501,466)
C.6.1 Remeasurement gains and losses arising on defined benefit pension plans		(648,611)	(214,619)
C.6.2 Share-Based payments		214,617	238,871
C.6.3 Subscriptions Receivable		(1,719,134)	(1,525,718)
C.7 Appraisal Surplus/Revaluation Increment in Property/Revaluation Surplus/Fair Value Reserve of Financial Asset Through OCI		305,675	282,726
C.8 Retained Earnings (C.8.1 + C.8.2)		52,272,092	36,334,850
C.8.1 Appropriated			
C.8.2 Unappropriated		52,272,092	36,334,850
C.9 Head / Home Office Account (for Foreign Branches only)			
C.10 Cost of Stocks Held in Treasury (negative entry)		(5,737,896)	(2,300,000)
TOTAL LIABILITIES AND EQUITY (B + C)		206,031,688	193,779,748

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: Ayala Corporation(Parent Company)

CURRENT ADDRESS: Tower One,Ayala Triangle,Ayala Avenue ,Makati City

TEL. NO.: FAX NO.:

COMPANY TYPE : Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 2. Income Statement

FINANCIAL DATA	2019 (in P'000)	2018 (in P'000)	2017 (in P'000)
A. REVENUE / INCOME (A.1 + A.2 + A.3)	32,552,764	13,442,405	14,220,391
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from Primary Activity)			
A.2 Share in the Profit or Loss of Associates and Joint Ventures accounted for using the Equity Method			
A.3 Other Revenue (A.3.1 + A.3.2 + A.3.3 + A.3.4 + A.3.5)	179,958	185,105	281,656
A.3.1 Rental Income from Land and Buildings	179,958	185,105	281,656
A.3.2 Receipts from Sale of Merchandise (trading) (from Secondary Activity)			
A.3.3 Sale of Real Estate or other Property and Equipment			
A.3.4 Royalties, Franchise Fees, Copyrights (books, films, records, etc.)			
A.3.5 Others, specify (A.3.5.1 + A.3.5.2)			
A.3.5.1 Rental Income, Equipment			
A.3.5.2			
A.4 Other Income (non-operating) (A.4.1 + A.4.2 + A.4.3 + A.4.4)	32,372,806	13,257,300	13,938,735
A.4.1 Interest Income	493,991	212,988	157,934
A.4.2 Dividend Income	13,570,687	11,621,993	12,078,444
A.4.3 Gain / (Loss) from selling of Assets, specify (A.4.3.1 + A.4.3.2 + A.4.3.3 + A.4.3.4)	17,020,138	491,821	190,013
A.4.3.1 Sale of investment in stocks	16,725,940	386,088	10,654
A.4.3.2 Sale of Property and Equipment	3,372	4,793	1,012
A.4.3.3 Sale of available-for-sale investment	-	-	173,484
A.4.3.4 Sale of investment properties	290,826	100,940	4,863
A.4.4 Others, specify (A.4.4.1 + A.4.4.2 + A.4.4.3 + A.4.4.4)	1,287,990	930,498	1,512,344
A.4.4.1 Gain / (Loss) on Foreign Exchange	3,280	6,710	
A.4.4.2 Construction Revenue	29,571	6,931	26,290
A.4.4.3 Gain on merger	238,397	-	
A.4.4.4 Gain on return of capital	70,751	-	
A.4.4.5 Miscellaneous	724,777	717,793	1,307,590
A.4.4.6 Toll Revenue	221,214	199,064	178,464
B. COST OF GOODS SOLD (B.1 + B.2 + B.3)			
B.1 Cost of Goods Manufactured (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5)			
B.1.1 Direct Material Used			
B.1.2 Direct Labor			
B.1.3 Other Manufacturing Cost / Overhead			
B.1.4 Goods in Process, Beginning			
B.1.5 Goods in Process, End (negative entry)			
B.2 Finished Goods, Beginning			
B.3 Finished Goods, End (negative entry)			
C. COST OF SALES (C.1 + C.2 + C.3)			
C.1 Purchases			
C.2 Merchandise Inventory, Beginning			
C.3 Merchandise Inventory, End (negative entry)			
D. GROSS PROFIT (A - B - C)	32,552,764	13,442,405	14,220,391

NOTE: Pursuant to SRC Rule 68.1 (as amended in Nov. 2005), for fiscal years ending December 31, 2005 up to November 30, 2006, a comparative format of only two (2) years may be filed to give temporary relief for covered companies as the more complex PFRSs will be applied for the first time in these year end periods. After these first time applications, the requirement of three (3) year comparatives shall resume for year end reports beginning December 31, 2006 and onwards.

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: Ayala Corporation(Parent Company)
CURRENT ADDRESS: Tower One,Ayala Triangle,Ayala Avenue, Makati City
TEL. NO.: FAX NO.:
COMPANY TYPE : Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 2. Income Statement

FINANCIAL DATA	2019 (in P'000)	2018 (in P'000)	2017 (in P'000)
E. OPERATING EXPENSES (E.1 + E.2 + E.3 + E.4)	6,055,044	3,416,960	3,112,364
E.1 Selling or Marketing Expenses			
E.2 Administrative Expenses			
E.3 General Expenses	5,763,347	3,115,185	2,746,824
E.4 Other Expenses, specify (E.4.1 + E.4.2 + E.4.3 + E.4.4)	291,697	301,775	365,540
E.4.1 Education-related expenditures			
E.4.2 Construction costs	30,756	6,931	26,290
E.4.3 Depreciation and amortization	260,941	294,844	316,702
E.4.4 Loss on Return of Capital	-	-	22,548
F. FINANCE COSTS (F.1 + F.2 + F.3 + F.4 + F.5)	4,008,126	3,663,101	2,887,605
F.1 Interest on Short-Term Promissory Notes			
F.2 Interest on Long-Term Promissory Notes			
F.3 Interest on bonds, mortgages and other long-term loans	3,916,153	3,488,083	2,810,124
F.4 Amortization	75,693	164,802	54,984
F.5 Other interests, specify (F.5.1 + F.5.2)	16,280	10,216	22,497
F.5.1 Other financing charges	13,650	8,453	21,526
F.5.2 Accretion of provision for maintenance obligation	2,630	1,763	971
G. NET INCOME (LOSS) BEFORE TAX (D - E - F)	22,489,594	6,362,344	8,220,422
H. INCOME TAX EXPENSE (negative entry)	(107,086)	(41,297)	(159,331)
I. INCOME(LOSS) AFTER TAX	22,382,508	6,321,047	8,061,091
J. Amount of (i) Post-Tax Profit or Loss of Discontinued Operations; and (ii) Post-Tax Gain or Loss Recognized on theMeasurement of Fair Value less Cost to Sell or on the Disposal of the Assets or Disposal Group(s) constituting the Discontinued Operation (if any) (J.1+J.2)			
J.1			
J.2			
K. PROFIT OR LOSS ATTRIBUTABLE TO MINORITY INTEREST			
L. PROFIT OR LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
M. EARNINGS (LOSS) PER SHARE			
M.1 Basic	33.61	8.05	10.91
M.2 Diluted	33.54	8.02	10.87

Control No.:
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SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: Ayala Corporation(Parent Company)
CURRENT ADDRESS: Tower One,Ayala Triangle,Ayala Avenue, Makati City
TEL. NO.: FAX NO.:
COMPANY TYPE Holding Company PSIC: PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 3. Cash Flow Statements

FINANCIAL DATA	2019 (in P'000)	2018 (in P'000)	2017 (in P'000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) Before Tax and Extraordinary Items	22,489,594	6,362,344	8,220,422
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Provision for (reversl of) decline in value of inventory			
Gain on reversal of impairment of input VAT			
Gain on reversal of impairment losses on receivables			
Gain on reversal of accrued expenses and other current liabilities			
Depreciation	260,941	294,844	316,702
Amortization, specify:			
Others, specify: Interest Expense	3,994,476	3,654,648	2,866,079
Cost of Share -based payments	135,946	126,324	(504)
Expected maintenance expense on service concession	16,538	15,139	14,876
Provision for(reversal of) impairment losses on subs.,assoc. and joint ventures	2,503,000	-	(586,000)
Provision for impairment of other assets	-	-	53,146
Loss on derivative liability	-	-	-
Gain on reversion of land	-	-	-
Dividend income	(13,570,687)	(11,621,993)	(12,078,444)
Interest income	(493,991)	(212,988)	(157,934)
Loss(gain) on sale of :			
Investmens in shares of stocks	(17,035,763)	(386,088)	11,894
Investment properties and real estate property for sale	(290,826)	(100,940)	(4,863)
Property and equipment	(3,372)	(4,793)	(1,012)
Investment in Available for Sale financial assets	-	-	(173,484)
Pension expense	209,835	224,557	219,349
Loss(gain)on retirement of property and equipment	-	511	-
Loss(gain)on retirement of service concession assets	-	121	
Write-down of Property, Plant, and Equipment			
Changes in Assets and Liabilities:			
Decrease (Increase) in:			
Receivables	167,125	(196,994)	(299,137)
Other Current Assets	(200,152)	(58,615)	(90,886)
Service concession assets			
Others, specify:			
Increase (Decrease) in:			
Trade and Other Payables	(49,844)	(267,103)	97,087
Income and Other Taxes Payable			
Others, specify: Interest received	488,314	211,283	166,295
Interest paid	(3,941,400)	(3,309,660)	(2,868,850)
Income tax paid	(102,543)	(44,876)	(35,286)
Contribution to pension fund	(214,492)	(174,086)	(155,318)
A. Net Cash Provided by (Used in) Operating Activities (sum of above rows)	(5,637,301)	(5,488,365)	(4,485,868)

NOTE: Pursuant to SRC Rule 68.1 (as amended in Nov. 2005), for fiscal years ending December 31, 2005 up to November 30, 2006, a comparative format of only two (2) years may be filed to give temporary relief for covered companies as the more complex PFRSs will be applied for the first time in these year end periods. After these first time applications, the requirement of three (3) year comparatives shall resume for year end reports beginning December 31, 2006 and onwards.

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: Ayala Corporation(Parent Company)
CURRENT ADDRESS: Tower One,Ayala Triangle,Ayala Avenue, Makati City
TEL. NO.: FAX NO.:
COMPANY TYPE : Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 3. Cash Flow Statements

FINANCIAL DATA	2019 (in P'000)	2018 (in P'000)	2017 (in P'000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received from subsidiaries,associates and joint ventures	14,817,565	11,465,173	12,118,835
Reductions/(Additions) to Property, Plant, and Equipment			
Others, specify Proceeds from :			
Short -term investments	526	2,864	-
Disposal of financial assets at FVOCI	16,739	11,655	
Disposal of available-for-sale financial assets	-	-	282,852
Partial return of capital from subsidiaries	5,784,900	-	8,444,303
Partial disposal of shares of subsidiaries	16,256,299	-	10,846
Deposits for exchangeable bonds	-	-	1,049,894
Sale of investment properties	149,892	100,940	4,883
Sale of property and equipment	18,445	21,939	19,319
Additions to:			
Short -term investments	-	-	(28,708)
Investment properties	-	-	(44,643)
Investments in subsidiaries,associates and joint ventures	(17,707,714)	(27,205,052)	(12,995,789)
Financial assets at FVOCI	(3,473.00)		(601)
Service concession assets	(29,571)	(6,931)	(26,290)
Property and equipment	(88,425)	(79,699)	(67,004)
B. Net Cash Provided by (Used in) Investing Activities (sum of above rows)	19,215,183	(15,689,111)	8,767,897
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Loans			
Long-term Debt	13,440,090	24,193,948	10,189,623
Issuance of new common shares	-	8,069,960	-
Others, specify: Collecton of subscription receivable	274,677	168,579	374,485
Reissuance of preferred shares	15,000,000	-	-
Availment of short-term debt			-
Payments of:			
Long-term debt and Short- term debt	(15,148,600)	(6,109,250)	(11,942,500)
Others, specify (negative entry):			
Redemption of preferred shares	(13,500,000)	-	
Purchase of common shares	(3,737,896)	0	
Cost of issuance of shares	(120,327)	(13,703)	(114)
Cash dividends paid	(6,070,472)	(5,407,797)	(5,399,077)
C. Net Cash Provided by (Used in) Financing Activities (sum of above rows)	(9,862,528)	20,901,737	(6,777,583)
NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)	3,715,354	(275,739)	(2,495,554)
Cash and Cash Equivalents			
Beginning of year	3,537,096	3,812,835	6,308,389
End of year	7,252,450	3,537,096	3,812,835

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: Ayala Corporation(Parent Company)
CURRENT ADDRESS: Tower One, Ayala Triangle,Ayala Avenue, Makati City
TEL. NO.: FAX NO.: 02-7594412
COMPANY TYPE : Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 4. Statement of Changes in Equity

F I N A N C I A L D A T A	Capital Stock	Additional Paid-in Capital	Revaluation Increment	Translation Differences	Retained Earnings	TOTAL
	(Amount in P'000)					
J. Balance, 2017	34,771,247	37,929,927	639,068	-	35,479,218	108,819,460
H.1 Correction of Error (s)						-
H.2 Changes in Accounting Policy			(141,513)		141,513	-
B. Restated Balance	34,771,247	37,929,927	497,555	-	35,620,731	108,819,460
C. Surplus		-	(181,236)	-	11,546	(169,690)
J.1 Surplus (Deficit) on Revaluation of Properties						-
J.2 Surplus (Deficit) on Revaluation of Investments						-
J.3 Currency Translation Differences						-
J.4 Other Surplus (specify)	-	-	(181,236)	-	11,546	(169,690)
J.4.1 Other Comprehensive Income			(181,236)		-	(181,236)
J.4.2 Sa;e of Financial Assets through OCI					11,546	11,546
E. Net Income (Loss) for the Period					6,321,047	6,321,047
F. Dividends (negative entry)					(5,618,474)	(5,618,474)
G. Appropriation for (specify)						-
M.1 Non-controlling interests of the acquired subsidiary						-
M.2						-
H. Issuance of Capital Stock	134,410	8,226,091	(9,341)	-	-	8,351,160
N.1 Common Stock	134,410	8,226,091	(9,341)			8,351,160
N.2 Preferred Stock	-	-				-
N.3 Others						-
J. Balance, 2018	34,905,657	46,156,018	306,978	-	36,334,850	117,703,503
H.1 Correction of Error (s)						-
H.2 Changes in Accounting Policy			-		-	-
B. Restated Balance	34,905,657	46,156,018	306,978	-	36,334,850	117,703,503
C. Surplus		-	(411,043)	-	18,962	(392,081)
J.1 Surplus (Deficit) on Revaluation of Properties						-
J.2 Surplus (Deficit) on Revaluation of Investments						-
J.3 Currency Translation Differences						-
J.4 Other Surplus (specify)	-	-	(411,043)	-	18,962	(392,081)
J.4.1 Other Comprehensive Income			(392,081)		-	(392,081)
J.4.2 Sa;e of Financial Assets through OCI			(18,962)		18,962	-
E. Net Income (Loss) for the Period					22,382,508	22,382,508
F. Dividends (negative entry)					(6,464,228)	(6,464,228)
G. Appropriation for (specify)						-
M.1 Non-controlling interests of the acquired subsidiary						-
M.2						-
H. Issuance of Capital Stock	(3,436,953)	1,513,607	(24,254)	-	-	(1,947,600)
N.1 Common Stock	(3,736,953)	433,676	(24,254)			(3,327,531)
N.2 Preferred Stock	300,000	1,079,931				1,379,931
N.3 Others						-
I. Balance, 2019	31,468,704	47,669,625	(128,319)	-	52,272,092	131,282,102

Note: Capital Stock — Common/Pref stock,Subscribed,Subs.Receivable,Treasury
APIC — APIC
Revaluation Increment — Share-based payments,remeasurement gains/losses arisng on defined benefit pension,net unrealized gain on available for sale financial assets
Retainerd Earnings — Retained Earnings

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: Ayala Corporation(Parent Company)
CURRENT ADDRESS: Tower One,Ayala Triangle ,Ayala Ave. Makati City
TEL. NO.: FAX NO.:
COMPANY TYPE : Holding Company PSIC: PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 5. Details of Income and Expenses, by source

(applicable to corporations transacting with foreign corporations/entities)

FINANCIAL DATA	2019 (in P'000)	2018 (in P'000)	2017 (in P'000)
A. REVENUE / INCOME (A.1 + A.2)	32,552,764	13,442,405	14,220,391
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from Primary Activity) (A.1.1 +A.1.2)	-	-	-
A.1.1 Domestic	-	-	-
A.1.2 Foreign	-	-	-
A.2 Other Revenue (A.2.1 +A.2.2)	32,552,764	13,442,405	14,220,391
A.2.1 Domestic	15,755,398	13,056,317	14,209,737
A.2.2 Foreign, specify (A.2.2.1+A.2.2.2)	16,797,366	386,088	10,654
A.2.2.1 Gain on Return of Capital	70,751	-	-
A.2.2.2 Gain on Sale of shares	16,726,615	386,088	10,654
B. EXPENSES (B.1 + B.2)	10,170,256	7,121,358	6,159,300
B.1 Domestic	10,048,495	7,027,621	6,047,066
B.2 Foreign, specify (B.2.1+B.2.2+B.2.3+B.2.4+B.2.5+B.2.6+B.2.7+B.2.8+B.2.9+B.2.10+B.2.11+ B.2.12+B.2.13+B.2.14+B.2.15)	121,761	93,737	112,234
B.2.1 Insurance -Others	2,471	2,625	5,838
B.2.2 Personnel Costs	13,179	13,906	12,700
B.2.3 Postal & Communications	803	28	42
B.2.4 Dues & Fees	8,517	16,959	10,776
B.2.5 Rental Others	11,466	3,098	8,064
B.2.6 Scholarship & Training	4,455	9,198	2,394
B.2.7 Repairs&Maintenance	2,373	2,808	3,229
B.2.8 Business Development	40,698	3,680	5,290
B.2.9 Special Events	7,873	22,973	6,250
B.2.10. Contributions	3,933	8,653	11,726
B.2.11. Travel	4,156	25	8,655
B.2.12. Professional Fees	14,907	6,235	12,145
B.2.13. Representation	-	-	171
B.2.14. Contract Labor	6,341	3,549	2,406
B.2.15. Special Publication	589	-	22,548