



32/F TO 35/F, TOWER ONE AND EXCHANGE PLAZA
AYALA TRIANGLE, AYALA AVENUE, MAKATI CITY,
PHILIPPINES 1226
TELEPHONE NUMBER (+632) 7908-3000 / (+632) 7908-3357

₱30.0 Billion Debt Securities Program

First Tranche:

**Up to an aggregate of ₱10.0 Billion Fixed-rate Bonds
comprised of a base offer of ₱6.0 Billion and an
oversubscription option of up to ₱4.0 Billion**

Consisting of:

Series A Bonds: 3.0260% p.a. due 2024

Series B Bonds: 3.7874% p.a. due 2026

Issue Manager



Joint Lead Underwriters and Bookrunners

**BDO Capital & Investment Corporation
BPI Capital Corporation
China Bank Capital Corporation
First Metro Investment Corporation
SB Capital Investment Corporation**

Selling Agent

RCBC Capital Corporation

The date of this Prospectus is May 11, 2021.

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE
SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR
COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL
OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES
AND EXCHANGE COMMISSION.**

AYALA CORPORATION
32/F TO 35/F, TOWER ONE AND EXCHANGE PLAZA, AYALA TRIANGLE, AYALA AVENUE
MAKATI CITY, PHILIPPINES 1226
TELEPHONE NUMBER: (+632) 7908-3000/(+632) 7908-3357
WEBSITE: <https://www.ayala.com>

Ayala Corporation (“Ayala”, the “Issuer” or the “Company”) filed an application for the registration of a total of ₱30,000,000,000 in aggregate principal amount of debt securities (the “Securities”) to be issued in one or more tranches (each a “Tranche”) under the rules and regulations of the Securities and Exchange Commission (the “Shelf Registration”) as authorized by resolutions of the Board of Directors of the Company dated June 22, 2017, September 22, 2020, and March 9, 2021 (the “Debt Securities Program”). The first Tranche to be issued under the Debt Securities Program are fixed-rate bonds up to ₱10,000,000,000 in aggregate principal amount comprised of a base offer of ₱6,000,000,000 (the “Base Offer”) with an oversubscription option of up to ₱4,000,000,000 (the “Offer”), exercisable by BDO Capital & Investment Corporation, BPI Capital Corporation, China Bank Capital Corporation, First Metro Investment Corporation, and SB Capital Investment Corporation (each a “Joint Lead Underwriter and Bookrunner” and collectively, the “Joint Lead Underwriters and Bookrunners”) in consultation with Ayala (the “Oversubscription Option”). The Offer shall consist of 3.0260% Series A Bonds due 2024 (“Series A Bonds”) and 3.7874% Series B Bonds due 2026 (the “Series B Bonds”, together with the Series A Bonds, the “Bonds”, or the “Issue”) under this Prospectus. The succeeding issuances are proposed to be issued under the Debt Securities Program within three (3) years from the date of effectivity of the registration statement covering the Shelf Registration, under offering supplements to this Prospectus.

The Bonds shall be issued on May 28, 2021 or such other date as may be agreed by the Issuer and the Joint Lead Underwriters and Bookrunners.

After their issuance, the Series A Bonds shall have a term ending three (3) years from the Issue Date, or on May 28, 2024, with a fixed interest rate of 3.0260% per annum, and the Series B Bonds shall have a term ending five (5) years from the Issue Date, or on May 28, 2026, with a fixed interest rate of 3.7874% per annum. Interest on the Bonds shall be payable quarterly in arrears on August 28, November 28, February 28, and May 28 of each year while the Bonds are outstanding, or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day. The last Interest Payment Date shall fall on the relevant Maturity Date while the Bonds are outstanding (see “Description of the Bonds” – “Interest”).

Subject to the consequences of default as contained in the Trust Indenture, and unless otherwise redeemed prior to the relevant Maturity Date, the Bonds will be redeemed at par (or 100% of face value) on the relevant Maturity Date (see “Description of the Bonds” – “Redemption and Purchase”).

The Bonds shall constitute the direct, unconditional, unsubordinated, and unsecured obligations of Ayala and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured obligations of Ayala, except for any statutory preference or priority established under Philippine law. The Bonds shall effectively be subordinated in right of payment to, among others, all of Ayala’s secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines without a waiver of preference or priority.

Each Tranche under the Debt Securities Program, including the Bonds, will be rated by Philippine Rating Services Corporation (“PhilRatings”), as may be applicable. Such ratings are not recommendations to buy, sell, or hold the Securities, and may be subject to revision, suspension, or withdrawal at any time by PhilRatings. The Bonds have been rated PRS Aaa by PhilRatings. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor’s capacity to meet its financial commitment on the obligation is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings. The rating is not a recommendation to buy, sell, or hold securities, and may be subject to revision, suspension, or withdrawal at any time by the rating agency concerned.

The Bonds shall be offered to the public at face value through the Joint Lead Underwriters and Bookrunners named above with the Philippine Depository & Trust Corp. (“PDTC”) as the Registrar of the Bonds. It is intended that upon issuance, the Bonds shall be issued in scripless form, with PDTC

maintaining the scripless Register of Bondholders, and listed in the Philippine Dealing & Exchange Corp. ("PDEX"). The Bonds shall be issued in denominations of ₱50,000.00 each, as a minimum, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market.

Ayala expects to raise gross proceeds of up to ₱10.0 billion from the Offer. Net proceeds are estimated to be ₱5.9 billion, or assuming the full exercise of the Oversubscription Option, ₱9.9 billion, after deducting fees, commissions and expenses relating to the Bonds. Proceeds of the Offer are intended to be for refinancing the Company's Philippine peso-denominated obligations, partially financing its capital expenditures, and general corporate purposes (see "Use of Proceeds"). The Joint Lead Underwriters and Bookrunners shall receive a fee of up to 0.35% for the Series A Bonds, and up to 0.375% for the Series B Bonds.

After the close of the Offer and within three (3) years following the effectivity of the registration statement covering the Debt Securities Program, the Company may, at its sole discretion, offer any or all of the remaining balance of the aggregate principal amount of the Securities covered by such registration statement, in one or more subsequent tranches under Rule 8.1.2 of the Implementing Rules and Regulations of the Securities Regulation Code. Such a shelf registration provides the Company with the ability to take advantage of opportunities in a volatile debt capital market, as these occur.

However, there can be no assurance in respect of: (i) whether Ayala would issue such securities at all; (ii) the size or timing of any individual issuance or the total issuance of such securities; or (iii) the specific terms and conditions of any such issuance. Any decision by Ayala to offer securities will depend on a number of factors at the relevant time, many of which are not within Ayala's control, including but not limited to: prevailing interest rates, the financing requirements of Ayala's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

The Offer is being conducted exclusively in the Philippines and pursuant to requirements under Philippine laws, rules and regulations that may be different from those of other countries and jurisdictions. No action has been or will be taken by the Issuer or any person on behalf of the Issuer to permit an offering of the Bonds in any jurisdiction other than the Philippines, where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, nor may any offering material relating to the Bonds be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws, rules and regulations of any such country or jurisdiction.

No dealer, salesman or other person has been authorized by Ayala and the Joint Lead Underwriters and Bookrunners to give any information or to make any representation concerning the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by Ayala or the Joint Lead Underwriters and Bookrunners.

Unless otherwise stated, the information contained in this Prospectus has been supplied by the Company. To the best of its knowledge and belief, the Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Prospectus is correct, and that there is no material statement or omission of fact which would make any statement in this Prospectus misleading in any material respect. The Company hereby accepts full and sole responsibility for the accuracy of the information contained in this Prospectus. The Joint Lead Underwriters and Bookrunners confirm that they have exerted reasonable efforts to verify the information contained herein but do not make any representation, express or implied, as to the accuracy or completeness of the materials contained herein.

The Company and the Joint Lead Underwriters and Bookrunners have exercised due diligence in ascertaining that all material representations contained in this Prospectus and any amendments and supplements are true and correct, and that no material information was omitted, which was necessary in order to make the statements contained in said documents not misleading.

Unless otherwise indicated, all information in this Prospectus is as of December 31, 2020. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances,

create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company and its subsidiaries since such date. Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Company and the Joint Lead Underwriters and Bookrunners make any representation as to the accuracy of such information. Each person contemplating an investment in the Bonds should make his own investigation and analysis of the creditworthiness of Ayala and his own determination of the suitability of any such investment. The risk disclosure herein does not purport to disclose all the risks and other significant aspects of investing in the Bonds. A person contemplating an investment in the Bonds should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially those high-risk securities. For a discussion of certain factors to be considered in respect of an investment in the Bonds, see the section entitled “*Risk Factors*” beginning on page 61.

The financial information included in this Prospectus has been derived from the financial statements of the Company. Unless otherwise indicated, financial information in this Prospectus has been prepared in accordance with Philippine Financial Reporting Standards (“PFRS”).

In this Prospectus, references to “Pesos” or “₱” are to the lawful currency of the Philippines. This Prospectus contains translations of certain amounts into U.S. Dollars at specified rates solely for the convenience of the reader. In addition, unless otherwise indicated, U.S. Dollar/Philippine Peso exchange rates referred to in this Prospectus are Philippine Dealing System weighted average rates for the indicated period or on the applicable date, as relevant. No representation is made that the Peso, U.S. Dollar, or other currency amounts referred to herein could have been or could be converted into Pesos, U.S. Dollars, or any other currency, as the case may be, at this rate, at any particular rate or at all. Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components.

This Prospectus includes forward-looking statements. The Company has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting its business. The words “believes,” “may,” “will,” “estimates,” “continues,” “anticipates,” “intends,” “expects” and similar words are intended to identify forward-looking statements. In light of these risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances discussed in this Prospectus might not occur. The Company’s actual results could differ substantially from those anticipated in the Company’s forward-looking statements.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION
CONTAINED HEREIN IS TRUE AND CURRENT.

AYALA CORPORATION

By:


FERNANDO M. ZOBEL DE AYALA
President and Chief Executive Officer

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) S.S.

Before me, a notary public in and for the city named above, personally appeared FERNANDO M. ZOBEL DE AYALA with Passport No. P0349883B issued at DFA Manila on January 22, 2019, who was identified by me through competent evidence of identity to be the same person who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this MAY 11 2021 day of _____ 2021 at Makati City.

Doc No. 59 :
Book No. 13 :
Page No. XXXV :
Series of 2021.

Notarial DST pursuant to
Sec. 188 of the Tax Code
affixed on Notary Public's copy.



ROBERTO T. ONGSIAKO
Notary Public – Makati City
Appt. No. M-155 until December 31, 2020
Extended until June 30, 2021
Roll of Attorneys No. 37041
Lifetime IBP No. 02163 – RSM Chapter
PTR No. 8533973ME – 01/04/2021 - Makati City
MCLE Compliance No. VII – 0000267 – 07/30/20
4th Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

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FORWARD LOOKING STATEMENTS

This Prospectus contains certain “forward-looking statements”. These forward-looking statements generally can be identified by use of statements that include words or phrases such as “believes”, “expects”, “anticipates”, “intends”, “plans”, “foresees”, or other words or phrases of similar import. Similarly, statements that describe Ayala’s objectives, plans or goals are also forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that the forward-looking events and circumstances discussed in this Prospectus might not occur. Actual results could differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from the expectations of Ayala include, among others:

- General economic and business conditions in the Philippines;
- Holding company structure;
- Intensive capital requirements of subsidiaries and affiliates of Ayala in the course of business;
- Increasing competition in the industries in which Ayala’s subsidiaries and affiliates operate;
- Industry risk in the areas in which Ayala’s subsidiaries and affiliates operate;
- Changes in laws and regulations that apply to the segments or industries in which Ayala, its subsidiaries and affiliates operate;
- Changes in political conditions in the Philippines;
- Changes in foreign exchange control regulations in the Philippines; and
- Changes in the value of the Philippine Peso.

For further discussion of such risks, uncertainties and assumptions, see the “*Risk Factors*” section of this Prospectus. Prospective purchasers of the Bonds are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included herein are made only as of the date of this Prospectus, and Ayala undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

Definition of Terms

DEFINITION OF TERMS

Unless otherwise indicated, the following terms shall have the meanings set forth below:

3G	Third generation radio frequency spectra
AA Thermal	AA Thermal Inc.
Aboitiz Power	Aboitiz Power Corp.
ACC	Alabang Commercial Corporation
ACEN	AC Energy Corporation
ACEX	ACE Enexor, Inc.
ACIFL	AC International Finance Limited
AC Education or AEI	AC Education Inc.
AC Health	Ayala Healthcare Holdings, Inc.
AC Industrials or ACI	AC Industrial Technology Holdings Inc.
AC Infra	AC Infrastructure Holdings Corp.
AC Energy International	AC Energy International Holdings Pte. Ltd.
ACEIC	AC Energy and Infrastructure Corporation (formerly, AC Energy, Inc.)
ACPI	Adventure Cycle Philippines
ACTA Power	ACTA Power Corporation
ADAS	Advanced Driver-Assistance Systems
Affiliates	Associates and Joint Ventures
Agri-Agra	Agrarian Beneficiaries and Agricultural Sectors
AFP	Armed Forces of the Philippines
AG Holdings	AG Holdings Limited
AHI	Ayala Hotels, Inc.
AI	Adspark Inc.
AIDE	APPPPS Partners, Inc.
ALI or Ayala Land	Ayala Land, Inc.
ALISI	Ayala Land International Sales, Inc.
ALLHC	AyalaLand Logistics Holdings Corp.
ALP	AyalaLand Premier, Inc.
ALSI	Ayala Land Sales, Inc.
Alveo	Alveo Land Corp.
AMLA	Anti-Money Laundering Act
APMC	Ayala Property Management Corporation
APRISA	Aprisa Business Solutions, Inc.
APSI	Amicassa Process Solutions, Inc.
Application to Purchase	Document to be accomplished by applicants for the application to purchase the Bonds
Articles of Incorporation	Articles of Incorporation of Ayala
ASEAN	Association of Southeast Asian Nations
Asiacom	Asiacom Philippines, Inc.
Associate/s	Entities over which Ayala has significant influence and is neither a subsidiary nor a joint venture
Asticom	Asticom Technology, Inc.

Definition of Terms

ATIGA	ASEAN Free Trade Area ASEAN Trade in Goods Agreement
Attributable Consolidated Net Income	Pertains to Net Income attributable to the Parent Company, after deducting the share of minority owners from the consolidated net income of the Group.
Auto-LPG Rules	DOE Circular No. DC 2007-02-0002
Avida	Avida Land Corporation
Ayala	Ayala Corporation (also the “Company” or the “Issuer”)
Ayala Greenfield or AGDC	Ayala Greenfield Development Corporation
Ayala Group	Ayala Corporation and its subsidiaries (also the “Group”)
AREIT	AREIT, Inc.
Azalea International	Azalea International Venture Partners Limited
Azalea Technology	Azalea Technology Investments, Inc.
BAHC	Bow Arken Holdings Company Inc.
Banko	BPI Direct Banko, Inc.
BAP	Bankers Association of the Philippines
Bayan Muna	Bayan Muna Party List
Bayantel	Bayan Telecommunications Philippines, Inc.
BCC	Bonifacio Communications Corporation
BCDA	Bases Conversion Development Authority
BCM	Body Control Module
BDO Capital	BDO Capital & Investment Corporation
BellaVita	BellaVita Land Corp.
BellTel	Bell Telecommunications Inc.
BFSB	BPI Family Savings Bank, Inc.
BGC	Bonifacio Global City
BHC	Brightshare Holdings Corporation
BIMI	BPI Investment Management Inc.
BIR	Bureau of Internal Revenue
BIWC	Boracay Island Water Company
BMDC	Bulacan MWPV Development Corporation
Board	The Board of directors of Ayala / Issuer
BOI	Board of Investments
Bondholders	Holders of the Bonds
BPI	Bank of the Philippine Islands (also the “Bank”)
BPI AMTC	BPI Asset Management and Trust Corp.
BPI Capital	BPI Capital Corporation
BPI CTL	BPI Century Tokyo Lease & Finance Corp.
BPI Group	BPI and its subsidiaries
BPO	Business Processing Outsourcing
BPS	Bureau of Product and Standards
Brillant	Brillant 1257 GmbH & Co. Vierte Verwaltungs Kg
BSP	Bangko Sentral ng Pilipinas
BTHC	Bayan Telecommunications Holdings Corporation

Definition of Terms

Business Day	A day, except Sunday, Saturday or legal holidays, in which Philippine banks are required to open for business in the city of Makati and, for purposes of the functions of the Trustee, both the cities of Makati and Taguig (where the Trustee's office is located)
BVAL	Bloomberg Valuation Service
BWD	Balagtas Water District
BWSS	Boracay Waterworks and Sewerage System
CA	Court of Appeals
CAAP	Civil Aviation Authority of the Philippines
CAGR	Compounded Annual Growth Rate
CAM	Cash Accept Machines
CAR	Capital Adequacy Ratio
CARD MRI	Center for Agriculture and Rural Development Mutually Reinforcing Institutions
CBA	Collective Bargaining Agreement
CBAA	Central Board of Assessment Appeals
CCB	Capital Conservative Buffer
CCO	Chemical Control Order
C-CON	C-CON Group
CET1	Common Equity Tier
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHI	Cebu Holdings, Inc.
China Bank Capital	China Bank Capital Corporation
CIWD	City of Ilagan Water District
Clean Water Act	Philippine Clean Water Act of 2004
CMM	Coordinate Measuring Machine
CMTS	Cellular Mobile Telephone System
CNC	Certificate of Non-Coverage
Commencement Date	August 1, 1997, or the effective date of the Concession Agreement
Common Shares	Ayala's common shares
Concession Agreement	Concession Agreement entered into between Manila Water and the MWSS, as amended
Concessionaires	Refers to both MWC and Maynilad
CPI	Philippine Consumer Price Index
CPCN	Certificate of Public Convenience and Necessity
CPVDC	Cebu Property Ventures Development Corporation
CREATE Law	Republic Act No. 11534 otherwise known as the Corporate Recovery and Tax Incentives for Enterprise Act
CRO	Chief Risk Officer
CST	Communal Septic Tanks
CTA	Court of Tax Appeals
CTRP	Comprehensive Tax Reform Program
CURE	Connectivity Unlimited Resources Enterprises
CV	Collateral Value

Definition of Terms

CWD	Calasiao Water District
DAR	Department of Agrarian Reform
DBS	Development Bank of Singapore
DENR	Department of Environment and Natural Resources
Diamond Generating Asia	Diamond Generating Asia Limited
Digitel	Digital Telecommunications Philippines, Inc.
Director	A director of Ayala
DOE	Department of Energy
DOF	Department of Finance
DOH	Department of Health
DOJ	Department of Justice
DOLE	Department of Labor and Employment
DOSRI	Directors, Officers, Stockholders and other Related Interests
DOTr	Department of Transportation, formerly Department of Transportation and Communications ("DOTC")
DPA	Data Privacy Act
DPSI	Direct Power Services, Inc.
DPWH	Department of Public Works and Highways
DSIB	Domestic Systemically Important Bank
DSL	Digital Subscriber Lines
DTI	Department of Trade and Industry
EBITDA	Earnings Before Interests, Taxes, Depreciation and Amortization
EGG	Entertainment Gateway Group
EIS	Environment Impact Statement
EMB	Environmental Management Bureau
EMS	Electronics Manufacturing Services
EPA	Extraordinary Price Adjustment
EPMI	Ecozone Power Management, Inc.
EPS	Earnings Per Common Share
ERC	Energy Regulatory Commission
EU	European Union
EZBO	East Zone Business Operations
FATF	Financial Action Task Force
FBDC	Fort Bonifacio Development Corporation
FCDA	Foreign Currency Differential Adjustment
Filipinas Water	Filipinas Water Consortium Holdings Corporation
First Metro	First Metro Investment Corporation
FIT	Feed-in Tariff
FPSI	Flipside Publishing Services, Inc.
G&A Expense	General and Administrative expense
GCPRI	Green Circle Properties and Resources, Inc.
GFI	Globe Fintech Innovations, Inc.
GITI	Global International Technologies Inc.

Definition of Terms

Globe	Globe Telecom, Inc.
GMCP	GNPower Mariveles Coal Plant Ltd. Co.
GMCR	GMCR, Inc.
GMI	Globe Mobilé Italy S.r.l.
GNPK	GNPower Kauswagan Ltd. Co.
Government	Republic of the Philippines
GPON	Gigabit Passive Optical Network
Group	Ayala Group
GSIB	Global Systemically Important Bank
GSPC	Green Square Properties Corporation
GTEU	Globetel European Limited
GTEU-FFW	Globe Employees Union-Federation of Free Workers
GTI	GTI Business Holdings, Inc.
GTIC	GTI Corporation
GTHK	Globe Telecom HK Limited
GTSG	Globetel Singapore Pte. Ltd.
GW	Gigawatts
GXI	G-Xchange, Inc.
HI	House of Investments
HLURB	Housing and Land Use Regulatory Board
HQLA	High-Quality Liquid Asset
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communications System
ID	Independent Director
IDD	International Direct Dialing
IEC	Information, Education and Communication program
IEE	Initial Environmental Examination
IGBT	Insulated Gate Bipolar Transistor
IGF	International digital Gateway Facility
IMI	Integrated Micro-Electronics, Inc.
IMI BG	Integrated Micro-Electronics Bulgaria EOOD
IMI CZ	Integrated Micro-Electronics Czech Republic s.r.o.
IMI Japan	IMI Japan, Inc.
IMI Singapore	IMI International (Singapore) Pte. Ltd.
IMI USA	IMI USA, Inc.
Innove	Innove Communications, Inc.
IoT	Internet-of-Things
IP	Internet Protocol
iPeople	iPeople, inc.
IPO	Initial Public Offering
IRC	Interest Rate Corridor
IRR	Implementing Rules and Regulations
ISIS	Islamic State in Iraq and Syria

Definition of Terms

Islacom	Isla Communications Company, Inc.
Issue Date	May 28, 2021
ITH	Income Tax Holiday
Issue Manager	BPI Capital Corporation
Joint Lead Underwriters and Bookrunners	BDO Capital & Investment Corporation, BPI Capital Corporation, China Bank Capital Corporation, First Metro Investment Corporation, and SB Capital Investment Corporation
Joint Venture	Entities over which Ayala has joint control or has contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control
JV	Joint Venture
JVA	Joint Venture Agreement
KAMMI	KTM Asia Motorcycle Manufacturing, Inc.
Kickstart	Kickstart Ventures, Inc.
KRI	Key Risk Indicator
kWh	Kilowatt hour
LBAA	Local Board of Assessment Appeals
LBNI	Liberty Broadcasting Network, Inc.
LCD	Liquid Crystal Display
LCR	Liquidity Coverage Ratio
LED	Loss Event Data
LHC	Lopez Holdings Corporation
LIB	Liberty Telecom Holdings, Inc.
Liquidation Right	The preference granted to the holders of Preferred “B” shares under the Issuer’s Articles of Incorporation, as amended, over the holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation of the Issuer and in the payment of the dividend at the rate specified at the time of issuance
Livelt	Livelt Investments Limited
LLDA	Laguna Lake Development Authority
LMA	Local Monthly Allocation
LMWD	Leyte Metropolitan Water District
LGC	Local Government Code
LGU	Local Government Unit
LPG	Liquefied Petroleum Gas Industry
LPG Industry Rules	Rules and Regulations Governing the Liquefied Petroleum Gas Industry
LPWAN	Low Power Wide Area Network
LTE	Long-Term Evolution
LTi	Laguna Technopark, Inc.
LTO	Land Transportation Office
LTS	License to Sell
LV	Loanable Value
LTV	Loan-to-Value

Definition of Terms

Manila Water Group	Refers to Manila Water and its subsidiaries
MARINA	Maritime Industry Authority
Maxus	SAIC MAXUS Automotive Co., Ltd.
Maynilad	Maynilad Water Services, Inc.
MC	Memorandum Circular
MCT	MCT Bhd
MDBI	MDBI Construction Corp.
MDC	Makati Development Corporation
Mermac	Mermac, Inc.
Megaworld	Megaworld Corporation
Merger Rules	Collectively refers to the PCA, its IRR, as amended, and the Rules on Merger Procedure
MILF	Moro Islamic Liberation Front
Mitsubishi	Mitsubishi Corporation
MMS	Multimedia Messaging Service
MNLF	Moro National Liberation Front
MOA	Memorandum of Agreement
Montesol	Monte Solar Energy Inc.
MPO	Minimum Public Ownership
MSSP	Manila Second Sewerage Project
MR	Motion for Reconsideration
MT	MT Technologies GmbH
MTSP	Manila Third Sewerage Project
MW	Megawatt
MWAP	Manila Water Asia Pacific Pte. Ltd.
MWC or Manila Water	Manila Water Company, Inc.
MWEU	Manila Water Employees Union
MWO	Manila Water Operations
MWPV	Manila Water Philippine Ventures, Inc.
MWSAH	Manila Water South Asia Holdings Pte. Ltd.
MWSI	Manila Water Services Inc.
MWSS	Metropolitan Waterworks and Sewerage System
MWTC	Manila Water Thailand Holdings Pte. Ltd.
NCR	National Capital Region
NED	Non-Executive Director
NEXTEL	Next Mobile
NFV	Network Function Virtualization
NLRC	National Labor Relations Commission
NorthWind	NorthWind Power Development Corporation
North Luzon Renewables	North Luzon Renewable Energy Corporation
NPA	New People's Army
NPL	Non-performing Loans
NRW	Non-revenue Water
NSFR	Net Stable Funding Ratio

Definition of Terms

NTC	National Telecommunications Commission
OF	Overseas Filipino
OIMB	Oil Industry Management Bureau
OWCHC	Obando Water Consortium Holdings Corp. (now, Filipinas Water)
ODM	Original Design Manufacturer
OEM	Original Equipment Manufacturer
OFW	Overseas Filipino Worker
Oil Deregulation Law	Downstream Oil Industry Deregulation Act of 1998
OIMB	Oil Industry Management Bureau
OSG	Office of the Solicitor General
OWCHC	Obando Water Consortium Holdings Corp.
OWD	Obando Water District
PAB	Pollution Adjudication Board
PAGWAD	Pagsanjan Water District
PAS	Philippine Accounting Standards
Paying Agent	Philippine Depository & Trust Corporation
PCA	Philippine Competition Act of 2015
PCBA	Printed Circuit Board Assembly
PCC	Philippine Competition Commission
PCD	Philippine Central Depository
PCL	Priority Chemicals List
PCO	Pollution Control Officer
PDEx	Philippine Dealing & Exchange Corp.
PDS	Philippine Dealing System Holdings Corp.
PDTC	Philippine Depository & Trust Corporation
PEZA	Philippine Economic Zone Authority
PFM	Philippine FamilyMart CVS, Inc.
PFRS	Philippine Financial Reporting Standards
PICCS	Philippine Inventory of Chemicals and Chemical Substances
Piltel	Pilipino Telephone Corporation
PLDT	PLDT, Inc.
PLN	Perusahaan Listrik Negara
PNP	Philippine National Police
PNS	Philippine National Standards
POPI	Prime Orion Philippines, Inc.
PPA	Power Purchase Agreement
PPP	Public-Private Partnership
PPS	Participating referred shares
Preferred "A" Shares	Ayala's Class "A" preferred shares
Preferred "B" Shares	Ayala's Class "B" preferred shares
PSA	Philippine Standards on Auditing
PSE	The Philippine Stock Exchange, Inc.
PSE EDGE	PSE's Electronic Disclosure Generation Technology

Definition of Terms

PSE Trading Participant	The PSE's duly-accredited member brokers (also the "Trading Participants" and "Selling Agents")
PSi	PSi Technologies, Inc.
PTA	Philippine Tourism Authority
PTMWI	PT Manila Water Indonesia
RCBC	Rizal Commercial Banking Corporation
REIT	Real Estate Investment Trust
Record Date	Cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due
Registrar and Depository Agent	PDTC
RES	Retail Electricity Supplier
REST	Real Estate Stress Test
REST Limit	Real Estate Stress Test Limit
Revised Corporation Code	Revised Corporation Code of the Philippines or Republic Act No. 11232
RMC	Risk Management Committee
Robinsons Land	Robinsons Land Corporation
RPS	Rotor Position Sensor
RPT	Related Party Transaction
RTC	Regional Trial Court
RTGS	Real Time Gross Settlement
RWIL	Regent Wise Investments Limited
SARS	Severe Acute Respiratory Syndrome
SAIC	SAIC Motor Corporation Limited
SBL	Single Borrower's Limit
SC	Supreme Court
SCC	Standards Compliance Certificate
SEC	Securities and Exchange Commission
Securities Regulation Code	The Philippines' Securities Regulation Code, Republic Act No. 8799 (2000)
Security Holder	Holder of Securities under the ₱30 billion debt securities program
Selling Agent	RCBC Capital Corporation
SES	Supervision and Examination Sector
SGV & Co.	SyCip Gorres Velayo & Co.
SLEX	South Luzon Expressway
Smart	Smart Telecommunications, Inc.
SMC	San Miguel Corporation
SMDC	SM Development Corporation
SME	Small and Medium-Sized Enterprises
SMS	Short Message Service
SMT	Surface Mount Technology
Socialytics	Socialytics Inc.
Speedy-Tech	Speedy-Tech Electronics Ltd.
SPPI	Solely Payments of Principal and Interest
SPV	Special Purpose Vehicle

Definition of Terms

SSTEC	Sino-Singapore Tianjin Eco-City Investment and Development Co., Ltd.
Sta. Clara Power	Sta. Clara Power Corporation
Star Energy	Collectively refers to Star Energy Group Holdings Pte. Ltd. and Star Energy Geothermal Pte. Ltd. of Indonesia
Standard	Standard Insurance
STEL	Speedy-Tech Electronics Ltd.
STI	Singapore Telecom International Pte. Ltd.
STP	Sewage Treatment Plant
STU	Sarana Tirta Ungaran
Subsidiary/ies	Entities over which Ayala has control
S&P	Standard & Poor
Tao	TaoDharma
Tax Code	National Internal Revenue Code of 1997, as amended
Tax Amnesty Law	Republic Act No. 11213
TBC or The Blue Circle	The Blue Circle Pte. Ltd.
TIEZA	Tourism Infrastructure and Enterprise Zone Authority
TKDC	Ten Knots Development Corp.
TKPI	Ten Knots Philippines Inc.
TM	Touch Mobile
TOA	Toll Operation Agreement
TOC	Toll Operation Certificates
TRAIN	Tax Reform for Acceleration and Inclusion
TRO	Temporary Restraining Order
UAE	United Arab Emirates
UK	United Kingdom
UKGT	UK Globetel Limited
UNCLOS	United Nations Convention on the Law of the Sea
UPC Renewables	UPC Renewable Asia Pacific Holdings Limited
U.S.	United States of America
VAT	Value-added Tax
VIA	VIA Optronics GmbH
vIMS	Virtual IP Multimedia System
VOIP	Voice Over Internet Protocol
Voting Preferred	Ayala's voting preferred shares
VSAT	Very Small Aperture Satellite
VTI	Vega Telecom Inc.
VTs	VTs-Touchsensor Co., Ltd.
WARM	Water for All Refund Movement
Waterwatch	Waterwatch Coalition, Inc.
Wi-Fi	Wireless Fidelity
ZCWD	Zamboanga City Water District

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this Prospectus. Because it is a summary, it does not contain all of the information that a prospective purchaser should consider before investing. Prospective investors should read the entire Prospectus carefully, including the section entitled "Risk Factors" and the financial statements and the related notes to those statements included in this Prospectus.

COMPANY OVERVIEW

Ayala was incorporated in the Philippines on January 23, 1968 and is a corporation having a perpetual corporate term pursuant to Republic Act No. 11232, otherwise known as the Revised Corporation Code of the Philippines (the "Revised Corporation Code"). 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) water, (e) industrial technologies, (f) power, (g) infrastructure, (h) healthcare, (i) education and (j) technology ventures.

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 water infrastructure are 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"). Ayala's investments in the power sector are held under AC Energy and Infrastructure Corporation ("ACE", "ACEIC" or "AC Energy"), 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"). On 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.

Ayala became a publicly listed corporation in 1976 when it listed its common shares with the then Makati Stock Exchange. As of December 31, 2020, Ayala had a market capitalization of ₱519 billion based on its closing price of ₱827.00 per share. In addition, 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 Corporation ("ACEN") 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.

Mermac, Inc., a private holding company incorporated in the Philippines (which held 47.28% of Ayala common shares as at December 31, 2020), is the dominant shareholder of Ayala.

Strategy

Ayala's unique portfolio of businesses provides various engines for growth and diversification. The positive domestic environment experienced over the past decade 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 and socio-political trends and balances its two major pillars: its core value drivers in real estate, banking, telecom, and power; and its emerging businesses in healthcare and logistics. It also has portfolio investments in water, industrial technologies, infrastructure, education, and technology ventures.

Ayala's strategic priority is employing a sharper focus on its portfolio by continuing to expand its core businesses to cement their industry leadership and scaling up its emerging businesses to establish a

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meaningful presence in their spaces. In addition, Ayala will exercise value realization initiatives to fund future investments.

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.

Recent Developments

On January 4, 2021, Ayala disclosed that on December 30, 2020, AC Energy Philippines (PSE: ACEN) and its parent company, ACEIC, a wholly owned subsidiary of Ayala, signed an Investment Agreement with Arran Investment Pte Ltd ("Arran"), an affiliate of GIC Private Limited ("GIC"), for GIC's acquisition of an effective 17.5% ownership stake in ACEN. The ACEN Board of Directors previously approved the Investment during its meeting on November 11, 2020. On March 18, 2021, Ayala announced the completion of the subscription by Arran Investment to four billion primary shares of ACEN, via a private placement. The private placement raised additional capital totaling to ₱11.88 billion.

On February 15, 2021, UPC-AC Renewables Australia, a 50/50 joint venture between ACEIC and UPC Renewable Asia Pacific Holdings Limited ("UPC Renewables"), announced that it had reached financial close for the first 400 MWac (521.5MWdc) stage of the New England Solar Farm at Uralla in NSW. This is the first stage of what will ultimately be a combined 720 MW Solar and 400 MWhr Battery at the site.

On February 15, 2021, Ayala's Philwater Holdings Company, Inc. ("Philwater") and Trident Water Company Holdings, Inc. ("Trident Water") executed a Share Purchase Agreement wherein Philwater agreed to sell 2,691,268,205 of its preferred shares in Manila Water to Trident Water. The purchase of the preferred shares reflects a 39.09% voting stake and 8.19% economic stake in Manila Water. The rights and title to the shares, except voting rights covered by the proxies, which shall be executed upon the execution of the shareholders' agreement, shall not be transferred until all payments on the purchase price are made. Dividends earned by the preferred shares shall continue to be for the account of Philwater until full payment has been made.

On February 26, 2021, Ayala amended its disclosure dated December 22, 2020 about its healthcare arm, Ayala Healthcare Holdings, Inc. ("AC Health"), through its wholly owned subsidiary Healthway Philippines Inc., executing agreements to acquire a 54.2% economic interest in Mercado General Hospital, Inc. ("MGHI") through the purchase of shares. The amendment was to reflect the following: the transaction completed for 11% of the 15% to be acquired from the Mercado Group, the transaction completed for the acquisition of the 39.2% stake of Whiteknight Holdings, Inc. in MGHI, Subscription agreement for voting preferred shares to take Healthway Philippines Inc.'s voting interest in MGHI to 70% has been completed, and the execution of agreements for MGHI's relevant subsidiaries to purchase the hospital buildings from Ayala Land, Inc.'s subsidiaries and related companies as part of the conditions precedent to close the transaction.

On March 5, 2021, ACEIC, Power Partners Ltd. Co. ("Power Partners") and certain of their affiliated companies, signed a Divestment Agreement for the transfer by ACEIC of its indirect ownership interest in the 4x135MW coal-fired power project in Kauswagan, Lanao del Norte (the "GNPK Project") in favor of Power Partners and its affiliates. Power Partners is AC Energy's existing developer-partner in the GNPK Project.

On March 16, 2021, Ayala announced that its ₱10 Billion 6.80% Fixed Rate Multiple Put Bonds Due 2021 with outstanding balance of ₱9,903,400,000.00, net of ₱96.6 Million redeemed via Put Option exercised by Bondholders on May 12, 2019, will be fully redeemed on Maturity Date, May 12, 2021 by payment in cash of the redemption price set at 100% of the issue price plus all accrued and unpaid interest based on the coupon rate of 6.80% per annum.

Last April 2021, the AyalaLand Logistics Holdings Corp. ("ALLHC") Group acquired Technofreeze, a cold storage facility located in Laguna Technopark and the 11,800-sqm land on which it stands. In total, the acquisition amounted to ₱408.8 million, VAT inclusive. Technofreeze is an established cold storage

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facility in Laguna with proven track record of serving companies with diverse products such as processed meat products, dairy and ice cream, and adhesives. The Group will assume ownership of the existing operating facility, and this will be under ALLHC's cold storage brand, "ALogis Artico." The facility includes seventeen cold storage rooms up to -25 °C with 4,000 pallet positions, three processing rooms with an adjustable temperature of 0 to 25 °C, four dry storage rooms with 1,600 pallet positions, two blast freezers with a combined capacity of 25 tonnes, and several office spaces. It is accredited by the Department of Agriculture to cater to products like fruits and vegetables and likewise, meat, fisheries and aquatic products. ALogis Artico Biñan is located within the 471-hectare Laguna Technopark, one of ALLHC's premier industrial estates spanning the cities of Sta. Rosa and Biñan. It is accessible via the South Luzon Expressway ("SLEX"), just 6 km away from the facility. This cold facility will complement the warehouse leasing business of the Group. The transaction supports ALLHC's vision to be the leading real estate logistics and industrial parks developer and operator in the Philippines.

Ayala Land, Cebu Holdings, Inc., Asian I-Office Properties, Inc., Arca South Commercial Ventures Corp., and Central Block Developers, Inc. (collectively, the "Constituent Corporations") filed an application for the approval of the merger of the Constituent Corporations, with ALI as the surviving entity, with the SEC on April 29, 2021. The merger is the result of internal restructuring as well as a consolidation of ALI's Cebu portfolio under ALI as the surviving listed entity. The merger is expected to result in operational synergies, efficient funds management and simplified reporting to government agencies. The merger is subject to, and shall be effective upon, the approval of the SEC.

Future Plans and Prospects

The Philippines suffered a significant blow from the COVID-19 health crisis in 2020 as it endured a nationwide lockdown and a pronounced slowdown in international trade. At the peak of the pandemic's impact, the strictest form quarantine restrictions were imposed, limiting business activity and dampening consumer confidence. However, as restrictions were gradually eased in the second half of the year, mobility and business confidence consequently recovered. Ayala likewise saw a marked turnaround in demand and operations across its businesses, which continued to improve throughout the early months of 2021.

As the country enters a stage of recuperation, we see GDP growth in 2021 increasing by 6.8 percent coming from a 9.5 percent decline in 2020. The last six months of the year saw a meaningful recovery in mobility, indicating that consumers have found a sense of normalcy in exiting the household while taking the necessary precautions. Coupled with an eventual easing of transportation protocols and continued increase in digital consumption, we expect economic output to return to the 2019 level by 2022. Should other risks such as another lockdown materialize however, the Philippines may find it difficult to for GDP to grow beyond the 6 percent mark.

Aside from consumption, two other pillars of the economy have remained strong – overseas remittances and BPO activity. Despite massive layoffs and repatriations worldwide, remittances declined by only 0.8 percent to US\$33 billion, comprising 9.2 percent of the country's economic output. Meanwhile, the BPO industry was quick to bounce back from just 50 percent productivity in April 2020 to 90 percent by July. Both drivers softened the blow of the pandemic to the Philippine economy and are likely to remain as solid contributors to economic output. However, a risk factor is the Eurozone's status as renewed lockdowns and a double-dip recession may put pressure on remittances. Related to this, we see the Dollar-Peso rate depreciating to the 49 level in 2021 as the worldwide economies slowly reopen and US Dollar demand returns.

Another important factor that supported the Philippines' business environment in 2020 is the BSP Monetary Board's move to slash the interest rate to an all-time low of 2.0 percent from 4.0 percent in the year. Local businesses found strength in the cheap funding environment as low interest rates allowed them to cover their working capital needs in the face of tight cashflows. As quarantine measures continue to stay in place, we expect the BSP to maintain the interest rate at 2.0 percent. Further cuts may be unlikely due to the threat of growing inflation, which has already risen to 3.5 percent in December 2020 and 4.2 percent the following month. Supply side factors such as rising oil prices and higher pork prices due to the African Swine Flu continue pose as risks in elevating inflation. As such, we expect the print to increase to 3.1 percent in 2021 from 2.6 percent last year.

We also believe that in 2021, many companies will wish to move on the trends observed in 2020 more decisively. Thus, we are likely to see the private sector step up capital expenditures to develop their

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digital and telecommunication assets, logistical capabilities, and factory and farm equipment as well. This has the potential to trickle down into employment and improve from the -8.7 percent decrease we saw in the fourth quarter of 2020.

Against this backdrop of developments, the Ayala Group closely monitors key trends and potential risks in the global and domestic economies as well as in the industries where it operates. The Ayala Group aim to continue executing in its investment programs and has allocated ₱196 billion in combined capital expenditure for 2021.

Ayala expects to maintain 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.

SUMMARY FINANCIAL INFORMATION

The following tables set forth financial and operating information on Ayala. Prospective purchasers of the Bonds should read the summary financial data below together with the financial statements, including the notes thereto, presented as an Annex and the “Management’s Discussion and Analysis of Financial Condition and Results of Operation” section of this Prospectus.

The summary financial data as of December 31, 2020, 2019, 2018, and 2017 under columns “Audited” or “Restated” are derived from Ayala’s audited consolidated financial statements, including the notes thereto, which are found elsewhere in this Prospectus. These consolidated financial statements were prepared in accordance with PFRS and were audited by SyCip Gorres Velayo & Co. (“SGV & Co.”) in accordance with PSA.

This section also includes financial and operating data with respect to Ayala’s subsidiaries (Ayala Land, IMI, and Manila Water), Associate (BPI) and Joint Venture (Globe). This section should be read in conjunction with the financial highlights of these subsidiaries, Associates and Joint Ventures. The financial highlights as contained in their respective SEC 17A reports (for financial data as of December 2020, 2019, 2018, and 2017) of these subsidiaries, Associates and Joint Ventures are available for viewing at the office of the Philippine SEC located at the Secretariat Building, PICC Complex, Roxas Boulevard, Pasay City, or at these companies’ official websites.

The accounting policies adopted in the preparation of audited consolidated financial statements of the Group as of and for year ended December 31, 2020 are consistent with those followed in the preparation of the Group’s audited consolidated financial statements as of and for the year ended December 31, 2019, except for the new PFRS, amended PFRS, improvements to PFRS and interpretations which were adopted beginning January 1, 2020. The nature and the impact of each new standards and amendments are described below:

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

The amendments to PFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Group enter into any business combinations.

The Group applied the amendments in accounting for business combinations for the period ended December 31, 2020. These amendments will also apply to future business combinations of the Group.

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

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount

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of benchmark-based cash flows of the hedged item or the hedging instrument.

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

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

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

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

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

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

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

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

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

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The Group adopted the amendments beginning January 1, 2020.

- Adoption of PIC Q&A 2020-03, Q&A No. 2018-12-D: STEP 3- *On the accounting of the difference when the percentage of completion is ahead of the buyer's payment*

PIC Q&A 2020-03 was issued by the PIC on September 30, 2020. The latter aims to provide an additional option to the preparers of financial statements to present as receivables, the difference between the POC and the buyer's payment, with the POC being ahead. This PIC Q&A is consistent with the PIC guidance issued to the real estate industry in September 2019.

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The adoption of this PIC Q&A did not impact the consolidated financial statements of the Group since it has previously adopted the additional guidance issued by the PIC in September 2019.

Effective beginning on or after January 1, 2021

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

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

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

The Group shall also disclose information about:

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

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

Effective beginning on or after January 1, 2022

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

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

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

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

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

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

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

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

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

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

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

- *Annual Improvements to PFRSs 2018-2020 Cycle*

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2023

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

Executive Summary

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- **PFRS 17, *Insurance Contracts***

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

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

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

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

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 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.

- Deferral of Certain Provisions of PIC Q&A 2018-12, PFRS 15 Implementation Issues Affecting the Real Estate Industry (as amended by PIC Q&As 2020-02 and 2020-04)

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On February 14, 2018, the PIC issued PIC Q&A 2018-12 which provides guidance on some PFRS 15 implementation issues affecting the real estate industry. On October 25, 2018 and February 8, 2019, the Philippine Securities and Exchange Commission (SEC) issued SEC MC No. 14-2018 and SEC MC No. 3-2019, respectively, providing relief to the real estate industry by deferring the application of certain provisions of this PIC Q&A for a period of three years until December 31, 2020. On December 15, 2020, the Philippine SEC issued SEC MC No. 34-2020 which further extended the deferral of certain provisions of this PIC Q&A until December 31, 2023. A summary of the PIC Q&A provisions covered by the SEC deferral and the related deferral period follows:

	Deferral Period
a. Assessing if the transaction price includes a significant financing component as discussed in PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04)	Until December 31, 2023
b. Treatment of land in the determination of the POC discussed in PIC Q&A 2018-12-E	Until December 31, 2023
c. Treatment of uninstalled materials in the determination of the POC discussed in PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02)	Until December 31, 2020
d. Accounting for CUSA Charges discussed in PIC Q&A No. 2018-12-H	Until December 31, 2020

The SEC Memorandum Circulars also provided the mandatory disclosure requirements should an entity decide to avail of any relief. Disclosures should include:

- The accounting policies applied.
- Discussion of the deferral of the subject implementation issues in the PIC Q&A.
- Qualitative discussion of the impact on the financial statements had the concerned application guidelines in the PIC Q&A been adopted.
- Should any of the deferral options result into a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular), such accounting change will have to be accounted for under PAS 8, i.e., retrospectively, together with the corresponding required quantitative disclosures.

In November 2020, the PIC issued the following Q&As which provide additional guidance on the real estate industry issues covered by the above SEC deferrals:

- PIC Q&A 2020-04, which provides additional guidance on determining whether the transaction price includes a significant financing component
- PIC Q&A 2020-02, which provides additional guidance on determining which uninstalled materials should not be included in calculating the POC

After the deferral period, real estate companies would have to adopt PIC Q&A No. 2018-12 and any subsequent amendments thereto retrospectively or as the SEC will later prescribe.

ALI Group availed of the SEC reliefs to defer the above specific provisions of PIC Q&A No. 2018-12. Had these provisions been adopted, ALI Group assessed that the impact would have been as follows:

- The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments provided for in the contract to sell might constitute a significant financing component. In case of the presence of significant financing component, the guidance should have been applied retrospectively and would have resulted in restatement of prior year financial statements. Adoption of this guidance would have impacted interest income, interest expense, revenue from real estate sales, installment contracts receivable, provision for deferred income tax, deferred tax asset or liability for all years presented, and the opening balance of

Executive Summary

retained earnings. ALI Group has yet to assess if the mismatch constitutes a significant financing component for its contracts to sell.

- b. The exclusion of land and uninstalled materials in the determination of POC would have reduced the percentage of completion of real estate projects. Adoption of this guidance would have reduced revenue from real estate sales, cost of sales and installment contracts receivable; increased real estate inventories and would have impacted deferred tax asset or liability and provision for deferred income tax for all years presented, and the opening balance of retained earnings.
- c. Had the ALI Group accounted for the revenue from air-conditioning services, CUSA and handling services as principal, this would have resulted in the gross presentation of the related revenue, costs and expenses. Currently, the related revenue is presented net of costs and expenses. There is no impact on opening retained earnings, income and expense and the related balance sheet accounts.

The above would have impacted the cash flows from operations and cash flows from financing activities for all years presented.

- Deferral of PIC Q&A 2018-14, Accounting for Cancellation of Real Estate Sales (as amended by PIC Q&A 2020-05)

On June 27, 2018, PIC Q&A 2018-14 was issued providing guidance on accounting for cancellation of real estate sales. Under SEC MC No. 3-2019, the adoption of PIC Q&A No. 2018-14 was deferred until December 31, 2020. After the deferral period, real estate companies will adopt PIC Q&A No. 2018-14 and any subsequent amendments thereto retrospectively or as the SEC will later prescribe.

On November 11, 2020, PIC Q&A 2020-05 was issued which supersedes PIC Q&A 2018-14. This PIC Q&A adds a new approach where the cancellation is accounted for as a modification of the contract (i.e., from non-cancellable to being cancellable). Under this approach, revenues and related costs previously recognized shall be reversed in the period of cancellation and the inventory shall be reinstated at cost. PIC Q&A 2020-05 will have to be applied prospectively from approval date of the Financial Reporting Standards Council which was November 11, 2020.

ALI Group availed of the SEC relief to defer of adoption of this PIC Q&A until December 31, 2020. Currently, the Group records the repossessed inventory at cost. The Group has opted to implement approach 3 in its accounting for sales cancellation.

As prescribed by SEC MC No. 34-2020, for financial reporting periods beginning on or after January 1, 2021, the availment of the above deferral will impact the Group's financial reporting during the period of deferral as follows:

- a. The financial statements are not considered to be in accordance with PFRS and should specify in the *"Basis of Preparation of the Financial Statements"* section of the financial statements that the accounting framework is:

PFRS, as modified by the application of the following financial reporting reliefs issued and approved by the Securities and Exchange Commission in response to the COVID-19 pandemic:

- 1) Treatment of land in the determination of the percentage-of-completion
- 2) Assessing if the transaction price includes a significant financing component (as amended by PIC Q&A 2020-04); and
- 3) Treatment of uninstalled materials in the determination of the POC (as amended by PIC Q&A 2020-02)

- b. The Auditor's report will:
 - i. reflect in the Opinion paragraph that the financial statements are prepared in accordance with the compliance framework described in the notes to the financial statements; and
 - ii. include an Emphasis of Matter paragraph to draw attention to the basis of accounting that has been used in the preparation of the financial statements.

Executive Summary

Upon full adoption of the above deferred guidance, the accounting policies will have to be applied using full retrospective approach following the guidance under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Group is currently assessing the impact of adopting these amendments.

The following table summarizes the financial highlights of Ayala's consolidated financial position and results of operation as of and for the years ended December 31, 2020, 2019, 2018, and 2017:

CONSOLIDATED STATEMENTS OF INCOME <i>(Amounts in ₱ Thousands Except Earnings per Share)</i>	Year Ended December 31			
	(Audited)	(Audited)	(Audited)	(Audited)
	2020	2019¹	2018²	2017
CONTINUING OPERATIONS REVENUE				
Sale of goods and rendering of services	₱193,622,435	₱264,906,534	₱256,891,287	₱ 225,568,336
Share in net profits of associates and joint ventures	17,615,774	22,344,352	19,760,662	18,037,250
Interest income from real estate	8,602,775	7,890,972	7,042,078	5,409,944
Dividend income	83,575	122,903	106,803	653,721
	<u>219,924,559</u>	<u>295,264,761</u>	<u>283,800,830</u>	<u>249,669,251</u>
COSTS AND EXPENSES				
Cost of sales and services	144,181,349	189,983,258	189,706,638	168,671,311
General and administrative	32,326,129	32,112,815	25,956,728	21,644,500
	<u>176,507,478</u>	<u>222,096,073</u>	<u>215,663,366</u>	<u>190,315,811</u>
OTHER INCOME (CHARGES)				
Interest income	3,183,823	3,352,308	2,293,765	1,047,050
Other income	6,125,806	32,288,490	9,198,888	7,796,428
Interest and other financing charges	(28,014,198)	(22,409,526)	(17,378,936)	(13,080,794)
	<u>(18,704,569)</u>	<u>13,231,272</u>	<u>(5,886,283)</u>	<u>(4,237,316)</u>
INCOME BEFORE INCOME TAX PROVISION FOR INCOME TAX	<u>24,712,512</u>	<u>86,399,960</u>	<u>62,251,181</u>	<u>55,116,124</u>
Current	5,887,920	13,717,739	14,297,198	12,742,201
Deferred	(648,740)	266,398	(929,997)	(2,162,983)
	<u>5,239,180</u>	<u>13,984,137</u>	<u>13,367,201</u>	<u>10,579,218</u>
NET INCOME AFTER TAX	₱19,473,332	₱72,415,823	₱48,883,980	₱44,536,906

¹ Ayala adopted PFRS 16, Leases using modified retrospective approach of adoption with the initial date of application of January 1, 2019. Amounts presented in the consolidated statements of financial position and consolidated statements of income as at and for the years ended December 31, 2018 and 2017 are based on PAS 17, Leases (superseded by PFRS 16). The comparative financial information for accounts affected by the adoption of PFRS 16 may not be comparable to the information presented for 2019 and 2020. Please refer to Note 3 of Ayala's audited consolidated financial statements as at December 31, 2019 and 2018 and for each of the three year in the period ended December 31, 2019, which are included as an Annex to this Prospectus, for the effect of the adoption of PFRS 16.

² Ayala adopted PFRS 9, Financial Instruments and PFRS 15, Revenue from Contracts with Customers using modified retrospective approach of adoption with the initial date of application of January 1, 2018. Amounts presented in the consolidated statements of financial position and consolidated statements of income as at and for the year ended December 31, 2017 are based on PAS 39, Financial Instruments: Recognition and Measurement (superseded by PFRS 9) and PAS 18, Revenue, PAS 11, Construction Contracts and related Interpretations (superseded by PFRS 15). The comparative financial information for accounts affected by the adoption of PFRS 9 and PFRS 15 may not be comparable to the information presented for 2018, 2019, and 2020. Please refer to Note 3 of Ayala's audited consolidated financial statements as of December 31, 2018 and 2017 and for each of the three year in the period ended December 31, 2018, which are included as an Annex to this Prospectus, for the effect of the adoption of PFRS 9 and PFRS 15.

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OPERATIONS OF THE SEGMENT UNDER PFRS 5

Net Income (loss) after tax	9,797,011	(30,433,493)	6,181,134	5,329,869
NET INCOME	P29,270,343	P41,982,330	P55,065,114	P49,866,775

NET INCOME ATTRIBUTABLE TO:

Owners of the parent	P17,141,714	P35,279,330	P31,817,721	P30,263,842
Non-controlling interests	12,128,629	6,703,000	23,247,393	19,602,933
	P29,270,343	P41,982,330	P55,065,114	P49,866,775

EARNINGS PER SHARE BEFORE OPERATIONS OF THE SEGMENT UNDER PFRS 5

Basic	P17.04	P79.37	P43.74	P42.35
Diluted	P16.96	P79.12	P43.31	P41.69

EARNINGS PER SHARE

Basic	P25.33	P54.12	P48.80	P46.67
Diluted	P25.24	P53.93	P48.35	P45.99

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Amounts in P Thousands)

	As of December 31			
	(Audited)	(Audited)	(Audited)	(Audited)
	2020	2019 ³	2018 ⁴	2017
ASSETS				
Current Assets				
Cash and cash equivalents	P88,653,956	P93,405,253	P60,624,263	P64,259,279
Short-term investments	822,410	13,387,801	5,956,489	5,400,239
Accounts and notes receivable	137,094,187	130,868,711	153,991,583	100,242,845
Contract assets	2,847,272	3,159,675	3,736,447	–
Inventories	160,871,941	135,064,303	120,560,493	105,195,768
Other current assets	71,467,620	62,932,994	57,728,026	61,854,311
	461,757,386	438,818,737	402,597,301	336,952,442
Assets under PFRS 5	196,136,570	170,466,694	10,162,121	–
Total Current Assets	657,893,956	609,285,431	412,759,422	336,952,442
Noncurrent Assets				
Noncurrent accounts and notes receivable	57,382,232	55,720,290	41,803,297	45,774,058
Noncurrent contract assets	–	–	492,943	–
Investments in associates and joint ventures	255,007,953	246,731,276	240,140,558	202,649,300
Investment properties	226,456,967	246,732,338	227,645,548	202,873,411
Property, plant and equipment	94,537,980	88,781,755	104,492,357	85,430,631

³ Ayala adopted PFRS 16, Leases using modified retrospective approach of adoption with the initial date of application of January 1, 2019. Amounts presented in the consolidated statements of financial position and consolidated statements of income as at and for the years ended December 31, 2018 and 2017 are based on PAS 17, Leases (superseded by PFRS 16). The comparative financial information for accounts affected by the adoption of PFRS 16 may not be comparable to the information presented for 2019 and 2020. Please refer to Note 3 of Ayala's audited consolidated financial statements as at December 31, 2019 and 2018 and for each of the three year in the period ended December 31, 2019, which are included as an Annex to this Prospectus, for the effect of the adoption of PFRS 16.

⁴ Ayala adopted PFRS 9, Financial Instruments and PFRS 15, Revenue from Contracts with Customers using modified retrospective approach of adoption with the initial date of application of January 1, 2018. Amounts presented in the consolidated statements of financial position and consolidated statements of income as at and for the year ended December 31, 2017 are based on PAS 39, Financial Instruments: Recognition and Measurement (superseded by PFRS 9) and PAS 18, Revenue, PAS 11, Construction Contracts and related Interpretations (superseded by PFRS 15). The comparative financial information for accounts affected by the adoption of PFRS 9 and PFRS 15 may not be comparable to the information presented for 2018, 2019, and 2020. Please refer to Note 3 of Ayala's audited consolidated financial statements as of December 31, 2018 and 2017 and for each of the three year in the period ended December 31, 2018, which are included as an Annex to this Prospectus, for the effect of the adoption of PFRS 9 and PFRS 15.

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Right-of-use assets	19,812,516	18,220,572	–	–
Service concession assets	1,556,241	1,638,516	98,404,486	91,049,570
Intangible assets	19,624,573	16,625,926	16,553,369	16,705,000
Deferred tax assets	14,634,045	14,246,325	15,546,040	12,720,910
Other noncurrent assets	58,851,529	47,303,529	40,087,599	27,390,430
Total Noncurrent Assets	747,864,036	736,000,527	785,166,197	684,593,310
Total Assets	₱1,405,757,992	₱1,345,285,958	₱1,197,925,619	₱1,021,545,752

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

Short-term debt	₱32,439,507	₱29,788,643	₱39,518,245	₱29,904,723
Accounts payable and accrued expenses	177,315,357	195,416,247	204,758,244	169,652,527
Contract liabilities	142,292	252,341	114,169	–
Income tax payable	1,907,146	2,396,901	3,406,921	1,710,260
Current portion of:				
Long-term debt	36,514,381	23,878,725	48,480,559	13,731,967
Lease liabilities	1,445,492	1,028,067	–	–
Service concession obligation	19,880	13,607	820,802	803,898
Other current liabilities	26,454,148	28,394,709	31,928,643	25,983,794
	276,238,203	281,169,240	329,027,583	241,787,169
Liabilities under PFRS 5	124,291,482	121,487,625	1,075,272	–
Total Current Liabilities	400,529,685	402,656,865	330,102,855	241,787,169

Noncurrent Liabilities

Long-term debt – net of current portion	372,800,369	351,670,789	324,262,828	306,975,262
Lease liabilities - net of current portion	22,672,228	21,353,099	–	–
Service concession obligation – net of current portion	66,338	52,412	7,018,211	7,748,056
Deferred tax liabilities - net	9,398,205	8,035,817	10,999,354	8,108,305
Pension liabilities	5,093,406	3,756,048	2,589,852	2,600,756
Other noncurrent liabilities	52,775,650	48,447,370	53,844,164	43,233,816
Total Noncurrent Liabilities	462,806,196	433,315,535	398,714,409	368,666,195
Total Liabilities	863,335,881	835,972,400	728,817,264	610,453,364

Equity

Equity attributable to the parent company				
Paid-in Capital	85,613,944	84,876,225	83,361,675	75,001,174
Share-based payments	102,619	214,617	238,871	248,212
Remeasurement gains/(losses) on defined benefit plans	(6,351,002)	(3,117,329)	(1,299,319)	(1,303,288)
Fair value reserve of financial assets at fair value through other comprehensive income	40,792	66,917	(544,555)	–
Net unrealized gain/(loss) on available-for-sale financial assets	–	–	–	(1,107,962)
Cumulative translation adjustments	(1,635,505)	3,234,618	2,276,669	2,794,303
Equity reserve	30,741,420	25,282,942	10,872,124	11,600,281
Equity – conversion option	–	–	1,087,015	1,113,003
Retained earnings	238,072,873	225,454,620	196,914,989	170,302,028
Treasury stock	(6,605,153)	(5,737,896)	(2,300,000)	(2,300,000)
Reserves under PFRS 5	(800,218)	(1,467,449)	–	–
	339,179,770	328,807,265	290,607,469	256,347,751

Executive Summary

Non-controlling interests	203,242,341	180,506,293	178,500,886	154,744,637
Total Equity	542,422,111	509,313,558	469,108,355	411,092,388
Total Liabilities and Equity	₱1,405,757,992	₱1,345,285,958	1,197,925,619	₱1,021,545,752

RISKS OF INVESTING

An investment in the Bonds involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider the following factors, in addition to the other information contained in this Prospectus, in deciding whether or not to invest in the Bonds.

Risks Associated with the Company

- Holding Company Structure
- Intensive Capital Requirements
- Foreign Exchange Risk
- Competition
- Industry Risks
- Government Regulation
- Litigation
- Data Management Systems

Risks Associated with the Organization

- High Dependence on Services of Management Team
- Unauthorized, Negligent or Fraudulent Acts of Employees

Risks Associated with the Philippines

- Political and Social Instability
- Slowdown in the Economic Growth, High Inflation and Interest Rate
- Depreciation in the Value of the Peso Against Other Currencies
- Continuing Impacts of the COVID-19 Pandemic

Risks Associated with the Bonds

- Liquidity Risk
- Pricing Risk
- Retention of Ratings Risk
- Bonds have no Preference under Article 2244(14) of the Civil Code

A detailed discussion on the above enumerated risks appears on the “*Risk Factors*” of this Prospectus.

This Prospectus contains forward-looking statements that involve risks and uncertainties. Ayala adopts what it considers conservative financial and operational controls and policies to manage its business risks. Ayala’s actual results may differ significantly from the results discussed in the forward-looking statements. See section “*Forward-Looking Statements*” of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of Ayala, in particular, and those that pertain to the over-all political, economic, and business environment, in general.

Overview of the Debt Securities Program

OVERVIEW OF THE DEBT SECURITIES PROGRAM

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular tranche of the Debt Securities Program, the applicable terms and conditions.

Ayala has registered a Debt Securities Program comprised of debt securities (the “Securities”) in the aggregate principal amount of up to Thirty Billion Pesos (₱30,000,000,000.00) to be offered and issued in one or more tranches (each a “Tranche”) (the “Debt Securities Program” or the “Program”). The following section outlines the description of the Program followed by specific indicative terms and conditions applicable to a particular tranche.

The Debt Securities Program

Issuer:	Ayala Corporation
Facility:	Thirty Billion Pesos (₱30,000,000,000.00) Debt Securities Program
Purpose:	Proceeds from the Debt Securities Program will be used for capital expenditure, refinancing, and general corporate requirements.
Availability:	The Debt Securities Program will be continuously available until the expiration of the shelf registration and the permit to offer securities for sale to be issued by the SEC for the Debt Securities Program.
Maturity:	To be determined per issuance
Method of Issue:	Each of the securities will be issued on a continuous basis in tranches (each a “Tranche”) on different issue dates. The specific terms of each Tranche (which, save in respect of the issue date, issue price, tenor/maturity, interest rate, interest commencement date, and principal amount of the tranche, will be identical to the terms of other tranches of the same securities) will be set forth in the corresponding offer supplement.
Redemption for Taxation Reasons:	If payments under the Securities become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the relevant issue date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Securities in whole, but not in part, (having given not more than sixty (60) nor less than fifteen (15) days' prior written notice to the Trustee) at par or 100% face value plus accrued interest.
Final Redemption:	Except when a call or put option on the securities is exercised, the Securities will be redeemed at par or 100% face value on the relevant maturity date.
Status of the Securities:	The Securities constitute direct, unconditional, unsubordinated, and unsecured Peso-denominated obligations of the Issuer and will rank <i>pari passu</i> and ratably without any preference or priority among themselves and at least <i>pari passu</i> with all other present and future unsecured obligations of the Issuer, except for any statutory preference or priority established under Philippine law.
Negative Pledge:	The Securities shall have the benefit of a negative pledge on all existing and future assets of the Issuer, subject to certain permitted liens.
Taxation:	Except: (1) tax on a Security Holder's interest income on the Securities which is required to be withheld by the Issuer, and (2) capital gains tax/income tax, documentary stamp tax and other taxes on the transfer of Securities (whether by assignment or donation), if any and as applicable, which are for the account of the Security Holder, all payments of principal and interest will be made free and clear of any deductions or withholding for or on account of

Overview of the Debt Securities Program

any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines or any political subdivision, agency or instrumentality thereof, including, but not limited to, issue, registration, or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided, however, that the Issuer shall not be liable for, and will not gross-up the payments of interest on the principal amount of the Securities so as to cover any final withholding tax applicable on interest earned on the Securities prescribed under the National Internal Revenue Code of 1997, as amended, and its implementing rules and regulations.

Documentary stamp tax on the original issue of the Securities shall be for the Issuer's account.

A Security Holder who is exempt from or is not subject to final withholding tax on interest income may claim such exemption by submitting to the relevant underwriter, together with its Application to Purchase: (i) pertinent documents evidencing its tax-exempt status, as certified by the Corporate Secretary of the Applicant as being a true copy of the original on file with the Applicant, which notarized certification indicates that: (i.a) the exemption certificate is a true copy of the original; (i.b) the original is in the possession of the Corporate Secretary of the Applicant as the duly authorized custodian of the same; and (i.c) the Corporate Secretary of the Applicant has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting said certification's validity; (ii) a letter addressed to the Issuer and the Registrar, requesting both the Issuer and the Registrar not to make any withholding on said Security Holder's interest income; and (iii) an indemnity undertaking wherein the Security Holders shall undertake to indemnify the Issuer for any tax or charge that may later on be assessed against the Issuer on account of the non-withholding of tax on the Securities held by such Security Holder.

The tax treatment of a Security Holder may vary depending upon such person's particular situation and certain Security Holders may be subject to special rules not discussed above. This summary does not purport to address all the aspects that may be important and/or relevant to a Security Holder are advised to consult their own tax advisers on the ownership and disposition of the Securities, including the applicability and effect of any state, local or foreign tax laws.

Governing Law: Philippine Law

Specific terms related to any tranche of fixed-rate bonds

Issue Price: The fixed-rate bonds will be issued at 100% of face value.

Fixed-rate Bonds Interest: Interest on the fixed-rate bonds shall be calculated on a 30/360-day count basis and shall be paid quarterly in arrear.

Optional Redemption: The applicable final terms will indicate either that the relevant fixed-rate bonds cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an event of default) or that such fixed-rate bonds will be redeemable at the option of the Issuer and/or the bondholders upon giving notice to the bondholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant underwriters.

Purchase and Cancellation: The Issuer may, at any time, purchase the fixed-rate bonds in the open market or by tender or by contract at market price, without any obligation to

Overview of the Debt Securities Program

purchase (and the bondholders shall not be obliged to sell) the fixed-rate bonds pro-rata from all bondholders. Any fixed-rate bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the fixed-rate bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

Issue Rating:	Each tranche of fixed-rate bonds under the Debt Securities Program will be rated by PhilRatings.
Registrar and Paying Agent:	Philippine Depository & Trust Corp.
Listing:	Philippine Dealing & Exchange Corp.

Summary of the Offering

SUMMARY OF THE OFFERING

This Summary of the Offering relates to the first tranche of the Bonds of Ayala's ₱30,000,000,000 Debt Securities Program, with an aggregate principal amount of up to Six Billion Pesos (₱6,000,000,000) and an oversubscription option of up to Four Billion Pesos (₱4,000,000,000), exercisable by the Joint Lead Underwriters and Bookrunners in consultation with the Issuer.

The following summary of the offer does not purport to be a complete listing of all the rights, obligations, and privileges attaching to or arising from the Bonds. It is taken from, and is qualified in its entirety by, the remainder of this Prospectus. Some rights, obligations, or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective investors are enjoined to perform their own independent investigation and analysis of the Company and the Bonds. Each prospective investor must rely on its own appraisal of the Company and the Bonds and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to invest in the Bonds and must not rely solely on any statement or the significance, adequacy, or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis.

Issuer	:	Ayala Corporation
Issue	:	Fixed-rate bonds (the "Bonds") constituting the direct, unconditional, unsubordinated, and unsecured obligations of the Issuer, as the first tranche of the Issuer's shelf registration program with an aggregate principal amount of up to Thirty Billion Pesos (₱30,000,000,000) (the "Debt Securities Program").
Fixed-rate Bond Interest	:	Interest on the Bonds shall be calculated on a 30/360-day count basis and shall be paid quarterly in arrear.
Issue Amount	:	Up to Six Billion Pesos (₱6,000,000,000) (the "Base Offer") with an oversubscription option of up to Four Billion Pesos (₱4,000,000,000), exercisable by the Joint Lead Underwriters and Bookrunners in consultation with the Issuer (the "Oversubscription Option").
		The Bonds will be issued in two (2) series consisting of: Series A Bonds: 3.0260% p.a. due 2024 Series B Bonds: 3.7874% p.a. due 2026 The Issuer has the discretion to allocate the Issue Amount between the Series A Bonds and Series B Bonds or may opt to allocate the entire Issue Amount to just one series.
Issue Price:	:	The Bonds will be issued at 100% of face value.
Issue Manager	:	BPI Capital Corporation
Joint Lead Underwriters and Bookrunners	:	BPI Capital Corporation ("BPI Capital") BDO Capital & Investment Corporation ("BDO Capital") China Bank Capital Corporation ("China Bank Capital") First Metro Investment Corporation ("First Metro") SB Capital Investment Corporation ("SB Capital")
Denomination of the Bonds to be issued:	:	Minimum of ₱50,000.00 face value and in increments of ₱10,000.00
Offer Period	:	The Offer Period will commence at 9:00 a.m. on May 17, 2021 and end at 5:00 p.m. on May 21, 2021, or on such other date as the Issuer and the Joint Lead Underwriters and

Summary of the Offering

Bookrunners may agree upon.

Issue Date : May 28, 2021, or if such date is not a Business Day, then the next succeeding Business Day (with corresponding adjustments to payment dates but without adjustment to the interest periods or amounts due) or such other date as may be agreed upon by the Issuer and the Joint Lead Underwriters and Bookrunners, with advice to the SEC, PDTC and PDEX.

Maturity Date : Series A Bonds: May 28, 2024
Series B Bonds: May 28, 2026

provided that, in the event that such Maturity Date falls on a day that is not a Business Day, the Maturity Date shall be the immediately succeeding Business Day, without adjustment to the amount of interest and principal to be paid.

Interest Payment Date : August 28, 2021 for the first Interest Payment Date and November 28, February 28, May 28, and August 28 of each year for each subsequent Interest Payment Date, or the subsequent Business Day if such date is not a Business Day, during which any of the relevant Bonds are outstanding, until and including the Maturity Date (each, an "Interest Payment Date"). The last Interest Payment Date shall fall on the Maturity Date, or the immediately succeeding Business Day if such date is not a Business Day, without any adjustment to the amount due. Interest on the Bonds shall be calculated on a 30/360-day count basis.

Interest Period : The period commencing on the Issue Date and having a duration of three months and, thereafter, each successive 3-month period commencing on the last day of the immediately preceding Interest Period up to, but excluding the first day of the immediately succeeding Interest Period, but in the case of the last Interest Period, it will be the period from and including the last day of the immediately preceding Interest Period up to, but excluding, the Maturity Date.

Call Option : Prior to the Maturity Date of the Bonds, the Issuer has the right, but not the obligation, to redeem (in whole but not in part) the outstanding Bonds on the Interest Payment Dates indicated below (the "Call Option Dates"), or the immediately succeeding Business Day if such date is not a Business Day, in accordance with the following schedule:

Series A Bonds	
No Call Option	

Series B Bonds	
Call Option Dates	Call Option Price
12 th Interest Payment Date	101.00%
13 th Interest Payment Date	
14 th Interest Payment Date	
15 th Interest Payment Date	
16 th Interest Payment Date	100.50%
17 th Interest Payment Date	
18 th Interest Payment Date	
19 th Interest Payment Date	

Summary of the Offering

The amount payable to the Bondholders in respect of such redemption shall be calculated as the sum of (i) the Call Option Price applied to the principal amount of the then outstanding Series B Bonds being redeemed, and (ii) all accrued interest on the Series B Bonds as of the Call Option Date.

Should the Issuer elect to exercise a Call Option, it shall do so by delivery of an original and three (3) copies of a notice of such exercise to the Trustee, submitted during business hours on a date no earlier than sixty (60) days and no later than thirty (30) days prior to the Call Option Date. Once executed, completed, and delivered to the Trustee, a Call Option notice is irrevocable.

Upon receipt of a Call Option notice fully complying with the Terms and Conditions, the Trustee shall transmit the same notice to the Bondholders. Notwithstanding anything to the contrary, in the event the Issuer has notified the Trustee that it will exercise the Call Option, any interest payment due on the Interest Payment Date immediately preceding the Call Option Date shall be paid on such Call Option Date.

Negative Pledge	:	The Bonds shall have the benefit of a negative pledge on all existing and future assets of the Issuer, subject to certain permitted liens.
Status of the Bonds	:	The Bonds shall constitute the direct, unconditional, unsubordinated, and unsecured obligations of Ayala Corporation and shall at all times rank <i>pari passu</i> and ratably without any preference or priority amongst themselves and at least <i>pari passu</i> with all other present and future unsecured obligations of the Issuer, except for any statutory preference or priority established under Philippine law. The Bonds shall effectively be subordinated in right of payment to, among others, all of Ayala's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines without a waiver of preference or priority
Final Redemption	:	Unless previously purchased and cancelled, the Bonds shall be redeemed at par or 100% of face value on the Maturity Date. However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Business Day if the Maturity Date is not a Business Day.
Redemption for Taxation Reasons	:	If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, (having given not more than sixty (60) nor less than fifteen (15) days' prior written notice to the Trustee) at par plus accrued interest, net of applicable withholding taxes.

Summary of the Offering

Redemption by Reason of Change in Law or Circumstance	:	Upon the occurrence of a Change in Law or Circumstance, the Issuer may redeem the Bonds in whole, but not in part, having given not more than sixty (60) days' nor less than thirty (30) days' written notice to the Trustee, the Registrar and the Paying Agent, at par or 100% of the face value, and paid together with accrued interest thereon.
Trustee	:	Metropolitan Bank & Trust Company – Trust Banking
Listing	:	The Issuer intends to list the Bonds in the Philippine Dealing & Exchange Corp. on the Issue Date.
Issue Rating	:	The Bonds are rated Aaa with a Stable Outlook by PhilRatings.

DESCRIPTION OF THE BONDS

The following is a description of certain terms and conditions of the Bonds. This description of the terms and conditions of the Bonds set forth herein does not purport to be complete and is qualified in its entirety by reference to the agreements relating to the Bonds, copies of which are available for inspection at the offices of the Trustee. The terms and conditions set out in this section will, subject to amendment, be set out in the Trust Indenture between the Issuer and the Trustee.

The Bonds covered by this Prospectus and described below are the first tranche under the ₱30,000,000,000 Debt Securities Program that was authorized by resolutions of the Board of Directors of the Company dated June 22, 2017, September 22, 2020, and March 9, 2021. A registration statement covering the Debt Securities Program was filed by the Company with the Securities and Exchange Commission ("SEC") but has not yet become effective. Pursuant to such confirmation and certificate of permit to offer securities for sale, the first tranche of the Bonds will be issued in aggregate principal amount of up to ₱10,000,000,000 comprised of a base offer of ₱6,000,000,000 (the "Base Offer") with an oversubscription option of up to ₱4,000,000,000, exercisable by the Joint Lead Underwriters and Bookrunners in consultation with the Issuer (the "Oversubscription Option"). The Bonds shall consist of 3.0260% Series A Bonds due 2024 ("Series A Bonds") and 3.7874% Series B Bonds due 2026 (the "Series B Bonds", together with the Series A Bonds, the "Bonds", the "Offer", or the "Issue") under this Prospectus.

The Bonds are constituted by a Trust Indenture executed on May 11, 2021 (the "Trust Indenture") between the Issuer and Metropolitan Bank & Trust Company – Trust Banking Group (the "Trustee" or "Metrobank Trust", which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Indenture). The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Indenture and the Registry and Paying Agency Agreement executed on May 11, 2021 (the "Registry and Paying Agency Agreement") among the Issuer, the Registrar, and the Paying Agent.

PDTC has no interest in or relation to Ayala which may conflict with its roles as Registrar and as Paying Agent for the Offer. Metrobank Trust has no interest in or relation to Ayala which may conflict with its role as Trustee for the Offer. BPI is an affiliate of Ayala and the parent company of BPI Capital Corporation, one of the Joint Lead Underwriters and Bookrunners. Metropolitan Bank and Trust Company – Trust Banking Group is an affiliate of First Metro Investment Corporation, one of the Joint Lead Underwriters and Bookrunners.

Copies of the Trust Indenture and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee and the Registrar. The holders of the Bonds (the "Bondholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Indenture and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

1. Form, Denomination and Title

(a) Form and Denomination

The Bonds are in scripless form, and shall be issued, in denominations of Fifty Thousand Pesos (₱50,000.00) each, as a minimum, and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market.

(b) Title

The beneficial interest to the Bonds shall be shown on and recorded in the Register of Bondholders maintained by the Registrar. A notice confirming the principal amount of the Bonds purchased by each applicant in the Offering shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Bonds shall pass by recording the transfer from a transferor to the transferee in the Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the

Description of the Bonds

settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

(c) Bond Rating

The Bonds have been rated PRS Aaa, with a Stable Outlook, by PhilRatings on March 30, 2021. PRS Aaa is the highest credit rating on PhilRating's long-term issue credit rating scale. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. On the other hand, an outlook is an indication as to the possible direction of any rating change within a one-year period, and serves as a further refinement to the assigned credit rating for the guidance of investors, regulators, and the general public. A Stable Outlook is defined as: "The rating is likely to be maintained or to remain unchanged in the next 12 months."

PhilRatings' credit ratings are based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to Ayala and may change the ratings at any time, should circumstances warrant a change. The rating is subject to annual review, or more frequently as market developments may dictate, for as long as the relevant Bonds are outstanding. After Issue Date, the Trustee shall monitor the compliance of the Bonds with the regular annual reviews.

2. Transfer of the Bonds

(a) Register of Bondholders

The Issuer shall cause the Register of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. As required by Circular No. 428-04 issued by the *Bangko Sentral ng Pilipinas*, the Registrar shall send each Bondholder a written statement of registry holdings at least quarterly (at the cost of the Issuer) and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar's system (at the cost of the Issuer). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as at the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfers of the Bonds may be made during the period intervening and commencing on a Record Date and the relevant Interest Payment Date, both terms as defined in the section on "*Interest Payment Date*."

(b) Transfers; Tax Status

Transfers across Tax Categories shall not be allowed except on Interest Payment Dates that fall on a Business Day, provided however that transfers from a tax-exempt category to a taxable tax category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name on the PDEX trading system, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt entity shall be treated as being of the same Tax Category as its taxable counterpart for the interest period within which such transfer occurred. For purposes hereof, "Tax Categories" refer to the three (3) final withholding tax categories covering, particularly, tax-exempt entities, 20% tax-withheld entities, and 25% tax-withheld entities. This restriction shall be in force until a non-restricted trading & settlement environment for corporate securities is implemented.

A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Issuer, within three (3) Business Days from settlement date: (i) a written notification of the sale or purchase, including the tax status of the selling or buying party, and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Issuer for any tax that may later on be assessed against the Issuer on account of such transfer, together with the supporting documents specified under the Registry and Paying Agency Agreement.

Description of the Bonds

Transfers taking place in the Register of Bondholders after the Bonds are listed in PDEX may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if/and or when allowed under and in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC.

(c) Registrar

For transfers and record updates, notices and communication with the Registrar may be made thru the following:

Philippine Depository & Trust Corporation
29th Floor, BDO Equitable Tower, Paseo de Roxas
Makati City

Telephone No: (632) 8884-4425
Fax No: (632) 8230-3346
E-mail: josephine.delacruz@pds.com.ph
Attention: Josephine Dela Cruz, Director– Securities Services

(d) Secondary Trading of the Bonds

The Issuer intends to list the Bonds in PDEX for secondary market trading. The Bonds will be traded in a minimum board lot size of ₱10,000.00 as a minimum, and in multiples of ₱10,000.00 in excess thereof for as long as any of the Bonds are listed on PDEX. Secondary market trading in PDEX shall follow the applicable PDEX rules, conventions, and guidelines governing trading and settlement between Bondholders of different tax status and shall be subject to the relevant fees of PDEX and PDTC.

3. Ranking

The Bonds constitute direct, unconditional, unsubordinated, and unsecured Peso-denominated obligations of the Issuer and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, except for any statutory preference or priority established under Philippine law. The Bonds shall effectively be subordinated in right of payment to, among others, all of Ayala's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines without a waiver of preference or priority.

4. Interest

(a) Interest Payment Dates

The Bonds bear interest on their principal amount from and including Issue Date at the fixed rate of 3.0260% per annum for the Series A Bonds and 3.7874% per annum for the Series B Bonds, payable quarterly in arrear on November 28, February 28, May 28, and August 28 of each year while the Bonds are outstanding (each of which, for purposes of this section is an "Interest Payment Date") commencing on August 28, 2021, until and including the Maturity Date. The last Interest Payment Date shall fall on the Maturity Date, or the immediately succeeding Business Day if such date is not a Business Day, without any adjustment to the amount due.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be the day two (2) Business Days prior to the relevant Interest Payment Date (the "Record Date"), which shall be the reckoning day in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds.

Description of the Bonds

(b) Interest Accrual

Each Bond shall cease to bear interest, net of applicable withholding taxes, from and including the relevant Maturity Date, as defined in the discussion on “*Final Redemption*” unless, upon due presentation, payment of the principal in respect of the Bond then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see “*Penalty Interest*”) shall apply.

(c) Determination of Rate of Interest

The interest shall be calculated on the basis of a 360-day year consisting of twelve (12) months of thirty (30) days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of thirty (30) days.

5. Call Option

(a) Call Option

Prior to the Maturity Date of the Bonds, the Issuer has the right, but not the obligation, to redeem (in whole but not in part) the outstanding Bonds on the Interest Payment Dates indicated below (the “Call Option Dates”), or the immediately succeeding Business Day if such date is not a Business Day, in accordance with the following schedule:

Series A Bonds	
No Call Option	

Series B Bonds	
Call Option Dates	Call Option Price
12 th Interest Payment Date	101.00%
13 th Interest Payment Date	
14 th Interest Payment Date	
15 th Interest Payment Date	
16 th Interest Payment Date	100.50%
17 th Interest Payment Date	
18 th Interest Payment Date	
19 th Interest Payment Date	

The amount payable to the Bondholders in respect of such redemption shall be calculated as the sum of (i) the Call Option Price applied to the principal amount of the then outstanding Series B Bonds being redeemed and (ii) all accrued interest on the Series B Bonds as of the Call Option Date.

(b) Exercise of a Call Option

Should the Issuer elect to exercise the Call Option, it shall do so by delivery of an original and three (3) copies of a notice of such exercise to the Trustee, submitted during business hours on a date no earlier than sixty (60) days and no later than thirty (30) days prior to the Call Option Date. Once executed, completed and delivered to the Trustee, a Call Option notice is irrevocable.

Upon receipt of a Call Option notice fully complying with these Terms and Conditions, the Trustee shall transmit the same notice to the Bondholders.

Notwithstanding anything to the contrary, in the event the Issuer has notified the Trustee that it will exercise the Call Option, any interest payment due on the Interest Payment Date immediately preceding the Call Option Date shall be paid on such Call Option Date.

Description of the Bonds

6. Redemption and Purchase

(a) Final Redemption

Unless previously purchased and cancelled, the Bonds shall be redeemed at par or 100% of face value on their respective Maturity Dates. However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Business Day if such Maturity Date is not a Business Day.

(b) Redemption for Taxation Reasons

If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, (having given not more than sixty (60) nor less than fifteen (15) days' prior written notice to the Trustee) at par plus accrued interest, net of applicable withholding taxes.

(c) Redemption by Reason of Change in Law or Circumstance

The following events shall be considered as changes in law or circumstances ("Change in Law or Circumstance") as it refers to the obligations of the Issuer and to the rights and interests of the Bondholders under the Trust Indenture and the Bonds:

- i. Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Indenture or the Bonds shall be modified in a manner which, in the reasonable opinion of the Trustee, shall materially and adversely affect the ability of the Issuer to comply with such obligations, or shall be withdrawn or withheld.
- ii. Any provision of the Trust Indenture or any of the related documents is or shall become, for any reason, invalid, illegal or unenforceable to the extent that shall become for any reason unlawful for the Issuer to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Indenture or any of the related documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Indenture or any other related documents.
- iii. Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.
- iv. The Republic of the Philippines or any competent authority thereof takes any action to suspend the whole or a substantial portion of the operations of the Issuer and to condemn, seize, nationalize or appropriate (either with or without compensation) the Issuer or any material portion of its properties or assets, unless such act, deed or proceedings are contested in good faith by the Issuer.

Upon the occurrence of a Change in Law or Circumstance, the Issuer may redeem the Bonds in whole, but not in part, having given not more than sixty (60) days' nor less than thirty (30) days' written notice to the Trustee, the Registrar, and the Paying Agent, at par or 100% of the face value, and paid together with accrued interest thereon.

(d) Purchase and Cancellation

The Issuer may at any time purchase any of the Bonds in the open market or by tender or by contract at market price, in accordance with PDEX Rules, without any obligation to purchase

Description of the Bonds

(and the Bondholders shall not be obliged to sell) Bonds pro-rata from all the Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

7. Payments

The principal of, interest on, and all other amounts payable on the Bonds shall be paid to the Bondholders by crediting of the cash settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos.

The Issuer shall ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for the purposes of the Bonds and the Issuer or the Paying Agent may only terminate the appointment of the Paying Agent as provided in the Registry and Paying Agency Agreement. In the event the appointed office of any institution shall be unable or unwilling to continue to act as the Paying Agent, the Issuer shall appoint the Makati City office of such other leading institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

8. Payment of Additional Amounts; Taxation

Interest income on the Bonds is subject to a final withholding tax at rates of between fifteen percent (15%) and twenty-five percent (25%) depending on the tax status of the Bondholder under relevant law, regulation or tax treaty. Except for such final withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

- (a) The applicable final withholding tax applicable on interest earned on the Bonds prescribed under the National Internal Revenue Code of 1997, as amended and its implementing rules and regulations promulgated by the BIR as may be in effect from time to time (the "Tax Code"). An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:
 - (i) a copy of the current and valid tax exemption certificate, ruling or opinion issued by the BIR (dated no earlier than required to be considered valid under applicable tax regulations at the relevant time), addressed to the Bondholder, confirming the exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement, or amendment thereto, and certified by the Corporate Secretary of the Bondholder as being a true copy of the original on file with the Bondholder, which notarized certification indicates that: (i.a) the exemption certificate is a true copy of the original; (i.b) the original is in the possession of the Corporate Secretary of the Bondholder as the duly authorized custodian of the same; and (i.c) the Corporate Secretary of the Bondholder has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting said certification's validity, or a copy of the law of the country of domicile allowing a deemed paid tax credit in an amount to the 15% spared or waived by the Philippines duly authenticated by the Philippine embassy or, for countries that are members to the Apostille Convention, an apostilled copy of the law of the country of domicile which apostilled or authenticated copy shall be valid for one year from the date of issuance;
 - (ii) A duly notarized undertaking (substantially in the prescribed form by Ayala) executed by (ii.a) the Corporate Secretary of the Bondholder or any authorized representative of the Bondholder, who has personal knowledge of the exemption based on his official functions, if the Bondholder purchases the

Description of the Bonds

bonds or other deposit substitutes for its account, or (ii.b) the Trust Officer, if the Bondholder is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the bonds or other deposit substitutes pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting that the same Bondholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax;

- (iii) With respect to tax treaty relief, (a) prior to the payment of the initial interest due, (i) three (3) originals of the submitted BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the Bureau of Internal Revenue, as required under Revenue Memorandum Order No. 14-2021, (ii) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, (iii) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer, and (iv) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of the authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, is/are not doing business in the Philippines to support the applicability of a tax treaty relief; and (b) prior to the payment of subsequent interests due, (i) three (3) originals of the submitted new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Issuer deems applicable, and (ii) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; (c) other additional documents as may be required by the Issuer or pursuant to applicable tax regulations, which shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such initial or subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto;
- (iv) Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty relief, as required under BIR Revenue Memorandum Order No. 14-2021, including a copy of the duly submitted Application Form for Treaty Purposes, a valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer and confirmation

Description of the Bonds

acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar and Paying Agent;

- (b) Gross Receipts Tax under Section 121 of the Tax Code;
- (c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
- (d) Value-added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

9. Maintenance of Financial Ratios

For as long as any of the Bonds remain outstanding, the Issuer hereby covenants that it shall:

- (a) Maintain a maximum Net Debt to Equity Ratio of 3.0:1.0; and
- (b) Maintain a minimum Current Ratio of 0.5:1.0.

10. Negative Pledge

For as long as any of the Bonds remains outstanding, the Issuer covenants that the Issuer shall not, without the prior written consent of the Bondholders holding more than fifty percent (50%) of the principal amount of the Bonds then outstanding (the "Majority Bondholders"), permit any indebtedness for borrowed money to be secured by or to benefit from Security in favor of any creditor or class of creditors without providing the Bondholders with the same kind or class of Security, the benefit of which is extended equally and ratably among them to secure the Bonds; provided, however, that this restriction shall not prohibit "Permitted Liens" which are:

- (a) Any Security over any asset to secure: (i) payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements thereof) incurred for the purpose of financing the purchase, lease or development of such asset;
- (b) Any Security constituted for any obligation or credit facility incurred for the purpose of pursuing any infrastructure project, energy project, power project or investment therein, whether such project is undertaken by the Issuer itself, by its Affiliates, and/or by the Issuer or its Affiliates with third parties, and whether the same is carried on separately from or integrated with any of the Issuer's existing business, or any Security constituted by the Issuer on its right to receive income or revenues (whether in the form of dividends or otherwise) from said projects or related investments therein;
- (c) Any Security created for the purpose of paying current Taxes, assessments or other governmental charges which are not delinquent or remain payable without any penalty; or the validity of which is contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof and adequate reserves having been provided for the payment thereof;

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- (d) Any Security to secure, in the normal course of the business of the Issuer or its Affiliates: (i) statutory or regulatory obligations; (ii) surety or appeal bonds or other obligations of like nature; (iii) bonds for release of attachment, stay of execution or injunction; (iv) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or (v) leases (including capitalized lease obligations);
- (e) Any Security: (i) imposed by law, such as carrier's, warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business and not material in amount; (ii) arising out of pledge or deposits under the workmen's compensation laws, unemployment insurance, old age pensions or other social security or retirement benefits or similar legislation; and (iii) arising out of set-off provisions in the normal course of its financing arrangements; provided that, the Bondholders hereunder shall also have to the extent permitted by applicable Law, and upon notice to the Issuer, a similar right of set-off;
- (f) Any Security in favor of banks, insurance companies, other financial institutions and Philippine Government agencies, departments, authorities, corporations or other juridical entities, which secure a preferential financing obtained by the Issuer under a governmental program, and which cover assets of the Issuer which have an aggregate appraised value, determined in accordance with generally accepted appraisal principles and practices consistently applied not exceeding Ten Billion Philippine Pesos (₱10,000,000,000.00);
- (g) Any Security existing on the date of the Trust Indenture which is disclosed in writing by the Issuer to the Trustee prior to the execution of the Trust Indenture;
- (h) Any Security established in favor of insurance companies and other financial institutions in compliance with the applicable requirements of the Office of the Insurance Commission on admitted assets or the requirements of the Bangko Sentral ng Pilipinas on loans and financial accommodations extended to directors, officers, stockholders and related interest ("DOSRI");
- (i) Any Security to be constituted on the assets of the Issuer after the date of the Trust Indenture which is disclosed in writing by the Issuer to the Trustee prior to the execution of the Trust Indenture or any Security for an aggregate loan accommodation not exceeding the equivalent of ten percent (10%) of the market value of the consolidated assets of the Issuer as reflected in the latest appraisal report submitted by an independent and reputable appraiser;
- (j) Any Security constituted over the investment of the Issuer in any of its Affiliates, whether such investment is in the form of shares, deposits or advances, to guarantee or secure the obligations of said Affiliates;
- (k) Any Security constituted for the purpose of guaranteeing an Affiliate's obligation in connection with any contract or agreement (other than for borrowed money);
- (l) Any title transfer or retention of title arrangement entered into by the Issuer in the normal course of its trading activities on the counterparty's standard or usual terms; or
- (m) Any Security created over (i) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency ("foreign currency") other than Philippine Pesos; or (ii) financial instruments denominated in a foreign currency owned by the Issuer, in each case solely for the purpose of securing loan facilities denominated in Philippine Pesos granted to the Issuer in an aggregate equivalent principal amount not exceeding the amount of the deposit or the face amount (or value) of that financial instrument;
- (n) Any Security created over cash deposits or marketable investment securities in favor of a bank or financial institution to secure any borrowed money in connection with a

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treasury transaction, provided that the aggregate amount of security does not at any time exceed Forty Million U.S. Dollars (US\$40,000,000.00) or its equivalent. For this purpose, a “treasury transaction” means any currency, commodity, or interest rate purchase, cap or collar agreement, forward rate agreement, future or option contract, swap or other similar agreement, in relation to the Issuer’s treasury management;

- (o) Any Security constituted for the purpose of guaranteeing an Affiliate’s obligation in connection with any contract or agreement the rights and obligations that has been assigned to such Affiliate by the Issuer; or
- (p) The assignment, transfer or conveyance by way of security (in any case without recourse) of the Issuer’s right to receive any income or revenues from any asset of the Issuer not used in the ordinary course of business provided that, the constitution by the Issuer of such lien shall not cause the Issuer to exceed the financial covenants.

11. Change in Law or Circumstance

The Trustee shall, within five (5) days after the occurrence of any Change in Law or Circumstance, give to the Bondholders written notice of such default known to it, via publication in a newspaper of general circulation in Metro Manila for two (2) consecutive days as soon as practicable, indicating in the published notice that a Change in Law or Circumstance has occurred, unless the same shall have been cured before the giving of such notice.

If any one or more of the events enumerated as a Change of Law or Circumstance shall occur and be continuing for a period of thirty (30) days, the Majority Bondholders, by notice in writing delivered to the Issuer through the Trustee, after the lapse of the said thirty (30) day period, may declare the principal of the Bonds, including all accrued interest, net of applicable withholding taxes, and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable, without any prepayment penalty, anything contained in the Trust Indenture or in the Bonds to the contrary notwithstanding, subject to the notice requirements under the discussion on “*Notice of Default*”.

12. Events of Default

The Issuer shall be considered in default under the Bonds and the Trust Indenture in case any of the following events (each an “Event of Default”) shall occur and is continuing:

(a) Payment Default

The Issuer fails to pay when due and payable any amount which Ayala is obliged to pay to the Bondholders under the Trust Indenture and the Bonds, provided, that such non-payment shall not constitute an Event of Default if it is solely due to an administrative or technical cause, not attributable to the fault or negligence of the Issuer, affecting the transfer of funds despite timely payment instruction having been given by the Issuer and such payment is received by the Paying Agent within two (2) Business Days from the relevant due date.

(b) Representation/Warranty Default

Any representation and warranty of the Issuer hereof or any certificate or opinion submitted pursuant hereto proves to have been untrue, incorrect or misleading in any material respect as and when made and the circumstances which cause such representation or warranty to be incorrect or misleading continue for not less than fourteen (14) days (or such longer period as the Majority Bondholders shall approve) after receipt of written notice from the Bondholders to that effect.

(c) Other Default

The Issuer fails to perform or violates any other provisions of the Trust Indenture and the Bonds, and such failure or violation is not remediable or, if remediable, continues to be unremedied after the applicable grace period, or in the absence of such grace period, after thirty (30) days

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from the date of occurrence of the said violation with respect to the covenant to maintain the prescribed financial ratios, (particularly a maximum Net Debt to Equity ratio of 3.0:1.0; and a minimum Current Ratio of 0.5:1.0) and within ten (10) Business Days from the date of occurrence of said violation, with respect to any other covenant or obligation; provided that the Events of Default constituting a payment default or closure default shall not be remediable.

(d) Cross Default

The Issuer violates any term or condition of any contract executed by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money which constitutes an event of default under said contract, or in general, violation of any law or regulation which violation, if remediable, is not remedied by the Issuer within ten (10) Business Days from receipt of notice by the Trustee to the Issuer, or which violation is otherwise not contested by the Issuer, and the effect of such violation results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; and which violation will, further, in the reasonable opinion of the Trustee, adversely and materially affect the performance by the Issuer of its obligations under the Trust Indenture and the Bonds; provided however that no event of default will occur under this paragraph unless the aggregate amount of indebtedness in respect of which one or more of the events above mentioned has/have occurred equals or exceeds One Billion Five Hundred Million Pesos (₱1,500,000,000.00) or its foreign currency equivalent.

(e) Insolvency Default

There is an act of Bankruptcy vis-a-vis the Issuer and the relevant proceedings, to the extent not initiated by the Issuer, shall not have been reversed or stayed within a period of sixty (60) days or such longer period as the Issuer satisfies the Bondholders is appropriate under the circumstances.

(f) Judgment Default

Any final judgment, decree or arbitral award for the sum of money, damages or for a fine or penalty in excess of Five Hundred Million Pesos (₱500,000,000.00) or its equivalent in any other currency is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree or award is due under the applicable law or agreement.

(g) Writ and Similar Process Default

Any judgment, writ, warrant of attachment, injunction, stay order, execution or similar process shall be issued or levied against any material part of the Issuer's assets, business or operations and such judgment, writ, warrant or similar process shall not be released, vacated or fully bonded within thirty (30) calendar days after its issue or levy.

(h) Closure Default

The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days except in the case of strikes or lockouts or when necessary to prevent business losses or when due to fortuitous events or force majeure.

13. Notice of Default

The Trustee shall, within five (5) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it, via publication in a newspaper of general circulation in Metro Manila for two (2) consecutive days as soon as practicable, indicating in the published notice that an Event of Default has occurred, unless the same shall have been cured before the giving of such notice.

14. Consequences of Default

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- (a) If any one or more of the Events of Default shall have occurred and be continuing, the Trustee upon the written direction of the Majority Bondholders, by notice in writing delivered to the Issuer, or if by the Majority Bondholders, by notice in writing delivered to the Issuer and the Trustee, may declare the principal of the Bonds, all accrued interest, fees and other charges thereon, if any, to be immediately due and payable.
- (b) This provision, however, is subject to the condition that, except in the case of a Writ and Similar Process Default (as described in Condition 12(f) Writ and Similar Process Default), the Majority Bondholders, by written notice to the Issuer and the Trustee may, during the prescribed curing period, if any, rescind and annul such declaration made by the Trustee pursuant to a consequence of default, and the consequences of such declaration, upon such terms, conditions and agreement, if any, as they may determine; provided that, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.
- (c) At any time after any Event of Default shall have occurred, the Trustee may:
 - (i) by notice in writing to the Issuer, require the Registrar and Paying Agent to:
 - (aa) hold all sums, documents and records held by them in respect of the Bonds on behalf of the Trustee; and/or
 - (bb) deliver all evidence of the Bonds and all sums, documents and records held by them in respect of the Bonds to the Trustee or as the Trustee shall direct in such notice; provided that, such notice shall be deemed not to apply to any document or record which the Registrar and Paying Agent is not obliged to release by any law or regulation;
 - (ii) by notice in writing to the Issuer, require the Issuer to make all subsequent payments in respect of the Bonds to the order of the Trustee, with effect from the issue of any such notice until such notice is withdrawn, proviso (bb) above and the Issuer's positive covenant to pay principal and interest on the Bonds, more particularly set forth in Section 4.1(a) of the Trust Indenture, shall cease to have effect.

In case any amount payable by the Issuer under the Bonds, whether for principal, interest or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay Penalty Interest on the defaulted amount(s) from the time the amount falls due until it is fully paid.

15. Penalty Interest

Upon the occurrence and during the continuance of any Event of Default, the Issuer shall pay interest on all amounts then due under and owing to the Bondholder under the Trust Indenture and the Bonds, including, but not limited, to the unpaid principal amount and any interest thereon, at a rate equal at all times to six percent (6%) per annum above (the "Penalty Interest"), and in addition to, the Interest Rate, computed on the actual number of days from and including the date on which the said amount/s became due until full payment thereof on a year of 360 days.

16. Payment in the Event of Default

The Issuer covenants that upon the occurrence of any Event of Default, the Issuer will pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Penalty Interest as described above, and in addition thereto, the Issuer will pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to

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the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

Upon the occurrence of an Event of Default under Condition 12 (Events of Default), Bondholders shall have the right, but not the obligation, to require the Issuer to redeem the Bonds in full, by payment of the amounts stated above, plus the principal amount, by delivery of the relevant evidence of the Bonds to the Trustee.

17. Application of Payments

Any money collected or delivered to the Paying Agent as a Consequence of Default, and any other funds held by it, subject to any other provision of the Trust Indenture and the Registry and Paying Agency Agreement relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows: first, to the payment to the Registrar and Paying Agent and to the Trustee, of the costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without negligence or bad faith; second, to the payment of the Penalty Interest; third, to the payment of the whole amount then due and unpaid upon the Bonds for interest; fourth, to the payment of the whole amount then due and unpaid upon the Bonds for principal; and fifth, the remainder, if any shall be paid to the Issuer, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

18. Prescription

Claims in respect of principal and interest or other sums payable hereunder shall prescribe unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

19. Remedies

All remedies conferred by the Trust Indenture to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Indenture, subject to Condition 20 (Ability to File Suit).

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Indenture to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

20. Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Indenture to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in its own name; (iii) the Trustee for sixty (60) days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Indenture to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such

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holder or to enforce any right under the Trust Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

21. Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may on behalf of the Bondholders waive any past default except the events of default defined as a payment default, breach of representation or warranty default, insolvency default, or closure default, and its consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

22. Trustee; Notices

(a) Notice to the Trustee

All documents required to be submitted to the Trustee pursuant to the Trust Indenture and this Prospectus and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee:	Metropolitan Bank & Trust Company – Trust Banking Group
Attention:	Jasmin S. Bilasano
Subject:	Ayala Bonds Due 2024 and Ayala Bonds Due 2026
Address:	16 th Floor Metrobank Center 35th Street corner 7th Street Bonifacio Global City, Taguig City
E-mail address:	jaz.bilasano@metrobank.com.ph
Telephone Number	88575614

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

(b) Notice to the Bondholders

The Trustee shall send all Notices to Bondholders to their mailing address as set forth in the Register of Bondholders. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) one-time publication in a newspaper of general circulation in the Philippines; (iv) personal delivery to the address of record in the Register of Bondholders; or (v) registered e-mail address of the Bondholder. The Trustee shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on date of publication or (iv) on date of delivery, for personal delivery.

The publication in a newspaper of general circulation in the Philippines of a press release or news item about a communication or disclosure made by the Issuer to the Securities and Exchange Commission on a matter relating to the Bonds shall be deemed a notice to Bondholders of said matter on the date of the first publication.

(c) Binding and Conclusive Nature

Except as provided in the Trust Indenture, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Indenture, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence as referred to above) no liability to the Issuer, the Paying Agent or the Bondholders

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shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Indenture.

23. Duties and Responsibilities of the Trustee

- (a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Indenture. The Trustee shall, in accordance with the terms and conditions of the Trust Indenture, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Indenture. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Indenture. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.
- (b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Indenture. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Indenture, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters exercise in the management of their own affairs.
- (c) None of the provisions contained in these Terms and Conditions or this Prospectus shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

24. Resignation and Change of Trustee

- (a) The Trustee may at any time resign by giving thirty (30) days' prior written notice to the Issuer and to the Bondholders of such resignation.
- (b) Upon receiving such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor Trustee by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor Trustee. However, notwithstanding the immediately preceding sentence, in cases where an Event of Default shall have occurred and be continuing, it is the Majority Bondholders, not the Issuer, that shall appoint the successor Trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a bona fide holder for at least six (6) months (the "*Bona Fide* Bondholder") may, for and on behalf of the Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor Trustee.
- (c) Subject to Section (f) below, a successor Trustee must possess all the qualifications required under pertinent laws.
- (d) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer may within thirty (30) days therefrom remove the Trustee concerned, and appoint a successor Trustee, by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor Trustee. If the

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Issuer fails to remove the Trustee concerned and appoint a successor Trustee, any *Bona Fide* Bondholder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor Trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor Trustee.

- (e) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence of the action in that regard taken by the Majority Bondholders.
- (f) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions in the Trust Indenture shall become effective upon the earlier of: (i) acceptance of appointment by the successor trustee as provided in the Trust Indenture; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Indenture (the "Resignation Effective Date"); provided however that after the Resignation Effective Date and, as relevant, until such successor trustee is qualified and appointed (the "Holdover Period"), the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor Trustee promptly upon the appointment thereof by the Issuer.

25. Successor Trustee

- (a) Any successor Trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor Trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as Trustee in the Trust Indenture. The foregoing notwithstanding, on the written request of the Issuer or of the successor Trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor Trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor Trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties.
- (b) Upon acceptance of the appointment by a successor Trustee, the Issuer shall notify the Bondholders in writing of the succession of such trustee to the trusteeship. If the Issuer fails to notify the Bondholders within ten (10) days after the acceptance of appointment by the successor trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

26. Reports to the Bondholders

- (a) The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date until full payment of the Bonds a brief report dated as at December 31 of the immediately preceding year with respect to:
 - (i) the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and
 - (ii) any action taken by the Trustee in the performance of its duties under the Trust Indenture which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.
- (b) The Trustee shall submit to the Bondholders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the

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circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10%) of the aggregate outstanding principal amount of the Bonds at such time.

- (c) The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:
 - (i) Trust Indenture
 - (ii) Registry and Paying Agency Agreement
 - (iii) Articles of Incorporation and By-Laws of the Company
 - (iv) Registration Statement of the Company with respect to the Bonds

27. Meetings of the Bondholders

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Indenture or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

(a) Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

(b) Failure of the Trustee to Call a Meeting

In case at any time, the Issuer, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Issuer or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

(c) Quorum

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

(d) Procedure for Meetings

- (i) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.
- (ii) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons

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representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as at the date of the said meeting. Bondholders shall be entitled to one (1) vote for every Ten Thousand Pesos (₱10,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

(f) Voting Requirement

Except as provided in Condition 31 (Amendments), all matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Indenture. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Issuer as if the votes were unanimous.

(g) Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

28. Evidence Supporting the Action of the Bondholders

Wherever in the Trust Indenture it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

29. Non-Reliance

Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.

30. Amendments

The Issuer and the Trustee may amend or waive any provisions of the Bond Agreements if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest

Description of the Bonds

error or inconsistency, without prior notice to or the consent of the Bondholders or other parties, provided in all cases that such amendment or waiver does not adversely affect the interests of the Bondholders and provided further that all Bondholders are notified of such amendment or waiver.

The Issuer and the Trustee may amend the Terms and Conditions of the Bonds with notice to every Bondholder following the written consent of the Majority Bondholders (including consents obtained in connection with a tender offer or exchange offer for the Bonds) or a vote of the Majority Bondholders at a meeting called for the purpose. However, without the consent of each Bondholder affected thereby, an amendment may not:

- (a) reduce the percentage of principal amount of Bonds outstanding that must consent to an amendment or waiver;
- (b) reduce the rate of or extend the time for payment of interest on the Bonds;
- (c) reduce the principal of or extend the Maturity Date or vary the Call Option Date of the Bonds;
- (d) impair the right of any Bondholder to receive payment of principal of and interest on such Bondholder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;
- (e) reduce the amount payable upon the redemption or repurchase of the Bonds under the Terms and Conditions or change the time at which the Bonds may be redeemed;
- (f) make the Bonds payable in money other than that stated in the Bonds;
- (g) subordinate the Bonds to any other obligation of Ayala;
- (h) release any security interest that may have been granted in favor of the Bondholders;
- (i) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by Bondholders; or
- (j) make any change or waiver of this Condition.

It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, the Issuer shall send a notice briefly describing such amendment to the Bondholders in the manner provided in the paragraph entitled "*Notice to the Bondholders*".

31. Notices to the Bondholders

Notices to Bondholders shall be sent to their mailing address as set forth in the Register of Bondholders when required to be made through registered e-mail address, registered mail, surface mail or personal delivery. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; (iv) personal delivery to the address of record in the Register of Bondholders or (v) disclosure through the Online Disclosure System of the PDEX or The Philippine Stock Exchange, Inc. ("PSE"). The Trustee shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on date of publication; (iv) on date of delivery, by personal delivery; or (v) on the date that the disclosure is uploaded on the website of the PDEX or the PSE.

Description of the Bonds

A notice to the Trustee is notice to the Bondholders. The publication in a newspaper of general circulation in the Philippines of a press release or news item about a communication or disclosure made by the Issuer to the SEC, the PDEx or the PSE on a matter relating to the Bonds shall be deemed a notice to the Bondholders of said matter on the date of the first publication.

32. Governing Law

The Bond Agreements are governed by and are construed in accordance with Philippine law.

33. Venue

Any suit, action, or proceeding against the Issuer with respect to the Bonds or the Bond Agreements or on any judgment entered by any court in respect thereof may be brought in any competent court in the City of Makati, and the parties submit to the exclusive jurisdiction of such courts for the purpose of any such suit, action, proceeding or judgment, the Issuer and Bondholders expressly waiving other venue.

34. Waiver of Preference

The obligation created under the Bond Agreements and the Bonds shall not enjoy any priority of preference or special privileges whatsoever over any indebtedness or obligations of the Issuer. Accordingly, whatever priorities or preferences that this instrument may have or any person deriving a right hereunder may have under Article 2244, paragraph 14 of the Civil Code of the Philippines are hereby absolutely and unconditionally waived and renounced. This waiver and renunciation of the priority or preference under Article 2244, paragraph 14 of the Civil Code of the Philippines shall be revoked if it be shown that an indebtedness of the Issuer for borrowed money has a priority or preference under the said provision.

35. Certain Defined Terms

The following sets forth the respective definitions of certain terms used in this Terms and Conditions of the Bonds. Except as otherwise provided and where context indicates otherwise, defined terms in this Terms and Conditions of the Bonds have the meanings ascribed to them in the Trust Indenture.

- (a) **Affiliate** means any corporation, directly or indirectly controlled by the Issuer, whether by way of ownership of at least twenty percent (20%) of the total issued and outstanding capital stock of such corporation, or the right to elect at least twenty percent (20%) of the number of directors in such corporation, or the right to control the operation and management of such corporation by reason of contract or authority granted by said corporation to the Issuer.
- (b) **Bankruptcy** means, with respect to a Person, (a) that such Person has (i) made an assignment for the benefit of creditors; (ii) filed a voluntary petition in bankruptcy; (iii) been adjudged bankrupt, or insolvent; or had entered against such Person an order of relief in any bankruptcy or insolvency proceeding; (iv) filed a petition or an answer seeking for such Person any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation or filed an answer or other pleading admitting or failing to contest the material allegations of a petition filed against such Person in any proceeding of such nature; or (v) sought, consented to, or acquiesced in the appointment of a trustee, receiver or liquidator of such Person or of all or any substantial part of such Person's properties; (b) sixty (60) days have elapsed after the commencement of any proceeding against such Person seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation and such proceeding has not been dismissed; or (c) sixty (60) days have elapsed since the appointment without such Person's consent or acquiescence of a trustee, receiver or liquidator of such Person or of all or any substantial part of such Person's properties and such

Description of the Bonds

appointment has not been vacated or stayed or the appointment is not vacated within sixty (60) days after the expiration of such stay.

- (c) **Current Assets** means means the aggregate (as at the relevant date for calculation) of the Issuer's cash, marketable securities, trade and other receivables realizable within one (1) year, prepaid expenses, deposits and other current assets as would be determined as such under PFRS.
- (d) **Current Liabilities** means the aggregate (as at the relevant date for calculation) of all liabilities of the Issuer falling due on demand or within one (1) year, including that portion of Long Term Obligation which falls due within one (1) year and such other liabilities as would be determined as such under PFRS.
- (e) **Current Ratio** means the ratio which Current Assets bear to Current Liabilities.
- (f) **Debt** means the total of short term debt, current portion of long term debt, and long term debt.
- (g) **Long Term Obligation** means the aggregate (as at the relevant date of calculation) of all those component parts of the liabilities of the Issuer which fall due or whose final payment is due on a date more than one (1) year after the relevant date for calculation, exclusive of deferred credits and all interest rate or foreign exchange hedging transactions and such other liabilities as would be determined as such under PFRS.
- (h) **Majority Bondholders** means the holders of more than fifty percent (50%) in principal amount then outstanding of the Series A Bonds or the Series B Bonds, as the case may be.
- (i) **Net Debt to Equity** means the ratio which Debt less cash and cash equivalents and short-term investments to Total Stockholders' Equity.
- (j) **Security** means any mortgage, pledge, lien or encumbrance constituted on any of the Issuer's properties, for the purpose of securing its or its Affiliates' obligation.
- (k) **Total Stockholders' Equity** means the aggregate (as at the relevant date for calculation) of the par value of the outstanding common stock, preferred stock, capital surplus, retained earnings, additional paid-in capital, cumulative translation adjustment, appraisal surplus arising from past appraisal and any further appraisal surplus arising from subsequent independent certified appraisal of the Issuer's property, plant and equipment effected in accordance with PFRS, and any reserve for expansion projects, less any subscriptions receivable, treasury shares, parent company shares held by a subsidiary and such other items as would be determined as such under PFRS.

RISK FACTORS

GENERAL RISK WARNING

- *The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities.*
- *Past performance is not a guide to future performance.*
- *An investor deals in a range of investments, each of which may carry a different level of risk.*

PRUDENCE REQUIRED

This risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. An investor should undertake its/his/her own research and study on the trading of securities before commencing any trading activity. Investors may request information on the securities and the Issuer thereof from the SEC, which are available to the public.

PROFESSIONAL ADVICE

An investor should seek professional advice if it/he/she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially high-risk securities.

RISK FACTORS

An investment in the Bonds described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider the following factors, in addition to the other information contained in this Prospectus, in deciding whether or not to invest in the Bonds. This Prospectus contains forward-looking statements that involve risks and uncertainties. Ayala adopts what it considers conservative financial and operational controls and policies to manage its business risks. Ayala's actual results may differ significantly from the results discussed in the forward-looking statements. See section "Forward-Looking Statements" of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of Ayala, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below.

Investors should carefully consider all the information contained in this Prospectus including the risk factors described below, before deciding to invest in the Bonds. The Company's business, financial condition and results of operations could be materially adversely affected by any of these risk factors.

RISKS ASSOCIATED WITH THE COMPANY AND THE GROUP

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.

Any restriction or prohibition on Ayala's subsidiaries', Associates' or Joint Ventures' ability to distribute dividends would have a negative effect on its financial condition and results of operations and its ability to fulfil its obligations under the Bonds.

Ayala is a holding company that conducts its operations through its subsidiaries, Associates and Joint Ventures. As a holding company, Ayala's income is derived primarily from dividends paid to Ayala by its subsidiaries, Associates and Joint Ventures. For the year ended December 31, 2019 and December 31, 2020, Ayala earned ₱13.6 Billion and ₱11.1 Billion dividends, respectively.

Ayala is reliant on these sources of funds with respect to its obligations and in order to finance its Subsidiaries. The ability of Ayala's direct and indirect Subsidiaries, Associates and Joint Ventures to pay dividends to Ayala (and their shareholders in general) is subject to applicable law and may be subject to restrictions contained in loans and/or debt instruments of such Subsidiaries and may also be subject to the deduction of taxes. Currently, the payment of dividends by a Philippine corporation to another Philippine corporation is not subject to tax.

Any restriction or prohibition on the ability of some or all of Ayala's Subsidiaries, Associates and/or Joint Ventures to distribute dividends or make other distributions to Ayala, either due to regulatory restrictions, debt covenants, operating or financial difficulties or other limitations, could have a negative effect on Ayala's cash flow and therefore, its financial condition. Furthermore, such restrictions could likewise impact Ayala's ability to fulfil its obligations under the Bonds.

Claims of creditors of Ayala's subsidiaries and affiliates, including trade creditors, bank lenders and other creditors, will have priority over any claims of Ayala with respect to the assets of such subsidiaries and affiliates.

To ensure that Ayala has the capability to honor its obligations, it monitors the level of its net debt to value and cash flow adequacy ratios. The Board has set an internal limit of 20% for its net debt to value. This ratio measures Ayala's capability to repay maturing debt with its assets. On the other hand, the cash flow adequacy ratio measures the percentage of incoming cash (includes dividends, rentals, interest, among others) to operating expenses and interest payments. The net debt to value and cash flow adequacy ratios at the end of December 2020 were 9.2% and 1.21x, respectively.

The Group is subject to cyclical risks.

A significant majority of the Group's revenues are derived from its real estate and financial services businesses. Traditionally, these industries have been subject to cyclical risks relating to the broader economic environment. As a result, the Group is subject to cyclical risks and its financial condition may

Risk Factors

be materially and adversely impacted as a result of any economic slowdown or stagnation in growth in the Philippines.

Furthermore, the receivables and inventories of Ayala Land, Ayala's largest subsidiary, have historically exhibited cyclical trends based on the timing and progress of its projects and their respective stages of development. Historically, such cyclical trends have in turn resulted in similar cyclical trends in the cash flows of Ayala. There is no assurance that Ayala Land's receivables and inventories will not continue to fluctuate in the future, which may adversely impact Ayala's financial condition.

The Investment and Finance Committees review the performance of each business unit at least twice a year: a general review, which covers Ayala's portfolio of businesses; and a specific business unit review. In the latter, the business unit's performance is measured against several metrics including the current budget, the latest medium-term plan and often, against competitors. The objective of these reviews is to refine capital allocation depending on performance, and if needed, suggest changes to the business plans or strategies.

Ayala is increasing its investments in the industrial technologies, logistics, 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, logistics, 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.

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 is controlled by the Controlling Shareholders, whose interests may not be the same as those of other shareholders.

Messrs. Jaime M. Augusto Zobel de Ayala and Fernando M. Zobel de Ayala, individually and through their control of Mermac, Inc. ("Mermac"), a private holding company incorporated in the Philippines, are the majority shareholders (the "Controlling Shareholders") of, and effectively control, Ayala. Mermac held 47.27% of the outstanding Common Shares, and 86.39% of the outstanding voting preferred shares of Ayala (the "Voting Preferred Shares"), as of December 31, 2020, respectively. Accordingly, as of December 31, 2020, the Controlling Shareholders effectively have control over 56.73% of Ayala's voting shares and are able to elect members of the Board of Directors of Ayala and pass shareholder resolutions (not including special resolutions, which require a two-thirds majority), which under the By-laws generally require a majority vote by its shareholders. If the interests of the Controlling Shareholders conflict with the interests of other shareholders of Ayala, there can be no assurance that the Controlling Shareholders would not cause Ayala to take action in a manner which might differ from the interests of other shareholders.

Risk Factors

Given the large scale of Ayala's operations, its decision-making process has to be inclusive and responsive to the needs of shareholders and address a wide base of interests. Ayala seeks to maximize good governance to ultimately guarantee that long-term considerations are prioritized over short-term gains. Toward these goals, Ayala strives to adhere to regulatory requirements and global best practices. In addition to compliance with regulations, Ayala develops governance summits and internal councils, supports scholarly efforts on good governance and advanced shared value business models aiming to voluntarily embed global frameworks into Ayala's operations and support sustainable development.

Failure to obtain financing on reasonable terms or at all could adversely impact the execution of Ayala's expansion and growth plans.

Ayala's expansion and growth plans are expected to require significant fund raising from external sources. Ayala's continued access to debt and equity financing as a source of funding for new projects and acquisitions and for refinancing maturing debt is subject to many factors, including: (a) Philippine regulations limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers; (b) the Issuer's and Group's compliance with existing debt covenants; (c) the ability of Ayala to service new debt; (d) the macroeconomic fundamentals driving credit ratings of the Philippines; and (e) perceptions in the capital markets regarding the Group and the industries 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 Philippine regulatory environment or the bankruptcy of an unrelated company operating in one or more of the same industries as the Group, any of which could increase borrowing costs or restrict Ayala's ability to obtain debt or equity financing. There is no assurance that Ayala will be able to arrange financing on acceptable terms, if at all. Any inability of Ayala to obtain financing from banks and other financial institutions or from capital markets would adversely affect Ayala's ability to execute its expansion and growth strategies.

Ayala maintains a conservative and diversified funding strategy, mitigating the Company's financing risks for its expansion plans. Ayala sets a maximum amount of debt maturities guided by a strategic capital allocation plan to anticipate funding requirements, manage refinancing, and related market liquidity risks. The Company maintains strong relationships with both domestic and foreign banks, providing wide access for Philippine Peso and U.S. Dollar loans, through committed standby bilateral facilities.

Ayala's strong balance sheet provides the flexibility to tap both debt and equity capital markets in various stages of the economic cycle. Ayala, through a sound asset management strategy, may also recycle capital and realize value from its various investments providing additional source of financing for new projects, acquisitions and continued growth plans.

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

Risk Factors

business unit performance. The Senior Management Team is also expected to strengthen relationships and establish networks with potential partners and advisers.

Members of the Group enter into numerous transactions with related parties.

In the ordinary course of business, Ayala transacts with its related parties, such as its Subsidiaries and certain of its Associates and Joint Ventures, and members of the Group 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, guarantees, construction contracts and various services such as consultancy, project development, management, marketing and administrative support. Certain members of the Group maintain current and savings accounts, money market placements and other short-term investments with BPI, and have short-term and long-term debt payable to BPI, which are governed by BSP regulations on loans to directors, officers, stockholders and other related interests. In addition, members of the Group have receivables from officers and employees relating to housing, car, salary and other loans, which are collectible through salary deductions.

Although Ayala has instituted internal policies with respect to related party transactions, including establishing a board committee to oversee such matters, and believes that all past related party transactions have been conducted at arm's length on commercially reasonable terms, these transactions may involve conflicts of interest, which, although not contrary to law, may negatively impact the Group.

For further information on the Group's related party transactions, see Note 32 to Ayala's audited consolidated financial statement included in this Prospectus. Except for those discussed in the said audited consolidated financial statement, no other transaction, other than as appropriately disclosed by Ayala, was undertaken by the Group involving any director or executive officer, any nominee for election as director, any beneficial owner of more than 5% of Ayala's outstanding shares (direct or indirect) or any member of his immediate family was involved or had a direct or indirect material interest. Ayala's employees are required to promptly disclose any business and family-related transactions with Ayala to ensure that potential conflicts of interest are reviewed and disclosed as appropriate.

Certain Group companies are subject to restrictive debt covenants.

Certain Group companies 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, if the debt is unsecured debt, then it will be effectively subordinated in right of payment to such company's secured debt to the extent of the value of the assets securing such debt and all debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines without a waiver of preference or priority.

Ayala and its subsidiaries are prudently managing its debt obligations by ensuring that any corporate act, whether or not performed in the ordinary course of business, does not violate any existing debt covenants. Prior to securing any debt, a thorough review of both mid-term and long-term operating, cashflow and performance metrics projections or targets is performed to support the use and settlement of debt. At the parent level, Ayala ensures that its debt maturities are well-spread out and in compliance with its internal policy of not having maturities exceeding 20% of total debt on a yearly basis.

During the life of the debt and major obligations, alongside the semi-annual and annual review of operating results, certain related performance metrics are assessed to ensure these are aligned with targets and would ultimately honor obligations from its creditors, bond holders and shareholders. Metrics include cash level, cash flow adequacy ratio, debt-to-equity ratios and loan to value ratio (please see additional discussion on parent and the Group's cash and debt in the Management's Discussion and Analysis section of this report).

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Ayala may not be able to adequately influence the operations of its Associates and Joint Ventures.

Ayala derives a substantial portion of its income from Associates and Joint Ventures. Ayala does not have majority voting control of its Associates and Joint Ventures and, therefore, may not be able to direct the operations of these entities. 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. Disagreements with these partners or other shareholders over business strategy and direction may lead to a material impact on Ayala's results of operations.

In order for Ayala to operate on the same principles of timeliness, integrity, and transparency, its senior management team regularly engages with business partners and affiliates through high-level meetings and dialogues to address topics of concern on financial performance, governance, commercial viability, business outlook, and management strategies. Further, Ayala and its senior management participate in relevant global organizations to keep abreast of developments and trends in various sectors.

Ayala is highly dependent on the continued service of key senior management individuals, in particular the Zobel de Ayala brothers.

Ayala relies on certain key individuals in senior management for leadership. In particular, Jaime Augusto Zobel de Ayala, Chairman and former Chief Executive Officer ("CEO") of Ayala, and his brother Fernando Zobel de Ayala, President and current CEO of Ayala, have been integral in expanding the Group and its revenues and profitability. The experience, knowledge, business relationships and expertise that would be lost should these or other key individuals depart the business could be difficult to replace and could result in a decrease in Ayala's financial performance.

However, Ayala's management team is composed of seasoned professionals with a proven track record of success both within and outside the group. In addition, Ayala has a well-defined succession bench to ensure the presence of strong leaders for the group. Each independent business unit is also led by its own deep bench of skilled executives. The Ayala Group Management Committee, composed of Ayala Corporation's senior management team and the CEOs of the Ayala Group companies, ensures alignment of individual business unit priorities to group-wide targets while maximizing synergies across the group. Ayala acknowledges that its ability to execute strategies is driven by its people who have the experience, expertise and discipline. In order to have such pool of talents, Ayala provides continuing training and development programs, from specific job skills to long-term professional development provided by in-house and external partners to ensure that there is continuity of business in the event that key personnel decide to retire or pursue interests outside Ayala. Ayala periodically implements initiatives to identify potential successors to key senior management position and prepares talent for taking on greater responsibilities as the circumstances may require.

Ayala or the Group companies may be unable to attract and retain skilled personnel in a competitive job market.

Any loss of key personnel and an inability of Ayala or the individual Group companies to replace personnel and to train and retain replacement personnel, could materially and adversely affect the Group's ability to provide products and services to its customers. Losses of trained personnel could also result in the Group incurring additional expenses in hiring and training replacement personnel and it may take time for these new personnel to reach the level of technical skill and expertise of the personnel they are replacing. Any of the foregoing could have a material adverse effect on the Group's business, financial condition and results of operations. In addition, the Group has relied and will continue to rely significantly on the continued individual and collective contributions of its senior management team. If any of the Group's key personnel are unable or unwilling to continue in their present positions, or if they join a competitor or form a competing business, the Group may not be able to replace them easily, and its business may be significantly disrupted and its business, financial condition, results of operations and prospects could be materially and adversely affected.

Ayala continually seeks to hire talented and dedicated professionals and believes that it is well positioned in the market for talented personnel as it offers opportunities for professional growth in businesses across the Group. Toward this goal, Ayala provides market-competitive compensation and benefits, which are aligned to corporate goals, annual targets, and long-term strategic plans. At Ayala,

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a performance based variable compensation scheme uses the Key Result Area scorecard accomplishments as metrics. Ayala measures employee engagement every two years and creates and enhances people initiatives to address the employees' evolving priorities.

The transactions of the Group may be subject to review under the Philippine Competition Act.

Republic Act No. 10667, the Philippine Competition Act (the "PCA") became effective on August 8, 2015. The PCA prohibits and penalizes anti-competitive agreements and abuse of dominance; however, it provides that administrative, civil and criminal penalties may only be imposed if violations are not cured upon the expiration of two years after the effectivity of the PCA. This transition period ended on August 8, 2017. Under the PCA, there is a rebuttable presumption of dominance when an entity has a market share of 50% or more. Members of the Group that possess a market share of 50% or more are proscribed from committing any of the acts listed as abuse of dominance. As of December 31, 2020, Globe's share of revenues in the wireless industry, based on its internal analysis using public information, was 52%. In addition, as the Group continues its strategy of acquisitions and joint ventures, there could be more reason for certain of its transactions to be subject to the PCA. There can be no assurance that none of Ayala's existing or future businesses or strategies will not be subject to PCA scrutiny, and the result of any such scrutiny, whether in terms of review, penalties or any conditions imposed on Ayala, may have a material adverse effect on its business and strategies. See "*— Risks relating to the Group's Telecommunications business — Globe may be subject to adverse rulings by the Competition Commission*".

Given the usual volume of the members of the Group's transactions, mergers or acquisitions undertaken by the members of the Group would likely meet the notification threshold under the PCA and its Implementing Rules and Regulations ("IRR"). The members of the Group will comply with the requirements of the PCA and its IRR.

The Prospectus contains certain statistical and industry information.

Certain statistical or industry information in this Prospectus relating to the Philippines, other Southeast Asian economies, the industries and markets in which the businesses of the Group compete, and other data used in this Prospectus was obtained or derived from internal surveys, market research, governmental data, publicly available information and/or industry publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable. However, there is no assurance that such information is accurate or complete. Similarly, internal surveys, industry forecasts and market research have not been independently verified by the Group and may not be accurate, complete, up-to-date, balanced or consistent with other information compiled within or outside the Philippines.

However, Ayala is employing the service of a third-party auditor or an expert, as applicable, to verify the accuracy and relevance of certain statistical and industry information related to this offering.

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;

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- 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 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.

For a more detailed description of these industry-specific risks, please refer to the "Business" section on page 104.

RISKS RELATING TO THE PHILIPPINES

The continuing impacts of the COVID-19 pandemic are highly unpredictable, volatile, and uncertain, and have had, and will continue to have, certain negative impacts on business operations, demand for products and services, costs of doing business, availability of labor, access to inventory, supply chain operations, the Group's financial performance, and the ability to predict future performance, among others.

The COVID-19 pandemic has created significant public health concerns as well as economic disruption, uncertainty, and volatility, all of which have impacted and may continue to impact the Company's businesses. While the Company has taken numerous steps to mitigate the impact of the pandemic on its results of operation, there can be no assurance that these efforts will be successful. As of the date of this Prospectus, Metro Manila is under General Community Quarantine ("GCQ"), while other areas continue to be placed under other levels of community quarantine and there is no assurance that areas that are currently under GCQ or Modified GCQ will not be put under more stringent community quarantine in the future. Due to numerous uncertainties and factors beyond its control, Ayala is unable to predict the impact that COVID-19 will have going forward on its businesses, results of operations, cash flows, and financial condition. These factors and uncertainties include, but are not limited to:

- the severity and duration of the pandemic or other additional periods of increases or spikes in the number of COVID-19 cases in future periods in areas in which the Company operates;
- the duration and degree of governmental, business or other actions in response to the pandemic, including but not limited to quarantine, stay-at-home or other lockdown measures;
- restrictions on operations up to and including complete or partial closure of offices, plants, facilities and distribution centers;
- economic measures, fiscal policy changes, or additional measures that have not yet been effected;
- the health of, and effect of the pandemic on, the Company's personnel and the Company's ability to maintain staffing needs to effectively operate its businesses;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;

Risk Factors

- the impact of the pandemic and related economic uncertainty on consumer confidence, economic well-being, spending, and shopping behaviors, both during and after the crisis;
- impacts—financial, operational or otherwise—on the Company's supply chain, including manufacturers or suppliers of products and logistics or transportation providers, and on the Company's service providers or third-party contractors;
- volatility in the credit and financial markets during and after the pandemic;
- the impact of any litigation or claims from customers, suppliers, regulators or other third parties relating to COVID-19 or the Company's actions in response thereto;
- the pace of recovery when the pandemic subsides; and
- the long-term impact of the pandemic on the Company's businesses.

The above factors and uncertainties, or others of which the Company is not currently aware, may result in adverse impacts to the Company's businesses, results of operations, cash flows, and financial condition. In particular, the COVID-19 pandemic has, and is expected to continue to have, an adverse effect on the Company's businesses and results of operations. While the country was subjected to Enhanced Community Quarantine ("ECQ") at the onset of the pandemic, the community quarantine measures eventually eased up throughout the year. Metro Manila shifted to GCQ on June 1, 2020, and retained this status until the end of the 2020. Other parts of the country were able to shift to the more lax modified general community quarantine ("MGCQ") by the end of 2020. For the first few months of 2021, the guidelines on transportation and interregional travel eased. However, with the rise of the COVID-19 cases, Metro Manila and the provinces of Bulacan, Cavite, Laguna and Rizal, have been placed under a stricter version of GCQ for a two-week period beginning on March 22, 2021 as part of the Philippine Government's efforts to control the surge in the COVID-19 cases. The restrictions limit travel in and out of covered areas, prohibit in-door dining, and impose curfews. On March 27, 2021, following a spike in COVID-19 cases, the Philippine Government placed Metro Manila and certain neighboring provinces under ECQ from March 29, 2021 until April 11, 2021. On April 11, 2021, the Government announced that Metro Manila and certain neighboring provinces would shift to MECQ starting April 12, 2021 until April 30, 2021, which was extended through May 15, 2021.

Given the imposition of ECQ, and other community quarantine measures for the duration of the year 2020, as well as mobility restrictions still currently being imposed, the full year 2020 performance reflects the full impact of the lockdown, thereby continuing and amplifying trends observed during the first quarter of 2020. The re-imposition of stricter quarantine measures following the rise in cases of COVID-19 in the country may continue to impact the financials of the Group in 2021.

As part of the private sector's contribution to the national vaccination program, the Group is taking a portfolio approach in securing AstraZeneca and Moderna vaccines for its employees primarily. The Group has been utilizing its healthcare expertise in assisting the government implement the national vaccination program through vaccine administration.

The extent to which the COVID-19 pandemic will continue to impact the Company will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19 both in the Philippines and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted.

To the extent the COVID-19 pandemic adversely affects the business and financial results of the Company, it may also have the effect of heightening many of the other risks described in the Prospectus.

Substantially all of Ayala's operations and assets are based in the Philippines and, therefore, a slowdown in economic growth in the Philippines could materially and adversely affect Company's business, financial position, and results of operations.

A substantial component of Ayala's business activities and assets is based in the Philippines, which exposes Ayala to risks associated with the country, including the performance of the Philippine economy. Historically, Ayala derived substantially its revenues and operating profits from the Philippines and, as such, their businesses are highly dependent on the state of the Philippine economy. Demand for Ayala's products and services are all directly related to the strength of the Philippine economy (including its overall growth and income levels), and the overall levels of business activity in the Philippines. Factors that may adversely affect the Philippine economy include:

Risk Factors

- a. decreases in business, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- b. scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- c. exchange rate fluctuations and foreign exchange controls;
- d. rising inflation or increases in interest rates;
- e. levels of employment, consumer confidence and income;
- f. changes in the Government's fiscal and regulatory policies;
- g. Government budget deficits;
- h. adverse trends in the current accounts and balance of payments of the Philippine economy;
- i. natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- j. geopolitical tensions between the Philippines and other claimant countries concerning disputed territories in the South China Sea;
- k. trade tensions and the rise of protectionism among trade partners of the Philippines;
- l. political instability, terrorism or military conflict in the Philippines, other countries in the region (including North Korea or Myanmar) or globally; and
- m. other regulatory, social, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect Ayala's business, financial condition and results of operations.

The sovereign credit ratings of the Philippines may adversely affect Ayala's business.

The sovereign credit ratings of the Philippines directly affect companies resident and domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies — Fitch (BBB-), Standard and Poor's (BBB) and Moody's (Baa3). In 2014, Standard & Poor's Financial Services ("S&P") and Moody's upgraded their ratings to "BBB" with a positive outlook and "Baa2" in May and December, respectively. Moody's affirming its rating in June 2020. In addition, S&P retained the country's rating of "BBB+" in May 2020, in spite of the COVID-19 pandemic. Meanwhile, Fitch Ratings upgraded the Philippines' credit rating from "BBB-" to "BBB" in December 2018, but revised its outlook of 'positive' to 'stable' in 2020. Fitch has reaffirmed the credit rating and outlook in January 2021. All ratings are above investment grade and the highest that the country has received so far.

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as Ayala. There is no assurance that Fitch, Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of, or the outlook for, the Philippines in the future. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine Government and Philippine companies, including Ayala, to raise additional financing, and will increase borrowing and other costs.

Risk Factors

Fluctuation in the value of the Peso against the U.S. Dollar and other currencies may affect Ayala's business.

Ayala's revenues are predominantly denominated in Pesos, while some investment initiatives and certain expenses, including debt obligations, are denominated in other currencies (principally U.S. Dollars). To fund its foreign currency requirements, Ayala taps the international market to raise needed funds and capitalize on the offshore market's flexibility in volume and in pricing. Ayala only incurs foreign currency debt for foreign currency assets. To hedge against minimal foreign currency exposure, Ayala may utilize short to medium term hedges to protect itself from any Peso depreciation. Furthermore, Ayala also keeps short-term U.S. Dollar investment as part of its liquid assets.

At present, the country's exchange rate policy supports a freely floating exchange rate system whereby the BSP leaves the determination of the exchange rate to market forces. Under a market-determined exchange rate framework, the BSP does not set the foreign exchange rate but instead allows the value of the Peso to be determined by the supply and demand of foreign exchange. The implementation of the revised Foreign Exchange rules eased the purchase of foreign currencies in the banking system.

Sudden fluctuations or volatility in foreign exchange rates may make it difficult for Ayala to forecast and manage its financials. The Peso was at ₱49.92 per US\$1.00 on December 31, 2017, then depreciated to ₱52.72 per US\$1.00 at the end of 2018. The Peso slightly recovered at end of 2019 to ₱50.74 per US\$1.00 and further strengthened to ₱48.04 against the U.S. Dollar on December 31, 2020. There is no assurance that the Peso will not depreciate against other currencies; or that future exchange rate fluctuations or volatility affecting the Peso will not have an adverse effect on the Philippine economy and the Group's financial condition and results of operation.

The Group's business operations may be affected by any political and military instability in the Philippines

The Philippines has from time to time experienced political and military 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. In the last few years, there has been political instability in the Philippines, including public and military protests arising from alleged misconduct by the previous administration.

In June 2020, the Manila Regional Trial Court, Branch 46, issued its order convicting journalist Maria Ressa over the cyber libel charges, with an indeterminate sentence corresponding to a maximum of 6 years of imprisonment. In the same month, Maria Ressa filed a motion for partial reconsideration before the Manila Regional Trial Court to appeal her cyber libel conviction, which remains pending for resolution of the court. Her arrest and subsequent conviction elicited concern from the international community and has been criticized by various groups as an attempt by the government to silence critical press coverage against President Rodrigo Duterte and his administration. On July 3 2020, President Duterte signed into law Republic Act No. 11479 or the Anti-Terrorism Act of 2020. Several groups had filed Supreme Court petitions challenging the constitutionality of provisions of the law aiming to declare the entire law unconstitutional. Moreover, the Duterte administration is pushing for a shift to a federal form of government. For this purpose, the President created a consultative committee to review the 1987 Constitution and draft a federal constitution. Moreover, the Duterte administration is pushing for a shift to a federal form of government. For this purpose, the President created a consultative committee to review the 1987 Constitution and draft a federal constitution.

The last Philippine legislative and local elections were held in May 2019, and the next national elections will be held in May 2022. The Company may be affected by political and social developments in the Philippines and changes in the political leadership and/or government policies in the Philippines. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that could impact the Company's business.

No assurance can be given that any changes in such regulations or policies imposed by the Government from time to time or the future political environment in the Philippines will be stable or that current or future administrations will adopt economic policies conducive to sustaining economic growth. Political instability in the future could reduce consumer demand for retail and consumer goods to the Group's disadvantage or result in inconsistent or sudden changes in regulations and policies that affect

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the Company's business operations, which could have a material adverse impact on the results of operations and financial condition of the Group.

Any economic slowdown or deterioration in economic conditions in the Philippines may adversely affect the Group's business and operations in the Philippines

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency, imposition of exchange controls, debt restructuring and electricity shortages and blackouts.

The regional Asian financial crisis in 1997 resulted in, among others, the depreciation of the Philippine peso, higher interest rates, slower growth and a reduction in the country's credit ratings. Since the Asian financial crisis, the country experienced a ballooning budget deficit, volatile exchange rates and a relatively weak banking sector. Likewise, the 2008 global financial crisis affected the emerging markets, including the Philippines, as global investors limited their exposure in the region to minimize risks. By the end of 2008, the Philippine Stock Exchange Index ("PSEi") was down 48%. The 2008 GDP was at 4.2% lower than the 2007 GDP print of 6.6%. The country's gross domestic product ("GDP") output further deteriorated to 1.1% in 2009.

The government instituted several reform measures in the fiscal and banking sectors, among others, that strengthened the country's economic fundamentals, resulting in improved investor confidence and increased economic activities. The Philippines was granted a Baa2 Stable Investment Grade rating from Moody's Investors Service on December 14, 2015. On April 24, 2015, S&P reaffirmed the BBB Stable long-term sovereign credit rating of the Philippines, the highest rating ever recorded in the country's history. The rating was upgraded by S&P to "BBB+" in April 2019. Likewise, Fitch upgraded the Philippines to BBB from BBB- with a stable outlook rating on December 11, 2017. All ratings agencies retained their credit rating of the Philippines in 2020, however, while Fitch upgraded their outlook on the Philippines to 'positive' in February 2020, this was revised back to 'stable' in May 2020 due to the impact of the pandemic. As of January 2021, this has outlook has been reaffirmed by Fitch.

Moreover, due to the COVID-19 outbreak, the Philippine Government expects the country's gross domestic product to fall by 5% due to the economic effects of the outbreak, and the resulting domestic shutdowns, reduced tourism, disrupted trade and manufacturing and financial market spillovers. On May 7, 2020, the National Economic Development Authority reported that the Philippine economy had slowed down for the first time in 22 years, contracting 0.2% in the first quarter of 2020, from a 5.6% growth rate in the first quarter of 2019. In early August 2020, the Philippine Statistics Authority revised the first quarter estimates, stating that the economy contracted by 0.7% compared to same period in the prior year, and that GDP for the second quarter of 2020 contracted by 16.5%, bringing the country to a technical recession. In November 2020, the National Economic Development Authority and Philippine Statistics Authority reported that the Philippine economy contracted by 11.5% year-on-year in the third quarter of 2020, resulting in a nine-month contraction of 10% compared to the previous year. According to ADB, while the Philippine's GDP growth contracted by 7.3% in 2020, it is expected to recover and grow by 6.5% in 2021. The extent of the impact of COVID-19 on the Philippine economy and the speed and certainty of any economic recovery cannot be predicted for certain, and any new surge in infections may result in stricter quarantine or lockdown measures across provinces, cities and municipalities may lead to further contraction of the Philippine economy, closure of businesses, and rise in unemployment rates.

To mitigate the abovementioned risks, the Ayala Group shall continue to adopt what it considers conservative financial and operational controls and policies within the context of the prevailing business, economic, and political environments taking into consideration the interests of its customers, stakeholders and creditors.

The Group may be affected by the Comprehensive Tax Reform Program

On December 19, 2017, the President of the Philippines signed into law the Tax Reform for Acceleration and Inclusion or Republic Act No. 10963 ("TRAIN Law") which took effect on January 1, 2018. The TRAIN Law amends certain provisions of the Tax Code and is the first package of the Comprehensive Tax Reform Program ("CTRP") of the Duterte administration.

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On February 14, 2019, the President signed into law the Tax Amnesty Act of 2019 or Republic Act No. 11213 ("Tax Amnesty Law"), which was intended to complement the provisions of the TRAIN Law.

Package 2 under the CTRP is Republic Act No. 11534 otherwise known as the Corporate Recovery and Tax Incentives for Enterprise Act (previously the CITIRA bill or the TRABAH bill) ("CREATE Law"). The CREATE Law intends to incentivize businesses by reducing corporate income tax, among others. Upon the effectivity of the CREATE Law, the following amendments introduced by the CREATE Law to the Tax Code that will have a material impact on the Group include the following:

- a. For domestic corporations with net taxable income of more than ₱5 Million and total assets (excluding land on which the corporation's office, plant, and equipment are situated) of more than ₱100 Million shall be subject to a reduced corporate income tax rate of 25% effective July 1, 2020. Domestic corporations with net taxable income of more than ₱5 Million and total assets (excluding land on which the corporation's office, plant, and equipment are situated) not exceeding ₱100 Million shall be imposed with a corporate income tax of 20% effective July 1, 2020. Prior to the CREATE Law, domestic corporations are subject to a 30% regular corporate income tax rate.
- b. Foreign sourced dividends shall only be exempt from taxation if (1) the funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation within the next taxable year from the time the foreign-sourced dividends were received and shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure projects; provided that the said domestic corporation holds directly at least 20% of the outstanding shares of the foreign corporation and has held the shares for at least two (2) years at the time of the dividend declaration;
- c. Minimum corporate income tax shall be imposed on domestic and resident foreign corporations at a rate of (i) 1% of gross income effective July 1, 2020 until June 30, 2023, and (ii) 2% thereafter;
- d. Regional operating headquarters shall pay a tax of 10% of their taxable income and shall be subject to the regular corporate income tax of 25% effective December 31, 2021;
- e. Nonresident foreign corporations shall pay a reduced corporate income tax of 25% from a previous rate of 30%.

The CREATE Law likewise rationalizes income fiscal incentives, making them time-bound, targeted, and performance-based. Holders of tax incentives are given a sunset period to adjust to the tax regime changes that will be brought about by the CREATE Law. Consequently, upon the effectivity of the CREATE Law, some tax exemptions or tax incentives enjoyed by certain members of the Group have expired, will be revoked, or have been repealed, or, if other new laws are enacted, the income from these sources will be subject to the regular corporate income tax rate after the lapse of the sunset period. As a result, tax expense of affected members of the Group would increase, and their respective 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 Group, could have a material adverse effect on the Group's business, financial condition and results of operations.

The CREATE Law was signed by the President on March 26, 2021 and became effective on April 11, 2021.

Tensions with China and other neighboring countries may adversely affect the Philippine economy and business environment.

The Philippines, Vietnam and several Southeast Asian nations have been engaged in a series of longstanding territorial disputes with China and other Southeast Asian countries over certain territories in the West Philippine Sea, also known as the South China Sea. The Philippines' efforts at bilateral talks with China failed, and thus the dispute remains unresolved. Actions taken by both sides have threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports and a temporary suspension of tours to the Philippines by Chinese travel agencies. In January 2013, the Philippines initiated arbitral proceedings before a tribunal under

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the United Nations Convention on the Law of the Sea (“UNCLOS”), in which China refused to participate.

On June 20, 2015, the Government, through the Department of Foreign Affairs, issued a statement reiterating its serious concern that China’s reclamation and construction activities in a disputed part of the West Philippine Sea grossly violate the 2002 ASEAN-China Declaration on the Conduct of Parties in the South China Sea (“DOC”) and may serve to escalate the disputes and undermine efforts to promote peace, security, and stability. In the same statement, the Philippines called on China anew to heed calls from the region and the international community to exercise self-restraint in the conduct of activities pursuant to Paragraph 5 of the DOC. On May 17, 2016, outgoing President Aquino issued Memorandum Circular No. 94 s. 2016 creating a National Task Force for the West Philippine Sea, to secure the country’s sovereignty and national territory and to preserve marine wealth in its waters and the exclusive economic zone, thereby reserving use and enjoyment of the West Philippine Sea exclusively for Filipino citizens.

In July 2016, the UNCLOS tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that China’s “nine-dash line” claim is invalid. Despite the decision, the Chinese Government has maintained its position that the Tribunal has no jurisdiction over the dispute, and thus, the decision is not binding on the Chinese Government. Recently, the Chinese Government successfully registered names for five undersea features found in the Philippine Rise (formerly Benham Rise) with the International Hydrographic Organization. This is despite the decision that the United Nations Commission on the Limits of the Continental Shelf had already granted the Philippines full territorial claim to the Philippine Rise in April 2012. While the Philippine Government downplays the Chinese names, the Philippines’ central mapping agency is seeking the assistance of the Department of Foreign Affairs for the nullification of the Chinese names for underwater features from the International Hydrographic Organization-Intergovernmental Oceanographic Commission General Bathymetric Chart of the Oceans (“IHOIOC GEBCO”) Sub-Committee on Undersea Feature Names (“SCUFN”).

In March 2021, more than 180 Chinese military vessels were spotted on Julian Felipe Reef in the West Philippine Sea. The presence of the vessels defined a diplomatic protest and demand for the vessels to leave the area, issued by Defense Secretary Delfin Lorenzana.

Newly elected President Joe Biden has manifested that the U.S. will not and should not be expected to ease up on military operations in the West Philippine Sea. This as South Asian nations and claimants involved in West Philippine Sea dispute awaits President Biden administration’s broader, and comprehensive China strategy.

There had been other occurrences of territorial disputes with Malaysia and Taiwan. In March 2013, several hundred armed Filipino Muslims illegally entered Malaysia in a bid to enforce an alleged historical claim on the territory. Clashes between the Filipino Muslim individuals and the Malaysian armed forces resulted in casualties on both sides. Taiwan imposed economic sanctions on the Philippines as a result of an incident in May 2013, whereby a Taiwanese fisherman was unintentionally killed by a Philippine coast guard ship that opened fire on his vessel in a disputed exclusive economic zone between Taiwan and the Philippines. The sanctions were eventually lifted after a formal apology was issued by the Philippine Government. Should the territorial dispute in the West Philippine Sea escalate or continue, the Philippines’ interests in fishing, trade and offshore drilling, the volume of trade between the Philippines and China, and the supply of steel available to the Philippines may be adversely affected, which in turn may affect, among other things, infrastructure development and general economic and business conditions in the Philippines, any of which could adversely affect Ayala’s business, financial condition and results of operations.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

While a principal objective of the Philippine securities laws, SEC regulations and PSE disclosure rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Issuer, than is regularly made available by public companies in the United States and other countries. The Philippines securities market is generally subject to less strict regulatory oversight than securities markets in more developed

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countries. Improper trading activities could affect the value of securities and concerns about inadequate investor protection may limit participation by foreign investors in the Philippine securities market. Furthermore, although the Issuer complies with the requirements of the SEC and PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Securities Regulation Code requires the Issuer to have at least two independent directors or such number of independent directors as is equal to 20% of the Board, whichever is the lower number. The Issuer currently has three independent directors. Many other jurisdictions require significantly more independent directors.

RISKS ASSOCIATED WITH THE BONDS

Debt evidenced by a public instrument is prioritized over the unsecured debt of the Group.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244 of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. So far as the Issuer is aware, none of its debt is evidenced by a public instrument and the Issuer will undertake in the Terms and Conditions of the Debt Securities to use its best endeavors not to incur such debt. Any such debt evidenced by a public instrument may, by mandatory provision of law, rank ahead of the Debt Securities in the event of the liquidation of the Issuer.

As a policy, the Group's borrowings are generally clean and are not collateralized by its assets, except for debts that are required by law to be secured.

An active trading market for the Debt Securities may not develop.

The Debt Securities are a new issue of securities for which there is currently no trading market. Even if the Debt Securities are listed on the PDEX, trading in securities such as the Debt Securities may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets and the overall market for debt securities among other factors. Although the Debt Securities are intended to be listed on PDEX as soon as reasonably practicable, no assurance can be given that an active trading market for the Debt Securities will develop and, if such a market were to develop the Issue Manager is under no obligations to maintain such a market. The liquidity and the market prices for the Debt Securities can be expected to vary with changes in market and economic conditions, the financial position and prospects of the Company and other factors that generally influence the market prices of securities.

The Company has no control over this risk as active trading of the Debt Securities is highly dependent on the bondholders. The Group actively cooperates in efforts aimed at improving the capital markets in the Philippines.

Retention of Ratings Risk

There is no assurance that the rating of the Bonds will be retained throughout the life of the Bonds. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

The Issuer may be unable to redeem the Debt Securities.

At maturity, the Issuer will be required to redeem all of the Debt Securities. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Debt Securities in time, or on acceptable terms, or at all. The ability to redeem the Debt Securities in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Debt Securities by the Issuer would constitute an event of default under the Debt Securities, which may also constitute a default under the terms of other indebtedness of the Group.

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The Group has a very strong business franchise in the Philippines. It has strong recurring cash flows and maintains a low debt-equity ratio and a high level of liquidity in its balance sheet. The Group believes that it has sufficient resources which will allow it to service the principal and interest of the Debt Securities.

USE OF PROCEEDS

Following the offer and sale of the Bonds in the amount of up to ₱6.0 billion, Ayala expects that the net proceeds of the Offer shall amount to approximately ₱5.9 billion after fees, commissions and expenses. Assuming the full exercise of the Oversubscription Option, Ayala expects that the net proceeds of the Offer shall amount to approximately ₱9.9 billion after fees, commissions and expenses.

Net proceeds from the Offer are estimated as follows:

	Base Offer (in ₱)	Base Offer with Oversubscription Option (in ₱)
Estimated proceeds from the sale of the Bonds	₱6,000,000,000	₱10,000,000,000
Less:		
SEC Registration and Legal Research Fee (incl. DST)	3,093,155	3,093,155
Documentary Stamp Tax	45,000,000	75,000,000
Underwriting and Selling Fees ⁵	21,750,000	36,250,000
Estimated Professional Expenses	3,700,000	3,700,000
Marketing/Printing/Photocopying Costs and out-of-pocket expenses	1,000,000	1,000,000
Trustee's Fee	275,000	275,000
Rating Agency Fee	1,350,000	2,250,000
Registrar and Paying Agent Fee	450,000	450,000
Listing Fee	200,000	200,000
Total Estimated Upfront Expenses	76,818,155	122,218,155
Estimated net proceeds to Ayala	₱5,923,181,845	₱9,877,781,845

Aside from the fees enumerated above, the Company will be paying the following estimated annual fees related to the Bonds:

1. PDEX annual listing maintenance fee of ₱150,000.00, (VAT-exclusive);
2. Annual Rating Monitoring and Agency fees of ₱280,000.00, (VAT-inclusive);
3. PDTC registry maintenance annual fee of ₱250,000.00;
4. PDTC paying agent annual fee of ₱400,000.00; and
5. Metropolitan Bank and Trust Company – Trust Banking Group as trustee to the Bondholders annual fee of ₱275,000.00 net of tax, in semi-annual payments.

Expenses incurred in connection with the offering of the securities, including documentary stamp tax, fees of the Trustee, and the Registrar and Paying Agent will be for the account of the Company.

Net proceeds amounting to approximately ₱5.9 billion, assuming an Issue size of ₱6.0 billion, or ₱9.9 billion, assuming the full exercise of the Oversubscription Option, will be used to refinance Philippine peso-denominated obligations, and partially to finance the capital expenditures described below, and the balance (if any) shall be applied to fund general corporate purposes:

⁵ Assumes 50:50 split between Series A Bonds and Series B Bonds. The Joint Lead Underwriters and Bookrunners shall receive a fee of up to 0.35% for the Series A Bonds, and up to 0.375% for the Series B Bonds. Since the amount per series is to be decided on the interest rate setting date, it has been assumed for purposes of computing the estimated expenses that there would be a 50:50 split between the two series. Under this assumption, it is estimated that if the amount for the Series A Bonds is ₱3 billion, and the underwriting and selling fees are at 0.35% for the Series A Bonds, the estimated fees in relation to the Series A Bonds for the Base Offer would be ₱10.5 million; meanwhile, if the amount for the Series B Bonds is ₱3 billion, and the underwriting and selling fees are at 0.375% for the Series B Bonds, the estimated fees in relation to the Series B Bonds for the Base Offer would be ₱11.25 million, for a total estimate of ₱21.75 million for fees under the Base Offer. If the Oversubscription Option is fully exercised, it is estimated that if the amount for the Series A Bonds is ₱5 billion, and the underwriting and selling fees are at 0.35% for the Series A Bonds, the estimated fees in relation to the Series A Bonds for the Base Offer with full exercise of the Oversubscription Option would be ₱17.5 million; meanwhile, if the amount for the Series B Bonds is ₱5 billion, and the underwriting and selling fees are at 0.375% for the Series B Bonds, the estimated fees in relation to the Series B Bonds for the Base Offer with full exercise of the Oversubscription Option would be ₱18.75 million, for a total estimate of ₱36.25 million for fees under the Base Offer with full exercise of the Oversubscription Option.

Use of Proceeds

Type	Base Offer - Amount (P6Bn)	Base Offer with Oversubscription Option - Amount (P10Bn)	Schedule of disbursement	Details
Short Term Loans	P3.900 Bn	P4.900 Bn	2 nd quarter 2021	Repayment of Short-Term Bank Loan with Metropolitan Bank and Trust Company* maturing on June 29, 2021 with a rate of 2.30% that was drawn to fund redemption of the P10.0 Bn 6.80% Fixed Rate Multiple Put Bonds, due May 12, 2021.
Short Term Loans	P1.000 Bn	P4.000 Bn	2 nd quarter 2021	Repayment of Short-Term Bank Loan with MUFG Bank, Ltd. Manila Branch maturing on June 21, 2021 with a rate of 2.10% that was drawn to fund redemption of the P10.0 Bn 6.80% Fixed Rate Multiple Put Bonds, due May 12, 2021.
Capital Expenditure Project	P0.397 Bn	P0.397 Bn	3 rd to 4 th quarter 2021	Rehabilitation and LRT1 Cavite Extension for AC Infrastructure Holdings Corporation
Capital Expenditure Project	P0.360 Bn	P0.360 Bn	3 rd to 4 th quarter 2021	Support for the Entrego Group's capacity expansion (through AC Infrastructure Holdings Corporation) for current hubs, capex to build their contract logistics capability and to upgrade IT capacity to accommodate expanding business.

Use of Proceeds

<i>Capital Expenditure Project</i>	₱0.173 Bn	₱0.173 Bn	<i>3rd to 4th quarter 2021</i>	<i>Partially fund Financial Infrastructure projects through AC Infrastructure Holdings Corporation that involves the development of cash touchpoint networks and payment services catering to a diverse range of clients, from banks to various types of businesses.</i>
<i>Capital Expenditure Project</i>	₱0.070 Bn	₱0.070 Bn	<i>3rd to 4th quarter 2021</i>	<i>Health technology project through Ayala Healthcare Holdings, Inc. which aims to help Filipinos navigate healthcare from their mobile phones (e.g., facilitating doctor appointments and video consultations, clinic & tests scheduling, medical records, purchase of medicine online & delivery vaccination program).</i>
Total	₱5.900 Bn	₱9.900 Bn		

**First Metro is the investment banking arm of Metropolitan Bank & Trust Company, which is among the creditors that will be repaid with a portion of the proceeds from the Offer. The Offer and the foregoing revolving loan facility are unrelated transactions and were independently contracted with Ayala without considering the other and were each entered into on terms commercially and separately negotiated on an arm's length basis.*

To the extent that the net proceeds exceed the total above and there are changes in capital expenditures, such excess will be used for Ayala's general corporate purposes. Correspondingly, if the Oversubscription Option is partly exercised or not exercised at all, or net proceeds are less than the above total, Ayala will satisfy the balance of the above from internally generated funds and/or other credit facilities which may include bank borrowings, as Ayala may consider commercially favorable at the relevant time.

Pending the above use of proceeds, the Company shall invest the net proceeds from the Offer in short-term liquid investments including but not limited to short-term government securities, bank deposits, and money market placements which are expected to earn at prevailing market rates.

None of the proceeds will be used to reimburse any officer, director, employee or shareholder for service rendered, assets previously transferred, money loaned or advance or otherwise.

Use of Proceeds

The Company may at any time purchase the Bonds in the open market or by tender or by contract at market price, in accordance with PDEX Rules, without any obligation to purchase (and the Bondholders shall not be obliged to sell) the Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the Bonds on PDEX, the Company shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

Adjustments in the Use of Proceeds

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. In the event there is any change in the Company's current plans, including force majeure, market conditions and other circumstances, the Company will carefully evaluate the situation and may reallocate the proceeds at the discretion of the Company's management. In the event of any material deviation, reallocation or adjustment in the planned use of proceeds, the Company shall inform the SEC and issue all appropriate disclosures within thirty (30) days prior to its implementation. Any material or substantial adjustment to the use of proceeds, as indicated above, shall be approved by the Board and shall be publicly disclosed through the SEC, PSE, and PDEX.

PLAN OF DISTRIBUTION

Ayala plans to issue the Bonds to institutional and retail investors through a public offering to be conducted through the Joint Lead Underwriters and Bookrunners.

THE OFFER

The Bonds covered by this Prospectus and described below are the first tranche under the ₱30,000,000,000 Debt Securities Program that was authorized by resolutions of the Board of Directors of the Company dated June 22, 2017, September 22, 2020, and March 9, 2021. A registration statement covering the Debt Securities Program was filed with the SEC on March 30, 2021 but has not been rendered effective. The SEC has issued a certificate of permit to offer securities for sale for the Bonds. Pursuant to such confirmation and certificate of permit to offer securities for sale, the Bonds will be issued in aggregate principal amount of up to ₱10,000,000,000 under this Prospectus, consisting of Series A Bonds and Series B Bonds.

SHELF REGISTRATION OF SECURITIES NOT COVERED BY THE OFFER

After the close of the Offer and within three (3) years following the effectivity date of the registration statement covering the Debt Securities Program, Ayala may, at its sole discretion, offer any or all of the remaining balance of the aggregate principal amount of the Securities covered by such registration statement, in one or more subsequent tranches under Rule 8.1.2 of the Implementing Rules and Regulations of the Securities Regulation Code. Such a shelf registration provides Ayala with the ability to conduct such an offering within a comparatively short period of time. Ayala believes that this provides it with the increased ability to take advantage of opportunities in a volatile debt capital market, as these occur. Any subsequent offering under such rule requires the submission by Ayala of the relevant updates and amendments to the registration statement and the issuance of the corresponding SEC Permit by the SEC. As a listed company, Ayala regularly disseminates such updates and information in its disclosures to the SEC and PSE.

At any time, which may include periods shortly following the completion of the Offer, Ayala may initiate subsequent offers of other Securities in various tranches from the balance of the aggregate principal amount of Securities that will remain unissued from the Shelf Registration. Such subsequent offers may be conducted on different terms and tenors involving different issue managers, underwriters or other transaction parties. Ayala regularly considers prevailing market conditions and opportunities in relation to such offers that are permitted within the three (3) year effectivity of the Shelf Registration.

However, there can be no assurance in respect of: (i) whether Ayala would issue any such Securities at all; (ii) the size or timing of any individual issuance or the total issuance of such Securities; or (iii) the tenor, interest rate or other specific terms and conditions of any such issuance. Any decision by Ayala to offer such Securities will depend on a number of factors at the relevant time, many of which are not within Ayala's control, including but not limited to: prevailing interest rates, the financing requirements of Ayala's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

UNDERWRITERS

BPI Capital, BDO Capital, China Bank Capital, First Metro, and SB Capital pursuant to an Underwriting Agreement with Ayala dated May 11, 2021 (the "Underwriting Agreement"), have agreed to act as the Joint Lead Underwriters and Bookrunners to distribute and sell the Bonds at the Issue Price, and have also committed severally and not jointly to underwrite, the Base Offer on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

BPI Capital is the Issue Manager for this transaction. For the offer of the Bonds, the Joint Lead Underwriters and Bookrunners will receive a fee of up to thirty-five basis points (0.35%) on the final aggregate nominal principal amount of the Series A Bonds issued and a fee of up to thirty-seven and a half basis points (0.375%) on the final aggregate nominal principal amount of the Series B Bonds issued. These amounts are inclusive of the fees to be ceded to the Selling Agent, and any other participating selling agents, if any. No fees will be given to broker dealers selling the Bonds.

Plan of Distribution

The amounts of the underwriting commitments of the Joint Lead Underwriters and Bookrunners are as follows:

BDO Capital	₱1,200,000,000
BPI Capital	1,200,000,000
China Bank Capital	1,200,000,000
First Metro	1,200,000,000
SB Capital	1,200,000,000
TOTAL	₱6,000,000,000

There is no arrangement for the Joint Lead Underwriters and Bookrunners to return any unsold Bonds to Ayala. The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to Ayala of the net proceeds of the Bonds. Furthermore, there is no arrangement whereby any or all of the Joint Lead Underwriters and Bookrunners have the right to designate or nominate a member/s of the Board of Directors of Ayala.

Prior approval from the SEC is required to effect a termination of the Underwriting Agreement.

The Joint Lead Underwriters and Bookrunners may enter into other sub-underwriting agreements with other underwriters who may want to participate in the issuance.

The Joint Lead Underwriters and Bookrunners as well as the Selling Agent are each duly licensed by the SEC to engage in the underwriting or distribution of the Bonds. The Joint Lead Underwriters and Bookrunners may, from time to time, engage in transactions with and perform services in the ordinary course of its business for the Company or other members of the Ayala Group of which the Company is a part.

Except for BPI Capital, the Joint Lead Underwriters and Bookrunners and Selling Agent have no direct relations with Ayala in terms of ownership by either of their respective major stockholder/s. BPI Capital is a wholly-owned subsidiary of BPI, an affiliate of Ayala in which Ayala has an effective ownership of 48.5%⁶ as of December 31, 2020.

BPI Capital, BDO Capital, China Bank Capital, First Metro, and SB Capital have undertaken the requisite due diligence over Ayala as Joint Lead Underwriters and Bookrunners of the Bonds. BPI Capital's relationship with the Issuer had no effect in its conduct of due diligence.

Each of the Joint Lead Underwriters and Bookrunners' parent companies is a banking institution regulated by the BSP that has a relationship with the Company and/or its subsidiaries. These relationships are independent of the engagement of the Joint Lead Underwriters and Bookrunners and are entered into on an arm's length basis in the ordinary course of its banking business. These banking institutions are engaged in transactions with, and have performed various commercial banking and other services for the Company and/or its subsidiaries or Affiliates in the past and are expected to do so for the Company and/or its subsidiaries or Affiliates from time to time in the future including, insofar as such bank have affiliates that offer such services, investment banking and underwriting services. However, all services provided by each of the Joint Lead Underwriters and Bookrunners, including in connection with the Offer, have been provided as an independent contractor and not as a fiduciary to the Company. The Joint Lead Underwriters and Bookrunners do not have a contract or other arrangement with the Company under which any of the Joint Lead Underwriters and Bookrunners may return to the Company any unsold securities of the Offer. The Joint Lead Underwriters and Bookrunners do not have any direct or indirect interest in the Company or in any securities thereof including options, warrants or rights thereto. None of the Joint Lead Underwriters and Bookrunners have any right to designate or nominate any member of the Company's Board.

⁶ 48.5% represents the effective % economic ownership of Ayala in BPI, which is inclusive of the shares owned by Liontide Holdings, Inc., a joint venture of Ayala, in BPI.

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SALE AND DISTRIBUTION

The distribution and sale of the Bonds shall be undertaken by the Joint Lead Underwriters and Bookrunners who shall sell and distribute the Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Joint Lead Underwriters and Bookrunners from purchasing the Bonds for their own respective accounts. The Joint Lead Underwriters and Bookrunners have appointed RCBC Capital Corporation as the Selling Agent. For the offer of the Bonds, the Selling Agent will receive a selling fee from the Joint Lead Underwriters and Bookrunners.

For the offer of the Bonds, the Joint Lead Underwriters and Bookrunners will receive a fee of up to thirty-five basis points (0.35%) on the final aggregate nominal principal amount of the Series A Bonds issued and a fee of up to thirty-seven and a half basis points (0.375%) on the final aggregate nominal principal amount of the Series B Bonds issued. These amounts are inclusive of the fees to be ceded to RCBC Capital Corporation and any other participating underwriters and selling agents. No fees will be given to broker dealers selling the Bonds.

OFFER PERIOD

The Offer Period shall commence at 9:00 a.m. on May 17, 2021 and end at 5:00 p.m. on May 21, 2021 or on such other date as the Issuer and Joint Lead Underwriters and Bookrunners may agree upon.

APPLICATION TO PURCHASE

Applicants may purchase the Bonds during the Offer Period by submitting to the Joint Lead Underwriters and Bookrunners properly completed Applications to Purchase, whether originally signed or electronically submitted (through the e-Securities Issue Portal ("e-SIP") upon and subject to the e-SIP's approval by the SEC), together with all applicable supporting documentation in the prescribed form and submitted in the prescribed manner, with full payment of the purchase price of the Bonds in the manner provided therein. Corporate and institutional applicants may also be required to submit, in addition to the foregoing:

- an original notarized certificate of the corporate secretary or an equivalent officer of the Applicant setting forth resolutions of the board of directors, partners or equivalent body (i) authorizing the purchase of the Bonds indicated in the Application to Purchase and (ii) designating the signatories, with their specimen signatures, for the said purpose;
- copies of its Articles of Incorporation and By-Laws (or the Articles of Partnership, in case of a partnership) and latest amendments thereof, together with the Certificate of Incorporation issued by the SEC or other organizational documents issued by an equivalent government institution, stamped and signed as certified true copies by the SEC or the equivalent government institution, or by the corporate secretary, or by an equivalent officer(s) of the Applicant who is/are authorized signatory(ies);
- two (2) duly accomplished signature cards containing the specimen signatures of the authorized signatories of the Applicant, validated by its corporate secretary or by an equivalent officer(s) who is/are authorized signatory(ies);
- validly issued tax identification number issued by the BIR;
- identification document(s) of the authorized signatories of the Applicant, as specified in item (a) of the immediately succeeding paragraph below; and
- such other documents as may be reasonably required by any of the Joint Lead Underwriters and Bookrunners or the Registrar in the implementation of its internal policies regarding "know your customer" and anti-money laundering.

Individual may also be required to submit, in addition to accomplished Applications to Purchase and its required attachments:

- identification document ("ID") of the Applicant which shall consist of any one of the following valid identification documents bearing a recent photo, and which is not expired: Passport, Driver's License, Professional Regulation Commission ID, National Bureau of Investigation Clearance, Police Clearance, Postal ID, Voter's ID, Barangay Certification, Government Service Insurance System e-Card, Social Security System Card, Senior Citizen Card, Overseas Workers Welfare Administration ID, OFW ID, Seaman's Book, Alien Certification

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of Registration/Immigrant Certificate of Registration, Government Office and government-owned and controlled corporation ID, e.g., Armed Forces of the Philippines, Home Development Mutual Fund, Certification from the National Council for the Welfare of Disabled Persons, Department of Social Welfare and Development Certification, Integrated Bar of the Philippines ID, company IDs issued by private entities or institutions registered with or supervised or regulated either by the BSP, the SEC or the Insurance Commission, or school ID duly signed by the principal or head of the school (for students who are beneficiaries of remittances/fund transfers who are not yet of voting age);

- two (2) duly accomplished signature cards containing the specimen signature of the Applicant, validated/signed by the Joint Lead Underwriter's authorized signatory/ies, whose authority/ies and specimen signatures have been submitted to the Registrar;
- validly issued tax identification number issued by the BIR; and
- such other documents as may be reasonably required by any of the Joint Lead Underwriters and Bookrunners or the Registrar in implementation of its internal policies regarding "know your customer" and anti-money laundering.

An Applicant claiming exemption from any applicable tax, or is subject to a preferential withholding tax rate shall, in addition to the requirements set forth above, be required to the following requirements, subject to acceptance by the Issuer, as being sufficient in form and substance:

- A copy of the current and valid tax exemption certificate, ruling or opinion issued by the BIR (dated no earlier than required to be considered valid under applicable tax regulations at the relevant time), addressed to the Bondholder, confirming the exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement, or amendment thereto, and certified by the Corporate Secretary of the Bondholder as being a true copy of the original on file with the Bondholder, which notarized certification indicates that: (a.i) the exemption certificate is a true copy of the original; (a.ii) the original is in the possession of the Corporate Secretary of the Bondholder as the duly authorized custodian of the same; and (a.iii) the Corporate Secretary of the Bondholder has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting said certification's validity, or a copy of the law of the country of domicile allowing a deemed paid tax credit in an amount to the 15% spared or waived by the Philippines duly authenticated by the Philippine embassy or, for countries that are members to the Apostille Convention, an apostilled copy of the law of the country of domicile which apostilled or authenticated copy shall be valid for one year from the date of issuance;
- With respect to tax treaty relief, (a) prior to the payment of the initial interest due, (i) three (3) originals of the submitted BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the Bureau of Internal Revenue, as required under Revenue Memorandum Order No. 14-2021, (ii) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, (iii) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer, and (iv) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of the authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, is/are not doing business in the Philippines to support the applicability of a tax treaty relief; and (b) prior to the payment of subsequent interests due, (i) three (3) originals of the submitted new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Issuer deems applicable, and (ii) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; (c) other additional documents as may be required by the Issuer

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or pursuant to applicable tax regulations, which shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such initial or subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto;

- A duly notarized undertaking (in the form attached as Schedule 4 of the Trust Indenture) executed by (c.i) the Corporate Secretary of the Bondholder or any authorized representative of the Bondholder, who has personal knowledge of the exemption based on his official functions, if the Bondholder purchases the bonds or other deposit substitutes for its account, or (c.ii) the Trust Officer, if the Bondholder is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the bonds or other deposit substitutes pursuant to its management of tax-exempt entities (i.e., Employee Retirement Fund, etc.), declaring and warranting that the same Bondholder named in the tax exemption certificate described above, is specifically exempt from the relevant tax or is specifically subject to a preferential tax rate for the relevant tax, and undertaking to immediately notify Ayala and the Registrar and Paying Agent of any suspension or revocation or modification of its tax exemption or treaty privileges and agreeing to indemnify and hold Ayala and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding or reduced withholding of the required tax; and
- Such other documentary requirements as may be reasonably required by Ayala or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities, which for purposes of claiming tax treaty relief, as required under BIR Revenue Memorandum Order No. 14-2021, including a copy of the duly submitted Application Form for Treaty Purposes, a valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines.

Completed Applications to Purchase and corresponding payments must reach the Joint Lead Underwriters and Bookrunners prior to the end of the Offer Period, or such earlier date as may be specified by the Joint Lead Underwriters and Bookrunners. Acceptance by the Joint Lead Underwriters and Bookrunners of the completed Application to Purchase shall be subject to the availability of the Bonds and the acceptance by Ayala. In the event that any check payment is returned by the drawee bank for any reason whatsoever, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase is deemed revoked.

MINIMUM PURCHASE

A minimum purchase of ₱50,000.00 shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of ₱10,000.00.

ALLOTMENT OF THE SECURITIES

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted at the discretion of the Joint Lead Underwriters and Bookrunners, in consultation with the Issuer and subject to Ayala's right of rejection.

The Bonds are not designated to be sold to specified persons. Ayala intends to list all the Bonds on the PDEX.

REFUNDS

If any application is rejected or accepted in part only, the application money or the appropriate portion thereof shall be returned without interest to such applicant through the Joint Lead Underwriters and Bookrunners from whom such application to purchase the Bonds was made.

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UNCLAIMED PAYMENTS

Any payment of interest on, or the principal of the Bonds which remain unclaimed after the same shall have become due and payable, shall be held in trust by the Paying Agent for the Bondholders at the latter's risk.

PURCHASE AND CANCELLATION

The Issuer may at any time purchase any of the Bonds in the open market or by tender or by contract at market price, in accordance with PDEX Rules, without any obligation to purchase (and the Bondholders shall not be obliged to sell) Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

SECONDARY MARKET

Ayala intends to list the Bonds in the PDEX. Ayala may purchase the Bonds at any time in the PDEX trading system, in accordance with PDEX Rules, without any obligation to make pro-rata purchases of the Bonds from all Bondholders.

REGISTRY OF BONDHOLDERS

The Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing the Bonds sold shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Beneficial title to the Bonds shall be shown in the Register of Bondholders to be maintained by the designated registrar for the Bonds. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing from time to time. The Issuer will cause the Register of Bondholders to be kept at the specified office of the Registrar. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered in the Register of Bondholders.

DIVIDEND POLICY

Overview

Under Philippine law, dividends may be declared out of a corporation's unrestricted retained earnings which shall be payable in cash, in property, or in stock to all stockholders on the basis of outstanding stock held by them. "Unrestricted Retained Earnings" refer to the undistributed earnings of a corporation which have not been allocated for any managerial, contractual or legal purpose and which are free for distribution to the shareholders as dividends. The amount of retained earnings available for declaration as dividends may be determined pursuant to regulations issued by the SEC. The approval of the Board of Directors is generally sufficient to approve the distribution of dividends, except in the case of stock dividends which requires the approval of stockholders representing not less than two-thirds of the outstanding capital stock at a regular or special meeting duly called for the purpose.

The Revised Corporation Code prohibits stock corporations from retaining surplus profits in excess of 100% of their paid-in capital stock, except when justified by definite corporate expansion projects or programs approved by the Board of Directors, or when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without their consent, and such consent has not yet been secured, or when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is a need for special reserve for probable contingencies.

Dividend Policy

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The Company does not have a minimum dividend policy: the payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors.

Pursuant to the Article VII, Section 1 of the Company's Amended By-laws approved by the SEC on October 14, 2020, the net profits before taxes shall be distributed as follows:

- a. An amount for management bonus to be recommended by the compensation committee of the Board of Directors and approved by the Board of Directors, and
- b. The balance shall be made available for distribution as dividends to stockholders.

As indicated in Ayala's Amended Articles of Incorporation approved by the SEC on May 24, 2019, the dividend rate shall be determined by the Board of Directors at the time of issuance of the shares.

The following table summarizes the dividends declared and paid by Ayala:

On Common Shares

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			
Year	Record Date	Payment Date	Rate (₱)
2018	July 6, 2018	July 22, 2018	3.46/share
	December 20, 2018	January 5, 2019	3.46/share
2019	July 30, 2019	August 15, 2019	4.15/share
	December 19, 2019	January 4, 2020	4.15/share
2020	June 30, 2020	July 16, 2020	3.46/share
	December 18, 2020	January 2, 2021	3.46/share

Dividend Policy

On Preferred B Series 1 Shares

Cash Dividends			
Year	Record Date	Payment Date	Rate (₱)
2018	January 22, 2018 April 18, 2018 July 20, 2018 October 18, 2018	February 15, 2018 May 15, 2018 August 15, 2018 November 15, 2018	¼ of 5.2500% per annum, or 6.56250/per share
2019	January 22, 2019 April 16, 2019 July 22, 2019 October 21, 2019	February 15, 2019 May 15, 2019 August 15, 2019 November 15, 2019	¼ of 5.2500% per annum, or 6.56250/per share
2020	January 22, 2020 April 20, 2020 July 22, 2020 October 20, 2020	February 15, 2020 May 15, 2020 August 15, 2020 November 15, 2020	¼ of 5.2500% per annum, or 6.56250/per share
2021	February 11, 2021	February 15, 2021	¼ of 5.2500% per annum, or 6.56250/per share

On Preferred B Series 2 Shares

Cash Dividends			
Year	Record Date	Payment Date	Rate (₱)
2018*	January 10, 2018 April 10, 2018 July 11, 2018 October 8, 2018	February 5, 2018 May 5, 2018 August 5, 2018 November 5, 2018	¼ of 5.5750% per annum, or 6.96875/per share
2019*	January 10, 2019 April 4, 2019 July 10, 2019 October 9, 2019	February 5, 2019 May 5, 2019 August 5, 2019 November 5, 2019	¼ of 5.5750% per annum, or 6.96875/per share
2020**	February 4, 2020 May 5, 2020 August 4, 2020 November 4, 2020	February 28, 2020 May 29, 2020 August 20, 2020 November 29, 2020	¼ of 4.8214 % per annum, or 6.02675/per share
2021**	February 19, 2021	February 28, 2021	¼ of 4.8214 % per annum, or 6.02675/per share

* ACPB1

**APB2R

On Voting Preferred Shares

Cash Dividends			
Year	Record Date	Payment Date	Rate (₱)
2018	April 24, 2018	May 20, 2018	0.03695/share
2019	April 23, 2019	May 20, 2019	0.03695/share
2020	April 23, 2020	May 20, 2020	0.05773/share

*The dividend rate has been re-priced from 3.6950% 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.

Ayala Land

Dividends declared by ALI on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of ALI and other factors. The same applies to the declaration of dividends by the Company's subsidiaries and affiliates.

Special cash dividends are declared depending on the availability of cash, taking into account ALI's capital expenditure and project requirements and the progress of its ongoing asset rationalization program.

Dividend Policy

Cash dividends are subject to approval by ALI's Board of Directors, but no stockholder approval is required. Property dividends which may come in the form of additional shares of stock are subject to approval by both ALI's Board of Directors and ALI's stockholders. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and the PSE.

STOCK DIVIDEND (Per Share)			
PERCENT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
20%	February 1, 2007	May 22, 2007	June 18, 2007

CASH DIVIDEND (Per Common Share)			
PESO AMOUNT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
0.2520	February 20, 2018	March 12, 2018	April 3, 2018
0.2520	August 17, 2018	September 6, 2018	October 2, 2018
0.2600	February 27, 2019	March 13, 2019	March 29, 2019
0.2600	October 31, 2019	November 15, 2019	November 29, 2019
0.2680	February 20, 2020	March 06, 2020	March 20, 2020
0.1358	February 23, 2021	March 10, 2021	March 25, 2021

CASH DIVIDEND (Per Voting Preferred Share)			
PESO AMOUNT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
0.00474786	February 20, 2018	June 15, 2018	June 29, 2018
0.00474786	May 24, 2019	June 7, 2019	June 21, 2019
0.00474786	May 26, 2020	June 9, 2020	June 25, 2020

Bank of the Philippine Islands

Cash dividends declared and paid in 2018, 2019, and 2020 are as follows:

Date Declared	Date of Payment	Amount of Dividends	
		Per Share	Total (in Million Pesos)
June 20, 2018	July 25, 2018	0.90	4,052
December 19, 2018	January 29, 2019	0.90	4,052
May 15, 2019	June 19, 2019	0.90	4,056
November 20, 2019	December 27, 2019	0.90	4,057
May 20, 2020	June 26, 2020	0.90	4,062
October 21, 2020	November 26, 2020	0.90	4,062

There are no known restrictions or impediments to BPI's ability to pay dividends on common equity, whether current or future.

Dividend declaration is ultimately the responsibility of the Bank and the BPI Board of Directors which has the authority to declare dividends as it may deem appropriate. Banks that meet the prequalification criteria including capital adequacy requirements and applicable laws and regulations of the BSP can declare and pay dividends without prior BSP verification.

The details of the dividend declaration are in Note 18 of the December 2020 audited financial statements.

Globe Telecom, Inc.

Dividends declared by Globe on its stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of

Dividend Policy

Globe and other factors. As a policy and as much as practicable, Globe observes a 30-day period for the payment of dividends to shareholders from declaration date of such dividends.

Cash dividends are subject to approval by Globe's Board of Directors but no stockholder approval is required. Total cash dividends distributed for the past three years are listed below.

COMMON CASH DIVIDEND (Per Share)			
AMOUNT (₱)	DECLARATION DATE	RECORD DATE	PAYMENT DATE
22.75	February 5, 2018	February 20, 2018	March 5, 2018
22.75	May 7, 2018	May 21, 2018	June 1, 2018
22.75	August 7, 2018	August 24, 2018	September 6, 2018
22.75	November 5, 2018	November 19, 2018	December 5, 2018
22.75	February 11, 2019	February 26, 2019	March 13, 2019
22.75	May 3, 2019	May 20, 2019	May 31, 2019
22.75	August 2, 2019	August 19, 2019	August 30, 2019
22.75	November 6, 2019	November 20, 2019	December 6, 2019
27.00	February 3, 2020	February 17, 2020	March 4, 2020
24.83	May 5, 2020	May 18, 2020	June 3, 2020
24.83	August 3, 2020	August 17, 2020	September 2, 2020
31.33	November 3, 2020	November 17, 2020	December 3, 2020

VOTING PREFERRED STOCK CASH DIVIDEND (Per Share)			
AMOUNT (₱)	DECLARATION DATE	RECORD DATE	PAYMENT DATE
0.26	November 5, 2018	November 19, 2018	December 5, 2018
0.32	December 10, 2019	December 26, 2019	December 27, 2019
0.32	November 3, 2020	December 17, 2020	December 3, 2020

NON-VOTING PREFERRED STOCK CASH DIVIDEND (Per Share)			
AMOUNT (₱)	DECLARATION DATE	RECORD DATE	PAYMENT DATE
13.00	May 4, 2018	August 10, 2018	August 22, 2018
13.00	December 6, 2018	January 28, 2019	February 22, 2019
13.00	May 3, 2019	July 26, 2019	August 22, 2019
13.00	December 10, 2019	January 29, 2020	February 24, 2020
13.00	May 5, 2020	July 28, 2020	August 24, 2020
13.00	December 11, 2020	January 27, 2021	February 22, 2021

The Board of Directors of Globe approved in separate approvals the declaration of four quarterly distributions of cash dividends for common shares paid last March 4, June 3, September 2 and December 3, 2020. Total distribution by the end of December 2020 is ₱14.4 billion.

On May 5, 2020, the Board of Directors of Globe approved the declaration of the second semi-annual cash dividend for holders of its non-voting preferred shares on record as of July 28, 2020. The amount of the cash dividend was at a fixed rate of 5.2006% per annum calculated in respect of each share by reference to the offer price of ₱500.00 per share on a 30/360-day basis for the six-month dividend period. Total amount of the cash dividend was paid last August 24, 2020.

On November 3, 2020, the Board of Directors of Globe likewise approved the declaration of annual cash dividend payable to voting preferred stockholders of record as of November 17, 2020. The amount of the cash dividend was based on the average 30-day PDST-R2, as computed by the PDEX, plus 2%. Dividend payment was made last December 3, 2020.

In addition, the Board of Directors of Globe recently approved the proposed change in its 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 amended policy will provide 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.

Dividend Policy

On December 11, 2020, Globe's Board of Directors approved the declaration and payment of the first semi-annual cash dividends for the Globe's non-voting preferred shareholders on record as of January 27, 2021. The amount of the cash dividend was at a fixed rate of 5.2006% per annum calculated in respect of each share by reference to the offer price of ₱500.00 per share on a 30/360 day basis for the six-month dividend period. Payment date was February 22, 2021.

Stock dividends, which come in the form of additional shares of stock, are subject to approval by both Globe's Board of Directors and its stockholders. No stock dividends have been distributed since the 25% stock dividend back in 2002.

Manila Water Company, Inc.

Subject to the preferential dividend rights of the participating preferred shares ("PPS"), each holder of a share of stock is entitled to such dividends as may be declared in accordance with MWC's dividend policy. Under MWC's cash dividend policy, common shares shall be entitled to annual cash dividends equivalent to 35% of the prior year's net income, payable semi-annually in March and October. MWC's Board may change the cash dividend policy at any time.

MWC's Board is authorized to declare cash dividends. A cash dividend declaration does not require any further approval from the stockholders in accordance with the Revised Corporation Code. A stock dividend declaration requires the further approval of stockholders representing not less than two-thirds of MWC's outstanding capital stock. The Revised Corporation Code defines the term "outstanding capital stock" to mean the "total shares of stock issued", regardless of nomenclature, classification or voting rights, except treasury shares. Such stockholders' approval may be given at a general or special meeting duly called for the purpose. Dividends may be declared only from unrestricted retained earnings. Some of MWC's loan agreements carry covenants that restrict declaration of payments of dividends under certain circumstances, such as in the event of default or if payment would cause an event of default, if certain financial ratios are not met or if payment would cause them not to be met, requiring revenues of MWC to be applied toward certain expenses prior to the payment of dividends, and other circumstances.

In view of prevailing circumstances, Manila Water did not declare cash dividends in 2020. With the ongoing discussions with government on the Concession Agreement, as well as the need to continuously focus on service continuity and operations resiliency amid the challenges posed by the COVID-19 pandemic, resources are being prioritized towards ensuring reliable service to customers. Within 2018-2019, the Company has declared the following dividends:

Declaration Date	Payment Date	Amount* (₱ thousands)	Nature of Dividends Declared
September 27, 2019	October 25, 2019	939,709	0.4551 cash dividends to common shares
September 27, 2019	October 25, 2019	182,000	0.0455 cash dividends to PPS
February 26, 2019	March 28, 2019	939,709	0.4551 cash dividends to common shares
February 26, 2019	March 28, 2019	182,000	0.04551 cash dividends to PPS
November 20, 2018	December 20, 2018	40,000	10% cash dividends to PPS
October 2, 2018	October 31, 2018	884,316	0.4283 cash dividends to common shares
October 2, 2018	October 31, 2018	171,309	0.04283 cash dividends to PPS
March 1, 2018	March 28, 2018	883,608	0.4302 cash dividends to common shares
March 1, 2018	March 28, 2018	172,080	0.04302 cash dividends to PPS

* Gross amount of dividend

Integrated Micro-Electronics, Inc.

Dividends declared by IMI on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial

Dividend Policy

condition of IMI and other factors. There are no other restrictions that limit the payment of dividends on common shares.

Cash dividends are subject to approval by IMI's Board of Directors, but no stockholder approval is required. Property dividends which may come in the form of additional shares of stock are subject to approval by both the Board of Directors and the stockholders of IMI. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and PSE.

IMI's subsidiaries have not adopted any formal dividend policies. Dividend policies for the IMI's subsidiaries shall be determined by their respective Boards of Directors.

Dividend Declarations

Stock Dividend-Common Shares

RECORD DATE	PAYMENT DATE	PERCENT
August 31, 2010	September 24, 2010	15%

Cash Dividends-Common Shares

RECORD DATE	PAYMENT DATE	RATE
March 7, 2018	March 21, 2018	USD 0.00458/₱0.235
April 25, 2019	April 8, 2019	USD 0.00201/₱0.10542

There was no cash dividend declaration in 2020.

Cash Dividends-Preferred Shares (Redeemed in 2015)

RECORD DATE	PAYMENT DATE	RATE
February 7, 2014	February 21, 2014	2.90% p.a.
May 7, 2014	May 21, 2014	2.90% p.a.
August 7, 2014	August 22, 2014	2.90% p.a.
November 7, 2014	November 21, 2014	2.90% p.a.
February 6, 2015	February 20, 2015	2.90% p.a.
May 8, 2015	May 22, 2015	2.90% p.a.
August 7, 2015	August 24, 2015	2.90% p.a.

AC Energy and Infrastructure Corporation

Wholly-owned ACEIC does not have a dividend policy. Since 2019, ACEIC has declared ₱2 billion dividends annually to AC. The declaration of dividends in the future will depend upon the earnings, cash flow, and financial condition of ACEIC, and other factors.

For listed platform ACEN under ACEIC:

The ACEN Board of Directors has approved the Company's dividend policy to declare and pay dividends on an annual basis using a payout ratio of 25% to 50% of the previous year's core net income, excluding significant non-recurring gains (including value realization proceeds) or losses, to be effective on January 1, 2021 ("Regular Dividends"). On November 11, 2020, the Board amended this dividend policy to include the Board's discretion, exercised reasonably, to approve the declaration and payment of special dividends over and above the Regular Dividends. Nevertheless, the payment of dividends in the future will depend upon the Company's future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from its Associates, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations and loan covenants, including loan obligations and loan covenants of its Associates, and other factors the Board may deem relevant.

Dividend Policy

On March 18, 2021, the Board of Directors in its regular meeting approved, among others, the declaration of cash dividends of six centavos (₱0.06) per share on the 19,960,037,644 issued and outstanding shares of the Company, or a total dividend amount of ₱1,197,602,258.64 paid on or before April 19, 2021 to stockholders of record as of April 5, 2021.

Declaration of cash dividends by ACEN requires the approval of the Board, the declaration of stock dividends by the Company requires the approval of its Board and the approval of stockholders representing at least 2/3 of the outstanding capital stock.

The following table summarizes the dividends previously declared and paid by ACEN for the past five years:

Date of Declaration	Record Date	Payment Date	Rate in ₱
March 18, 2021	April 5, 2021	April 19, 2021	0.06/Share
August 18, 2020	September 3, 2020	September 17, 2020	0.04/Share
February 28, 2018	March 14, 2018	April 5, 2018	0.04/Share
March 3, 2017	March 17, 2017	March 31, 2017	0.04/Share
December 16, 2016	January 4, 2017	January 16, 2017	0.04/Share
February 23, 2016	March 9, 2016	March 23, 2016	0.04/Share

CAPITALIZATION

The following table sets out the audited consolidated short-term and long-term debt and capitalization of the Company as of December 31, 2020 and as adjusted to give effect to the Offer (assuming the Oversubscription Option is exercised). This table should be read in conjunction with the Company's audited consolidated financial statements and the related notes thereto as of and for the period ended December 31, 2020 attached to this Prospectus.

(In ₱ thousands)	As of December 31, 2020		
	Actual	Adjustments*	As Adjusted for maximum Offer size
Debt			
Short-term debt	₱ 32,439,507	-	₱ 32,439,507
Current portion of long-term debt	36,514,381	-	36,514,381
Long-term debt - net of current portion	372,800,369	10,000,000	382,800,369
Total Debt	441,754,257	10,000,000	451,754,257
Equity attributable to owners of the parent company			
Paid-in capital:			
Preferred Stock - A, ₱100 par value per share	1,200,000	-	1,200,000
Preferred Stock - B, ₱100 par value per share	5,800,000	-	5,800,000
Preferred Stock - Voting	200,000	-	200,000
Common Stock	31,437,119	-	31,437,119
Subscribed	220,891	-	220,891
Additional paid-in capital	48,997,024	-	48,997,024
Subscriptions receivable	(2,241,090)	-	(2,241,090)
	85,613,944	-	85,613,944
Share-based payments	102,619	-	102,619
Remeasurement losses on defined benefit plans	(6,351,002)	-	(6,351,002)
Fair value reserve of financial assets at fair value through other comprehensive income	40,792	-	40,792
Cumulative translation adjustments	(1,635,505)	-	(1,635,505)
Equity reserve	30,741,420	-	30,741,420
Retained earnings	238,072,873	-	238,072,873
Treasury stock	(6,605,153)	-	(6,605,153)
Reserves under PFRS 5	(800,218)	-	(800,218)
	339,179,770	-	339,179,770
Non-controlling interests	203,242,341	-	203,242,341
Total equity	542,422,111	-	542,422,111
Total Capitalization	₱ 984,176,368	₱10,000,000	₱ 994,176,368

*assumes gross proceeds of ₱10 Billion

DETERMINATION OF OFFER PRICE

The Bonds shall be issued on a fully-paid basis and at an issue price that is at par.

THE COMPANY

OVERVIEW

Ayala was incorporated in the Philippines on January 23, 1968 and is a corporation having a perpetual corporate term pursuant to the Revised Corporation Code. The company is organized as a holding company holding equity interests in 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) water, (e) industrial technologies, (f) power, (g) infrastructure, (h) healthcare, (i) education and (j) technology ventures.

Ayala's operating companies are widely recognized as among the dominant companies in their respective industry sectors. Ayala became a public corporation in 1976 and its common shares are currently listed at the PSE. As at December 31, 2020, Ayala had a market capitalization of ₱519 billion.

Details about Ayala's Subsidiaries and the related economic percentages of ownership are shown below:

Subsidiaries	Nature of Business	% of Economic Ownership Interest held by the Group	
		2020	2019
AC Energy and Infrastructure Corporation (formerly 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
Ayala Land, Inc. (ALI)	Real Estate and Hotels	44.4	44.5
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)	Healthcare	100.0	100.0
Bestfull Holdings Limited (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 (AC Ventures)	Investment Holding	100.0	100.0

*Incorporated in Cayman Islands

**Incorporated in British Virgin Islands

***Incorporated in Hong Kong

MHI, PFIL, AC Ventures, AIVPL, AGCC, AAC, TLI, BHL, DADC, HCXI and all other subsidiaries and affiliates not described in the Business section of this Prospectus, represent approximately 3.1% and 2.5% of total assets; and 1.1% and 1.1% of total revenues of the Issuer, each as of December 31, 2019 and December 31, 2020, respectively.

The Company

Details of the Group's investments in Associates and Joint Ventures and the related economic percentages of ownership are shown below:

	Percentage of Ownership		Carrying Amounts	
	2020	2019	2020	2019
(In Millions)				
<i>Domestic:</i>				
Bank of the Philippine Islands (BPI)	32.9	32.9	₱111,682	₱108,440
Liontide Holdings, Inc. (LHI)*	78.1	78.1	51,531	49,266
Globe Telecom, Inc. (Globe)*	30.8	30.9	26,008	25,654
Ortigas Land Corporation (OLC) (formerly OCLP Holdings, Inc.)	21.0	21.0	8,677	8,540
AA Thermal, Inc.	40.0	40.0	5,906	5,349
iPeople, inc. (IPO)	33.5	33.5	5,307	5,183
Light Rail Manila Holdings, Inc. (LRMHI)	50.0	50.0	4,874	4,595
Philippine Wind Holdings Corporation (PhilWind)*	57.0	42.7	4,837	1,662
ALI-ETON Property Development Corporation*	50.0	50.0	4,499	3,295
Emerging City Holdings, Inc. (ECHI)*	50.0	50.0	3,886	4,076
AKL Properties, Inc.*	50.0	50.0	3,034	2,274
Berkshires Holdings, Inc. (BHI)*	50.0	50.0	1,921	2,003
Asiacom Philippines, Inc. (Asiacom)*	60.0	60.0	1,468	1,427
Cebu District Property Enterprise, Inc. (CDPEI)*	35.0	35.0	1,426	1,443
Bonifacio Land Corporation (BLC)	10.0	10.0	1,406	1,479
IE Medica, Inc. (IEM)	49.0	49.0	1,233	1,192
Alveo-Federal Land Communities, Inc.*	50.0	50.0	929	904
BF Jade E-Services Philippines, Inc. (BF Jade)	44.7	44.7	773	762
Rize-Ayalaland (Kingsway) GP Inc. (Rize-Ayalaland)	49.0	49.0	403	451
<i>Foreign:</i>				
Star Energy Salak-Darajat B.V. (incorporated in Indonesia)	19.8	19.8	9,330	11,041
Yoma Strategic Holdings, Inc. (YSH) (incorporated in Myanmar)	14.9	14.9	4,822	5,498
UPC-AC Energy Australia HK Ltd. (incorporated in Hong Kong)*	50.0	50.0	1,009	1,327
Others – net	Various	Various	47	870
			₱255,008	₱246,731

*Joint ventures

Strategy

Ayala's unique portfolio of businesses provides various engines for growth and diversification. The positive domestic environment experienced over the past decade 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 and socio-political trends and balances its two major pillars: its core value drivers in real estate, banking, telecom, and power; and its emerging businesses in healthcare and logistics. It also has portfolio investments in water, industrial technologies, infrastructure, education, and technology ventures.

Ayala's strategic priority is employing a sharper focus on its portfolio by continuing to expand its core businesses to cement their industry leadership and scaling up its emerging businesses to establish a meaningful presence in their spaces. In addition, Ayala will exercise value realization initiatives to fund future investments.

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.

The Company

Geographical Segments

Ayala generates foreign sales through its subsidiaries, AC Industrials (including but not limited to IMI), Bestfull Holdings Limited, AG Holdings, and Azalea International. The table below lists the contribution of each geographical market to Ayala's foreign sales:

Geographical Segments

	Revenue			Total Assets		Investment Properties and Property, Plant and Equipment Additions	
	2020	2019	2018	2020	2019	2020	2019
Philippines	P159,123	P225,705	P210,263	P1,123,684	P1,242,566	P16,136	P48,901
Europe	29,036	32,626	33,330	23,462	14,671	494	490
Asia	24,069	23,561	23,395	226,546	58,480	241	435
USA	7,697	13,373	16,813	32,066	29,569	33	446
	P219,925	P295,265	P283,801	P1,405,758	P1,345,286	P16,904	P50,272

Recent Sale of Unregistered Securities

The Company has stock option plans for key officers (Executive Stock Option Plan or the "ESOP") and employees (Employee Stock Ownership Plan or the "ESOWN") covering 3.00% of the Company's authorized capital stock. The grantees are selected based on certain criteria like outstanding performance over a defined period of time.

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 Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years or at the expiration date of the option, whichever comes first, to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days or at the expiration date of the option, whichever comes first, to exercise his vested options.

The Company also has ESOWN granted to qualified officers and employees wherein grantees may subscribe in whole or in part to the shares awarded to them based on the average market price of the common shares as approved by the Personnel and Compensation Committee of the Corporation. To subscribe, the grantee must be an employee of the Group during the 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 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Company's right to repurchase.

The following shares were issued to or subscribed by the Company's executives as a result of the exercise of the ESOP and the subscription to the ESOWN plans:

<u>Year</u>	<u>No. of shares</u>	
	<u>ESOP</u>	<u>ESOWN*</u>
2019	89,611	515,904
2020	556,307	1,455,430

**Net of cancelled subscriptions.*

The Company

The above shares formed part of the 8,864,000 ESOP and ESOWN shares subject of SEC'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 ("SRC").

On July 23, 2012, the Company sold 15,000,000 common shares held in treasury at ₱430 per share, a 6% discount to the Company's closing market price of ₱458 per common share. On May 30, 2013, the Company sold its remaining 5,183,740 common shares held in treasury at ₱647 per shares, a 3% discount to the Company's closing market price of ₱667 per common share. The Company filed Notices of Exemption with the SEC on the re-issuance of the said treasury shares under SRC Sections 10.1 (h) and (l) as follows:

- a) SRC Section 10.1 (h), "Broker's transaction, executed upon customer's orders, on any registered Exchange or other trading market."
- b) SRC Section 10.1 (l), "The sale of securities to a bank."

Issuance and Exchange of Securities

There are no matters or actions to be taken up for the authorization or issuance of securities. In any event, for the purpose of full disclosure, the SEC approved on July 23, 2013 the amendments to Article VII of the Corporation's Articles of Incorporation exempting from pre-emptive rights the issuance of up to 100 million common shares for the purpose of raising cash to acquire properties or assets needed for the business or in payment of previously contracted debt.

MATERIAL CONTRACTS

Ayala has not entered into any material contract or agreement within the past two years immediately preceding this filing. In any event, the following are the contracts or agreements entered into by Ayala, which may be of significance or outside the ordinary course of business to be performed in whole or in part at or after the filing of the Prospectus:

- a) In May 2012, Ayala issued, through a public offering registered with the SEC, 6.875% fixed rate callable bonds due 2027 with an aggregate size of ₱10.0 billion. The bonds are unsecured. Under the terms of the bond, the issuer's call option may be exercised at the issuer's sole discretion at the relevant time (and by such exercise effectively redeem and repay the principal and all amounts due on outstanding bonds) on the 10th anniversary from the issue date of May 11, 2012 and every year thereafter until the 14th anniversary or the immediately succeeding banking day if such date is not a banking day.
- b) In November 2012, Ayala issued, through a public offering registered with the SEC, 5.450% fixed rate callable bonds due 2019 with an aggregate size of ₱10.0 billion. The bonds are unsecured. Under the terms of the bond, the issuer's call option may be exercised at the issuer's sole discretion at the relevant time (and by such exercise effectively redeem and repay the principal and all amounts due on outstanding bonds) on the 4th anniversary from the issue date of November 23, 2012 and every year thereafter until the 6th anniversary or the immediately succeeding banking day if such date is not a banking day.
- c) In May 2014, Ayala guaranteed the issuance by AYC Finance Limited, a wholly-owned Cayman Islands company, of U.S.\$300,000,000 0.50% bonds due 2019 exchangeable for common shares of Ayala Land. The bonds are listed on the Singapore Exchange Securities Trading Limited.
- d) In October 2014, Ayala reissued, through a public offering registered with the SEC, 20,000,000 cumulative, non-voting, perpetual, Peso-denominated Preferred Class "B" Shares, with an oversubscription of an additional 7,000,000 Preferred Class "B" Shares, each with a par value of ₱100.00, and with a dividend at a fixed rate of 5.5750% per annum, subject to adjustment, at an issue price of ₱500 per share.
- e) In May 2016, Ayala filed a Registration Statement with the SEC in connection with the offer and sale to the public of Fixed Rate Bonds up to an aggregate principal amount of ₱20.0 billion, to be issued in one or more tranches (the "Bond Program"). The first tranche of the Bond Program,

The Company

with an aggregate principal amount of ₱10.0 billion, was issued last July 7, 2016 with a fixed interest rate of 3.9200% per annum due on 2023. The second tranche of the Bond Program, with an aggregate principal amount of ₱10.0 billion, was issued last February 10, 2017 with a fixed interest rate of 4.8200% per annum due on 2025.

- f) In September 2017, Ayala unconditionally and irrevocably guaranteed the issuance by AYC Finance Limited of a U.S. Dollar-denominated fixed-for-life (non-deferrable) senior perpetual issuance at an aggregate principal amount of U.S.\$400 million with an annual coupon of 5.125% for life with no step-up.
- g) In July 2018, Ayala completed a private placement of its 8,810,000 common shares at a stock price of ₱916.00 per common share. The sale was executed through a subscription agreement by and between Ayala and a single long-term institutional investor who had made a reverse inquiry. The placement raised ₱8.07 billion in proceeds for Ayala and increased Ayala's public float from 51.6% to 52.3%.
- h) In May 2019, the merger of AC Education and iPeople took effect in accordance with the terms of the Plan of Merger, as approved by the SEC on April 24, 2019. iPeople, being the surviving corporation, is deemed to have acquired all the assets and to have assumed all the liabilities of AC Education. Combining the iPeople shares issued to Ayala as a result of the merger and the additional iPeople shares it purchased, Ayala now owns a 33.5% stake in iPeople.
- i) In October 2019, Ayala unconditionally and irrevocably guaranteed the issuance by AYC Finance Limited of a U.S. Dollar-denominated fixed-for-life (non-deferrable) senior perpetual notes of AYC Finance Limited for an aggregate principal amount of U.S.\$400 million with an annual coupon of 4.850% for life with no step-up. The notes may be redeemed by AYC Finance Limited in whole but not in part on October 30, 2024 (or the 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.
- j) In February 2020, as part of the shareholders agreement to be executed among Ayala, Ayala's wholly owned subsidiary Philwater, and Trident Water, Ayala approved the grant of proxy rights by Philwater over such number of preferred shares to enable Trident Water to achieve 51% 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%.

MATERIAL PATENTS, TRADEMARKS, AND INTELLECTUAL PROPERTIES

Other than the trade name and mark "Ayala" and the brands used by its operating companies, Ayala has no other patent, trademark or intellectual property right to products registered under its name. Certain operating companies of Ayala have pending applications and/or registered patents, industrial designs, utility models and/or such other forms of intellectual property rights, which are material to the respective operations of these companies.

CHANGES IN CONTROL

Ayala is not aware of the existence of any agreement that may result in a change in control of Ayala.

CERTAIN RELATIONSHIPS AND RELATED 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.

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Ayala has an approval requirement such that material related party transactions (“RPT”) shall be reviewed by the Risk Management Committee and endorsed to the Board of Directors of Ayala for approval. Material RPTs are those transactions that meet the threshold value as approved by the Risk Management Committee amounting to ₱50.0 million or 5% of the total assets, whichever is lower and other requirements as may be determined by the Committee upon the recommendation of the Company’s Risk Management Committee.

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 members of the Group 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, guarantees, construction contracts and various services such as consultancy, project development, management, marketing and administrative support.

Certain members of the Group maintain current and savings accounts, money market placements and other short-term investments with BPI, and have short-term and long-term debt payable to BPI, which are governed by BSP regulations on loans to directors, officers, stockholders and other related interests. As required under BSP regulations and as a matter of policy, all transactions of Ayala and the Ayala Group companies with BPI are done on an arm’s length basis and BPI offers to the Company and companies under Ayala Group arm’s length interest rates, among others.

Certain members of the Group also have outstanding balances due to Ayala, or have receivables due from Ayala. For example, receivables from BPI include trade receivables on vehicles sold and financing dealer incentives by the ACI group, and dividends receivable and accrued interest receivables on short-term placements by the Group. Receivables from Globe include trade receivables on vehicles sold and project management and professional fees. There are also dividends receivable from related parties pertaining to accrued dividend declarations from associates and joint ventures as of December 31, 2020. Other outstanding balances of receivable from related parties as of December 31, 2020 pertain mostly to advances, including those for project development, logistics and reimbursement of operating expenses. All these are unsecured, interest free, will be settled in cash and are due and demandable, unless otherwise stated.

Payables to BPI include interest payable on Group borrowings, payable at various payment terms like monthly or quarterly and insurance premiums payable which are due in 30-60 days. Payables to BF Jade E-Services Philippines, Inc. pertain to cash-on-delivery (“COD”) collections payable which consist of amounts collected on behalf of the Group’s clients pertaining to parcels delivered with a COD scheme and remitted to the client normally 5-7 days after collection. Generally, all other outstanding balances of payable to related parties as of December 31, 2020 pertain to advances, including those for development costs and land acquisitions, and expenses incurred on utilities, professional services, logistics and other miscellaneous services. Unless otherwise stated in the Company’s consolidated financial statements as of December 31, 2020, all these are unsecured, interest free, will be settled in cash and are due and demandable.

In addition, members of the Group have receivables from officers and employees relating to housing, car, salary and other loans, which are collectible through salary deductions.

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.

Although the Company has instituted internal policies with respect to related party transactions, including establishing the Risk Management Committee to oversee such matters, and believes that all past related party transactions have been conducted at arm’s length on commercially reasonable terms, these transactions may involve conflicts of interest, which, although not contrary to law, may negatively impact the Group.

For further information on the Group’s related party transactions, see Note 32 to the Company’s audited consolidated financial statements included in this Prospectus. Except for those discussed in the said audited consolidated financial statements, no other transaction, other than as appropriately disclosed

The Company

by the Company, was undertaken by the Group involving any director or executive officer, any nominee for election as director, any beneficial owner of more than 5% of the Company's outstanding shares (direct or indirect) or any member of his immediate family. The Company's employees are required to promptly disclose any business and family-related transactions with the Company to ensure that potential conflicts of interest are reviewed and disclosed as appropriate.

There are no parties that fall outside the definition "related parties" under SFAS/IAS No. 24, but with whom Ayala or any member of the Group or its related parties has a relationship that enables the said parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis. Ayala and the members of the Ayala Group conduct all business and execute all transactions, including with both related and non-related parties, at an arm's length basis.

COSTS OF ENVIRONMENTAL COMPLIANCE

As Ayala is a holding company, costs related to environmental compliance have been minimal and have not been material.

GENERAL CORPORATE INFORMATION

Corporate Governance

Ayala has always been a staunch advocate of corporate governance and is a Sustainability pioneer in the Philippines. Its strong governance structures and initiatives have garnered Ayala multiple recognitions, both locally and regionally. As governance stalwarts, it has endured for more than 186 years by epitomizing integrity in the conduct of its business and by providing long-term value to its shareholders and other stakeholders. The Company's corporate governance principles are formalized in its Manual on Corporate Governance, the latest version of which was filed with the SEC on March 19, 2021 (the "Revised Manual"). 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 or violations 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 on 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 endeavors to fully comply with the Revised Manual through among others, the following:

- a) The Company annually assesses its compliance with the SEC Code of Corporate Governance for Publicly Listed Companies and its Revised Manual through the Integrated Annual Corporate Governance Report submitted to the SEC.
- b) The Board conducts and accomplishes an annual Board Performance Self-Assessment indicating 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 ratings are submitted to the Compliance Officer. Every three years, the board assessment is conducted by an independent third party. In 2020, the assessment was conducted by Aon.
- c) 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.

The Company

- d) The Company strives to fully adhere to the leading practices and principles of good corporate governance contained in the Revised Manual.
- e) The Company periodically reviews and updates its By-Laws, Board Charter and Revised Manual as further steps to ensure adherence to prevailing principles and practices of good corporate governance. The most recent amendments took place in 2020.
- f) The Board actively performs its fiduciary duty to the Company, including regularly meeting at least six times every calendar year.
- g) The Board ensures the presence and adequacy of internal control mechanisms for good governance in accordance with the Revised Manual. The minimum internal control mechanisms for the Board's oversight responsibility include, but are not limited to:
 - 1. Ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system;
 - 2. Reviewing conflict-of-interest situations and providing appropriate remedial measures for the same;
 - 3. Appointing a CEO with the appropriate ability, integrity and experience to fill the role, as well as defining the CEO's duties and responsibilities;
 - 4. Reviewing proposed senior management appointments;
 - 5. Ensuring the selection, appointment and retention of qualified and competent management; reviewing the Company's personnel and human resources policies, compensation plan and the management succession plan;
 - 6. Institutionalizing the internal audit function; and
 - 7. Ensuring the presence of, and regularly reviewing, the performance and quality of external audit.
- h) The Company adopts necessary policies to promote stronger corporate governance practices. In line with the increasing stakeholder focus on diversity in the boardroom, the Board adopted a Board Diversity Policy and elected its first female director in 2020. Further, to ensure the protection of shareholder interests and the integrity of its related party transactions, the Company updated its Related Party Transactions Policy in compliance with SEC Memorandum Circular No. 10, Series of 2019.

Shareholder and Investor Relations

It is the policy of the Company to encourage active participation and regular dialogues with institutional and retail investors. Through its Investor Relations Division, information requirements of the investing public and minority shareholders are fully disclosed to securities' regulators on time.

In 2020, Ayala's Investor Relations Division shifted to virtual channels to engage with its stakeholders amidst the pandemic. When the lockdown started, the group's senior management team proactively met investors and analysts on a regular basis to apprise them of the crisis' impact and how the group is pivoting as a result as well as perspectives on a near-term outlook. Throughout the pandemic, the division conducted its regular lineup of events virtually including investors' and analysts' meetings, investor conferences, the Company's Annual Stockholders' Meeting, and quarterly earnings calls. Additionally, The Company pushed through with two Ayala Group Days, one of which was expanded to a four-day event that had thematic session collectively covering all the businesses of the group.

Moreover, the Investor Relations Division spearheaded the group's first investor-oriented ESG workshop to keep management abreast with the key interests and concerns of the investing community and best global practices in relation to ESG.

BUSINESS

REAL ESTATE

Ayala Land, Inc. was formerly the real estate division of Ayala Corporation and was incorporated on June 30, 1988 to focus on the development of its existing real estate assets. In July 1991, Ayala Land became publicly-listed through an initial public offering of its primary and secondary shares on the Makati and Manila Stock Exchanges (predecessors of the PSE). Ayala Corporation's effective ownership in Ayala Land amounted to 88% as a result of the IPO.

Over the years, several developments further reduced Ayala Corporation's effective interest in Ayala Land; the exercise of stock options by respective employees of Ayala Corporation and Ayala Land, the disposal of Ayala Land shares by Ayala Corporation and Ayala Land's issuance of new shares in relation to its acquisition of interest in companies owning properties in Canlubang, Laguna in 1993. Furthermore, the conversion of a ₱3.0 billion, convertible, long-term commercial paper to Ayala Land Common B Shares publicly issued in December 1994, exchanges under bonds due in 2001, and equity top-up placements conducted through an overnight book-built offering in July 2012, March 2013 and January 2015. In 2019, bond holders of the US\$300 million exchangeable bonds issued by AYC Finance Limited, a wholly-owned subsidiary of Ayala Corporation, exercised their option to redeem shares of ALI. This decreased the shares directly owned by Ayala Corporation by 2.6%.

As of December 31, 2020, Ayala Corporation's effective ownership in Ayala Land is 44.44% with the remainder owned by the public. Ayala Land is listed with a total of 14,730,395,599 outstanding common shares and 13,066,494,759 outstanding voting preferred shares. Foreign equity ownership is 21.72% composed of 5,430,913,997 outstanding common shares and 607,264,635 voting preferred shares as of December 31, 2020. As of December 31, 2020, equity attributable to equity holders of Ayala Land amounted to ₱222.5 billion. Ayala Land has a total market capitalization of ₱602.5 billion based on the closing price of ₱40.90 per common share on December 29, 2020, the last trading day of the said month.

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 Mercado Supermarket. Ayala Land has 30 estates, is present in 57 growth centers nationwide and has a total landbank of more than 12,100 hectares as of December 31, 2020.

To carry on its business in an organized and efficient manner, Ayala Land structured its operations into key strategic business lines such as Property Development, Commercial Leasing, Hotels and Resorts and Services.

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.

Strategic Landbank Management handles the acquisition development and sale of large-scale, mixed-use, master-planned communities, the sale of Ayala Land's share in properties made available to subsidiaries for development and the lease of gas station sites and carparks outside Ayala Center in Makati City. Visayas-Mindanao Group handles the development, sale and lease of Ayala Land's and its subsidiaries' product offerings in key cities in the Visayas and Mindanao regions.

The Residential Business Group handles the sale of high-end residential lots and units (including leisure community developments), office spaces, commercial and industrial lots, middle-income residential lots

Business

and units, affordable lot units and house and lot packages, economic housing units and house and lot packages, and socialized housing packages, and the lease of residential units and marketing of residential developments. The products developed and sold are further classified into the following brands: AyalaLand Premier (“ALP”) for high-end village lots, condominium units and office units, Alveo Land Corp. (“Alveo”) for upscale village lots, condominium and office units, Avida Land Corp. (“Avida”) for middle-income village lots, house and lot packages and condominium and office units, Amaia Land Corp. (“Amaia”) for economic house and lot packages, and BellaVita Land Corp. (“BellaVita”) for the socialized house and lot packages.

MCT Bhd. specializes in the affordable housing segment. MCT has a landbank of 317 acres spread across the areas of Subang Jaya, Cyberjaya and Petaling Jaya.

Commercial Leasing

Commercial Leasing includes the development and lease of Shopping Center and Office spaces and Hotels and Resorts operations.

Shopping Centers include the development of shopping centers and lease to third parties of retail space and land, the operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers and the management and operations of malls which are co-owned with partners.

Office Leasing includes the development and lease of office buildings.

Hotels and Resorts include the development, operation and management of branded and owner-operated hotels, operation and management of eco-resorts.

Services

Services include Construction, Property Management and Air Transport. Construction of Ayala Land and third-party projects and land development is done through Makati Development Corporation (“MDC”).

Property Management which involves facilities management of Ayala Land and third-party projects, operation of water and sewage treatment facilities in some Ayala Land projects, distribution of district cooling systems and the bulk purchase and supply of electricity for energy solutions are the bulk purchase and supply of electricity for energy solutions are done through Ayala Property Management Corporation (“APMC”).

Airline service to Ayala Land’s tourism estates in Lio, Palawan and Sicogon Island resort is provided by “AirSWIFT” through its fleet of four (4) modern turbo-prop aircrafts.

Strategic Investments

Ayala Land’s strategic investments include AyalaLand Logistics Holdings Corp. (71.68%), Cebu Holdings, Inc. (71.13%), MCT Bhd. (66.3%), Mercado Supermarket (50.0%), Qualimed (33.0%), and OCLP Holdings, Inc. (21.01%).

Products/Business Lines (contribution to 2020 consolidated revenues after intercompany adjustments) are as follows:

Property Development	70%
Commercial Leasing	23%
Services	7%

Business

Distribution Methods of Products

Ayala Land's residential products are distributed to a wide range of clients 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 Workers ("OFW") 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 and Rome, and London. ALISI likewise assumed operations of AyalaLand International Marketing Inc. 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 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.

Development of the business of the registrant and its key operating subsidiaries/associates and joint ventures during the past three years

2020

Ayala Land endured the severe impact of COVID-19 in 2020 recording a 43% decline in consolidated revenues (which include real estate revenue, interest from real estate sales, interest and investment income, equity in net earnings, and other income) to ₱96.27 billion from ₱168.79 billion and a 74% drop in net income to ₱8.73 billion from ₱33.19 billion. Key indicators improved steadily from the third quarter to the fourth quarter reflecting a 49% growth in total revenues to ₱32.95 billion and a 28% jump in net income to ₱2.36 billion, sustaining the momentum for recovery.

Real Estate revenues, composed of Property Development, Commercial Leasing, and Services registered at ₱85.97 billion, a 46% decline from ₱157.85 billion due to construction restrictions, lower bookings and restrained mall and hotel operations.

Actual capital expenditures amounted to ₱63.67 billion, within the revised full-year budget of ₱69.82 billion, as financial sustainability initiatives strengthened the balance sheet with the net debt-to-equity ratio improving to 0.74:1 in FY 2020 from 0.78:1 in FY 2019.

2019

Ayala Land's net income (attributable to equity holders of Ayala Land) grew by 13.5% to ₱33.2 billion from ₱29.2 billion in 2018. Total revenues (which include real estate revenue, interest from real estate sales, interest and investment income, equity in net earnings, and other income) increased by 2% to ₱168.8 billion from ₱166.3 billion mainly driven by real estate revenues which grew by 1% to ₱157.9 billion. Revenues were supported by office and commercial and industrial lot sales and higher contribution of new leasing assets. Sales reservations grew 3% to ₱145.9 billion, fueled by the growth of Alveo and Avida. The commercial leasing business continued to expand with shopping centers gross leasable area (GLA now at 2.12 million sq. meters, office GLA at 1.17 million sq. meters and hotel and resorts rooms at 3,705. Total capital expenditures reached ₱108.7 billion. The company launched three

Business

new estates during the year namely: Alveo's Broadfield in Biñan, Laguna, The Junction Place in Quezon City, and Cresendo in Tarlac.

2018

Ayala Land registered a solid topline and bottomline growth of 17% and 16% respectively, with revenues (attributable to equity holders of Ayala Land) of ₱166.2 billion and net income (attributable to equity holders of Ayala Land) of ₱29.2 billion. Property sales grew 16% to ₱141.9 billion driven by strong local and overseas Filipino demand. Its leasing business expanded with shopping centers GLA of 1.90 million sq. meters, office GLA of 1.11 million sq. meters and hotels and resorts rooms of 2,973. The total capital expenditure reached ₱110.1 billion. It launched two estates: Parklinks in the Quezon City – Pasig City corridor, and Habini Bay in Laguindingan, Misamis Oriental.

On December 17, 2018, Asiatown Hotel Ventures, Inc., a 100%-owned subsidiary of AyalaLand Hotels and Resorts Corp. ("AHRC") was incorporated for the development of Seda Cebu IT Park.

On November 15, 2018, AMC Japan Concepts, Inc. was incorporated primarily to manage the Glorietta Roofdeck – Japan Town. It is 75% owned by ALI Commercial Center, Inc. and 25% owned by MC Commercial Property Holdings, Inc.

On September 12, 2018, One Makati Residential Ventures, Inc., a wholly-owned subsidiary of AHRC was incorporated for the development of One Ayala Residences.

2017

Ayala Land posted a healthy topline growth of 14% to ₱142.3 billion and solid net income growth of 21% to ₱25.3 billion. Property sales grew 13% to ₱122.0 billion. It broadened its leasing base ending 2017 with shopping centers GLA of 1.80 million sq. meters, office leasing GLA of 1.02 million sq. meters and 2,583 hotel and resort rooms. The total capital expenditure reached ₱91.4 billion. It launched three estates: Evo City in Cavite, Azuela Cove in Davao and Seagrove in Cebu.

On December 4, 2017, Capitol Central Commercial Ventures Corp. is a 100%-owned subsidiary of Ayala Land and was incorporated for the development of Ayala Malls Capitol Central.

On November 16, 2017, Arca South Commercial Ventures Corp., a 100%-owned subsidiary of Ayala Land, was incorporated for the development of Ayala Malls Arca South.

On November 3, 2017, Bay City Commercial Ventures Corp. ("BCCVC"), a 100%-owned subsidiary of Ayala Land, was incorporated for the development of Ayala Malls Manila Bay.

On October 10, 2017, Makati North Hotel Ventures, a 100%-owned subsidiary of AHRC was incorporated for the development of Seda Ayala North Exchange.

On September 28, 2017, One Makati Hotel Ventures, Inc., a 100%-owned subsidiary of AHRC and was incorporated for the development of Seda One Ayala.

On September 6, 2017, Bay Area Hotel Ventures, a 100%-owned subsidiary of AHRC was incorporated for the development of Seda Bay Area.

On July 7, 2017, AyalaLand Premier, Inc., a 100%-owned subsidiary of Ayala Land was registered to engage primarily in general contracting services.

On June 5, 2017, Makati Cornerstone Leasing Corp., a 100%-owned subsidiary of Ayala Land was incorporated to develop Circuit BPO Towers 1 and 2.

On March 1, 2017, MDBI Construction Corp. ("MDBI"), formerly MDC Triangle, Inc., was incorporated. MDBI is 67% owned by MDC and 33% owned by Bouygues Batiment International, a Europe-based company which is also a subsidiary of Bouygues Construction. MDBI was organized to engage in general contracting services.

Business

2016

Ayala Land grew its revenues (which include real estate revenue, interest from real estate sales, interest and investment income, equity in net earnings, and other income) by 16% to ₱124.6 billion and its net income by 19% to ₱20.9 billion. Property sales grew 3% to ₱108.0 billion. Its leasing business expanded, closing 2016 with shopping centers GLA of 1.62 million sq. meters, office leasing GLA of 836 thousand sq. meters and total hotels and resorts rooms of 2,027. Ayala Land spent ₱85.4 billion in capital expenditures.

On October 10, 2016, Lio Tourism Estate Management Corp., a 100%-owned subsidiary of Ten Knots Phils., Inc. ("TKPI"), was incorporated.

On March 9, 2016, Altaraza Prime Realty Corporation, a 100%-owned subsidiary of the Company, was incorporated to develop Altaraza IT Park, Bulacan.

Bankruptcy, Receivership or Similar Proceedings

None for any of the subsidiaries and affiliates above.

Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (not ordinary) over the past three years

2020

On August 17, 2020, the Board of Directors approved Ayala Land's 2020 stock option program pursuant to its Employee Stock Ownership Plan, covering up to 20,989,000 common shares at a subscription price of ₱27.72 per share, which is the average price of its common shares at the PSE over the last 15-day trading as of August 14, 2020, less 15% discount.

On September 28, 2020, 169 stock option grantees subscribed to 14,845,498 common shares at ₱27.72 per share and became effective on the same day. As a result of the subscription of the 169 stock option grantees, the number of ALI's outstanding common shares increased to 14,730,395,599.

On September 29, 2020, Ayala Land listed its ₱6.25-billion, 5-year fixed-rate bonds due 2025 with a coupon rate of 3.862% per annum on the Philippine Dealing and Exchange Corp. through a virtually held listing ceremony on September 29, 2020.

Whiteknight Holdings, Inc., a wholly-owned subsidiary of Ayala Land, entered into a Share Purchase Agreement with Healthway Philippines, Inc., a wholly-owned subsidiary of Ayala Healthcare Holdings, Inc. to sell the former's 39.20% share in the outstanding capital stock of Mercado General Hospital, Inc., the holding company for the QualiMed healthcare network of hospitals and clinics. The Board of Directors of Ayala Land approved the transaction on October 19, 2020.

On October 22, 2020, the Board of Directors of Ayala Land's REIT vehicle, AREIT, Inc. at its regular board meeting approved the following items:

- (a) The acquisition of The 30th from Ayala Land, Inc., AREIT, Inc.'s sponsor. for a purchase price ₱5.1 billion, VAT-inclusive, as endorsed by the Related Party Transactions Review Committee.
- (b) The raising of up to ₱6.4 billion, with a tenor of up to ten (10) years, through the issuance of retail bonds and/or corporate notes for listing on the PDEX, and/or bilateral term loans, and/or preferred shares for the purpose of financing asset acquisitions.
- (c) The establishment of credit facilities with banks amounting to ₱12.0 billion.

Likewise, the Board of Directors of Ayala Land ratified and approved the following amendments, as endorsed by the Corporate Governance and Nomination Committee.

1. Article VI of the Articles of Incorporation and Section 2 of Article III of the By-Laws to increase the number of directors from seven (7) to eight (8); and

Business

2. Various sections of the By-Laws to align with the Revised Corporation Code and with recognized good corporate governance practices, and to digitalize certain governance processes.

2019

On September 13, 2019, the SEC issued a permit to sell covering ALI's 4.7580% ₱3 billion 5-Year Fixed-rate Bonds, the second tranche under its ₱50 billion securities program of debt and other securities as provided by applicable SEC rules and regulations effective at the time of issuance. Subject to the satisfaction of certain conditions, the Fixed-rate Bonds are expected to be issued and listed on PDEX on September 30, 2019. The Fixed-rate Bonds have been rated PRS Aaa, the highest rating assigned by PhilRatings. Obligations rated PRS Aaa are of the highest quality with minimal credit risk.

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 24, 2019, the Board of Directors of Ayala Land, at its regular meeting, approved the acquisition of Avida Land, Corp., a 100%-owned subsidiary of Ayala Land, of 264,534,247 shares of ALLHC from Orion Land Inc., in exchange for a parcel of land in South Park District, Muntinlupa City. Subsequently, Avida sold the 264,534,247 shares to Ayala Land, increasing its effective ownership in ALLHC to 72.25%.

On May 6, 2019, ALI, listed the initial tranche of its new ₱50 billion SEC-registered shelf program, the ₱8 billion 7-Year Fixed Rate Bonds on the PDEX platform. The Bonds have a coupon of 6.3690% per annum and have been rated PRS Aaa, the highest rating assigned by PhilRatings. Obligations rated PRS Aaa are of the highest quality with minimal credit risk.

On April 24, 2019, ALI subsidiary, AREIT, intended to publicly list as a REIT under the current Implementing Rules and Regulations of the SEC on REITs and following the minimum public ownership requirement of 67%.

On February 27, 2019, the Board of Directors at its regular meeting approved the filing with the SEC of a 3-year shelf registration of up to ₱50 billion of debt securities (the "Shelf Registration") and the raising of up to ₱45 billion through: (a) retail bonds of up to ₱16 billion under the Shelf Registration and listed on the PDEX, (b) SEC-exempt Qualified Buyer Notes of up to ₱4 billion for enrollment on the PDEX, and (c) bilateral term loans of up to ₱25 billion.

On February 4, 2019, the Executive Committee of ALI approved the purchase of a 20% equity interest owned by Mitsubishi in LTI, equivalent to 8,051 common shares (the "LTI Shares"), with a total value of ₱800 million. On June 10, 2019, ALLHC acquired from ALI the LTI Shares for ₱800 million. The proceeds from the sale was used by ALI to acquire 323,886,640 common shares of ALLHC through a special block sale transaction.

2018

In December 2018, ALI acquired 8,051 common shares of LTI for ₱800.0 million increasing its ownership to 95%.

On November 7, 2018, Ayala Land in partnership with Ayala, launched its 26th estate, Habini Bay in Misamis Oriental. The 526-hectare estate is positioned as a new center of trade and commerce in Northern Mindanao.

On November 6, 2018, SEC approved the merger between CHI and Cebu Property Ventures and Development Corporation ("CPVDC") with CHI as the surviving entity. ALI acquired additional 59,631,200 common shares of CHI totaling to ₱352.8 million. Further, an additional 77,742,516 shares were acquired as a result of swap of CPVDC shares for a total consideration of ₱229.3 million which brings Ayala's ownership to 70.4%.

Business

On May 11, 2018, Ayala Land entered into a Memorandum of Understanding with GSPC and GCPRI for the formation of a joint venture company that would own and develop 27,852 hectares of land, specifically located in Dingalan Aurora and General Nakar, Province of Quezon. ALI owns 51%, and GSPC and GCPRI jointly own 49% of the joint venture company.

On April 30, 2018, ALI and POPI (currently known as ALLHC) executed a Deed of Exchange where ALI subscribed to 1,225,370,620 common shares of POPI for an aggregate subscription price of ₱3.0 billion in exchange for 30,186 common shares of LTI. The subscription and exchange were subject to and deemed effective only upon the issuance by the SEC of the confirmation of valuation of the shares.

On April 27, 2018 Ayala Land issued and listed on the PDEX a ₱10 billion bond due April 2028 with a coupon rate of 5.9203% p.a. for the initial five-year period of the ten-year term of the bond. The coupon rate will reprice on April 27, 2023, the 5th anniversary of the Issue Date, at the higher of (a) 5.9203% or (b) the prevailing five-year benchmark plus 75 bps which shall apply to all interest payments thereafter. The bond was assigned an issue credit rating of PRS AAA, with a Stable Outlook, by Philratings, the highest investment grade indicating minimal credit risk. The issuance is the 5th tranche of the Fixed Rate Bond series of the ALI's ₱50 billion Debt Securities Program as approved by the SEC in March 2016.

On April 4, 2018, 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 March 23, 2018, the Executive Committee of Ayala Land approved the exchange of its 75% equity interest in LTI into additional shares of stock in POPI (currently known as ALLHC). The value of the transaction was ₱3.0 billion where POPI issued 1,225,370,620 common shares to ALI in exchange for 30,186 LTI common shares and brought ALI's direct ownership in POPI to 63.90% from 54.91%.

On February 26, 2018, the board of directors of CHI approved the merger of CPVDC with CHI as the surviving entity. The merger consolidated CHI's portfolio under one listed entity, creating a unified portfolio for its investments and was expected to result in operational synergies, efficient funds management and simplified reporting to government agencies, as a result of the merger. The plan of merger was submitted for approval of the stockholders of the two companies during their respective annual stockholders' meeting held on April 10, 2018.

On February 20, 2018, the PCC approved the setting up of a joint venture between ALI and Royal Asia Land, Inc. to acquire, own, and develop a 936-hectare commercial and residential project in Silang and Carmona, Cavite. Both firms own 50% equity in the joint venture vehicle while Royal Asia Land would 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, would 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 deemed that the transaction would not result in a substantial lessening of competition because it would not have a structural effect on the market.

On January 11, 2018, 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. to Phoenix Petroleum Philippines, Inc., further to a Memorandum of Agreement entered into by the parties last October 30, 2017.

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. This brought ALI's shareholding in MCT to 50.19% from 32.95%. Subsequently, on January 5, 2018, RWIL issued a notice of an unconditional mandatory take-over offer to the board of directors of MCT to acquire all remaining shares of the company that were not already held by RWIL, following the completion of certain conditions to the share purchase agreement. The take-over offer was made in connection to the acquisition of additional shares in MCT, which increased ALI's shareholding in MCT to 50.19%. On March 23, 2018, Ayala Land completed the acquisition process, increasing its ownership stake in MCT to 66.25%.

Business

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

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.

Competition

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

Business

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 SMDC. 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 SMDC, 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 SMDC.

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

Suppliers

Ayala Land has a broad base of suppliers, both local and foreign. Ayala Land 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 20% or more of its revenues.

Transactions with related parties

Please refer to page 100 of this Prospectus ("Certain Relationships and Related Transactions").

Government approvals/regulations

Ayala Land 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 324 regular employees as of December 31, 2020. Ayala Land anticipated that it will have a total workforce of 306 regular employees by the end of February 2021. The breakdown as follows:

Senior Management	28
Middle Management	217
Staff	79
Total	324

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.

It is ALI's aim 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 ALI and its subsidiaries (collectively, the "ALI Group").

Business

ALI has a healthy relationship with its employees' union. Both parties openly discuss employee concerns without the 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.

ALI's Rank & File employees form the collective bargaining unit. ALI's current collective bargaining agreement covers the period January 1, 2020 to December 31, 2020. There have been no strikes in the last three (3) years.

Risks

Ayala Land faces a highly competitive business environment

Ayala Land is subject to significant competition in each of its principal businesses. Competitive pressure is expected to remain as large property developers focus on the value-conscious middle market. Sustained demand growth is not likely to occur without real improvement in employment and real incomes. 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.

Ayala Land competes with other developers and developments to attract purchasers of land and residential units, office, and retail tenants as well as other construction and property management firms, and hotel operators.

To manage this risk, Ayala Land continues its active land acquisition and development activities in key growth centers and its aggressive build-up of recurring income within tried and tested estates through its integrated mixed-use model versus pocket developments. Particular to the leasing business, one of the major drivers of competition is Ayala Land's ability to attract and retain merchants and tenants – which is generally dependent on the location of the leasing properties, price offerings to the tenants and merchants, as well as the quality of service provided by Ayala Land's property management team. And for this, Ayala Land continues to do the following: (1) active land acquisition in key geographies and partnering with other developers; (2) continue current mixed-use model versus pocket developments; (3) gathering market intelligence and translating information into competitive proposals; and (4) strong push for the timely opening of new properties / developments, among other control activities and procedures.

Land, Residential

With respect to land, condominium and office sales, Ayala Land competes for purchasers primarily on the basis of reputation, reliability, price and the quality and location of the community in which the relevant site is located. With respect to its horizontal residential housing developments, Ayala Land competes for buyers based on quality of projects and reasonable pricing of units.

a) High-end residential

Ayala Land continues to be the leader in the high-end residential market. It competes with a price premium over other high-end developers but justifies it with superior locations, workmanship quality, and overall reputation in the real estate industry. Through these, it has been able to keep well ahead of other high-end players.

Real estate has always been a major investment vehicle for the affluent. However, in a volatile environment, such as the recent financial crisis and the subsequent global economic downturn, the high-end market tends to "wait and see," or they simply choose to place their money in other investment instruments. As of December 31, 2020, Ayala Land Premier's full-year revenues decreased by 39% to ₱15.01 billion from ₱24.45 billion in the same period in 2019 due to the lower percentage of completion ("POC") of West Gallery Place in BGC, Park Central South Tower and Garden Tower 2 in Makati CBD and Arbor Lanes in Arca South and lower bookings from Park Central North Tower in Makati CBD and combined lower bookings and POC of The Alcoves in Cebu and Cerilo in Nuvali.

Business

Ayala Land has mitigated the market risks it faces through carefully planned project launches, clear product differentiation, product innovation, and increased market expansion through overseas sales and new segments.

b) Upscale, residential

In the upscale market segment, Alveo registered revenues of ₱8.05 billion in 2020, a decline of 58% from ₱19.00 billion in 2019, owing to lower POC of High Park 2 in Vertis North and Park Triangle Residences in BGC, lower bookings from Orea Place 1 & 2 in Vertis North, The Residences at Evo City 1, Venido in Biñan Laguna, and combined lower bookings and POC of Travertine in Portico.

c) Middle-income residential

Avida generated ₱14.42 billion in revenues in 2020, a 47% decrease from ₱27.36 billion in 2019, attributed to lower bookings from The Montane in BGC, Avida Towers Asten 3 in Makati, Avida Towers Sola 1 and 2 in Vertis North, Avida Northdale Settings in Nuvali, Avida Towers Vireo 1 in Arca South and Avida Towers Prime Taft 3 in Manila.

d) Socialized and Economic Housing

Ayala Land entered the socialized housing segment in 2012 with the launch of Amaia Scapes in Laguna under the Company's subsidiary, Amaia Land Corp., carrying the brand Amaia. This segment is expected to provide a steady end-user demand in the long-term as one-third of the estimated twenty (20) million Filipino households and majority of the almost four (4) million national housing backlog belongs to this segment. As of end-2020, Amaia posted full-year revenues of ₱4.69 billion, a 36% reduction from ₱7.37 billion relating to lower bookings from Skies Cubao Tower 2, Skies Shaw Tower 1, Skies Sta. Mesa and Skies Avenida Tower 1.

In terms of economic housing, Ayala Land formally launched its first socialized housing project in 2012 under the BellaVita brand in Cavite from subsidiary, BellaVita Land Corp. BellaVita recognized revenues of ₱790.65 million in 2020, 34% less than ₱1.20 billion in 2019 because of lower bookings from projects in Cagayan de Oro, Batangas and Laguna.

MCT Bhd. contributed ₱4.85 billion in revenues in 2020, a 28% decline from ₱6.71 billion in 2019 as the inventory of projects in Lakefront and Cybersouth were almost sold-out and construction activities in the second quarter and fourth quarter were limited under Malaysia's movement control order ("MCO"). These factors offset the contribution from projects under Market Homes, its affordable housing segment.

Positive factors spurring interest because of their long-term effects in the real estate industry are the:

1. Infrastructure, highway and railway projects within Metro Manila and nearby provinces;
2. Increasing purchases by the overseas-based Filipino market due to marketing and promotions by various developers;
3. Availability of financing from the Home Development Mutual Fund ("Pag-IBIG"); and
4. Relatively low mortgage rates and longer maturities.

Office for Sale

With respect to its office rental properties, Ayala Land competes for tenants primarily based upon the quality and location of the relevant building, the reputation of the building owner and operator, the quality of support services provided by the property manager, and rental and other charges. Under the current environment, lease rates and occupancy levels are under pressure in the Makati CBD where Ayala Land office buildings are located.

Revenues from the sale of office units dropped by 72% to ₱3.51 billion in 2020 from ₱12.34 billion in 2019, owing to limited inventory and lower incremental completion of remaining projects such as Alveo

Business

Financial Tower in Makati CBD, Park Triangle Corporate Plaza, and Park Triangle Tower and High Street South Corporate Plaza 2, all in BGC.

Commercial and Industrial Lots

Revenues from the sale of commercial and industrial decelerated by 42% to ₱6.56 billion in 2020 from ₱11.33 billion mainly due to the slower take-up of inventory in Broadfield and limited inventory in Altaraza, Evo City and Nuvali.

Sales reservations by Philippines-based Filipinos declined by 42% and accounted for 74% (valued at ₱60.41 billion) of all reservations, while those by Filipinos based abroad declined by 35%, accounting for 15% (valued at ₱12.61 billion) of the total, due to limited selling activity during the quarantine.

Commercial Leasing

This segment covers the operation of shopping centers, office buildings, and hotels and resorts. Total revenues from commercial leasing declined by 44% to ₱21.86 billion in 2020 from ₱39.31 billion in 2019.

With respect to its retail properties for lease, Ayala Land competes for tenants primarily based upon the ability of the relevant retail center to attract customers, which generally depends on the quality and location of, and mix of tenants in, the relevant retail center and the reputation of the owner and/or operator of the retail center, as well as rental and other charges. The market for shopping centers has become especially competitive and the number of competing properties is expected to grow. Some competing shopping centers are located within relatively close proximity of each of Ayala Land's commercial centers.

Shopping centers

Revenues from shopping centers dropped 59% to ₱9.06 billion in 2020 from ₱22.02 billion in 2019. Operating GLA and foot traffic as a percentage of pre-COVID levels improved towards the end of 2020. In the fourth quarter, operating GLA reached 64% from 62% in the third quarter. Likewise, foot traffic reached 35-45% in the fourth quarter from 30-35% in the third quarter as the less strict general community quarantine restriction was maintained, boosted by the holiday season. These improvements resulted in ₱1.69 billion in mall revenues in the fourth quarter, a 10% recovery from the third quarter of 2020. Average tenant sales also improved quarter-on-quarter reaching 53% in the fourth quarter from 41% in the third quarter. The average occupancy rate for all malls is 85% and 90% for stable malls. Total Malls GLA stands at 2.12 million sqm.

Offices

Revenues from office leasing was sustained at ₱9.41 billion in 2020 from ₱9.67 billion in 2019, on account of continuing BPO and headquarter ("HQ") office operations. The average occupancy rate for all offices is 88% and 94% for stable offices. Total office leasing GLA increased to 1.23 million sqm with the completion of BGC Corporate Center 2 and Central Bloc Corporate Center 2 in October and December, respectively.

Hotels and Resorts

Although the hotel industry has seen increasing visitor arrivals in the past several years, it is generally subject to the slowdown in business activity due to global financial and local political turmoil and security concerns. Nonetheless, according to the Department of Tourism, 1.5 million foreign tourists visited the Philippines in 2020.

Revenues from hotels and resorts ended 56% lower to ₱3.39 billion in 2020 from ₱7.62 billion in 2019. The average occupancy for all hotels was 41% and 44% for stable hotels. Meanwhile, the average occupancy for all and stable resorts stood at 16%. In the fourth quarter, El Nido Resorts and the Lio Estate were able to host more travel bubbles to the public, in close coordination with the Department of Tourism and the Local government. From only four (4) in the third quarter, a total of 37 travel bubbles were launched in the fourth quarter, driving a 52% increase in revenues to ₱786.74 million from the

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third quarter. The hotels and resorts segment ended 2020 with a total of 4,030 rooms in its portfolio with the completion of 345 rooms in the first half of 2020 as it opened Seda Central Bloc in Cebu and additional rooms in Seda Residences Ayala North Exchange and Seda BGC.

The hotels and resorts business manages 660 hotel rooms in its international brand segment – 312 from Fairmont Hotel and Raffles Residences and 348 from Holiday Inn & Suites, both of which are in the Ayala Center, Makati CBD.

There are 11 Seda Hotels, operating 2,712 rooms – Atria, Iloilo (152 rooms); BGC, Taguig (521); Centrio, Cagayan de Oro (150); Abreeza, Davao (186); Nuvali, Santa Rosa, Laguna (150); Vertis North, Quezon City (438); Capitol Central, Bacolod (154); Lio, Palawan (153); Ayala Center Cebu (301); Seda Residences Ayala North Exchange (293) and Seda Central Bloc (214). Circuit Corporate Residences operates 255 rooms.

El Nido Resorts operates 193 rooms from its four island resorts—Pangulasian, Lagen, Miniloc, and Apulit. The Lio Tourism Estate currently has 132 rooms under its Bed and Breakfast (“B&B”) and Dormitel offerings, while the Sicogon Tourism Estate in Iloilo currently has 78 B&B rooms.

Services

This is composed mainly of the construction business represented by Makati Development Corporation, property management through Ayala Property Management Corporation, and businesses engaged in power services such as Direct Power Services, Inc. (“DPSI”), Ecozone Power Management, Inc. (“EPMI”), Philippine Integrated Energy Solutions, Inc. (“PhilEnergy”) and AirSWIFT, the airline for the hotels and resorts in Palawan and Sicogon. Total revenues amounted to ₱6.25 billion in 2020, 29% lower than ₱8.85 billion in 2019 due to the restricted construction activity of MDC, lower power consumption of power subsidiary customers during the lockdown and very limited operations of AirSWIFT.

Construction

Ayala Land’s construction business is exposed to any potential sector-wide slowdown in construction activities.

Notwithstanding stiff competition in the industry, Ayala Land intends to maintain and enhance its position as the leading property developer in the Philippines by continuing its over-all business strategy of developing large-scale, mixed-use integrated communities within growth centers that perpetuate its strong market presence while ensuring a steady revenue growth for Ayala Land. Ayala Land further intends to diversify its revenue base by expanding its real estate business into different markets, specifically the economic and socialized housing segments where bulk of consumer “end-user” demand lies, and geographic areas and growth centers across the country where there are significant growth opportunities or where its proposed developments complement its existing businesses.

As Ayala Land continues to expand its footprint all over the country, continuing pressures are felt on the following areas, among others: maintaining developmental costs within competitive levels, getting qualified and reliable contractors and suppliers in the market, and ensuring that quality standards are consistently being enforced across all projects in different geographies.

Standardization and streamlining of processes to achieve increased operating efficiencies, complete partnering agreements on critical materials with suppliers, aggregation, advance buying for critical commodities to avoid delays, and continuous external sourcing are among the major mitigation activities being done by the Company to meet project execution and delivery targets.

On top of these, Ayala Land is continuously improving its self-perform and self-manufacture capabilities for better quality control in its developments.

Net construction revenues totaled ₱3.28 billion in 2020, only 3% lower than ₱3.40 billion in 2019.

Business

Property Management and Others

APMC, power services companies and AirSWIFT registered revenues of ₱2.97 billion in 2020, 46% less than the previous year's ₱5.45 billion.

Industrial Property Business

The industrial property business is affected by oversupply as well as limited industrial expansion and declining foreign investments. Overall, the industrial property segment is not likely to show significant demand improvement in the medium term.

Ayala Land is exploring potential areas in Central Luzon to develop into an industrial park for light manufacturing activities, a portion of which will be offered to Chinese companies.

Laguna Technopark, a development of Ayala Land's subsidiary, Laguna Technopark, Inc. ("LTI"), remains the preferred location for locators and has been successfully expanding its offerings at a time when industrial parks in the Calabarzon area have been experiencing the effects of an oversupply of manufacturing and processing facilities.

Cavite Technopark is the newest industrial park development located in Naic, Cavite, with an initial area of 118 hectares. Similar to Laguna Technopark, Cavite Technopark will cater to manufacturing locators that specialize in electronics, automotive, consumer products, food processing and pharmaceuticals. At full development, the locator companies of Cavite Technopark are expected to generate employment for over 20,000 employees.

Ayala Land's leverage creates a number of operating risks and might affect its ability to repay the Securities

The increase in debt of Ayala Land could have certain adverse consequences. For example, it could:

- reduce Ayala Land's ability to service its existing debt obligations, including the Securities;
- affect Ayala Land's ability to obtain additional financing for working capital, capital expenditures, debt service and other purposes;
- require Ayala Land to divert a substantial portion of its cash flow from operations to debt service;
- affect Ayala Land's flexibility in reacting to and taking advantage of developments and opportunities in the Philippine economy, the Philippine property development industry and its business; or
- place Ayala Land at a competitive disadvantage to its competitors that have less debt.

As of December 31, 2020, Ayala Land's consolidated short-term and long-term debt amounted to an aggregate of ₱211.95 billion, ₱127.85 billion of which were evidenced by public instruments.

Ayala Land's ability to refinance or repay its debt depends on its successful financial and operating performance, which will be affected by a number of factors, many of which are beyond its control. If Ayala Land is unable to refinance its debt, obtain necessary waivers or obtain new financing under these circumstances, Ayala Land would have to consider other various financing options such as sale of assets, procuring additional capital and other options available to Ayala Land under applicable law. Ayala Land might also have to modify, delay or abandon its development and expansion plans. See discussions under "Management's Discussion and Analysis of Financial Condition" and "Results of Operation" of this Prospectus.

Ayala Land has stringent monitoring mechanisms in place designed to manage its debt levels and to ensure that these are within sustainable limits. Ayala Land also actively tracks its inventory levels, accounts receivables and its contingent liability, all the while ensuring flexibility in its planned launches to adjust to operating and market conditions.

Ayala Land is subject to certain debt covenants

Ayala Land's existing bond agreements and agreements for certain debts contain covenants that limit its ability to, among other things:

1. incur additional long-term debt to the extent that such additional indebtedness results in a breach of a required debt-to-equity ratio;
2. materially change its nature of business;
3. merge, consolidate, or dispose of substantially all its assets; and
4. encumber, mortgage, or pledge some of its assets.

Complying with these covenants may cause Ayala Land to take actions that it otherwise would not take or not take actions that it otherwise would take. Ayala Land's failure to comply with these covenants would cause a default, which, if not waived, could result in the debt becoming immediately due and payable. In this event, Ayala Land may not be able to repay or refinance such debt on terms that are acceptable to Ayala Land or at all.

Ayala Land has historically taken a prudent stance in managing its debt obligations by ensuring that any corporate act, whether or not performed in the ordinary course of business, does not violate any existing debt covenants. In the event that any significant corporate act or business transaction is seen to potentially affect its debt covenants that would lead to accelerating the payment of existing debt, Ayala Land shall endeavor to obtain the necessary waivers in accordance with relevant debt agreements.

Ayala Land from time to time considers business combination alternatives

Although Ayala Land's loan covenants contain certain restrictions on business combinations, Ayala Land will be able to engage in certain types of combinations. Business combinations involve financial and operational risks and could result in significant changes to Ayala Land's operations, management and financial condition. These changes could adversely affect Ayala Land's ability to fulfill its obligations under its existing debt agreements.

Ayala Land takes into consideration its existing debt obligations and concomitant debt covenants in making any major business investments or acquisitions. Any financial commitments under such business combinations are evaluated in terms of the inflow of revenues of such projects and their ability to service their own financial requirements once fully operational.

Under Republic Act No. 10667, the PCA authorizes the PCC to review mergers and acquisitions to ensure compliance with the PCA. The PCA, its IRR, as amended, and the Rules on Merger Procedure (collectively "Merger Rules") provides for mandatory notification to the PCC of any merger or acquisition within 30 days of signing any definitive agreement relating to the transaction, where the value of such transaction exceeds ₱2.2 billion, and where the size of the ultimate parent entity of either party ₱5.6 billion. The parties may not consummate the transaction prior to receiving PCC approval or the lapse of the period stated in the Merger Rules. A merger or acquisition that meets the thresholds under the Merger Rules but was not notified to the PCC, or notified but consummated, in whole or in part, prior to the expiration of the waiting period, is considered void and will subject the parties, and will subject the parties to a fine between 1.00% to 5.00% of the value of the transaction. Criminal penalties for entities that enter into anti-competitive agreements, as defined, include: (a) a fine of not less than ₱50 million but not more than ₱250 million; and (b) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

Given the usual volume of Ayala Land's transactions, mergers or acquisitions undertaken by Ayala Land would likely meet the notification threshold under the PCA and its IRR. The Issuer will comply with the requirements of the PCA and its IRR. Section 4(eee) of Republic Act No. 11494 (the "Bayanihan 2 Act") exempts from compulsory notification all mergers and acquisitions with transaction values below

Business

₱50 billion if entered into within two years from the effectivity of Bayanihan 2 Act, or from 15 September 2020.

Successful development of Ayala Land's projects is dependent on various factors

There is no certainty that Ayala Land's current and future projects will be implemented as planned and within the projected timetable. Real estate developments are subject to risks such as delays in obtaining financing and/or finalizing project plans and/or obtaining approvals, increases in construction costs, natural calamities and/or market downturns hereinafter described. Ayala Land's future financial performance may be significantly affected by factors that limit its ability to finance and complete its current and future projects in a timely and cost-effective manner and to market them successfully.

Ayala Land continually looks for growth opportunities in different market segments and geographic areas in order that any negative impact on a particular market segment or geographic area by reason of political, economic or other factors will allow it to pursue its projects or other developments not affected thereby, thus, providing it with a steady revenue base.

Ayala Land's business is affected by regulation in the Philippines

Ayala Land operates a material part of its businesses in a regulated environment. Ayala Land is subject to numerous environmental laws and regulations relating to the protection of the environment and human health and safety. These include laws and regulations governing air emissions, water and wastewater discharges, odor emissions and the management and disposal of, and exposure to, hazardous materials.

Ayala Land cannot predict what environmental or health and safety 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 or health and safety laws or regulations or to respond to environmental claims.

The Housing and Land Use Regulatory Board ("HLURB") Resolution No. 926, or the "Revised Implementing Rules and Regulations to Govern the Time of Completion of Subdivision and Condominium Projects under P.D. No. 957", was recently promulgated to narrow the grounds to grant additional time to complete a given project. Ayala Land endeavors to complete its projects within the time granted by HLURB in the Licenses to Sell of the projects.

Ayala Land, through its construction and property management arms, keeps itself abreast of the latest technologies that enable it to implement existing sanitation, environment and safety laws and regulations at cost-efficient means, a strategy which has earned Ayala Land awards from several local and international organizations.

Moreover, through its wholly-owned MDC, Ayala Land is able to rely upon 41 years of experience in engineering, and an array of construction-related services including construction management, procurement and construction equipment management for the timely delivery of its various projects in accordance with safety and quality specifications.

Operational and Physical Risk Factors in Ayala Land's Business

Just like any other business, Ayala Land is not exempt from the various risks associated with property development and operational management. It is however cognizant of the fact that a thorough understanding of risks, its complexities and continuous improvement in design and business operations is key to better abatement of risks and ensuring leadership in the industry.

Since the inception of ALI's risk management program, its management has consistently emphasized the need for a higher level of safety and security awareness and diligence to ensure customers have pleasant experiences in our shopping centers and other managed properties and estates.

The importance of adequate and effective maintenance practices and procedures is always advocated to prevent serious and unscheduled operational losses such as equipment breakdown and to maintain quality standards in our owned and managed properties. In 2016, the year-end equipment uptime for

Business

all managed properties is at 99.41% versus an internal target of 99%. Vendor performance evaluation of contracted services and customer feedback ratings of 93%, was also well within the 80% thresholds.

Product and service quality and safety risks are also relatively high in ongoing construction projects from safety-related incidents up to quality or workmanship issues. In 2017, ALI achieved a 0.1 Total Disabling Injury Rate on 193 million total man-hours worked, a significant improvement from previous years and better than comparable international construction companies. Likewise, it has attained a 92% Safety Maturity & Engagement, a rating that is higher than global norms, based on Employee Health and Safety survey conducted by Towers Watson. This is made possible through the strengthened controls and mitigation activities being employed by the Company.

Among such controls are (1) adequate supervision and safety inspections for all critical and hazardous activities (2) ensuring that workers are provided with pre-activity trainings on safety before any construction work can commence (3) empowering the Safety Officers to declare work stoppage and to override project managers if they see that things are not being done in accordance with ALI's safety standards and practices (4) stricter monitoring of all EHS permits and licenses for all projects and (5) engagement of MDC for project supervision even for projects that are sub-contracted to third parties.

On May 31, 2013, an explosion occurred inside a residential unit in Section B, Two Serendra. Two Serendra is a district of Serendra, a condominium development of Serendra, Inc., a subsidiary of Ayala Land. It is located at BGC in Taguig City. The incident claimed the lives of four persons, including the occupant of the unit in Section B. Initial reports indicate that the explosion may have resulted from an improper accumulation of gas inside the unit. A government inter agency task force investigated the incident and its findings, that the explosion was caused by an accumulation of gas inside the unit due to the lack of care by the unit renovation contractor, and the parties possibly responsible, is pending review by the DOJ.

Ayala Land's subsidiary, Ayala Property Management Corporation, as the property manager of Serendra, provided support and assistance to the Serendra Condominium Corporation, the affected parties and the investigating units of government.

Natural catastrophes may affect Ayala Land's businesses adversely

The Philippines has experienced a number of major natural catastrophes in recent years, including typhoons, volcanic eruptions, earthquakes, mudslides, and droughts. Natural catastrophes may disrupt Ayala Land's ability to deliver its services and impair the economic conditions in the affected areas, as well as the overall Philippine economy. Furthermore, there is growing political and scientific consensus that emissions of greenhouse gases continue to alter the global atmosphere in ways that are affecting the global climate. These effects may include changes in temperature levels which may in turn bring about changes in weather patterns (including storm frequency and intensities, drought and rainfall levels), and ultimately, changes that may negatively affect global water and food security. The occurrence of such natural catastrophes exacerbated by climate change, and the annual variation in weather conditions may materially disrupt and adversely affect, in varying degrees geographically, the business operations, financial condition and results of operations of Ayala Land.

To mitigate the risk of changing environmental and site conditions, and as part of a more thorough due diligence process, all land acquisitions and project launches undergo a thorough technical due diligence process and environmental scanning to identify all other potential risks that ALI may be exposed to. These technical due diligence reports include, but are not limited to, environmental studies not just for the specific land parcels but for adjacent areas, as well. ALI has established 24/7 Operation Centers all throughout the country that continuously monitor and track weather situations to facilitate early mitigation and quick response during typhoons, flood incidents, earthquakes and other natural or manmade disasters.

To protect its assets and to ensure cost recovery for property damages other losses during these disasters, ALI maintains comprehensive insurance against catastrophic perils including but not limited to earthquake, typhoon and flood to cover its various developments against physical damage and business interruption based on declared values in each location and on probable maximum loss scenarios. Despite the series of natural disasters that befell the country in 2014 and 2013, including super typhoon Yolanda which caused massive destruction in the Visayan provinces as well as the Bohol

Business

earthquake in 2013, there have been no significant impacts to ALI's business as proper mitigating measures have been put in place, such as but not limited to, engineering interventions and insurance.

In 2016, a major review of ALI's major business lines was conducted to identify the most critical business activities and the potential business impact on the business unit should these activities be interrupted over varying timeframes. This information is critical in helping ALI determine the timeframes within which critical business activities must be resumed following a disruption, as well as the resources required for business continuity.

The prospects of Ayala Land may be influenced by political and economic factors in the Philippines

The growth and profitability of Ayala Land will be influenced by the general political situation in, and the state of the economy of, the Philippines. Any political or economic instability in the future may have a negative effect on the financial results of Ayala Land and the level of dividends paid and distributions made by Ayala Land's subsidiaries.

Currently, ALI continues to enjoy healthy national and local government relationships in both Metro Manila and provincial growth centers. Maintaining positive and supportive relations with government entities and regulators as well as sound corporate governance practices and strict compliance to internal policies and procedures, enables ALI to manage this risk at acceptable levels.

As ALI expands to new growth areas, there is an increased need to cultivate relationships with local government entities within these areas and one way to gauge positive relationship with local government is the processing of critical permits. At present, ALI is well within acceptable thresholds and timelines. However, ALI is still taking further steps in making permit-related improvements such as (a) more rigorous monitoring of permit renewals and deadlines to avoid payment delays and penalties and (b) the continuous review of permit processes to ensure permits are processed and released within acceptable time frame thereby helping in preventing serious project delays.

Public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect ALI's business, financial condition and results of operations.

The Philippines remains vulnerable to exposure and spread of COVID-19. See page 68 “ – *Risks relating to the Philippines – The continuing impacts of the COVID-19 pandemic are highly unpredictable, volatile, and uncertain, and have had, and will continue to have, certain negative impacts on business operations, demand for products and services, costs of doing business, availability of labor, access to inventory, supply chain operations, the Group's financial performance, and the ability to predict future performance, among others.*”

Government quarantine measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. In particular, the re-imposition of ECQ or MECQ could adversely impact (a) limited construction capacity onsite to adhere to health and safety protocols which may impact revenue recognition; and (b) ALI's ability to collect and generate rental income, which could negatively impact its cash flows. Due to the imposition of an ECQ, foot traffic in malls and occupancies in ALI's hotels have declined. With respect to ALI's malls, only tenants providing essential services, such as pharmacies, food-related outlets and supermarkets, which account for approximately 10% of the gross leasable area, were allowed to remain open during ECQ periods. Accordingly, only such establishments have been paying rent during ECQ periods.

Furthermore, as to the hotel and resorts segment of ALI's business, in view of the continuing community quarantines and restricted travel, Ayala Land's hotels and resorts segment continues to be adversely affected by the lower number of guests and reduced room rates, both of which have significantly impacted the revenues reported under this segment.

If COVID-19 cases continue to rise, it could result in the reimposition of stricter measures to combat such increase in severity, which could have an adverse effect on economic activity in the Philippines, and could materially affect ALI's business, financial condition and results of operations.

Business

Working Capital

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 asset.

Regulatory

Real Estate Laws

Regulation of Real Estate Development in the Philippines

Presidential Decree No. 957, as amended, Republic Act No. 4726, as amended, Batas Pambansa Blg. 220, Republic Act No. 4726 and Republic Act No. 7279, as amended, are the principal statutes which regulate the development and sale of real property as part of a condominium project or subdivision. Presidential Decree No. 957 covers subdivision projects and all areas included therein for residential, commercial, industrial and recreational purposes, and condominium projects for residential or commercial purposes. The HLURB is the administrative agency of the Government which enforces this decree and has jurisdiction to regulate the real estate trade and business.

In this regard, all subdivision plans and condominium project plans of ALI are required to be filed with and approved by the HLURB and the relevant Local Government Units ("LGU") of the area where the project is situated. Approval of such plans is conditional on, among other things, ALI's financial, technical and administrative capabilities. Alterations of approved plans which affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the relevant local government unit. ALI, as owner of and dealer in real estate projects, is required to obtain licenses to sell ("LTS") before making sales or other dispositions of lots or real estate projects.

Subdivision or condominium units may be sold or offered for sale only after an LTS has been issued by the HLURB. As a requisite for the issuance of an LTS by the HLURB, developers are required to file with the HLURB security (in the form of a surety bond, mortgage, or any other form of security) to guarantee the completion of the development and compliance with the applicable laws, rules and regulations.

Dealers, brokers, and salesmen of real estate projects of ALI are also required to register with the Philippine Regulatory Commission. Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB by itself or upon complaint from an interested party. A license or permit to sell may only be suspended, cancelled or revoked after a notice to the developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws. ALI has been able to maintain these permits and licenses.

Under current regulations, ALI as a developer of subdivision projects having an area of one hectare or more, is required to reserve at least 30% of the gross land area of such subdivision for open space for common uses, which include roads and recreational facilities. ALI, as a developer of subdivision projects with 20 lots and below per hectare, is required to reserve at least 3.5% of the gross project area for parks or playgrounds. ALI has been compliant with these requirements.

Under the agrarian reform law and the regulations issued thereunder by the Department of Agrarian Reform ("DAR"), land classified for agricultural purposes as of or after June 15, 1988, cannot be converted to non-agricultural use without the prior approval of DAR. Republic Act No. 9700, the law extending the term of the comprehensive agrarian reform program for another five (5) years, was signed by President Arroyo on August 7, 2009, and expired on June 30, 2014. Prior to undertaking any development of agricultural lands, ALI obtains the necessary permits from the relevant government agencies.

While the 1987 Philippine Constitution prohibits foreigners from owning land, there is generally no prohibition against foreigners owning buildings and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%. To the extent of the foregoing, ALI's foreign market for real estate projects is limited.

Republic Act No. 7279 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project

Business

cost, at the option of the developer, within the same city or municipality, whenever feasible, and in accordance with the standards set by the HLURB. ALI has been compliant with this requirement in accordance with the rules and regulations implementing Republic Act No. 7279.

Construction

The construction industry in the Philippines is subject to regulation by the Government as described below.

Licenses

A regular contractor's license is required to be obtained from the Philippine Contractors Accreditation Board ("PCAB"). In granting such license, the PCAB takes into consideration the applicant-contractor's qualifications and compliance with certain minimum requirements in the following criteria: (a) financial capacity, (b) equipment capacity, (c) experience of firm, and (d) experience of technical personnel. Philippine laws also require a contractor to secure construction permits and environmental clearances from appropriate Government agencies prior to actually undertaking each project. MDC is duly accredited by the PCAB as a licensed contractor and maintains all required qualifications in compliance with the PCAB's requirements.

Minimum Philippine Ownership Requirement

Under Philippine law, in order to bid on publicly funded Government contracts, a contractor must be at least 75%-owned by Philippine nationals. In this connection, Ayala Land has maintained at least 60% ownership by Philippine nationals. As of December 31, 2020, Ayala Land's foreign ownership is at 21.62%.

Property Laws

Land Registration

The Philippines has adopted a system of land registration which conclusively confirms land ownership which is binding on all persons, including the Government. Once registered, title to registered land can no longer be challenged except with respect to claims annotated on the certificate of title. Title to registered lands cannot be lost through adverse possession or prescription.

Unregistered land may be brought under the system if, after proper surveying, application, publication, service of notice and hearing, the Regional Trial Court ("RTC") within whose jurisdiction the land is situated confirms title to the land. Persons opposing the registration may appeal the judgment within 15 days to the Court of Appeals ("CA"). After the lapse of the period of appeal, the Registry of Deeds may issue an Original Certificate of Title. The decree of registration may be annulled on the ground of actual fraud within one year from the date of entry of the decree of registration.

Any subsequent transfer or encumbrance of the land must be registered in the system in order to bind third persons. Subsequent registration and issuance of a new title in the name of the transferee will be granted upon presentation of certain documents and payment of fees and taxes.

In accordance with the said system of land registration, ALI ensures that all properties held or developed are properly covered by valid and subsisting certificates of title.

Zoning

Land use may be limited by zoning ordinances enacted by provinces, cities or municipalities. Once enacted, land use may be restricted in accordance with a comprehensive land use plan approved by the relevant local government unit. Lands may be classified under zoning ordinances as commercial, industrial, residential or agricultural. All developments of ALI comply with the applicable zoning classification.

Business

Subdivisions and Condominiums

All subdivision lots and condominium plans for residential, commercial, industrial and other development projects are subject to approval by the local government unit in which the project is situated. The development of subdivision lots and condominium projects can commence only after the local government unit has issued the development permit.

Subdivision lots or condominium units may be sold or offered for sale only after a license to sell has been issued by the HLURB. The license to sell may be issued only against a performance bond posted to guarantee the completion of the construction of the subdivision lot or condominium project and compliance with applicable laws and regulations. All documents evidencing conveyances of subdivision and condominium units should be registered with the relevant Registry of Deeds.

Title to the subdivision lot or condominium unit must be delivered to the purchaser upon full payment of the purchase price.

The foregoing permits, licenses and approvals are secured by ALI for its subdivision and condominium developments.

Special Economic Zone

The Philippine Economic Zone Authority ("PEZA") is a government corporation that operates, administers and manages Ecozones around the country. Ecozones, which are generally created by proclamation of the President of the Philippines, are areas earmarked by the Government for development into balanced agricultural, industrial, commercial, and tourist/recreational regions.

An Ecozone may contain any or all of the following: industrial estates, export processing zones, free trade zones, and tourist/recreational centers. PEZA-registered enterprises located in an Ecozone are entitled to fiscal and non-fiscal incentives such as income tax holidays and duty-free importation of equipment, machinery and raw materials.

Enterprises offering IT services (such as call centers and other BPO firms using electronic commerce) are entitled to fiscal and non-fiscal incentives if they are PEZA-registered locators in a PEZA-registered IT Park, IT Building, or Ecozone. An IT Park is an area which has been developed into a complex capable of providing infrastructures and other support facilities required by IT enterprises, as well as amenities required by professionals and workers involved in IT enterprises, or easy access to such amenities. An IT Building is an edifice, a portion or the whole of which provides such infrastructure, facilities and amenities.

PEZA requirements for the registration of an IT Park or IT Building differ depending on whether it is located in or outside Metro Manila. These PEZA requirements include clearances or certifications issued by the city or municipal legislative council, the DAR, the National Water Resources Board, and the Department of Environment and Natural Resources ("DENR").

Certain of ALI's properties are registered with PEZA, and this provides significant benefits to ALI's tenants. PEZA registration provides significant tax incentives to those of ALI's customers that are PEZA-registered (they can, for example, avail themselves of income tax incentives such as income tax holidays or a 5.0% gross income taxation), thereby making tenancy in ALI's PEZA-registered buildings potentially more attractive to them.

Property Taxation

Real property taxes are payable annually based on the property's assessed value. Assessed values are determined by applying the assessment levels (set by ordinances of the concerned Sanggunian) against the fair market values of real property. The assessed value of property and improvements vary depending on the location, use and the nature of the property. Land is ordinarily assessed at 20% to 50% of its fair market value; buildings may be assessed at up to 80% of their fair market value; and machinery may be assessed at 40% to 80% of its fair market value. Real property taxes may not exceed 2% of the assessed value in municipalities and cities within Metro Manila or in other chartered cities and 1% in all other areas.

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A province or city, or a municipality within Metro Manila may also levy and collect an annual tax of 1% on the assessed value of real property which shall be in addition to the basic real property tax to accrue exclusively to the Special Education Fund of the local government unit where the property is located. ALI promptly pays the real estate taxes and assessments on the properties it owns.

Real Estate Sales on Installments

The provisions of Republic Act No. 6552, or the Maceda Law apply to all transactions or contracts involving the sale or financing of real estate on instalment payments (including residential condominium units but excluding industrial lots and commercial buildings and sales to tenants under Republic Act No. 3844). Under the provisions of the Maceda Law, where a buyer of real estate has paid at least two years of instalments, the buyer is entitled to the following rights in case of a default in the payment of succeeding instalments:

- a) To pay, without additional interest, the unpaid instalments due within the total grace period earned by him, which is fixed at the rate of one month for every one year of instalment payments made. However, this right may be exercised by the buyer only once every five years during the term of the contract and its extensions, if any.
- b) If the contract is cancelled, the seller shall refund to the buyer the cash surrender value of the payments on the property equivalent to 50% of the total payments made, and in cases where five years of instalments have been paid, an additional 5% every year (but with a total not to exceed 90% of the total payments). However, the actual cancellation of the contract shall take place after thirty days from receipt by the buyer of the notice of cancellation or the demand for rescission of the contract by a notarial act and upon full payment of the cash surrender value to the buyer.

In the event that the buyer has paid less than two years of installments, the seller shall give the buyer a grace period of not less than 60 days from the date the installment became due. If the buyer fails to pay the installments due at the expiration of the grace period, the seller may cancel the contract after 30 days from receipt by the buyer of the notice of cancellation or the demand for rescission of the contract by a notarial act.

Shopping Malls

Shopping mall centers are regulated by the LGU of the city or municipality where the establishment is located. In line with this, mall operators must secure the required mayor's permit or municipal license before operating. In addition, no mall shall be made operational without complying first with the provisions of Republic Act No. 9514 or the Fire Code of 2008 and other applicable local ordinances. Furthermore, shopping malls with food establishments must obtain a sanitary permit from the Department of Health ("DOH"). It is also compulsory for shopping malls discharging commercial wastewater to apply for a wastewater discharge permit from the DENR and to pay the fee incidental to the permit.

Nationality Restrictions

Please refer to "Regulatory Framework – Nationality Restrictions" on page 374 of this Prospectus.

Environmental Laws

Please refer to "Regulatory Framework – Environmental Laws" on page 378 of this Prospectus.

Anti-Money Laundering Laws

Please refer to "Business – Financial Services – Regulatory – Anti-Money Laundering Act of 2001" on page 141 of this Prospectus.

Bayanihan Laws

Please refer to "Regulatory Framework – Bayanihan Laws" on page 386 of this Prospectus.

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On March 24, 2020, Congress passed Republic Act No. 11469, the Bayanihan to Heal as One Act (the “Bayanihan Act”) into law, which obligated residential developers such as ALI to grant 30-day grace periods for residential payments falling due within the period of ECQ and MECQ. On June 25, 2020, the Bayanihan Act measures implemented to address the pandemic in the Philippines expired without extension or replacement.

On September 11, 2020, the Bayanihan to Recover as One Act (the “Bayanihan 2 Act”) was signed into law by President Duterte. Similar to the Bayanihan Act, the Bayanihan 2 Act confers emergency powers to President Duterte which will be in effect until December 19, 2020. The Bayanihan 2 Act implemented a moratorium on the collection of payments for residential projects and commercial rents of lessees not permitted to operate or which have temporarily ceased operations under the Bayanihan 2 Act during and after the effectivity of quarantine measures, which affected Ayala Land and businesses that transact with Ayala Land.

In the year 2020, in line with the rental relief framework implemented by the government to support businesses and the broader economy due to the impact of COVID-19 under the Bayanihan Laws, Ayala Land provided rent condonation to its mall tenants which were not allowed to operate during the ECQ. Moreover, rental support was given to operating tenants depending on their lease contract (fixed vs. variable paying) and common area charges were discounted by 50% to support their business operations.

FINANCIAL SERVICES

BPI's highlights of balance sheets and income statements are shown below:

Balance Sheets

(In Million Pesos)

	December 2020	December 2019
Total Resources	₱ 2,233,443	₱ 2,205,030
Total Liabilities	1,951,486	1,931,996
Capital Funds Attributable to Equity Holders of BPI	279,835	269,577
Capital Funds Attributable to the Noncontrolling Interest	2,122	3,457
Total Liabilities and Capital Funds	₱ 2,233,443	₱ 2,205,030

Statements of Income

(In Million Pesos, except Per Share figures)

	December 2020	December 2019 (As restated)
Interest Income	₱ 96,308	₱ 100,487
Other Income	29,659	26,687
Total Revenues	125,967	127,174
Operating Expenses	48,154	48,344
Interest Expense	24,044	34,912
Impairment Losses	28,000	5,562
Provision for Income Tax	3,906	9,355
Total Expenses	104,104	98,173
Net Income from Continuing Operations	21,863	29,001
Net (Loss) Income from Discontinued Operations	(211)	82
Net Income After Tax	₱ 21,652	₱ 29,083
Attributable to:		
Equity Holders of BPI arising from Continuing Operations	21,409	28,803

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Noncontrolling Interest	243	280
	₱ 21,652	₱ 29,083
EPS (Continuing operations)	₱ 4.79	₱ 6.38
EPS (Discontinued operations)	(₱ 0.05)	₱ 0.01

Business Development

BPI is the Philippines' third largest banking institution in terms of total assets and equity capital, and is among the highest in the industry in terms of market capitalization. It is licensed by the BSP to provide universal banking services 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 cross-border 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. BPI also has the country's second largest branch network. It is a leader and innovator in the use of automated branch processes and a leading provider of financial services through internet banking, mobile banking, and phone banking. BPI operates the country's second largest ATM network.

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, BPI 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 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, 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 BPI's penetration of middle market clients. In 2000, BPI also formalized its acquisition of three 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 March 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 December 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. ("BPI CTL"), 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.

On August 2015, BPI completed another strategic partnership with Global Payments Inc. ("GPN"), an Atlanta-based, NYSE-listed provider of international payment services. By combining its merchant

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acquiring network with that of GPN, BPI provides enhanced services to its card customers, as well as to its merchant clients. The partnership with GPN remained 49% owned by BPI.

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 (2019-2020)

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.

Also, in November 2020, the Bank announced that Tokyo Century Corporation ("TCC") has decided to acquire an additional 2% of the issued shares of BPI Century Tokyo Lease & Finance Corp ("BPI CTL"), which will increase their equity stake to 51%.

Principal Subsidiaries

BPI's principal subsidiaries are:

- a) 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. In January 2021, the Bank announced BPI's merger with BFSB, with BPI as the surviving entity, subject to regulatory and stakeholder approvals;
- b) 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;
- c) 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.;
- d) 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;
- e) 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;
- f) 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;
- g) 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 Tokyo Century Corporation ("TCC"), who purchased a 49% stake in 2014. BPI CTL wholly owns BPI Century Tokyo Rental Corp., which offers operating leases. In December 2020, TCC acquired an additional 2% from BPI of the issued shares of BPI CTL, which increases their equity stake to 51%;

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- h) 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;
- i) 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;
- j) 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 SEC. BIMI is also responsible for formulating and executing the funds' investment strategies. Effective January 29, 2020, BIMI assumed the management and distribution of nine mutual funds previously managed by PhilAm Asset Management, Inc. ("PAMI"). BIMI and PAMI first announced the agreement to transfer the management of the funds on November 20, 2019.

Principal Products & Services

BPI offers a wide range of corporate and retail banking products. BPI 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 about 71% of net revenues. The second category covers services ancillary to BPI'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 membership fees, income from insurance subsidiaries and service charges or commissions earned on international trade transactions, drafts, fund transfers, and various deposit-related services. Commissions, service charges, and other fees, when combined with trading gains and losses arising from BPI's fixed income and foreign exchange operations, constitute non-interest income, which accounts for the remaining 29% of net revenues.

Distribution Network

BPI had 869 branches across the country, including 5 kiosk branches, as of December 31, 2020. 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 304 Banko branches and Branch-Lite Units set up in strategic locations in the country. Overseas, BPI has one (1) Hong Kong office (i.e., 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 three (3) Remittance Centers located in Hong Kong and two (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 25 business centers and desks, 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 network has grown to a total of 2,707 terminals as of December 31, 2020 of which 2,240 are ATMs and 467 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

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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 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 is now made easier with the use of One-Time PIN;
- Inter-bank Funds Transfer which now allows 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);

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 (+632) 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 to 46 universal and commercial banks in December 31, 2020, from a high of 50 upon the liberalization of rules on the entry of foreign banks.

Lending by universal and commercial banks, excluding thrift banks, declined by 2.3% in December 2020 compared to the 11.0% registered growth in December 2019. The top five industry performers were Human Health and Social Work Activities, Activities of Households as Employers and Undifferentiated Goods-and-Services-Producing Activities of Households for Own Use, Accommodation and Food Service Activities, Real Estate Activities, and Information and Communication which grew by 49.2%, 8.1%, 5.6%, 5.4%% and 5.3%%, respectively. Big ticket industries Manufacturing and Retail Trade showed poor performance in 2020, down by 5.3% and 6.8%, respectively. Latest available data show Consumer loans merely grew by 4.1% in December 2020 versus the prior year.

The COVID-19 pandemic in 2020 caused the local economy to contract by 9.5% as the Philippine Government imposed restrictions on mobility. Though the economy is slowly reopening and local demand is expected to improve, a full recovery is not likely to happen this year. The availability of a vaccine in the second half of 2021, however, may accelerate the recovery of the economy.

The banking sector, like the other industries providing services, is not spared from the negative impact of the pandemic. The weaker operating environment has put pressure on banks' asset quality with NPL ratios reaching as high as 5% for some universal and commercial banks in 2020.

The BSP, on the other hand, has been implementing more forceful measures to cushion the economy's contraction. It has reduced its policy rate by 200 bps from 4.00% to 2.00% and its reserve requirement ratio by 200 bps from 14% to 12%. These have been one of the most aggressive monetary policy responses among the major ASEAN economies in 2020. The BSP has also implemented unprecedented measures including purchase of government securities and easing of regulatory requirements on banks. These aggressive actions have been made possible by the stable inflation environment, which settled at average of 2.6% in 2020.

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BPI on its part will continue to grow its corporate and consumer clients while giving focus on small and medium size lending. The prioritization of small-and-medium-sized enterprises (“SMEs”) was concretized by launching Business Bank in 2017. On microfinance, BPI has opened a total of 304 Banko branches and branch-lite offices as of December 2020.

Based on required published statements by the BSP as of December 2020, BPI is the third largest bank among private commercial banks operating in the country in terms of assets, deposits and capital. BPI ranks second in terms of customer loans, and asset management and trust business. Total assets of BPI, based on PAS compliant audited financial statements, are higher than the published statements prepared along BSP standards.

Patents, Trademarks, Licenses, Franchises, etc.

BPI sells its products and services through the BPI trademark and/or trade name. All its major financial subsidiaries carry the BPI name prefix (e.g., BFSB, BPI Capital, BPI Securities, and Banko), and so do its major product and service lines.

Following are some of BPI’s trademarks for its products and services:

- a) BPI Express Assist (“BEA”), for its branch queuing facility
- b) BPI Debit and BPI Debit Cards, for its debit cards
- c) Express Credit, BPI Credit and BPI Credit Cards, for its credit cards
- d) Express Cash, My ePrepaid, and BPI ePay, for its prepaid cards
- e) BPI Phone Banking, for its contact center facility
- f) BPI Online, for its internet-based transaction platform for retail customers
- g) BPI Mobile, for its mobile banking facility
- h) Bizlink, for its internet-based transaction platform for corporate customers
- i) Bizlink Mobile, for its mobile banking for corporate customers
- j) Express Collect, for its corporate deposit-related services

At BFSB, the product trademarks include the BPI Family Housing Loan with Build Your Dream, and Pay-hinga variants, the BPI Family Auto Loan with Drive Your Dream Auto Loan variant. Other product brands of BPI, BFSB and Banko are Jumpstart, PondoKo Savings, Maxi-One, Save-up, Advance Savings, Maxi-Saver, Pamana Savings Account, Pamana Padala, Padala Moneyger, Plan Ahead, Ka-Negosyo Credit Line, Business Loans, BPI Personal Loan, and Banko NegosyoKo Loan.

All BPI’s trademark registrations are valid for 10 years with years of expiration varying from year 2021 to 2030. Trademarks intended to be used or maintained by BPI are so maintained and renewed in accordance with applicable Intellectual Property laws and regulations. BPI closely monitors the expiry and renewal dates of its trademarks to protect BPI’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 has an investment house license and is a registered Government Securities Eligible Dealer with Broker Dealer of Securities and Mutual Fund Distributor. BPI AMTC has a trust license, securities custodian 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, BPI has entered into various transactions with its Directors, Officers, Stockholders and their Related Interest (“DOSRI”), including loan transactions. BPI and all its subsidiaries have always been in compliance with the General Banking Act, BSP Circulars and

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regulations on DOSRI loans and transactions. As of December 31, 2020, DOSRI loans amounted to 1.1% of loans and advances as per Note 31 of the 2020 audited consolidated financial statement.

Regulatory

Republic Act No. 8791 (the “General Banking Law”) provides that the operations and activities of banks are subject to the supervision of the BSP. Likewise, Republic Act No. 7653 (the “New Central Bank Act”), which created the BSP, provides that the BSP shall have supervision over the operations of banks and shall exercise such regulatory powers over the operations of finance companies and non-bank financial institutions performing quasi-banking functions. The BSP exercises its powers through the Monetary Board.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock owned by a bank or quasi-bank. The New Central Bank Act generally defines an affiliate as a corporation whose voting stock, to the extent of 50% or less, is owned by a bank or quasi-bank or which is related or linked to such institution or intermediary through common stockholders or such other factors as may be determined by the Monetary Board. In this regard, the BSP Manual defines an affiliate as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the BSP Manual), or power to vote, of at least 20% of the outstanding voting stock of the entity, or vice-versa; (b) interlocking directorship or officership, where the concerned director or officer owns, controls (as defined under the relevant portion of the BSP Manual), or has the power to vote of at least 20% of the outstanding voting stock of the entity; (c) common stockholders owning at least 10% of the outstanding voting stock of the bank and at least 20% of the outstanding voting stock of the entity; (d) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; and (e) permanent proxy or voting trusts in favour of the bank constituting at least 20% of the outstanding voting stock of the entity, or vice-versa.

Under the General Banking Law, the BSP, in the exercise of its supervisory powers, may: (a) issue rules of conduct or standards of operation for uniform application; (b) conduct examination to determine compliance with laws and regulations; (c) oversee compliance with such rules and regulations; and (d) inquire into the solvency and liquidity of the covered entities. Furthermore, Section 7 of the General Banking Law provides that the BSP, in examining a bank, shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The refusal of any officer, owner, agent, manager, director or officer-in-charge of an institution subject to the supervision or examination of the BSP to make a report or permit an examination is criminally punishable under Section 34 of the New Central Bank Act.

Furthermore, Republic Act No. 9160 or the Anti-Money Laundering Act of 2001, as amended (“AMLA”), provides, among others, that banks must, in addition to the general laws such as the General Banking Law and the AMLA, likewise comply with letters, circulars and memoranda issued by the BSP, some of which are contained in the BSP Manual.

The BSP Manual is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The BSP Manual contains regulations that include those relating to the organisation, management and administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions of the relevant bank. Supplementing the BSP Manual are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

All regulations pertaining to banks are then implemented by the Supervision and Examination Sector (“SES”) of the BSP. The SES is responsible for ensuring the observance of applicable laws, rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-

stock and savings loans associations under Republic Act No. 3779 or the Savings and Loan Association Act, and pawnshops under Presidential Decree No. 114 or the Pawnshop Regulation Act).

Regulation Relating to Capital Structure

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The SEC will not register the incorporation documents of any bank or any amendments thereto without a certificate of authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorized by the Monetary Board. All treasury shares of a bank must be sold within six months from the time of purchase or acquisition thereof.

Under the BSP Manual, universal banks are required to have capital accounts of at least ₱3 billion for a bank with only a head office, ₱6 billion for a universal bank with up to 10 branches (inclusive of head office), ₱15 billion for a universal bank with 11 to 100 branches (inclusive of head office), and ₱20 billion for a universal bank with more than 100 branches (inclusive of head office). Banks that existed prior to 19 November 2014, which will not immediately meet the new minimum capital requirement, may avail themselves of a five-year transition period in order to fully comply with the minimum capitalisation requirements. The same period, reckoned from the same date, is also given to banks granted with special banking authorities/licenses which require compliance with minimum capital requirements. These minimum levels of capitalisation may be changed by the Monetary Board from time to time.

For purposes of these requirements, the BSP Manual states that the term “capital” shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- a) treasury stock;
- b) unbooked allowance for probable losses (including allowance for credit losses and impairment losses) and other capital adjustments as may be required by the BSP;
- c) total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;
- d) total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;
- e) total outstanding unsecured loans, other credit accommodations and guarantees granted to related parties that are not at an arm's length terms;
- f) deferred tax assets that rely on future profitability of the bank to be realized net of any (a) allowance for impairment and (b) associated deferred tax liability if the conditions cited in PAS 12 on income taxes are met; and
- g) reciprocal investment in equity in another bank or enterprises, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank, the deduction shall be investment of the bank or the reciprocal investment of the other bank or enterprises, whichever is lower.

According to BSP Circular No. 1027 dated December 28, 2018, deposits for stock subscription recognized as equity pursuant to Section X128 of the Manual shall be added to capital.

Under Republic Act No. 10641 or “An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721” (“R.A. No. 10641”), established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing bank; (b) by investing in up to 100% of the voting stock of

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a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must be established, reputable and financially sound. Additionally, such foreign bank must be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorized to do banking business in the Philippines under R.A. No. 10641 may open up to five sub-branches as may be approved by the Monetary Board. On the other hand, locally incorporated subsidiaries of foreign banks authorised to do banking business in the Philippines under R.A. No. 10641 shall have the same branching privileges as domestic banks of the same category.

Stockholdings of family groups or related interests in banks are also regulated. Under the General Banking Law, the stockholders of individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, shall be considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. Moreover, two or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests, which must be fully disclosed in all transactions with the bank.

A bank cannot declare dividends greater than its accumulated net profits on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends if at the time of declaration:

- a) its clearing account with the BSP is overdrawn;
- b) it is deficient in the required liquidity floor requirement for government funds;
- c) it is not compliant with the minimum capitalisation requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
- d) it is not compliant with the combined requirement for capital conservation buffer requirement and Countercyclical Capital Buffer ("CCyB") as defined in Appendix 63b, Part III of the BSP Manual;
- e) it is not compliant with the higher loss absorbency ("HLA") requirement, phased-in starting January 1, 2017 with full implementation by January 1, 2019, in accordance with the Domestic Systemically Important Bank ("DSIB") framework as provided under Subsec.X115.5 of the BSP Manual; or
- f) it has committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as determined by the BSP to be grounds for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor of the SES.

Banks are required to ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

Regulations with Respect to Management of Banks

The board of directors of a bank must have at least five and a maximum of 15 members. According to the Revised Corporation Code, the board of banks and quasi-banks must have independent directors comprising at least 20% of such board. In case of merged or consolidated banks, the number of directors shall not exceed 21. An independent director is a person who is not an officer or employee of a bank, its subsidiaries or affiliate or related interests. Foreigners are allowed to have board seats to the extent of the foreign equity in the bank. The Revised Corporation Code also requires all banks, as corporations vested with public interest, to have at least one compliance officer elected by the board.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits to perform an act which renders him unfit for the position.

The Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Regulations with Respect to Bank Operations

A universal bank, such as BPI, may open branches or offices within or outside the Philippine subject to the prior approval by the BSP. A bank and its branches and offices shall be treated as one unit. A bank, with prior approval of the BSP, may likewise use any of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units.

The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts. In connection thereto, the Monetary Board may require that the ratio be determined on the basis of the net worth and risk assets of a bank, its subsidiaries, financial or otherwise, and prescribe the composition and the manner of determining the net worth and total risk assets of such bank and its subsidiaries. To ensure compliance with the set minimum ratio, the Monetary Board may limit or prohibit the distribution of net profits by such bank and require that such net profit be used to increase the capital accounts of the bank until the minimum requirement has been met. It may also restrict or prohibit acquisition of major assets and the making of new investments by the bank.

A universal bank has the authority to exercise and perform: (a) activities allowed for commercial banks; (b) powers of an investment house; and (c) investment in non-allied enterprises.

Capital Adequacy Requirements and Reserve Requirements

In July 2001, the Philippines adopted capital requirements based on the Basel Capital Accord. BSP Circular No. 538, which took effect on July 1, 2007, serves as the implementing guideline of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the Basel Committee on Banking Supervision (the "Basel Committee") containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers and short and medium-term quantitative liquidity ratios. To align with international standards, the BSP issued BSP Circular No. 709 effective January 1, 2011, which adopted part of the Basel Committee's eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 capital.

In January 2012, the BSP announced that the Philippine's universal and commercial banks, including their subsidiary banks and quasi-banks, were required to adopt in full the capital adequacy standards under Basel III which took effect from January 1, 2014. It aims to replace Basel II, further strengthen the local bank's loss absorption capacity and encourage banks to rely more on core capital instruments like Common Equity Tier 1 and Tier 1 issues.

BSP Memorandum No. M2012-002 outlines BSP's proposed new minimum ratios and conservation buffers. The revised risk-based capital adequacy framework (which will also cover risk measurement enhancement and provisions concerning the use of third-party credit assessment agencies) took effect on January 1, 2014. In March 2012, the BSP also circulated a discussion paper providing draft guidelines for Basel III implementation in the Philippines starting January 1, 2014. Philippine banks were invited to comment on the discussion paper until June 2012, after which the BSP finalised the guidelines for Basel III in the Philippines. Notable provisions include: (a) new categorisation of the capital base with Tier 1 being composed of Common Equity Tier 1 ("CET1") capital and Additional Tier 1 ("AT1") capital and elimination of the subcategories of Tier 2 capital; (b) revised eligibility criteria for the different categories of regulatory capital; (c) regulatory adjustments to be deducted from CET1 in a full deduction approach; (d) higher minimum capital requirements; (e) loss absorbency of regulatory capital at the point of non-viability; (f) introduction of a framework to promote the conservation of capital and the build-up of adequate buffers above the minimum that can be drawn down in times of periods of stress; and (g) additional disclosure requirements.

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On September 21, 2012, BSP Circular No. 768 was issued, which provides, among others, that Hybrid Tier 1 and Lower Tier 2 capital must have loss absorption features providing that the instrument would be written off or converted into common equity upon the occurrence of a trigger event determined by the BSP.

Local banks were allowed one full year of transitioning to the new guidelines prior to the effective date of the new standards in 2014, marking an accelerated implementation compared to the Basel Committee's staggered timeline that stretches from January 2013 to January 2017. On January 15, 2013, the BSP issued the implementing guidelines for the adoption on 1 January 2014 of the revised capital standards under Basel III for universal and commercial banks.

The guidelines set new regulatory ratios for banks to meet specific minimum thresholds for CET1 capital and Tier 1 capital in addition to the Capital Adequacy Ratio ("CAR"). The BSP maintained the minimum CAR at 10% and set a minimum CET1 ratio of 6% and a minimum Tier 1 capital ratio of 7.5%. The new guidelines also introduced a capital conservation buffer of 2.5% which shall be made up of CET1 capital. Under BSP Circular No. 1027 dated December 28, 2018, net due from head office, branches and subsidiaries outside the Philippines, excluding accumulated net earnings shall be deducted from CET1 capital.

In addition, banks which issued capital instruments from 2011 were allowed to count these instruments as Basel III-eligible until end of 2015. However, capital instruments that are not eligible in any of the three components of capital were derecognised from the determination of the regulatory capital on January 1, 2014.

Under BSP Circular No. 1079, Series of 2020, the minimum CET1 ratio of 6%, minimum Tier 1 capital ratio of 7.5%, and minimum CAR of at least 10% will be applied to thrift banks and rural banks. The minimums under this Circular would be effective beginning 1 January 2022.

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

Under BSP Circular No. 732 issued on August 3, 2011, as further amended by BSP Circular No. 753 issued on March 29, 2012, BSP Circular No. 830 issued on April 3, 2014, BSP Circular No. 832 issued on May 27, 2014, BSP Circular No. 997 issued on February 15, 2018, and BSP Circular No. 1004 issued on May 24, 2018, universal and commercial banks are required to maintain regular reserves of: (a) 18% against demand deposits, savings deposit, time deposit and deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 18% against negotiable order of withdrawal accounts; (c) 0% against deposit substitutes evidenced by repossession agreements; (d) 4% against long-term negotiable certificates of time deposits ("LTNCDs") under BSP Circular No. 304 issued on October 25, 2001, deposit substitutes evidenced by repossession agreement; (e) 6% against bonds; and (f) 7% against LTNCDs under BSP Circular No. 842 issued on January 30, 2014. Pursuant to BSP Circular No. 1041 (Series of 2019), the BSP reduced the rates of required reserves against deposit and deposit substitute liabilities for universal and commercial banks commencing on reserve week May 31, 2019, as follows: (a) 17% against demand deposits, savings deposits (excluding basic deposit accounts), time deposits and deposit substitutes, negotiable certificates of time deposits ("CTDs"), long-term non-negotiable tax-exempt CTDs, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 17% against negotiable order of withdrawal ("NOW") accounts; (c) 0% against deposit substitutes evidenced by repurchase agreements; (d) 4% against LTNCDs; (e) 6% against bonds; and (f) 0% against basic deposit accounts as defined under Section X222 of the Manual of Regulations for Banks and for interbank call loan transactions ("IBCL") (Sec. 315). Beginning June 28, 2019, the 17% reserve rates will be reduced to 16.5% across the board, and further reduced to 16% beginning July 26, 2019.

On October 29, 2014, the Monetary Board approved the guidelines for the implementation of higher capital requirements on DSIBs by the BSP under Basel III. Banks deemed DSIBs by the BSP are required to maintain capital surcharges to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the DSIBs fail. The

assessment started in 2014 with the BSP informing banks confidentially of their DSIB statuses in 2015. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the DSIBs will have varying levels of additional loss absorbency requirements ranging from 1% to 2.5%. Aside from the added capital pressure, DSIBs may be put at an undue disadvantage compared to Global Systemically Important Banks ("GSIBs") given that this framework was patterned for regional/global banks and thus may not be appropriate for local banks. The phased-in compliance started on January 1, 2017 before becoming fully effective on January 1, 2019. On February 12, 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by DSIBs which shall form part of the DSIBs' Internal Capital Adequacy Assessment Process ("ICAAP") submitted to the BSP every 31st of March of each year. The recovery plan identifies the course of action that a DSIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the DSIB breaches the total required CET1 capital, the HLA capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a pre-emptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document, which includes the first recovery plan, was submitted on June 30, 2016 and will be re-submitted on the 31st of March of each year.

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratios (calculated by dividing banks' Tier 1 capital over its total on-book and off-book exposure). On June 9, 2015, the BSP issued Circular No. 881 amending the relevant provisions of the previously issued guidelines. Under BSP Circular No. 881, universal and commercial banks are required to maintain a minimum leverage ratio of 5%, which is more stringent than the 3% minimum leverage ratio under Basel III by January 1, 2017 (which compliance period was extended to January 1, 2018 based on BSP Circular No. 943 issued in 2017). The guidelines also provided for a monitoring period up to end of 2016 during which banks were required to submit periodic reports. However, sanctions were not imposed on banks whose leverage ratios fell below the required 5% minimum during the period. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to an increasing regulatory burden on banks. Further, local banks face new liquidity requirements under Basel III, namely, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). The LCR requires banks to hold a sufficient level of High-Quality Liquid Assets ("HQLAs") to enable them to withstand a 30-day liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimize negative spillovers to the real economy, compliance with these ratios may further increase competition among banks for deposits as well as HQLAs.

In March 2016, the Monetary Board approved the LCR framework with an observation period from July 1, 2016 until the end of 2017, during which banks were required to commence reporting their LCR to the BSP. On January 1, 2018, the LCR threshold that banks are required to meet is 90%, and increased to 100% commencing on January 1, 2019. The Monetary Board has yet to release an exposure draft of NSFR requirements. The internationally agreed start date for the phase-in of liquidity requirements was as of January 1, 2015.

In addition, Basel III capital rules for banks include setting up a CCyB wherein banks build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. On December 6, 2018, the BSP issued guidelines on CCyB. BSP Circular No. 1024 imposes a Capital Conservative Buffer ("CCB") of 2.5% and a CCyB of 0% subject to upwards adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases shall be effective immediately. The circular further provides that the HLA requirement shall be on top of the combined requirement for CCB and CCyB. Under the Bank for International Settlements, the CCB became fully effective on January 1, 2019.

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In October 2014, the BSP issued BSP Circular No. 855 which provides for new guidelines on sound credit risk management practices. The circular mandates banks to establish appropriate credit risk strategies and policies, processes and procedures including cash flow-based credit evaluation processes. The circular also mandates tighter provisioning guidelines. These are seen to increase costs as banks may have to upgrade their risk management systems and provisioning requirements.

Additionally, BSP Circular No. 855 sets the collateral value ("CV") for a loan backed up by real estate to only 60% of its appraised value. Banks will still be allowed to lend more than 60% of the CV; however, the portion above 60% will be considered unsecured, thus requiring banks to set up loan loss provisions accordingly. The CV ruling should not be mistaken for the loanable value ("LV"), which is the loan amount extended by banks to its borrowers. The current industry practice is a loan-to-value ("LTV") ratio of 70%-80%, which some banks may continue to grant provided that they have strict and consistent lending standards, adequate capital buffer and provisions. This new ruling, along with other BSP regulations intended to avert a property bubble, could result in an overall slowdown in lending to the real estate sector as banks adjust to these rulings.

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved guidelines that effectively widened the scope of banks' real estate exposures ("REEs") to include mortgages and loans extended to individuals to finance the acquisition and construction of residential real estate for own occupancy as well as land developers and construction companies for the development of socialised and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines. Banks were required to submit the expanded report starting December 2012.

Further, on June 27, 2014, the BSP issued Circular No. 839 requiring banks to undergo real estate stress test ("REST") while setting prudential limits for banks' REEs to ensure that they have adequate capital to absorb potential losses to the property sector. Universal and commercial banks as well as thrift banks must meet a CAR of 10% of qualifying capital after adjusting for the stress test results. Further, universal and commercial banks and their thrift bank subsidiaries are required to maintain a level of CET1 capital that is at least 6% of qualifying capital after factoring in the stress scenario. In addition, banks are mandated to submit quarterly report of their real estate exposures, in line with the new REST capital requirements.

On May 29, 2019, the BSP reduced the reserve requirement by 200 basis points of all banks and non-bank financial institutions with quasi-banking functions through Circular No. 1041, effective July 26, 2019.

- For universal and commercial banks, with reserve requirement currently at 16%; and
- For thrift banks, with reserve requirement currently at 6%.

Pursuant to BSP Circular No. 1082, issued in 2020, universal and commercial banks are required to maintain regular reserves of 12% against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under Due to foreign banks and peso deposits lodged under Due to Head Office/Branches/Agencies Abroad; 4% against long-term negotiable certificate of time deposits, 0% against deposit substitutes evidenced by repo agreements, interbank call loans and basic deposit accounts; and 3% against bonds. And pursuant to BSP Circular No. 1092, issued in 2020, thrift banks are now required to maintain regular reserves of 3% against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, and deposit substitutes.

In 2019, the BSP made two monetary policy decisions which mandated the 25-basis-point reduction in the interest rate of BSP's overnight reverse repurchase facility effective on:

- May 10, 2019, from 4.75% to 4.5%; and
- August 8, 2019, from 4.5% to 4.25%.

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On March 19, 2020, in a bid to spur the economy amid the slowdown caused by COVID-19, the BSP announced it would be reducing the interest rate on the BSP's overnight reverse repurchase ("RRP") facility by 50 basis points to 3.25%. Overnight deposit and lending rates were likewise trimmed to 2.75% and 3.75%, respectively, effective March 20, 2020.

Subsequently, in June 2020, the Monetary Board decided to cut the interest rate on the BSP's RRP facility to 2.25%. The interest rates on the BSP's overnight deposit and lending facilities were reduced to 1.75% and 2.75%, respectively.

As of February 11, 2021, the interest rate on the BSP's overnight reverse repurchase facility remains at 2% while the interest rates on the overnight deposit and lending facilities are still 1.5% and 2.5%, respectively.

The mandatory effective date of PFRS 16, Leases, is for annual periods beginning January 1, 2019. BPI is still in the process of completing its inventory and assessment to facilitate the calculation and eventual booking of PFRS 16 transition adjustment. However, based on the Bank's initial assessment, the financial impact of PFRS 16 is deemed to be insignificant. Our independent validation team is simultaneously conducting their review, assessment and validation of the Bank's inventory and assessment.

The Single Borrower's Limit

Consistent with the national interest, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any person, partnership, association, corporation or other entity shall at no time exceed 25% of the net worth of such bank. The basis for determining compliance with the single borrower's limit ("SBL") is the total credit commitment of the bank to or on behalf of the borrower. The total amount of loans, credit accommodations and guarantees above may be increased for specific circumstances as laid out in the relevant provision of the BSP Manual.

BSP Circular No. 779 issued on January 9, 2013, amended the BSP Manual provisions on Regulations on Single Borrower's Limit. The amendments allowed for increases (on top of the 25% as already mentioned) on the amount of loans, credit accommodations and guarantees that a bank may issue to a borrower. The following are the increases that are conditional: (a) an additional 10% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be fully covered by insurance, (b) an additional 25% of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under PDP/PIP; (ii) these additional liabilities should not exceed 25% of the net worth of the bank; and (iii) the additional 25% shall only be allowed for a period of six years from December 6, 2010; and (c) an additional 15% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation.

In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of banks, the BSP issued BSP Memorandum No. M-2020-011 dated March 19, 2020, Memorandum No. M-2020-057 dated July 21, 2020, and Memorandum No. M-2021-02 dated January 4, 2021, which together grant an additional operational relief to BSFIs. These relief measures include an increase in the SBL from 25% to 30% until December 31, 2021.

The SBL limitations shall not apply to (a) loans and other credit accommodations secured by obligations of the BSP or of the Government; (b) loans and other credit accommodations fully guaranteed by the Government as to the payment of principal and interest; (c) loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies; (d) loans and other credit accommodations to the extent covered by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines; (e) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits; and (f) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items.

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On July 22, 2020, the BSP issued BSP Memorandum Circular No. 1091, excluding debt securities held by market makers for purposes of the single borrower's limit. The circular also said that the debt securities will be excluded from the calculation of the single borrower's limit for a period of 90 days from the date of acquisition if such acquisition occurs between August 1, 2020 and July 31, 2021 or for a period of 60 days if acquired on or after August 1, 2021.

Limitation on DOSRI Transactions

A director or officer of any bank may not directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor may become a guarantor, endorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned.

After due notice to the board of directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director shall be subject to the penal provisions of the New Central Bank Act.

DOSRI transactions are subject to individual and aggregate ceiling consistent with BSP Circular 423.

For the individual ceiling, the total outstanding loans, other credit accommodations and guarantees to each of the bank's DOSRI shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank,; Provided, however, that unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI shall not exceed thirty percent (30%) of their respective total loans, other credit accommodations and guarantees. There are also allowed exclusions as provided under Section 344 of the MORB.

On June 2, 2016, the Monetary Board approved the revisions to prudential policies on loans, other credit accommodations and guarantees granted to DOSRIs. The Monetary Board allowed the exclusion of loans granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase, provided that the lending bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include a pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts and assignment of project documents.

On June 23, 2016, the BSP issued Circular No. 914, Series of 2016, amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. Circular No. 914 has raised the ceilings on the exposure of subsidiaries and affiliates of banks to priority programs, particularly infrastructure projects under the Philippine Development Plan / Public Investment Program ("PDP/PIP") needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25% instead of 10% and 12.5% instead of 5% of the net worth of the lending bank, respectively, subject to certain conditions. Further, the Circular No. 914 also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and pre-empt potential abuse in a borrowing transaction between the related entities. It also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

Furthermore, DOSRI transactions are subject to aggregate ceiling. The total outstanding loans, other credit accommodations and guarantees to DOSRI shall not exceed fifteen percent (15%) of the total loan portfolio of the bank or 100% of net worth whichever is lower, provided, that in no case shall the total unsecured loans, other credit accommodations and guarantees to said DOSRI exceed thirty percent (30%) of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the ceiling on unsecured loans, other credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit accommodations and guarantees every week, except for transactions with prior approval of the Monetary Board. Similar to individual ceiling, there are also allowed exclusions on aggregate ceiling which are documented in BSP Circular 785.

With regard to Cards transactions, the credit card operations of banks shall not be subject to this regulation where the credit cardholders are bank's DOSRI, provided, that (a) the privilege of becoming a credit cardholder is open to all qualified persons on the basis of selective criteria which are applied by

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the bank to all applicants thereof; and (b) the bank's DOSRIs reimburse/pay the bank for the billed amount in full on or before the payment due date in the billing or statement of account, as set by the bank for all other qualified credit card holders on availments made for the same period on their credit cards.

Limitations on Loans and Credit Accommodations

BPI practices sound credit management practices conforming to the regulations and applicable standards, including but not limited to regulations pertaining to RE limit compliance (Circular 600 and 1093), prohibitions from conducting transactions with designated persons and entities relating to the prevention and suppression of terrorism and terrorist financing and financing of proliferation of weapons of mass destruction and other Anti-Money Laundering Act ("AML") regulations.

Limitation on Investments

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of the net worth of the said universal bank. Moreover, the equity investment in any one enterprise whether allied or non-allied, shall not exceed 25% of the net worth of the universal bank. Net worth for this purpose is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP. The Monetary Board must approve such acquisition of equities. Further, the BSP may impose conditions on the any approval of a major investment and has the authority to seek corrective action.

A universal bank can own up to 100% of the equity in a thrift bank, a rural bank or a non-financial allied enterprise. A publicly listed universal bank, such as the Bank, may own up to 100% of the voting stock of only one other universal or commercial bank. However, with respect to non-allied enterprise, the equity investment in such enterprise by a universal bank shall not exceed 35% of the total equity in the enterprise nor shall it exceed 35% of the voting stock in that enterprise.

A bank's total investment in real estate and improvements including bank equipment shall not exceed 50% of the combined capital accounts. Further, the bank's investment in another corporation engaged primarily in real estate shall be considered as part of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

The limitation stated above shall not apply with respect to real estate acquired by way of satisfaction of claims. However, all these properties must be disposed by the bank within a period of five years or as may be prescribed by the Monetary Board.

Anti-Money Laundering Act of 2001

The AMLA requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, keep records and report covered and suspicious transactions. Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to administrative sanctions of ₱300,000.00 per account.

Generally, covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one Banking Day. Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- a) there is no underlying legal or trade obligation, purpose or economic justification;
- b) the customer or client is not properly identified;
- c) the amount involved is not commensurate with the business or financial capacity of the client;
- d) the transaction is structured to avoid being the subject of reporting requirements under the AMLA;

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- e) there is a deviation from the client's profile or past transactions;
- f) the transaction is related to an unlawful activity or offence under AMLA; or
- g) similar or analogous transactions to the above.

The country's AMLA was first issued in 2001 through Republic Act (R.A.) 9160. This was amended in 2003 through R.A. 9194 after the Financial Action Task Force ("FATF") identified deficiencies and weaknesses in the said law and added the Philippines in its list of monitored jurisdictions. The Philippines was removed from this list in June 2013 after releasing additional amendments to the AMLA through R.A. 10167 in 2012 and R.A. 10365 in 2013 to address the identified deficiencies and weaknesses.

Additional amendments were made July 2017 through R.A. 10927, which included casinos as covered person and in January 2021 through RA 11521, which included real estate developers and brokers, and offshore gaming operators, as well as their service providers.

In July 2019, the Anti-Money Laundering Council issued the Rules of Procedure in Administrative Cases under RA. 9160 or the AMLA of 2001, as Amended, and its Implementing Rules and Regulations, and Guidelines and Other Issuances of the Anti-Money Laundering Council, and the Imposition of Administrative Sanctions. This detailed the penalty that will be imposed to a covered person that is found to be in violation of the AMLA.

Related Party Transactions ("RPT")

On December 14, 2015, the BSP announced that it approved guidelines strengthening oversight and control standards for managing related party transactions. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher standards should be applied to protect the interests of all stakeholders. It is emphasised that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the guidelines, a bank's board of directors, as an oversight body, shall have overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. The bank's board of directors is expected to approve an overarching policy on the handling of related party transactions that should cover the scope of its related party transactions policy, guidelines in ensuring arm's length terms, management of conflicts of interest, materiality thresholds and limits, whistle blowing mechanisms, and restitution of losses and other remedies for irregular related party transactions. Further, banks that are part of conglomerates are required to create a related party transactions committee responsible for the continuing identification and review of existing relations between and among businesses and counterparties, and for ensuring that related party transactions are processed in the regular course of business, and are priced fairly. The guidelines now explicitly require that the annual reports adequately disclose relevant information on the governance of related party transactions and specific details of exposures to related parties.

On April 25, 2019, the SEC issued Memorandum Circular No. 10-2019 regarding the Rules on Material Related Party Transactions for Publicly-Listed Companies. Under SEC Memorandum Circular No. 10-2019, when the related party transactions amount to 10% or higher of a company's total assets, it is considered a material related party transaction and is disclosable and reportable to the SEC.

Electronic Banking Operations

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of a bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

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On September 1, 2006, the BSP released new guidelines on the protection of electronic banking customers. These guidelines set specific requirements in the following areas: (a) oversight by a bank's board of directors, and other concerned officers over its electronic banking activities; (b) the development of a risk management policy and internal controls over its electronic banking activities; (c) the implementation of a consumer awareness program for the customers of banks; (d) development of policy on disclosures and transparencies, and the availability of electronic banking service; and (e) the development of complaint resolution procedure for unauthorised transactions in electronic banking.

Private domestic banks with a BSP-approved electronic banking facility may accept payment of fees and other charges of a similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of such government entities.

BSP Circular No. 808, dated August 22, 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa ("EMV") chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. The deadline set for compliance with the migration to the EMV was initially set for January 1, 2017. However, pursuant to BSP Memorandum No. M-2017-019 issued on June 9, 2017, BSP-supervised financial institutions are required to fully comply with the EMV requirement by June 30, 2018. Failure to do so is considered a serious offence and will subject these institutions to monetary sanctions provided under relevant provision of the BSP Manual.

On February 22, 2019, the BSP issued Circular No. 1033, which amended the BSP Manual by adding regulations on Electronic Payment and Financial Services. This allows BSP-supervised institution to offer products or services that would enable its customers to receive payments or initiate financial transactions online. Transactions can include online loan applications, electronic investment of funds, and the like. To be able to offer this kind of service, the bank must obtain a license from BSP and comply with its corresponding reportorial requirements.

Bayanihan Laws

Please refer to "Regulatory Framework – Bayanihan Laws" on page 386 of this Prospectus.

On March 16, 2020, the Philippine Government declared the entire island of Luzon island under an ECQ due to the increasing COVID-19 cases in the country. The ECQ mandated the closure of non-essential businesses and strict home quarantine which resulted in the slowdown of the economy. Measures are implemented to protect the health and safety of the BPI Group's employees, clients and partners, to support business continuity and to manage financial impact to a minimum. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continues to evolve. While banks are authorized to operate during ECQ, branch operations were sorely impacted by COVID-19, with 25% of the branches operating on a skeletal basis during the beginning of the lockdown. With the transition to GCQ on June 1, 2020, branch operations have been back to 100%. At this stage, the Parent Bank deems it prudent to hold in abeyance any further branch expansion and will regularly reevaluate its stance as the crisis progresses.

While quarantine measures over highly urbanized cities in the National Capital Region ("NCR") were relaxed following the proclamation of modified enhanced community quarantine effective May 16, 2020, and subsequently, a GCQ effective June 1, 2020, operations across various industries remain below full capacity in these areas. Further, certain parts of the Philippines remain under ECQ.

On March 24, 2020, Congress passed the Bayanihan Act into law, which conferred emergency powers to the President of the Philippines. Section 4(aa) of Bayanihan Act I directed all banks to implement a 30-day grace period for the payment of all loans falling due within the ECQ period, without interests, penalties, and other charges. Under this law, persons with multiple loans were granted a grace period of 30 days for each and every loan.

The following were the reprieve measures issued by the government through the Implementing Rules and Regulations (IRR) of Section 4(aa) of Bayanihan Act for all loans, regardless of status, with

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payments (e.g., principal and/or interest) falling due within the ECQ period (March 17, 2020 to May 31, 2020, or as extended):

- implementation of mandatory grace period to extend payment due dates of loans;
- non-imposition of interest on interest and waiver of fees and charges for non-payment;
- non-imposition of documentary stamp tax on credit extensions; and
- payment on a staggered basis for accrued interest on implemented mandatory grace period.

The status of the loans prior to the grant of the mandatory grace period and/or extension of maturity dates or payment due dates were retained. The Bank monitored non-performing loans ("NPL") internally: (1) based on aging of accounts without the grace period and (2) aging with grace period, as the grant of the grace period may have artificially understated the actual NPL levels.

On September 11, 2020, the President of the Philippines signed into law the Bayanihan 2 Act. Under Section 4(uu) of Bayanihan 2 Act, all banks are directed to implement a mandatory one-time 60-day grace period for the payment of all existing, current, and outstanding loans falling due on or before December 31, 2020, without incurring interest on interest, penalties, fees, or other charges. The amounts falling due within the 60-day grace period may be settled in full after the 60-day grace period, or on a staggered basis until December 31, 2020, or as may be agreed upon by the parties.

While Bayanihan Act and Bayanihan 2 Act both provide moratorium on the payment of eligible loans, they differ in the qualification of eligible loans, the number of days provided as grace period and the allowable payment schemes.

As a result of the COVID-19 pandemic, the Bank has seen an increase in the level of NPL attributable to the temporary/permanent closure of certain businesses, suspended business operations, limited travel and exchange of goods. The actual delinquency status or effect on the NPL levels across different segments and products became evident in the last quarter of 2020 after the lapse of the Bayanihan Act and may be more pronounced in the early quarters of 2021 considering the effect of Bayanihan 2 Act relief measures. Furthermore, the Bank continues to expect an increase in the restructured loan portfolio and increased credit costs, in particular, for borrowers in the highly affected industries for 2021.

BSP Circulars and Memoranda relating to COVID-19

On March 14, 2020, the BSP issued BSP Memorandum No. M-2020-008. Recognizing the significant impact of the COVID-19 pandemic on the operations of BSFIs, the BSP offered a regulatory relief package which all BSFIs were eligible to avail of within one year from March 8, 2020, the date of the Presidential Proclamation No. 922. The period of eligibility could be extended depending on the developments of the COVID-19 pandemic. The relief package includes exclusion from the past due loan ratio of loans to affected borrowers for a year and the staggered booking of provision for probable losses for five years for all types of credits extended to individuals and businesses directly affected by the COVID-19 pandemic as of March 8, 2020, subject to the prior approval of the BSP.

In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, the BSP issued BSP Memorandum No. M-2020-011 dated March 19, 2020, as amended by BSP Memorandum Circular No. M-2020-049 dated June 9, 2020 and Memorandum No. M-2020-057 dated July 21, 2020. BSP Memorandum No. M-2020-049 provides for the relaxation in the regulations governing the submission of reports and other documents to the BSP-Financial Supervision Sector ("FSS"). Thus, the submission of required reports to the FSS that fall due within and between the months of March to June 2020 is suspended until further notice, except for the submission of the Financial Reporting Package for Banks ("FRP"), the Consolidated Foreign Exchange ("FX") Position Report, event-driven report requirements and reserve requirement-related reports. Memorandum No. M-2020-057, on the other hand, extended the prescription period for the increase in the single borrower's limit from 25 per cent to 30 per cent until March 31, 2021.

BSP Memorandum No. M-2020-008 was further amended by Memorandum No. M-2020-032 issued on April 27, 2020, as well as BSP Memorandum No. M-2020-087, issued on December 2, 2020. These memoranda provide that the exclusion from the past due and non-performing classification shall be allowed from March 8, 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922 (including those becoming past due or non-performing until December 31, 2020), until December 31, 2021. For this purpose, the BSP documentary

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requirements for restructuring of loans may be waived, provided that the BSFI will adopt appropriate and prudent operational control measures.

On March 27, 2020, the BSP issued Circular No. 1080, which granted some operational relief measures to BSP stakeholders for the duration of the community quarantine imposed to control the spread of COVID-19 (including the general, modified, and enhanced versions thereof). The circular allowed for, among others, the submission of documentary requirements for the sale of foreign exchange by authorized agent banks through electronic means; documents with e-signatures/digital signatures, soft copies of duly accomplished forms; and grace periods for the registration of unregistered foreign investments.

On April 25, 2020, the BSP issued Memorandum No. M-2020-031 which provides for the suspension of PESONet and InstaPay fees for the duration of the ECQ period. The same suspension was further strongly encouraged to be extended for the fees charged by BSFIs for other fund transfer services and interbank ATM transactions.

On May 1, 2020, the BSP issued Memorandum No. 2020-038, which limited the combined exposure of a unit investment trust fund ("UITF") to any entity and its related parties to 15 per cent. of the market value of the UITF. Furthermore, the same regulation stated that any breach of the limit due to the marking-to-market of certain investments or extraordinary circumstances must be corrected within 30 days from the time the limit is breached.

On April 22, 2020, as part of the Government's financial assistance program and in light of the effects of the COVID-19 pandemic on MSMEs, the BSP issued Circular No. 1083, which provides that loans that are granted to MSMEs shall qualify as alternative compliance with the required reserves against deposit and deposit substitute liabilities, subject to the following conditions: (a) that the MSME loan must have been issued after March 15, 2020; and (b) that the MSME loan must not be hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose. Qualifying MSME loans are to be valued at amortised cost, gross of allowance for credit losses.

On May 27, 2020, the BSP issued Circular No. 1087 amending Circular No. 1083, which provides the allowable alternative modes of compliance with the required reserves against deposit and deposit substitute liabilities. This was further revised by Circular No. 1100, issued on October 8, 2020, so that the rules now allow the following alternative modes of compliance:

- a. Peso-denominated loans that are granted to MSMEs, excluding banks and non-bank financial institutions with quasi-banking license (NBQB), subject to condition that the MSME loan was granted, renewed or restructured after March 15, 2020 and provided, that if such MSME loan becomes past due or non-performing, as defined under Section 304/303-Q, it is no longer eligible as an alternative mode of compliance with the reserve requirements, except if such MSME loan has been subsequently renewed/restructured by the bank/NBQB in accordance with existing regulations. Notwithstanding this provision, a bank/NBQB may continue to utilize said past due or non-performing MSME loan as alternative compliance with the reserve requirements for an additional 30 calendar days from the date the loan becomes past due or non-performing, whichever comes earlier.
- b. Peso-denominated loans that are granted to large enterprises, excluding banks and NBQBs, subject to the condition that the loan to the large enterprise was granted after March 15, 2020, and that a loan to a large enterprise that becomes past due or non-performing, as defined under Sec. 304/303-Q, is no longer eligible as an alternative mode of compliance with the reserve requirements, except if such loan to a large enterprise has been subsequently renewed/restructured by the bank/NBQB in accordance with existing regulations. Notwithstanding this rule, however, a bank/NBQB may continue to utilize said past due or non-performing loan to a large enterprise as alternative compliance with the reserve requirements for an additional 30 calendar days from the date the loan becomes past due or non-performing, whichever comes earlier.

In accordance with BSP Circular No. 1100, the use of loans to large enterprises as allowable alternative compliance with the reserve requirement shall be available to banks from May 29, 2020 to December 29, 2022, unless the Monetary Board decides on the early closure of the eligibility window.

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On July 21, 2020, the BSP issued Memorandum No. M-2020-057, which relaxed the maximum penalty to be imposed for deficiencies under Section 255 of the MORB/Section 215-Q of the MORNFI. For the duration of the ECQ until March 31, 2021, the maximum penalty that may be imposed by the BSP for reserve deficiencies shall be the Overnight Lending Facility rate plus 10 basis points, provided that the maximum reserve deficiency of the institution is 200 basis points, and the excess above that will be subject to regular penalties. The same Memorandum also relaxed notification requirements related to changes in banking days and hours, the temporary closure of branches, Branch-Lite Units, and offices or service units, and the submission of documents and reports to the FSS of the BSP.

On August 3, 2020, the BSP issued Memorandum No. M-2020-061 which provides for the supervisory expectations on the measurement of expected credit losses and the treatment of regulatory relief measures granted amid the COVID-19 pandemic. The supervisory expectations provide, among others, that BSFIs that will avail of the regulatory relief measures to exclude eligible loans from past due and non-performing classifications and to stagger the booking of allowance for credit losses shall continue to report actual past due and non-performing loans and allowance for credit losses in the FRP and the CAR reports. This is to facilitate the generation of industry statistics and provide the BSP with information on the true health of the banking system.

BSP Memorandum No. M-2020-062 dated August 5, 2020 directs BSFIs to ensure continuous availability of financial services to the general public as well as to reinforce their operational capabilities to support the anticipated increase in account opening and basic financial and payment transactions through online financial platforms (i.e., internet and mobile banking). BSFIs should likewise ensure that basic cash services are always available through timely and adequate provisioning of cash in the ATM terminals and to closely monitor other operational issues that may have significant business impact.

On September 24, 2020, the BSP issued Circular No. 1098 which provides for the ceiling on interest or finance charges for credit card receivables. The said Circular shall take effect starting November 3, 2020 after publication and states that banks and credit card issuers shall impose an interest or finance charge on all credit card transactions not to exceed an annual interest rate of 24 per cent., except credit card installment loans which shall be subject to monthly add-on rate not exceeding 1 per cent. For credit card cash advances, aside from the foregoing applicable maximum interest rate caps, no other charge or fee shall be imposed or collected apart from the processing fee in the maximum amount of ₱200 per transaction.

Further, the Circular also provides that the rate of interest and other charges on any loan or forbearance of any money, goods or credits regardless of maturity and whether secured or unsecured shall not be subject to any regulatory ceiling, except for the interest or finance charges imposed on credit card receivables, including cash advances and installment purchases and the maximum processing fee for credit card cash advances.

On September 29, 2020, the BSP issued Memorandum No. M-2020-076, which provides for the extension of temporary measures implemented in the BSP rediscount facilities and acceptance of additional eligible credit instruments for rediscounting pursuant to Bayanihan 2 Act. The following temporary measures have thus been implemented by the BSP until January 31, 2021, subject to further extension, as mandated by the Monetary Board:

1. Reduction of the term spread on peso-denominated loans relative to the BSP's overnight lending rate to zero, regardless of maturity (i.e., 1 to 180 days);
2. Reduction of the term spread on rediscounting loans under the Exporters' Dollar and Yen Rediscount Facility ("EDYRF"), thereby reducing the applicable U.S. dollar and Japanese yen rediscount rates to the 90-day London Interbank Offered Rate, or in its absence, an applicable benchmark rate, such as the Secured Overnight Financing Rate, plus 200 basis points, regardless of maturity (i.e., 1-360 days); and
3. Acceptance for rediscounting with the BSP under EDYRF the USD-JPY-denominated credit instruments related to the economic activities enumerated in Department of Trade and Industry Memorandum Circular No. 20-08 dated March 20, 2020, except for loans to banks and capital markets, subject to certain conditions.

Under Memorandum No. M-2020-076, the Monetary Board also approved the acceptance for rediscounting with the BSP of credit instruments compliant with the requirements on eligible papers and

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collaterals under Section 282 of the Manual, which were granted one-time 60-day grace period or longer as may be mutually agreed by the parties, pursuant to Section 4 (uu) of Bayanihan 2 Act, subject to the submission of a certification signed by the authorized officer(s) of the bank stating that the maturities of said credit instruments were extended pursuant to RA No. 11494, until January 31, 2021, subject to further extension as may be approved by the Monetary Board.

Additional memoranda:

- **M-2020-006** - All BFSIs are expected to adopt and implement appropriate response plans and mechanisms such as alternate work arrangements, remote access capabilities, and clear communication protocols to primarily ensure the health and safety of their employees and customers while continuing to deliver financial services to the general public.
- **M-2020-009, M-2020-036, and M-2020-090** - Reminder to all BFSIs to remain vigilant against financial crime and cyber threats such as phishing and other social engineering attacks that are taking advantage of the COVID-19 pandemic.
- **M-2020-022** - Guidelines on the reclassification of debt securities that are measured at fair value to the amortized cost category as part of the relief measures extended by the BSP in managing the financial impact of the COVID-19 pandemic.
- **M-2020-034** Guidelines on the relaxation of assigned credit risk weight for loans to MSMEs for purposes of computing compliance with BSP's risk-based capital adequacy frameworks.
- **M-2020-039** - Guidelines on allowing a covered bank which has built up its capital conservation buffer and LCR buffer to utilize them during the state of health emergency due to the COVID-19 pandemic.

FIST Act

On February 16, 2021, Republic Act No. 11523 or the Financial Institutions Strategic Transfer (“FIST”) Act, was signed into law. The FIST Act allows all financial institutions, including banks, to sell their non-performing assets and bad loans to asset management companies, referred to as FIST corporations (“FISTCs”). Transfers of the non-performing assets from the financial institution to the FISTC, and from the FISTC to a third party, are exempt from several types of taxes, including value-added tax, capital gains tax, documentary stamp tax, and creditable withholding taxes, as outlined under the FIST Act. The FIST Act is intended to free up the banking industry's capital, strengthen its risk-bearing capacity, and support investment and lending activities, and to ensure resources of financial institutions are not spent on management their non-performing assets; it is also intended to mitigate the impact of COVID-19 on the Philippine economy by freeing up banks from loans.

Employees

Below is a breakdown of the manpower complement of BPI in 2019 as well as the headcount for 2020.

	December 31, 2019			December 31, 2020		
	Actual			Actual		
	Officers	Staff	Total	Officers	Staff	Total
Unibank	7,225	13,588	20,813	6,825	12,562	19,387
Consumer	4,517	12,026	16,543	4,553	11,093	15,646
Corporate	929	849	1,778	906	816	1,722
Investment	409	225	634	393	193	586
Support	1,370	488	1,858	973	460	1,433
Insurance Companies	127	489	616	123	442	565
TOTAL	7,352	14,077	21,429	6,948	13,004	19,952

Majority or 76% of the staff in the Unibank are members of various unions and are subject to Collective Bargaining Agreements (“CBAs”). The current CBA of the parent company was concluded/signed last May 29, 2019, which covers the period of April 1, 2019 to March 31, 2021.

CBA for BPI Family Savings Bank was concluded/ signed last December 2, 2020. The BFSB CBA covers the period November 1, 2020 to October 31, 2023.

Risk Factors

The banking industry in the Philippines is composed of universal banks, commercial banks, savings banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks, cooperative banks and Islamic banks.

According to statistics published on the official website of the BSP, as of December 31, 2020 the commercial sector consisted of 46 universal and commercial banks, of which 21 were universal banks and 25 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were Government banks, and six were branches of foreign banks. Of the 25 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks, and 18 were branches of foreign banks. As of December 31, 2020, the 46 universal and commercial banks had a total of 6,967 branches, including head offices.

BPI faces competition from both domestic and foreign banks, in part, as a result of the liberalisation of the banking industry by the Government. Since 2014, a number of foreign banks, which may have greater financial resources than BPI, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer lending products such as credit cards. The foreign banks have not only increased competition in the corporate market, but have, as a result, caused more domestic banks to focus on the commercial mid-market, placing pressure on margins in both markets.

BPI has some concentration of loans to certain customers and to certain sectors and if a substantial portion of these loans were to become non-performing, the quality of its loan portfolio could be adversely affected.

As of December 31, 2020, BPI's total exposure to borrowers was ₱1.4 trillion. The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth. BPI is committed to ensure strict compliance with laws, regulations and reporting requirements relating to single borrower limits.

BPI extends loans to several sectors in the Philippines. As of December 31, 2020, BPI's exposure to real estate accounted for 25.4% of the Bank's total loan portfolio, manufacturing at 15.0%, wholesale and retail trade at 11.0% consumer at 8.0%, financial institutions at 8.9% and agriculture at 2.5%. Although BPI continues to adopt risk controls and diversification strategies to minimise risk concentrations, financial difficulties in these industries could increase the level of non-performing assets and restructured assets, and adversely affect BPI's business, its financial condition and results of operations.

Though BPI's aggregate exposure to its Top 10 individual and group borrowers is significant, no single borrower, group nor individual, has breached the policy on SBL. Moreover, the bank has not experienced any actual default in payment from any borrower belonging to the top 10 group.

BPI's failure to manage risks associated with its information and technology systems could adversely affect its business.

BPI is subject to risks relating to its information and technology systems and processes. The hardware and software used by BPI in its information technology is vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers and telephone companies. For example, in June 2017, an error by one of BPI's system programmers resulted in double-posting of transactions, which affected some 1.5 million bank customers. Although the incident was resolved within 36 hours and did not result in material loss or expense to BPI, there can be no assurance that future similar incidents will not result in material adverse losses or expenses to BPI. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in customer suits, loss of income, regulatory investigations, penalties and fines and decreased consumer confidence in BPI. These may, in turn, adversely affect BPI's business, financial condition and results of operations.

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BPI also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by BPI's increased use of the internet. Computer break-ins and security breaches could affect the security of information stored in and transmitted through these computer systems and network infrastructure. BPI employs security systems, including firewalls and password encryption, designed to minimise the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and security problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failure in security measures could have a material adverse effect on BPI's business, reputation, financial condition and results of operations.

BPI may face increasing levels of non-performing loans ("NPLs"), provisions for impairment losses and delinquencies in its credit card portfolio, which may adversely affect BPI's business, financial condition, results of operations, and capital adequacy.

BPI's results of operations have been, and continue to be, affected by the level of its NPLs. The retail segment registered the highest NPLs as of end-2020 due to unemployment, pay cuts, limited operations and business closures, as a result of the pandemic. NPLs, however, are expected to be tempered by the Bank's proactive approach in employing extensive collection strategies and new lending programs to minimize loan defaults.

BPI's plans to continue to expand its microfinance, SME and consumer loan operations, including credit card services. Such expansion plans will result in increased credit risk amid the pandemic which might affect the Bank's bottom line. The success of the ongoing vaccine roll-out, that is expected to spur economic activity and decrease unemployment, will help alleviate credit risks.

BPI may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose BPI to significant losses.

As of December 31, 2020, BPI's secured loans represented 35.5% of BPI's total loans, and 50.2% of the collateral on these secured loans consisted of real property. There can be no assurance that the collateral securing any particular loan will protect BPI from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of BPI's collateral may not accurately reflect its liquidation value, which is the maximum amount BPI is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realized value of the collateral would be adequate to cover BPI's loans. In addition, some of the valuations in respect of BPI's collateral may also be out of date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing BPI's loans, including with respect to any future collateral taken by BPI, would mean that its provisions for credit losses may be inadequate and BPI may need to increase such provisions. Any increase in BPI's provisions for credit losses could adversely affect its business, its financial condition, results of operations, and CAR.

In addition, BPI may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays involved in enforcing such obligations through the Philippine legal system. To foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements which may be more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to the deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, BPI to legal liability while in possession of the collateral. These difficulties may significantly reduce BPI's ability to realize the value of its collateral and therefore the effectiveness of taking security for the loans it makes. BPI initially carries the value of the foreclosed properties at the lower of loan exposure or fair value of the properties at the time of foreclosure. Subsequently, the foreclosed properties are carried at the lower of amount initially recognised or fair value less cost to sell. While BPI, at each balance sheet date, provides for impairment losses on its foreclosed properties in accordance with PFRS, it may incur further expenses to maintain such properties and to prevent their deterioration. In realising cash value for such properties, BPI may incur further expenses such as legal fees and taxes associated with

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such realization. There can be no assurance that BPI will be able to realize the full value, or any value, of any collateral on its loans.

BPI's provision policies with respect to NPLs require significant subjective determinations which may increase the variation of application of such policies.

BPI classifies accounts consistent with the regulatory classification based on four different categories corresponding to levels of risk: Loans Especially Mentioned, Substandard, Doubtful and Loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as status/and or aging, value of collateral, and expected cashflows/recovery.

These accounts are assessed for any significant increase in credit risk on the loan. The level of provisions currently recognized by BPI in respect of its secured loan portfolio depends largely on the estimated value of the collateral coverage of the portfolio, as well as BPI's evaluation of the creditworthiness of the borrower and the risk classification of a loan. The level of provisions is monitored and assessed periodically for any deterioration in the overall credit quality of BPI's existing loan portfolio, and the value of the underlying collateral.

In addition, the level of loan loss provisions which BPI recognizes may likewise be influenced by the change in accounting standards or recognition.

Increased enforcement by the BSP related to priority lending for the agrarian reform and agricultural sectors, as well as lending to micro-, small-and-medium-sized enterprises ("MSME"), could adversely affect BPI's business, financial condition and results of operations.

In support of certain Government policies, BSP has imposed an agrarian reform and agriculture lending policy requiring Philippine banks to extend certain loan amounts, equivalent to a certain percentage of its total loan portfolio to agrarian beneficiaries and the agricultural sectors ("Agri-Agra") of the Philippines. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. These fines are calculated based on the relevant rate multiplied by the prescribed Agri-Agra amount shortfall. From 2018 to 2020 BPI was fined for its failure to fully comply with Agri-Agra mandated lending.

In addition, for a period of ten years until June 16, 2018, BSP requires banks to allocate a certain percentage of its total loan portfolio for loans to MSMEs. For the years ended December 31, 2018, 2019, and 2020, BPI was fined for failure to comply with mandated lending to MSMEs.

BPI is unable to generate sufficient exposures to the Agri-Agra and MSMEs sectors that meet its credit and risk management standards. As a result, BPI has paid fines in the past and may continue to do so in the future. There can be no assurance that the Government will not increase its penalties for non-compliance or force banks to lend in accordance with the policy in the future. If the Government substantially increases the penalty for non-compliance or BPI is forced to extend loans to the Agri-Agra or MSMEs sectors that are inconsistent with BPI's credit and risk management policies, its business, financial condition and results of operations could be adversely affected.

BPI is subject to credit, market and liquidity risk which may have an adverse effect on its credit ratings and its cost of funds.

To the extent any of the instruments and strategies BPI uses to manage its exposure to market or credit risk is not effective, BPI may not be able to mitigate effectively its risk exposures, in particular to market environments or against particular types of risk. BPI's balance sheet growth will be dependent upon economic conditions, as well as upon its determination to securitize, sell, purchase or syndicate particular loans or loan portfolios. BPI's trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the value of financial instruments caused by changes in market prices or rates. BPI's earnings are dependent upon the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its allowances for credit losses. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, BPI could suffer higher than anticipated losses. The successful management of credit, market and operational risk is an important consideration in managing its liquidity risk because it affects the

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evaluation of its credit ratings by rating agencies. A failure by BPI to effectively manage its credit, market and liquidity risk could have a negative effect on its business, financial condition and results of operations.

A downgrade of BPI's credit rating could have a negative effect on its business, financial condition and results of operations.

As of December 31, 2020, BPI has a local long-term bank deposit rating of Baa2 from Moody's and a long-term local currency issuer default rating of BBB- from Fitch. On August 27, 2019, S&P assigned a long-term issuer credit rating of BBB+ to BPI. In the event of a downgrade of BPI by one or more credit rating agencies, BPI may have to accept terms that are not as favorable in its transactions with counterparties or may be unable to enter into certain transactions. This could have a negative impact on BPI's treasury operations and also adversely affect its financial condition and results of operations. Rating agencies may reduce or indicate their intention to downgrade the ratings at any time. The rating agencies can also decide to withdraw their ratings altogether, which may have the same effect as a downgrade of ratings. Any downgrade in BPI's ratings (or withdrawal of ratings) may increase its borrowing costs, limit its access to capital markets and adversely affect its ability to sell or market its products, engage in business transactions, particularly longer-term and derivatives transactions, or retain its customers. This, in turn, could reduce BPI's liquidity and negatively impact its operating results and financial condition.

BPI relies on certain key personnel and the loss of any such key personnel and the inability to replace them may negatively affect its business.

BPI's success depends upon, among other factors, the retention of its key management, senior executives and upon its ability to attract and retain other highly capable individuals. The loss of some of the BPI's key management, and senior executives, some of whom will be reaching retirement age in 2021, and the inability to replace them could materially and adversely affect BPI's business, financial condition and results of operations.

BPI's business, reputation and prospects may be adversely affected if BPI is not able to detect and prevent fraud or other misconduct committed by BPI's employees or outsiders on a timely basis.

BPI is and may in the future be, implicated in lawsuits related to its regular operations in an ongoing basis. While these defensive litigations could result in costs commensurate to its subject matter, we foresee that the results of such legal proceedings will not materially harm BPI's business, reputation or standing in the marketplace or its ability to perform its existing contractual obligations. By the nature of these cases, any adverse monetary award against BPI may be sufficiently covered by its reserves and may even allow BPI to recover any loss incurred from third parties, regardless of whether BPI is at fault. Furthermore, there can be no possibility that losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of BPI's insurance, or that any such losses would not have a material adverse effect on the results of BPI's business, financial condition or results of operation, and that provisions made for litigation related losses will be sufficient to cover BPI's ultimate loss or expenditure.

BPI is involved in litigation, which could result in financial losses or harm its business.

BPI is and may in the future be, implicated in lawsuits related to its regular operations in an ongoing basis. While these defensive litigations could result in costs commensurate to its subject matter, we foresee that the results of such legal proceedings will not materially harm BPI's business, reputation or standing in the marketplace or its ability to perform its existing contractual obligations. By the nature of these cases, any adverse monetary award against BPI may be sufficiently covered by its reserves and may even allow BPI to recover any loss incurred from third parties, regardless of whether BPI is at fault. Furthermore, there can be no possibility that losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of BPI's insurance, or that any such losses would not have a material adverse effect on the results of BPI's business, financial condition or results of operation, and that provisions made for litigation related losses will be sufficient to cover BPI's ultimate loss or expenditure.

BPI faces risks and challenges associated with acquisitions and investments.

From time to time, BPI acquires companies or businesses, enters into strategic alliances and joint ventures and makes investments, and will continue to seek opportunities to do so in the future as part of its expansion plan. In order to pursue this strategy successfully, BPI must effectively identify suitable targets for, and negotiate and consummate, acquisition or investment transactions, some of which may be large or complex, and manage post-closing issues such as the integration of acquired businesses, products, services or employees.

Risks associated with business combination and investment transactions include the following, any of which could adversely affect the BPI's revenue, gross margin and profitability:

- a) managing business combination and investment transactions often requires significant management resources, which may divert BPI's attention from other business operations;
- b) BPI may not fully realize all of the anticipated benefits of any business combination and investment transaction, and the timeframe for realizing benefits of a business combination and investment transaction may depend partially upon the actions of employees, advisors, suppliers or other third parties;
- c) business combination and investment transactions may result in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, goodwill and asset impairment charges, charges from the elimination of duplicative facilities and contracts, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans;
- d) BPI's due diligence process may fail to identify significant issues with the acquired company's product quality, financial disclosures, accounting practices or internal control deficiencies;
- e) BPI may borrow to finance business combination and investment transactions, and the amount and terms of any potential future acquisition-related or other borrowings, as well as other factors, could affect BPI's liquidity and financial condition; and
- f) if disputes arise in connection with business combination and investment transactions, such disputes may lead to litigation, which may be costly and divert BPI's resources.

BPI's principal businesses are in the highly competitive Philippine banking industry and increases in competition may result in declining margins in BPI's principal businesses.

BPI is subject to significant levels of competition from many other Philippine banks and branches of international banks, including, in some instances, competitors that have greater financial and other capital resources, greater market share and greater brand name recognition than BPI. The banking industry in the Philippines is a mature market that has, in recent years, been subject to consolidation and liberalization, including the liberalization of foreign ownership restrictions, such as the lifting in 2014 of restrictions that previously barred the full entry and operation of foreign banks in the Philippines. Since 2014, several foreign banks have entered the Philippine banking market. In addition, the establishment of Association of Southeast Asian Nations ("ASEAN") economic integration, which envisions providing a platform for ASEAN banks to enjoy greater market access and operational flexibility across ASEAN member states, including the Philippines, could further increase competition from foreign banks.

According to data published by the BSP, there were a total of 46 domestic and foreign universal and commercial banks operating in the Philippines as of December 31, 2020.

In the future, BPI may also face increased competition from financial institutions offering a wider range of commercial banking services and products than BPI and having larger lending limits, greater financial resources and stronger balance sheets than BPI. Increased competition may arise from:

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- a) other large Philippine banking and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- b) foreign banks, due to, among other things, relaxed foreign bank ownership standards permitting large foreign banks to set up their own branches in the Philippines or expand their branch network through acquiring domestic banks;
- c) ability of BPI's competitors to establish new branches in Metro Manila due to the removal of the existing new branch license restriction scheme in 2014;
- d) domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
- e) continued consolidation in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

The ongoing mergers and consolidations in the banking industry, as well as the liberalization of bank foreign ownership restrictions, have allowed the emergence of foreign and bigger local banks in the market. This is expected to increase the level of competition both from Philippine and foreign banks and may impact BPI's operating margins.

There can be no assurance that BPI will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for BPI to increase the size of its loan portfolios and deposit bases and may cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, ability to pass on increased costs of funding, results of operations and financial position.

The Philippine banking sector may face another downturn, which could materially and adversely affect BPI.

The Philippine banking industry has recovered from the global economic crisis as evidenced by the steady decrease in average NPL ratios (net of interbank loans) in the Philippine banking system from 3.83% in 2010 to 3.70% as of December 2020. BPI has realized some benefits from this recovery, including increased liquidity levels in the Philippine market, lower levels of interest rates as well as lower levels of NPLs. However, the Philippine banking industry is facing significant financial and operating challenges arising from the COVID-19 lockdowns and may be extend beyond 2021. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank margins, low loan growth and potential or actual under-capitalization of the banking system. Disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking industry in general, and BPI in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

BPI may have to comply with strict rules and guidelines issued by regulatory authorities in the Philippines, including the BSP, the PSEC, the National Privacy Commission (the "NPC"), the PSE, the BIR and international bodies, including the FATF.

BPI's banking interests are regulated and supervised principally by the BSP, to which BPI has reporting obligations. BPI is also subject to banking, corporate, taxation, data privacy laws and other relevant laws and regulations in effect in the Philippines, administered by agencies such as the BIR, the Philippine SEC, the PSE, the National Privacy Commission (the "NPC") and the Anti-Money Laundering Council ("AMLC"). BPI is also subject to recommendations and pronouncements of international bodies such as the FATF which have been adopted, incorporated, or referred to by the BSP in its regulatory issuances.

In recent years, existing BSP and BIR rules have been modified, new regulations and rules have been enacted and reforms have been implemented by the BSP and the BIR which are intended to provide tighter control and added transparency in the Philippine banking sector. Rules governing banks' capital adequacy and reserve requirements, ceilings on loans to subsidiaries and affiliates, as well as limits on

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the amount of loans, credit accommodations and guarantees to a single borrower have also evolved over the years. Guidelines on the monitoring and reporting of suspected money laundering activities were incorporated into the BSP Manual. Institutions that are subject to the AMLA are required to establish and record the identities of their clients based on official documents. In addition, under the AMLA regulations, all records of customer identification and transaction documents are required to be maintained and stored for a minimum of five years from the date of a transaction. Records of closed accounts must also be kept for at least five years after their closure. The AMLA regulations also require covered institutions to report covered and suspicious transactions as defined under the relevant law.

The BSP has also ordered universal, commercial and thrift banks to conduct real estate stress tests to determine whether their capital is sufficient to absorb a severe shock. The REST Limit combines a macro-prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Should a bank fail to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. If the explanation is deemed insufficient, the bank shall be required to submit an action plan to meet the REST Limits within a reasonable time frame. If a bank fails to submit an action plan or persistently breaches the REST Limits due to non-compliance with the commitments in its submitted action plan, it may be considered to be engaging in unsafe or unsound banking which may subject it to appropriate sanctions.

In June 2016, the BSP implemented the interest rate corridor (“IRC”) which effectively narrowed the band among the BSP’s key policy rates. The pricing benchmark, which used to be the “special deposit account” prior to the implementation of the IRC, was replaced by the “overnight deposit facility” which is now currently at 1.5% and forms the lower bound of the IRC. Meanwhile, the rate for the “overnight lending facility”, which replaced the previous repurchase facility, and forms the upper bound of the IRC, is currently at 2.5%. The BSP likewise introduced the “term deposit facility” to serve as the main tool for absorbing liquidity through weekly term deposit facility auctions, the frequency for which may be changed depending on the BSP’s liquidity forecasts. According to the BSP, the changes from IRC are purely operational in nature to allow it to conduct monetary policy effectively.

Additionally, the BSP pursuant to BSP Circular No. 1041 (Series of 2019) reduced the rates of required reserves against deposit and deposit substitute liabilities for universal and commercial banks commencing on reserve week May 31, 2019, as follows: (a) 17% against demand deposits, savings deposits (excluding basic deposit accounts), time deposits and deposit substitutes, negotiable CTDs, long-term non-negotiable tax-exempt CTDs, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 17% against NOW accounts; (c) 0% against deposit substitutes evidenced by repurchase agreements; (d) 4% against LTNCDs; (e) 6% against bonds; and (f) 0% against basic deposit accounts as defined under Section X222 of the Manual of Regulations for Banks and for IBCL (Sec. 315). Beginning June 28, 2019, the 17% reserve rates will be reduced to 16.5% across the board, and further reduced to 16% beginning July 26, 2019.

Pursuant to BSP Circular No. 1082, issued in 2020, universal and commercial banks are required to maintain regular reserves of 12% against demand deposits, “NOW” accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under Due to foreign banks and peso deposits lodged under Due to Head Office/Branches/Agencies Abroad; 4% against long-term negotiable certificate of time deposits, 0% against deposit substitutes evidenced by repo agreements, interbank call loans and basic deposit accounts; and 3% against bonds. And pursuant to BSP Circular No. 1092, issued in 2020, thrift banks are now required to maintain regular reserves of 3% against demand deposits, “NOW” accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, and deposit substitutes.

The BIR has also promulgated rules on the submission of an alphabetical list of portfolio investors receiving income payments and dividends. The BIR requires all withholding agents to submit such list of payees on income payments subject to creditable and withholding taxes and prohibit the lumping into a single amount and account of various income payments and taxes withheld. The Supreme Court (“SC”), however, issued a temporary restraining order (“TRO”) against the said BIR rule on September 9, 2014 insofar as they prohibit the naming of an entity called the Philippine Central Depository (“PCD”)

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Nominee, or any other securities intermediaries representing the beneficial owner, as the payee for dividend payments made by listed companies.

BPI's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines or significant compliance and monitoring costs resulting from current or future regulations and guidelines could have a material adverse effect on BPI's business, financial condition and results of operations. In addition, as a result of a failure to comply with any current or future regulations and guidelines, BPI may become subject to sanctions, warning or reprimand and incur monetary penalties.

Restrictions Imposed by the Implementation of Basel III in the Philippines.

On July 1, 2007, BSP Circular No. 538, which was issued by the BSP on August 4, 2006, took effect. This circular contains the implementing guidelines of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

On January 15, 2009, the BSP issued BSP Circular No. 639 covering the ICAAP which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. The BSP requires banks to have in place an ICAAP that (a) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk and reputation risk); (b) covers more precise assessments and quantification of certain risks (i.e., credit concentration risk); and (c) evaluates the quality of capital.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the Basel Committee containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios.

In 2011, the BSP issued BSP Circular No. 709, which aligns with the Basel Committee on the eligibility criteria on Additional Group Concern Capital and Tier 2 Capital to determine eligibility of capital instruments to be issued by Philippine banks/quasi-banks as Hybrid Tier 1 Capital and Lower Tier 2 Capital. In January 2012, the BSP announced that the Philippines' universal and commercial banks, including their subsidiary banks and quasibanks, will be required to adopt in full the capital adequacy standards under Basel III with effect from January 1, 2014.

Further, in January 2013, the BSP issued BSP Circular No. 781 as the Basel III Implementing Guidelines on Minimum Capital Requirements, which took effect in January 2014, highlights of which include:

- a) adopting a new categorisation of the capital base;
- b) adopting eligibility criteria for each capital category that is not yet included in BSP Circular No. 709;
- c) as applicable, allowing the BSP to adopt regulatory deductions in Basel III;
- d) keeping minimum CAR at 10%, and prescribing:
 - 1. a minimum CET1 ratio of 6.0%;
 - 2. a minimum Tier 1 ratio of 7.5%; and
 - 3. a capital conservation buffer of 2.5%;
- e) by January 1, 2014, rendering ineligible existing capital instruments as of December 31, 2010 that do not meet eligibility criteria for capital instruments under the revised capital framework;

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- f) by January 1, 2016, rendering ineligible regulatory capital instruments issued under BSP Circular Nos. 709 and 716 before the revised capital framework became effective; and
- g) by subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital.

On October 29, 2014, the BSP issued BSP Circular No. 856, or the “Implementing Guidelines on the Framework for Dealing with D-SIBs under Basel III” to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the Philippine banking industry. Banks identified as D-SIBs will be required to have higher loss absorbency capabilities, in addition to minimum CET1 capital and capital conservation buffer requirements. Identified D-SIBs will need to put up an additional 1.5% to 3.5% of common equity Tier 1 depending on their classification. Compliance with this requirement is phased-in starting January 1, 2017, with full compliance on January 1, 2019. On September 27, 2019, the BSP issued Circular No. 1051, providing enhancements in the assessment methodology of D-SIBs. The minimum HLA requirement for the lower bucket (bucket 1) shall be one and a half percent of risk-weighted assets at all times. For the higher populated buckets, it shall range from above one and a half percent to two percent, while an empty top bucket with HLA requirement of two and a half percent shall be maintained. Banks identified as D-SIBs shall be allowed a period of 18 months to comply with the required HLA.

In addition, the BSP issued BSP Circular No. 905 providing new liquidity requirements under Basel III’s new liquidity framework, namely, the LCR and the NSFR. The LCR requires banks to hold a sufficient level of HQLA to enable them to withstand a 30 day-liquidity stress scenario. As of January 1, 2018, the LCR threshold that banks are required to meet is 90% and will be increased to 100% beginning January 1, 2019. The NSFR requires that banks’ assets and activities are structurally funded with long-term and more stable funding sources. On June 4, 2018, the BSP announced the Monetary Board’s approval of the adoption of the NSFR for universal and commercial banks. Beginning January 1, 2019, covered institutions are required to maintain an NSFR of 100% on both solo and consolidated bases.

On March 15, 2019, the Monetary Board approved the extension of the observation period for the LCR and NSFR for subsidiary banks and quasi-banks of universal and commercial banks until December 31, 2019, moving the effectivity dates of said ratios to January 1, 2020. During the extended observation period, subsidiary banks and quasi-banks of universal and commercial banks are required to comply with a 70% LCR and NSFR, which shall increase to 100% on January 1, 2020. On March 15, 2019, the Monetary Board also approved amendments to the LCR framework and minimum liquidity ratio guidelines, and disclosure requirements of information related to LCR starting 2019 for universal and commercial banks and 2020 for subsidiary banks and quasi banks of universal and commercial banks. Although these measures are aimed at strengthening the ability of banks to withstand liquidity stress and promote resilience of the banking sector, compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

The BSP Monetary Board subsequently approved the adoption of a minimum leverage ratio requirement for universal banks, commercial banks and their subsidiary banks and quasi-banks. Beginning on July 1, 2018, covered institutions must maintain a leverage ratio of no lower than 5%. The leverage ratio is a non-risk-based measure, which serves as a backstop to the CAR.

The BSP introduced the leverage ratio framework on June 5, 2015 under BSP Circular No. 881 with the implementation limited to monitoring purposes. With the Monetary Board’s recent decision, the leverage ratio will form part of the Basel III minimum capital requirements, along with the 6% CET1 Ratio, 7.5% Tier 1 Ratio and the 10% CAR.

In addition, Basel III capital rules for banks include setting up a CCyB wherein banks build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. The CCyB will require banks to hold additional common equity or other fully loss absorbing capital in amounts ranging from 0% to 2.5% of the risk-weighted assets. In December 2018, BSP issued Circular No. 1024, which prescribed a countercyclical buffer of zero percent subject to upward adjustment to a rate determined by the Monetary Board when systematic conditions warrant, but not to exceed two and a half percent. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases shall be effective immediately.

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As of December 31, 2020, BPI had CAR of 17.1%, Tier 1 ratio of 16.2% and capital conservation buffer of 10.2%. Compliance with these ratios may further increase competition among banks for deposits as well as high quality liquid assets.

Unless BPI is able to access the necessary amount of additional capital, any incremental increase in the capital or liquidity requirement due to the implementation of ICAAP and Basel III may result in BSP imposed monetary and non-monetary sanctions, including prohibition on the declaration of dividends, and may impact BPI's ability to grow its business and may even require BPI to withdraw from or to curtail some of its current business operations, which could materially and adversely affect BPI's business, financial condition and results of operations. There can also be no assurance that BPI will be able to raise adequate additional capital in the future at all or on terms favourable to it. There can be no assurance that BPI will be able to meet the requirements of Basel III as implemented by the BSP. In addition, the limitations or restrictions imposed by the BSP's implementation of Basel III could materially and adversely affect BPI's business, financial condition and results of operations.

The Philippine banking industry is generally exposed to higher credit risks and greater market volatility than that of more developed countries.

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

- a) the greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- b) the vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and OFW remittances;
- c) the large foreign debt of the Government and the corporate sector, relative to the GDP of the Philippines; and
- d) volatility of interest rates and U.S. Dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including BPI, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on BPI's financial condition, liquidity and results of operations. According to data from the BSP, the average NPL ratios exclusive of interbank loans in the Philippine Banking industry were 1.8%, 2.08% and 3.70% as at December 31, 2018, 2019, and 2020, respectively.

BPI's ability to identify, assess, monitor and manage risks inherent in its business is anchored on the quality and timeliness of available industry and internal risk data.

BPI, through its Risk Management Office, classifies its risk exposures according to three major component areas, namely credit risk, market and liquidity risks, and operational and IT risks. The effectiveness of BPI's risk management, particularly on the management of credit risk which inherent in its core businesses, is bounded by the quality and timeliness of available data in the Philippines as well as internal risk data in relation to different factors such as, but not limited to, the proposed borrowers' credit history, loan exposures with other financial institutions and other external and market factors affecting overall credit including information provided by credit bureaus and market data providers. Insufficient or inaccurate risk and financial data including limitations of BPI's risk management systems and risk data infrastructure, if any, may result to BPI granting loans that may expose BPI to significant credit risk, take positions that may expose BPI to market and liquidity risks, or undertake business activities that may result to operational, IT and other material risks. To the best of BPI's knowledge, there are no anticipated and/or significant changes in BPI's risk exposures that shall materially affect BPI's financial condition, results of operations, and/or reputational stance to date, given the adequacy of risk mitigation and effectiveness of controls in place.

Public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect BPI's business, financial condition and results of operations.

The Philippines remains vulnerable to exposure and spread of COVID-19. See page 68 – *Risks relating to the Philippines – The continuing impacts of the COVID-19 pandemic are highly unpredictable, volatile, and uncertain, and have had, and will continue to have, certain negative impacts on business operations, demand for products and services, costs of doing business, availability of labor, access to inventory, supply chain operations, the Group's financial performance, and the ability to predict future performance, among others.*

Government quarantine measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

Due to the COVID-19 situation, BPI also saw an increase in the level of NPLs attributable to the temporary/permanent closure of certain businesses, suspended business operations and limited travel and exchange of goods. As a result, BPI booked ₱28,000 million in impairment provisions for NPL in 2020.

The actual delinquency status or effect on the NPL levels across different segments and products of BPI Group became evident in the last quarter of 2020 after the lapse of the Bayanihan Act and in the first quarter of 2021 after the lapse of Bayanihan 2 Act.

If COVID-19 cases continue to rise, it could result in the reimposition of stricter measures to combat such increase in severity, which could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect BPI's business, financial condition and results of operations.

Risk Management

BPI espouses a comprehensive risk management and capital management framework, which integrates the management of all its financial and non-financial risk exposures. The framework that espouses the three lines of defense model, conforms not only to BPI's own rigorous standards, but also the BSP directives in promoting an effective ICAAP and other risk management processes; and ensures that BPI has adequate liquidity and capital levels to mitigate risks, as well as robust business continuity and crisis resiliency standards in place. The framework focuses on three (3) key components of:

- a) Sound risk management governance;
- b) Effective and value-enhancing risk processes, information systems, and controls; and
- c) Risk-intelligent data and technology.

BPI's Board of Directors fulfills its risk management function through the Risk Management Committee ("RMC"). At the management level, risk management is carried out by the Risk Management Office ("RMO"), a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience working within BPI. BPI's risk managers regularly monitor key risk indicators and report exposures against carefully established risk metrics and limits approved by the RMC. The RMO is headed by the Chief Risk Officer ("CRO"). The CRO is responsible in leading the formulation of risk management policies, methodologies, and metrics in alignment with the overall business strategy of BPI, ensuring that risks are prudently and rationally undertaken and within BPI's risk appetite, as well as commensurate and disciplined to maximize returns on capital. The CRO and the RMO facilitate risk management learning programs and promote best practices on an enterprise-wide basis.

BPI's risk exposures are identified, measured, controlled, monitored, and reported according to three (3) major classifications:

- a) **Credit Risk**, the largest single risk for most local banks, arises from BPI's core lending and investing businesses. This risk may arise if a borrower or counterparty fails to meet its obligations in accordance with agreed terms. The Bank Credit process involves the thorough credit evaluation, appropriate approval, management and continuous monitoring of exposure risks, such as borrower (or counterparty) risk, facility risk, concentrations and industry risk 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. BPI's loan portfolio is continuously monitored and reviewed as to overall asset quality, concentration and utilization of limits. BPI 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 did so in general compliance with regulatory and prudential requirements relating to credit risk management (e.g., RPT and DOSRI restrictions, single borrower's limits, and credit concentration, internal and regulatory stress tests, among others).

- b) **Market and Liquidity Risks** arise from BPI'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 risk and liquidity risk are managed using a set of established policies and metrics guided by BPI's market risk and interest rate risk in the banking book management framework set by the BPI Board of Directors/RMC. Price risk is the risk that BPI's earnings will decline immediately (or over time) because of volatility in interest rates, FX rates, or equity prices. BPI employs various methodologies such as value-at-risk ("VaR"), loss limits, balance sheet value-at-risk, and earnings at-risk, supplemented by regular stress tests. Liquidity exposures on funding mainly come from the mismatches of asset, liability, and exchange contract maturities. BPI manages liquidity risk by setting a minimum cumulative liquidity gap (MCLG – smallest net cumulative cash inflow or the largest net cumulative cash outflow), conducting internal and regulatory liquidity stress tests, and testing an established contingency funding plan. BPI's market and liquidity risk exposures are generally well within the RMC (i.e., at the BPI Board of Directors level) approved risk limits at the BPI Parent and consolidated group levels.
- c) **Operational Risks** arise from BPI's people, internal processes, systems or from external events such natural disasters or telecommunication failures that disrupt the Bank's operations, and which may give rise to adverse legal, tax, regulatory, or reputational consequences. **Information technology risk**, which is assumed under operational risk, arise from the use of or reliance on IT (i.e., computer hardware, software, devices, systems, applications, and networks), which includes, information security, service availability, reliability and availability of IT operations, completion of IT development projects, and regulatory compliance, among others. Operational risk management in BPI involves the formulation of policies, setting and monitoring of key risk indicators, overseeing the thoroughness of bank-wide risk and control self-assessments and loss incident management; and in the process, creating and maintaining a sound business operating environment that ensures and protects the integrity of BPI's assets, transactions, reputation, records and data of BPI and its customers, the enforceability of BPI's claims, and compliance with all pertinent legal and regulatory parameters. BPI's actual operational losses are generally less than 1% of BPI's annual gross income, which is well within BPI's appetite for operational risks.

The Bank employs tools, processes, and risk control and mitigation that are being used in the management of operational risk that include Risk and Control Self-Assessments (RCSA), Key Risk Indicators ("KRI") monitoring, Loss Event Data ("LED") collection and analysis. There is an Operational Risk Management Committee ("ORMC") that meets regularly, where operational risk and information security issues are discussed at management level. BPI also has an Enterprise Information Security Management team which develops strategies and provides oversight in mitigating risks to the confidentiality, integrity, and availability of BPI's information assets and information systems. BPI also has in place business continuity and disaster recovery plans to ensure the recovery and availability of all critical organizational assets and customer-servicing infrastructure. Incident Management processes are in place to properly manage incidents. A Crisis Resiliency Committee and process is in place to manage and prevent incidents from escalating to catastrophic proportions. Working and tested BCP sites are situated in strategic locations for critical head office services to meet the increasing demand on business continuity preparedness of the bank's operations. The BPI Board of Directors-level RMC is regularly apprised of operational risks and information security issues through comprehensive reporting and discussions during monthly meetings. To further strengthen information security awareness, the BPI Board of Directors is continually briefed on

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current cybercrime landscapes, emerging risks and industry trends, as well as mitigating measures implemented by BPI.

Finally, independent reviews are regularly conducted by BPI's Internal Audit group, regulatory examiners, and external auditors to ensure that risk controls and mitigants are in place and functioning effectively as intended

Dividends

As approved by BPI's Board of Directors, BPI's dividend policy is to declare cash dividends to its common stockholders on a regular basis as may be determined by the BPI Board of Directors. As its dividend payout history shows, BPI has consistently paid at least ₱1.80 per share in annual dividends; however, BPI evaluates its dividend payments from time to time in accordance with business and regulatory requirements, and cannot make explicit warranties about the quantum of future dividend payments.

Cash dividends declared and paid during the following periods are as follows:

Date Declared	Date of Payment	Amount of Dividends	
		Per Share	Total (in Million Pesos)
June 20, 2018	July 25, 2018	0.90	4,052
December 19, 2018	January 29, 2019	0.90	4,052
May 15, 2019	June 19, 2019	0.90	4,056
November 20, 2019	December 27, 2019	0.90	4,057
May 20, 2020	June 26, 2020	0.90	4,062
October 21, 2020	November 26, 2020	0.90	4,062

There are no known restrictions or impediments to BPI's ability to pay dividends on common equity, whether current or future.

Dividend declaration is ultimately the responsibility of BPI and the BPI Board of Directors which has the authority to declare dividends as it may deem appropriate. Banks that meet the prequalification criteria including capital adequacy requirements and applicable laws and regulations of the BSP can declare and pay dividends without prior BSP verification.

The details of the dividend declaration are in Note 18 of the December 2020 audited financial statements.

TELECOMMUNICATIONS

Globe Telecom, Inc. is a leading full-service telecommunications services in the Philippines, supported by over 8,300 employees and over 1.1 million AutoloadMax ("AMAX") retailers, distributors, suppliers, and business partners nationwide. Globe serves the telecommunications and technology needs of consumers and businesses across an entire suite of products and services including mobile, fixed, broadband, data connectivity, internet and managed services. It has major interests in financial technology, digital marketing solutions, venture capital funding for startups, and virtual healthcare. Globe currently has 76.6 million mobile subscribers (including fully mobile broadband), and 3.8 million Home Broadband customers, and 1.6 million landline subscribers.

Globe is one of the largest companies in the country, and has been consistently recognized both locally and internationally for its corporate governance practices. It is listed on the PSE under the ticker symbol GLO and had a market capitalization of US\$5.6 billion as of the end of December 2020.

Globe's principal shareholders are Ayala Corporation and Singapore Telecom, both acknowledged industry leaders in the country and in the region. 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.

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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, Globe 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 Globe, 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 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.

- Globe provides digital wireless communications services in the Philippines under the Globe Postpaid, Globe Prepaid, and 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 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, 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. As of June 1, 2020, the SBO was cancelled and surrendered to the OFCA. 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;

Third Pillar Business Applications, Inc. ("TPBAI") and a Subsidiary

On August 17, 2020, GTI entered into a Share Purchase Agreement for the acquisition of 67% of TPBAI. TPBAI, a corporation organized under the laws of the Philippines, is engaged in systems integration, license reselling, and data management services. TPBAI previously owns 11% of Third Pillar Global Delivery Center Inc. ("TPGDC"). GTI's acquisition of TPBAI also mandated TPBAI's acquisition of the remaining 89% ownership of TPGDC making TPBAI the sole owner of TPGDC. TPGDC is engaged in software implementation and maintenance services and the outsourcing arm of TPBAI.;

CaelumPacific Corp. ("CaelumPacific") and Subsidiaries

On July 30, 2020, GTI incorporated CaelumPacific, a wholly owned subsidiary organized under the laws of the Philippines for the purpose of providing technical consulting and IT related services.

On July 31, 2020, Caelum US Holdings Inc. ("Caelum US"), a wholly owned subsidiary of Caelum Pacific, was incorporated under the laws of the state of Delaware as holding company.

On August 3, 2020, Caelum Northwest Corp. ("Caelum Northwest"), a wholly owned subsidiary of Caelum US, was incorporated under the laws of the state of Washington for the purpose of customized cloud software development and providing cloud consulting services.

On November 3, 2020, the definitive agreements between Caelum Group and Cascadeo have been signed and executed following the completion of all relevant conditions relating to the sale of assets of Cascadeo in the Philippines and the US. Cascadeo is a group of companies in the Philippines and US which offers cloud-native consulting and managed services capabilities for enterprises and small and medium business customers.;

- 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 (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;

In February 2020, Kickstart registered three Cayman Islands exempted companies with limited liabilities, namely (1) Kickstart Capital Co. Ltd. ("KCCL"), a wholly owned subsidiary of Kickstart; (2) AG Active Associated I, Limited, a wholly owned subsidiary of KCCL; and, (3) Kickstart Ventures Co. Ltd., a 65% owned subsidiary of KCCL. These entities were formed as a platform for the management of third-party venture capital investment funds;

- 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.

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.

On August 20, 2020, Asticom incorporated its wholly owned subsidiary, Asticom Business Services, Inc. ("ABSI"). ABSI was incorporated to leverage Asticom's business growth, particularly its full-BPO services offering;

- Globe Capital Venture Holdings, Inc. ("GCVHI"), a wholly-owned subsidiary incorporated on June 29, 2015. GCVHI is 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. In 2020, AI acquired the remaining 30% of the outstanding shares of Socialytics making it a wholly owned subsidiary of AI.

GCVHI owns 40% ownership interest in Globe Fintech Innovations, Inc. ("GFI") and 50% ownership interest in Global Telehealth, Inc. ("GTHI").

On February 4, 2020, GCVHI incorporated 917Ventures, Inc. as a holding company for GCVHI's business incubators;

- Bayan Telecommunications, Inc. ("BTI"), 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 owns approximately 99% of BTI.

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").

- TaoDharma ("Tao"), 67% owned by Globe Telecom. 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.
- GTowers Inc. ("GTowers"), a fully owned subsidiary of Globe Telecom. On August 17, 2018, GTowers was incorporated and registered under the laws of the Philippines. GTowers is still in pre-operating stage as of reporting date.

Business

- 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 Information and Communications Technology ("DICT") 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 IT products and services and engaged in IT placement services.

- Electronic Commerce Payments, Inc. ("ECPay"), 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.

Globe 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.

Business Development and Corporate History

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 January 15, 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 Blg. 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 August 11, 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.

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 June 27, 2001. In 2003, the 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").

Business

In 2004, Globe invested in G-Xchange, Inc. ("GXl"), a wholly-owned subsidiary, to handle the mobile payment and remittance service marketed under the GCash brand using Globe's network as transport channel. GXl started commercial operations on October 16, 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 approximately 900 million subscribers covering 34 countries.

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. Globe 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, BPI, and Ayala Corporation 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 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 BankKO, 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 BankKO opened its first branch in Metro Manila in the first quarter of 2011 with 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 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 NTC proceedings in connection with the bid of Globe Telecom Inc. to take over BTI. Despite the lapse of the TRO last December 9, 2014, the CA has advised the NTC to refrain from conducting any proceedings in connection with the bid of Globe assume majority control of Bayantel.

Business

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, Ayala Corporation, and 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 ₱900 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 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 PSE. 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.

Business

On June 21, 2016, Globe exercised its rights as holder of 50% equity interest of VTI to cause VTI to propose the conduct of a tender offer for 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 incorporated GTowers, Inc., a fully owned subsidiary aimed at the building and deployment of cellular towers in the country. GTowers is still in the pre-operating stage as of reporting date.

On September 11, 2019, the BOD of Globe approved the acquisition of 51% of the outstanding shares of Yondu, equivalent to 22,950 shares. The acquisition increased Globe's ownership interest from 49% to 100% and was accounted for as an acquisition of a subsidiary.

On October 25, 2019, Globe signed and executed an agreement with third parties to complete its transaction to acquire 77% ownership of ECPay. ECPay is a company engaged in the provision of information technology and electronic commerce related solutions in the Philippines.

On August 2020, Globe, through its wholly-owned subsidiary GTI Business Holdings, Inc. entered into a share purchase agreement for the acquisition of 67% of Third Pillar Business Applications, Inc. ("TPBAI"). Third Pillar is a Business Application Consulting and Systems Integration company. It focuses on delivering innovative enterprise solutions that help organizations boost sales, improve customer intimacy, ensure data integrity, and reduce annual spending.

On November 2020, Globe, through its wholly-owned subsidiary GTI Business Holdings, Inc., acquired substantially all of Cascadeo's assets. Cascadeo is a group of companies in the Philippines and US which offers cloud-native consulting and managed services capabilities for enterprises and small and medium business customers.

There was no bankruptcy, receivership or similar proceedings initiated during the past four years.

Business Segments

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, LTE and 5G 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 the growing and changing demands of its customers, Globe once again highlights its portfolio of postpaid plans featuring "ThePLAN PLUS" or Globe's SIM-ONLY (No Lock-up) Plans. "ThePLAN PLUS" gives customers freedom to customize their plan according to your needs, get access to bigger data, more affordable all-net calls and texts, enjoy more rewards points, access to premium content, and additional perks. With ThePLAN PLUS 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 plus Free KonsultaMD, 6-months free subscription to Amazon Prime Video and 1GB allocation of Facebook per month.

"ThePlan", Globe's postpaid plan with device likewise ranges from plan 599 to 2999 includes a choice of handset, packs that fits the customer's lifestyle (gadget care, surf pack, lifestyle pack, call and text pack). ThePlan 1299 and up come with unlimited All-Net calls and text, Free KonsultaMD, Amazon Prime Video (6 mos. subscription), and 1GB allocation of Facebook per month for 24 months).

Renewal of mobile postpaid plan (once the subscriber get past their contract period of 24 months) likewise was simplified online. Subscriber can simply go to www.globe.com.ph/shop/plan-renewal and

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follow the steps (1) Choose the preferred plan or device, and click "My Plan Renewal" (2) Verify the account details (3) Check the account qualifications (4) Accomplish the checkout form (5) Upon submitting the form, subscriber will receive a confirmation email regarding their order.

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, mobile apps such as GlobeOne and TM, 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 Globe'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:

- a) Earn Points from Prepaid reloads or monthly Postpaid usage.
- b) 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.
- c) Enjoy Perks through special discounts, exclusive treats, and more wonderful surprises.

Mobile Voice

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 780 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 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.

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Mobile SMS

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.

Mobile Data

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 5G, LTE, HSPA+, 4G, 3G with HSDPA, EDGE and GPRS or Wi-Fi. Globe 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 ₱15 for 100 MB to ₱2,499 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.

Fixed Line and Home 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.

Fixed Line Voice

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 Globe'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.

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.

Globe'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

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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:

- a) 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.
- b) 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).
- c) 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).
- d) 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.
- e) 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.
- f) 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.
- g) 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 can do all 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 can extend the same services to its corporate clients so that they can optimize the way they do business and harness the inevitable digital changes.

Home Broadband

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

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("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 ₱1,699 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 ₱2,500 or ₱4,500 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 to 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 ₱1,899 per month for up to 20Mbps, ₱2,499 for up to 50Mbps and ₱2,899 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).

In 2020, Globe Home Broadband launched the following promos to boost usage and to help customers particularly during the COVID-19 pandemic:

- Globe At Home Prepaid WiFi gets a whole new price cut from ₱1,999 to just ₱999. Customers can get their hands on the reloadable device that is 2x faster, with 2x stronger signal and 2x wider coverage than your usual pocket WiFi for the whole family. Likewise, Globe Streamwatch Xtreme Prepaid was made available for only ₱1,999 from the original SRP of ₱4,999. At over half of its original price, its customers can level up their home with high-quality internet, Google Assistant voice command feature, built-in karaoke, free local TV channels, and internet TV with 1M videos, shows, and movies. Every purchase of Globe At Home Prepaid WiFi and Streamwatch Xtreme Prepaid device comes with free 10 GB of data valid for 7 days. For

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additional data, customers can avail of affordable promos like the new HomeWatch. For HomeWatch199, customers can get 34 GB with Free 4 GB of videos daily to stream their favorite content via YouTube, iWant, Netflix, iflix, HOOQ, Tiktok, and even NBA.

- As part of Globe's purpose of delighting its customers amid the ECQ, Globe At Home offered ₱1,000 off on all postpaid plans with free installation until March 31, 2020. Likewise, Globe assured customers that repairmen and installers during the coronavirus outbreak undergo stringent health checks before carrying out its home services.
- Exclusive offer for Globe mobile postpaid subscribers for a 50% off for 6 months broadband internet plans, which is a perfect fit for the work-from-home setup. Globe postpaid subscribers can choose from the high-speed internet plans and enjoy not only the 50% discount but also the exciting freebies that comes with the plan. Promo period until October 31, 2020.

Globe at Home Prepaid WiFi introduces its new and leveled-up HomeSURF599+ and 1499+ promos with bigger data allocation and extended promo validity, exclusively available on GCash. Allocation of 30GB for HomeSurf599+, while HomeSurf1499+ comes with 120 GB. Both promos last up to 30 days and comes with Free 1 GB daily access to Watch & Learn (YouTube, Google G Suite, DepED Commons, TESDA), Chat (Facebook Messenger, WhatsApp, Viber), and Earn (Lazada, Shopee, GCash, Grab) apps, allowing customers to enjoy more content on top of their other connectivity needs.

Sales and Distribution

Globe has various sales and distribution channels to address the diverse needs of its subscribers.

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 1.1 million AutoloadMax retailers nationwide who offer prepaid reloading services to Globe and TM subscribers.

Globe Stores

As of December 31, 2020, Globe has a total of 197 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 BSP as remittance outlets.

In line with Globe'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. Globe 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-

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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. In 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.

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. Globe 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 Globe's international revenues by leveraging on Globe's product portfolio and developing and capitalizing on regional and global opportunities.

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.

Operating Revenues

Gross Operating Revenues by Business Segment

(in ₱ Mn)	2020	% of total	2019	% of total	2018	% of total
Service Revenues						
Mobile*	103,113	64%	110,965	67%	99,531	66%
Voice ¹	20,130	13%	24,002	14%	28,408	19%
SMS ²	11,029	7%	15,531	9%	20,162	13%
Data ³	71,954	45%	71,432	43%	50,961	34%
Fixed Line and Home Broadband**	41,957	26%	37,384	22%	33,345	22%
Home Broadband ⁴	26,798	17%	21,747	13%	18,606	12%
Corporate Data ⁵	12,539	8%	12,969	8%	11,762	8%
Fixed Line Voice ⁶	2,620	2%	2,668	2%	2,977	2%
Service Revenues	146,388	91%	149,010	89%	132,875	88%
Non-Service Revenues	14,131	9%	17,650	11%	18,297	12%
Operating Revenues	160,520	100%	166,660	100%	151,172	100%

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Note: 2019 Service Revenues has been restated to reclass non-telco revenues from subsidiaries to Other revenues

*Mobile business includes mobile and fully mobile broadband

**Home Broadband includes fixed wireless and wired broadband

***Others includes non-telco revenues from subsidiaries

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;
- 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 (e) are reduced by any payouts to content providers.

2 Mobile SMS revenues consist of 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.

4 Home broadband service revenues consist of the following:

- a) Monthly service fees of wired, fixed wireless, 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;
- d) Installation charges and other one-time fees associated with the service; and
- 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. 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) 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

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- 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 ₱103.1 billion in 2020 accounting for 64% of total operating revenues, 8% below last year's level of ₱111 billion. Mobile voice service revenues amounted to ₱20.1 billion in 2020, contributing 13% of operating revenues. Mobile SMS service revenues contributed ₱11.0 billion or 7% of operating revenues. Mobile data service revenues contributed ₱72 billion in 2020, 45% of operating revenues.

Accounting for 27% of total operating revenues, Globe's fixed line and broadband business grew 18%, registering ₱44.0 billion in 2020, compared to ₱37.384 billion in 2019. Home broadband contributed revenues of ₱26.8 billion, or 17% of operating revenues. Corporate data contributed 8%, at ₱12.5 billion and fixed line voice contributed 2% at ₱2.6 billion.

Competition

Industry, Competitors and Methods of Competition

a) Mobile Market

The Philippine mobile market has a total industry SIM base of more than 149 million with an industry penetration rate of 133% as of December 31, 2020. 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"), BTI, 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%

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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	10%
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%
2020	149.58	133.3	-11%

**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, 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 2001, Globe acquired Islacom (now Innove). Globe, likewise, acquired approximately 96.5% of the total debt of Bayantel, in December 2012. In 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 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.

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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 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 NTC declared Mislattel a new major telco player, a consortium composed of Mindanao Islamic Telephone Inc., Udenna Corporation, Chelsea Logistics Holdings, and China Telecom. In 2019, Mislattel was renamed to DITO Telecommunity Corporation. DITO is scheduled to launch commercial operations on March 2021.
- In October 2020, Globe launched the fully digital telecom brand GOMO aimed towards digitally savvy Filipinos.

Today, only the PLDT Group and the Globe Group have built significant bases of mobile subscribers.

b) *Fixed Line Market*

ii. *Fixed Line Voice*

The number of lines in service in the fixed line voice market is estimated at 4.6 million lines as of December 31, 2020 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.

iii. *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 Globe 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) *Home Broadband Market*

Home broadband continues to be a major growth area for the local telecom industry. In a 2-player market, industry home broadband subscribers is now at 6.9 million, up 65% versus 2019 with Globe's subscriber market share at 55% as of December 31, 2020. A high-speed fixed broadband operator, Converge ICT, has emerged as a third player, with over 1 million home broadband subscribers as of

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December 31, 2020, bringing industry subscribers to 7.9 million. 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 remain 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.

Principal Competitive Strengths of Globe

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

Globe 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 2020, Globe had total interest-bearing debt of ₱167.7 billion representing 67% of total book capitalization. As of December 31, 2020, consolidated gross debt to equity ratio is at 2.02x, well within the 3.0:1.0 debt to equity limit. Additionally, debt to EBITDA is also well within the 3.5:1 covenant level, currently at 2.42x. Approximately 71% of its debt is in pesos while the balance of 29% 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

Globe's principal shareholders are Ayala and 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.

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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:

Globe'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).

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 Globe'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. Globe has also invested in a new digital infrastructure leveraging best-of-breed technologies from Cisco, Dell, EMC and Palo Alto. The new Globe cloud computing capabilities will host various platforms & systems in support of Globe's modernization program.

g) Customers

Globe has a large subscriber base across the country, ending 2020 with 76.6 million mobile subscribers, comprised of 2.5 million postpaid and 74.1 million prepaid subscribers. Globe also has 3.8 million home broadband subscribers and 1.6 million landline subscribers.

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 ⁽²⁾
International Cable Landing Station & Submarine Cable System (Nasugbu, Batangas)	CPCN ⁽¹⁾	October 19, 2007	December 24, 2030

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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 19, 1999	(a) July 18, 2024
(b) Manila, Caloocan, Navotas	CPCN ⁽¹⁾	(b) January 27, 2021	(b) August 9, 2046
(c) Tacloban City, Tanauan and Palo, Leyte & Sogod, Southern Leyte	CPCN ⁽¹⁾	(c) January 27, 2021	(c) August 9, 2046
(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) January 27, 2021	(d) August 9, 2046
(e) Antique, Iloilo, Bohol (except Tagbilaran City), Bukidnon, Misamis Occidental, Misamis Oriental (except Cagayan de Oro City), Zamboanga del Sur, Davao del Norte (except Tagum City), Davao del Sur, Davao Oriental, Saranggani, South Cotabato and Surigao del Sur	PA	(e) November 18, 2004	(e) July 25, 2006 ⁽³⁾
(f) Aklan, Capiz (including Roxas City), Guimaras, Negros Occidental (including cities of Bacolod and Bago), Negros Oriental	PA	(f) November 18, 2004	(f) May 18, 2006 ⁽³⁾

(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 (g) Butuan City, Agusan del Norte & Agusan del Sur	PA	(g) June 27, 2002	(g) June 14, 2005 ⁽³⁾
VSAT	CPCN ⁽¹⁾	January 11, 2001	January 10, 2026
International Gateway Facility	CPCN ⁽¹⁾	April 19, 1996	April 18, 2021 ⁽²⁾
Trunked Mobile Radio System	CPCN ⁽¹⁾	April 2, 1998	April 1, 2023
Domestic Data and Voice Communications	CPCN ⁽¹⁾	January 27, 2021	August 9, 2046

¹ Certificate of Public Convenience and Necessity.

² Motion for Extension of CPCN is still pending with the NTC.

³ Motion for Extension of PA still pending with the NTC.

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, 0917, Area 917, EasyShare, EasyExtend, GG30, GG50, Globe At Home, Globe At Home Air Fiber 5G, Globe Connected Home, Good Games, Midnight Surf, Sagad Surf, Supersurf, Ticket Hub., Elements Music Camp, Globe At Home Air, Globe at Home Air Fiber, TM, Globe Switch and GMovies.

Globe also applied for the following trademarks: TM Tambayan, Kapit WIFI, VIASH, Funaliw, Funsagad, Funpinoy Packs, Improve The Way You Live, Nasa Loob ang Galing, Homemade Awesome, The World, Right at Home., Recreate. the World Right at Home, Recreate. Better Days, Moments na Funpinoy, EZ Extend, TM Easy Plan, Easy Watch, TM Secret, Funkwentuhan, Funraket, Konek Tayo WIFI, Bawat Bahay may WIFI, Globe Business, Lifetech, GOMO, Easysurf50 Doble Data, 917V, Globe at Home Prepaid Wifi, Gomo, K-mmunity Ph, 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,

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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 trademarks @Free, GoWifi, GoWifi Auto and EasySurf.
- b) Asticom Technology, Inc. has registered the trademark Asticom Technology, Inc.
- c) Globe Capital Venture Holdings, Inc. has filed the following trademarks: FreebieMNL, HealthNow, PureGo, and Zeal.
- d) GXchange, Inc. has the following registered trademarks PowerPay+, G-Xchange, GCash Remit, GCash, GCash QR, GScore, GCash Mo Na Yan!, #WhatCantYouDo, What Can't You Do?, #WYCD, and GCat.
- e) Globe Fintech Innovations, Inc. has the following registered trademarks: GPay and A Fresh Look at Money.
- f) Fuse Lending, Inc. has the following registered marks: Installoan, Go Loan, Spark Loan, Fuse Business Loan, and Power Payday Advance.

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;

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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.

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 announced that the NTC has approved the assignment by its wholly-owned subsidiary Innove of its 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.

The Globe Group is also regulated by the DICT under Republic Act No. 10844, which was signed into law last May 23, 2016. The law provides that the DICT shall be the primary policy, planning, coordinating, implementing, and administrative entity of the Executive Branch of the government that will plan, develop, and promote the national Information and Communications Technology (“ICT”) system development agenda. The law defines ICT as the totality of electronic means to access, create, collect, store, process, receive, transmit, present and disseminate information, while it defines the ICT Sector as those engaged in providing goods and services primarily intended to fulfill or enable the function of information processing and communication by electronic means. The policy decisions and recommendations of the DICT may have an impact on Globe as a player in the ICT sector mainly due to its internet service provision, digitalization initiatives and telecommunications infrastructure.

DICT is also the government agency charged with the implementation of the common tower policy. The common tower policy allows multiple telecommunications networks to use the same telecommunications towers, resulting in faster rollouts and cheaper services for the public. In line with the common tower policy, the DICT has issued the Rules on the Accredited Roll-Out of Common Towers in the Philippines, which provide for the use of DICT and other government-owned properties for the building of common towers. The Rules provide that a mobile network operator (“MNO”) is encouraged to voluntarily share towers with other incumbent mobile network operators, and allow independent common tower companies (“ITCs”) to build common towers without a partnership with an MNO, on the condition that they secure a partnership with an MNO within six months from completion of its common tower. DICT’s regulations on the common tower policy affect GTowers, the Globe Group entity which is expected to focus on the construction and deployment of cellular towers in the Philippines as the spin-off of the Globe Group’s existing cellular tower operations.

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Research and Development

Globe incurred market research costs amounting to ₱163 million in 2020, a similar level versus 2019 spend.

Compliance with Environmental Laws

The Globe Group complies with the Environmental Impact Statement (“EIS”) system of the 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.

Employees

The Globe Group has 8,339 active regular employees as of December 31, 2020, of which 3% or 276 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 2018 to 2020 are as follows:

Employee Type	2020	2019	2018
Rank & File, CBU	1,835	2,191	2,791
Supervisory	3,896	3,497	2,760
Managerial	2,043	1,839	1,698
Executives	565	521	480
Total	8,339	8,048	7,729

In conformance with the Department of Labor and Employment’s (“DOLE”) 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.

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:

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,

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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:

- a. Pressure to improve network performance;
- b. Sharing of network/facilities across operators;
- c. Providing portability of mobile numbers;
- d. Possible pressure on pricing;
- e. Potential entry of foreign telecom players;
- f. Potential improved LGU support;
- g. Promise of increased infrastructure spend; and
- h. 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.

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 (US\$) with respect to the company's US\$-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.

Globe'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.

Competition Risk

a) Traditional Competition

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

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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 DICT.

These factors are seen to further heighten the competitive dynamics amidst a mature mobile market.

b) Alternative Competition

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.

Regulatory Risk

Globe is regulated by the NTC, an attached agency of the DICT, for its telecommunications business, and by the SEC for other aspects of its business as well as the PSE as one of its capital market regulators, to name a few. On the other hand, the 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.

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.

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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.

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.

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.

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.

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;

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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.

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.

Data Privacy Risk

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.

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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.

Business Disruption Risk

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.

Revenue Leakage Risk

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.

Fraud Risk

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.

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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.

COVID-19 Risks

The Philippines remains vulnerable to exposure and spread of COVID-19. See page 68 " – *Risks relating to the Philippines – The continuing impacts of the COVID-19 pandemic are highly unpredictable, volatile, and uncertain, and have had, and will continue to have, certain negative impacts on business operations, demand for products and services, costs of doing business, availability of labor, access to inventory, supply chain operations, the Group's financial performance, and the ability to predict future performance, among others.*"

Government quarantine measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. If COVID-19 cases continue to rise, it could result in the reimposition of stricter measures to combat such increase in severity, which could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect Globe's business, financial condition and results of operations.

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:

- a) Provide hazard identification and risk assessment for Globe Telecom's operations, activities, events, and infrastructure;
- b) Facilitate implementation of risk control and mitigation measures for safety and environmental management, in collaboration with operational and business groups;
- c) Provide and facilitate risk transfer and business protection solutions through insurance or contractor liability agreements;
- d) 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.

Regulatory

The Globe Group is regulated by the NTC under the provisions of CA 146, EO 59, EO 109, and Republic Act No. 7925 ("R.A. No. 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 R.A. No. 7925.

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- 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 R.A. No. 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 R.A. No. 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 announced that the NTC has approved the assignment by its wholly-owned subsidiary, Innove, of its TM consumer prepaid subscriber contracts in favor of Globe. Globe would be managing all migrated consumer mobile subscribers.

Public Telecommunications Policy Act

R.A. No. 7925 applies to all public telecommunications entities in the Philippines, which it defines as any person, firm, partnership or corporation engaged in the provision of telecommunications services to the public for compensation. The law also governs VAS providers, which it defines as an entity which, relying on the transmission, switching and local distribution facilities of the local exchange and inter-exchange operators, and overseas carriers, offers enhanced services beyond those ordinarily provided for by such carriers. The NTC is designated as the principal administrator of the law.

According to R.A. No. 7925, provided that it does not put up its own network, a VAS provider need not secure a franchise and shall be allowed to competitively offer its services and/or expertise, and lease or rent telecommunications equipment and facilities necessary to provide such specialized services, in the domestic and/or international market in accordance with network compatibility provided that prior approval of the NTC is secured to ensure that such VAS offerings are not cross-subsidized from the proceeds of their utility operations, other providers of VAS are not discriminated against in rates nor denied equitable access to their facilities and separate books of accounts are maintained for the VAS. However, a VAS provider is mandated to register with the NTC, which requires the submission of the following: application form and documents on system configuration, mode of operation, method of changing rates, and lease agreement with the PTE, among others.

This law is relevant to Globe given that it is a VAS provider by reason of its broadband business.

Department of Information and Communications Technology Act

R.A. No. 10844, signed into law last May 23, 2016, recognizes the vital role of information and communication in nation-building. The DICT shall be the primary policy, planning, coordinating, implementing, and administrative entity of the Executive Branch of the government that will plan, develop, and promote the national ICT development agenda. The law defines ICT as the totality of electronic means to access, create, collect, store, process, receive, transmit, present and disseminate information, while it defines the ICT Sector as those engaged in providing goods and services primarily intended to fulfill or enable the function of information processing and communication by electronic means.

The DICT has the power, among others, to: (a) implement national policies that will promote the development and use of ICT with due consideration to the advantages of convergence and emerging technologies; (b) prescribe rules for the establishment, operation and maintenance of ICT infrastructures in unserved and underserved areas; and (c) to ensure and protect the rights and welfare of consumers and business users to privacy, security and confidentiality in matters relating to ICT, in coordination with agencies concerned, private sector and relevant international bodies.

The law abolishes the following agencies with their powers and functions, applicable funds and appropriation, records, equipment, property, and personnel transferred to the DICT: (a) Information and Communications Technology Office; (b) National Computer Center; (c) National Computer Institute; (d)

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Telecommunications Office; (e) National Telecommunications Training Institute; and (f) all operating units of the DOTr (formerly known as the DOTC) dealing with communications.

The following agencies, on the other hand, are attached to the DICT and will continue to operate and function in accordance with the charters, laws or orders creating them insofar as not inconsistent with Republic Act No. 10844: (a) NTC; (b) NPC; and (c) Cybercrime Investigation and Coordination Center.

The policy decisions and recommendations of the DICT may have an impact on Globe as a player in the ICT sector mainly due to its software licenses and services business section.

DICT also implements the government's common tower policy. The common tower policy allows multiple telecommunications networks to use the same telecommunications towers, resulting in faster rollouts and cheaper services for the public. The common tower policy is intended to deepen the wireless network capacity of the Philippines, in view of the growing number of mobile internet users and the constant rise of usage volume per mobile end user and mobile data traffic throughout the entire country. In line with the common tower policy, the DICT has issued the Rules on the Accredited Roll-Out of Common Towers in the Philippines, which provide for the use of DICT and other government-owned properties for the building of common towers. The Rules provide that a MNO is encouraged to voluntarily share towers with other incumbent mobile network operators. The Rules allow ITCs to build common towers without a partnership with an MNO, on the condition that they secure a partnership with an MNO within six months from completion of its common tower. The MNO and ITC are to decide together which site provided by the DICT is suitable for the development of its common tower; the MNO would then communicate its intent to the DICT. ITCs which build common towers in DICT and other government owned properties and which build facilities therein have access to the same for 15 years, extendible for another 15 years. MNOs may also voluntarily offer to convey existing tower resources to an allied company that will take charge of making possible the sharing of said tower resources with other MNOs and interested entities.

DICT's regulations on the common tower policy affect GTowers, the Globe Group entity which is expected to focus on the construction and deployment of cellular towers in the Philippines as the spin-off of the Globe Group's existing cellular tower operations.

Bayanihan Laws

Please refer to "Regulatory Framework – Bayanihan Laws" on page 386 of this Prospectus.

On September 11, 2020, the Bayanihan 2 Act was signed into law by President Duterte. The Bayanihan 2 Act confers emergency powers to President Duterte which will be in effect until December 19, 2020. The Bayanihan 2 Act directed all institutions providing electric, water, telecommunications, and other similar utilities services to implement a minimum 30-day grace period for the payment of utilities falling due within the period of ECQ or MECQ without incurring penalties, interests, or other charges.

WATER

Manila Water Company holds the right to provide water and used water services to the eastern side of Metro Manila (Manila Concession or East Zone Concession) under the Concession Agreement entered into between Manila Water and the MWSS in August 1997. The original term of the concession was for a period of 25 years to expire in 2022. Manila Water'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.

Manila Water provides water treatment, water distribution, sewerage and sanitation services to more than seven 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 km 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.

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Under the terms of the Concession Agreement, Manila Water 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. Manila Water 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 East Zone Concession, Manila Water Group has a holding company for all its domestic operating subsidiaries in MWPV. Currently under MWPV are (1) bulk water supply businesses Metro Ilagan Water Company, Inc. ("Ilagan Water"), 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"); and (2) water distribution and used water services businesses namely, Boracay Island Water Company ("Boracay Water"), Clark Water Corporation ("Clark Water"), Laguna AAWater Corporation ("Laguna Water"), Filipinas Water Consortium Holdings Corp. ("Filipinas Water"), subsidiaries of Filipinas Water – Obando Water Company, Inc. ("Obando 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"), Leyte Water Company, Inc. (Leyte Water), Aqua Centro MWPV Corp. ("Aqua Centro") for its Lambunao Project, and Metro Ilagan Water Company, Inc. ("Ilagan Water") for its Septage Management Agreement. Another subsidiary of Manila Water is Calasiao Water Company, Inc. ("Calasiao Water"), a water supply project for the Calasiao Water District; and (3) business-to-business water and used water service businesses are comprised of Aqua Centro, Bulacan MWPV Development Corporation ("BMDC"), Manila Water Technical Ventures, Inc. ("MWTV"), "EcoWater MWPV Corp. ("EcoWater"); and Estate Water, a division under MWPV that operates and manages the water systems of townships developed by Ayala Land.

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.O.O Corporation ("Thu Duc Water") and Kenh Dong Water Supply Joint Stock Company ("Kenh Dong Water"), both supplying treated water to Saigon Water Corporation ("SAWACO") 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") and another company tasked to pursue non-revenue water reduction projects in Vietnam called Asia Water Network Solutions Joint Stock Company ("Asia 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 wastewater services, the incubation of new sector businesses, and, until October 31, 2020, the sale of Healthy Family Purified Water in five-gallon, 500-ml and 350-ml bottles in selected areas in Metro Manila.

The East Zone Concession

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

- a. *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 Manila Water (as contractor to perform certain functions and as agent for the exercise of certain rights and power under Republic Act 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.
- b. *Ownership of Assets.* While Manila Water 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 Manila Water during the concession remains with Manila Water 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.

- c. *Ownership of Manila Water.* 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, Manila Water 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.
- d. *Sponsor Commitment.* Unless waived in writing by the MWSS-Regulatory Office ("MWSS-RO"), 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 Manila Water 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 Manila Water, whether direct or indirect.
- e. *Operations and Performance.* Manila Water has the right to bill and collect for water and sewerage services supplied in the East Zone. In return, Manila Water 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.
- f. *Concession Fees.* Manila Water is required to pay MWSS the following:
 - 1. 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 Manila Water for continuation; and (v) 100% of the local component costs and cost overruns related to existing projects in the East Zone; and
 - 2. Share in the annual operating budget of MWSS amounting to ₱396 million each year subject to annual inflation adjustments.

MWSS is required to provide Manila Water 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 Manila Water for these fees.

- g. *Appropriate Discount Rate.* Manila Water 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-RO 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.
- h. *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.
- i. *Early Termination.* MWSS has a right to terminate the concession under certain circumstances which include insolvency of Manila Water or failure to perform an obligation under the Concession Agreement, which, in the reasonable opinion of the MWSS-Regulatory Office,

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jeopardizes the provision of essential water and sewerage supply services to all or any significant part of the East Zone.

- j. *Termination.* Manila Water also has the right to terminate the concession for the failure of MWSS to perform an obligation under the Concession Agreement, which prevents Manila Water from carrying out its responsibilities or upon occurrence of certain events that would impair the rights of Manila Water.
- k. *Reversion.* On the expiration of the Concession Agreement, all the rights, duties and powers of Manila Water 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.
- l. *Joint Venture.* Under the Concession Agreement, Manila Water 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"). The concessionaires shall enter into 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-RO under the jurisdiction of the MWSS Board of Trustees ("MWSS-BOT"), to monitor the operations of the Concessionaires. The MWSS-RO is composed of five members with five-year term, and no member of the MWSS-RO may have any present or prior affiliation with MWSS, Manila Water, or Maynilad. The MWSS-RO is funded by MWSS through the Concession Fee payments of the Concessionaires based on a fixed amount as agreed in the Concession Agreement.

In the case of disagreement or disputes, the Concession Agreement provides that major disputes between Manila Water and the MWSS-RO be referred to an appeals panel consisting of two (2) members appointed by each of the MWSS-RO and Manila Water and a third member appointed by the Chairman of the International Chamber of Commerce every Rate Rebasing period. 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 Manila Water. As part of the Rate Rebasing exercise that ended on December 31, 2002, Manila Water and MWSS mutually agreed to amend these targets based on Manila Water's business and capital investment plan accepted by the MWSS-RO. In addition, Manila Water 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-RO determine prudent and efficient expenditures, utilizes Key Performance Indicators ("KPI") and Business Efficiency Measures ("BEM") to monitor the implementation of Manila Water's capital investment and business plan and will be the basis for certain rewards and penalties which are finalized during the Rate Rebasing exercise.

Fourteen KPIs, representing critical performance levels for the range of activities Manila Water 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 Non-Revenue Water ("NRW"). The BEMs are evaluated for trends and annual forecasts.

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Amendments to the Concession Agreement

The Concession Agreement was amended under Amendment No. 1 to the Concession Agreement executed on October 12, 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 Manila Water 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. Said extension is on account of the necessary additional investments in wastewater facilities and network towards expanding wastewater coverage in the East Zone, in line with the Supreme Court mandamus for the clean-up of Manila Bay.

Organization

The organizational structure of Manila Water Company is largely decentralized, with the enterprise-wide view of management taken up by the Senior Leadership Team composed of the President and CEO, the Chief Operating Officer for Manila Water Operations, the Chief Operating Officer for New Business Operations, and finally the Chief Finance Officer.

The Manila Water Operations

Manila Water Operations ("MWO") is responsible for the East Zone Business Operations ("EZBO") and Manila Water's corporate support functions. It is headed by the Chief Operating Officer for Manila Water Operations.

The following groups under MWO are the Corporate Operations Group, EZBO, Corporate Project Management Group, Strategic Asset Management Group, Corporate Human Resources Group, Supply Chain Management Group, and the Corporate Strategic Affairs Group.

- a) The Corporate Operations Group ("COG") operates and maintains all of Manila Water's water and wastewater facilities. It constantly seeks ways to further improve the efficiency and reliability in managing all facilities in the East Zone 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, Wastewater Operations, Business Continuity Solutions, Technical Services, Maintenance Services, and Operations Management Support.
 - 1. 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.
 - 2. 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). The team ensures that sufficient raw water allocation is maintained throughout the year.
 - 3. Wastewater Operations manages the wastewater treatment facilities, pumping stations and lift stations to ensure that treated wastewater discharge is consistently compliant to environmental standards. The team is likewise responsible for implementing the wastewater service expansion plan.

4. The Business Continuity Solutions (“BCS”) function is committed to developing a culture of preparedness, resiliency, and continual improvement of Manila Water towards a world-class water service Company, thus ensuring coordination, integration and alignment of national, local and Company emergency plans and protocols. BCS enables Manila Water to immediately respond to emergencies, especially when there is a need to provide potable water to disaster-stricken areas. Through BCS, Manila Water can 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, Manila Water 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.
5. Technical Services is composed of six (6) departments: The Laboratory Services; Operations Monitoring and Control; Telemetry and Meter Management; Fleet Management; Property Management; and Compliance and Watershed Management.
6. 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 wastewater facilities. The samples are tested for physical, chemical, and microbiological parameters to ensure compliance to water quality standards. Aside from being recognized by the DOH and the 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.
7. Operations Monitoring and Control 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 Monitoring Center.
8. The Telemetry and Meter Management Department is responsible for the operations of ISO/IEC 17025 Accredited Metrology Center, telemetry system, meter calibration testing, onsite meter testing, tampered meter validation and brand performance analysis. The department also provides Manila Water with the meter requirement and maintenance masterplan from sources down to the customer meters for reliability and flow measurement accuracy that affects overall billed volume and NRW.
9. 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 Manila Water.
10. The Property Management Department is responsible for the management of property upkeep and provides property maintenance services to the Manila Water Head Office, Water Supply and Wastewater Facilities, Business Areas, and all other identified MWC properties/facilities. The department also ensures that maintenance works, and property-related projects are efficiently delivered with full compliance to all policies, procedures and governance frameworks.
11. The Compliance and Watershed Management Department assesses and evaluates overall environmental performance to safety and health standards, and initiates and develops improvements on policies, execution, measurement, and assessment in compliance with DENR and DOLE administrative orders and LLDA board resolutions. The department also develops and implements a policy advocacy plan in addressing environmental compliance regulatory issues, and continuously engages with policy makers and stakeholders. In addition, the department is also responsible for the effective protection and management of watersheds by working closely with government agencies particularly MWSS, DENR and other concerned stakeholders in conducting relevant

studies, developing policies and plans and executing management strategies to mitigate risks and ensure sustainability of raw water sources of Manila Water.

12. The Maintenance Services Department (“MSD”) 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 enables Manila Water to maintain efficient repair and maintenance costs while maximizing the life expectancy and intended functionality of assets. The department also monitors power consumption, recommends power-efficiency measures, and develops and implements strategies for Manila Water to avail of advantageous power rates in all its facilities.
 13. Operations Management Support Department is responsible for building and maintaining COG’s management system in delivering its organizational value of providing water and wastewater service. This is done by streamlining business processes and establishing a culture for risks and opportunities management and continuous improvement. It also manages programs as directed by the leadership to further enhance the COG organization.
- b) The EZBO Group is responsible for ensuring that Manila Water meets the service demand of all the customers in the East Zone by 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 Divisions.
1. The East Zone Business Area Operations consists of the six (6) Business Areas (BAs) – Quezon City, Mandaluyong-Makati, Marikina, Pasig, Rizal, and Taguig-Pateros. The coverage area of this Division consists of 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 facilitating 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 and differentiate touchpoints per customer type aligned with the specific needs of the customers and key accounts. This is geared towards achieving company targets on billed volume, revenue, and customer centricity. In addition, the BAs drive the reduction of water losses or NRW through their proactive investigation of meter field findings and illegal connections, that may address commercial losses. The BAs are also tasked to implement EZBO-led Capital Expenditure (“CAPEX”) projects from project conceptualization, approval, and award. They also provide support to the project team in dealing with the Local Government Units by leveraging on their established relationship with them.
 2. 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.
 - a. 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.
 - b. The Billing and Collection Department ensures efficient meter reading to deliver quality customer bills. It also provides collection support to the BAs through service provider management and payment facilities sourcing.
 - c. 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.

- d. The Program and Policy Development Department handles policy development and compliance, as well as various engagement initiatives for EZBO such as the rewards and recognition programs. It is also tasked to monitor and lead the womb-to-tomb processes for EZBO-led water network projects, in support to Manila Water's CAPEX objective.
 - e. The Business Areas and Business Support Departments focus on driving the growth of the business by providing customer service at the grassroots, ensuring that all available channels that will bring Manila Water closer to the customer are available, and building relationships with the community to ensure achievement of regulatory targets in terms of delivery of quality service to Manila Water customers.
3. The Corporate Project Management Group ("CPMG") is tasked with the planning, design and construction of all water, used water and network CAPEX projects that are crucial for Manila Water to achieve regulatory commitments as stipulated in the capital investment and business 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 which improve people's lives and support regional economic growth. CPMG is organized for an integrated, collaborative approach to project execution. It is composed of ten departments namely: Project Management comprised of Water Supply Headline, Wastewater Headline, Capital Works North Headline and Capital Works South Headline; Construction Management; Engineering; Project Management Office; Project Stakeholder Engagement; Quality Assurance and Safety Solutions.
- a. The four departments handling Project Management - (1) Water Supply Headline; (2) Wastewater Headline; (3) Capital Works North Headline; and (4) Capital Works South Headline are entrusted to manage the entire project-life cycle of CAPEX programs of Manila Water. They are accountable for the delivery of the multi-billion project portfolio of Manila Water and for ensuring that projects are executed within time and cost, and adheres to quality, safety, environmental and legal standards. They lead the planning and execution of the project with the support of the various cross-functional teams.
 - b. The Construction Management Department is responsible for (1) managing the development and capability building of Construction Managers; and (2) standardizing construction management practices and processes to ensure execution of projects are within time, cost, and quality.
 - c. 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. The department is also at the forefront of studying the latest construction technologies and methodologies in line with value-engineering.
 - d. The Project Management Office is responsible for (1) the set-up of project information, and analytics to manage the portfolio of projects; (2) implementation of the integrated project management system, risk management and "lessons learned" frameworks to support project teams; and (3) the maintenance of project documentation systems.
 - e. 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 awareness programs and relationship-building that ensure timely and smooth resolution of any project concerns.

- f. The Quality Assurance Department is in charge of building and promoting quality culture across the organization by (1) development and implementation of quality management procedures and system across CPMG; (2) development and implementation of both internal talent and vendor-focused quality programs; and (3) development of systems on quality execution and work zone traffic management. The team also provides quality assurance and quality control services to meet the organization's business needs and requirements.
 - g. The Safety Solutions Department performs the vital role of ensuring that not only are Manila Water employees empowered to work safely, but also 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 is carried-out by both employees and contractors/vendors.
- 4. The Strategic Asset Management Group ("SAMG") was formed to help Manila Water with the delivery of service obligations and to provide quality service to its customers in the most prudent and efficient manner through excellent planning, development, realization, and management of its assets.

The group is mandated to provide a comprehensive, holistic, and integrated master plan that will address capital investments for water systems, wastewater systems, and other environmental services, as well as to implement a sustainable operation and maintenance of existing and new assets.

To deliver these services, SAMG is organized into four (4) departments namely: Strategic Asset Planning, Portfolio Management, Asset Management, and Asset Investment and Management Support.

- a. The Strategic Asset Planning Department is entrusted to strategically plan, develop and calibrate the water and wastewater master plan, and capital and operational expenditure programs of Manila Water by conducting concept and feasibility studies in determining the annual project list and providing technical justification for the approval of the Service Improvement Plan. This department ensures the integration of plans across multiple agencies, and the assessment of the environment outside of Manila Water to ensure that this is incorporated in the Service Improvement Plan. This department is also responsible for the development of new water resources and environmental master plan for the entire Manila Water East Zone Concession.
- b. The Portfolio Management Department is tasked to deliver the overall corporate CAPEX portfolio according to the approved Service Improvement Plan. This department manages the overall portfolio performance and identifies the right mix of projects to maximize overall benefits, as well as to meet regulatory and business goals. This department provides comprehensive analysis for portfolio impact assessment and investment, as well as recommends changes and adjustments required to meet the objectives. The team ensures that project-related issues are corrected in a timely manner.
- c. The Asset Management Department ensures the optimum financial and operational performance of assets at the least cost through risk-based, data driven strategies to deliver Manila Water's service obligations. This department also defines and updates asset performance measures through Asset Management Plans ("AMP") and Business Risk Exposures ("BRE") which are incorporated and implemented in the Service Improvement Plan. This department also develops and maintains Asset Data Information System via ArcGIS.
- d. The Asset Investment and Management Support Department supports SAMG and all its departments on policy development, process improvement, and implementation of programs in ensuring all processes and policies are integrated

and aligned to enhance project life cycle and asset management principles. The department also provides comprehensive analysis for capital investments to aid in the attainment of Manila Water's business and regulatory commitments via the creation of Asset Investment Data Analytics for Capital Expenditure Programs, Rate Rebasing Compliance Performance Metrics, Tools, and Policies.

5. The Corporate Human Resources Group ("CHRG") is organized into five (5) core functions which focus on talent attraction, development, engagement and retention, group partnership and HR Services functions:
 - a. The Talent Acquisition, Organization Development and Succession Management Department is responsible for organization and job design, workforce planning, recruitment, succession and competency management.
 - b. The People Development and Engagement Department drives programs that focus on people experience and connection, capability development, communication and change management, and performance management.
 - c. The Total Rewards Management Department handles the design and implementation of rewards programs including employee recognition and plans and manages manpower cost.
 - d. The HR Business Partnership Department provides business-focused HR solutions to stakeholders, and handles labor relations, union management and employee discipline.
 - e. The HR Operations Management Department covers the three HR Services functions, namely Payroll, Benefits and Human Resources Information System ("HRIS"), ensuring timely and accurate delivery while keeping our employee data as single-source-of-truth for the organization.
6. The Supply Chain Management ("SCM") Group provides supply planning, inventory management, sourcing, procurement, contract development and vendor management services across the Manila Water Parent Company. It also employs strategic sourcing and category management to adapt to changing market conditions and address the growing needs of the business. The group is composed of four (4) departments, namely:
 - a. The CAPEX Procurement North Department and CAPEX Procurement South Department are responsible for procuring construction and consultancy services required to deliver the CAPEX of MWO with due consideration to quality, efficiency, and cost effectiveness.
 - b. The Operations Planning and Procurement Department handles the acquisition of various goods and services to support the operational requirements of MWO.
 - c. The Materials Planning and 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 operations and project requirements.
 - d. The Vendor Management Department manages the vendor database of Manila Water and provides relevant vendor information to the procurement teams and various stakeholders of Manila Water.
7. The Corporate Strategic Affairs Group ("CSAG") is responsible for creating consistent corporate messaging through various advocacies and communication initiatives utilizing appropriate communication platforms that are aligned with the Manila Water's objectives to enhance its image and reputation and effectively connect with customers and various stakeholders. The group is composed of two (2) departments: The Advocacy and Research Department, and the Corporate Communications Department.

- a. The Advocacy and Research Department handles the Manila Water's advocacies which includes the 'Lakbayan' or Water Trail program as Manila Water's information, education and communication program on water and used water appreciation. It also handles environmental advocacy programs such as 'Adopt-an-Estero' and 'Toka Toka' which is the country's first and only environmental movement focused on wastewater management. It is also spearheading the campaign on responsible use of water, and at the same time, is in charge of building and differentiating the Manila Water brand through strategic communications research and development, and visual standards management.
- b. The Corporate Communications Department handles the execution of the Manila Water's strategic as well as tactical and crisis communication programs through publicity, events and other stakeholder services. The department handles all Manila Water publicity in different media platforms (TV, radio, print and digital), 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 Manila Water's digital media platforms on social media and web.

Office of the President

- A. The Enterprise Regulatory and Stakeholder Engagement Group ("ERSEG") has the mandate to:
 - a. Lead the monitoring and assessment of the compliance with the Regulatory Requirements and commitments by the Manila Water, by coordinating, auditing if necessary, the submissions made accurately, timely and in the right form and substance of the operating/business units;
 - b. Lead the standardization of the policies and processes of the Enterprise that will affect compliance with regulatory commitments;
 - c. Direct the development of the Service Improvement Plans;
 - d. Provide oversight on the implementation of the Records Information Management System; and
 - e. Lead the process of managing of relationship and engagement with Enterprise Stakeholders through the following:
 - i. Lead the monitoring and assessment of the compliance with the Regulatory Requirements and commitments by the Manila Water, by coordinating, auditing if necessary, the submissions made accurately, timely and in the right form and substance of the operating/business units;
 - ii. Lead the standardization of the policies and processes of the Enterprise that will affect compliance with regulatory commitments;
 - iii. Direct the development of the Service Improvement Plans;
 - iv. Provide oversight on the implementation of the Records Information Management System; and
 - v. Lead the process of managing of relationship and engagement with Enterprise Stakeholders through the following:
 - f. ERSEG is comprised of:
 - i. Lead the monitoring and assessment of the compliance with the Regulatory Requirements and commitments by Manila Water, by coordinating, auditing if necessary, the submissions made accurately, timely and in the right form and substance of the operating/business units;
 - ii. Lead the standardization of the policies and processes of the Enterprise that

- will affect compliance with regulatory commitments;
 - iii. Direct the development of the Service Improvement Plans;
 - iv. Provide oversight on the implementation of the Records Information Management System; and
 - v. Lead the process of managing of relationship and engagement with Enterprise Stakeholders through the following:
- B. The Enterprise Legal and Corporate Governance Group (“Legal”) provides legal services, advice and support across the entire organization. It proactively ensures that Manila Water is fully compliant with all the applicable laws, rules and regulations, and defends and protects the Manila Water’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 Manila Water and do not infringe any law, domestic or foreign, or any government rules and regulations.

It likewise provides guidance and assistance on 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 waste water projects.

In matters of corporate governance, Legal ensures that the Manila Water adheres to the reporting and disclosure requirements of the SEC and the PSE for publicly listed companies, and to international standards of good corporate governance and practices. It continuously orients all employees and business partners regarding the Manila Water’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.

- C. The Internal Audit (“IA”) Department 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 activities of IA are governed by a separate Internal Audit Charter approved by the Audit Committee and the Board.

The IA reports to and supports the Audit Committee in the effective discharge of the Committee’s oversight roles and responsibilities. The IA consists of talents and professionals who are either a Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, Certified Internal Control Auditor, Certified Forensic Accountant, Civil Engineer, Electrical Engineer, or a mix thereof.

A risk-based internal audit plan is prepared and approved by the Audit Committee annually, which is reassessed quarterly to consider emerging risks. The Audit Committee reviews and approves the annual work plan and all deviations therefrom and ensures that internal audit examinations cover the evaluation of adequacy and effectiveness of controls encompassing Manila Water’s governance, operations, and information systems; reliability and integrity of financial and operational information; safeguarding of assets; and compliance with laws, rules, and regulations.

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 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) Standards. The rating is considered the highest possible rating per IIA methodology. The Standards require that the external assessment be conducted at least once every five (5) years.

The Corporate Finance and Strategy Group

The Corporate Finance and Strategy Group (“CFSG”) is headed by the Manila Water’s CFO. The CFSG is composed of four (4) divisions, namely – Manila Water Operations (“MWO”)/Parent Controllershship; Finance and Governance for Domestic Subsidiaries (Manila Water Philippine Ventures and its subsidiaries, Manila Water Total Solutions and Manila Water Foundation); Finance and Governance for Manila Water Asia Pacific and its subsidiaries; and the Treasury and Insurance Management Division. Additionally, there are five (5) departments directly reporting to the MWC CFO namely – Corporate Strategy and Investor Relations, Financial Accounting, Financial Planning, Tax Management, and, finally, Sustainability and Enterprise Risk Management. Likewise, the Corporate Information Technology Group also reports to the Manila Water’s CFO.

- A. The MWO/Parent Controllershship Division is composed of three (3) departments: Concession Investment Accounting, Controllershship and Analysis, and Accounts Payable & Tax Operations Department. The division provides controllership and management reporting, financial and regulatory accounting, as well as fixed asset accounting. It also handles the payables transactions of the Manila Water.
 - a. The Concession Investment Accounting Department is a multi-disciplinary team playing a key role in Manila Water’s regulatory compliance with MWSS. It is responsible for providing management with timely reports which are compliant with all applicable accounting and regulatory standards, which in turn, form part of the statutory submissions to the regulator. In line with the Manila Water’s obligations as Concessionaire of the East Zone, the department maintains records of the acquisition, status, and disposal/transfer of all fixed and movable assets of the Manila Water. Furthermore, the department provides appropriate safeguards on the capital disbursements of the Manila Water and ensures that payments are carried out in accordance with contractual requirements, as well as consistent with internal policies and tax requirements. It is also responsible for the financial monitoring of capital projects.
 - b. The Controllershship 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 of the plans of MWO and the Parent Manila Water.
 - c. The Accounts Payable and Tax Operations Department enables the Manila Water to attain efficient and effective operations through overall process management of payables transactions, resulting to settlements which are accurate, timely, and compliant with governance and tax requirements.
- B. The Finance and Governance for Manila Water Philippine Ventures and its subsidiaries, Manila Water Total Solutions and Manila Water Foundation, headed by the CFO for Local Subsidiaries, leads the finance and accounting operations of all local subsidiaries of Manila Water. 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 overall 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, supply chain/procurement, policy development, risk management and tax management.
- C. The Finance and Governance for Manila Water Asia Pacific Pte. Ltd and its subsidiaries, headed by the CFO for International Subsidiaries, 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. Specifically, it handles controllership functions which include 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.

- D. The Treasury and Insurance Management Division is composed of two (2) departments, namely the Treasury Department, and Insurance Management Department. The division is responsible for the effective management of the Manila Water 's cash resources and financing activities, coupled with the sustained implementation insurance programs. The division also provides treasury and insurance advisory services across Manila Water.
- a. The Treasury Department is responsible for the effective management of Manila Water's cash resources, including collections and disbursements, through efficient liquidity planning and maximization of cash investments. It is also responsible for the capital raising activities of Manila Water, while at the same time ensuring cost-efficient and timely closing of financing transactions. For the Manila Water, 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, as well as 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, thus ensuring transparency of operations and adherence with its risk- based policies.
 - b. The Insurance Management Department is responsible for managing the insurance programs of the Enterprise and for providing oversight on the insurance programs of the subsidiaries, with the objective of making these programs cost-effective, risk-based and responsive to the Group's needs. 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.
- E. The Corporate Strategy and Investor Relations Department is responsible for stewarding the strategy of Manila Water. It likewise enables strategy execution through corporate planning, performance management, quality management and investor communications. It has two functional units, namely Corporate Strategy and Investor Relations.

Corporate Strategy supports top management in charting the strategic roadmap of Manila Water and in aligning the execution of enterprise programs and initiatives. This support is extended to the rest of the organization through the provision of relevant market and industry information, coupled with the prioritization and alignment of strategic initiatives. Equally important, Corporate Strategy provides execution support of enterprise programs by facilitating business unit inter-dependencies for key projects, as well as through the 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 business/financial information and the effective development and delivery of key messages. For this purpose, IR conducts regular analysts' briefings, meetings and roadshows with shareholders, fund managers and analysts to keep stakeholders updated on the financial and operating performance of Manila Water as well as other relevant material information.

- F. The Financial Accounting Department maintains and safeguards the integrity of Manila Water's computerized accounting system, books of accounts and processes. The department's primary objective is 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 Manila Water's true financial performance and condition. The department ensures the consistent application of relevant accounting standards, policies, rules and regulations aimed at the continuous improvement of its processes.

- G. The Financial Planning Department is responsible for the overall budget preparation and monitoring of Manila Water Company. It provides financial analysis and reporting of the financial and operating performance of Manila Water and its subsidiaries. Financial Planning is responsible for the preparation of the long-term financial plans of the East Zone concession and the consolidated Manila Water Group. It likewise monitors the performance of the various businesses of Manila Water and their contribution to the enterprise. Lastly, Financial Planning provides financial advisory support to business development, capital investments, and other corporate initiatives. It handles the secretariat function of the Investment Committee.
- H. The Tax Management Department provides strategic assistance to the different business and support units of Manila Water on matters relating to all taxes and tax incentives applicable in Manila Water'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.
- I. The Sustainability & Enterprise Risk Management Department ensures that Manila Water's implementation of projects and operations of facilities are compliant with current environmental regulations and aligned with Manila Water'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 Manila Water Group and, in coordination with Investor Relations, is responsible for the preparation of Manila Water's annual Integrated Report. Its Enterprise Risk Management (ERM) function 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. This unit reports functionally to the Board Risk Oversight Committee.
- J. The Corporate Information Technology Group ("CITG") is responsible for providing Information Technology Solutions and Operations for the Manila Water enterprise. CITG's goal is to enable Digital solutions for the business to drive customer engagement and operational efficiency. It is responsible for the delivery of IT Digital Platforms and Solutions, Infrastructure Planning and Operations, Information Security and Data Privacy, and IT Service Delivery and Governance.
 - a. The Digital Platforms and Solutions Department is responsible for the solutions architecture and roadmap, project delivery, application development and maintenance of all projects and systems supporting the business. It is in charge of identifying, designing, and delivering technology solutions and applications, in alignment with the business and IT roadmap.
 - b. The IT Infrastructure Services Department looks after the infrastructure planning and design, infrastructure deployment, and operations of all IT infrastructure and user support services. It is in charge of identifying, designing, and delivering infrastructure solutions, in alignment with the IT roadmap.
 - c. The Information Security, Risk and Compliance Department is in charge of developing and enforcing the IT risk and security strategies, policies, standards, procedures and awareness program, and ensuring compliance with relevant information security standards, including data privacy compliance. It also implements and maintains technical and procedural controls to protect information flow across networks.
 - d. The IT Service Delivery Governance Department is responsible for IT planning, financial planning, performance and SLA management, and resource management. It also handles the program management office and governs all IT services to meet service levels and customer satisfaction.

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The New Business Operations and New Business Development Group

Manila Water's New Business Operations and Business Development Groups focus on replicating the successes of the East Zone Concession in underserved and unserved areas, and on ensuring organic growth and sustainable operations in all newly formed subsidiaries. Both groups leverage on existing capability, track record, and government and institutional network to create value and strategically expand to new geographies in the Philippines and parts of Asia.

Manila Water Philippine Ventures, Inc. ("MWPV") houses businesses outside the East Zone Concession but within the Philippines. Manila Water anchors its expansion on its core competencies developed and nurtured in the East Zone and in core MWPV subsidiaries, Laguna AAWater Corporation, Clark Water Corporation, and Boracay Island Water Company, Inc. In 2016, MWPV entered into a strategic partnership with Ayala Land, Inc. and formed its operating division, Estate Water. Over the years, MWPV has successfully expanded its service offerings to other land developers (e.g. SM Development Corporation, currently under Aqua Centro) and government agencies (e.g. Philippine Economic Zone Authority). In 2019, MWPV reorganized Manila Water Technical Ventures, Inc. ("MWTV") to handle Engineering, Construction Management and Consulting ("ECMC") functions for MWPV and its domestic subsidiaries, which it intends to complement existing products and services of MWPV. MWPV also entered into joint venture agreements, memorandum of agreements for franchises, septage management agreement, asset purchase agreements, and bulk water supply projects with various municipalities and cities in the country for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of water supply system and sanitation facilities. These partnerships strengthen Manila Water's position as the leading operator of municipal and non-municipal water and used water facilities in the Philippines.

Manila Water Asia Pacific Pte. Ltd. ("MWAP") houses all businesses outside the Philippines. Since Manila Water's initial foray into the Southeast Asian market in 2010, the group has gained significant presence in Vietnam, Indonesia, and Thailand. As of 2020, Manila Water remains to be the largest foreign investor in the Vietnamese water sector through its affiliates and associates, Kenh Dong Water Supply Joint Stock Company, Thu Duc Water B.O.O. Corporation, Saigon Water Infrastructure Corporation, and Cu Chi Water Supply Sewerage Company Limited. In 2018, MWAP has successfully closed the acquisition of an 18.72% share in Eastern Water Resources Development and Management PCL and a 20.00% share in PT Sarana Tirta Ungaran solidifying the Manila Water's presence in the Thai and Indonesian markets, respectively. In 2020, the Consortium of Saur SAS, Miahona Company and Manila Water, through MWAP as its investment vehicle, signed a Management, Operation and Maintenance Contract ("MOMC") with Saudi Arabia's state-run water agency, National Water Company ("NWC"). MWAP will have 20.00% equity interest in the management, operations, and maintenance of the water and wastewater facilities of the North West Cluster over a seven (7) year contract period.

With the expansion in the Philippines and securing footholds in other Asian countries, MWPV and MWAP remain optimistic on its growth and remain committed to its promise of providing an exceptional experience to its customers and partners.

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 Manila Water's network of pipelines, reservoirs, and pump stations. In 2020, the East Zone Concession supplied an average of 1,602.13 million liters per day ("MLD") of clean and potable water to its customers and billed a corresponding volume of 506.36 million cubic meters ("MCM"). This is equivalent to a total of around 1 million water service connections or approximately 7.2 million served population.

Water Source

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

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Manila Water substantially relies on surface water 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 water from these sources is collected and impounded through the Angat Dam, conveyed subsequently through the Ipo Dam where water is diverted through tunnels to Bicti, and from there, aqueducts to La Mesa.

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

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 kilometers away from the reservoir, with the third located at the northeast section of La Mesa Dam.

The Balara treatment plants have a total design capacity of 1,600 MLD and consist of two 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.

These 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 for treatment operations.

Manila Water's Treatment Plant in Cardona became operational in March 2019 and as of December 31, 2019 provides 100 MLD of water to the towns of Taytay, Angono, Binangonan, Cardona, Baras, Pililia and Jalajala in the Rizal province. The Cardona Water Treatment Plant uses several advanced technical processes to ensure potable 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 more complex than conventional surface water treatment. The techniques used 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 the first quarter of that same year. Said facility is the Luzon Water Treatment Plant which gets water from AQ2, one of the aqueducts from La Mesa Dam going to the Balara Treatment Plants. The treatment process used is an ultrafiltration system, which is different from the conventional treatment employed by BTP1, BTP2, 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 results a significant removal of turbidity; thus, it has high purity and low silt density.

To date, ground-source water supply increased to an average of 33 MLD with a total capacity of 100 MLD as of year-end. These deep wells are part of the Company's contingency plan to address water shortage. These wells are a combination of old rehabilitated wells scattered across the East Zone and new drilled wells situated near the Company's reservoirs.

Water Distribution

After treatment, water is conveyed through Manila Water's network of pipelines, pumping stations and reservoirs, and mini-boosters to bring potable water to its customers conveniently at set pressure

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standards. As of December 31, 2020, 96.54% of currently served areas have water supply pressure of 7 psi and above. The lower than target of 98% water availability at 7 psi was the result of the reduction in raw water allocation from Angat that necessitated scheduled water interruption for the entire East Zone and to protect raw water levels for the coming periods.

As of December 31, 2020, Manila Water's network consisted of approximately more than 5,201 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.

Pumping stations also play a critical part in water distribution. Approximately 65% of the treated water supplied by Manila Water is pumped to ensure pressure compliance especially for the highly elevated areas. Currently, Manila Water operates twenty-one pumping stations with a combined maximum pumping capacity of 3,100 MLD and an average plant output of around 1,364 MLD. Most of the major pumping stations have reservoirs with a combined capacity of almost 500 MLD.

Manila Water operates thirty (30) 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 in 2019, a total of sixty-four (64) line boosters were operated by the Company. Line boosters typically are small facilities aimed at augmenting water supply in areas which 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 Manila Water's distribution system due to leakage, pilferage, illegal connections and metering errors. As determined by the MWSS-RO, NRW is calculated as the percentage of water lost against the net volume of water supplied by Manila Water.

Over the years, Manila Water has made 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 2020 was recorded at 13.34%. The increase in NRW is due to 4 psi system pressure increase in response to the requirement of the government in managing the COVID-19 pandemic. Continuous improvements of water supply management coupled with massive pipe replacement projects were done to maintain and improve the reduction of Manila Water's system losses.

Water Quality

Raw water quality from Angat Dam, Bicti Dam, Ipo Dam and La Mesa Dam, as well as the Laguna Lake, is regularly tested by the laboratory on a quarterly basis 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). The results are all satisfactory and through time still falls under the classification of Class A of DAO 34. 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 manage treatment process operation effectively and efficiently. This routine monitoring includes Microbiological and selected Physio-chemical parameters.

Manila Water's water quality consistently meets the Philippine National Standards for Drinking Water ("PNSDW") set by the 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 compliant based on the Microbiological, Physical and Chemical standards at the customers taps. In 2020, Manila Water 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, with more than 40,000 tests annually conducted from samples collected at the 886 pre-identified sampling points located at various influence areas. Regulatory sampling points are designated at strategic locations across the distribution system - where sampling is conducted daily

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by Manila Water. The MWSS-RO, 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. Manila Water’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. Manila Water’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-RO, the DOH and DENR in the tests results that are regularly provided to them.

Sewerage Operations

Manila Water 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, Manila Water has significantly improved and expanded the wastewater 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.

Manila Water 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. 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. Prior to privatization, these facilities had poor treatment efficiency and did not comply to meet effluent quality standards. Manila Water upgraded these facilities to meet the effluent standards set by the DENR.

In 2001, Manila Water 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, Manila Water 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, Manila Water constructed and subsequently operated in 2008 under the Manila Third Sewerage Project (“MTSP”) two (2) Septage Treatment Plans (“SpTPs”) aimed at managing septage siphoned from the septic tanks of 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, Manila Water has already provided desludging service to more than 2,900,000 households.

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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 Manila Water'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 sewage and two 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 facilities, four employed this approach.

In 2015, the Marikina North Sewage Treatment Plant and Liwasan ng Kagitingan ("LKK") Sewage Treatment Plant became operational. These two facilities have a combined capacity of 175 MLD and are by far, the two biggest STPs of Manila Water. Another remarkable feature of these 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 2020, Manila Water operates forty wastewater facilities including the Marikina North and LKK STPs, with a total capacity of 310 MLD, compared to 40 MLD in 1997.

Customers who are not connected to the sewer network are provided with septic tank maintenance services through the desludging program under the Toka-Toka Environmental Advocacy of Manila Water. Through cooperation with the barangays, the program aims to desludge all septic tanks in a barangay without charge over a specified, set schedule. The environmental fees paid by customers cover the cost of desludging household septic tanks within the programmed cycle.

For the year 2020, Manila Water has provided sanitation service to 622,511 people, equivalent to 77,438 septic tanks emptied. For the years covering 2017 to 2020, the population provided with the desludging service was 3,490,495, equivalent to 411,885 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 tank.

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.

Domestic New Businesses 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.

The Manila Water Group also execute several contracts related to the water business such as Performance-Based Contracts 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 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 AAWater Corporation's ("Laguna Water") Concession Agreement with the Provincial Government of Laguna ("PGL")

Laguna Water is a joint venture between the PGL and MWPV with shareholdings of 30% and 70%, respectively.

On April 9, 2002, Laguna Water and PGL entered into a Concession Agreement which granted Laguna Water (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive

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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 25 years (the concession period).

In December 2013, Laguna Water signed an Asset Purchase Agreement with the Laguna Technopark, Inc. ("LTI") for the acquisition of the water and sewerage system of LTI in Laguna Technopark, a premier industrial park located in Sta. Rosa and Biñan, 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 sanitation services for covered customers through the implementation of septage management program. 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 30, 2017, the Sangguniang Bayan of Victoria, Laguna has approved the inclusion of its municipality within the service area of Laguna Water. The project is being implemented in three (3) phases and phase 1 includes 3 Poblacion barangays with the first water commenced last March 2020.

On July 10, 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 implementation of sanitation services 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.

On January 21, 2019, Laguna Water entered into a Contractual Joint Venture with PAGWAD for the design, improvement, upgrade, rehabilitation, and expansion of water supply facilities and implementation of sanitation services including the financing and construction of such facilities and infrastructure for the Service Area of 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 PAGWAD's Service Area. The agreement was executed on March 1, 2019.

Boracay Water Island Water Company's ("Boracay Water") Concession Agreement with Tourism Infrastructure and Enterprise Zone Authority ("TIEZA")

Boracay Water is a JV between Manila Water and TIEZA which is formerly the 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 Corporation's ("Clark Water") Concession Agreement with Clark Development Corporation ("CDC")

Clark Water is the water and used water concessionaire of 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 15 years until October 1, 2040. In November 2011, Manila Water acquired 100% ownership of Clark Water through a Share Sale and Purchase Agreement with Veolia Water Philippines, Inc. and Philippine Water Holdings, Inc.

Business

Manila Water Consortium, Inc.'s ("MW Consortium") Agreement with the Provincial Government of Cebu (PGC)

On March 21, 2012, MW Consortium (formerly, Northern Waterworks and Rivers of Cebu, Inc.) a consortium of Manila Water (51%), MetroPac Water Investments Corporation (39%) and Vicsal Development Corporation (10%), signed a Joint Investment Agreement ("JIA") with the 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 30 years starting March 2012 and renewable for another 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 MLD of bulk water for the first year and 35 MLD of bulk water for years two to 20.

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. As of December 31, 2020, the parties are still engaged in negotiations towards the settlement of the dispute.

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 JVA in relation to the NRW reduction project in Zamboanga City. On April 10, 2015, Manila Water and ZCWD incorporated Zamboanga Water Company, Inc. (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 Reduction Service Agreement ("NRW RSA") with ZCWD. Under the NRW RSA, 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, Manila Water sold to MWPV, its wholly-owned subsidiary, its shares in Zamboanga Water.

On April 3, 2020, Zamboanga Water received a letter, dated April 1, 2020, from the Zamboanga City Water District (ZCWD), requesting for the termination of the NRW RSA. In its letter, ZCWD indicated that the erratic supply of water due to the recurrent dry spell and El Niño phenomenon affecting the District Metered Areas (DMAs) established by Zamboanga Water has rendered the NRW RSA impractical and unworkable, and thus, in the interest of fiscal responsibility and sound management of government funds, ZCWD requested for the termination of the NRW RSA.

On April 30, 2020, Zamboanga Water approved the termination of the NRW RSA. Such termination, however, was without prejudice to Zamboanga Water's claims against ZCWD and remedies under the NRW RSA.

On September 16, 2020, Zamboanga Water filed a Notice of Arbitration with the Philippine Dispute Resolution Center, Inc. (PDRCI), which is the arbitral body designated in the NRW RSA.

As of December 31, 2020, the arbitration is ongoing.

Business

Bulk Water Supply Agreement between Tagum Water Company ("Tagum Water") and Tagum City Water District ("TWD")

On July 28, 2015, TWD 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 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, Tagum Water, which shall implement the Tagum Bulk Water Project for 15 years from the Operations Start Date as defined in the JVA. Davao Water owns 90.00% while TWD 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 TWD signed and executed a Bulk Water Sales and Purchase Agreement for the supply of bulk water to TWD for a period of 15 years from the Operations start date. On May 23, 2018, through a Deed of Absolute Sale of Shares, Manila Water sold to MWPV its shares in Davao Water.

Tagum Water started its operations on May 18, 2020.

Estate Water, Aqua Centro MWPV Corporation and EcoWater MWPV Corporation

Estate Water (EW)

On January 15, 2016, MWPV entered into a MOA with Ayala Land and its subsidiaries (collectively, the "ALI Group"), whereby MWPV shall exclusively provide water and used water services and facilities to all existing and future property development projects of the ALI Group. This MOA is implemented through a dedicated business unit - EW, a division of MWPV.

To date, EW is providing water and /or used water services to more than 75 ALI developments across 34 cities and municipalities, nationwide. This includes large township projects in Luzon (e.g. Nuvali, Vermosa, Alviera, Lio), Visayas (e.g. Cebu IT Park, Cebu Business Park, Atria), and Mindanao (e.g. Abreeza, Azuela). In addition, EW further provides design and project management services in the development of water and used water facilities.

Aqua Centro

On December 8, 2016, MWPV entered into multiple MOAs with SM Prime Holdings Inc.'s and its affiliates and subsidiaries, SM Development Corporation ("SMDC") 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 eight property development projects of SMDC identified in each of the MOA. The ongoing collaboration with SMDC also grants MWPV, in principle, the right to study, develop, and submit proposals to all its future horizontal residential projects.

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 and used water facilities, and provide services necessary or incidental thereto. Subsequently, in December, a Novation Agreement with SM Group was executed by MWPV to transfer its rights, duties and obligations to provide water and/or used water services and facilities to the property development projects to Aqua Centro, effective from the inception of each of the executed MOA.

On December 11, 2018, Aqua Centro entered into seven APAs with EDCG to acquire the subsidiaries' assets related to the provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic – all 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.

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In 2019, Aqua Centro took over the operations of three (3) additional EDCG subdivisions. Aqua Centro shall operate the remaining (1) subdivision once all the conditions precedent under the APAs have been fulfilled. As of December 31, 2020, Aqua Centro is operating nine out of ten subdivisions covered by its APAs.

EcoWater

On December 18, 2017, MWPV signed a twenty-five (25) year lease agreement with the 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 Corp. ("EcoWater") which will operate a portfolio composed of private and government-owned industrial parks.

On September 9, 2019, EcoWater entered into a 25-year Water Purchase Agreement with ROHM Electronics Philippines Inc. ("REPI"), one of the leading semiconductor manufacturers in the country located in Carmona, Cavite. The agreement allows EcoWater to develop its own water supply to be supplied to REPI's manufacturing requirement over the life of the contract. On September 16, 2020, the operation has started with a guaranteed volume of 90,000.00 million cubic meters (mcm) per month.

On August 4, 2020, MWPV's BOD approved the assignment of the Lease Agreement for the Operations and Management of the Water and Used Water Facilities of the PEZA in the CEZ from MWPV to EcoWater.

Bulacan MWPV Development Corporation and its Asset Purchase Agreements

On January 4, 2017, MWPV entered into an 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 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 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. On the same day, MWPV assigned all its rights and obligations on the APA with Asian Land and Solar Resources to BMDC, a wholly owned subsidiary of MWPV, under a Deed of Assignment. The Deed of Absolute Sale was also executed between Asian Land and BMDC on this day.

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 to BMDC.

Calasiao Water Company Inc.'s ("Calasiao Water") Concession Agreement with Calasiao Water District ("CWD")

On December 9, 2016, Manila Water received a Notice of Award from 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.

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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.

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 25 years commencing on December 29, 2017.

Filipinas Water Consortium Holdings Corp. and Its Partnerships

On February 2, 2017, Obando Water Consortium Holdings Corp. (now, Filipinas Water Consortium Holdings Corp. or Filipinas Water) was registered with the SEC. Filipinas Water is the consortium between Manila Water 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.

Obando Concession Project

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.

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 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 25 years from the commencement date.

Ilagan Bulk Water and Septage Management Project

On January 26, 2018, the consortium of Manila Water and MWPV, Filipinas Water, 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 November 16, 2018, Filipinas Water entered into a JVA with CIWD for the implementation of the project. Upon completion of conditions precedent in the JVA, a joint venture company will consequently enter into a Bulk Water Sales and Purchase Agreement ("BWSPA") and Septage Management Agreement ("SMA") with CIWD for the implementation of the project.

On February 15, 2019, the joint venture company was incorporated and was registered with SEC under the name of Metro Ilagan Water Company, Inc. ("Ilagan Water"). Ilagan Water is owned by Filipinas Water and CIWD having an equity share of 90% and 10%, respectively.

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.

On March 16, 2020, Ilagan Water signed and executed a BWSPA and SMA with the CIWD, for the supply of bulk water and septage management to CIWD for a period of 23 years and 22 years from the Operation Start Date, respectively. As of December 31, 2020, Ilagan Water has yet to commence any activities in relation to these agreements.

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Bulakan Concession Project

On April 26, 2018, the consortium of Manila Water and MWPV received the Notice of Award from Bulakan Water District (“BuWD”) 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 BuWD 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 BuWD having an equity share of 90% and 10%, respectively.

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 25 years from the commencement date.

MWPV and Tubig Pilipinas Group, Inc. (“TPGI”) JVA for the Malasiqui Franchise

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.

MWPV and TGPI Notice of Award from the San Jose City Water District

On December 21, 2018, the consortium of Manila Water and 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, 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.

As of December 31, 2020, the consortium and SJCWD have not yet signed the JVA.

Grant of Franchise - Municipality of Sta. Barbara, Pangasinan

On April 27, 2018, the Municipality of Sta. Barbara, Pangasinan granted 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.

On June 11, 2018, MWPV received a notice to proceed for the implementation of the said project. The franchise shall be for a term of 25 years.

Grant of Franchise - Municipality of San Fabian, Pangasinan

On August 13, 2018, the Municipality of San Fabian, Pangasinan granted MWPV a franchise 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.

Grant of Franchise – Municipality of Manaoag, Pangasinan

On December 3, 2018, the Municipality of Manaoag, Pangasinan granted Manila Water a franchise to establish, construct, operate, manage, repair and maintain a water supply system and facilities, and the

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provision of septage management in the municipality of Manaoag, Pangasinan. The franchise has a term 25 years commencing on the date of effectivity of the commercial operations of the water system.

On January 25, 2019, MWPV received a notice to proceed for the implementation of the said project.

Incorporation of North Luzon Water

On September 16, 2019, MWPV incorporated North Luzon Water Company, Inc. (North Luzon Water) as a special purpose vehicle created for the franchises granted to MWPV in Sta. Barbara, Manaoag and San Fabian in Pangasinan.

On August 4, 2020, the MWPV BOD approved the assignment of the franchises, rights and obligations granted to MWPV by the local government units of Malasiqui, San Fabian, and Manaoag in the province of Pangasinan to North Luzon Water.

Notice of Award from Leyte Metropolitan Water District ("LMWD")

On December 6, 2017, Manila Water received a Notice of Award from 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.

In January 2018, an internal conflict arose between the Province-appointed BOD of LMWD and the City-appointed BOD, specifically on establishing as to which is the legitimate BOD authorized to represent the LMWD. This issue caused substantial delay in the implementation and recognition of the Notice of Award in favor of Manila Water.

On February 20, 2019, Manila Water 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 Manila Water.

On June 21, 2019, Manila Water initiated available legal course of action to compel the LMWD to honor the Notice of Award granted to it.

As of December 31, 2020, the case remains pending with the Supreme Court.

Notice of Award ("NOA") from Balagtas Water District

On April 23, 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.

On March 22, 2021, the consortium accepted the decision of BWD to revoke and terminate the NOA due to the non-fulfillment of conditions precedent.

NOA from Tanauan Water District ("TnWD")

On October 12, 2018, the Consortium of Manila Water and MWPV received the Notice of Award from TnWD 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 TnWD in the City of Tanauan.

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

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On May 20, 2019, the project company was incorporated and was registered with the SEC under the name of MWPV South Luzon Water Corp. ("South Luzon Water"). South Luzon Water is 100% owned by Filipinas Water, the consortium of Manila Water and MWPV.

On June 1, 2019, after full completion of the turnover and transition of the project, the Consortium officially took over operations and begun providing potable water supply to the more than 18,000 customers previously serviced by Tanauan Water District.

On September 30, 2019, South Luzon Water's BOD approved to accept the assignment by Manila Water and MWPV of their respective rights and obligations under their JVA with TWD.

On January 21, 2020, South Luzon Water's BOD approved and clarified that the assignment has a retroactive application effective June 1, 2019, considering the actual commencement date of the takeover and operation of the Tanauan Project.

Joint Venture Agreement from Lambunao Water District

On November 27, 2018, Manila Water 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. The JVA was executed on July 3, 2019. On September 1, 2019, Aqua Centro officially commenced operations on the joint venture activity.

On December 11, 2019, a Deed of Accession between Aqua Centro, Manila Water and LWD was executed. Aqua Centro was designated to be the project company for the implementation of the project pursuant to the JVA.

Passing of City Ordinance Granting Franchise to operate in Iloilo City

MWPV and TPGI have been granted a franchise to establish and operate a water distribution system in Iloilo City after the Sangguniang Panlungsod of the City of Iloilo passed a resolution for the same on March 26, 2019. The franchise shall be for a term of 25 years.

Joint Venture Agreement with Calbayog City Water District

On December 27, 2018, Manila Water 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.

On April 17, 2019, the special purpose vehicle created for this project was incorporated and registered in SEC under the name of Calbayog Water Company Inc. through Manila Water's wholly owned subsidiary, MWPV.

On July 3, 2019, after completion of conditional precedent specified in the NOA, Manila Water entered into a JVA with the Calbayog City Water District for the implementation of the joint venture project over a 25-year contract period.

On October 16, 2019, after full completion of the turnover and transition of the project, the Consortium officially took over operations and begun providing potable water supply in Calbayog City.

On July 15, 2020, Calbayog Water and TPGI entered into a Stakeholder Management Agreement, where TPGI agrees to provide support to the Operations Management/Stakeholder Management of Calbayog Water. On the same date, Calbayog Water and TPGI entered into a Subscription Agreement wherein TPGI agreed to subscribe to Calbayog Water's shares at a subscription price of ₱1.00 per share for a total subscription of ₱49.17 million, payable in tranches up to 2022.

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Aqua Centro and Laguna Water MOAs with Raemulan Lands, Inc. ("RLI")

In July 2019, Aqua Centro and Laguna Water entered into three (3) MOAs with 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. On December 4, 2020, an amendment to the MOA with RLI for Pasinaya North was executed.

Notice of Award from Calinog Water District

On November 27, 2018, Manila Water 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, Manila Water and Calinog Water District shall enter into a JVA. The implementation of the joint venture activity shall be undertaken by Aqua Centro.

On November 28, 2019, MWPV received a letter that the BOD of the Calinog Water District has revoked and annulled the Letter of Acceptance dated August 15, 2018 and the Notice of Award dated November 27, 2018.

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. ("MWTH").

In December 2011, TDWH purchased a 49.00% 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. Similar to Thu Duc Water, Kenh Dong Water has a bulk water purchase agreement with SAWACO for a minimum 150 MLD. It is also providing supply to Cu Chi District, a district 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 VND103.87 billion, and increased its shareholding percentage to 37.99%.

In 2015, MWSAH also entered into a Capital Transfer Agreement with Saigon Water and Vietnam-Oman Investment Company to develop and operate the water network in Cu Chi. 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 24.50% share in the charter capital of Cu Chi Water.

On February 19, 2018, Manila Water signed a share purchase agreement 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, Manila Water (Thailand) Co. Ltd. ("MWTC"), a wholly-owned subsidiary of MWTH, 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.

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

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 refinance the previous bridge loan used in its acquisition of its investment in East Water. The loan bears interest of BIBOR plus margin and is guaranteed by Manila Water.

On March 6, 2018, PT Manila Water Indonesia (“PTMWI”), a majority-owned subsidiary of MSEA, signed an SPA with PT Triguna Rapindo Mandiri to acquire 4,478 shares of PT Sarana Tirta Ungaran (“PT STU”) which allowed PTMWI to own 20.00% 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.

On December 3, 2020, the consortium of Saur SAS, Miahona Company and Manila Water (the “Consortium”) signed an MOMC with the NWC, Kingdom of Saudi Arabia for the latter’s North West Cluster. The MOMC will comprise the management, operations and maintenance of the water and wastewater facilities of the North West Cluster (Madinah and Tabuk) over a seven-year contract period, which will entail the implementation of the enabling projects and deployment of key personnel to manage the cluster and achieve the key performance indicators target set by NWC.

As of December 31, 2020, the Consortium is in the process of registering and incorporating a Project Company to implement the MOMC Project, as part of the conditions precedent to the project commencement date. Manila Water, through MWAP as its investment vehicle, will have a 20% equity interest in the Project Company. In addition, as part of the MOMC requirement, the Manila Water executed a guarantee in favor of NWC guaranteeing 20% of the financial and operational obligations of the project company.

Environmental Compliance

Manila Water’s water and used water facilities must comply with Philippine environmental standards set by the DENR on water quality, air quality, hazardous and solid wastes, and environmental impacts. In keeping with Manila Water’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.

Manila Water has made efforts to meet and exceed all statutory and regulatory standards. Manila Water employs the appropriate environmental management systems and communicates to its employees, business partners and customers the need to take environmental responsibility seriously. Manila Water uses controlled work practices and preventive measures to minimize risk to the water supply, public health and the environment. Manila Water’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 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. Manila Water’s water and used water treatment processes meet the current standards of the PNSDW, DOH, DENR and Laguna Lake Development Authority (“LLDA”). Manila Water continues to undertake improvements in the way it manages both treated water and used water as well as treatment of byproducts such as backwash water, sludge and biosolids.

Manila Water’s various subsidiaries operating outside of Metro Manila employs similar management systems and work practices that are geared towards meeting all statutory and regulatory compliances. In recently taken over operations with inherent compliance issues and subsidiaries affected by

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environmental changes, Manila Water's subsidiaries have implemented corrective measures from conducting stringent water quality parameters monitoring to accelerating execution of capex projects and technical solutions aimed at addressing specific water quality issues. Diligent monitoring and proactive engagement with government stakeholders have advanced majority of regulatory permits and licenses to the application stage, mitigating the Manila Water's subsidiaries' compliance and legal risks.

Manila Water 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. Manila Water's Business Continuity Units together with Environmental Compliance Units are trained to ensure that environmental incidents are tracked, monitored and resolved.

A policy on climate change was formulated to define Manila Water's commitment to the National Framework Strategy for Climate Change. While Manila Water 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

Manila Water has always committed to creating shared value, as it recognizes that Manila Water is not just a business to run, but has a mission to fulfill. Manila Water believes that long-term viability is dependent on alignment with social, economic, and environmental goals. The ability to serve customers is highly dependent on managing well Manila Water's various forms of capitals, not just human and financial but also physical assets, intellectual capital, available natural resources and strong relationships with stakeholders.

Since 2004, Manila Water has adopted and operationalized a Sustainability Framework that aligns with several established and emergent frameworks such as:

- A. Global Reporting Initiative ("GRI")
GRI helps organizations to communicate their impact on various environment, social and governance aspects of operations, such as climate change, human rights and economic opportunities.
- B. Integrated Reporting ("IR")
The IR framework explains to stakeholders how it utilizes its capitals in the creation of value.
- C. Sustainability Accounting Standards Board ("SASB")
SASB is a reporting framework that correlates sustainability performance with financial strength
- D. Task Force on Climate-related Financial Disclosures ("TCFD")
TCFD is a voluntary climate-related financial disclosure that includes reporting on Manila Water's governance and climate-related risks and opportunities, actual and potential impacts of climate-related risks and options on the organization's businesses, strategy, and financial planning, the processes used by the organization to identify, assess and manage climate-related risks, and metrics and targets used to assess and manage relevant climate-related risks and opportunities.
- E. United Nations Sustainable Development Goals ("UN SDGs")
The Sustainable Development Goals are vital for a recovery that leads to a greener, more inclusive economies and more resilient societies. This framework serves as the core of the Ayala blueprint to ensure that all Ayala Companies respond to the needs of society and the environment.
- F. Ayala Sustainability Blueprint
Ayala has adopted the UN SDGs at the heart of the conglomerate's business strategy, acknowledging three megatrends that pose immense threats to Filipinos: marginalization,

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untapped potential, and irresponsible growth. Manila Water is the group's champion for SDG 6 – Clean Water and Sanitation.

Manila Water's own Sustainability Framework aligns with the abovementioned and has identified five focus areas: 1) Developing Employees; 2) Helping Build Communities; 3) Protecting the Environment; 4) Safeguarding Health and Safety, and 5) Contributing to Local and National Economies. These five commitments ensure that the business continues to be viable as it delivers vital services to communities and responds to its various stakeholders' needs.

Developing Employees

Manila Water regards its employees as the most critical resource in creating lasting value and treats talents' competency development and engagement a primary concern. Manila Water provided employees access to various learning and development opportunities composed of in-house and external trainings and accelerated development programs under the Manila Water University program. In 2020, there were a total of 37,049 training hours for 1,789 employees.

In response to the constraints posed by the COVID-19 pandemic, Manila Water maximized the use of available technology while providing flexible time and work arrangements for its employees to encourage productivity and collaboration. Particular attention was also given by Manila Water to its employees' well-being by introducing strict health protocols and mental health initiatives.

Helping Build Communities

Water and sanitation services are an essential lifeline to any community that ensures healthy and productive inhabitants and a thriving economy. Manila Water has aligned its vision and mission with the United Nations Sustainable Development Goal 6, to increase the proportion of population with no access to clean water and sanitation. In 2020, Manila Water provided potable water to 8,449,688 population across the Philippines through 1,227,627 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 low-income communities' needs of having clean and affordable water. Complementing the TPSB program is the Lingap program that provides clean water to public service institutions such as schools, public markets, and hospitals, ensuring that families have clean and safe water beyond their dwellings. Both TPSB and Lingap have been replicated and adapted to Boracay and Laguna's local conditions, in partnership with the Manila Water Foundation.

It is also imperative that in the course of providing essential water and wastewater services that the service is not just affordable but reliable. Having a resilient community means having resilient water services. Manila Water has invested heavily in ensuring that its assets and operations are resilient against natural disasters brought about by geological events and climate change.

Protecting the Environment

Manila Water's service obligations include collecting and treating customers' wastewater before proper discharge to receiving bodies of water. In 2020, Manila Water treated 74.11 million cubic meters of wastewater, which resulted in the diversion of 12,613 tons of organic pollutants from waterways through the 64 wastewater treatment facilities. Manila Water meets effluent water quality standards set by the environmental regulators and is currently undertaking a massive retrofit initiative on its treatment facilities to be able to remove nutrients in response to the new effluent standards.

Opportunities to reduce negative environmental impacts and provide continuous services include optimizing water efficiency through NRW program, reducing wastes and emissions, and educating consumers.

NRW 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, Manila Water recovers an average of 800 MLD – volume equivalent to the output of a medium-sized dam.

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Manila Water's Climate Change Policy, while putting more emphasis on adaptation measures and resiliency, commits to help mitigate carbon emissions primarily through energy efficiency efforts.

The 1,188,020 trees planted and nurtured in watersheds and surrounding areas offset some carbon emissions. Manila Water protects 9,515 hectares of watersheds, particularly Ipo, La Mesa, and Upper Marikina Watersheds, through its NGO and PO partners.

The total organic pollution removed in wastewater treatment in 2020 translates to 74,030 tons of carbon dioxide equivalent of avoided methane formation, using the latest updated factors generated by the Intergovernmental Panel on Climate Change.

The Lakbayan tour, Toka Toka program, and Bawat Patak, and Tumatak Goes to School are integral parts of Manila Water's environment work by educating and engaging its customers, communities, and employees, encouraging them to undertake personal acts of commitment to the environment. The Lakbayan Tour provides an opportunity for 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, 123,844 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 on the environment. It includes 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. Manila Water has partnered with a total of 34 government and non-government organizations to sustain the campaign. Boracay Water developed its 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 Tumatak' Goes to School, is a sub-program of the Bawat Patak Tumatak ("every drop makes a mark") employee engagement program, which allows volunteer employees to communicate the importance of proper environmental practices to elementary school students. As of end of 2020, 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 is compliant with the PNSDW. 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 protecting reservoir storage and distribution. All potential risks are assessed, and appropriate control measures are incorporated in all parts of operations. The control measures are identified and implemented, and policies and procedures are always upgraded as part of continuous improvement.

In 2020, Manila Water collected 69,652 water samples of raw and treated water at the facilities and drinking water from customers' taps. Similarly, the other Philippine subsidiaries collected 15,105 water samples in world-class laboratories accredited by the DOH, recognized by the DENR, and certified against ISO standards.

Manila Water's revised and expanded Water Safety Plan ("WSP") has been approved by the DOH in November 2019. The other Philippine subsidiaries are in various stages of WSP preparation or renewal, review, and regulatory approval, following the DOH directive to develop and implement plans to ensure delivery of safe drinking water. Clark Water and Boracay Water have secured the approval of DOH on their WSP in 2020.

Manila Water also commits to strengthening a culture of health and safety across its workforce, supply chain, and the general public, continually assessing, implementing, and improving 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 with occupational health standards of the country are well established.

In response to the recently approved implementing rules and regulations of RA No. 11058 covering Occupational Safety and Health, Manila Water's safety programs were re-scoped to include and/or

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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 2020, Manila Water has provided direct employment to 2,311 individuals in Metro Manila's East Zone and its subsidiaries across the Philippines and Southeast Asia. Out of its business partners pool, Manila Water has in 2020 provided business opportunities to 558 vendors, including material suppliers, contractors, consulting firms, and service providers. A total of ₱12.1 billion capital expenditure was used in 2020 to improve water and wastewater services across the Philippine and Manila Water Asia Pacific operations.

Employees

As of December 31, 2020, Manila Water had 2,311 employees. Approximately 26% were non-management employees and 74% held management positions.

The following table presents the number of employees as of December 31, 2020:

Year	Former MWSS	Direct Hires	Subsidiaries	Total
2020	315	1,014	982	2,311

The following table presents the number of employees by function as of December 31, 2020:

Group	Management	Non-Management	Total
Office of the President	12	0	12
Enterprise Legal and Corporate Governance	12	1	13
Corporate Finance & Strategy	78	4	82
Office of the MWO-COO	2	0	2
Corporate Operations	381	153	534
Strategic Asset Management	41	4	45
Corporate Human Resources	31	3	34
East Zone Business Operations	286	21	307
Corporate Information Technology	24	1	25
Corporate Project Management	152	53	205
Enterprise Stakeholder Engagement	12	1	13
Corporate Strategic Affairs	15	5	20
Supply Chain Management	36	1	37
Manila Water Foundation	17	0	17
MWPV/MWAP/MWTS	602	363	965
	1,701	610	2,311

Before privatization, the MWSS had 8.4 employees per 1,000 service connections. Manila Water has improved this ratio to 1.3 employees per 1,000 service connections as of December 31, 2020. 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, Manila Water 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.

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As of December 31, 2020, 163 or 12.6% of permanent employees of Manila Water are members of the Manila Water Employees Union ("MWEU"). In 2018, Manila Water 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 2021. The management of Manila Water maintains a strong partnership with union officials and members, and there has never been any labor strike since its inception. Grievances are handled in management-led labor councils. The CBA also provides for a mechanism for the settlement of grievances.

Manila Water 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 are being 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 are undertaken to ensure a strategic and holistic approach to talent development.

Cadetship Training Program: The Cadetship Training Program is a six-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 four-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 final revalida with the Senior Leadership Team 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.

Leadership Development: Manila Water continues to ensure that its leaders are equipped to lead the organization to achieve corporate goals. Leadership Development trainings are continuously implemented through Manila Water University. In 2020, mandatory online training courses were utilized to ensure development despite the pandemic. 2021 kicked off with a Coaching & Mentoring program for leaders that included skills audits to ensure that learnings are practiced. In line with continuous improvement and to ensure that programs implemented are relevant, the updated Leadership Development program is scheduled for launch in 2021.

Succession Management: Manila Water enhanced its succession management process to further strengthen the talent pool of the organization. Employees are assessed, provided with deliberate development interventions such as stretch assignments and coaching to accelerate their development. Talent Reviews are conducted with the 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, with the intent to strengthen the Manila Water talent bench.

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 Technical Development Program. It aims to ensure that Manila Water strengthens the technical competencies of its talents in its fields of operations.

Manila Water ensures that its reward system is market competitive, performance-based, aligned with business strategies and results, and within regulatory parameters. In 2013, Manila Water updated its guaranteed pay structure to ensure alignment with industry practices. This was further updated in 2016 to ensure updated market alignment. Also, in 2013, Manila Water enhanced its variable pay program to increase the alignment of bonus scheme with business results. Manila Water continues to monitor pay competitiveness and reward talents according to their achievements and contributions to the business objectives.

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In 2014, Manila Water 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 2018, Manila Water launched the Localization Program to transition and localize citizenship of deployed talents to subsidiaries where they are performing identified local roles.

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

Also, in 2005, Manila Water's BOD approved the establishment of an enhanced retirement and welfare plan. The plan is being administered by a Retirement Committee, which also has the authority to make decisions on the investment parameters to be used by the trustee bank. In 2019, Manila Water's retirement plan into a Multi-employer Retirement Plan to include its subsidiaries. Implementation of said plan will commence upon receipt of the Bureau of Internal Revenue's approval.

Over and above these benefit and reward schemes, Manila Water gives recognition for employees who best exemplify Manila Water'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. Nine of Manila Water's model employee awardees have also been recognized as 'The Outstanding Workers of the Republic' ("TOWER") Awardees by the Rotary Club of Manila from 1999 to 2009, and then most recently in 2019.

The exemplary performance of its employees has earned for Manila Water several awards and recognitions. Over the past 25 years, Manila Water has been the recipient of numerous awards.

A landmark recognition was earned by Manila Water when it was cited the 2006 Employer of the Year by the People Management Association of the Philippines. Another prestigious award earned by Manila Water 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 recognitions earned by Manila Water 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. This 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 Manila Water 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.

From 2014 to 2020, Manila Water was the recipient of various awards and recognitions. A complete list of these awards is available on our website at <https://www.manilawater.com/corporate/about-us/our-company/awards-and-citations>.

More recently, Manila Water received the following accolades: a "Laboratory of Excellence" recognition for Manila Water Laboratory Services through a proficiency testing by Waters ERA; The Asset's Annual Triple A Country Awards 2020 Best Sustainability Bond – Corporate for Manila Water's US\$500 Million Sustainability Bond; the 2020 Ayala Innovation Excellence Award for "Project Air Vent: Water Supply Deficit Mitigation for Northern Quezon City (Luzon Treatment Plant)" during Spark 7, the Ayala Group's Innovation Summit; the League of Corporate Foundations ("LCF") Corporate Social Responsibility (CSR) Guild Awards' Outstanding CSR Project in Health for Manila Water Foundation's Integrated WASH Program in Porac, Pampanga; the Public Relations Society of the Philippines' ("PRSP") 55th Anvil Awards namely a Gold Anvil Award for Manila Water Foundation's "2018 Annual Report: Framing A New Direction," a Silver Anvil Award for Manila Water Foundation's "Working Towards a Clean

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Boracay: MWF's Ahon Sanitasyon Program," a Silver Anvil Award for Manila Water's "Water for Every Disaster: Emergency Reservoirs," a Silver Anvil Award for Laguna Water's "Sewage and Treatment Process Video: Encouraging Communities to Take Part in Responsible Used Water Management," and another Silver Anvil Award for Laguna Water's "Lakbayan: Understanding the Water and Used Water Trail." Manila Water also received another three-star recognition award from the Institute of Corporate Directors for its performance rating against the 2019 ASEAN Corporate Governance Scorecard.

Related Party Transactions

To further instill Manila Water's policies on related party transactions, the Board adopted the Policy on Related Party Transactions (the "RPT Policy"). The RPT Policy confirms that Manila Water 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 Manila Water or the related parties, as the case may be.

Any related party transactions entered into by Manila Water or its affiliates shall be in accordance with applicable law, rules and regulations, and the RPT Policy. Related party transactions entered into by Manila Water with one or more of its directors or officers are voidable at the option of Manila Water, 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 November 26, 2019, the BOD approved the amendments to Manila Water's Policy on Related Party Transactions in order to comply with the provisions of the Rules on Material Related Party Transactions for Publicly Listed Companies of the SEC. The amendments updated the definition of Company-Recognized Material Related Party Transactions, SEC-Defined Materiality Threshold, Related Party Registry, Related Party Transactions, Related Parties, Affiliate, Associate, Substantial Shareholder, and Significant Influence.

Risk Factors

Rank	2020 Enterprise Risks	Updates and Mitigation Strategies
1	POLITICAL-REGULATORY RISK Failure to secure the viability of the business due to adverse political and regulatory actions	In late 2019, the President threatened to revoke the 15-year extension of the Concession Agreement with MWSS due to supposed onerous provisions in the original contract and commissioned an independent review of the provisions with the objective of revising the contract. This followed the favorable ruling obtained by Manila Water in the arbitration against MWSS before the Singapore Permanent Court of Arbitration. According to media releases, the review by government reportedly found that the water concession agreements were "onerous and disadvantageous to the people, relative to the terms or

		periods, government non-interference, as well as concessionaire indemnification for losses.” In December 2019, MWSS announced the revocation of the concession agreement extension stipulated under the Memorandum of Agreement and Confirmation. Later that month, however, MWSS released a press statement wherein it clarified its earlier announcement and confirmed that MWSS’s action did not result in the revocation of the concession agreement. In January 2020, Manila Water received a response letter from the MWSS-RO confirming that the 25-year Concession Agreement from 1997 to 2022 and the Memorandum of Agreement and Confirmation between the Company and MWSS which provides for the 15-year extension from 2022 to 2037, have not yet been cancelled. Manila Water has cooperated with the national government in the review of the provisions of the original Concession Agreement as well as subsequent amendments, outcomes of past disputes and its performance in the delivery of service obligations. Manila Water has provided all pertinent information requested and continues to engage in conversations with designated government representatives on matters related to the planned revisions in the agreement. Manila Water continues to faithfully deliver on its service obligations to its customers under the terms of the Concession Agreement still in effect and the most recent MWSS-approved business plan.
2	WATER SUPPLY Failure to ensure adequate water supply and deliver 24/7 potable water at ≥ 7psi across the service area	To ensure adequate raw water supply especially during the dry season, Manila Water continues to implement MWSS-approved short and medium-term water source development projects such as rehabilitated and new deep wells, rehabilitation of the Alat source, and the Wawa-Calawis and Laguna Lake East Bay sources.

		As of end of 2020, the stored water in Angat Dam and La Mesa were at maximum levels due to the prevailing extended La Niña. Prospects for summer of 2021 are better than in 2019 when there was a drought caused by an El Niño. Nevertheless, Manila Water has a summer contingency plan and is scheduled to undertake drills on critical core and support processes.
3	CAPEX EXECUTION Failure to execute CAPEX plan per approved business plan on a timely manner and on cost basis, leading to tariff claw back and non-recoverability of expenses.	Manila Water conceptualized and implemented Project Ark, a cross-functional initiative that addresses the various risk drivers and gaps that lead to the delay in the execution of major capital works across the respective project life cycles, from project development to execution. The first phase of the program addressed core CAPEX processes, policies, tools, and structures critical to being able to fast-track the water supply and used water commitments and meet CAPEX delivery targets. Among the improvements in the CAPEX organizational structure and delivery strategy are: (a) creation of 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 Management 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. The second phase of the project specifically addressed 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.

		A comprehensive dashboard to track the realized improvements arising from each component of the initiative is already in place.
4	SEWER COVERAGE Failure to attain % sewer coverage target in accordance with the service improvement plan	Manila Water has a regulator-approved target for increasing sewer coverage in order to maximize the utilization of its wastewater treatment facilities whose design years coincide with the end of concession. Since laying down sewer lines usually encounter difficulties with local governments mainly due to traffic disruption concerns, Manila Water identifies alternative projects and approaches that will contribute to meeting the global sewer coverage performance. At the same time, Manila Water updates the regulator regularly on the progress of wastewater projects, presents and justifies any deviation from the original plans, and seeks feedback. This provides the regulator an overview of the progress and the challenges that Manila Water experiences and serves as a venue to secure support.
5	INFORMATION SECURITY & IT DISASTER RECOVERY Failure to ensure full security of enterprise data and faster recovery of IT systems after disruptions	On IT Disaster Recovery: A Disaster Recovery Plan was drafted in 2019 to serve as guide for the annual DR Drill. Annual drills are conducted. On Information Security: The following were implemented by the IT Group: Information Security Education Program (ISEP), End-user security (MFA, SSPR, Mobile Security), Email security (SEG), Website hardening (Manila Water, Clark Water, Laguna Water), Anti-spoofing protocols, Approval of Information Security Management System (ISMS) and Cybersecurity incident policy/ procedures, Implemented 2020 IT Security Projects such as BitLocker implementation, Azure Information protection (AIP) for data classification, Assigning Data Loss Prevention policies to confidential information, Continued information security awareness program thru

		monthly module assignment, Cybersecurity drills, Workshops with different Manila Water groups on data classification, Web security, Identity and access management and establishment of Security Operations Center (SOC), Insurance policies and enhancement of OPSCMS OT network security.
6	WASTEWATER EFFLUENT COMPLIANCE (NUTRIENT REMOVAL) Failure to comply with the DAO 2016-008 revised effluent standards in accordance with DENR deadlines	Manila Water applied a four-pronged approach to manage the compliance risk associated with the revised effluent standards: Technical Track – Identified feasible technical solutions for each facility and accelerated the implementation to comply with DAO 2016-08 before the CAP deadlines. DENR/LLDA Track – Secured environmental regulator's approval of the submitted Compliance Action Plans and established a legal defense strategy should any challenges arise. Stakeholder Track – Secured the buy-in of concerned LGUs for the individual projects and timely acquisition of necessary project permits MWSS Track – Secured the support of MWSS on the continuing implementation of facility and network retrofit plans vis a vis any outcomes of the various stakeholder-driven developments at the environmental policy maker (DENR).

Manila Water operates in a regulated and dynamic business environment where uncertainties, both detrimental and opportune to Manila Water, abound. Manila Water is accountable to its regulators, shareholders, employees and customers, among others. In order to achieve its corporate objectives, Manila Water recognized the need for the active management of risks inherent to its business which involves the entire organization.

Manila Water continues to implement its ERM Program based on a globally accepted approach, the ISO 31000:2018, and has been cascaded across the Manila Water enterprise which includes subsidiaries in MWPV and MWAP to ensure attainment of its objectives.

The ERM Program operationalizes Manila Water's Manual of Corporate Governance which mandates the BOD to ensure the presence of organizational and procedural controls supported by an effective management information system and risk management reporting system. In addition, Manila Water's Board Risk Oversight Committee (BROC) provides oversight to management functions relating to strategic, financial, operational, compliance, legal, environmental, social and other risks of Manila

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Water. This involves periodic disclosure of significant risk exposures and related risk management activities.

In its report to the Report to the BOD for the year ended December 31, 2020, the BROCC confirmed that it discussed the significant risk exposures, the related risk-mitigation efforts and initiatives, and the status of the mitigation plans. The report indicates that the review of the BROCC was conducted in the context that Management is primarily responsible for the risk management process. The BROCC also increased the frequency of its meetings from semi-annual to quarterly basis, to provide sufficient time for deeper discussions on risk analysis as well as to provide ample attention to the risks of new business operations.

Regulatory

Through Manila Water's Integrated Management System which include Quality, Environment, Health and Safety and Energy Management Systems, Manila Water 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)

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- 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

Business

- 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
- ERC Resolution No. 10-02 Series of 2004, Resolution Setting Deadlines for Self-Generation Facilities to Submit Application for Certificate of Compliance (COC) AND Prescribing Penalties
- RA 11285 Energy Efficiency and Conservation Act 2019
- Philippine National Standards for Drinking Water 2007
- NWRB Resolution No. 03-0715 Of 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. Please refer to page 314 of this Prospectus.

Business

Bayanihan Laws

Please refer to “Regulatory Framework – Bayanihan Laws” on page 386 of this Prospectus.

On September 11, 2020, the Bayanihan 2 Act was signed into law by President Duterte. The Bayanihan 2 Act confers emergency powers to President Duterte which will be in effect until December 19, 2020. The Bayanihan 2 Act directed all institutions providing water and other similar utilities services, including Manila Water, to implement a minimum 30-day grace period for the payment of utilities falling due within the period of ECQ or MECQ without incurring penalties, interests, or other charges.

Other Matters

Manila Water has not been involved in any bankruptcy, receivership or similar proceeding as of December 31, 2020. Further, except as discussed above, the Manila Water 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 Manila Water 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 Manila Water Group.

INDUSTRIAL TECHNOLOGIES

AC Industrial Technology Holdings, Inc. (alternately referred to as “AC Industrials” or “ACI”), was established in 2016, and is Ayala’s holding company for its investments in industrial technologies. AC Industrials invests in and manages an integrated and synergistic portfolio of businesses engaged in global manufacturing solutions, emerging technologies, and vehicle assembly, distribution, and retail.

Prior to this, AC Industrials was called Ayala Automotive Holdings Company, which originally housed the automotive businesses of the Ayala Group. Since its formation, AC Industrials has added IMI and other new businesses active in mobility and smart energy to its fold.

AC Motors

AC Motors is a group of companies directly owned by AC Industrials which are active across the motor vehicle value chain. It is one of the largest automotive groups in the Philippines with investments and operations in vehicle assembly and manufacturing, vehicle distribution and vehicle retail. From a single-brand automotive business, it has since grown its portfolio to offer a total of five (5) automobile and two (2) motorcycle brands.

AC Motors started its operations in 1990 when Ayala decided to invest in the distribution and operation of dealerships of 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 12.9% stake in Honda Cars Philippines, Inc. (“HCPI”) and a 15% share in Isuzu Philippines Corporation (“IPC”), the distributors of both brands. HCPI is a joint venture with Honda Motors Co. Ltd. and RCBC while IPC a joint venture with Isuzu Motors, Ltd., Mitsubishi Corporation and RCBC.

In 2013, AC Motors marked its foray into automotive distribution when it was appointed as the distributor of Volkswagen vehicles in the Philippines. In 2018, AC Motors expanded its distribution arm when it acquired the national distributorships of Kia and Maxus. The Volkswagen and Maxus businesses are housed under Automobile Central Enterprise, Inc., while the Kia distributorship is held by KP Motors Corporation, a 65% joint venture with Roadworthy Cars, Inc., the brand’s previous Philippine distributor. As of December 31, 2020, Volkswagen vehicles are sold across the country through nine dealerships, while Maxus has a network of eight dealers. KP Motors, on the other hand, manages a network of 38 dealerships and sales outlets nationwide.

AC Motors also actively retails its own brands through Iconic Dealership, Inc., which as of December 31, 2020, owns and operates four Volkswagen, three Kia, and three Maxus dealerships.

Business

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. or ACPI is the official distributor of KTM motorcycles in the Philippines. In addition, ACPI holds a 66% share in KTM Motorcycle Manufacturing, Inc. ("KAMMI"), a joint venture with KTM AG that assembles and manufactures KTM motorcycles in the Philippines. In 2020, ACPI was also appointed as the Philippine distributor of Swedish motorcycle brand Husqvarna, with KAMMI manufacturing selected models at its assembly line in Laguna. ACPI serves 41 KTM dedicated dealerships throughout the Philippines, and through KAMMI, supplies motorcycles for both the local and export markets.

2020 was a challenging year for the Philippine automotive industry due to widespread lockdowns which led to dealerships across the country being shuttered for extended periods of time. As such, only 248,050 units were sold in 2020, 40% below 2019. The industry has yet to return to its all-time high recorded in 2017, which saw accelerated purchases in anticipation of new excise taxes. Prior to this, the automotive sector had grown by a compounded annual growth rate of 17% from 2009 to 2016.

AC Motors continues to weather internal and external challenges, including intensifying competition from existing competitors and new entrants. As of December 31, 2020, AC Motors offered seven vehicle brands and held a 5% 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 31 automobile dealerships and two KTM dealerships.

Enabling Technologies Group

In 2017, AC Industrials started assembling its portfolio of enabling technologies when it acquired a 94.9%⁷ stake in Misslbeck Technologies. 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 when MT Technologies acquired a 75.1% share in C-CON entities, a group of three companies based in Germany that provides development, design, manufacturing and process design services to automotive and aerospace OEMs. C-CON also offers a unique proprietary process for carbon fiber reinforced polymer production.

AC Industrials also entered the smart energy space after acquiring a 98.96%⁸ stake in Merlin Solar Technologies in February 2018. 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.

Integrated Micro-Electronics, Inc.

Established in 1980, IMI 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 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

IMI, 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). IMI is 52.03% owned by AC Industrial Technology Holdings, Inc. ("AC Industrials"), a wholly-owned subsidiary of Ayala Corporation, a corporation incorporated in the Republic of the Philippines and listed in the PSE. AC is 47.28% owned by Mermac, Inc. (Ultimate Parent Company) and the rest by the public.

⁷ As of December 31, 2020, 92.45% post purchase of minority stakes by senior management.

⁷ As of December 31, 2020, 99.19% post cash infusions from AC Industrials.

⁸ As of December 31, 2020, 99.19% post cash infusions from AC Industrials.

Business

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

IMI 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, IMI completed the stock rights offer and listing of 350,000,000 common shares to all eligible stockholders.

IMI is registered with the 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 2011, IMI, 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 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 2020, VIA raised some proceeds through an initial public offering ("IPO") and was listed on the New York Stock Exchange under the ticker symbol "VIAO". As a result of the IPO, IMI's ownership interest in VIA was diluted from 76.01% to 50.32%.

Business

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.

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.

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.

Business of IMI

Product Capabilities

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

1. 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
 - Cabin system
 - Motor & Valve driver
 - Head Lamp
 - Seatbelt pretensioner
- Advanced Driver Assistance Systems
 - Front Vision
 - Surround View
 - Rear View Camera

Business

- Mirror Replacement Systems
- advanced driver-assistance 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
 - Door sensor adaptor
 - Door handle controller
- Others
 - Anti-fogging system
 - Wiper
 - Gear box shift
 - Window lifter
 - Head rest
 - Heating system
 - HFA smart opener

2. *Industrial Electronics*

- Security
 - Electronic Door Access System
 - Biometrics
 - Asset tracking
 - Radiation detector
 - Security alarm
 - Cashless Payment
 - Seismic detector

3. *Automation*

- System Integration (Robotics)
- Automated Meter Readers
- Ultrasonic Welding

4. *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
- Frequency Charger

5. *Controls and Sensors*

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

6. *Others*

- LED lighting
- Aircon damper
- Accelerometer
- UPS
- Industrial power
- Power supply
- Industrial tooling
- Actuator

7. *Medical Electronics*

a. 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

b. Others

- Dental Imaging System
- Hearing Aids
- Personal healthcare

8. *Communications Electronics*

a. Telecom Equipment and Devices

- Cellular alarm communicators for LTE networks
- Back Panel
- Fiber to “X” (“FTTx”) 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

9. *Consumer Electronics*

a. 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

b. 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

10. *Power Semiconductor*

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

11. *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)

12. *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

13. *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

Business

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

Principal Products and Services

Design and Development (“D&D”) Group

MOBILITY

Advanced driver-assistance systems, or ADAS, are systems to help the driver in the driving process. Autonomous driving is supported by cloud data, car-to-car communication, and car-to-infrastructure communication. In consequence, ADAS systems must link to a vehicle’s communication module directly to enable fully autonomous driving.

The race to develop autonomous vehicles (“AV”) and ADAS is on. Major vehicle original equipment manufacturers and Tier 1 suppliers, as well as disruptive newcomers, are accelerating AV and ADAS development efforts to get ahead in the race.

IMI has been working with leading automotive Tier 1 suppliers in providing vision systems supporting progression into the new era of mobility. Within IMI’s mobility segment, IMI continued to supply key product solutions for safety critical and environmentally focused systems including pump electronic control units (“ECUs”), motor controls as well as full telemetry systems utilizing an internally developed platform which will provide automotive grade traceability and system monitoring for vehicles. IMI’s USA teams continues to excel, achieving strong development wins, aligning to IMI’s revised customer focus, and delivering complex electronics including smart motor sensors, medical devices as well as exciting new technologies for the growing EV market. These solutions provide critical vision solutions including, Surround-View, E-Mirrors, ADAS, Driver Monitoring, as well as providing a technical platform for LiDAR and future segment requirements within the camera and vision technologies.

IMI PRODUCTS:

ADAS Technologies

Seat Occupancy Sensor ECU, Camera, Engine control unit, Mirror replacement camera, Lighting Modules, Powertrain Controls, Steering System, Heating Controls, Airbag ECU, Transmission Sensor, Speed Sensor, Powertrain Sensor, Speed Sensor, Gasoline system Sensor, Seatbelt controller, Gear shifter sensor, Acceleration pedal module, ECU or steering (ASIL), Headlight Controls

CONNECTIVITY

IMI’s progress in IoT has been extensive, offering customized solutions to customer projects by using mature platforms already developed within IMI. These include 4G/5G, NB IoT/CAT M1, GPS/Satellite and a multitude of sensors providing real time data solutions.

IMI continues to support the development and manufacturing of systems and products that use IoT, automation, and big data such as electronic door systems, tracking devices, wearables, and wireless industrial controllers.

IMI PRODUCTS:

SECURITY / ACCESS CONTROLS

Security Alarm System, Surveillance Camera, Access Control, Fire Alarm System, Door Security Lock, Biometric Security Sensors

IoT:

Temperature and Dust Detector, Cashless payment module, Network Power add-on, Asset Tracking Device, Wearable Patch-based vital sign monitor, Oil / Gas Indicator

INDUSTRIAL / Automation:

Business

Pneumatic Controls and Systems, System Integration, Automated Testing Equipment, Ultrasonic Welding, Radiation Detection Instrument, IC Testers, Thermostat controllers

COMMUNICATIONS:

Base Station Communications, Data and Communication Network, Broadcast satellite modem, Audience monitoring system, GPS signal receiver

SMART ENERGY

IMI continues to invest in having the capabilities and technology to support new energy systems that will make use of lesser power more efficiently and that will occupy lesser space. As investments in fossil fuels

continue to fall, IMI expects industries to shift on having lesser carbon emissions and having more efficient use of power.

IMI PRODUCTS:

Energy Management System, Energy Storage System, Solar Power DC to AC power, Battery Charger for Defibrillator, Power Metering, Thermostat and AC Controls, Power Modules, Battery Monitor, Thermal and Power Systems, Digital Thermostat, Electric Vehicle Charger, Smart Meters, C-BUS Energy Management and Control, Temperature Control Board, Smart Module for Solar Application, Solar Panel Assembly, Industrial Lighting (LED)

VIA OPTRONICS AND

VIA OPTRONICS is a one-stop-shop provider of solutions ranging from excellent optical bonded displays to fully customized Interactive Display Systems ("IDS"). With headquarters in Nuremberg, Germany, our technologies enable high-performing touch functionality, delivering excellent sunlight viewability and robustness against the most challenging requirements, while minimizing power consumption. Our enabling technologies include our proprietary silicon-based bonding material, or VIA bond plus, our patented optical bonding processes, or MaxVU™, and our metal mesh touch sensor technology.

In 2020, VIA Optronics capitalized on the surge of demand for mobile computing devices that enabled work from home arrangements. While display solutions for consumer and industrial laptops were a significant part of business in 2020, VIA also continued to transition its operations towards the mobility market by partnering with leading manufacturers in both traditional and electric vehicle spaces. By leveraging proprietary processes and materials, VIA is able to offer large cold form glass and display assemblies for the cutting-edge automotive market.

STI LIMITED

Surface Technology International (STI) is a world class electronics solutions provider with headquarters in the UK and has been in operation for more than two decades since 1989. STI has a history of supply excellence to major OEMs in the aerospace and defense sectors ranging from cockpit avionics assemblies to in-flight entertainment systems.

STI's aerospace and defense segment has continued to provide very complex RF and communications solutions and its customer relationships continue to flourish with existing and new opportunities growing in 2020.

STI has also played a major part in the UK's fight against COVID-19, with government assistance through 2020, to develop and manufacture critical ventilator products as well as a critical testing product developed specifically for high-throughput environments offering diagnostic testing based on isothermal amplification methods.

To capitalize on the latest trends towards 5G and IoT in the automotive industry, STI continued expansion into the development and manufacturing of new automotive telematics systems. Telematics devices connect to the On-Board Diagnostics ("OBD") of a vehicle to gain rich data on events, performance, tracking and internal subsystems. Information collected can then be interpreted and transferred wirelessly to a device management platform for use by companies and drivers.

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, internet of things, 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.

The power module industry is driven by the requirements of the automotive market and the entry of SiC and GaN wideband gap devices. Our research and development team focuses on developing package platforms that will address the customer demands on cost reduction, size reduction, reliability improvement and easy integration. The technology roadmap considers such in identifying the packaging platforms and materials to develop in the next five years.

In 2020, the design and development of the hybrid version of a pin-fin baseplate with plastic case for a full Silicon Carbide power module for electric vehicles is already on mass production. This power module platform demonstrates the thrust of IMI in developing technologies like sintering and ultrasonic welding for high reliability manufacturing processes. Continuous improvement on these technologies is being adapted on a new platform using transfer molded pin-fin baseplate heatsink this time. Copper wire bonding is being evaluated to increase the current capability of a standard power module platform for the new generation of IGBT power module that will have a current rating as high as 900A.

Test and Systems Development

New major tester projects were awarded to IMI Test and Systems Development Global Team and executed in different IMI factories amidst difficult circumstances of the COVID-19 pandemic in 2020. These new projects include customized testers for new power module technologies, automotive camera and electronics systems as well as internet of things ("IOT") products. Tester development in 2020 encountered tough challenges in areas of materials procurement and logistics as well as the limited mobility of technical personnel to provide on-site project support in different IMI locations. Cross-site collaboration nevertheless continued through technical reviews and discussions held via Teams and other collaboration platforms.

In IMI Philippines, two new tester platforms for power modules were developed. A new tester platform for a silicon carbide technology- based power module was built and has completed customer qualification requirements early this year. The other tester platform is for insulated gate bipolar transistor power ("IGBT") modules with higher power ratings (1.2 kilovolt and 600 amperes). This power module tester was designed to achieve a very low system stray inductance to effectively measure high power transients and equipped with an option to test at 150 C. This project is ongoing design validation and customer qualification for mass production run. The other major tester platform supported during the challenging period of the pandemic is a flexible final test (a.k.a. end of line test) platform for automotive cameras. This platform will include a new test capability- intrinsic camera calibration- among the various standard automotive camera tests which are configurable for different camera types and models. The PH TSD team also supported the test set-up of the CPAP ventilator project which IMI offered to support the medical needs of the pandemic. Finally, three new tester projects for IOT products were also kicked off and completed in 2020.

China and Bulgaria TSD teams also had new big projects in automotive electronics and lighting systems in 2020. In IMI Jiaying, replications of testers for PCBAs used for car cabin ambient lighting (using LEDs) and external automotive lighting PCBAs were built to meet the increasing demand for these products in China as well as in Europe. There were also several new models of automotive electronics systems (power tail gate and window lifter) from major OEMs which required new tester projects and supported by these teams.

Business

Analytical Testing and Calibration Laboratory

Analytical Testing and Calibration (“ATC”) develops cost-effective and timely failure analysis, reliability testing, and calibration services while adhering to strict quality standards. Our laboratory instruments and equipment are designed to provide highly reliable analysis results, mindful that critical decisions are made based on results of laboratory analyses.

We constantly strive to improve our services with the regular improvement and enhancement of our facilities as well as through certifications, registrations and accreditations of industry boards as well as national and international regulatory bodies.

Analytical testing and calibration services include: Identification of failure mode, failure mechanism, and probable causes; Accelerated and analytical stress testing, and modeling in predicting product life profile and reliability; and Calibration and verification of inspection and measuring instruments.

Our reliability engineering team designs reliability stress test plans based on international standards, builds customized reliability test set-up, performs accelerated stress test to predict product life profile and define applicable warranty.

Going beyond identifying the defect, our failure analysis experts analyze failure, identify failure mode and failure mechanism and recommend preventive measures on probable cause of failure.

Along with analytic testing, the ATC Laboratory Calibration provides high-quality calibration services that conform to International Standards for varied capabilities in mechanical, electrical, and thermometry products.

Advanced Manufacturing Engineering

IMI's engineers are deeply involved in the development of new and advanced manufacturing process technologies in the field of mobility, connectivity and smart energy.

IMI focuses on the design, development, and industrialization of new and advanced processes and material technologies mindful of the continuously increasing complexities required to manufacture modern products today.

We offer cutting-edge technologies in flip chip, interconnect, and substrate. Our team designs custom processes to suit specific product requirements, from reliability and form factor to functionality, decreasing time-to-market and volume production.

New Product Introduction

New Product introduction is a process through which a new product is launched or debuted into the market to be consumed or used by the public and business, and is designed to ensure that it will perform successfully.

We provide rapid prototyping and make every effort to get it right the first time to avoid unnecessary mistakes and costs. We also have other processes and tests relevant to NPI available, like the reliability stress test done by our ATC Laboratory. By offering process development and tool design locally for the New Product Introduction, you save on valuable lead-time.

IMI always works with our partners from design concept to mass production and that our global outsourcing team procures from international suppliers to ensure that our customers get the highest quality at reasonable cost.

Camera Vision Technology

IMI is currently manufacturing 7 different camera applications from at least 19 different imaging products to support the autonomous driving technology trend. IMI's camera reference designs that were developed 3 years ago will now be used by projects that will go to mass production in 2021 and 2022.

Business

These reference designs were customized for it to be used for different ADAS/AD viewing and sensing applications such as driver monitoring camera, surround camera and mirror replacement camera.

In order to prepare for the future manufacturing requirements of various Camera and LIDAR technologies, IMI has invested on a common and scalable assembly and testing equipment that would benefit IMI's customers in terms of shorter development lead time and lower investment on production jigs and fixtures. Camera Projects from VIA Optronics that will go to mass production in 2021 are one of early users of these equipment. IMI's manufacturing capability to mount bare die sensors ("COB") for automotive camera is still one of the core competency of IMI in camera manufacturing. This technology together with IMI's experience in aligning lens to imager sensor allows IMI to engage with customers for the manufacture of LIDAR (Light Detection and Ranging) that will also be used for autonomous vehicles.

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. Philippine operation is further subdivided into IMI and PSi. IMI BG, IMI CZ and IMI Serbia are combined under Europe based on the industry segment and customers served, VIA and Surface Technology International Enterprises Limited are combined under Germany/UK representing newly-acquired 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 U.S.\$)

	2020	2019	2018	2017
Automotive	\$521,070,692	\$601,996,871	\$571,123,693	\$446,460,645
Industrial	355,463,462	380,061,711	379,753,654	221,670,425
Consumer	85,591,512	95,446,491	172,044,981	188,760,154
Telecommunication	64,928,610	80,762,597	89,004,663	121,639,521
Aerospace/defense	47,317,163	53,181,362	56,827,484	24,973,446
Medical	38,013,836	17,592,584	14,273,519	19,303,996
Multiple market/others	23,455,318	21,324,298	66,372,451	67,780,002
	\$1,135,840,593	\$1,250,365,914	\$1,349,400,445	\$1,090,588,189

Revenue Contribution by Customer Nationality (in U.S.\$)

	2020	2019	2018	2017
Europe	\$675,265,274	\$777,467,488	\$797,205,895	\$519,149,422
America	164,835,520	197,209,628	238,841,358	240,888,727
Japan	73,620,703	71,563,832	51,634,368	42,842,182
Rest of Asia/Others	222,119,096	204,124,966	261,718,824	287,707,858
	\$1,135,840,593	\$1,250,365,914	\$1,349,400,445	\$1,090,588,189

Foreign Subsidiaries' Contribution

	2020		2019		2018		2017	
	Revenue	Net Income*	Revenue	Net Income*	Revenue	Net Income*	Revenue	Net Income*
Foreign Subsidiaries:								
China/SG	23%	N/A	22%	N/A	25%	31%	25%	-5%

Business

Europe/Mexico	34%	N/A	39%	N/A	31%	23%	33%	76%
Germany/UK (VIA/STI)	24%	N/A	20%	N/A	23%	21%	18%	8%
TOTAL	81%	Net Loss	81%	Net Loss	79%	75%	76%	79%

**Attributable to equity holders of IMI*

Revenues are attributed to countries on the basis of the customer's location. The current top customer accounts for 8.34%, 8.51% and 5.88% of the IMI group's total revenue in 2020, 2019, and 2018, respectively.

Sales and Distribution

IMI's global presence allows it to provide solutions to OEMs thru its Tier 1 customers catering to regional and international markets. Given IMI'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).

With unpredictable demand and varying customer needs, IMI's commercial group channeled all efforts to sustain momentum and accelerate growth despite a significant reduction in face-to-face meetings, events and tradeshow caused by the global outbreak. Nevertheless, the group took advantage of the time and resources to drive more value through programs and initiatives involving new tools and process redesigns through training and upskilling.

IMI's commercial group is composed of all the regional sales directors and heads of major business units. It was established with a balanced portfolio tapping on horizontal markets for mobility and industrial, and vertical markets for the power module and camera businesses. Apart from shifting sales focus to higher margin segments, part of the strategy was to also achieve shorter gestation periods for revenue generation and to focus on more box build and system assemblies. The group also optimized and expanded the businesses with its key customers through account sharing and key account management to tap regional and global opportunities.

The continuous effort of the group to expand IMI's customer base resulted to new program wins totaling \$234 million of annual revenue potential from a total of 876 request for quotations. The won business portfolio remains dominated by the mobility segment, taking 55% on the total pie; however, the industrial portfolio now increased to 39% from previous year's 22%. In line with IMI's initiative of diversifying within key focus segments, programs in the Industrial segment have reached 39% of total wins, significantly greater than 2019's level of 22%.

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. IMI 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.

Business

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. IMI 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 20th in the list of top 50 EMS providers in the world by the Manufacturing Market Insider, based on 2019 revenues. In the automotive market, it is the 5th largest EMS provider in the world per New Venture Research.

For almost 40 years, IMI 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.

IMI’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 IMI’s products and services include product quality, pricing and timely delivery.

IMI is further dependent on its customers’ ability to compete and succeed in their respective markets for the products that IMI 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\$24.2 billion in 2020; 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\$3.4billion revenues in 2020. Plexus is a key EMS player in industrial, medical, communication and military sectors, wherein IMI also operates.

Kimball Electronics as a manufacturing facility located in Jasper, Indian with revenues of US\$1.2 billion in 2020. 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. IMI’s top 10 suppliers in 2020 comprise about 17% of global purchases. Purchases from suppliers generally comprise of electronic components processed by our facilities. IMI strives to manage the quality of the

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products supplied to ensure strict adherence to quality standards and only purchase from suppliers whose product meet all applicable health and safety standards.

Throughout the year, IMI endeavored to make its supply chain more resilient without sacrificing competitiveness. IMI mapped the full extent of its supply network and identified both direct and indirect sources. IMI addresses the vulnerabilities by rallying its suppliers and stockpiling essential materials. IMI also analyzes how it would recover from a disruption.

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 IMI 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 IMI 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, 2020, 2019 and 2018, the IMI 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
Provisional Patent Submission Number 9145002 Application Number EP20203350.2	The principle of the patent lies in the differentiation of two events thanks to O3 and O2 measurement sensors as well as the air flow sensor which measures the ventilation speed of the vehicle. The patent is based on the fact that the system is installed in the filter of a car and that depending on the season our system destroys the ozone when the pollution is very strong or destroys the viruses in periods of cold or rain depending on the	October 22, 2020	Provisional Patent application

	hydrometry of air and temperature. The system adapts automatically.		
Japan – Pending Application # 2014508589	Vacuum Pallet Reflow, a soldering device and method of soldering enabling vacuum reflow while using a standard reflow oven conveyor.	October 25, 2013	Pending
Korea Patent 101984064	Vacuum Pallet Reflow, a soldering device and method of soldering enabling vacuum reflow while using a standard reflow oven conveyor.	May 24, 2019	April 27, 2032
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.	December 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	Bezel-less 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	

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Government Regulations and Approvals

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

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. 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 Certificate	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

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License/Permit Name	Location	Integrated Micro-Electronics, Inc.		
		License/Permit No.	Issue Date	Expiry Date
SEC Certificate of Registration		94419	08/08/1980	
PEZA Certificate of Registration - Export and IT Enterprise	Laguna	94-59 (Amended)	06/11/2019	
PEZA Certificate of Registration - Facilities Enterprise	Laguna	11-19-F	11/29/2011	
BIR Form 2303 - Certificate of Registration				
Laguna		OCN 8RC0001459939E	02/28/2018	
Permit to Use Computerized Accounting System	Laguna	1214-116-00171CAS	01/01/2015	
Permit to Use Loose-leaf Invoices	Laguna	LTAD-LL-09-769-14	09/05/2014	
Authority to Print Invoices				
Laguna		OCN 8AU0000356125	08/28/2019	08/27/2024
		OCN 8AU0000356126	08/28/2019	08/27/2024
Business Permit	Laguna	2021-02490	01/18/2021	12/31/2021
Barangay Business Clearance		N/A		
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.

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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
• 2020	\$6,488,681	0.57
• 2019	\$6,876,487	0.55
• 2018	\$6,287,175	0.47

Human Resources

IMI has a total workforce of 15,824 employees as of December 31, 2020, shown in the following table:

	2018	2019	2020
Managers	473	497	518
Supervisors	1,622	2,148	2,169
Rank-and-File	3,064	3,079	3,011
Technicians/Operators	11,989	11,491	10,126
TOTAL	17,148	17,215	15,824

IMI's projected headcount for 2021 is 16,997.

The relationship between management and employees has always been of solidarity and collaboration from the beginning of its operations up to the present. IMI 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. IMI has or will have no supplemental benefits or incentive arrangements with its employees other than those mentioned above.

For further information on IMI, please refer to its 2020 Financial Reports and SEC17A which are available in its website, www.global-imi.com.

Risk Factors

AC Industrials' businesses, financial condition and results of operation could be materially and adversely affected by risks relating to IMI the Philippines and other foreign markets it operates in.

In early 2016, Ayala established AC Industrials, which houses the group's investments in industrial technologies. Through AC Industrials, Ayala is engaged in global manufacturing, emerging technologies, and vehicle assembly, distribution and retail.

IMI is the global manufacturing arm of AC Industrials. IMI is primarily a vertically integrated EMS provider that offers design, engineering, manufacturing and other support services. IMI serves OEMs that participate in diverse industries, which include computing, communications, consumer, automotive, industrial and medical electronics.

Through AC Motors, a group of companies under AC Industrials, Ayala actively participates in the Philippine automobile and motorcycle markets. AC Motors operates a network of Honda and Isuzu dealerships as well as holds equity investments in HCPI and IPC. In addition, AC Motors also owns and manages the Philippine distribution of Volkswagen, Kia and Maxus. AC Motors supports these businesses by also managing its own dealerships that offer these brands. In the motorcycle space, AC

Business

Motors assembles and exports KTM and Husqvarna bikes through a partnership with KTM AG and is the Philippine distributor of the two aforementioned brands. AC Motors depends largely on the market demand for its automobiles and motorcycles.

AC Industrials' investments in emerging technologies are focused on MT Technologies and Merlin Solar Technologies. MT Technologies produces tools, provides modelling services and manufactures parts for German OEMs. Merlin Solar Technologies offers specialty solar solutions for unique and demanding applications.

AC Motors

AC Motors' Volkswagen, Kia and Maxus businesses are relatively new participants in the automotive industry and has limited track records operating in that industry.

As relatively new participants in the automotive industry, AC Motors' Kia, Maxus, and Volkswagen brands face many challenges, including: (a) developing a positive reputation in the automotive industry; (b) attracting and retaining customers and managers in the automotive industry; (c) successfully competing with other brands offering similar products in the same markets, some of which may be larger in size, have a longer operating history and have greater expertise and financial resources; and (d) interacting and developing a relatively new relationship with the relevant regulatory bodies. In addition, AC Motors' Volkswagen, Kia and Maxus groups may incur substantial expenditures in bidding for, acquiring and developing their businesses. There is no assurance that AC Motors will be a successful participant in the automotive industry, or that it will not suffer significant losses that could have a material adverse effect on its business, financial condition and results of operations.

AC Motors' businesses may be affected by tax legislations.

In January 2018, the TRAIN Law was implemented. This new law raised the excise taxes for vehicles, and as a result, increased the prices for most vehicles in the market. The higher prices have already caused the Philippine automotive sales to fall in 2018. AC Motors has already been impacted by this and there is a risk that the Philippine automotive industry may remain weak because of the recent excise taxes and further possible changes in tax laws.

AC Motors' KTM group is a relatively new participant in the motorcycle industry and has a limited track record operating in that industry.

As a new entrant in the adjacent motorcycle market, AC Motors has limited direct experience in the sector. There are, correspondingly, startup risks and operational uncertainties as the management team continues to execute business plans. AC Motors therefore relies heavily on its lengthy automotive experience to mitigate any challenges it may face in this expansion effort, some of which are: (a) premium positioning vs. volume/mainstream motorcycle brands; (b) sustaining production with only local sales for the initial year of production; and (c) informal industry structure of motorcycle market vs. experience in the more structured auto industry.

AC Motors' Honda and Isuzu businesses are highly reliant on the strategies and product offerings of HCPI and IPC, respectively.

With significant shares in both Honda and Isuzu sales in the Philippines, AC Motors' dealers seek to influence their respective importers' product offers and strategic decisions. However, ultimately directions set by the importers may not fully align with AC Motors' dealers' interests.

New Businesses

AC Industrials' recent acquisitions may require some time before contributing to the overall performance of AC Industrials.

AC Industrials recently completed key acquisitions in line with its strategic goals of deepening its participation in the automotive value chain, via acquiring selected pieces of key technology, and strengthening its global manufacturing capabilities. VIA, VTS, Surface Technology International

Business

Enterprises Limited, MT Technologies, Merlin Solar Technologies, Inc. and the C-Con Group are all currently in various stages of integration with AC Industrials. These businesses are based in foreign countries with significant geographic and cultural differences. In addition, they are all relatively early in their development as operating businesses of AC Industrials and will require further guidance, resources and other forms of support from Ayala to fully realize their value. Because of these hurdles and uncertainties, there is no assurance that the projected financial, operating and strategic benefits of these acquisitions will be realized.

Integrated Micro-Electronics, Inc.

IMI's operating results may significantly fluctuate from period to period.

There is a risk that IMI's operating results may fluctuate significantly due to various factors including but not limited to natural calamities such as global pandemic, volcanic eruption, weather and climate related incidents, 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 IMI can provide vertically integrated services for a product. The result is also affected by IMI's effectiveness in managing its manufacturing processes, controlling costs, and integrating any potential future acquisitions, IMI'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 IMI 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 lockdowns, travel restrictions, 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. IMI may also experience possible business disruptions as a result of natural events such as global pandemic, 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 IMI's operating results from time to time.

Some of these factors are beyond IMI's control. IMI 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, IMI has expanded its operations in recent years and, in conjunction with the execution of its strategic plans, IMI expects to continue expanding in terms of geographical reach, customers served, products, and services. To manage its growth, IMI must continue to enhance its managerial, technical, operational, and other resources, as well as realign strategies to adjust to the new normal brought about by the COVID-19 Global Pandemic.

IMI'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 IMI's existing operations since execution of said plans may involve challenges. For instance, IMI 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 IMI to implement any expansion plans successfully and in a timely manner.

In response to a very dynamic operating environment and intense industry competition, IMI 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 IMI's solutions is derived from the demand of end customers particularly for end-use applications in the automotive, industrial, communications, consumer, and the increased demands of medical electronics industries. These industries have historically been characterized by rapid technological changes, evolving industry standards, and changing customer needs. Original Equipment Manufacturers ("OEMs") continue to make adjustments to the design, and the choice of components, for their PCBAs, therefore requiring IMI 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 IMI's existing services or technologies less competitive. If IMI 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, taking into account renewed focus on sustainable and renewable technologies, may require substantial time, effort, and capital investment.

IMI is focusing on longer life cycle industries such as automotive, industrial and telecommunication infrastructure to reduce the volatility of model and design changes. IMI 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. In 2020, IMI explored new opportunities in the medical and connectivity markets brought about by the COVID-19 pandemic.

With rapid technological changes comes increasingly sophisticated methods to infiltrate information and communication systems. The rapid deployment of digital and mobile environments, opening of network infrastructure to work from home and telecommuting pose an increased risk of unauthorized access and disruption in operations. IMI may be vulnerable to increased 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 IMI 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.

IMI also complies with the 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, IMI'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, IMI 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

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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. IMI 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 IMI is able to have a more accurate production planning and inventory management process.

Buy-back agreements are also negotiated by IMI in the event there are excess inventory when customer products reach their end-of-life. To the extent possible, IMI's contracts 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.

IMI'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 IMI to potential difficulties that include diversion of management's attention from the normal operations of IMI'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.

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

If IMI 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, IMI 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 IMI to be acquired is carefully examined thorough due diligence to ensure exposures are mitigated through proper warranties. In addition, IMI looks at acquisitions that are immediately accretive to the P&L of IMI. The decision is then reviewed and endorsed by the Finance Committee and approved by the Board. IMI carefully plans any merger or acquisition for a substantial period prior to closing date. Prior to closing of transactions, IMI forms an integration team and formulates detailed execution plans to integrate the key functions of the acquired entity into IMI.

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 IMI'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. IMI 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

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years. IMI'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.

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

To mitigate the effects of price declines in IMI's existing products and to sustain margins, IMI continues to improve its production efficiency by increasing yields, increasing throughputs through LEAN and six sigma manufacturing process. In addition, IMI 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. IMI 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 IMI's competitors in the industry may have greater design, engineering, manufacturing, financial capabilities, or superior resources than IMI. 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. IMI 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. IMI's customers may opt to transact with IMI's competitors instead of IMI or if IMI 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 IMI 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 IMI's business, financial condition, and results of operations.

IMI 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. IMI 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. IMI 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, IMI'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 IMI 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, IMI is able to establish a high barrier of entry, business sustainability and better pricing. Generally, IMI 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 IMI has taken resulted in the rise of IMI'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 IMI 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 IMI to its customers do not, or are not deemed to, satisfy such warranties, IMI 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 IMI 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 IMI 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 IMI to liability, IMI's quality assurance focused on defect prevention, globalizing the culture of early detection and reaction to internal issues. IMI 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.

IMI 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 IMI's manufacturing and quality assurance processes, to ensure compliance with specifications. IMI works closely with customers to define customer specifications and quality requirements and follow closely these requirements to mitigate future product liability claims. IMI also insures itself on product liability and recall on a global basis.

IMI's production capacity may not correspond precisely to its production demand.

IMI's customers may require it to have a certain percentage of excess capacity that would allow IMI to meet unexpected increases in purchase orders. On occasion, however, customers may require rapid increases in production beyond IMI's production capacity, and IMI 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 IMI's profit margins. In response, IMI makes the necessary adjustments in order to have a match between demand and supply. In the case of a lack in supply, IMI 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, IMI closely coordinates with customers to provide the parties with regular capacity reports and action plan/s for common reference and future capacity utilizations. IMI 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.

IMI's business depends in part on its ability to provide customers with technologically sophisticated products. IMI'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 IMI indemnify them against claims of intellectual property infringement. If any claims are brought against IMI'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 IMI 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. IMI 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.

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

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

IMI continuously addresses its concentration risks. There is no single customer that IMI is dependent on or accounts for more than 15% of IMI's revenues. IMI 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.

IMI 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.

IMI'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, IMI's future growth could be limited.

IMI 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 IMI.

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

There is a risk that IMI 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

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production or delivery (lockdowns and logistics issues). IMI is also exposed to challenges surrounding lead-times within the electronic component market.

IMI 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 IMI 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, IMI 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 IMI 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, IMI has established supplier certification and development programs designed to assess and improve suppliers' capability in ensuring uninterrupted supply of components to IMI.

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 IMI's manufacturers to supply its products is dependent, in part, upon the availability of raw materials and certain components. IMI's manufacturers may experience shortages in the availability of raw materials or components, which could result in delayed delivery of products to IMI 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 IMI'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 IMI's prices and margins, any of which could harm IMI's financial performance and results of operations. Other than for customer-nominated suppliers or specialty components for the manufacture of specific products, IMI 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, IMI 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 IMI 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. IMI is cognizant of these risks and accordingly exercises due diligence in materials planning.

IMI works with key suppliers to establish supplier-managed inventory arrangements that will mutually reduce the risk. IMI 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, IMI 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 IMI for the excess inventory.

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

IMI'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

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disputes may lead to legal or other proceedings that may affect the ability of IMI to realize its short and long-term target revenues and margins, and may result in substantial costs, delays in IMI's development schedule, and the diversion of resources and management's attention.

IMI 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, IMI'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.

IMI'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 IMI's operating efficiency and financial performance. Key executives and members of management of IMI 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 IMI 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 IMI, IMI's business and results of operations may be adversely affected.

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

IMI's success depends partially on the ability of IMI, 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 IMI's, its contractors' or its third party marketing agents' employee relations could have a material and adverse effect on IMI's financial condition and results of operations.

IMI 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 IMI.

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, IMI will have to continuously attract, develop, engage and retain skilled workforce highly capable to achieve business goals. IMI recognizes that its competitiveness is dependent on its key talent pipeline, including leadership, talent and skill pool, and succession plan.

IMI continuously identifies top-caliber candidates and keeps the pipeline full to be ready to assume new roles and fuel growth. IMI 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.

IMI 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 IMI. 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. IMI has implemented proactive measures to retain employees through sound retention programs, encouraging work-life balance

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among its employees, and providing structured career development paths to promote career growth within the organization and loyalty to IMI.

IMI may be exposed to additional risks as a consequence of VIA's listing on the New York Stock Exchange.

By becoming a US public company, VIA is now subject to additional and more stringent regulatory compliance requirements. Its failure to comply could have a significant and adverse effect on its business and reputation, which will in turn affect IMI, being its majority stockholder.

RISKS RELATING TO COUNTRIES WHERE THE IMI 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 IMI operates, including the Philippines. Factors that may adversely affect an economy include but are not limited to:

- a. decreases in business, industrial, manufacturing or financial activity in the Philippines or in the global market,
- b. scarcity of credit or other financing, resulting in lower demand for products and services
- c. the sovereign credit ratings of the country,
- d. exchange rate fluctuations,
- e. a prolonged period of inflation or increase in interest rates,
- f. changes in the relevant government's taxation policies,
- g. climate change, natural (or man-made) disasters, including pandemic, typhoons, earthquakes, fires, floods and similar events,
- h. political instability, terrorism or military conflict, and
- i. other regulatory, political or economic developments in or affecting IMI

Notwithstanding the foregoing, the global operations, marketing, and distribution of IMI's products inherently integrate the impact of any economic downturn affecting a single country where IMI operates, and enables IMI to shift the focus of its operations to other jurisdictions.

IMI'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 IMI'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 IMI's operations if it is unable to obtain such approvals, permits, and licenses, and could have a material adverse effect on IMI's results of operations.

Changes in law including unexpected changes in regulatory requirements affect IMI'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 IMI'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 IMI'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 IMI's manufacturing operations is located in China, which has regulated financial and foreign exchange regime. IMI 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.

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

IMI cannot predict what environmental, climate change 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 IMI'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 IMI 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 IMI's projects are located cause damage or injury to buyers or any third party, IMI 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 IMI.

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 IMI'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

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of the Government and Philippine companies, including IMI, 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 IMI 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 IMI.

Furthermore, the risk of imposing big border tax to US manufacturers that move jobs outside the country will have impact to where IMI 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-needed basis, IMI seeks the help of consultants and subject matter experts for changes in laws and regulations that may have a significant impact in IMI'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. IMI 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 IMI and its prudent management team are the foundations for its continued success. IMI 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 IMI is dependent on or accounts for more than 15% of IMI's revenues. IMI also serves global customers which are not concentrated on a specific geographic market.

Severe macroeconomic contractions may conceivably lead IMI to tweak or modify its investment decisions to meet the downturn. As a holding company, IMI 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.

IMI expects to have an international customer base which may require worldwide service and support. IMI 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 IMI, 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 IMI's management team, the members of which are spread out internationally.

While IMI 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 IMI resulted in more efficient and timely coordination of activities and decision making by management from different sites and countries.

IMI aggressively pursues hiring of experienced international managers and staff globally. This enables IMI 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.

Public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect IMI's business, financial condition and results of operations.

The Philippines remains vulnerable to exposure and spread of COVID-19. See page 68 “ – *Risks relating to the Philippines – The continuing impacts of the COVID-19 pandemic are highly unpredictable, volatile, and uncertain, and have had, and will continue to have, certain negative impacts on business operations, demand for products and services, costs of doing business, availability of labor, access to inventory, supply chain operations, the Group's financial performance, and the ability to predict future performance, among others.*”

In 2020, the manufacturing operations of IMI were highly affected by lockdowns in China, the Philippines and Mexico and voluntary shutdowns in the Europe factories to align with the demand slowdown during the first half of the year. Revenues in the second half of the year recouped, 39% better than first half and 7% higher year-on year on the back of strong demand recovery and subsequent normalization of operations. The global demand for security and I-o-T products boosted industrial revenue while mobility-focused European and North American facilities benefitted from the rapid rise of global automotive production. In addition, IMI's growing foothold in the profitable medical segment also led to increased higher margin sales for its manufacturing plants in Asia.

To mitigate the impact of the lockdowns, various sites affected obtained approvals to run essential businesses, optimized manpower resources and implemented various cost cutting initiatives. IMI also collaborated with local government units to secure various forms of employee related subsidies in Bulgaria, China, Czech Republic, France, Mexico, Serbia, and Singapore. These, along with improved manufacturing efficiency drove improved margins and lower losses compared to 2019.

The effects of potential recurrence of pandemic related shutdowns after the reporting period may pose risks and unfavorable impact to IMI, although will not materially affect the Company's ability to continue as going concern.

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.

Apart from the current COVID-19 pandemic, which has affected all countries in 2020 (to date), 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 IMI's operations. These factors, which are not within IMI's control, could potentially have significant effects on IMI's manufacturing facilities. As a result, the occurrence of natural or other catastrophes or severe weather conditions may adversely affect IMI's business, financial condition and results of operations.

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

In addition, epidemic or pandemic such as the COVID-19 Pandemic in 2020, Middle East Respiratory Syndrome (“MERS”) of 2012, H1N1 Influenza virus of 2009, Severe Acute Respiratory Syndrome (“SARS”) of 2003 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 IMI's operations and the operations of IMI's customers and suppliers and may affect the availability of materials needed for IMI's

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manufacturing services. Such events may also disrupt the transportation of materials to IMI's manufacturing facilities and finished products to IMI's customers.

There can be no assurance that IMI 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 IMI'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 IMI's business operations, which could have an adverse effect on the results of operations and the financial condition of IMI.

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 IMI has operations could materially and adversely affect IMI'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 US\$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.

Newly elected President Joe Biden has manifested that the US will not and should not be expected to ease up on military operations in the West Philippine Sea. These South Asian nations and claimants involved in West Philippine awaits President Biden administration's broader, and comprehensive China strategy, including how to settle and manage economic tension between US and China.

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 October 31, 2019. Subsequently, 28th of the same month, EU heads of state and government approved the new and final extension date of January 31, 2020.

Investors may face difficulties enforcing judgments against IMI.

It may be difficult for investors to enforce judgments against IMI 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.

Regulatory

Please refer to “Regulatory Framework” on page 374 of this Prospectus.

POWER

AC Energy and Infrastructure Corporation (formerly AC Energy, Inc.; alternately referred to as “ACEIC”) manages a diversified portfolio of renewable and conventional power generation projects and engages primarily in power project development operations.

ACEIC was incorporated in 2011 to pursue greenfield/brownfield, as well as currently operating, power-related projects for both renewable and conventional technologies. In 2016, ACEIC 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. In June 2019, ACEIC completed the acquisition of ACEN, an energy platform listed in the PSE, and subsequently renamed it to “AC Energy Philippines, Inc.” in September 2019. The SEC approved the change of name on October 11, 2019. On March 18, 2020, the ACEN Board voted to rename the “AC Energy Philippines, Inc.” to “AC Energy Corporation” to recognize the potential offshore expansion of the ACEN through the ACEIC International Transaction.

In April 2020, Ayala Corporation announced the approval of the consolidation of the group’s energy, water, and logistics businesses under ACEIC. In line with the proposed consolidation, on April 14, 2020, ACEIC’s Board of Directors approved the change of name to “AC Energy and Infrastructure Corporation,” subject to regulatory approvals. On October 1, 2020, the ACEIC’s Board of Directors approved the consolidation Ayala Corporation’s water and logistics businesses under the ACEIC. The final structure, including the businesses that will be transferred to ACEIC, and completion of the consolidation shall be subject to internal corporate approvals, legal and other regulatory approvals, among others.

The AC Energy Group has since transitioned from being Philippine-focused into a regional energy player with investment, development and operation capabilities, and is actively scaling up its renewable energy platform with investments in the Philippines and in markets where it is a new participant, such as Indonesia, Vietnam Australia, and India. The AC Energy Group, through its subsidiary listed on the PSE, AC Energy Corporation (“ACEN”), targets to achieve 5,000GW in attributable renewable capacity by 2025 and aims to become the largest listed renewables platform in Southeast Asia.

In addition to its renewable and conventional energy businesses, the AC Energy Group is also engaged in commercial operations, which includes wholesale and retail electricity supply in the Philippines. The AC Energy Group’s wholesale business includes its power supply agreements (“PSAs”) with Meralco, such as the 10-year 200MW baseload supply contract and 5-year 110MW mid-merit supply contract. ACEIC and ACEN obtained retail electricity supply (“RES”) licenses allowing them to sell electricity to end-users in the contestable market. In addition to the contracts with Meralco, the AC Energy Group

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has entered into agreements with various customers and end-users for the supply of over 270MW as of December 31, 2020.

The AC Energy Group's strategies and objectives are aligned 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, ACEIC is additionally focused on protecting the wider environment and creating value for the communities it serves. The AC Energy Group's Environmental and Social Policy has the following objectives:

- Achieve a low carbon portfolio by 2030
- Aspire for excellence in environmental management
- Fulfill its commitment to the community

OVERVIEW

As of December 31, 2020, ACEIC has 1,034MW of attributable capacity in the Philippines held under the listed platform ACEN, 1,372MW offshore, and 710MW of legacy coal assets:

Attributable Capacities in MW ¹:

	ACEN ²	International	Legacy Coal ³
Renewable	491	1,372	-
Thermal	543	-	710
Total	1,034	1,372	710

	ACEN ²	International	Legacy Coal ³
Operating	735	482	442
Under Construction	299	890	267
Total	1,034	1,372	710

(1) Net Attributable Capacity refers to the net dependable capacity of the relevant power projects multiplied by the economic interests in those projects.

(2) Shown on a 100% basis.

(3) Includes Net Attributable Capacity from the GNPk Project of 392MW. In July 2019, AC Energy and Power Partners Ltd. Co. ("Power Partners") signed a binding agreement for the GNPk Disposition, transferring AC Energy's economic interest in the GNPk Project in favor of Power Partners. Power Partners is AC Energy's existing developer-partner in the GNPk Project. On March 5, 2021, GNPk, ACEIC, and certain of their affiliated companies, signed a Divestment Agreement for the transfer by ACEIC of its indirect ownership interest.

On March 18, 2020, the Board of Directors approved the consolidation of ACEIC's international business and assets into ACEN via a tax-free exchange, whereby ACEIC will transfer 100% of its shares of stock in AC Energy International, Inc. ("ACE International", formerly Presage Corporation) (AC Energy's 100%-owned subsidiary holding ACEIC's international business and investments), consisting of 1,650,166,347 common shares and 15,035,347,600 redeemable shares, to ACEN in exchange for the issuance to ACEIC of additional common shares (the "ACEIC International Transaction") by way of subscription to an increase in ACEN's authorized capital stock.

On March 31, 2020, the Executive Committee of ACEN confirmed the recommendation of the ACEN's management that upon their independent valuation of ACE International and ACEN, in exchange for the shares in ACE International, ACEIC shall subscribe to a total of 16,685,800,533 common shares of ACEN at ₱2.97 per common share or a total transfer value of ₱49,556,827,583.01.

On April 19, 2021, the stockholders of ACEN representing at least two-thirds of the outstanding capital stock of ACEN approved the ACEIC International Transaction and the further increase of ACEN's authorized capital stock to ₱48,400,000,000, consisting of 48,400,000,000 Common Shares with a par value of ₱1.00 per share ("Second Increase in ACS").

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On April 26, 2021, ACEN and ACEIC executed the Deed of Assignment effective as at April 26, 2021, whereby ACEIC transferred and conveyed to ACEN its rights and interest in AC Energy International as payment for its subscription to ACEN's Common Shares as detailed in the table below:

Company	Type of Share	Number of Shares	Par Value per Share (₱)	% of Ownership Transferred	No. of Exchange Shares
AC Energy International, Inc.	Common	1,701,284,345	1.00	100%	13,767,299,756
	Redeemable Preferred	15,030,279,000	1.00	100%	2,918,500,777
Total					16,685,800,533

In exchange for the above shares, ACEIC subscribed to a total of 16,685,800,533 Common Shares to be issued out of the Second Increase in ACS at ₱5.15 per Share or a total transfer value of ₱85,931,872,744.95.

On April 26, 2021, ACEN submitted to the SEC its initial filing for the Second Increase in ACS together with the request for confirmation of valuation of the PSE.

In accordance with Republic Act No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act ("CREATE"), which was signed into law on March 26, 2021, amending provisions of the Tax Code, a BIR ruling confirming that the ACEIC International Transaction qualifies as a tax-free exchange is no longer required.

The transactions are subject to further regulatory approvals, including listing with the PSE, and are expected to be completed within 2021.

Philippines

Since 2011, the ACEIC has made strategic investments in the power sector in the Philippines, including in greenfield and brownfield projects.

After acquiring ACEN (formerly, AC Energy Philippines, Inc.) in 2019, the ACEIC initiated the process of transforming ACEN into its primary listed platform for its power projects and energy-related operations and investments. In particular, AC Energy completed the integration of its Philippine assets into ACEN and has announced the infusion of its international portfolio into ACEN to complete this transformation. The Legacy Thermal Assets have been excluded from the ACEIC Philippine Transaction and will continue to be held under ACEIC until the completion of their respective dispositions. As part of its Environmental and Social Policy, ACEIC is committed to achieve a low carbon portfolio, which includes divesting its coal assets by 2030.

As of December 31, 2020, the AC Energy Group's operating assets under ACEN are the following (ACEN's economic interests indicated):

- 48MW oil-fired power plant in Norzagaray, Bulacan through Bulacan Power Generation Corporation (100%);
- 20MW oil-fired power plant in Bacnotan, La Union, through CIP II Power Corporation (100%);
- 108MW diesel power plant in Subic Bay through One Subic Power Generation Corporation (100%);
- 48MW Power Barge 101 and 102 directly owned by ACEN and located in Barrio Obrero, Iloilo City (100%);
- 54MW wind power project in San Lorenzo, Guimaras through Guimaras Wind Corporation (100%);
- 244MW power plant in Calaca, Batangas through South Luzon Thermal Energy Corporation (100%);
- the joint venture of the 32MW geothermal plant in Maibarara, Santo Tomas, Batangas, through Maibarara Geothermal, Inc. (25%);
- (the joint venture of the 52MW wind farm in Bangui, Ilocos Norte through NorthWind Power Development Corporation (68%);
- the joint venture of the 81MW wind farm in Caparispisan, Ilocos Norte through North Luzon Renewables Energy Corporation (67%);

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- the joint venture of the 80MWdc solar power farm in Negros Occidental through Negros Island Solar Power, Inc. (60%);
- 45MWdc solar power farm in Negros Occidental through San Carlos Solar Energy, Inc. (100%); and
- 18MWdc solar power farm in Negros Occidental through Monte Solar Energy, Inc. (100%)

The AC Energy Group considers the Philippines as its core market and as it has a number of projects under construction namely the 120MWdc solar farm in Alaminos, Laguna, the 60MWdc solar farm in Palauig, Zambales, the 150MW peaking plant in Pililia, Rizal, a 40 MW Battery Energy Storage System in Alaminos, Laguna, and a 4MW solar laboratory in Mariveles, Bataan. On April 26, 2021, ACEN energized the Palauig Solar project with a final capacity of 63 MWdc, with a target to achieve full commercial operations by the 2nd quarter of 2021.

In 2021, the AC Energy Group continued to expand its partnerships in the Philippines with the following:

- ACEN and wholly owned subsidiary ACE Endeavor, Inc. signed a Shareholders' Agreement with Citicore Solar Energy Corporation ("CSEC"), and Greencore Power Solutions 3, Inc. ("Greencore"), for the development, construction, and operation of a PV Solar Power Plant in Arayat and Mexico, Pampanga, Philippines with an installed nominal capacity of 72MWdc. On April 26, 2021, ACEN issued a notice to proceed for the Arayat Solar project, which is targeted to be completed by 2022.
- ACEN signed a deed of absolute sale for the purchase of shares owned by Solar Philippines Power Project Holdings, Inc. ("SP") in Solar Philippines Central Luzon Corporation ("SPCLC") and has subscribed to shares of the SPCLC to implement the joint venture between ACEN and SP for the development of solar power projects in the Philippines.

The AC Energy Group has an active pipeline of 500MW expecting financial close within 12 to 24 months from the date of this Prospectus.

Indonesia

In 2017, ACEIC established its first footprint overseas with investments in renewable energy projects in Indonesia 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, and acquired 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. ACEIC has an effective economic stake of 19.80% in the Salak-Darajat Geothermal Projects. The Sidrap wind project (the "Sidrap Wind Project"), ACEIC's first greenfield offshore investment, is the first utility-scale wind farm project in Indonesia with a net capacity of 75MW, which commenced commercial operations in March 2018. ACEIC has a 75% economic interest in this project.

Vietnam

In December 2017, AC Energy Vietnam Investments Pte. Ltd. ("ACEV"), a wholly-owned subsidiary of AC Renewables International Pte. Ltd. ("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 50MWdc solar farm in Khanh Hoa province (the "Khanh Hoa Solar Plant"), (ii) BMT Renewable Energy Joint Stock Company ("BMT Dak Lak"), which owns a 30MWdc 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 owns a 210MW wind farm located in the Quang Binh province (the "Quang Binh Wind Farm"). The Khanh Hoa and Dak Lak Solar Plants commenced commercial operations in the second quarter of 2019 with a total net capacity of 80MWdc. The Quang Binh Wind Farm commenced construction in 2020 and further expanded to a total capacity of 252MW in March 2021. The project is expected to be completed by October 2021, in time to qualify for the applicable wind feed-in tariff ("FIT") rate.

In June 2018, ACEIC, through ACEV, entered into a partnership with the BIM Group of Vietnam for the development of an aggregate of 330MWdc of solar power plants located in the province of Ninh Thuan,

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Vietnam (the “Ninh Thuan Solar Plants”). The Ninh Thuan Solar Plants commenced commercial operations in the second quarter of 2019 and also completed a 75MWdc expansion by the end of 2020 (the “Ninh Thuan Solar Expansion”) which increased the total capacity of the Ninh Thuan Solar Plants to 405MWdc. The AC Energy Group continued to expand the partnership with BIM Group with the construction of an 88MW wind farm (“Ninh Thuan Wind Farm”) located in the Ninh Thuan Province, Vietnam which is expected to be completed by October 2021, in time to qualify for the applicable wind FIT rate.

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 AC Energy Group has certain investment rights. The 40MW of the first phase of the Mui Ne wind farm (“Mui Ne Wind Farm (Phase 1)”) located in the Binh Thuan Province commenced was completed within 2020. The second phase of the Mui Ne wind farm (“Mui Ne Wind Farm (Phase 2)”) with a total capacity of 40MW commenced construction in March 2020 and is expected to be completed before the deadline to qualify for the applicable wind FIT rate.

In June 2020, ACEIC and UPC Renewable Asia Pacific Holdings Limited (“UPC Renewables”) expanded their relationship and commenced construction of wind projects with an aggregate capacity of 60MW located in Lac Hoa and Hoa Dong in the Soc Trang province of southern Vietnam (the “Lac Hoa Wind and Hoa Dong Wind Farm”). The Lac Hoa Wind and Hoa Dong Wind Farm is expected to be completed before the wind FIT deadline of November 2021.

On March 1, 2021, ACRI and the AMI Group issued a notice to proceed for a 42 MW expansion of the Quang Binh Wind project located in Binh Thuan Province, Vietnam. The project’s capacity is expanded to 252 MW and is targeted to be completed by October 2021.

Australia

In May 2018, ACEIC entered the Australian renewable energy market through a joint venture with international renewable energy developer, UPC Renewables. ACEIC through its subsidiary, ACEIC International, invested U.S.\$30 million for 50.0% ownership in UPC-AC Energy Renewables Australia (HK) Limited (“UPC-AC Renewables Australia”). ACEIC also extended a U.S.\$200 million revolver facility to partially fund the Australia projects.

Having commenced early works including substation and road design in late 2020, UPC-AC Renewables Australia announced the financial close for the first phase of the New England Solar Farm with a capacity of 521.5MWdc at Uralla in New South Wales in February 2021. The New England Solar Farm is expected to have a combined 720 MW Solar capacity and 400 MWhr Battery at the site once all phases are completed.

UPC-AC 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, ACEIC has investment rights to invest equity directly into the projects. UPC-AC Renewables Australia continues to assess potential investments into additional renewable energy projects across Australia.

India

ACEIC has also expanded into India, with the 140MWdc Sitara Solar in Rajasthan and the 70MWdc Paryapt Solar in Gujarat through its joint venture UPC-AC Energy Solar.

On April 24, 2021, the 70 MWdc Paryapt Solar project, a joint venture with UPC Renewables, was commissioned. The project is located in the State of Gujarat, India, and is expected to achieve commercial operations within the 2nd quarter of 2021. The Sitara Solar project is also targeted for completion within the year.

Wholesale Contracts and Retail Electricity Supply

Business

The AC Energy Group, through ACEN, won the bid to supply MERALCO with a 200MW baseload demand from 2019 to 2029 and subsequently won the bid to supply 110MW mid-merit supply to MERALCO from 2019 to 2024. Also, the AC Energy Group's renewable energy portfolio has more than 200MW of capacity under feed-in tariffs with 20-year contracts with the government as of the date of this Prospectus.

In addition to its renewable and conventional energy businesses, the AC Energy Group is also engaged in retail electricity supply ("RES"). Both ACEIC and ACEN are licensed to sell electricity to end-users in the contestable market. As of December 31, 2020, the AC Energy Group has entered into agreements with various customers and end-users for the supply of over 270MW.

Significant Transactions

On June 24, 2019, ACEIC completed the acquisition of a 51.48% stake in ACEN via a purchase of secondary shares with an initial transaction value of ₱3.669 billion. ACEIC also subscribed to 2.632 billion ACEN primary shares at par value. A mandatory tender offer was conducted, in which a total of 156,476 shares were tendered. ACEIC's ownership stake in ACEN as of December 31, 2020 is 66.34%.

On May 2, 2019, ACEIC completed the sale of a 60% economic interest and 49% voting interest in AA Thermal to Aboitiz Power. The transaction value is at U.S.\$572.9 million, before any price adjustment.

AA Thermal has an ownership interest in the 2x300 MW coal-fired power plant in Mariveles, Bataan owned by GMCP, which has been in operations since 2014, and in the 2x600 MW supercritical coal-fired power plant in Dinginin, Bataan owned by GNPowder Dinginin Ltd. Co., which is currently under construction.

On January 29, 2019, the AC Energy Finance International Ltd. ("ACEFIL") issued US\$225.00 million senior green bonds due 2024 guaranteed by ACEIC with a fixed coupon of 4.75%. The notes were priced at 99.45.

On February 12, 2019, ACEFIL issued US\$75 million senior green bonds to International Finance Corporation (IFC) due 2024 with a fixed coupon of 4.75%. The notes were priced of 99.998. On the same date, ACEFIL issued US\$110.00 million senior guaranteed notes due 2029 with a fixed coupon of 5.25%. The notes were priced at 99.616. Both notes due 2024 and 2029 were issued under a U.S.\$ 1 billion Medium Term Note ("MTN") Programme and are guaranteed by ACEIC.

On the July 9, 2020, ACEFIL issued US\$60.00 million senior green bonds due 2029 guaranteed by ACEIC with a fixed coupon of 4.75%. The notes were priced at 104.75.

On November 17, 2020, ACEFIL amended the MTN Programme to increase the aggregate amount to U.S.\$2 billion and allow the issuance of senior undated guaranteed notes under the MTN Programme.

On November 25, 2020, ACEFIL issued US\$300 million senior undated guaranteed notes with a fixed coupon of 5.10% for life. The notes were priced at par. The new issue was used to finance the successful tender of US\$186.89 million of the US\$400.00 million 5.65% senior undated guaranteed notes at a tender price of 104.625.

On May 14, 2020, the ACEN and ACEIC executed the Second Amended and Restated Deed of Assignment effective as at October 9, 2019, whereby ACEIC transferred and conveyed to ACEN its rights and interest in 10 corporations as payment for its subscription to the ACEN's Common Shares ("ACEIC Philippine Transaction"). The ACEIC Philippine Transaction was completed in January 2021.

On November 14, 2019, ACEN signed a share purchase agreement with PINAI for the acquisition of shares in PWHC, which directly and indirectly owns ~67% of NLREC. On 28 January 2020, the PCC approved the NLR transaction. On 27 February 2020, the acquisition was completed and the final purchase price in the amount of ₱2.573 billion was paid by Giga Ace 1, Inc., ACEN's wholly-owned subsidiary and the entity designated by ACEN to purchase and hold the PWHC shares.

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On November 4, 2019, ACEN signed a share purchase agreement with PINAI for the acquisition of PINAI's 31% effective preferred equity ownership and 15% effective common equity ownership in NLR. On February 13, 2020, the PCC approved the Sacasol transaction.

On December 2, 2019, ACEN signed a share purchase agreement with PINAI for the acquisition of PINAI's ownership interest in Islasol and Sacasol. On February 28, 2020, the PCC approved the Islasol transaction. On March 23, 2020, closing for the ISLASOL transaction occurred and the purchase price in the amount of ₱1,629.97 million was paid by Giga Ace 3, Inc., ACEN's wholly-owned subsidiary and the entity designated by ACEN to purchase the PINAI's shares in Islasol.

On March 23, 2020, closing for the Sacasol transaction occurred and the purchase price in the amount of ₱2,981.86 million was paid by Giga Ace 2, Inc., ACEN's wholly-owned subsidiary and the entity designated by ACEN to purchase the PINAI's shares in Sacasol.

On December 30, 2020, ACEN, Arran and ACEIC signed an investment agreement and intend, upon the completion of the subscription by Arran to primary shares, to sign a shareholders' agreement that will document the rights and obligations of Arran as an investor in ACEN, pursuant to the November 11, 2020 resolution of the Board of Directors approving the proposal of Arran, an affiliate of GIC Private Limited ("GIC"), to acquire an effective 17.5% ownership stake in ACEN (the "Arran Investment"). The 17.5% ownership stake is on a fully diluted basis assuming that the Offer and the ACEIC International Transaction have been completed.

The Arran Investment will be implemented through a combination of subscription to four billion primary Shares (via a private placement) and purchase of secondary Shares from ACEIC at a price of ₱2.97 per Share on a post-Rights Offer basis, subject to agreed price adjustments. The price for the Arran Investment represents a 25% premium to the Board-approved Offer Price for the Offer and is at par with the theoretical ex-rights price using the 30-day VWAP of ₱3.51 per Share as of November 10, 2020.

On March 18, 2021, ACEN and Arran signed a subscription agreement for the allotment and issuance by ACEN of 4 billion Common Shares via private placement, constituting 20.04% of the total outstanding Common Shares, at the subscription price of ₱2.97 per Share ("Arran Primary Issuance"). ACEN intended to utilize the proceeds as follows: (1) funding of the development and construction of the Group's renewable energy projects, including the PV Solar Power Plant in Arayat, Pampanga and the Balaoi-Caunayan wind farm project in Ilocos Norte, as well as possible expansions of existing plants and acquisition of other operating plants, of approximately up to ₱10 billion, estimated to be used in the 1st half of 2021 at the earliest; (2) repayment of debt drawn earlier to fund development funding requirements; and (3) funding of working capital requirements and for general corporate purposes of approximately up to ₱500 million, estimated to be used in the first quarter of 2021 at the earliest. Since the Common Shares to be issued pursuant to the private placement will not exceed 35% of the resulting total subscribed capital stock, it is exempt from pre-emptive rights of existing stockholders pursuant to the second paragraph of Article Seventh of ACEN's Articles of Incorporation. Shareholder approval for the listing of the Common Shares with the PSE was secured in ACEN's ASM held on April 19, 2021.

The completion of the purchase by Arran of secondary Shares from ACEIC is subject to the completion of the ACEIC International Transaction, which is expected to occur in the fourth quarter of 2021, and applicable regulatory approvals.

On March 5, 2021, AC Energy and Infrastructure Corporation, Power Partners Ltd. Co. and certain of their affiliated companies, signed a Divestment Agreement for the transfer by ACEIC of its indirect ownership interest in the 4x135MW coal-fired power project in Kauswagan, Lanao del Norte (the "GNPK Project") in favor of Power Partners and its affiliates. Power Partners is AC Energy's existing developer-partner in the GNPK Project. The transfer will be implemented in tranches with the purchase price to be paid on a deferred basis.

Risk Factors

Most of these factors are contingencies which may or may not occur and ACEIC is not in a position to express a view on the likelihood of any such contingency occurring.

RISKS RELATING TO ACEIC 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 ACEIC's operations and financial performance.

ACEIC's success depends on its ability to identify, invest in and develop new power projects, and ACEIC faces competition to acquire future rights to develop power projects and to generate and sell power. No assurance can be given that ACEIC 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 ACEIC, giving them the ability to respond to operational, technological, financial and other challenges more quickly than ACEIC. These competitors may therefore be more successful than ACEIC 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.

ACEIC 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 ACEIC'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 the Philippines, Indonesia, Vietnam, Australia, and India 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 ACEIC will need to compete for projects based on pricing, technical and engineering qualifications, the financial condition of ACEIC, 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 ACEIC's control, such as market conditions or government incentive programs. In such cases, ACEIC may not acquire the rights to develop new power projects in the event that ACEIC misjudges its competitiveness when submitting its bids or proposals or, where bidding includes price competition, if ACEIC's competitors have more competitive pricing. The ability of ACEIC's competitors to access resources that it does not have access to, including labor and capital, may prevent ACEIC from acquiring additional power projects in strategic locations or from increasing its generating capacity, and ACEIC may not be able to expand its business as a result.

ACEIC is constantly on the lookout for potential projects through its professional network. Further, ACEIC regularly seeks strategic partners with technical experience in the development of power projects, and familiarity with local regulations in the locations where it invests.

ACEIC 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, ACEIC seeks to actively manage its portfolio of power projects to maximize its capital base. ACEIC 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. ACEIC'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.

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This growth strategy could place significant demands on ACEIC's management and other resources. ACEIC'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: (a) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected demand; (b) ACEIC may not be able to integrate acquired businesses, technologies, products, personnel, and operations effectively; (c) ACEIC may fail to retain key employees, customers and suppliers of the companies acquired; (d) ACEIC may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavorable terms; and (e) ACEIC 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 ACEIC's financial condition.

Further, ACEIC 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 ACEIC's ability to make future acquisitions, mergers or dispositions. For example, in January 2019, ACEIC entered into an agreement for the acquisition of certain interests in ACEN and in September 2018, ACEIC, through its affiliate, entered into an agreement with Aboitiz Power for the disposition of certain of its interests in its thermal energy portfolio.

The impact on ACEIC 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 ACEIC's business, financial condition, results of operations and prospects.

In addition, ACEIC's growth to date, in particular driven by acquisitions and investments, has placed, and the anticipated further expansion of ACEIC's operations will continue to place, a significant strain on ACEIC's management, systems and resources. In addition to training, managing and integrating ACEIC's workforce, ACEIC will need to continue to develop ACEIC's financial and management controls. ACEIC can provide no assurance that ACEIC will be able to efficiently or effectively manage the growth and integration of ACEIC's operations and internationally dispersed businesses and any failure to do so may materially and adversely affect ACEIC'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, ACEIC may decide to delay, modify or forego some aspects of its growth strategies, and its future growth prospects could be adversely affected.

ACEIC continues to actively review and balance its portfolio in light of market conditions, regulatory developments, technological improvements, and industry best practices.

The operations of ACEIC's power projects are subject to significant government regulation, including regulated tariffs such as FIT, and ACEIC's margins and results of operations could be adversely affected by changes in the law or regulatory schemes.

The inability of ACEIC 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 our 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 ACEIC's business, including, but not limited to:

- a. adverse changes in tax law;
- b. changes in the timing of tariff increases or in the calculation of tariff incentives;

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- c. change in existing subsidies and other changes in the regulatory determinations under the relevant concessions;
- d. other changes related to licensing or permitting which increase capital or operating costs or otherwise affect the ability to conduct business; or
- e. 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 our existing financial and business planning.

Any of the above events may result in lower margins for the affected businesses, which could adversely affect ACEIC'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 ACEIC's business, financial condition, results of operations and prospects.

ACEIC keeps abreast of regulatory developments to make sure that it is able to respond to shifts timely.

Failure to obtain financing on reasonable terms or at all could adversely impact the execution of ACEIC's expansion and growth plans.

ACEIC's expansion and growth plans are expected to require significant fund raising. As part of ACEIC's current strategy to exceed 5,000MW of renewable energy capacity by 2025, ACEIC estimates that it will require around U.S.\$2 billion of equity financing. ACEIC'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: (a) Laws and government regulations and internal bank policies limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers; (b) ACEIC's compliance with existing debt covenants; (c) the ability of ACEIC to service new debt; (d) the macroeconomic fundamentals driving credit ratings of the Philippines and other countries where ACEIC operates; and (e) perceptions in the capital markets regarding ACEIC 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 ACEIC, any of which could increase borrowing costs or restrict ACEIC's ability to obtain debt or equity financing. There is no assurance that ACEIC will be able to arrange financing on acceptable terms, if at all. Any inability of ACEIC to obtain financing from banks and other financial institutions or from capital markets would adversely affect ACEIC's ability to execute its expansion and growth strategies.

ACEIC maintains constant communication with financial institutions and investors, and constantly monitors market developments.

ACEIC's international businesses and results of operations are subject to the macroeconomic, social and political developments and conditions of the countries where ACEIC's portfolios of projects are located.

In addition to the Philippines, ACEIC's portfolio of power projects in operation and under construction are currently located in Indonesia, Vietnam, Australia, and India with plans for further international expansion in other jurisdictions. 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 ACEIC's existing operations as well as expansion plans will be successful in those countries. ACEIC's financial condition, prospects and results of operations could be adversely affected if it is not successful internationally or if these

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international markets are affected by changes in political, economic and other factors, over which ACEIC has no control.

ACEIC seeks strategic partners with technical experience in the development of power projects, and familiarity with the local regulations in the locations where it invests, and constantly monitors market developments.

Changes in tax policies, affecting tax exemptions and tax incentives could adversely affect ACEIC's results of operations.

Certain subsidiaries, affiliates and joint ventures of ACEIC, including Montesol, North Luzon Renewables, GNPKauswagan Ltd. Co. ("GNPK") and GMCP, are registered with the BOI and the 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.

As discussed in page 73 of this Prospectus, the CREATE Law was signed by the President on March 26, 2021. Once effective, corporate income tax will be reduced. The CREATE Law also rationalizes income fiscal incentives, making them time-bound, targeted, and performance-based. Holders of incentives are given a sunset period to adjust to the tax regime changes that will be brought about by the CREATE Law.

In the event that the tax exemptions and incentives expire, the income from these sources will be subject to the regular corporate income tax rate after the lapse of the sunset period. As a result, ACEIC's tax expense would increase, and its profitability would decrease. The expiration, non-renewal, revocation or repeal of these tax exemptions and incentives, the enactment of any new laws, and any associated impact on ACEIC, could have a material adverse effect on ACEIC's business, financial condition and results of operations.

ACEIC keeps abreast of regulatory developments to make sure that it is able to respond to shifts timely.

ACEIC's long-term success is dependent upon its ability to attract and retain key personnel and in sufficient numbers.

ACEIC depends on its senior executives and key management members to implement ACEIC'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 ACEIC'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 ACEIC'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 ACEIC's business, financial condition and results of operations.

ACEIC has an employee engagement program in place, as well as programs for employee development.

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

The countries in which ACEIC 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.

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For the Philippines, it adopted a FIT programme in 2010 for eligible renewable power projects from wind, solar, hydro, biomass, and hybrid energy sources, among others. Eligible renewable power plants are granted a 20-year entitlement. However, subsidies will gradually decrease with the expected grid parity of solar and wind to be achieved by 2020 and 2025 for new projects respectively.

Subsequent to the FIT programme in the Philippines, the DOE also issued the Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards (“RPS”) for On-Grid Areas and Off-Grid Areas in 2017 and 2018, respectively. The RPS is a market-based policy that mandates power distribution utilities, electric cooperatives and retail electricity suppliers to source an agreed portion of their energy supply from eligible renewable facilities. The RPS rules include the establishment of a minimum annual RPS requirement which entails that the Renewable Energy (“RE”) share of electricity coming from RE resources in the energy mix shall be based on an aspirational target of 35% in the generation mix expressed in MWh by 2030, subject to regular review and assessment by the DOE. The RPS Rules also include a minimum annual incremental RE percentage required to be sourced from eligible RE resources shall be no less than 1% of its annual energy demand over the next 10 years.

For Vietnam, its FIT programme provides for a FIT rate of U.S.\$9.35 cents/kWh for 20 years for solar plants completed by June 2019 (with the exception of solar power projects in located in Ninh Thuan province, which has extended this period to December 2019) and U.S.\$8.50 cents/kWh for wind projects completed by November 2021. In April 2020, the Vietnam government unveiled a second round of FIT rates as follows for project commissioned within 2020: U.S.\$ 7.69 cents/kWh for floating solar, U.S.\$7.09 cents /kWh for ground mounted solar, and U.S.\$8.38 cents/kWh for rooftop energy solar energy projects. Both FIT rates for solar and wind projects are expected to be set for 20 years once awarded.

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 ACEIC’s ability to operate or renew ACEIC’s permits and licenses and reduce the financial incentives available to ACEIC, which could, in turn, have a material adverse effect on ACEIC’s business, financial condition, results of operations and prospects.

ACEIC continues to actively review and balance its portfolio in light of market conditions, regulatory developments, technological improvements, and industry best practices, and it keeps abreast of developments in renewable energy and storage. It grows its portfolio in line with its environmental, social and good governance commitments.

ACEIC 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.

ACEIC derives a substantial 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:

- a. may have economic interests or business goals that are different from ACEIC;
- b. be unable or unwilling to fulfill their obligations under relevant agreements, including shareholder agreements under which ACEIC has certain voting rights in respect of key strategic, operating and financial matters;
- c. take actions or omit to take any actions contrary to, or inconsistent with, ACEIC’s policies or objectives or prevailing laws;
- d. have disputes with ACEIC as to the scope of their responsibilities and obligations; and/or
- e. 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 ACEIC 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. ACEIC’s business, financial condition, results of operations and

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

ACEIC seeks strong, strategic partners to do business with, and the selection and evaluation of projects and partners goes through a rigorous process overseen by management and subject to approval of the ACEIC Board of Directors.

Risks and delays relating to the development of greenfield power projects could have a material adverse effect on ACEIC'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 operation and future growth prospects of ACEIC.

For ACEIC'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.

ACEIC 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 cancellations 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 ACEIC's business, financial condition, results of operations and cash flows.

ACEIC mitigates these risks through contractual arrangements for delay damages and business interruption insurance, among others.

Any restriction or prohibition on ACEIC's subsidiaries', associates' or joint ventures' ability to distribute dividends would have a negative effect on its financial condition and results of operations.

ACEIC, as a holding company, conducts its operations through its subsidiaries, associates and joint ventures. As a holding company, ACEIC's income is derived primarily from dividends paid to ACEIC by its subsidiaries, associates and joint ventures. For the years ended December 31, 2018, 2019, and 2020, ACEIC booked ₱3,227.2 million, ₱2,710.7 million, and ₱459.6 million in dividend income, respectively.

ACEIC is reliant on these sources of funds with respect to its obligations and in order to finance its subsidiaries. The ability of ACEIC's direct and indirect subsidiaries, associates and joint ventures to pay dividends to ACEIC (and their shareholders in general) is subject to applicable law and may be subject to restrictions contained in loans and/or debt instruments of such subsidiaries and may also be subject

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to the deduction of taxes. 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. For example, under the terms of the project financing loans in respect of the GNPk Project, the power project may be unable to pay dividends unless certain covenants are met, including compliance with a specified debt service coverage ratio and debt service reserves. 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.

Any restriction or prohibition on the ability of some or all of ACEIC's subsidiaries, associates and/or joint ventures to distribute dividends or make other distributions to ACEIC, either due to regulatory restrictions, debt covenants, operating or financial difficulties or other limitations, could have a negative effect on ACEIC's cash flow and therefore, its financial condition.

ACEIC proactively monitors its financial position, and those of its project companies, including compliance with financial covenants. Possible restrictions are carefully monitored and managed.

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:

- a. breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes, leading to unplanned outages and operational issues;
- b. flaws in the equipment design or in power plant construction;
- c. issues with the quality or interruptions in the supply of key inputs, including fuel or water;
- d. material changes in legal, regulatory or licensing requirements;
- e. human errors in the operation of equipment;
- f. performance below expected levels of output or efficiency;
- g. actions affecting power generation assets owned or managed by ACEIC, its joint ventures, affiliates or its contractual counterparties;
- h. pollution or environmental contamination affecting the operation of power generation assets;
- i. 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;
- j. planned and unplanned power outages due to maintenance, expansion and refurbishment;
- k. inability to obtain or the cancelation of required regulatory, permits and approvals; and
- l. opposition from local communities and special interest groups.

ACEIC mitigates these risks through contractual arrangements for performance damages and business interruption insurance, among others.

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 ACEIC, its joint ventures and affiliates from their power projects.

Climate change policies may adversely affect ACEIC's business and prospects.

ACEIC 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 ACEIC'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.

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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 ACEIC's operations. As a result of the above, ACEIC's business, financial condition, results of operations and prospects may be materially and adversely affected.

ACEIC is mindful of its environmental, social, and governance commitments, and strives to conduct its business in a sustainable manner as guided by its Environmental and Social Policy ("E&S Policy"). ACEIC's goal is to build 5GW of attributable renewable capacity by 2025, with at least 50% of output generated from renewables.

Environmental regulations may cause the relevant project companies to incur significant costs and liabilities.

The operations of ACEIC'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 ACEIC'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 ACEIC'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 ACEIC cannot pass along future costs to customers, any increases could have a material adverse effect on ACEIC's business, financial condition, results of operations and prospects.

ACEIC is mindful of its environmental, social, and governance commitments, and strives to conduct its business in a sustainable manner. It aims to comply with the environmental regulations in areas where it operates, as guided by its E&S Policy.

ACEIC'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, ACEIC 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 ACEIC or any of the project companies to incur substantial costs and damage

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its reputation and may have a material adverse effect on ACEIC's business, financial condition and results of operations.

ACEIC mitigates these risks through contractual arrangements for performance damages and business interruption insurance, among others. ACEIC is mindful of its environmental, social, and governance commitments, and strives to conduct its business in a sustainable manner, including complying with health and safety regulations.

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 ACEIC's business, financial condition, results of operations and prospects.

ACEIC enters into transactions with related parties.

In the ordinary course of business, ACEIC 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.

ACEIC 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 ACEIC.

ACEIC is exposed to credit and collection risks.

As in other businesses, the power business, including ACEIC's RES business in the Philippines, is exposed to credit and collection risks related to its customers. These include the National Transmission Corporation, contestable customers as well as electric cooperatives that have varying credit ratings and private distribution utilities. 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, 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 ACEIC in a timely manner or at all. In such circumstances, ACEIC's working capital needs would increase, which could, in turn, divert resources away from ACEIC's other projects. If a large amount of its customers were unable or unwilling to pay ACEIC, its financial condition could be negatively affected.

ACEIC evaluates its counterparties thoroughly and projects are subject to careful evaluation by the ACEIC management and Board of Directors.

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

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

ACEIC keeps abreast of market developments to make sure that it is able to respond to shifts timely.

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

The power projects maintain levels of insurance, which ACEIC 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 are 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 will 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 ACEIC's business, financial condition, results of operations and prospects.

ACEIC continually reviews its portfolio, including the adequacy of insurance coverage, in light of industry developments and the projects' operations.

Political instability in the Philippines may have a negative effect on the general economic conditions in the Philippines which could have a material adverse impact on the results of operations and financial condition of ACEIC.

The Philippines has from time to time experienced political and military instability. In recent history, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous and current administrations. The SC also recently ruled against Maria Lourdes P. Sereno in the quo warranto proceedings initiated by the Office of the Solicitor General ("OSG"), removing her from the post of Chief Justice of the SC. There can be no assurance that acts of election-related or other political violence will not occur in the future, and any such events could negatively impact the Philippine economy.

The Philippine Presidential elections were held in May 2016, and on June 30, 2016, President Rodrigo Duterte assumed the presidency with a mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending and countryside development, among others. The Duterte administration has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups.

President Duterte's unconventional methods may also raise risks of social and political unrest. An unstable political environment, whether due to the impeachment of government officials, imposition of emergency executive rule, martial law, or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on ACEIC's business, financial condition and results of operations.

In addition, ACEIC may be affected by political and social developments in the Philippines and changes in the political leadership and/or government policies in the Philippines. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that could impact ACEIC's business.

No assurance can be given that any changes in such regulations or policies imposed by the Government from time to time or the future political environment in the Philippines will be stable or that current or future administrations will adopt economic policies conducive to sustaining economic growth. Political instability in the future could reduce consumer demand for retail and consumer goods to

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ACEIC's disadvantage, or result in inconsistent or sudden changes in regulations and policies that affect ACEIC's business operations, which could have a material adverse impact on the results of operations and financial condition of ACEIC.

ACEIC keeps abreast of regulatory and market developments to make sure that it is able to respond to shifts timely.

A substantial portion of ACEIC's business activities and assets are based in the Philippines, which exposes ACEIC to risks associated with the country, including the performance of the Philippine economy.

Historically, ACEIC has derived a substantial portion of its operating income and operating profits from the Philippines and, as such, it is highly dependent on the state of the Philippine economy. Demand for ACEIC's services and products are directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines, as well as the amount of remittances received from overseas Filipinos. Factors that may adversely affect the Philippine economy include:

- a. decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- b. scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- c. foreign exchange rate fluctuations;
- d. foreign exchange controls;
- e. inflation or increase in interest rates;
- f. levels of employment, consumer confidence and income;
- g. changes in the Philippine Government's fiscal and regulatory policies;
- h. Philippine Government budget deficits;
- i. a re-emergence of SARS, bird flu, or H1N1, COVID-19, or the emergence of other similar diseases in the Philippines or in other countries in Southeast Asia;
- j. natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- k. geopolitical tensions between the Philippines and other claimant countries concerning disputed territories in the South China Sea;
- l. political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- m. other regulatory, social, political or economic developments in or affecting the Philippines.

Any future deterioration in economic conditions in the Philippines due to these or other factors could materially and adversely affect ACEIC's borrowers and contractual counterparties. This, in turn, could materially and adversely affect ACEIC's financial position and results of operations, including ACEIC's ability to grow its asset portfolio, the quality of ACEIC's assets and its ability to implement ACEIC's business strategy. Therefore, changes in the conditions of the Philippine economy could materially and adversely affect ACEIC's business, financial condition or results of operations.

ACEIC continues to actively review and balance its portfolio in light of market conditions, regulatory developments, technological improvements, and industry best practices.

Natural or other catastrophes, including severe weather conditions, may materially disrupt ACEIC's operations 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, floods, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt ACEIC's operations. These factors, which are not within ACEIC's control, could potentially have significant effects on ACEIC's operations. While ACEIC carries insurance for certain catastrophic events, in amounts and with deductibles that ACEIC believes are in line with general industry practices in the Philippines, there are losses for which ACEIC cannot obtain insurance at a reasonable cost or at all. However, should an uninsured loss or a loss in excess of insured limits occur, ACEIC could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial

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obligations related to the business. Any material uninsured loss could materially and adversely affect ACEIC's business, financial position and results of operations.

For example, in January 2020, the Taal Volcano entered into a period of intense unrest beginning with phreatic or steam-driven activity in several points inside the Main Crater that progressed into magmatic eruption. The Philippine Institute of Volcanology and Seismology ("PHILVOCS") raised the alert level to Alert Level 4 on 12 January 2020. This means that hazardous explosive eruption is possible with hours to days. Pursuant to such events, PHILVOCS ordered the total evacuation of the Volcano Island and high-risk areas within a 14-km radius from the Taal Main Crater. Although PHILVOLCS has since lowered the Alert Level covering Taal to Level 1, there can be no assurance that the Taal Volcano will not increase seismic activity or erupt in the future.

ACEIC is mindful of its environmental, social, and governance commitments, and strives to conduct its business in a sustainable manner, hand in hand with its risk management policy and insurance programs.

Acts of terrorism could destabilize the country and could have a material adverse effect on ACEIC's business, financial position and results of operations.

The Philippines has been subject to a number of terrorist attacks in the past several years. The Philippine army has been in conflict with the Abu Sayyaf organization which has been identified as being responsible for kidnapping and terrorist activities in the Philippines, and is also alleged to have ties to the Al-Qaeda terrorist network and, along with certain other organizations, has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines.

Furthermore, the Government and the Armed Forces of the Philippines ("AFP") have clashed with members of several separatist groups seeking greater autonomy, including the Moro Islamic Liberation Front ("MILF"), the Moro National Liberation Front ("MNLF") and the New People's Army ("NPA"). In October 2011, 19 AFP troops were killed in a firefight with MILF members in the southern Philippines. In December 2011, five AFP soldiers were killed in a clash with NPA members. Beginning in September 2013, Government troops have been involved in violent and deadly clashes with a faction of the MNLF that has been accused of kidnappings and bombings in parts of Mindanao.

There have been numerous bombing incidents in Mindanao and elsewhere in the Philippines, which have resulted in death and injury to the civilian population as well as military and security personnel.

In May 2017, after a joint operation of the AFP and the Philippine National Police ("PNP") was launched in Marawi City to capture an alleged terrorist leader, prolonged fighting ensued between the AFP and PNP and a radical Islamist group called the Maute Group. The Maute Group is a group inspired by the bigger extremist militant group known as the Islamic State in Iraq and Syria ("ISIS"). President Rodrigo Duterte declared martial law in Mindanao. Hostilities have led to several casualties and substantial property damage.

In October 2017, the Government announced that the leaders of the Maute Group have been killed. These continued conflicts between the Government and separatist groups could lead to further injuries or deaths by civilians and members of the AFP, which could destabilize parts of the Philippines and adversely affect the Philippine economy. There can be no assurance that the Philippines will not be subject to further acts of terrorism or violent crimes in the future, which could have a material adverse effect on ACEIC's business, financial condition, and results of operations.

ACEIC mitigates these risks through business interruption insurance, among others.

Uncertainties and instability in global market conditions could adversely affect ACEIC's business, financial condition, and results of operations.

Global markets have experienced, and may continue to experience, significant dislocation and turbulence due to economic and political instability in several areas of the world. These ongoing global economic conditions have led to significant volatility in capital markets around the world, including Asia,

and further volatility could significantly impact investor risk appetite and capital flows into emerging markets including the Philippines.

Further, economic conditions in some Eurozone sovereign states could possibly lead to these member states re-negotiating or restructuring their existing debt obligations, which may lead to a material change in the current political and/or economic framework of the European Monetary Union. One potential change that may result from the crisis is an end to the single-currency system that prevails across much of Europe, with some or all European Union member states reverting to currency forms used prior to adoption of the euro. The crisis could also lead to the restructuring or breakup of other political and monetary institutions within the European Union. The risk may have been exacerbated following a national referendum and enactment of legislation by the government of the United Kingdom, by which the United Kingdom formally withdrew from the European Union on 31 January 2020 and entered into a transition period during which it will continue its ongoing and complex negotiations with the European Union relating to the future trading relationship between the parties. Significant political and economic uncertainty remains about whether the terms of the relationship will differ materially from the terms before withdrawal, as well as about the possibility that a so-called “no deal” separation will occur if negotiations are not completed by the end of the transition period. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity, restrict the ability of key market participants to operate in certain financial markets or restrict our access to capital.

ACEIC keeps abreast of regulatory and market developments to make sure that it is able to respond to shifts timely.

Public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect ACEIC’s business, financial condition and results of operations.

The Philippines remains vulnerable to exposure and spread of COVID-19. See page 68 “– *Risks relating to the Philippines – The continuing impacts of the COVID-19 pandemic are highly unpredictable, volatile, and uncertain, and have had, and will continue to have, certain negative impacts on business operations, demand for products and services, costs of doing business, availability of labor, access to inventory, supply chain operations, the Group’s financial performance, and the ability to predict future performance, among others.*”

Government quarantine measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

With respect to ACEIC’s operations in the Philippines, the community quarantines resulted in delays in the construction of power projects, a decline in demand for ACEIC’s output from industries, offices, and shopping malls which account for the bulk of energy consumption, and a decline in WESM prices as demand for electricity decreased. In addition, the ERC directed distribution utilities and retail electricity suppliers to allow consumers a grace period for the payment of their electric consumption without interest, penalties and other charges. As of December 31, 2020, ACEI has collected all receivables.

Nevertheless, as the Department of Energy recognizes that energy utilization is a basic necessity and is vital to the society, the movement of energy related good and the movement of energy related personnel, subject to adherence to necessary public health precautions prescribed by the Department of Health, continue to be permitted. As such, ACEIC continues to ensure uninterrupted access to power regardless of any community quarantine restrictions imposed. Construction has resumed in ACEIC’s project located in the Philippines, while construction in Vietnam, and India has been proceeding as planned. ACEIC’s operations in Vietnam and Indonesia were not significantly affected by the outbreak and continue to enjoy stable cash flows pursuant to long term contracts and FIT schemes.

If COVID-19 cases continue to rise, it could result in the reimposition of stricter measures to combat such increase in severity, which could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect ACEIC’s business, financial condition and results of operations.

Developments outside the Philippines, including U.S. policies related to global trade and tariffs could adversely affect ACEIC's business, financial condition and results of operations.

The current international political environment, including existing and potential changes to U.S. policies related to global trade and tariffs, have resulted in uncertainty surrounding the future state of the global economy.

An escalating trade war may have material adverse effects on the power industry and ACEIC's business may be impacted by these tariffs. Any further expansion in the types or levels of tariffs implemented has the potential to negatively impact ACEIC's business, financial condition and results of operations. Additionally, there is a risk that the U.S. tariffs on imports are met with tariffs on U.S. produced exports and that a broader trade conflict could ensue, which has the potential to significantly impact global trade and economic conditions. Potential costs and any attendant impact on pricing arising from these tariffs and any further expansion in the types or levels of tariffs implemented could adversely affect ACEIC's business, financial condition and results of operations.

Economic disruption in other countries, even in countries in which ACEIC does not currently conduct business or have operations, could also adversely affect ACEIC's businesses and results. Adverse market and economic conditions continue to create a challenging operating environment for financial services companies. In particular, the impact of interest and currency exchange rates, the risk of geopolitical events, fluctuations in commodity prices and concerns about European stagnation as well as diverging monetary policies among the major economies have affected financial markets and the economy.

In addition to the macroeconomic factors discussed above, other events beyond ACEIC's control, including terrorist attacks, cyber-attacks, military conflicts, economic or political sanctions, disease pandemics, political unrest or natural disasters could have a material adverse effect on economic and market conditions, market volatility and financial activity, with a potential related effect on ACEIC's businesses and results.

There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. These developments may adversely affect trade volumes with potentially negative effects on the Philippines.

ACEIC keeps abreast of regulatory and market developments to make sure that it is able to respond to shifts timely.

Competitive Strengths

ACEIC believes that it has the following strengths:

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

ACEIC believes that it has selected highly attractive markets in the Asia Pacific 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 World Bank, the Philippines' nominal GDP has been growing at 7% CAGR from 2008 to 2019 (U.S.\$361 billion in 2019). In spite of the slowdown in the growth of the Philippine economy in 2019 to 5.9% compared to 6.2% in 2018, the total electricity sales and consumption all over the country still posted a notable figure of 106,041 GWh in 2019 from 99,765 GWh in 2018, equivalent to 6.3% growth from the previous year, and a 5.3% CAGR from 2008-2019.

The Philippine nominal GDP posted a -9.5 percent full-year growth rate for 2020 mostly due to the COVID-19 pandemic which has caused prolonged lock-downs. The Philippine Development Budget Coordination Committee ("DBCC") estimates that the economy will grow by 6.5 to 7.5 percent in 2021 and by 8 to 10 percent in 2022. The Duterte administration's efforts to

increasingly open the economy while taking resolute steps to fast-track the vaccination program and keep the COVID-19 caseload to the lowest level possible, would boost business and consumer confidence that are crucial to a robust economic recovery.

The National Government has lead the initiative to expand clean and renewable energy sources which include the Republic Act 9136 or the Electric Power Industry Reform Act of 2001 and the Republic Act 9513 or the Renewable Energy Act. The National Renewable Energy Board has also 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. The National Renewable Energy Board has set a target of reaching 15GW of installed renewable capacity by 2030. In addition, renewable initiatives are currently in place, including income tax holiday, lower corporate income tax rates and tax-free importation.

Similar to the Philippines, Indonesia, over the same period, power generation grew by 6.0% based on information from the Perusahaan Listrik Negara or "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. To support this growth, several renewable initiatives have been introduced or are under review, such as favorable tariffs for solar and wind energy, 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% CAGR from 2008 to 2019 (U.S.\$262 billion in 2019), according to the World Bank.

For 2020, Vietnam was one of the best performing economies in Asia registering full-year GDP growth of 2.9% due to effective early stage COVID-19 response which has limited the effect on its economy. The World Bank estimates Vietnam's economy to recover and GDP to grow by 9.3% in 2021.

From 2007 to 2018, electricity consumption grew by 11.1% 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 the draft of the Power Development Master Plan for 2021-2030 ("PDP 8"), the Vietnam government is targeting to more than double its installed capacity from 55GW at the end of 2019 to 138GW in 2030 and 222GW in 2040. Further, the government is targeting to increase the share of electricity produced from solar and wind energy projects as well as gas-fired power plants. The three sources combined is planned to make up 47% of the system in 2030, and 60% in 2040. PDP 8 is also seen cancelling or delaying nearly half of the remaining pipeline of coal-fired capacity in bid to focus towards focusing on more sustainable energy sources.

Australia continues to be one of the world's most stable economies due to its consistent output and activity. In 2019, the World Bank reports the country's GDP reaching U.S.\$1.4 trillion, representing a CAGR of 3% from 2008 to 2019. 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 1.5% to reach 25 million people.

For 2020, Australia's nominal GDP growth was at 1.7% as economic prospects were muted in the wake of the COVID-19 pandemic. Economic recovery in 2021 is hinged on the population-wide Australian COVID-19 vaccination program to be fully in place by late 2021 and additional outbreaks in Australia.

In line with the economic statistics, Australia's power generation capacity has increased by a CAGR of 1.2% from 2008 to 2019 to reach 49,712MW. 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 began in 2012.

From 2012–2017, there were twelve coal-fired power plant closures across Queensland, New South Wales, Victoria, Western Australia, and South Australia with capacity totaling 5,589 MW.

Station	State	Capacity (MW)	Year of closure
Swanbank B	Queensland	180	2012
Munmorah	New South Wales	600	2012
Collinsville	Queensland	180	2012
Morwell	Victoria	189	2014
Redbank	New South	144	2014
Wallewarang C	New South Wales	1,000	2014
Callide A Unit 4	Queensland	30	2015
Anglesea	Victoria	160	2015
Northern	South Australia	546	2016
Playford	South Australia	240	2016
Hazelwood	Victoria	1,760	2017
Muja	Western Australia	240	2017

Further, according to the Australian Energy Market Operator's Integrated System Plan, it is expected that 14GW of coal-fired generation will reach the end of its technical life and will be retired 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 Large-scale 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 Large-scale Renewable Energy Target was set at 33TWh renewable electricity generation by 2020. The annual target will remain at 33,000TWh until the scheme ends in 2030. 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.

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 2019 (U.S.\$1,119 billion in 2019), according to the World Bank.

In 2020, Indonesia never imposed a full-scale lockdown, but looser restrictions on social activities were implemented across the archipelago throughout last year, hampering businesses as well as ordinary families to manage the COVID-19 spread. Indonesia's GDP registered a -2.1% growth for whole year of 2020. Indonesia expected to register a GDP between 4.5% to 5.1% in 2021.

Over 2008 to 2019, power generation grew by 6.4% CAGR to 295,448GWh based on information from the International Energy Agency ("IEA") 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 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 favorable tariff for solar and wind, income tax and importation incentives.

India, an economy that has grown at an 8% CAGR over 2008 to 2019, has also been receiving significant investments in the energy sector. However in 2020 – the economy also suffered an economic slowdown due to COVID-19, with its GDP growth rate expected to be at -9.0% in 2020 with potential recovery to 8.0% in 2021 as noted by the Asian Development Bank.

According to the Central Electricity Regulatory Commission of India, the country's power capacity in 2019 increased by 3.9% year-on-year to 370 GW for a CAGR of 8.7% from 2008 to 2019. The 2003 Electricity Act liberalized India's power generation market through a license free regime, allowing for the entry of private players in the industry. This increase has been evident over the years with the installed capacity of private players growing from 22.9 GW in 2008 to 173.0 GW in 2019. Power consumption in the country also grew at a CAGR of 7% from 2008-2018. With regard to renewable energy targets, the government targeted 175 GW of renewable capacity by year 2022 and 450 GW by 2030.

In addition to the markets set out above, AC Energy continues to evaluate and assess opportunities in other markets in Asia Pacific that meet its strategic framework and financial criteria. The AC Energy Group continues to explore additional opportunities in other attractive locations including Myanmar, South Korea, and Taiwan.

- b) Proven track record of delivering growth, rapid execution, performance and realizing value

Delivering Growth

To deliver on its objectives, the AC Energy Group made its initial foray in 2011 into the renewables space with its acquisition of a 50.0% stake in NPDC, which currently operates the NorthWind Project wind farm 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. The AC Energy Group also signed a 50:50 JV agreement in 2011 with the PHINMA Group, a leading diversified business group in the Philippines, to develop the SLTEC Project, a 244MW CFB thermal project located in Batangas, Philippines through South Luzon Thermal Energy Corporation ("SLTEC"), ACEIC's first investment in conventional energy.

Having established its foothold in the Philippine power sector, the AC Energy Group embarked on a series of strategic power sector investments in the Philippines and internationally over the succeeding years.

In 2012, ACEIC announced that it was entering into a joint venture with 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 GNPowder Mariveles Coal Plant Ltd. Co. ("GMCP").

In 2013, ACEIC 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 NLR Project, the 81MW wind farm in Ilocos Norte, the PINAI consortium's first-ever investment in the country. In the same year, ACEIC and Power Partners also established a JV to develop a thermal power plant in Lanao del Norte which would later become the GNPK Project.

The period from 2014 to 2017 saw ACEIC further growing its attributable capacity and network of partnerships, in the course of which ACEIC achieved several key milestones. In 2016, ACEIC acquired a 50% stake in GNPowder Dingin Ltd. Co. ("GNPD") and started SLTEC Project's Unit 1 and 2's commercial operations. In the same year, ACEIC announced its first geothermal investment and first international investment in partnership with Star Energy of Indonesia and

EGCO of Thailand to acquire a stake in the Salak-Darajat Geothermal Project, Chevron's geothermal operations in Indonesia. In 2017, ACEIC acquired the renewable energy development company San Carlos Clean Energy, now known as ACE Endeavor, Inc. ("ACE Endeavor") to have its own development platform and capability.

From 2018 to 2020, ACEIC further expanded its Philippine and international portfolio. In 2018 it inaugurated the Sidrap Wind Project, the first utility scale 75MW wind farm in Sulawesi, Indonesia with its partner UPC Renewables. In the same year, ACEIC inked new partnerships with the BIM Group and AMI Renewables of Vietnam and The Blue Circle to develop projects in Vietnam and other Asia Pacific countries. In 2019, the AC Energy Group commissioned a total of 410MW solar farms with BIM Group and AMI Group in Vietnam.

In 2019, ACEIC acquired PHINMA Energy (now ACEN) further expanding its development capability and operations in the Philippines. It supplemented ACEN's operations with the implementation of the ACE Philippine Transaction—infusing a power project portfolio of operating projects in the Philippines with 225MW Net Attributable Capacity supported by long term FIT and other PPAs. ACEIC then acquired Axia Power's 20% stake in SLTEC, allowing it to recontract SLTEC's capacity under an Asset Management Agreement ("AMA") with ACEN. Through the AMA, ACEN can partially support the requirements of the 10-year Meralco 200MW Baseload PSA and 5-year Meralco 110MW Mid-Merit PSA, which were awarded to ACEN in 2019. These new Meralco PSAs have allowed ACEN to improve its profitability and provide long-term stable cash flows to ACEN. ACEN also increased its stake in operating projects by acquiring its partner's share in the 81MW NLR Project, 80MW Islasol, and 45MW Sacasol in the same year increasing its share in the projects' cash flows.

ACEIC continued its expansion in Vietnam through the completion of Mui Ne Wind Farm (Phase 1), its first 40MW wind farm in Binh Thuan, Vietnam with its partner, The Blue Circle, and the construction of the 75MW Ninh Thuan Solar Plant Expansion and three new wind farms under its partnerships with The Blue Circle (in respect of the 40MW Mui Ne Wind Farm (Phase 2)), UPC Renewables (in respect of the 60MW Lac Hoa Wind and Hoa Dong Wind Farm), and the AMI Group (in respect of the 210MW Quang Binh Wind Farm). ACEIC expanded into India, commencing the construction of the 140MWdc Sitara Solar in Rajasthan and 70MWdc Paryapt Solar in Gujarat through its joint venture UPC-AC Energy Solar. ACEN also began its expansion into Australia, with the financial close of its 521.5MWdc first phase of the New England Solar Farm ("NESF").

As part of its plan to reach 5,000MW of Net Attributable Capacity by 2025 through ACEN, ACEIC plans to continue to accelerate its expansion in the Philippines and other international markets. In 2021, ACEIC plans to launch new projects with gross capacities of up to 1,000MW currently expected to be as follows: 500MW aggregate capacity from the Philippines and 500MW aggregate capacity from Vietnam, Australia, and India within the next 12 to 24 months. ACEIC also plans to complement its renewable energy portfolio and support its capacity with peaking plants and new energy storage technologies. An example is the planned installation of large scale lithium-ion battery storage facility for the New England Solar Farm in Australia with an estimated total capacity of up to 720MW through its partnership with UPC Renewables. In the Philippines, ACEIC also plans to continue expanding its ancillary business and commercial operations to maximize its power portfolio to meet demand in the Philippines.

Execution Speed and Asset Performance

For its operations in the Philippines, in 2016, ACEIC was granted a RES license by the ERC, 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. ACEIC also began commercial operations of the Montesol Project, its first solar farm project, expanding ACEIC's portfolio and renewables technology capabilities to include solar, in addition to thermal, wind and geothermal.

In 2017, ACEIC acquired 100.0% of Bronzeoak Clean Energy, Inc. (now Visayas Renewables Corporation), a Philippines-based renewable energy developer, further expanding ACEIC's in-

house renewable energy developmental and operational capability. The AC Energy Group has consolidated all its project development, management, and operations in the Philippines under ACE Endeavor (formerly San Carlos Clean Energy) as its Philippine development platform. ACE Endeavor has been transferred to ACEN as part of the ACEIC Philippine Transaction.

When ACEIC completed its acquisition of Phinma Energy (now ACEN) in 2019, its Net Attributable Capacity from operating projects increased by 225MW and further enhanced its RES business, its development capabilities, and operations. It further expanded ACEN's portfolio with key acquisitions of strategic interests in NLR Project, SLTEC Project, Islasol, and Sacasol solar farms. In the same year, ACEN also won the bid for Meralco's 10-year 200MW baseload supply and 5-year 110MW mid-merit supply, which it supplies partially through the AMA relating to the SLTEC Project. In 2019 and 2020, ACEN commenced construction of three new projects targeting completion by 2021: the 150MW Ingrid Peaking Plant, the 120MWdc Alaminos Solar Farm, and the 60MWdc Palauig Solar Farm. ACEN also announced the development of a 75MWdc solar farm in Arayat and Mexico, Pampanga, under a joint venture with Citicore Renewable Energy Corp, a 75MWdc expansion of the planned Palauig Solar Farm in August 2020, and the partnership with Solar Philippines for renewable projects in the Philippines. With these key changes, ACEN significantly improved its net income of ₱132.9 million for the year ended December 31, 2019 to a net income of ₱3,869.5 million in same period in 2020.

As part of its future plans, ACEN aims to be the largest listed renewables platform in Southeast Asia with a target Net Attributable Capacity of 5,000MW by 2025, which it plans to achieve by continued expansion in the Philippines and through the ACE International Transaction. As of March 8, 2021, the Net Attributable Capacity of ACEN's Philippine power assets was at 966MW, with 46% coming from renewable sources.

For its international operations, the AC Energy Group broadened its international footprint with an investment in Indonesia and the inauguration of the Sidrap Wind Project in 2018 with its partner UPC Renewables. The Sidrap Wind Project was the AC Energy Group'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 Vietnam, Australia and India, the AC Energy Group has expanded its international presence and on-the-ground expertise to include these rapidly developing renewable energy markets. In 2019, it completed 410MWdc of aggregate solar capacity from in Vietnam well within the prescribed solar FIT deadlines for solar projects in the same year. In 2020, it completed a 75MWdc expansion of the Ninh Thuan Solar farm and commenced construction of new wind farm projects in Vietnam with an expected aggregate gross capacity of 398MW and targeting to achieve completion within the FIT deadline for wind projects in 2021. The AC Energy Group has also announced start of construction for 210MWdc total solar capacity in India through Sitara Solar and Paryapt Solar targeting completion by 2021. The AC Energy Group also announced the financial close of their 521.5MWdc first phase of New England Solar Farm in the first quarter of 2021.

With sustained strong growth in revenue, net income, and Net Attributable Capacity, the AC Energy Group 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, ACEIC has also obtained several awards, including:

- "2020 Green Project of the Year" for the U.S.\$410 million maiden Green Bonds due 2024 and 2029 in the Triple A Infrastructure Awards 2020 by The Asset
- Ranked #1 VCE 10 Rankings by the Ministry of Industry and Trade and the Vietnam Energy Association, for ACEIC and BIM Group's renewable energy development platform
- "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 Realization from Thermal Assets and other Strategic Assets

Starting 2015, ACEIC began to realize value from its earlier investments. Mitsubishi Corporation and Marubeni Corporation, among Japan's largest trading houses and among the most active Japanese business groups in the country, partnered with ACEIC by acquiring equity interest in the NLR Project (in 2015) and SLTEC (in 2016), respectively.

In June 2019, ACEIC completed the sale of a 49% voting stake and 60% economic stake in its thermal platform, AA Thermal, to Aboitiz Power for U.S.\$574.2 million, providing ACEIC with significant realized value and allowing it to focus on its renewable energy objectives.

In July 2019, ACEIC and Power Partners signed a binding agreement for the transfer of ACEIC's 71% economic interest in the GNPk Project in favor of Power Partners. Power Partners is ACEIC's existing developer-partner in the GNPk Project. The transfer of ACEIC'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. ACEIC received the approval for the transaction from the Philippine Competition Commission on 30 September 2019. The parties intend to execute the definitive agreements and secure pending conditions precedent within 2020 and commence the transfer in tranches in February 2021.

In September 2020, ACEIC, through UAC Energy Holdings (“UAC”), a joint venture company with UPC Renewables, divested its 20% holdings in Infigen Energy Limited (“Infigen”) selling to the Iberdrola Group. Infigen is a renewable energy developer, generator, and retailer listed on the Australian Securities Exchange (“ASX”) that owns and operates 670MW of wind farms all over Australia, as well as gas, battery and contracted assets. UAC had acquired its stake over several months from April 2020 to July 2020 after seeing an opportunity to invest in Infigen. UAC completed its investment in Infigen in July 2020 at an average price of AUD0.794 per stapled security. In June 2020, Iberdrola, a multinational energy company based in Spain, announced a competing takeover offer of Infigen at AUD0.86 per stapled security. UAC accepted the takeover offer of Iberdrola for all of UAC's securities at Iberdrola's increased price of AUD0.92 per stapled security in September 2020.

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, the AC Energy Group has and plans to continue to reinvest the proceeds from the value realization in the expansion of its renewable energy and Philippine and international power portfolio.

- c) Portfolio of projects across geographies, technologies and regulatory regimes provides stable cashflows, diversification and a strong platform for growth

ACEIC believes that it benefits from a portfolio approach to its investments, providing ACEIC with a blend of seasoned and new operating projects that provide stable cashflows underpinned by attractive, long-term contractual arrangements which are mostly dollar-linked and a diverse business model (a combination of bilateral contracts, spot sales and FIT contracts), fuel types, geographies and regulatory regimes that ACEIC is able to leverage as a platform for renewable capacity expansion and international growth.

The Northwind Project, Southeast Asia's first commercial wind farm, is a 52MW wind farm in Ilocos Norte province. Phases 1 and 2, with combined capacity of 33MW, began commercial

operations in 2005 and 2008 respectively, and 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 capacity factors at 42% and 44% respectively in 2018, owing to the attractive wind energy potential of the northern Philippines. This recently declined to 27% for all three units due to the El Nino phenomenon in the first half of 2019.

The North Luzon Renewables Project, an 81MW wind farm also in Ilocos Norte province, was awarded a FIT rate of ₱8.53/KWh from November 2014 and until 20 years thereafter. For 2018, it registered an availability factor of 94%.

ACEIC's initial foray into solar energy, the Montesol Project, is an 18MW solar farm in the province of 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. ACEIC believes in the potential for the project to be further expanded to 50MW.

In May 2020, the ERC issued Resolution No. 06, Series of 2020, approving adjustments to applicable FIT rates for the years 2016 to 2020 based on inflation and changes in foreign exchange rates.

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. Moreover, the Ninh Thuan Solar Plant expansion is expected to qualify for the second round for FIT rate for solar plants of U.S.\$ \$0.0709/kWh for ground mounted solar plants. The Mui Ne Wind Farm (Phases 1 and 2), the Lac Hoa Wind and Hoa Dong Wind Farm, the Quang Binh Wind Farm, and the Ninh Thuan Wind Farm are also expected to qualify for the FIT rate of U.S.\$0.0850/kWh upon respective completion before October 2021.

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 has a 30-year PPA with the PLN at a U.S. Dollar-linked, levelized tariff, providing ACEIC with a hedge against any potential volatility in the Indonesia Rupiah.

In India, the AC Energy Group's first major investment in the country comes in the development of Sitara Solar, a 140MWdc solar plant in Rajasthan, India, through its joint venture with UPC Solar Asia Pacific. UPC-AC Energy Solar, the 50-50 joint venture, won the PSA for the project via a competitive bid at INR2.48 per kWh, fixed over a 25-year period. UPC-AC Energy Solar also won another power supply agreement shortly after the first via a competitive bid at INR2.55 per kWh, fixed over a 25-year period for the planned 70MWdc Paryapt Solar in Gujarat, India.

GMCP, ACEIC's largest operating power asset in its portfolio to-date, in partnership with Power Partners and Aboitiz Power, provides ACEIC 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 GMCP's offtake is contracted by electric cooperatives, with PPSAs ranging from 10 to 15 years. Most of the electric cooperatives that are off-takers of GMCP are rated AAA by the National Electrification Administration as of end-2017. GMCP began commercial operations in February 2014.

SLTEC similarly benefits from its proximity to the Mega Manila area, the region covering Metro Manila, Central Luzon, and the CALABARZON area and the country's economic center. SLTEC's capacity is fully contracted under the Asset Management Agreement with ACEN and its capacity is partially utilized to service the Power Supply Agreements with Meralco. Unit 1 and 2 of SLTEC began commercial operations in April 2015 and February 2016 respectively.

- d) Pipeline of projects in partnership with recognized and accomplished power industry developers, operators and investors provides a visible path to growth

ACEIC believes that its 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, ACEIC believes that its 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.

Through ACEN, the Philippines remains ACEIC's core markets for its operations and development of new projects. Partners allow the AC Energy Group to accelerate access to projects with on-going development and provide more alternatives in funding sources. Key among ACEIC's partners in the Philippines are as follows:

- Power Partners is 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. The GNPK Project and GNPD Project were initiated by ACEIC with Power Partners and have gross capacities of 540MW and 1,336MW, respectively.
- UPC Renewables, a U.S.-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 a presence across 12 countries and has built 70 projects with approximately U.S.\$5.0 billion of project debt and equity deployed. ACEIC began its partnership with UPC Renewables with the NLR Project.
- Marubeni Corporation ("Marubeni"), one of Japan's largest trading houses and among the most active Japanese groups in the Philippines. Marubeni has significant power presence in the country such as through the Ilijan natural gas-fired plant, Sual and Pagbilao coal-fired plants and the San Roque hydro plant. Marubeni initially acquired an interest in SLTEC through its subsidiary Axia Power, which has been purchased by ACEN. Axia Power has signed a shareholders' agreement for the development, construction and operation of the 150MW diesel Ingrid power plant project in Pililia, Rizal.
- AboitizPower, one of the country's largest power generation companies by gross installed capacity, has been a partner of ACEIC in the GNPower Mariveles and the GNPower Dinginin Projects, and a shareholder in both projects even prior to ACEIC's partial selldown of AA Thermal. AboitizPower is led by the Spanish-Filipino Aboitiz family, whose involvement in the Philippine power sector began in 1905.
- PINAI, an infrastructure-focused fund whose investors include the Macquarie Group, and the Asian Development Fund, has also been a repeat partner of the ACEIC Group. Initially a partner for the North Luzon Renewables Project, PINAI subsequently co-invested in the GNPower Kauswagan Project, joining ACEIC and Power Partners as an additional limited partner.
- Citicore Renewable Energy Corp. ("CREC") is a wholly-owned subsidiary of Citicore Power Inc., in turn a wholly-owned subsidiary of Citicore Holdings Investment Inc. Among its affiliate companies are Megawide Construction Corporation, primarily engaged in construction, and MySpace Properties, Inc., a property holding company. CREC has partnered with ACEN for the development, construction and operation of the 75MWdc solar plant in Arayat and Mexico Pampanga.
- Solar Philippines Power Project Holdings, Inc. ("SP") is one of the largest independent power developers in the Philippines. ACEN signed a deed of absolute sale for the purchase of shares owned by SP in Solar Philippines Luzon Corporation ("SPCLC") and subscribed to shares of the SPCLC to implement the joint venture between ACEN and SP for the development of solar power projects in the Philippines.

In the international space, ACEIC has entered into partnerships allowing access to markets and projects that would not have been available to the AC Energy Group had it pursued project development on its own. These strategic partnerships with developers and with strong local players also provide a deeper understanding of nuances of each international market's local practices, laws, and regulations and accelerates process of project development. Key among the AC Energy Group's international partners are as follows:

- UPC Renewables is the AC Energy Group's partners for Vietnam, Australia, Indonesia,

India, and other countries in the Asia Pacific through its various joint ventures.

UPC Renewables is the AC Energy Group's partner for projects in the 75MW Sidrap Wind Project in Indonesia and the 60MW Lac Hoa and Hoa Dong Wind Farm in Vietnam.

ACEIC, through AC Renewables International, also entered into a joint venture with UPC Renewables for its main platform for utility scale projects in Australia through UPC-AC Energy Australia. UPC-AC Energy is currently proceeding with the construction of a 521.5MWdc New England Solar Farm Phase 1 and also owns a pipeline of projects including phase 2 expansion of the New England Solar Farm and up to 1,000MW in wind farms in Robbins Island and Jim's Plain in Australia. UPC-AC Energy Renewables Australia further expanded its pipeline with the acquisition of the 2x125MW Baroota Pump Hydro project and the 300MW Bridle Solar Farm in Australia.

Another joint venture company between UPC Renewables and ACEIC, through AC Renewables International, is UPC-AC Energy Solar. UPC-AC Energy Solar is a development platform for a pipeline of over 1GW in power projects, with an initial focus on India, South Korea and Taiwan and other countries in the Asia Pacific.

- BIM Group, one of Vietnam's leading business groups with interests in real estate, food, and commercial services. The BIM Group is ACEIC's partner for the 405MWdc Ninh Thuan Solar Farm and the 88MW Ninh Thuan Wind Farm in Vietnam.
- AMI Group, a leading business group in Vietnam active in solar and wind projects. The AMI Group is ACEIC's partner for the 80MWdc Daklak and Khanh Hoa Solar Farms and the 210MW Quang Binh Wind Farm in Vietnam.
- The Blue Circle, an international platform based in Singapore on engaged in the development, construction, and operation its pipeline of around 1,500 MW of wind projects across Southeast Asia, including ~700 MW in Vietnam. The Blue Circle is ACEIC's partner for the 80MW Phase 1 and 2 of the Mui Ne Wind Farm in Vietnam.
- Star Energy and The Electricity Generating Company ("EGCO"), are both leading power producers in Thailand. Star Energy and EGCO are ACEIC's partners for its 637MW Salak Darajat Geothermal Project in Indonesia.
- Yoma Strategic Investments, a partnership between AC Energy and the Yoma Group for the joint exploration and development of around 200MW of additional renewable energy projects within Myanmar including participation in large utility scale renewable projects for the development of micro power plants and mini-grids.

AC Energy Group believes that its various partnerships provide it with the ability to source high quality projects efficiently and with local market expertise, achieving its goal of achieving 5,000MW of Net Attributable Capacity in renewables by 2025 and help drive ACEN towards becoming the largest listed renewables platform in Southeast Asia.

For further information on ACEIC, please refer to its website www.acenergy.com.ph.

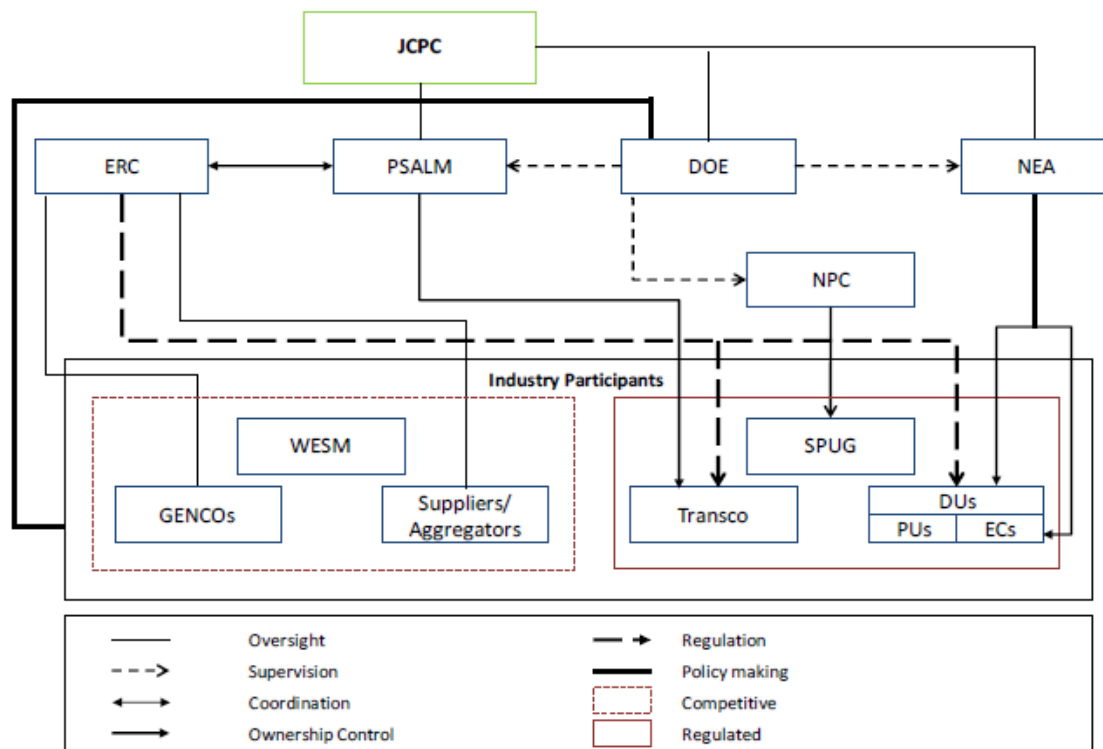
Regulatory

The information in this section has been derived from various government and private publications or obtained from communications with various government agencies unless otherwise indicate and has not been prepared or independently verified by ACEIC, the Joint Lead Underwriters and Bookrunners, or any of their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the Philippines.

Regulation of the Philippine Power Industry

Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act ("EPIRA"), established a framework for the organization and operation of the electric power industry in connection with its restructuring, with the industry divided into four sectors: generation, transmission, distribution and supply. The structural reforms resulted among others in the creation of two government-owned and controlled corporations ("GOCCs"), the Power Sector Assets and Liabilities Management Corporation ("PSALM") and the TransCo.

The following diagram shows the current structure of the electric power industry under the EPIRA:



Note:
 DUs: distribution Utilities
 ECs: Electric Cooperatives
 GENCOs: Any entity authorized by the ERC to operate electricity generation facilities
 JCEC: Joint Congressional Energy Commission
 PUs: Production Utilities

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Through the EPIRA, the Philippine Government began to institute major reforms with the goal of fully privatizing all aspects of the power industry. The major aspects of the reforms include the (1) restructuring of the entire power industry to introduce competition in the generation sector, (2) change from government to private ownership, and (3) introduction of a stable regulatory framework for the electricity sector.

With a view to implementing the EPIRA's objectives, the DOE, in consultation with the relevant government agencies, electric power industry participants, non-government organizations and electricity consumers, promulgated the Implementing Rules and Regulations of the EPIRA (the "EPIRA IRR") on 27 February 2002.

The EPIRA IRR governs the relations among, and respective responsibilities of, the different electric power industry participants as well as the particular governmental authorities involved in implementing the structural reforms in the industry, namely the DOE, NPC, National Electrification Administration ("NEA"), ERC and PSALM.

Primary Regulatory Agencies

Energy Regulatory Commission

The ERC is the independent, quasi-judicial regulatory body created under the EPIRA that replaced the Energy Regulatory Board. The ERC plays a significant role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

The ERC is an independent quasi-judicial regulatory body mandated to carry out (but not limited to) the following:

- a. Promote competition and encourage market development;
- b. Determine the pricing in the energy market;
- c. Review and approve any plan for expansion or improvement of transmission facilities submitted by TransCo; and
- d. Perform other regulatory functions as appropriate and necessary to ensure successful restructuring and modernization of the electric power industry.

Department of Energy

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- a. Preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- b. ensuring the reliability, quality and security of the supply of electric power;
- c. exercise of supervision and control over all government activities pertaining to energy projects;
- d. encouragement of private investment in the power industry sector and promotion of the development of indigenous and renewable energy sources for power generation;
- e. facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- f. promotion of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- g. education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
- h. establishment of the WESM in cooperation with electric power industry participants, and formulating rules governing its operations.

The DOE supervises the operation of the Wholesale Electricity Spot Market of the Philippine Electricity Market Corporation. The Philippines fosters a liberal competitive environment for market players under each segment within the power structure.

Joint Congressional Energy Commission

The Joint Congressional Energy Commission ("JCEC") created pursuant to the EPIRA consists of 14 members with the Chairmen of the Committee on Energy of the Philippine Senate and House of Representatives and six additional members from each House to be designated by the Senate President and the Speaker of the House of Representatives, respectively. On April 12, 2019, Republic Act No. 11285 or the Energy Efficiency and Conservation Act ("EEC") was signed into law. Under this

law, the Joint Congressional Power Commission was renamed to the Joint Congressional Energy Commission ("JCEC").

The initial term of the JCEC was 10 years from the effectivity of the EPIRA, or only until June 26, 2011. However, since key structural changes introduced in the EPIRA have yet to be carried out as well as the need to oversee the implementation of the Renewable Energy Act, the Philippine Congress issued Joint Resolution No. 1 on July 26, 2010 (which was passed by the Senate and the House of Representatives on June 6, 2011 and approved by the President of the Philippines on June 21, 2011) extending the term of the JCEC for another period of 10 years from June 26, 2011.

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (1) the generation sector; (2) the transmission sector; (3) the distribution sector; and (4) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission and distribution sectors will remain regulated. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

The generation sector converts fuel and other forms of energy into electricity. This sector, by utility, consists of the following: (i) NPC-owned and -operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by IPPs, as well as IPP-owned and -operated plants; and (iii) IPP-owned and -operated plants that supply electricity to customers other than NPC. Successes in the privatization process of NPC continue to build up momentum for the power industry reforms.

Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt of NPC, the EPIRA mandates the total privatization of the generation assets and IPP agreements of NPC, which exclude the assets devoted to missionary electrification through the NPC Small Power Utilities Group ("SPUG"). NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for contracts with various suppliers and private distribution utilities, or through spot sale transactions in the WESM. Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity to the grid and/or buyers. Recovery by distribution utilities ("DUs") of their purchased power cost is subject to review and regulation by the ERC to determine reasonableness of the cost that are passed on to consumers. With the implementation of RCOA, generation rates, except those intended for the "Captive Market" (*i.e.*, a market of electricity end-users who may not choose their supplier of electricity), ceased to be regulated to a certain extent.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to retail electricity suppliers through either bilateral contracts or the WESM as described below. With the implementation of RCOA on December 26, 2013, as supplemented by DOE Department Circular No. DC2015-06-0010, generation companies may likewise sell electricity to eligible end-users with an average monthly peak demand of 750KW and certified by the ERC to be such ("Contestable Market"). No generation company is allowed to own more than 30.0% of the installed generating capacity of the Luzon, Visayas or Mindanao grids and/or 25.0% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50.0% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the enactment of the EPIRA.

The EPIRA provides that power generation is not a public utility operation and thus, not required to secure national franchises and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, in order to operate, generation companies must obtain a COC from the ERC, as well as health, safety and environmental clearances from appropriate government agencies

under existing laws. Upon implementation of RCOA, the prices charged by a generation company for the supply of electricity shall not be subject to regulation by the ERC except as otherwise provided under the EPIRA.

In 2016, the ERC issued the implementing rules governing the issuance and renewal of licenses to RESs and the rules governing contestability of qualified end-users (collectively, the “ERC RES Rules”). However, in February 2017, the Philippine Supreme Court, acting on the petition filed by certain entities, issued a temporary restraining order enjoining the DOE and the ERC from implementing the rules and regulations implementing the RCOA, including the ERC RES Rules. In response thereto, the DOE issued DOE Circular No. 2017-12-0013 allowing the voluntary participation in the retail market of Contestable Customers with average peak demand of 750 kW. Further, on December 3, 2020, the ERC issued Resolution No. 12, Series of 2020 prescribing the timeline for the implementation of the RCOA. In the said Resolution, the threshold level of 500kW-749kW qualified Contestable Customers with existing electronic meters capable of recording and reading interval of time, with a built-in communication port for remote and manual data retrieval, shall be allowed to switch to Competitive Retail Electricity Market or the Contestable Market starting February 26, 2021.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

The ERC may impose fines and penalties for violations by generation companies of the EPIRA and the EPIRA IRR policies as well as the ERC’s rule and regulations on market power abuse, cross-ownership and anti-competitive behavior.

Requirement of Public Offering for Generation Companies

Under Section 43(t) of the EPIRA, the ERC was mandated to issue rules and guidelines under which, among others, generation companies which are not publicly listed shall offer and sell to the public a portion of not less than 15% of their common shares of stock.

ERC Resolution No. 9, Series of 2011, adopted the rules to implement Section 43(t) of the EPIRA. Under the resolution, generation companies, among others, which are not publicly listed are required to sell to the public a portion of not less than 15% of their common shares of stock. If the authorized capital stock of a generation company is fully subscribed, such company must increase its authorized capital stock by 15% or sell or cause the sale of 15% of its existing subscribed capital stock in order to comply with the public offering requirement under the EPIRA.

According to Resolution No. 9, which took effect on June 29, 2011, any offer of common shares of stock for sale to the public through any of the following modes may be deemed as a public offering for purposes of compliance with the public offering requirement under the EPIRA: (1) listing on the PSE; and (2) listing of the shares of stock in any accredited stock exchange or direct offer of the required portion of a company’s capital stock to the public. For generation companies registered with the BOI under the Omnibus Investments Code, the public offering requirement may be complied with by a direct offer of the required portion of the registered enterprise’s shares of stock to the public or through its employees through an employee stock option plan (or any plan analogous thereto), provided such offer is deemed feasible and desirable by the BOI.

However, the offer of common shares through an employee stock option plan is not considered a public offering since the offer is limited only to the employees of the generation companies or the DUs and not to the general public. The offer to employees may be considered public offering only when the generation company or distribution utility is a registered enterprise under the Omnibus Investment Code. Further, the public offering requirement does not apply to: (i) self-generation facilities, (ii) generation companies and distribution utilities already listed on the PSE, (iii) generation companies and distribution utilities whose holding companies are already listed on the PSE, (iv) generation companies and distribution utilities which are organized as partnerships, and (v) electric cooperatives which have no common shares of stock.

On June 4, 2019, the ERC issued Resolution No. 4 amending Resolution No. 9, Series of 2011. The new resolution maintained the previous rule that companies already listed with the PSE are already

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deemed in compliance of the 15% public offering requirement. Under Resolution No. 4, Series of 2019, the following modes shall be deemed to be public offerings:

1. Listing on the PSE;
2. In accordance with the 2015 IRR of the SRC:
 - a. Publication in any printed material distributed in the Philippines;
 - b. Public presentations;
 - c. Advertisements or announcements on radio, television, electronic communications, information communication technology, or any other forms of communications; and
 - d. Distribution of flyers, brochures, or any offering material in a public or commercial place, or through prospective purchasers through the portal system, information communication technology and other means of information distribution.
3. Listing of any shares of stock in any accredited stock exchange or direct offer to the public or the employees of an entity registered with the BOI, when deemed feasible and desirable by the latter.

ERC Resolution No. 4, Series of 2019 also provides that generation companies under a Build-Operate-Transfer Scheme must comply with the 15% public offering requirement. Further, it requires that the sale of securities to the public must comply with the SRC and its IRR.

The public offering by existing companies shall be made within five years from the effectivity of ERC Resolution No. 9, Series of 2011, or until June 29, 2016. The five-year period was extended up to June 29, 2017 pursuant to ERC Resolution No. 18, Series of 2016. For new companies, however, the five-year period is counted from the issuance by the ERC of their respective COCs. The period for compliance has further been extended pursuant to ERC Resolution No. 10, Series of 2017 for another year, or until the resolution of the petition filed by the Private Electric Power Operators Association regarding the clarification on whether the registration of common shares at the SEC may be considered as a mode of public offering is resolved, whichever comes earlier. On June 21, 2018, the ERC issued Resolution No. 14, Series of 2018 which further extended the period for compliance until December 29, 2018.

The Transmission Sector

Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to TransCo, which was created pursuant to the EPIRA to assume, among other functions, the operation of the electrical transmission systems throughout the Philippines. The principal function of TransCo is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code ("Grid Code"). TransCo is also mandated to provide Open Access to all industry participants. The EPIRA granted TransCo a monopoly over the high-voltage network and subjected it to performance-based regulations.

The transmission of electricity through the transmission grid is subject to transmission wheeling charges. Since the transmission of electric power is a regulated common carrier business, the transmission wheeling charges of TransCo are subject to regulation and approval by the ERC.

The EPIRA also requires the privatization of TransCo through an outright sale of, or the grant of a concession over, the transmission assets while the subtransmission assets of TransCo are to be offered for sale to qualified distribution utilities. In December 2007, NGCP, comprising a consortium of Monte Oro Grid Resources, Calaca High Power Corporation and State Grid Corporation of China, won the concession contract to operate, maintain and expand the TransCo assets with a bid of U.S.\$3.95 billion. NGCP was officially granted the authority to manage and operate the country's sole transmission system on January 15, 2009, pursuant to a legislative franchise granted by the Philippine Congress under Republic Act No. 9511. Ownership of all transmission assets, however, remained with TransCo.

Business

The Grid Code establishes the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and provides for the responsibilities and obligations of three key independent functional groups, namely: (a) the grid owner, or TransCo; (b) the system operator, or NGCP as the current concessionaire of TransCo; and (c) the market operator, or PEMC. These functional groups, as well as all users of the grid, including generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC.

In order to ensure the safe, reliable and efficient operation of the Philippine Grid, the Grid Code provides for, among others, the following regulations:

- a. the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operation of the grid;
- b. performance standards for the transmission of electricity through the grid, as well as the operation and maintenance thereof, which standards shall apply to TransCo, NGCP, distribution utilities and suppliers of electricity;
- c. technical and financial standards and criteria applicable to users of the grid, including generation companies and distribution utilities connected or seeking to connect thereto; and
- d. other matters relating to the planning, management, operation and maintenance of the grid.

The Distribution Sector

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, local government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from Congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a Certificate of Public Convenience and Necessity ("CPCN") from the ERC to operate as public utilities.

All distribution utilities are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code ("Distribution Code"), the Distribution Services and Open Access Rules ("DSOAR") and the performance standards set out in the EPIRA IRR.

The distribution sector is and will continue to be regulated by the ERC, with distribution and wheeling charges, as well as connection fees from its consumers, subject to ERC approval. Likewise, the retail rate imposed by distribution utilities for the supply of electricity to its captive consumers is subject to ERC approval. In addition, as a result of the Philippine Government's policy of promoting free competition and open access, distribution utilities are required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of RCOA.

The Distribution Code establishes the basic rules and procedures that govern the operation, maintenance, development, connection and use of the electric distribution systems in the Philippines.

The Distribution Code defines the technical aspects of the working relationship between the distributors and all the users of the distribution system, including distribution utilities, embedded generators and large customers. All such electric power industry participants in distribution system operations are required to comply with the provisions of the Distribution Code as promulgated and enforced by the ERC.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users. The supply function used to be undertaken solely by franchised distribution utilities. However, with the implementation of RCOA, the supply function has become competitive. The business is not considered a public utility operation

and suppliers are not required to obtain franchises. However, the supply of electricity to the “Contestable Market” (i.e., a market of electricity end-users who have a choice on their supplier of electricity) is considered a business with a public interest dimension. As such, the EPIRA requires all suppliers of electricity to the Contestable Market to obtain a license from the ERC and they are subject to the rules and regulations of the ERC on the abuse of market power and other anti-competitive or discriminatory behavior.

With the implementation of the RCOA, a RES is allowed to enter into retail electricity supply agreements with Contestable Customers. This set-up encourages competition at the retail level. It has been planned that the threshold for retail competition will gradually increase over time, provided that retail electricity suppliers are sufficiently creditworthy to be suitable offtakers for generation companies.

Competitive Market Devices

Wholesale Electricity Spot Market

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of RCOA, within one year from its effectivity. The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. The establishment of the WESM facilitates a transparent and competitive electricity market for the country.

All generation companies, distribution utilities, suppliers, bulk consumers/end-users and other similar entities authorized by the ERC are eligible to become WESM members subject to compliance with membership requirements.

On June 28, 2002, the DOE, in cooperation with electric power industry participants, promulgated detailed rules for the WESM. These rules set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly trading period). These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On November 18, 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM. The PEMC was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations.

The Philippine Electricity Market Corporation (“PEMC”) and the Independent Electricity Market Operator of the Philippines Inc. (“IEMOP”), have executed the Operating Agreement to formalize the transfer of all functions, assets and liabilities associated with market operations from PEMC to the IEMOP effective on September 26, 2018. IEMOP is poised the WESM, a function that is currently performed by PEMC. Republic Act No. 9136 requires PEMC to divest itself of this function in favor of a separate entity that is independent of the market participants. On 6 February 2018, the market participants and the DOE Secretary approved the transition plan calling for the formation of an independent market operator and the transfer of the market operation functions to it. IEMOP, a non-stock, non-profit corporation, led by a Board of Directors, all of whom are independents and do not have any interest or connection to the WESM participants, was incorporated and organized to implement the transition plan. Starting on September 26, 2018, the IEMOP runs the electricity market and manages the registration of market participants, receive generation offers, come out with market prices and dispatches schedules of the generation plants, and handle billing, settlement, and collections, among other things. Under the policy and regulatory oversight of the DOE and the ERC, PEMC remains the governing body for WESM to monitor compliance of the market participants with the market rules.

Retail Competition and Open Access

The EPIRA likewise provides for a system of RCOA on transmission and distribution wires, whereby TRANSCO/NGCP and distribution utilities may not refuse the use of their wires by qualified persons, subject to the payment of distribution and wheeling charges. Conditions for the commencement of the open access system are as follows:

- a. Establishment of the WESM;
- b. approval of unbundled transmission and distribution wheeling charges;
- c. initial implementation of the cross-subsidy removal scheme;
- d. privatization of at least 70.0% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- e. transfer of the management and control of at least 70.0% of the total energy output of power plants under contract with NPC to the IPPAs.

Prior to the implementation of the RCOA, the distribution utility exclusively procures energy on behalf of its customers, and delivers the energy through its distribution wires. With RCOA, competing RES will do the buying and selling of electricity, and have the distribution utility deliver the energy for them through the distribution utility's existing distribution wires. The Contestable Customers will have more choices in pricing and power supply contracting, thereby getting the best deal in terms of price and value for money.

On June 6, 2011, pursuant to Resolution No. 10, Series of 2011, the ERC declared December 26, 2011 as the "Open Access Date" to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas.

The implementation of retail competition and open access is mandated by the EPIRA, subject to the fulfillment of certain conditions including, but not limited to, the establishment of the WESM, the unbundling of transmission and distribution wheeling charges, and privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas. December 26, 2011 was the commencement of the full operations of the competitive retail electricity in Luzon and Visayas. Initially, all electricity end- users with an average monthly peak demand of one MW for 12 months preceding December 26, 2011, as certified by the ERC to be contestable customers, shall have the right to choose their own electricity suppliers and are, thus, enjoined to exercise such right to their full benefit.

On December 17, 2012, the ERC promulgated the transitory rules for the implementation of RCOA.

With the purpose of ensuring quality, reliable and affordable electricity under a regime of free and fair competition, the DOE and the ERC issued the following circulars and resolutions to promote customer choice and foster competition in the electricity supply sector:

- a. **DOE Circular No. DC2015-06-0010** - *Providing Policies to Facilitate the Full Implementation of Retail Competition and Open Access ("RCOA") in the Philippine Electric Power Industry;*
- b. **ERC Resolution No. 05, Series of 2016** - *A Resolution Adopting the 2016 Rules Governing the Issuance of Licenses to Retail Electricity Suppliers ("RES") and Prescribing the Requirements and Conditions Therefor;*
- c. **ERC Resolution No. 10, Series of 2016** - *A Resolution Adopting the Revised Rules for Contestability;*
- d. **ERC Resolution No. 11, Series of 2016** - *A Resolution Imposing Restrictions on the Operations of Distribution Utilities and Retail Electricity Suppliers in the Competitive Retail Electricity Market;*

- e. **ERC Resolution No. 28, Series of 2016** - *Revised Timeframe for Mandatory Contestability, Amending Resolution No. 10, Series of 2016 entitled Revised Rules for Contestability*; and
- f. **ERC Resolution No. 1122, Series of 2020** – *A Resolution Prescribing the Timeline for the Implementation of the RCOA*.

The above resolutions/circulars required electricity end-users with an average monthly peak demand of at least 1MW to secure retail supply contracts with licensed retail electricity suppliers on or before February 26, 2017.

On February 21, 2017, the Supreme Court issued a TRO against the enforcement of several orders and regulations promulgated by the ERC and the DOE in relation to RCOA, particularly those compelling Contestable Customers to enter into a retail supply contracts with any of the RES accredited by the DOE and the ERC by February 26, 2017. In response thereto, the DOE issued DOE Circular No. 2017-12-0013 allowing the voluntary participation in the retail market of Contestable Customers with average peak demand of 750 kW. Further, on December 3, 2020, the ERC issued Resolution No. 12, Series of 2020 Prescribing the Timeline for the Implementation of the RCOA. In the said Resolution, the threshold level of 500kW-749kW qualified Contestable Customers with existing electronic meters capable of recording and reading interval of time, with a built-in communication port for remote and manual data retrieval, shall be allowed to switch to Competitive Retail Electricity Market or the Contestable Market starting February 26, 2021.

As such, notwithstanding the TRO issued by the Supreme Court, electricity end-users with average peak demands of at least 500 kW may choose their retail electricity supplier on a voluntary basis.

Unbundling of Rates and Removal of Cross Subsidies

The EPIRA mandates that transmission and distribution wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross- subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines that there will be a material adverse effect upon the public interest or an immediate, irreparable and adverse financial effect on a distribution utility. The initial implementation of the cross-subsidy removal scheme was accomplished in 2001.

These arrangements are now in place, in satisfaction of the conditions for RCOA.

The EPIRA likewise provides for a socialized pricing mechanism such as the lifeline rate subsidy to be set by the ERC for marginalized or low-income captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users are exempt from the cross-subsidy removal for a period of 10 years, unless extended by law. Its application was extended for another 10 years by Republic Act No. 10150, which was approved in June 2011.

Implementation of the PBR

On June 22, 2009, the ERC issued the Rules for Setting Distribution Wheeling Rates that apply to privately owned distribution utilities entering Performance Based Regulation (“PBR”) for the fourth entry points, which set out the manner in which the new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the return-on-rate-base regulation (“RORB”) that has historically determined the distribution charges paid by the distribution companies’ customers. Under the PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility’s efficiency factor. For each year during the regulatory period, a distribution utility’s distribution charge is adjusted upwards or downwards taking into consideration the utility’s efficiency factor set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond

to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the EPIRA IRR, President Arroyo enacted Executive Order No. 100 on May 3, 2002, to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

Government Approval Process

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a COC from the ERC to operate facilities used in the generation of electricity. A COC is valid for a period of five years from the date of issuance.

In addition to the COC requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued "Guidelines for the Financial Standards of Generation Companies," which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements for the two most recent 12-months periods, if available, a schedule of liabilities, and a five-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties.

The ERC also governs the approval process for PSAs between distribution utilities and power suppliers. Under ERC Resolution No. 38, Series of 2006, Rule 20 (B), the ERC specified that the procedures for Applications for Approval of Power Supply Contract other than those covered by the Guidelines for the Setting and Approval of Electricity Generation Rates and Subsidies for Missionary Electrification Rates (ERC Res. No. 11, Series of 2005). Aside from the regulatory certificates from the SEC, BOI, DOE, and the like, the ERC also requires additional documentary support for PSA approval. For instance, they require financial data such as debt-to-equity ratios, project costs, annual interests, weighted average cost of capital, bank loans, to name a few. The ERC also requires a specification of the cash flow on the initial costs, operating & maintenance expenses, Minimum Energy Offtake, fuel costs, and the like. In addition, technical and economic characteristics of the generating plant such as the kWh generation (basis of maintenance allowance), installed capacity, mode of operation, and dependable capacity, also need to be presented for ERC approval.

Both resolutions specify that ERC must render a decision within 90 days from the date of filing of the application. If no decision is rendered within the 90-day period, the PSA shall be deemed approved, unless the extension of the period is due to extraordinary circumstances. Upon the introduction of RCOA, the rates charged by a generation company will no longer be regulated by the ERC, except rates for Captive Markets (which are determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

Business

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local government authorities, relating to, among others, site acquisition, construction and operation, including environmental licenses and permits.

Retail rates charged by RES to Contestable Customers will not require ERC approval. Only the retail rates charged by Distribution Utilities to their Captive Customers will be subject to the approval of the ERC.

The Energy Efficiency and Conservation Act

The EEC was enacted to establish a framework for introducing and institutionalizing policies on energy efficiency and conservation.

Under the EEC, energy efficiency projects shall be included in the annual investment priorities plan of the Board of Investments ("BOI") and shall be entitled to incentives under Executive Order No. 226 or the "Omnibus Investments Code of 1987," and other applicable laws for ten years from the effectivity of the EEC. After the lapse of ten years, the inclusion of energy sufficient projects in the annual investment priorities plan shall be reviewed and may be extended by the BOI. Energy efficient projects are exempt from the nationality requirements under Article 32(1) of the Omnibus Investments Code of 1987, unless the project involved exploration, development and utilization of natural resources which is reserved to Filipino citizens, or corporations or association at least 60% of whose capital is owned by Filipino citizens as per Section 2, Article XII of the 1987 Constitution. Further, establishments that will implement or are implementing energy efficient projects are entitled to provision of awards and recognitions, and technical assistance from government agencies in the development and promotion of energy efficient technologies.

The following acts are prohibited under the EEC:

- a. Failing to comply with energy labelling;
- b. Removing, defacing, or altering any energy label on the energy-consuming product before the product is sold to the first purchaser, or leased to the first lessee;
- c. Failing to provide accurate information or provision of false or misleading energy information as required to be submitted under the EECA;
- d. Selling, leasing, or importing energy-consuming products that do not comply with the minimum energy performance;
- e. Failing or willfully refusing to appoint or designate a Certified Energy Conservation Officer or Certified Energy Manager;
- f. Willfully refusing to submit to an on-site inspection by the DOE;
- g. Failing or willfully refusing to submit any of the reports required;
- h. Failing to comply with issued orders of the DOE in the discharge of its enforcement powers; and
- i. Violating any provisions of the IRR, codes, and guidelines issued in accordance with the EECA.

The DOE is empowered to impose fines and penalties for the violation of the provisions of the EEC, DOE Department Circular No. DC2019-11-0014 (the "EEC IRR"), and other related issuances. The fines and penalties shall range from ₱10,000.00 to ₱1,000,000.00, without prejudice to criminal penalties and penalties under existing regulations. The responsible officers and employees of establishments who commit any of the prohibited acts listed above shall, upon conviction, suffer the penalty of imprisonment of one year to five years, or a fine ranging from a minimum of ₱100,000.00 to ₱100,000,000.00 or twice the amount of costs avoided for noncompliance, whichever is higher, or both, upon the discretion of the court. Any person who aids or abets the commission of the prohibited acts or

causes such commission by another, shall be liable as a principal. In case of associations, partnerships, or corporations, the penalty shall be imposed on the partner, president, chief operating officer, chief executive officer, director, or officer responsible for the violation.

The Renewable Energy Act of 2008

Republic Act No. 9513, otherwise known as the Renewable Energy Act of 2008 (the “RE Law”) provides for the acceleration and development of renewable resources. It was signed into law on December 16, 2008 and became effective in January 2009.

Renewable energy developers of renewable energy facilities, including hybrid systems, in proportion to and to the extent of the renewable energy component, for both power and non-power applications as certified by the DOE are entitled to the following general incentives:

- a. Income tax holiday (“ITH”) for the first seven years of its commercial operations. Additional investments in the project are entitled to additional income tax exemption on the income attributable to the investment. For this purpose, the discovery and development of new renewable energy resource is treated as a new investment and is therefore entitled to a fresh package of incentives. The entitlement period for additional investments shall not be more than three times the period of the initial availment of the income tax holiday.
- b. Duty-free importation of renewable energy machinery, equipment and materials which are directly and actually needed and used exclusively in the RE facilities for transformation into energy and delivery of energy to the point of use and covered by shipping documents in the name of the duly registered operator to whom the shipment will be directly delivered by customs authorities, within the first 10 years upon the issuance of a certification of an RE developer. DOE endorsement must be obtained before the importation and before any sale, transfer or disposition of the imported capital equipment, machinery or spare parts is made. There are additional conditions for sale, transfer, disposition made within the 10-year period from date of importation.
- c. Special realty tax rates on equipment and machinery.
- d. The net operating loss carry-over of the RE developer during the first three years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as a deduction for the next seven consecutive taxable years following the year of such loss.
- e. RE developers shall enjoy a 10% corporate income tax rate after the expiration of its ITH.
- f. Accelerated depreciation if the RE project fails to receive an ITH before full operation.
- g. Zero-percent value added tax rate for sale of fuel or power generated from renewable sources.

Further, all RE developers are entitled to zero-rated value added tax on its purchases of local supply of goods, properties and services needed for the development, construction and installation of its plant facilities.

- h. Cash incentive for RE developers for missionary electrification.
- i. Tax exemption of carbon credits.
- j. Tax credit on domestic capital equipment and services.

The RE Law likewise provides incentives for manufacturers, fabricators and suppliers of locally-produced RE equipment and components duly recognized and accredited by the DOE and upon registration with the BOI.

Business

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 but FIT shall only be paid for such amount of electricity actually exported to the distribution or transmission network and not utilized for their own use.

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. RE Plants, which have been in operation prior to the effectivity of the RE Law may be granted lower FITs specific to them upon application and hearing, and after a showing that:

- a. Such FITs are indispensable for their continued operations;
- b. There is no legal impediment for them to be allowed such FITs, such as the existence of a power supply agreement/power purchase agreement with any DU or End-User; and,
- c. They have fulfilled such other requirements of the ERC.

FITs shall be established for each generation plant using: (i) wind energy resources; (ii) solar energy resources; (iii) ocean energy resources; (iv) run-of-river hydroelectric power resources; (v) biomass energy resources; and (vi) 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: (i) Technology-specific FITs; (ii) Fixed FITs but subject to adjustment to allow pass-through of local inflation and foreign exchange rate variations. FITs for peak and off-peak hours may be established for renewable energy technologies that can follow the dynamics of demand such biomass energy systems and hydropower, as may be recommended by NREB.

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 off-taker.

Business

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 ₱/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.

Renewable Portfolio Standards

On December 22, 2017, the DOE issued a Department Circular No. DC 2017-12-0015 Promulgating the Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards for On-Grid Areas (the “RPS Rules”). The RPS Rules mandates electric power industry participants to source or produce a specified portion of their electricity requirements from eligible Renewable Energy (“RE”) resources in order to encourage development of indigenous and environmentally friendly energy sources. Under the RPS Rules, the mandated participants include:

- a) Distribution Utilities for the captive customers;
- b) RES for contestable customers;
- c) Generating Companies to the extent of the demand of their actual supply to their directly-connected customers;
- d) Other entities as may be recommended by the NREB and approved by the DOE.

The RPS Rules established the minimum annual RPS requirement. This pertains to the RE share of electricity coming from RE resources in the energy mix shall be based on an aspirational target of 35% in the generation mix expressed in MWh by 2030, subject to regular review and assessment by the DOE.

The RPS Rules also established the minimum annual incremental RE percentage. This is initially set at 1% to be applied to the net electricity sales of the mandated participant for the previous year, and thereafter adjusted by the DOE as may be necessary.

For the purpose of compliance with the RPS Rules for On-Grid Areas, the eligible RE facilities utilizing the following technologies and resources shall be:

- a) Biomass;
- b) Waste-to-energy technology;
- c) Wind energy;
- d) Solar energy;
- e) Run-of-river hydroelectric power systems;
- f) Impounding hydroelectric power systems;
- g) Ocean energy;
- h) Hybrid systems as defined in the RE Act with respect to the RE component;
- i) Geothermal energy; and
- j) Other RE technologies that may be later identified by the DOE;

provided that, the RE facilities utilizing these technologies to be eligible under RPS compliance and Renewable Energy Certificates (“RECs”) attribution, they shall have been in commercial operations after the effectivity of the RE Act in 2008.

Business

The RPS Rules enabled the creation of an RE Market where mandated participants comply with the minimum annual RPS requirement through the allocation, generation, purchase, or acquisition, generation from net metering arrangements, of RECs. One certificate represents one MWh of generation produced from a registered eligible RE facility.

Petroleum

ACEIC's petroleum business is subject to the following laws, rules and regulations:

Section 2, Article XII of the 1987 Constitution

This constitutional provision reserves ownership to the State and declares non-alienable all lands of the public domain, waters, minerals, coal, petroleum, and other mineral oils, all forces of potential energy, fisheries, forests or timber, wildlife, flora and fauna, and other natural resources.

The State has full control of exploration, development, and utilization of natural resources but may enter into co-production, joint venture, or production-sharing agreements with Filipinos, or corporations or associations which are at least 60% owned by Filipinos, and only for a period of 25 years, renewable for another 25.

The President may enter into agreements with foreign-owned corporations involving either technical or financial assistance for large-scale exploration, development, and utilization of minerals, petroleum, and other mineral oils according to the general terms and conditions provided by law. The President shall notify the Congress of every contract entered into in accordance with this provision, within thirty days from its execution.

Presidential Decree (P.D.) No. 87, as amended, or The Oil Exploration and Development Act of 1972

P.D. 87, as amended, or "The Oil Exploration and Development Act of 1972" declares that the State should accelerate the discovery and production of indigenous petroleum through utilization of government and/or private resources, local and foreign, under arrangements calculated to yield maximum benefit to the Filipino people and revenues to the Philippine Government, and to assure just returns to participating private enterprises, particularly those that will provide services, financing, and technology, and fully assume all exploration risks. The government may undertake petroleum exploration and production by itself or may indirectly undertake the same through Service Contracts. Under a service contract, service and technology are furnished by a contractor for which it would be entitled to a service fee of up to 40% of net production proceeds. Where the Government is unable to finance petroleum exploration or in order to induce the contractor to exert maximum efforts to discover and produce petroleum, the service contract would stipulate that, if the contractor furnishes service, technology and financing, the proceeds of the sale of the petroleum produced under the service contract would be the source of payment of the service fee and the operating expenses due the contractor. Operating expenses are deductible up to 70% of gross production proceeds. If, in any year, the operating expenses exceed 70% of gross proceeds from production, the unrecovered expenses may be recovered from the operations of succeeding years. Intangible exploration costs may be reimbursed in full, while tangible exploration costs (such as capital expenditures and other recoverable capital assets) are to be depreciated for a period of five or 10 years. Any interest or other consideration paid for any financing approved by the Government for petroleum development and production would be reimbursed to the extent of two-thirds of the amount, except interest on loans or indebtedness incurred to finance petroleum exploration.

Aside from reimbursement of its operating expenses, a contractor with at least 15% Filipino participation is allowed to recover a Filipino participation incentive allowance equivalent to a maximum of 7.5% of the gross proceeds from the crude oil produced in the contract area. Incentives to service contractors include (i) exemption from all taxes except income tax which is paid out of Government's share, (ii) exemption from all taxes and duties on importation of machinery, equipment, spare parts, and materials for petroleum operations, (iii) repatriation of investments and profits, and (iv) free market determination of crude oil prices. Finally, a subcontractor is subject to special income tax rate of 8% of gross Philippine income while foreign employees of the service contractor and the subcontractor are subject to a special tax rate of 15% on their Philippine income.

A service contract has a maximum exploration period of 10 years and a maximum development and production period of 40 years. Signature bonus, discovery bonus, production bonus, development allowance and training allowance are payable to the Government. Other pertinent laws and issuances include P.D. 1857, a law amending certain sections of P.D. 87, as amended, offering improved fiscal and contractual terms to service contractors with special reference to deep water oil exploration; *DOE Circular No. 2009040004*, a circular that establishes the procedures for the Philippine Contracting Rounds; *DOE Circular No. 200305006*, a circular that provides the guidelines to the financial and technical capabilities of a viable petroleum exploration and production company; *Executive Order (EO) No. 66* issued in 2002 which designated the DOE as the lead government agency in developing the natural gas industry; and *DOE Circular 200208005*, a circular setting the interim rules and regulations governing the transmission, distribution and supply of natural gas.

Republic Act No. 8371 or The Indigenous Peoples' Rights Act of 1997

Republic Act No. 8371 or The Indigenous Peoples' Rights Act of 1997 ("IPRA") requires the free and prior informed consent ("FPIC") of indigenous peoples ("IP") who will be affected by resource exploration and extraction activities. Under the IPRA, IPs are granted certain preferential rights to their ancestral domains and all resources found therein. Ancestral domains are defined as areas generally belonging to IPs, subject to property rights within ancestral domains already existing or vested upon the effectivity of the IPRA, comprising lands, inland waters, coastal areas, and natural resources, held under a claim of ownership, occupied or possessed by IPs themselves or through their ancestors, communally or individually, since time immemorial, continuously to the present, except when interrupted by war, force majeure or displacement by force, deceit, stealth, or as a consequence of government projects or any voluntary dealings entered into by the Government and private persons, and which are necessary to ensure their economic, social and cultural welfare.

Under the IPRA, no concession, license, lease or agreement shall be issued by any government agency without the certification precondition ("CP") from the National Commission on Indigenous People ("NCIP"). The CP states that the FPIC has been obtained from the concerned IPs. For areas not occupied by IPs, a certificate of non-overlap is issued instead by the NCIP. For areas occupied by IPs, the applicant and representatives from the NCIP will conduct consultations and consensus building to obtain the consent of IPs. The FPIC is manifested through a memorandum of agreement with IPs, traditionally represented by their elders. The CP is then issued by the NCIP stating that the FPIC has been obtained from the IPs concerned.

Environmental Matters

Philippine Clean Water Act

In 2004, Republic Act No. 9275, or the "Philippine Clean Water Act of 2004," was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country's water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land-based sources. The EMB, in partnership with other Philippine Government agencies and the respective local government units, is tasked by the Implementing Rules of the Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law. The Philippine Clean Water Act also authorizes the DENR to formulate water quality criteria and standards for oil and gas exploration which encounter re-injection constraints.

The Clean Water Act requires owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes the owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time.

Philippine Clean Air Act

Republic Act 8749 or “The Philippine Clean Air Act of 1999” is a comprehensive air quality management program which aims to achieve and maintain healthy air for all Filipinos. Under this, the DENR is mandated to formulate a national program on how to prevent, manage, control, and reverse air pollution using regulatory and market-based instruments, and setup a mechanism for the proper identification and indemnification of victims of any damage or injury resulting from the adverse environmental impact of any project, activity or undertaking. To implement this law, the Government is promoting energy security through policies on energy independence, sustainability, and efficiency. These involve:

- a. increasing oil and gas exploration;
- b. strengthening of the PNOC to spearhead the development of indigenous energy resources and building global partnerships and collaborative undertakings;
- c. pursuing the development of renewable energy such as geothermal, wind, solar, hydropower, and biomass, and the vigorous utilization of the cleaner development mechanism and the emerging carbon market;
- d. expanding the use of natural gas; and
- e. adopting energy efficiency promotion strategies.

The Philippine Clean Air Act of 1999 requires enterprises that operate or utilize air pollution sources to obtain an Authority to Construct or a Permit to Operate from the DENR with respect to the construction or use of air pollutants. The issuance of said permits seek to ensure that regulations of the DENR with respect to air quality standards and the prevention of air pollution are achieved and complied with by such enterprises.

The Philippine Environmental Impact Statement System

Projects relating to resource exploration and extraction are required to comply with the Philippine Environmental Impact Statement System (“EIS System”). The EIS System was established by virtue of P.D. 1586 entitled “Establishing An Environmental Impact Statement System, Including Other Environmental Management Related Measures And For Other Purposes,” issued in 1978. The EIS System requires all government agencies, government owned or controlled corporations and private companies to prepare an Environmental Impact Assessment (“EIA”) for any project or activity that affects the quality of the environment. An EIA is a process that involves evaluating and predicting the likely impacts of a project (including cumulative impacts) on the environment and includes designing appropriate preventive, mitigating and enhancement measures to protect the environment and the community’s welfare. An entity that complies with the EIS System is issued an Environmental Compliance Certificate (“ECC”), which is a document certifying that, based on the representations of the project proponent, the proposed project or undertaking will not cause significant negative environmental impacts and that the project proponent has complied with all the requirements of the EIS System.

To strengthen the implementation of the EIS System, the Office of the President of the Philippines issued Administrative Order (“A.O.”) No. 42 in 2002, providing the streamlining of the ECC application processing and approval procedures. Pursuant to A.O. 42, the DENR promulgated DENR AO No. 2003-30, also known as the IRR for the Philippine EIS System, in 2003.

Under the IRR, only projects that pose potential significant impact to the environment would be required to secure ECCs. In determining the scope of the EIS System, two factors are considered, namely: (i) the nature of the project and its potential to cause significant negative environmental impacts, and (ii) the sensitivity or vulnerability of environmental resources in the project area.

Specifically, the criteria used to determine projects covered by the EIS System are as follows:

- a. Characteristics of the project or undertaking

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- i size of the project;
 - ii cumulative nature of impacts compared to other projects;
 - iii use of natural resources;
 - iv generation of wastes and environment related nuisance; and
 - v environment related hazards and risk of accidents.
- b. Location of the project
- i vulnerability of the project area to disturbances due to its ecological importance endangered or protected status;
 - ii conformity of the proposed project to existing land use, based on approved zoning or on national laws and regulations; and
 - iii relative abundance, quality and regenerative capacity of natural resources in the area, including the impact absorptive capacity of the environment.
- c. Nature of the potential impact
- i geographic extent of the impact and size of affected population;
 - ii magnitude and complexity of the impact; and
 - iii likelihood, duration, frequency, and reversibility of the impact.

The ECC of a project not implemented within five years from its date of issuance is deemed expired. The proponent must reapply for a new ECC if it intends to still pursue the project. The reckoning date of project implementation is the date of ground-breaking, as stated on the proponent's work plan submitted to the Environmental Management Bureau ("EMB").

Petroleum service contractors are mandated to comply with all environmental laws and rules and regulations in all phases of exploration and production operations. ECCs or certificates of no coverage, if applicable, are obtained from the EMB of the DENR, in coordination with the DOE.

The exploration, production and sale of oil are subject to extensive national and local laws and regulations. ACEIC and its associates may incur substantial expenditures to comply with these laws and regulations, which may include permitting costs, adoption and implementation of antipollution equipment, methods and procedures, and payment of taxes and royalties.

Under these laws, ACEIC could be subject to claims for personal injury or property damages, including damages to natural resources, which may result from ACEIC's operations. Failure to comply with these laws may also result in the suspension or termination of ACEIC's operations and subject it to administrative, civil and criminal penalties. Moreover, these laws could be modified or reinterpreted in ways that substantially increase ACEIC's costs of compliance. Any such liabilities, penalties, suspensions, terminations or regulatory changes could have a material adverse effect on ACEIC's financial condition and results of operations.

Environmental Compliance

ACEIC's operations are subject to evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations address, among other things, air emissions, wastewater discharges, generation, handling, storage, transportation, treatment and disposal of oil products, workplace conditions and employee exposure to hazardous substances.

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. As a

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prerequisite for the issuance of an ECC, an environmentally critical project is required to submit an EIS while project in an environmentally critical area is generally required to submit an Initial Environmental Examination ("IEE") to the DENR, through its regional offices or through the EMB.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by the EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Philippine Government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the project's abandonment phase.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team, which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

In order to address air pollution from mobile and stationary sources, equipment that emit or may emit air pollutants may only be operated upon obtaining a Permit to Operate from the DENR. An application for a Permit to Operate must be filed for each source emitting regulated air pollutants, but facilities having more than one source may group the sources under a single permit application.

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 Philippine Department of Transportation.

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: (i) 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 (ii) 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

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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.

The Toxic Substances and Hazardous and Nuclear Waste Control Act

Republic Act No. 6969 or “The Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990,” regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines or the keeping in storage of hazardous wastes which include by-products, process residue, contaminated plant or equipment or other substances from manufacturing operations. The said law is implemented by the DENR.

Hazardous wastes are substances brought into the country without any safe commercial, industrial, agricultural or economic usage. On the other hand, toxic wastes are substances that are poisonous and have carcinogenic, mutagenic, or teratogenic effects on human or other life forms.

Ecological Solid Waste Management Act

Republic Act No. 9003 or “The Ecological Solid Waste Management Act of 2000” provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centers and facilities. The same law mandates all, especially, the local government units, to adopt a systematic, comprehensive and ecological solid waste management program which shall ensure protection of public health and environment, utilize environmentally sound methods, set targets and guidelines for solid waste avoidance and reduction, and ensure proper segregation, collection, transport and storage of solid waste.

The National Solid Waste Management Commission, together with other government agencies and the different local government units, are responsible for the implementation and enforcement of the said law.

Code on Sanitation of the Philippines

Presidential Decree No. 856 or the “Code on Sanitation of the Philippines” provides for sanitary and structural requirements for industrial establishments, among others, in connection with the promotion and preservation of the health of the people and raise the health standards of individuals and communities throughout the Philippines. It states that no person, firm, corporation, or entity shall operate any industrial establishment without first obtaining a sanitary permit. Industrial establishments shall be allowed to operate only in places or zones assigned for the kind of industry by existing zoning laws, ordinances, or policies. The local health authority shall determine the suitability of location where no zoning law, ordinance or policy exists.

Strategic Environmental Plan for Palawan Act

A significant number of ACEIC’s Petroleum Service Contracts is located in or in the surrounding areas of Palawan Province. While R.A. No. 7611 (Strategic Environmental Plan for Palawan Act) is a national law, it applies specifically to Palawan. R.A. No. 7611 has adopted Palawan’s Comprehensive

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Framework Plan as a guide for the local government and other government agencies concerned in provincial development.

The main strategy of the SEP is implemented out in the following manner:

- Forest conservation and protection through the imposition of a total commercial logging ban in all areas of maximum protection and in such other restricted use zones as the Palawan Council for Sustainable Development ("PCSD") may provide
- Protection of watersheds
- Preservation of biological diversity
- Protection of tribal people and the preservation of their culture
- Maintenance of maximum sustainable yield
- Protection of rare and endangered species and their habitat
- Provision of areas for environmental and ecological research, education and training
- Provision of areas for tourism and recreation

The law implements the Environmentally Critical Areas Network ("ECAN"), a graded system of protection and development control. This graded system covers tribal lands, forests, mines, agricultural areas, settlement areas, small islands, mangrove, coral reefs, seagrass beds and the surrounding sea. It divides Palawan into a terrestrial zone, coastal/marine zone and tribal lands. The first two are classified further into: a core zone, an area of maximum protection which shall be free of human disruption, and a buffer zone which consists of a restricted use area, which serves as the protective barrier to the core zone; a controlled use area wherein limited extractive activities are allowed and the traditional use area where land use has already been stabilized. For marine zones, the multiple use zone is the development area and serves as the buffer zone to the core. Fishery, mariculture, recreation, rehabilitation of small islands and mangrove ecosystem, education and research are allowed in this area.

Central to the law is the creation of the Palawan Council for Sustainable Development, which serves as governance, implementation and policy director of the SEP. It is composed of the Members of the House of the Representatives representing the province of Palawan, the Deputy Director General of the National Economic and Development Authority, the Undersecretary of Environment and Natural Resources, the Undersecretary for Special Concerns of the Department of Agriculture, the Governor of Palawan, the Mayor of Puerto Princesa City, the President of the Mayor's League of Palawan, the President of the Provincial Chapter of the Liga ng mga Barangay, the Executive Director of the Palawan Council for Sustainable Development Staff.

Other Applicable Regulations

Foreign Investment Act

The FIA liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Eleventh Regular Foreign Investment Negative List (the "Negative List") signed on 29 October 2018. This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. Nationalized activities include, among others, land ownership, telecommunications, mining and the operation of public utilities.

In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens. Likewise, under the Philippine Constitution, only citizens of the Philippines or corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens may engage in activities relating to the exploration, development and utilization of natural resources, which covers the utilization of natural resources for the operation of renewable energy power plants.

Data Privacy Act

Republic Act No. 10173, otherwise known as the Data Privacy Act of 2012 or DPA, was signed into law on August 15, 2012, to govern the processing of all types of personal information (*i.e.*, personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System or ICT, which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law expressly provides that it does not apply to certain types of information, including those necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes.

It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the DPA and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognizes the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The DPA seeks to protect the confidentiality of “personal information,” which is defined as “any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual.” The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on “personal information controllers” and “personal information processors.” It also provides for penal and monetary sanctions for violations of its provisions.

The Philippine Competition Act

Republic Act No. 10667 or the Philippine Competition Act (“PCA”) authorizes the Philippine Competition Commission or the PCC to review mergers and acquisitions to ensure compliance with the PCA. The PCA, its Implementing Rules and Regulations, as amended, and the Rules on Merger Procedure (collectively, the “Merger Rules”) provide for mandatory notification to the PCC of any merger or acquisition within 30 days of signing any definitive agreement relating to the transaction, where the transaction value exceeds ₱2.2 billion; and where the size of the ultimate parent entity, including the entities directly or indirectly controlled by the ultimate parent entity of either party exceeds ₱5.6 billion. Parties may not consummate a notifiable transaction prior to receiving PCC approval or the lapse of the period stated in the Merger Rules. A merger or acquisition that meets the thresholds under the Merger Rules but was not notified to the PCC, or notified but consummated, in whole or in part, prior to the expiration of the waiting period, is considered void and will subject the parties to a fine ranging from 1% to 5% of the value of the transaction. Anti-competitive agreements, as defined under the law, are subject to penalties that include: (a) a fine of not less than ₱50 million but not more than ₱250 million; and (b) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities that engage in anti- competitive agreements, abuse their dominant position and conclude prohibited mergers and acquisitions. Treble damages may be imposed where the violation involves the trade or movement of basic necessities and prime commodities.

Section 4(eee) of Republic Act No. 11494 or the Bayanihan 2 Act exempts from compulsory notification all mergers and acquisitions with transaction values below ₱50 billion if entered into within two years from the effectivity of Bayanihan 2 Act, or from 15 September 2020. A transaction is considered “entered into” upon signing by the parties of the definitive agreement.

Under the PCC Resolution No. 22-2020 adopting the rules implementing Section 4 (eee) of the Bayanihan 2 Act, mergers and acquisitions shall still be subject to compulsory notification when:

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- a. both the transaction value and the size of the ultimate parent entity of either party is at least ₱50 billion; and
- b. the transaction is entered into prior to the effectivity of the Bayanihan 2 Act and exceeds the thresholds applicable.

Additionally, the Bayanihan Act 2 suspends PCC's power to motu proprio review mergers and acquisitions for one year from the effectivity of the law. However, transactions entered into prior to the effectivity of the Bayanihan 2 Act which has not yet been reviewed by the PCC; and transactions pending review by the PCC prior to the effectivity of the Bayanihan 2 Act shall not be covered by the exemption from the PCC's power to review transactions motu proprio. Further, mergers and acquisitions entered into during the effectivity of the Bayanihan 2 Act may still be reviewed by the PCC motu proprio after one year from the effectivity of the law.

Any voluntary notification shall constitute a waiver to the exemption from review.

Local Government Code

The Local Government Code ("LGC") establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The LGC general welfare clause states that every local government unit ("LGU") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Revised Corporation Code of the Philippines

Republic Act No. 11232, or the Revised Corporation Code, was signed into law on 20 February 2019 and became effective on March 8, 2019. Among the salient features of the Revised Corporation Code are:

- a. Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Philippine SEC that it elects to retain its specific corporate term under its current Articles of Incorporation.
- b. The Code allows the creation of a "One Person Corporation" ("OPC"), which is a corporation composed of a single stockholder, provided that, only natural person, trust or an estate may form such. No minimum authorized capital stock is also required for an OPC, unless provided for under special laws.
- c. Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.
- d. The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws or by a majority of the board of directors. However, as to corporations vested with public interest, the right to vote through such modes, may be exercised notwithstanding the absence of a provision in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or

in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option; and

- e. In case of transfer of shares of listed companies, the Commission may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Commission.

The Revised Corporation Code refers to the PCA in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the PCA thresholds.

Bayanihan Laws

Please refer to “Regulatory Framework – Bayanihan Laws” on page 386 of this Prospectus.

On September 11, 2020, the Bayanihan 2 Act was signed into law by President Duterte. The Bayanihan 2 Act confers emergency powers to President Duterte which will be in effect until December 19, 2020. The Bayanihan 2 Act directed all institutions providing utilities services, to implement a minimum 30-day grace period for the payment of utilities falling due within the period of ECQ or MECQ without incurring penalties, interests, or other charges.

The ERC also directed distribution utilities and retail electricity suppliers to allow consumers a grace period for the payment of their electric consumption without interest, penalties and other charges.

Overview of Regulatory Framework for Wind Farm Power Plant Projects in Indonesia

Regulation Background

The relevant laws and regulations for a wind farm power plant project (“WFPP”) in Indonesia include the following (each, as amended):

- Law No. 30 of 2009 on Electricity (“Law on Electricity”);
- Law No. 32 of 2009 on Environmental Protection and Management (“Law on Environment”);
- Law No. 25 of 2007 on Investment (“Law on Investment”);
- Law No. 40 of 2007 on Limited Liability Company (“Law on Company”);
- Law No. 41 of 1999 on the Forestry, as amended by Law No. 19 of 2004 and partly revoked by Law No. 18 of 2013 (“Law on Forestry”);
- Law No. 2 of 2017 on Construction Services;
- Minister of Energy and Mineral Resources (“MEMR”) Regulation No. 39 of 2018 regarding Electronically Integrated Business Licensing Services in the Field of Electricity (“MEMR Regulation 39-2018”);
- Government Regulation No. 14 of 2012 on Power Supply Business Activities, as amended by Government Regulation No. 23 of 2014 (“Government Regulation 14”);
- MEMR Regulation No. 50 of 2017 regarding the Utilization of Renewable Energy Sources for Electricity Supply, as amended lastly by MEMR Regulation No. 4 of 2020 (“MEMR Regulation 50-2017”);
- MEMR Regulation No. 001 of 2006 on the Procedure of Purchase of Electricity and/or Lease of Network in Procurement of Electricity for Public Interest, as amended by MEMR regulation No. 004 of 2007 and partly revoked by MEMR Regulation No. 19 of 2017 and MEMR Regulation 50- 2017;

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- MEMR Regulation No. 27 of 2018 on Compensation for Land, Buildings and/or Plants Located under Electrical Transmission Network Free Spaces;
- Presidential Regulation No. 44 of 2016 on the List of the Lines of Business that are Closed to Investment and the Lines of Business that are Conditionally Open for Investment (“Negative List”);
- Head of National Land Agency (*Badan Pertanahan Nasional* – “BPN”) Regulation No. 17 of 2019 regarding Location Permits (“Head of BPN Regulation 17-2019”)
- Minister of Environment and Forestry (“MOEF”) Regulation No. P.38/MENLHK/SETJEN/KUM.1/7/2019 on Types of Planned Businesses and/or Activities Subject to Mandatory Environmental Impact Assessment (“Regulation 38-2019”);
- MOEF Regulation No. P.26/MENLHK/SETJEN/KUM.1/7/2018 regarding the Guidelines on the Preparation and Assessment as well as Evaluation of Environmental Documents in the Implementation of Electronically Integrated Business Licensing Services (“MOEF Regulation 26- 2018”); and
- MOEF Regulation No. P.27/MENLHK/SETJEN/KUM.1/7/2018 regarding the Guidelines on the Borrow and Use of Forestry Area, as amended by MOEF Regulation P.7/MENLHK/SETJEN/KUM.1/2/2019 (“MOEF Regulation 27-2018”).

This section sets out the overall regulatory framework and the main business licenses applicable to WFPPs in Indonesia. This section is not intended to set out a comprehensive review of all of the different regulations, regulatory requirements or licenses/permits applicable to Indonesian WFPPs. Additional regulatory requirements (as well as the obligation to obtain additional technical and/or operational licenses) may apply based on the specific activities, operating procedures and utilized equipment of a project company. For example, specific construction activities, manpower arrangements, use or development of ancillary facilities (such as roads and ports) and hazardous waste arrangements are subject to separate regulatory requirements outside the scope of this section.

General Corporate Documents and Licenses

Based on the Law on Company, among the general corporate documents applicable for a newly established company involved in a WFPP is the Deed of Establishment and any amendments thereto, together with the relevant approval and notification receipts from the Minister of Law and Human Rights.

With regard to general business licenses, the relevant mandatory licenses include the company’s tax related licenses.

Company Registration

Foreign investment companies (Penanaman Modal Asing or the “PMA company/ies”) are allowed to engage in the business of electricity supply for the public interest and electricity power generation under the Law on Electricity but subject to the foreign ownership restrictions imposed under the Negative List. A Business Registration Number (Nomor Induk Berusaha - “NIB”) is an identity number for Indonesian business entities issued by the Online Single Submission (“OSS”) system following the registration of such business entity in the OSS system. An NIB also serves as a company’s Company Registration Certificate (Tanda Daftar Perusahaan), Importer Identification Number (Angka Pengenal Importir) and customs access right (nomor induk kepabeanan). Business entities with an NIB are also automatically registered with the national healthcare and employment social security schemes (Badan Penyelenggara Jaminan Sosial). The requirement to obtain an NIB through the OSS system also applies to business entities which were established prior to the establishment of the OSS system in 2018. The registration of an Indonesian PMA company is generally evidenced by its NIB.

Under the Law on Investment, a PMA company engaged in a WFPP must have an NIB with a classification of “electricity generation.” The “electricity generation” business classification for WFPPs, in turn, is separated into three different categories under the Negative List, as follows:

- a. electricity generation of less than 1MW (which is closed to foreign ownership);

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- b. electricity generation of 1MW to 10MW (which allows foreign ownership of up to 49%); and
- c. electricity generation of more than 10MW (which generally allows for foreign ownership up to 95%).

Operational Licenses

Under the Law on Electricity, a company engaged in the development of a WFPP must secure an Electricity Supply Business License (Izin Usaha Penyedia Tenaga Listrik or the "IUPTL"), which is its main business license.

IUPTL

As a requirement for the supply of electricity to PLN, a project company is required to secure an IUPTL issued by MEMR (or by its delegated authority). The IUPTL is granted for up to 30 (thirty) years and can be extended.

Pursuant to MEMR Regulation 39-2018, MEMR, in the framework of electronically integrated business licensing services, has delegated to the OSS system its authority to grant several licenses, including IUPTLs. Therefore, an application to obtain an IUPTL must be submitted through the OSS system and the IUPTL will be issued by the OSS system for and on behalf of MEMR.

In order for an IUPTL issued through the OSS system to become effective, certain administrative and technical requirements are required to be complied with by the project company. These include, among others, MEMR approval of the selling price of electricity, a copy of the relevant PPA and evidence of the financial capabilities of the project company.

Operational Feasibility Certificate

After the commissioning test of a WFPP, MEMR Regulation 39-2018 requires the power plant to undergo inspection and testing for the purpose of obtaining an Operational Feasibility Certificate (Sertifikat Laik Operasi) issued through the OSS system, which will certify the fitness of the electricity installation and formally recognize that the power plant is ready to commence operations.

Environmental and Forestry Licenses

Approval of AMDAL documents

Certain environmental approvals and permits are required to be secured with respect to the construction of a WFPP. In case of a WFPP with capacity of or more than 50MW, Regulation 38-2019 categorizes the construction thereof as an activity that requires an Environmental Impact Assessment (*Analisis Mengenai Dampak Lingkungan Hidup* or the "AMDAL"). The AMDAL is a document which consists of an Environmental Impact Assessment Report (*Analisa Dampak Lingkungan Hidup* or the "ANDAL"), an ANDAL Terms of Reference (*Kerangka Acuan Analisa Dampak Lingkungan Hidup* or the "KA- ANDAL"), an Environmental Management Plan (*Rencana Pemantauan Lingkungan* or the "RPL") and an Environmental Monitoring Plan (*Rencana Pengelolaan Lingkungan* or the "RKL").

The approval process of the AMDAL includes the project company's preparation and submission of a KA-ANDAL to the AMDAL Valuation Committee for approval. The AMDAL documents must then be prepared and eventually submitted to the MOEF or Head of Regional Government (Governor or Regent/Mayor), as applicable. The AMDAL approval will state that the business activities are feasible for the environment, the obligations of the project company and the validity of the approval, among others.

Environment License/Permit

Under the Law on Environment, every person required to secure an AMDAL approval is also obliged to secure an environmental license. Based on MOEF Regulation 26-2018, the OSS system will issue an Environmental Permit (with a specific commitment to complete an AMDAL) in accordance with the application made by the relevant project company through the OSS system. Once the Environmental

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Permit is issued by the OSS system and in order for the Environmental Permit to become effective, then the relevant project company must complete the AMDAL process.

Borrow and Use Permit of Forest Area, if applicable

Under the Law on Forestry, a Borrow and Use Permit is mandatorily required to be obtained if a project company is to carry out electricity business in an area which has been categorized as “production forest” or “protection forest” (together, the “Forest Zones”). A Borrow and Use Permit can be issued to a company conducting activity in a Forest Zone for the period equal to the period in the IUPTL and may be extended upon compliance with the relevant requirements under the Law on Forestry. The conditions attaching to a Borrow and Use Permit can be extensive (including the obligation to comply with financial and land compensation requirements). In accordance with MOEF Regulation 27-2018, an application to obtain a Borrow and Use Permit must be submitted by the management of the relevant project company (which has obtained an NIB) to the MOEF through the OSS system.

Land Arrangements

Location Permit

Under Head of BPN Regulation 17-2019, a Location Permit is required to be secured by the project company in order to be allowed to acquire a certain land area and apply for the relevant land title in respect of such land in accordance with Regional Spatial Layout Plan. A Location Permit will typically be based on a commitment from its holder to obtain additional approvals. If the land acquisition process cannot be completed within the initial period provided in the Location Permit (of up to 3 years), the Location Permit can be extended for a one (1) year period, provided the holder of the Location Permit has acquired at least 50% of the total land area specified in the Location Permit at the time of extension.

A PMA company can only acquire land within the area indicated in the Location Permit issued in its favor. Based on Head of BPN Regulation 17-2019, Location Permits are applied for and issued through the OSS system. For purposes of a WFPP, it is necessary that the Location Permit specifically allows for electricity business activities, among others, to be carried out on that land. The Location Permit is different from and separate to the actual underlying land title.

Land Utilization License

In addition to the Location Permit, regional governments may also require a company carrying on business within their jurisdiction to obtain a Land Utilization License (*Izin Peruntukkan dan Penggunaan Lahan* or the “IPPL”). The IPPL is granted to make sure that the business being carried out on the relevant land is in line with the relevant Regional Spatial Layout Plan.

Land rights applicable to a WFPP

While there are different kinds of registered land titles in Indonesia, the most relevant for an IUPTL holder is a ‘right to build’ (hak guna bangunan or the “HGB”). The HGB gives the holder the right to own and use land and to erect and/or possess buildings and installations on the land. HGB certificates are issued to evidence the ownership of this type of title. Usually, an HGB is for a period of up to 30 years and extendable for maximum periods of 20 years per extension.

Electricity Tariffs and Power Purchase Agreements with PLN

Pursuant to MEMR Regulation 50-2017, for Indonesian WFPPs, the relevant electricity sale pricing shall be determined as follows:

- d. up to 85% of the local grid average national PLN electricity supply cost (biaya pokok penyediaan pembangkitan - “BPP”), if the local grid BPP is higher than the national BPP; or
- e. based on mutual agreement between PLN and the independent power producer, if the local grid BPP is less than or equal to the national BPP.

The electricity price based on the above pricing mechanism must obtain an electricity price approval from MEMR which must be applied by PLN to the MEMR at the latest 5 business days as of the completion of the independent power producer procurement process. This process will be managed through the co-operation of PLN during the negotiation of the terms of the power purchase agreement.

Overview of Regulatory Framework for Renewable Solar/Wind Power Plant Projects in Vietnam

Relevant laws and regulations

General (applicable to all power projects)

- Investment Law No. 67/2014/QH13 dated 26 November 2014 passed by the National Assembly (as amended by Laws No. 90/2015/QH13 and No. 03/2016/QH14) (to be replaced by Investment Law no. 61/2020/QH14 dated 17 June 2020 as from 1 January 2021) ("Investment Law")
- Decree 118/2015/ND-CP dated 12 November 2015 as the implementing regulations of the Investment Law
- Electricity Law No. 28/2004/QH11 dated 3 December 2004 passed by the National Assembly (as amended by Law No. 24/2012/QH13 dated 20 November 2012) ("Electricity Law")
- Decree 137/2013/ND-CP dated 21 October 2013 implementing the Electricity Law (as amended by Decree No. 08/2018/ND-CP)
- National Power Master Plan VII (amended) for the period 2011—2020 approved by the Prime Minister under Decision 428/QĐ-TTg dated 18 March 2016 ("Power Master Plan VII"). Power Master Plan VII aims to increase solar power capacity from the current almost zero to 850MW by 2020 and 12,000MW by 2030
- Land Law No. 45/2013/QH13 dated 29 November 2013 passed by the National Assembly (as amended by Law No. 35/2018/QH14) ("Land Law")
- Decree No. 43/2014/ND-CP dated 15 May 2014 implementing the Land Law (as amended by Decree No. 01/2017/ND-CP)
- Construction Law No. 50/2014/QH13 dated 18 June 2014 passed by the National Assembly (as amended by Law No. 03/2016/QH14 dated 22 November 2016 passed by the National Assembly and by Law No. 35/2018/QH14) (to be replaced by Law on Amendment to Construction Law No. 62/2020/QH14 dated 17 June 2020 as from 1 January 2021) ("Construction Law")
- Decree 44/2015/ND-CP dated 6 May 2015 on detailed regulations on construction planning (as amended by Decree 72/2019/ND-CP)
- Consolidated Document No. 07/VBHN-BXD dated 22 November 2019 on detailed regulations on construction planning
- Decree 59/2015/ND-CP dated 18 June 2015 (as amended by Decree 42/2017/ND-CP and Decree 100/2018/ND-CP) on management of construction investment projects ("Decree 59")
- Consolidated Document No. 02/VBHN-BXD dated 20 July 2018 on management of construction investment projects
- Circular 03/2016/TT-BXD dated 10 March 2016 issued by the Ministry of Construction ("MOC") ("Circular 3") (as amended by Circular 07/2019/TT-BXD dated 7 November 2019)

Grid-connected solar power projects

- Circular 18/2020/TT-BCT dated 17 July 2020 issued by the Ministry of Industry and Trade ("MOIT") on project development and model power purchase agreements for solar power projects ("Circular 18")

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Grid-connected wind power projects

- Decision No. 37/2011/QĐ-TTg dated 29 June 2011 issued by the Prime Minister on mechanism to support in development of wind power projects in Vietnam (as amended by Decision No. 39/2018/QĐ-TTg)
- Consolidated Document No. 05/VBHN-BCT dated 1 August 2019 issued by the MOIT on mechanism to support in development of wind power projects in Vietnam
- Circular No. 02/2019/TT-BCT dated 15 January 2019 issued by the MOIT on wind power project development and model power purchase agreements for wind power projects

Environment; Firefighting and Fire Prevention

- Law on Environmental Protection No. 55/2014/QH13 dated 23 June 2014 passed by the National Assembly ("Law on Environmental Protection")
- Decree 18/2015/ND-CP dated 14 February 2015 on environmental protection planning, strategic environmental assessment, environmental impact assessment and environmental protection plans
- Law on Firefighting and Fire Prevention No. 27/2001/QH10 dated 29 June 2001 passed by the National Assembly (as amended by Law No. 40/2013/QH13 dated 22 November 2013)
- Decree 79/2014/ND-CP dated 31 July 2014 as implementing regulations of the Law on Firefighting and Fire Prevention ("Decree 79")

Enterprise Registration Certificate

The enterprise registration certificate is a license issued by the provincial Planning and Investment Department certifying the incorporation of a project company. The enterprise registration certificate generally contains the following information:

- name and enterprise number of the project company
- address of the project company's head office
- information of the legal representative of the project company
- information of the owner/members of the project company (applicable to a limited liability company only)
- charter capital of the project company

Inclusion in power master plan

A proposed solar/wind power project must be included in the provincial (general) power development master plan or the national (general) power development master plan, or the provincial solar/wind power development master plan or the national solar/wind power development master plan. To have a project included in such master plans, the project proponent must first conduct a preliminary feasibility study for the project, which should include, among others, the description of the project: proposed location, construction scale and area, construction items, relevant contents of industry master plan and local construction master plan, need for the project and its advantages and disadvantages, total investment capital, source of funds, capacity of project proponent to mobilize funds, project implementation schedule, analysis of economic, financial and social efficiency, plan for land using, land clearance and compensation, environmental impact assessment, fire fight and fire prevention plan and other requirements in respect of national defence and public security (if any) and plan for supports in construction of technical infrastructure ("Pre-FS").

As a matter of procedure, the Pre-FS should then be submitted to and reviewed by the Energy General Department (for inclusion in the national solar/wind power development master plan) or submitted to relevant provincial Department of Planning and Investment and then forwarded to the Energy General Department for review (for inclusion in the provincial solar/wind power development master plan).

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The Prime Minister has issued Decision 1264/QĐ-TTg on October 01, 2019 approving the mission of preparation of the national electricity development planning for the period 2021-2030 (“National Master Plan VIII”) in order to replace the National Master Plan VII. Pending the issuance of the National Master Plan VIII, currently, a proposed solar/wind power project, regardless its capacity, needs to be approved by the Prime Minister.

In-principle approval for investment

Upon inclusion in the relevant power master plan, the project proponent, in accordance with the Investment Law, must apply for in-principle approval for investment with:

- the National Assembly—in the case of (i) a project which seriously affects or may seriously affect the environment; (ii) a project involving the conversion of land use purpose for wet rice dual harvest cultivation in an area of 500 hectares or more; (iii) a project involving the relocation and resettlement of 20,000 people or more in mountainous areas or 50,000 people or more in other areas; or (iv) a project requiring the application of a special mechanism or policy which should be decided by the National Assembly;
- the Prime Minister—in case of (i) a project involving the relocation and resettlement of 10,000 people or more in mountainous areas or 20,000 people or more in other areas; or (ii) a project having a scale of investment capital of VND5,000 billion or more; or
- the People’s Committee—in case of (i) a project to which the State allocates or leases land without auction, tendering or transfer; (ii) a project requiring the conversion of land use purpose; or (iii) a project using technology in the list of technologies subject to restriction on transfer in accordance with the law on technology transfer.

The *in-principle approval for investment* is necessary for and will enable the project proponent to apply for an investment registration certificate.

Investment Registration Certificate

Within five working days from the issuance date of the in-principle approval for investment, the provincial Department of Planning and Investment (“DPI”) will issue an investment registration certificate (“IRC”) to the project company in accordance with the Investment Law. The IRC is the official document recording the right of the project proponent to invest in and implement the solar/wind power project.

Under the Investment Law, generally, the term of an investment project is 50 years. The term of an investment project to be implemented in areas with specially difficult socio-economic conditions or an investment project with large investment capital but slow capital recovery may be longer but shall not exceed 70 years.

Land Clearance and Compensation Process; Land Lease

The project proponent may proceed with the land clearance and compensation process with respect to the project land upon receipt of the in-principle approval for investment.

Upon completion of the land clearance process, the project company may then proceed with the application for a land lease decision to be issued by the People’s Committee and for the People’s Committee to sign a land lease agreement.

1/500 Master Plan

The project proponent submits a proposed detailed (1/500) construction master plan of the solar/wind power plant for appraisal by the provincial People’s Committee. The approved 1/500 construction master plan is a basis for the project company to prepare the dossier and to obtain a construction permit.

Construction permit

After a land lease decision, land lease agreement and 1/500 construction master plan are secured, the project company may then apply for a construction permit from the provincial Department of Construction in accordance with the Construction Law. Upon issuance of the construction permit, the project company must then commence construction work within 12 months thereafter. The 12-month construction deadline can be extended twice for a period of additional 12 months each in accordance with the Construction Law.

Land use right certificate

The land use right certificate ("LURC") is the prima facie evidence of title to land use rights. The LURC will be issued in favor of the project company by the provincial People's Committee or its authorized land division after the land lease agreement is executed and rent obligations to the government are fulfilled. It has the same term as the land lease agreement.

Feasibility Study and Technical design approval

In terms of construction and pursuant to the Construction Law (including Decree 59 and Circular 3), another part of the process is the submission of a feasibility study ("FS") for appraisal by: (i) the Department of Construction or the specialized construction management Department for a project with a capacity of up to 30MW; or (ii) the specialized construction management agency of the MOC or the specialized construction management Ministry for a project with a capacity of more than 30MW.

The FS should contain the basic design, among others. Upon approval of the basic design and the FS, the project company must then prepare a more detailed technical design, which will be evaluated and approved by: (i) the Department of Construction or the specialized construction management Department for a project with a capacity of up to 30MW; or (ii) the specialized construction management agency of the MOC or the specialized construction management Ministry for a project with a capacity of more than 30MW.

Electricity contracts and licenses

The following agreements/licences must be secured by the project company for a solar/wind power project with various divisions of EVN:

- the Power Purchase Agreement (PPA);
- the Grid Connection Agreement;
- the SCADA/EMS (DMS) Agreement;
- the Load Dispatch Information System Agreement; the Protective Relay System Agreement;
- the Metering Agreement; and
- the Electricity Operation License.

The agreements are typically negotiated with the EVN or its relevant divisions during the FS process.

Environment impact assessment

The project company which uses land with a total area of 100 hectares or more must also prepare the Environmental Impact Assessment Report ("EIAR") during the preparation of the basic design for the FS. The EIAR will then be submitted to and evaluated and approved by either the Ministry of Natural Resources and Environment ("MONRE") or the provincial People's Committee depending on the scale and sector of the project pursuant to the Law on Environmental Protection. The investor is required to re-prepare an EIAR in cases (i) the investment project does not commence operation within 24 months from the date on which the EIAR is approved; or (ii) the increase of the investment project's scale and capacity or change in technology to increase negative impacts on the environment compared to the approved EIAR.

Fire Prevention and Firefighting design approval and implementation

Pursuant to Decree 79 and as part of the requirements for issuance of the construction permit, the project company must also submit its Fire Prevention and Firefighting (“FPFF”) design to the Police Department of Fire Prevention and Firefighting (“Fire Department”) for appraisal and approval.

As required by Decree 79, after completion of construction works, but before operations, the project company must also have the Fire Department certify that the construction works are built in accordance with the FPFF design approval.

Overview of Electricity Regulatory Framework for Wind Farm Project in Tasmania & Solar Farm Project in New South Wales, Australia

Electricity generation and connection approvals

A project company who wishes to supply electricity from a wind farm project in Tasmania or solar farm project in New South Wales (“NSW”) is required to register as a Market Participant with the Australian Energy Market Operator (“AEMO”) under the National Electricity Law (“NEL”). In addition, a generator must liaise with the relevant transmission or distribution network supplier to connect to the electricity transmission network under a process set out in the National Electricity Rules (“NER”), which is overseen by AEMO.

In Tasmania, a company must also secure a license from the Tasmanian Economic Regulator (“TER”).

Registration as a Participant with AEMO

Under the NEL, a person who will engage in the activity of owning, controlling or operating a generating system connected to the interconnected transmission or distribution system in the National Electricity Market (“NEM”) is required to be a registered participant with AEMO, unless an exemption applies. The transmission and distribution systems in both Tasmania and NSW are part of the NEM.

To be a registered participant, such a person must register within a particular category with AEMO. In case of generation, such a person is required to register with AEMO in the “Generator” category before commencing operation of any generation facilities.

The process for registration and requirements for applicants is outlined in the NER. The applicant must, among other matters, satisfy AEMO that it is (and will continue to be) able to fulfil the financial obligations relating to market participants and has demonstrated an ability to comply with the NER.

License for generation of electricity in Tasmania

In addition, a person wishing to carry on operations in the electricity supply industry in Tasmania, including generating electricity from a wind farm project, is required to secure, a license in Tasmania as a generator under the Electricity Supply Industry Act 1995 (Tasmania). This license is in addition to registration as a Market Participant with AEMO.

The project company should file a license application with the TER, specifying the information required by TER in the applicable form. In addition, the application must, among other matters, identify the officers and major shareholders, if applicable, of the project company, contain the details of the proposed generating plant and details relating to the generator’s connection to the relevant transmission system or distribution network, and such any other relevant information requested by TER.

Connection to transmission network

The NER provides for the procedure for connection to a transmission network or a distribution network and access to the national grid. This procedure is overseen by AEMO.

To be able to connect, the project company is required to submit an application to connect and enter into a connection agreement with a network service provider prior to being connected to the network.

On receipt of a connection inquiry, a network service provider must, in accordance with the system strength impact assessment guidelines, undertake a system strength impact assessment of each proposed new connection of a generating system. The network service provider must then proceed to prepare an offer to connect and accept with a specific period, which should also contain the relevant terms and conditions for connection.

If the network service provider determines that an application will have an adverse system strength impact as part of its assessment, it can require as a condition of connection that the applicant participate in a system strength remediation scheme. This may include installation of plant or undertaking other works to augment the capacity of the transmission network.

Once it has received an offer to connect, the project company then has the opportunity negotiate and enter into a connection agreement with the relevant network service provider. The timing of the connection process is heavily dependent on the specific nature of the connection and features of the relevant parts of the transmission or distribution network. AEMO guidelines suggest that the entire process could a number of years, but could also be much shorter (for example, 10 months) in the case of less complicated connections.

Overview of Electricity Regulatory Framework for Solar Projects in Gujarat and Rajasthan, India

General Regulatory Overview

The Electricity Act of 2014, as amended from time to time (the “Electricity Act”), primarily governs the regulatory framework of the solar power sector in India, in addition to several regulations and orders issued by the Central Electricity Regulatory Commission (“CERC”) and relevant State Electricity Regulatory Commission (“SERCs”) and other policies adopted by the Central Government of India and the relevant State Governments.

The Electricity Act likewise created several independent regulatory agencies for the electricity sector, namely, the CERC, SERCs, Central Electricity Authority (“CEA”), load dispatch centres and central and states transmission utilities (“CTUs” and “STUs”). The CERC mainly regulates generation companies and tariff determination involving inter-state power supply and inter-state transmission, including issuance of transmission licenses. SERCs are primarily tasked to determine tariffs for generation, distribution and transmission of power within a state, issue distribution and transmission licenses and regulate intra-state electricity transmission and distribution licensees. The CEA mainly acts as an advisory body to the Central Government of India with regard to technical matters concerning generation, transmission and distribution, which also includes providing grid standards for operation and maintenance of transmission lines. Finally, the CTU and STUs are government owned companies mandated to act as the operator of inter-state transmission networks and transmission utilities of the relevant states, respectively.

The Electricity Act also mandates the Central Government of India, in consultation with the State Governments and the CEA, to prepare a national electricity policy and a tariff policy, which provide for the guidelines for the development of the power sector, to attract investments and to ensure reasonable charges for the consumers. These guidelines provide, among others, guidance in framing the tariff regulations of regulatory bodies and encourage and emphasize competitive procurement.

Tariff Determination

The Electricity Act provides for the procedures for two types of tariff determination. The first type is tariff determined by the CERC or the relevant SERC through a negotiated power purchase agreements (“PPA”) with the distribution licensees, which should be approved by the CERC or the relevant SERC, as the case may be. The second type is established via competitive bidding conducted in accordance the applicable bidding guidelines issued by the Government of India.

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Gujarat – Major Regulatory Requirements

Registration of the solar power project

A project company is required to file an application with the Gujarat Energy Development Agency (“GEDA”) if it intends to undertake a solar power project under the Gujarat Solar Policy and in order for it to avail of the incentives under the Gujarat Solar Policy.

Approval for overhead transmission line

Prior to construction by a project company of overhead transmission lines (with voltage exceeding 11kv and outside premises it controls), the approval of the Government of Gujarat is required. The Government of Gujarat can additionally impose such other conditions in relation to the operation and ownership of the lines when its approval is obtained.

No-objection certificate from the CGWA

If the project company needs to withdraw ground water for the solar project, then a no-objection certificate (“NOC”) should be obtained from the Central Ground Water Authority (“CGWA”). The requirements for the NOC would depend if the area falls within a notified area or non-notified area. For instance, for notified areas, the purpose for water extraction should be for domestic purposes only.

Approvals under Factories Act

Generation of power generally falls within “manufacturing process” under the 1948 Factories Act, as amended from time to time (“Factories Act”). As such, if the project company employs 10 or more workers during the operations of the solar project, then it would qualify as a factory under the Factories Act, which in turn is required to secure the relevant approvals from the Chief Inspector of the Government of Gujarat, including approval of the site and building plan, license to operate factory and certificate of stability.

Connection Agreement

The project company is also required to submit an application to the STU/distribution licensee to connect to the state grid. Thereafter, a connection agreement is required to be executed between the generating project company and the relevant transmission licensee prior to physical interconnection of the solar power project with the state grid.

Approval of the design and specification of plant and equipment; inspection of electrical installations before energization

The Electricity Act, among others, requires that the Chief Electrical Inspector of the Government of Gujarat (“CEIG”) should certify that any equipment and plant for generation, transmission, distribution or use of energy meets the required safety regulations. This certification or approval is necessary to be obtained prior to energization of the solar power project.

Approval for synchronization

Prior to synchronization of the solar power project, the project company is required to secure the approval of Gujarat Energy Transmission Corporation Limited (“GETCO”)/State Load Despatch Centre (“SLDC”) and GEDA consistent with the requirements of the PPA.

Commissioning Certificate

The project company is also required to obtain a commissioning certificate from GEDA before it can deliver power to its offtaker. Generally, the commissioning certificate will allow the project company to ascertain the specific date on which the respective units have been commissioned.

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Rajasthan – Major Regulatory Requirements

Registration of the solar power project

Similar to Gujarat, a project company in Rajasthan which intends to undertake a solar power project under the Rajasthan Solar Policy is required to register with Rajasthan Renewable Energy Corporation Limited (“RRECL”). Such registration is also required to be able to claim incentives under the Rajasthan Solar Policy.

Approval for laying overhead transmission line under the Electricity Act

Under the Electricity Act and similar to Gujarat, prior to construction by a project company in Rajasthan of overhead transmission lines (with voltage exceeding 11kv and outside premises it controls), the approval of the Government of Rajasthan is required. The Government of Rajasthan can additionally impose such other conditions in relation to the operation and ownership of the lines when its approval is obtained.

NOC from the CGWA

Similar to Gujarat, if the project company needs to withdraw ground water for the solar project, then an NOC should be obtained from the CCGWA. The requirements for the NOC would depend if the area falls within a notified area or non-notified area. For instance, for notified areas, the purpose for water extraction should be for domestic/drinking purposes only.

Approvals under Factories Act

Similar to Gujarat, the generation of power generally falls within “manufacturing process” under the Factories Act. As such, if the project company employs 10 or more workers during the operations of the solar power project, then it would qualify as a factory under the Factories Act, which is required to secure the relevant approvals from the Chief Inspector of the Government of Rajasthan, including approval of the site and building plan, license to operate factory and certificate of stability.

Connection Agreement

As with Gujarat, the project company in Rajasthan is required to submit an application to the STU/distribution licensee to connect to the state grid. Thereafter, a connection agreement is required to be executed between the generating project company and the relevant transmission licensee (Rajasthan Rajya Vidyut Prasaran Nigam Limited (“RRVPLN”)) prior to physical interconnection of the solar power project with the state grid.

Approval of the design and specification of plant and equipment: inspection of electrical installations before energization

The Electricity Act, among others, requires that the Chief Electrical Inspector of the Government of Rajasthan should certify that any equipment and plant for generation, transmission, distribution or use of energy meets the required safety regulations. This certification or approval is necessary to be obtained prior to energization of the solar power project.

Approval for synchronization

Similar to Gujarat, prior to synchronization of the solar power project in Rajasthan, the project company is required to secure the approval of RRVPLN/ SLDC and Solar Energy Corporation of India (“SECI”) consistent with the requirements of the PPA.

Commissioning Certificate

The project company is also required to obtain a commissioning certificate from RRECL before it can deliver power to its offtaker. Generally, the commissioning certificate will allow the project company to ascertain the specific date on which the respective units have been commissioned.

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Please refer to “Regulatory Framework – Environmental Laws” on page 378 of this Prospectus.

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, contactless payments, 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 fulfillment solutions services.

Established in 2006, AC Infra has participated 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 39,000 vehicles daily as of December 2019. Since taking over operations in September 2015, Light Rail Manila Corporation (“LRMC”), which operates and maintains LRT1, has increased the number of light rail vehicles running on the line from 77 to 116 as of end of 2020. Construction work on the Cavite extension project is ongoing, which will add 11.7 kms to the line from Baclaran to Bacoor, Cavite. AF Payment’s beep card sold over 4 million cards and is used across various rail, bus, and toll road systems.

In 2017, AC Infra entered the logistics space with its investment in Entrego Fulfillment Solutions, Inc. (“Entrego”). Entrego was initially set-up as Zalora Philippines’ 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 Piñas/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.

Business

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. Entrego was initially set-up as Zalora Philippines' 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.

The growth of e-commerce spurred by the COVID-19 pandemic benefited Entrego significantly in 2020. Despite limited operations for the months of March to May due to the nationwide Enhanced Community Quarantine, Entrego's courier and express parcel deliveries quickly grew from June to December as more consumers purchased products online and more businesses introduced online retail channels. Full year 2020 CEP volume increased by 70.3% from 2019. The Entrego group delivery and contract logistics services ended 2020 with revenues of ₱1.8 billion, 63% higher from 2019 and 10x greater since starting in 2018. Entrego is focused on sustaining its growth trajectory in 2021 by further improving on operational efficiencies and strengthening its service offerings to broaden its client base.

Risk / Challenges Relating to the Group's Infrastructure Business

AC Infra's ability to successfully operate its transport infrastructure business

AC Infra's ability to successfully grow and operate its transport infrastructure business is subject to various risks and uncertainties, including:

- a. the need to procure materials, equipment and services at reasonable costs and in a timely manner;
- b. reliance on third-party providers and consultants, for those aspects of the business where AC Infra has limited expertise or experience;
- c. the possible need to raise additional financing to fund transport infrastructure projects, which AC Infra may be unable to obtain on satisfactory commercial terms or at all;
- d. errors or delays in the design, engineering, construction, installation, inspection, commissioning, management or operation of each project;
- e. penalties if concession requirements are not satisfied;
- f. its ability to secure adequate right-of-way for its toll road projects;
- g. its ability to complete projects according to budgeted costs and schedules;
- h. its ability to reach forecasted traffic figures;
- i. its ability to implement increases in tariff/fees; and
- j. delays or denials of required approvals, including required concessional and environmental approvals.

In addition, exposure to the following risks have been growing in significance alongside AC Infra's expansion into investments outside of traditional transport infrastructure businesses such as logistics:

- a. systems security breach and other potential systems integrity issues that will hamper the businesses from rendering technology-driven solutions to their clients or customers;
- b. brand and reputational hits may discourage clients or customers from patronizing services offered;
- c. inability to differentiate products or services may lead to losing market share due to increasing competition; and
- d. inability to attract and retain talent may hamper the development of value-adding solutions or impede the delivery of services.

Occurrence of any of the foregoing or a failure by AC Infra to successfully operate its transport infrastructure business could have a material adverse effect on its business, financial condition and results of operations.

AC Infra's ability to secure new concessions

AC Infra's plans in relation to the transport infrastructure business contemplate the continued operations and improvement of existing concessions and projects. AC Infra's ability to expand its business in this sector and increase operating profits may be limited as a result of various external events. For example, concessions for new projects under consideration may be awarded to competing bidders or competition for such concessions may increase the cost of new concessions, thereby reducing returns.

In addition, changes in laws, rules or regulations or government policy, such as unexpected changes in regulatory requirements (including with respect to taxation and tariffs), could increase the cost of conducting the transport infrastructure business or change the potential return available to AC Infra from the project which could have a material adverse effect on its business, financial condition, results of operations and prospects.

Public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect AC Infra's business, financial condition and results of operations.

The Philippines remains vulnerable to exposure and spread of COVID-19. See page 68 “ – *Risks relating to the Philippines – The continuing impacts of the COVID-19 pandemic are highly unpredictable, volatile, and uncertain, and have had, and will continue to have, certain negative impacts on business operations, demand for products and services, costs of doing business, availability of labor, access to inventory, supply chain operations, the Group's financial performance, and the ability to predict future performance, among others.*”

Government quarantine measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. If COVID-19 cases continue to rise, it could result in the reimposition of stricter measures to combat such increase in severity, which could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect AC Infra's business, financial condition and results of operations.

Mitigation of Risks

Given the significance and potential impact of risks described above, the key steps described below have been taken by business units across the AC Infra Group to address and/or mitigate these risks:

Improved compliance monitoring and communication channels with regulatory agencies and other subunits of the government –

- Investee companies have set up their compliance arms to ensure that provisions set under their respective concession agreements are met, for PPP projects, and/or applicable regulatory requirements are adhered to.
- For investee companies involved in PPP Projects, protocols are formalized to ensure clear and meaningful communications with their grantors and/or other regulators, as may be applicable; for example, institution of dispute resolution committees to help resolve disputes between the concessionaire and its grantor.
- For investee companies outside of the PPP format, formal and regular engagement with regulators, as may be applicable, are included in their corporate communications programs.
- With such initiatives, the business units are expected to establish better rapport with grantors, regulators and other subunits of the government that would allow them to better address issues and/or take the necessary actions to avoid jeopardizing business operations.
- Keeping an eye on upcoming or possible changes in the regulatory environment is part of the mandate of these compliance teams.

Talent and internal capability development as a key corporate priority

- As with other business units under the Ayala Group, talent development is a key priority in the AC Infra Group. Talent development milestones are explicitly included in corporate and individual KPIs.
- Business units consciously take steps to hear out and address employee grievances.

Strong CSR and Sustainability thrusts

- Investee companies subscribe to the corporate social responsibility and sustainability thrusts espoused by the Ayala Group geared towards meeting the Sustainable Development Goals as defined by the United Nations.
- Each company is encouraged to allot resources for sustainability and community development project. (e.g., LPMC and AFPI supporting DOT in its key projects such as its initiative for Intramuros).
- Such initiatives are expected to help build brand reputation and equity as well improve stakeholder engagement.

Business

System integrity is key

- For tech-driven businesses, maintaining system integrity is of utmost priority such that these business units put up robust IT and systems teams to meet business requirements while maintaining system security and system integrity.
- Representatives from these companies subscribe to initiatives in developing, adopting and maintaining system integrity protocols spearheaded by Ayala for business units under its group.
- Where applicable, investee companies secure insurance policies against potential breaches.

Regulatory

Government Procurement Reform Act

Under the Government Procurement Reform Act, which was approved on January 10, 2003 ("Government Procurement Reform Act"), all procurement activities of the Philippine Government, its departments, bureaus, offices and agencies, including state universities and colleges, government-owned and/or controlled corporations, government financial institutions and local government units shall be done through public, open and competitive bidding. The said law covers all procurement activities by all branches and instrumentalities of the Philippine Government, including infrastructure projects, regardless of source of funds, whether local or foreign.

Each procuring entity (i.e., the relevant Philippine government agency or instrumentality) is required to establish a bids and awards committee, composed of at least five but not more than seven members. The committee shall advertise and/or post the invitation to bid, conduct pre-procurement and pre-bid conferences, determine the eligibility of prospective bidders, receive bids, conduct the evaluation of bids, undertake post-qualification proceedings, recommend award of contracts to the head of the procuring entity or his duly authorized representative.

The Government Procurement Reform Act requires a winning bidder, as a measure of guarantee for the faithful performance of and compliance of its obligations under the contracts, to post a performance security prior to the signing of any awarded contract. The failure to do the same within the period stipulated in the bidding documents may disqualify the bidder.

Build-Operate-Transfer Law

Under Republic Act No. 6957 (the "BOT Law"), which took effect on October 9, 1990, all government infrastructure agencies, including government-owned and controlled corporations and local government units, were authorized to enter into contract with any duly prequalified private contractor for the financing, construction, operation and maintenance of any financially viable infrastructure facilities through private initiative and investment: the Build-Operate-Transfer ("BOT") or Build-Transfer.

Republic Act No. 7718 ("RA 7718") amended the original BOT Law and authorized variations of the contractual schemes that may be entered into by the Government with qualified private parties. RA 7718 also introduced the concept of unsolicited proposals, by virtue of which national and local government agencies are allowed to accept unsolicited proposals for projects which (a) involve a new concept or technology, (b) are not part of the list of priority projects identified by the agency, including any projects which may have been identified in the Comprehensive and Integrated Infrastructure Program, and (c) do not involve direct government guarantees, subsidies or equity. The Comprehensive and Integrated Infrastructure Program is a list of priority infrastructure projects, including the proposed timeline and scope of work, which is prepared by the NEDA and the Office of the President for projects appropriate for purely private investment, public-private partnership and purely public investment.

The BOT Law embodies the basic principle of PPP in infrastructure development and has been cited as instrumental in increasing private investment in infrastructure, especially in the areas of power, telecommunications, airports and water utilities.

Guidelines and Procedures for Entering into Joint Venture Agreements

The Philippine Government issued a set of guidelines on joint ventures between the Philippine Government and private entities which covers all government-owned and/or controlled corporations, government corporate entities, government instrumentalities with corporate powers, government financial institutions, state universities and colleges. Excluded from the application of the guidelines are local government units and transactions of government financial institutions in the ordinary course of business. The guidelines provide for the parameters for entering into joint venture agreements, which should involve investments made only in activities directly and immediately related to and in furtherance of the primary corporate purpose of the investing government entity. Further, the joint venture should be clear in its intent to undertake a specific activity and should not crowd out the private sector.

Under the guidelines, the preferred mode of implementing a joint venture agreement is through a special purpose joint venture company to be formed by the government and the private sector which shall be registered as a stock corporation in compliance with the ownership and nationality requirements under Philippine law (if applicable). The Philippine Government must have proportionate representation to the board of such joint venture company. The joint venture company shall be permitted to derive income from the authorized activities under the agreement and is further encouraged to stipulate a fixed period for the participation of the participating agency or instrumentality of the Philippine Government. The selection of a partner may be made through competitive selection or negotiated agreements.

The Civil Aviation Authority Act

The Civil Aviation Authority of the Philippines ("CAAP") is an independent regulatory body attached to the DOTr. The CAAP regulates the air transportation system in the Philippines, which includes the power to provide prescribe and revise safety standards for the operation of air navigation facilities located in the Philippines. Pursuant to its functions, it issued on May 27, 2011 the Philippine Civil Aviation Regulations or Board Resolution No. 2011-025. The standards include General Policies and Air Operator Certification and Administration.

Toll Regulatory Board

The TRB was created under P.D. No. 1112 for the regulation of toll facilities and operates as an attached agency of the DOTC. Pursuant to Executive Order No. 133 s. 2013, in relation to PD No. 1112, the TRB is authorized and empowered to enter into contracts or Toll Operation Agreement ("TOA") in behalf of the Government with qualified persons or entities, for the construction, operation and maintenance of toll facilities such as but not limited to national highways, roads, bridges, and public thoroughfares. The TOA is subject to the approval of the President of the Philippines and has a fixed term not exceeding 50 years.

The TRB is also the issuing authority of the Toll Operation Certificates ("TOC"). The TOC is the authority granted to qualified persons, to develop, improve, upgrade, expand, rehabilitate, reconstruct, modernize and/or construct/build and operate and maintain a toll facility. The TOC has a fixed term not exceeding 50 years and may be amended, modified or revoked by the TRB whenever the public interest so requires subject to the payment of just compensation, if any is due.

The privilege to operate toll facilities in the Philippines is limited by nationality restrictions. The Philippine Constitution provides that a franchise, certificate, or any other form of authorization for the operation of a public utility can only be granted to Filipino citizens or corporations or associations organized under Philippine laws at least 60.0% of whose capital is owned by Filipinos.

Among the operation and maintenance facilities of toll facilities which may form part of a TOC or a TOA, include (a) For operation: (i) toll collection system, (ii) traffic control system, (iii) tollroad patrol and vehicle control with communications system, (iv) facilities for assistance of disabled vehicles and in case of emergencies, (v) information service and message sign boards, (vi) vehicle regulation facilities, (vii) telephone and lighting facilities, and, (viii) emergency operations; and (b) For maintenance (i) patrolling and inspection facility, (ii) road cleaning and obstruction control, (iii) electricity and water supply, (iv) repavement facilities, steel bridge painting, bridge strengthening, interchange improvement, parking area improvement, slope protection, pavement painting and the like, (v) disaster prevention and reaction facilities, and (vi) environmental enhancement and protection.

Aside from the power to grant an administrative franchise, the TRB is also vested with the power to issue, modify and promulgate toll rates, and upon notice and hearing, to approve or disapprove petitions for the increase thereof. The procedures for approval of initial, adjusted or periodic toll rates as well as approval of provisional toll rates are governed by the 2013 Revised Rules of Procedure of the TRB.

Bayanihan Laws

Please refer to “Regulatory Framework – Bayanihan Laws” on page 386 of this Prospectus.

HEALTHCARE

AC Health is the portfolio company of the Ayala Group for its healthcare investments. It aims to address the unmet need for accessible, affordable, and quality healthcare for all Filipinos by building, investing, and connecting various businesses into an integrated and seamless ecosystem of services across the continuum of care. AC Health proactively invests across three pillars of healthcare: Pharma, Clinics and Hospitals, and Digital Health.

AC Health’s investments in pharma aims to establish a supply chain and drug retail network that delivers a wider range of quality, affordable medicines to more Filipinos. This includes Generika Drugstore, a pioneer in generic retail pharmacies established in 2003 which has grown into a chain of over 750 branches nationwide. Generika remains committed to offering value-added healthcare services, including innovations such as MedPadala, the Gamot Guide, and a newly-launched e-commerce platform via the Generika mobile app. In addition, IE Medica and MedEthix serve as the importer and distributor arm of AC Health that have become key industry players and have established their presence across various therapeutic areas. IE Medica and MedEthix strengthen the supply chain for AC Health’s network of pharmacies and clinics.

AC Health offers patients an integrated care delivery network across primary, specialty, and multi-specialty platforms through its clinics and hospitals pillar. This includes the recently expanded Healthway network, now the country’s largest chain of retail clinics across multiple formats including Family, Multispecialty, and Corporate clinics. Towards the end of 2020, AC Health also announced its partnership with Cancer Treatment Services International, a Varian company, for its specialty cancer hospital to be built in Taguig by 2023. AC Health has also acquired a controlling stake of the QualiMed Health Network. With the acquisition, AC Health expands its network with four general hospitals, more than 85 outpatient clinics, and about 80 corporate clinics across the nation.

AC Health also continues to build and invest in health technology solutions through Vigos. Launched in 2018, Vigos’ portfolio of in-house solutions includes an electronic medical record system called Vigos EMR, which is used across all Healthway Family clinics, and a corporate health mobile solutions platform, Vigos Care. In 2020, Vigos, in collaboration with Globe’s 917Ventures, also launched healthcare superapp, HealthNow, a comprehensive digital platform for online consultations, medicine order and delivery, and diagnostics-booking. Vigos also invests in high potential health technology partners such as AIDE, a digital home health platform, Fibronostics an algorithm-based health risk assessment testing tool, and ObvioHealth, a virtual clinical trials platform.

Overall, AC Health’s vision of building an integrated network of healthcare services has become its competitive advantage. This includes its strong retail health footprint that enables it to provide last-mile access to consumers. It also harnesses the value of innovative products, services, and business models, including various health technology solutions, to address the needs of its patients and customers. Finally, it is also anchored on building strong and strategic partnerships with those who share in the same vision of delivering quality, affordable, accessible care for all Filipinos. This includes finding synergies with the broader Ayala Group and working in close collaboration with various sectors of the healthcare industry, including, private sector companies, government, other local health authorities, and the academe. These partnerships were particularly instrumental during the COVID-19 pandemic.

AC Health continues to establish its presence as a key player in the Philippine healthcare industry, with its dynamic response against COVID-19 over the past year, and continued transformation in the pharma, clinics, and health technology spaces, alongside recent investments in hospitals and specialty

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care. It has also differentiated itself in the industry with its advocacy of improving healthcare for all through its ecosystem.

With the outbreak of the COVID-19 pandemic, AC Health's priority was to remain responsive to local healthcare needs. By March 2020, when COVID-19 was declared as a global pandemic and the first local case was diagnosed, AC Health served as a key knowledge resource for the country's response to the health crisis, working closely with both the government and the private sector. More concretely, AC Health leveraged its own ecosystem of services by extending frontline care through continued operations at its drugstores, clinics, and online platforms. In the pharma space, AC Health's priority was to ensure a continuous supply of medicine and personal protective equipment for its medical professionals and customers. Medicine pick-up and delivery services were also launched to improve accessibility. Operations also continued across the Healthway clinic network to help decongest overburdened hospitals, serve non-COVID-19 patients, and triage suspected cases. In the digital health space, AC Health launched an integrated digital health platform connecting patients with various providers through HealthNow.

In addition, AC Health supported the government's overall priority to ramp up testing and treatment capabilities for the country. The Ayala Group, led by AC Health, worked in partnership with several of the Philippines' largest conglomerates to build BSL-2 laboratories in all four QualiMed hospitals. This consortium was formed as part of the Ayala Group's initiative to augment the country's testing capacity by 5,500 RT-PCR tests per day, in support of the DOH's and the IATF's Project T3. On treatment, AC Health also worked with QualiMed to expand and upgrade its Laguna and Bulacan facilities into COVID-19 referral hospitals. To date, the QualiMed network has triaged nearly 40,000 suspected COVID-19 cases and admitted over 500 confirmed cases. Moving towards vaccines in the latter part of 2020, AC Health also supported the DOH and the IATF in the development of the country's vaccine strategy and secured an initial batch of doses for the Ayala Group through a tripartite agreement.

AC Health remains committed to executing its vision of providing affordable, accessible, quality healthcare for all Filipinos, and will continue to work alongside partners from both public and private sectors, and the academe, who share in this vision.

Risk Factors

The Group is a relatively new participant in the healthcare industry, which continues to be highly fragmented, and competitive.

The Ayala group's entry into healthcare, through AC Health, could not have been more timely - with promising growth in healthcare spending, an encouraging regulatory environment, the clear need for better outcomes throughout the Filipino patient's life cycle and most recently, a global pandemic that challenged healthcare systems in ways that have never been seen before. Healthcare has never been more ripe for disruption.

With such a dynamic environment, however, comes AC Health's challenges across key areas:

- On managing customer/patient demand: While hospitals continue to attend to the rise in COVID-19 cases, they have likewise seen the delays and decline in health-seeking behavior for patients with primary, chronic, and preventive care concerns, across its clinics and hospitals.
- On the availability of healthcare professionals: With the pandemic extending over a year into the country, the network has since been challenged to attract and retain medical professionals, including doctors, nurses, pharmacists and other allied medical professionals.
- On the overall market landscape: Prior to COVID-19, AC Health was already challenged to successfully compete with companies engaged in similar businesses in the same markets, some of which may vary in size, have built trusted brands, have a longer operating history, have cost advantages and/or have greater expertise and financial resources. With the healthcare crisis today, that competition is further aggravated by a contracted economy.

The Philippines remains vulnerable to exposure and spread of COVID-19. See page 68 " – *Risks relating to the Philippines – The continuing impacts of the COVID-19 pandemic are highly unpredictable, volatile, and uncertain, and have had, and will continue to have, certain*

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negative impacts on business operations, demand for products and services, costs of doing business, availability of labor, access to inventory, supply chain operations, the Group's financial performance, and the ability to predict future performance, among others."

While it has, likewise, been more opportune for the business to push its advocacies to relevant regulatory bodies to ensure a favorable regulatory environment for generic medicines, primary care, specialty care, and health technology, scaling operations and realizing profitability, may not just require more time, but more substantial expenditures. While its vision to build an integrated healthcare ecosystem has set it apart among other players in the industry, the Group will need to deliver on this vision, with more patience in the near-term and with limited available assets for investment.

Regulatory

Universal Health Care

Republic Act No. 11223, otherwise known as the Universal Health Care Act (the "UHC Law") was signed into law by President Rodrigo Roa Duterte on February 20, 2019 and seeks to improve access to health services by ensuring the availability of medicines and health facilities.

Under the UHC Law, every Filipino citizen shall be entitled to health coverage that will lower out-of-pocket health expenses. All Filipino citizens shall likewise be automatically enrolled into the National Health Insurance Program and expand PhilHealth coverage to include free medical consultations and laboratory tests. This guarantees access to the full spectrum of health care which includes preventive, promotive, curative, rehabilitative, and palliative care.

Philhealth is required to implement a comprehensive outpatient benefit program within two years from the effectivity of the law, which would allow Filipinos to avail of individual-based health services. Individual-based health services, as defined under the law, refer to services that can be accessed within a health facility or remotely, and can definitively be traced back to one recipient.

Accessible Cheaper and Quality Medicines Act

Republic Act No. 9502, amending Republic Act Nos. 8293 (the "Intellectual Property Code"), 6675 (the "Generics Act of 1988"), and 5921 (the "Pharmacy Law"), or the Universally Accessible Cheaper and Quality Medicines Act of 2008, now allows parallel importation of cheaper drugs and medicines from abroad whose local patents have not expired. It likewise allows pharmacies and licensed retailers to sell over-the-counter products, and requires drug manufacturers to produce, distribute, and make widely available unbranded generic equivalents to their branded drugs.

Under the law, any organization or company involved in the manufacture, importation, repacking, marketing and/or distribution of drugs and medicines are required to indicate prominently the generic name of the product, and in the case of brand name products, the generic name must appear prominently and immediately above the brand name in all product labels as well as in advertising and other promotional materials. Drug outlets, including drugstores, hospital and non-hospital pharmacies and nontraditional outlets such as supermarkets and stores, are likewise required to inform any buyer about any and all other drug products having the same generic name, together with their corresponding prices so that the buyer may adequately exercise his option.

National Integrated Cancer Control Act

Republic Act No. 11215, otherwise known as the National Integrated Cancer Control Act, establishes the National Integrated Cancer Control Program ("NICC Program"), which serves as the framework for all cancer-related activities of the Philippine Government. The NICC Program is intended to, among others, decrease the overall mortality and impact of childhood and adult cancer, and to lessen the incidence of preventable cancer. The same law requires the Department of Health, local government units, and other government units to strengthen the capability of public health systems and facilities, provision of services, and continuum of care, by, among others, providing a reliable supply of cancer drugs and cancer control related vaccines to patients, allocating adequate resources to investments in health facility renovation or upgrades, and networking and linking up with comprehensive cancer care centers, regional cancer centers, specialty centers, privately managed cancer centers, and relevant health facilities, for knowledge and resource sharing.

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The law also establishes a cancer assistance fund to support the cancer medicine and treatment assistance program; obligates the Philippine Health Insurance Corporation (“Philhealth”) to expand its benefit packages to include primary care screening, detection, diagnosis, treatment assistance, supportive care, end and-of-life care for all types of cancer for both adults and children. It also requires the Department of Health and the concerned government agencies to ensure access to essential medicines for cancer patients.

Bayanihan Laws

Please refer to “Regulatory Framework – Bayanihan Laws” on page 386 of this Prospectus.

EDUCATION

Following the merger between AC Education and iPeople in May 2019, iPeople has become the listed holding company for Ayala’s investments in education. The merger brought together seven schools in diverse socio-economic and geographic market segments across the nation, including the National Capital Region, the Calabarzon region, the Bicol region, and Mindanao.

A partnership between the Yuchengco Group of Companies and Ayala, iPeople aims to empower Filipino families by delivering accessible, quality education that enables significantly improved employability for our high school and college graduates. Part of iPeople’s corporate vision is to innovate education and research towards leading-edge outcomes for its students. This will be achieved through proprietary student value-add programs, systematic teacher training, professional management operations, and strong industry partnerships.

Affordable Private Education Center

APEC (Affordable Private Education Centers) Schools was founded in 2013 with one school site and 130 students. Since then, it has scaled up to become the largest chain of stand-alone affordable, private high schools, with 23 branches across Mega Manila. APEC offers Junior High School and Senior High School with an innovative and progressive approach to both learning and employability at an affordable price point.

University of Nueva Caceres

Located in Naga City, Camarines Sur, AC Education acquired University of Nueva Caceres (“UNC”) in 2015. The University provides basic and higher education to students from the Bicol Region. Founded over 70 years ago, UNC is the oldest university and the largest private university in the Bicol region.

National Teachers College

In 2018, AC Education acquired the National Teachers College (“NTC”). Founded over 90 years ago, NTC is the pioneering private institution for teacher education in the country. It serves students from Kinder up to the Doctorate Level.

Mapua University

Mapua University is one of the country’s leading engineering and technical universities and was founded in 1925. It has the distinction of being a world ranked QS-4 star university, was granted Autonomous status by CHED in 2019 and is the school with the most CHED Centers of Excellence in engineering. Mapua serves students in senior high school, college and graduate school levels, with programs covering engineering and architecture, computer and information science, business, arts and sciences, and media studies.

Malayan Colleges Laguna

Founded in 2006, Malayan Colleges Laguna (“MCL”) is the best board exam performing private higher education institution in the Calabarzon region Region and was founded in 2006. Known for its STEM programs, MCL is a QS-3 Star school that offers programs in senior high up to undergraduate degree

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levels. It was granted Autonomous status by CHED in 2019, making it the youngest school ever to achieve this level of accreditation.

Malayan Colleges Mindanao

Malayan Colleges Mindanao in Davao City is the youngest member of the Mapua schools, having opened its doors in 2018. The college offers undergraduate programs in arts and sciences, business, computer and information science, engineering and architecture, and senior high school.

Malayan High School of Science

Malayan High School of Science is a private junior high school focused preparing its students for STEM programs in college. MHSS is well-known for winning interscholastic science competitions in the country.

Risk Factors

Education is a heavily regulated industry that is susceptible to the changing economic and social landscape.

Post K-12 implementation, the following are some of the challenges brought about by the changing environment and regulatory policy:

- a. Attracting and retaining students brought about by the diminishing necessity for a tertiary degree in order to begin one's career.
- b. Increased competition for talent due to the growth in salaries of educators in public education.
- c. Competition brought about by the increasing capacity in public education institutions, both state and local, and the more aggressive recruitment by private higher education institutions.
- d. Private education institutions are heavily reliant on government subsidies through the Senior High School Voucher program and the Tertiary Education Subsidy program, among others.

iPeople is likewise monitoring the regulatory landscape for current regulations and any changes that may have an impact on its existing and potential markets. In addition, iPeople may incur substantial expenditures in developing and scaling its operations.

EMPLOYEES AND LABOR RELATIONS

The Parent Company has a total workforce of 162 employees as of April 25, 2021, classified as follows:

Staff	58
Managers and Executives	88
Consultants	<u>16</u>
	162

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

Ayala is committed to promoting the safety and welfare of the employees. As a response to the pandemic, the Parent Company has implemented a COVID-19 safety protocol and distributed a guidebook to all employees. This guidebook defines and enumerates specific measures to attain a healthy workforce and a safe workplace.

Testing centers, quarantine facilities, and designated hospitals were identified and put in place to handle possible cases related to the virus. Access to these facilities and programs were extended to immediate family members of the employees as well as outsourced employees assigned to Ayala.

Specific programs such as webinars on mental wellness, coping during the pandemic, awareness about the virus, and the like were provided to all employees on a regular basis. Employees have access to daily health checks through a chatbot to monitor their health condition. All employees were classified according to their risk level which is based on their personal medical conditions, living situations, as well as travel arrangements.

The work arrangement of all employees currently follows the principles of 1) Work Where Effective (“WWE”) and 2) Grab and Go. Under WWE, employees are given the choice to perform their role where they think and feel they will be at their best and be more efficient and productive while staying safe. It can be in their home, in their designated workplace or any place outside of their home and office. Should the employee prefer to access the workplace, they can decide on the number of hours they will be in the office, subject to workplace protocols on safety.

Medical benefits were also enhanced, such as provision for teleconsultation, including access to a psychologist and psychiatrist, inclusion of COVID-19 related cases into the GHIP coverage and others.

In support of the Philippine government’s National Vaccination and Vaccine Deployment Program, the group launched the Ayala Vaccine and Immunization Program (“AVIP”). It is designed to provide eligible Ayala Group employees, dependents and partners prompt access to safe, effective and affordable COVID-19 vaccines. The goal is to vaccinate beneficiaries in sufficient numbers so as to consistently ensure safe workplaces and homes. Under this program, Ayala business units will cover the costs of vaccinating their employees and consultants. Dependents, including spouses, children, parents, siblings and household members may avail of vaccines through the benefit programs of their Ayala family members. Contractors and vendors will likewise be allocated vaccine stock for staff deployed in Ayala sites at cost.

The Parent Company believes in inspiring the employees, developing their talents, and recognizing their needs as business partners. The Parent Company’s Learning and Organizational Development team provided several programs available for access even while employees are on a remote set-up, where classroom training and on-the-job immersion is limited.

Strong and open lines of communication are maintained to relay Ayala’s concern for their safety and deepen their understanding of Ayala’s value-creating proposition.

DESCRIPTION OF PROPERTY

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 landbank as of December 31, 2020.

Properties included are either wholly-owned or part of a joint venture and free of lien unless noted.

Land within and outside Estates

In Estates	Location	Hectares	Outside Estates	Hectares
Metro Manila		173	Metro Manila	105
Makati CBD	Makati City	46	Las Piñas	84
BGC	Taguig City	27	QC	9
Arca South	Taguig City	21	Pasig	4
Parklinks	Quezon City - Pasig City	18	Parañaque	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	4,579
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	Biñan, Laguna	160	Quezon	46
Evo City	Kawit, Cavite	29	Camarines Sur	17
			Rizal	15

Description of Property

			Cagayan – Tuguegarao	2
			Nueva Ecija	2
Visayas		997	Visayas	211
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		234	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		
December 31, 2020 Landbank: 12,196		6,799		5,396

Land outside Estates

Leased Properties

Ayala Land has an existing contract with the Bases Conversion and Development Authority (“BCDA”) to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 sqm 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 ₱104.58 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, Ayala Land 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 Ayala Land for 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. Ayala Land signed a 25-year lease contract for the property on June 22, 2011, with an option to renew for a 58,000 sqm another 25 years by mutual agreement. The project involves the construction of a retail establishment with 63,000 sqm of available gross leasable area and a combination of Headquarter-and-BPO-type buildings with an estimated 8,000 sqm of office space.

Description of Property

Rental Properties

Ayala Land's properties for lease are largely shopping centers, office buildings and hotels and resorts. As of December 31, 2020, rental revenues from these properties amounted to ₱21.9 billion equivalent to 23% of consolidated revenues. This is 44% lower than ₱39.3 billion recorded in 2019.

Property Acquisitions

With more than 12,100 hectares in its landbank as of December 31, 2020, Ayala Land believes that it has sufficient properties for development in next 25 years.

Nevertheless, Ayala Land 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.

Mortgage, Lien or Encumbrance over Properties

ALI has certain properties in Makati City that are mortgaged with BPI in compliance with BSP rules on directors, officers, stockholders and related interests, and affiliates.

MWC

The Manila Water 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, engineering, procurement, and management services. The Manila Water Group's properties are either company-owned or are required to be turned over to grantors of the Group's concession agreements or joint venture agreements.

Property, Plant and Equipment

Major property, plant and equipment of the Manila Water 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

Further details of the Manila Water Group's property, plant and equipment are in Note 9 of Manila Water Group's Audited Consolidated Financial Statements.

Description of Property

Service Concession Assets

The Manila Water Group accounts for its concession agreements with MWSS, PGL, TIEZA, CDC, OWD, CWD, and BuWD; JVAs with PAGWAD, TnWD, LWD, and CCWD; and SMA with CIWD under the Intangible Asset model as it receives the right (license) to charge users of public service. Under the Group's concession arrangements, 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 water services. The legal title to these assets shall transfer to MWSS, PGL, TIEZA, CDC, OWD, CWD, BuWD, PAGWAD, TnWD, LWD, CCWD, and CIWD (under the SMA) at the end of the concession period.

During the construction phase of the arrangements, the Manila Water Group's contract asset (representing its accumulating right to be paid for rehabilitation works) is presented as part of "Service concession assets" ("SCA") for Intangible Asset model which is disclosed in Note 10 of Manila Water Group's Audited Consolidated Financial Statements. The SCA also include the present value of the service concession obligations assumed by Manila Water at drawdown date and other local component costs and cost overruns paid by the Manila Water Group, as well as additional costs of rehabilitation works incurred.

Assets Held in Trust under the Group's Concession or Joint Venture Agreements

MWSS

Manila Water 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 Manila Water, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or Manila Water.

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.

Description of Property

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.

Additional details on the Manila Water Group's assets held in trust are disclosed in Note 25 of Manila Water Group's Audited Consolidated Financial Statements.

Leases

The Manila Water Group leases office space, storage and plant facilities, land and right-of-way wherein it is the lessee. The Group's leases are disclosed in Note 11 of Manila Water Group's Audited Consolidated Financial Statements.

Description of Property

IMI

IMI has production facilities in the Philippines (Laguna and Cebu), 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, 2020 are shown as follows:

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, AI & 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 - 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 - AI Ribbon, CU Clip interconnect - 3D Packaging, MCM, High Reliability OFN - Packages: 3 x 3 mm, 3.3 x 3.3 mm 4x5 mm, 5x6 mm, 6x5 mm 8x8 mm at 1 mm to 1.5 mm package height
China - Pingshan	29,340	- 7 SMT lines - Box Build - PTH, POP, Auto Pin Insertion, Solder Wave, SMT, Backend line, Final Assembly - POP, Auto Pin insertion - Potting, Conformal coating and Burn-in - ICT, FCT, 3D AOI, RF Testing, 3D X-ray - Test & System Development - Design & Development - LVHM, HVLM - Sourcing, Procurement and Material Purchasing - Logistics - Regional support

Description of Property

LOCATION	FLOOR AREA (square meters)	CAPABILITIES
China - Kuichiong	23, 524	-17 SMT lines - Box Build - PTH, Auto Pin insertion, Solder Wave - ICT, FCT, AOI, 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	-12 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	- 3 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	- Global AME (Advance Manufacturing Engineering) - Engineering and Process Development - Prototype Manufacturing Center - NPI (New Product Introduction) - Precision Assembly - 2 SMT Prototyping Lines - SMT, DCA (COB, Flip Chip), THT - Box Build - Low Volume Production

Description of Property

LOCATION	FLOOR AREA (square meters)	CAPABILITIES
Botevgrad, Bulgaria (1 site) Sofia, Bulgaria (1 site) Nis, Serbia (1 site)	115,416 50,213	- Bulgaria - 25 SMT lines - Serbia - 5 SMT lines - Box Build - PCB Assembly and Testing - Design and Development - Box Build (Manual/Semi/Automatic) - Metrology and Laboratory - 3D X-ray (CT) - Full automation without touching the PCBA during the whole manufacturing process (In-Line Laser; SMT; Automatic Pin Insertion; In-Line ICT; Routing; Auto manipulator of PCBA to trays; Automatic box build – PCBA/Top/Bottom cover; In-Line FCT Testing; Auto labeling; camera controls) - Solder Wave, Selective Soldering, Manual Soldering - Potting, Coating, Glue Dispensing - 3D AOI, 3D SPI, ICT; FCT; RF Testing - Full traceability including interlocking
El Salto, Guadalajara Mexico (2 sites)	25,800	- 9 SMT lines - 43 Plastic Injection Machines (50-1,600T) including overmolding - Box Build (w/ Automated Customized Assembly Line) - PTH, 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
Tremosna, Pizenska 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 84 inch - 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) VTS - Touchsensor Co., Ltd.	10,000	- Metal Mesh Sensor on roll - Customized design - 100um.50um Film thickness - Up to 55" VTS internal - Up to 85" through external partners

Description of Property

LOCATION	FLOOR AREA (square meters)	CAPABILITIES
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 Airbuss 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, Philippines (STI)	2,601	- 3 high-speed placements (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 traceability guaranteed
Total Manufacturing Space	423,255	
Sales and Marketing Support		
Hong Kong*	300	Procurement, marketing and supply chain support
Japan	110	Sales Support
Total Support Space	410	
Total	425,002	

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 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 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.

The rest of the business and support units have also temporarily relocated to BPI Buendia Center and various other sites in Makati, San Juan, Quezon City, and Muntinlupa.

Of BPI's 869 local branches (excluding BanKo), 707 operate as BPI branches: 360 in Metro Manila/Greater Metro Manila Area and 347 in the provincial area. BPI owns 30% of these branches and leases the remaining 70%. 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

Description of Property

31, 2020, right-of-use assets and lease liabilities amounted to ₱7,222 million and ₱7,811 million, respectively.

BFSB's Head Office is located at BFB Center, Paseo De Roxas, corner Dela Rosa St., Makati City. It operates 162 branches of which 19% are bank owned while 81% are leased.

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.

To date, BPI has not identified any property to acquire.

All of the bank-owned properties are free from any lien.

Globe

Buildings and Leasehold Improvements

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, Globe also owns host exchanges in the following areas: Bacoar, Batangas, Ermita, Iligan, Makati, Mandaluyong, Marikina, Cubao-Aurora, among others.

Globe leases office spaces in W City Center, located at 7th Avenue corner 30th Street, Bonifacio Global City, Taguig, for its Network Technical Group and its subsidiary AdSpark. 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 Globe'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 Globe 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.

Telecommunications Equipment

As of end December 2020, Globe has a nationwide 2G, 3G, 4G-LTE providing nationwide voice, SMS and mobile broadband services. In addition, Globe has also launched 5G which provides fixed wireless broadband services & mobile broadband in selected areas.

Globe's wireless network has a Circuit Switched Core Network to provide voice service via 2G, 3G and 4G (using Circuit Switch Fallback). In addition, it has a nationwide network of Packet Switches to support its mobile broadband data services. Globe's wireless core network also includes an IP Multimedia Subsystem ("IMS") for its VoLTE service which was commercially launched in 2020. The rest of Globe's nationwide core network includes Home Location Register / Home Subscriber Server ("HLR/HSS"), Signaling Gateways, and mobile broadband backend equipment. It also utilizes a number of Short Messaging Service Centers, and other Value Added Services application platforms to cater of Globe's rich portfolio of Value Added Service which includes an Emergency Cell Broadcast Messaging system to provide for emergency alert messaging in compliance to Republic Act 10639 other known as "An Act Mandating the Telecommunications Service Providers to Send Free Mobile Alerts in the Event of Natural and Man-Made Disasters and Calamities".

The infrastructure for Innove's fixed telephone service includes a Nationwide Virtual IP Multimedia System ("vIMS") infrastructure, the first of its kind implemented for domestic Fixed telephone service in the Philippines and an advanced Next Generation Network ("NGN") International Gateway Facility that

Description of Property

supports both traditional international long distance calls and international Voice Over IP Service. For Fixed Broadband service, Globe leverages on a combination of copper (ADSL, VDSL 35B), fiber ("FTTx") technologies as well as fixed wireless broadband technologies based on massive MIMO 4G-LTE and 5G.

As part of its continuous network modernization program, Globe has also introduced Software Defined Network and Network Function Virtualization ("NFV") technologies in the core network layer of its network. Network function virtualization leverages on commercial off-the-shelf hardware and the capabilities of cloud computing thus providing flexibility in deployment, capacity efficiency, better scalability, resiliency and ultimately lower total cost of ownership for Globe's network. As part of the deployment of SDN-NFV, Globe has deployed, in both its wireless and fixed broadband core network virtualized network elements including virtual unified service nodes ("vUSN"), and virtual unified packet gateways ("vUGW") and virtual Home Subscriber Services ("vHSS") node which stores and manages identities, authentication data, subscription information, and location information about Globe's subscribers. At the same time, Globe's 5G services utilizes a virtual 5G core network to deliver both Fixed Wireless Broadband and mobile broadband service in areas where fiber deployment is challenged by various permit and right of way issues.

Globe also has a national transmission network Globe established, operates and maintains two georedundant and complementary Fiber Optic Backbone Network ("FOBN") linking the Luzon, Visayas and Mindanao island groups. These two FOBNs are now the primary national transmission backbone for Globe backbone to support all of the different telecommunication services and Value Added Service offered by Globe to its customers. In addition to these two FOBNs, Globe also operates and maintains a fiber optic backbone linking the island of Luzon to the province of Palawan. Complementing this fiber optic backbones are Digital Microwave ("MW") Terrestrial network employing Next Generation Internet Protocol ("IP") MW supplemented by an extensive fiber optic networks in the key urban areas. To serve very remote rural areas, Globe also leverages on Very Small Aperture Satellite ("VSAT") technology to deliver 2G, 3G and LTE services.

With its aggressive mobile broadband expansion program, Globe was able to expand its mobile broadband coverage to over 97% of Philippine Towns as of Q4 2020. Of note also is Globe's successful commercial launch of 5G technology for Fixed Wireless Access in selected towns in June 20, 2019 and 5G enhanced Mobile Broadband in February 6, 2020 initially in Metro Manila in line with its commitment to deliver 1st World Internet Access Service to the Filipino consumers.

Investments in Cable Systems

To provide resiliency and geographic diversity, Globe Group has also invested in several submarine cable systems, which Globe either owns or has rights of use on, a share of the systems' total capacity. Investments in cable systems include the cost of the Globe Group's ownership share in the capacity of certain cable systems under Construction & Maintenance Agreements; or indefeasible rights of use ("IRUs") under Capacity Purchase Agreements.

To date, Globe has investments in the following cable systems (shown below with their major connectivity paths):

- a. APCN2 - Asia Pacific Cable Network-2 (Trans-Asian region);
- b. C2C - City-to-City (Trans-Asian region);
- c. SEA-ME-WE3 - Southeast Asia-Middle East-Western Europe 3;
- d. SJC - Southeast Asia Japan Cable System - connects Singapore, Brunei, Hong Kong, China Mainland, Japan and the Philippines;
- e. TGN-IA - Tata Global Network-Intra Asia cable system - connects the Philippines to Japan, Hong Kong, and Singapore with onward connectivity via the TGN-P (Tata Global Network-Pacific) network to the United States; and
- f. SEA-US (Southeast Asia-United States) - connects Philippines, Indonesia, Guam, Hawaii and the mainland United States
- g. AAG - Asia-America Gateway - connects Singapore, Malaysia, Thailand, Vietnam, Brunei, Hong Kong, and Philippines to Guam, Hawaii and California (investment thru Globe's subsidiary Bayan Communications)

Description of Property

Globe opened its first international cable landing station located in Nasugbu, Batangas that directly accessed the C2C cable network, a 17,000-km long submarine cable network linking the Philippines to Hong Kong, Taiwan, China, Korea, Japan and Singapore. Globe had separately purchased capacity in the C2C cable network which it subsequently transferred to its subsidiary, Innove Communications, Inc.

Additionally, Globe has acquired capacities, either through lease or IRU, in selected cable systems where Globe is not a consortium member or a private cable partner. These include capacities in East Asia Crossing (EAC).

On 17 March 2009, Globe formally opened its second international cable landing station in Ballesteros, Cagayan with Globe being the exclusive landing party in the Philippines to the Tata Global Network – Intra Asia (TGN-IA) cable system. TGN-IA is a 6,700-km trans-Asian submarine cable system that links the Ballesteros, Cagayan cable landing station in the Philippines to Japan, Hong Kong, and Singapore with onward connectivity via the TGN-Pacific network to Guam and the United States.

On 30 September 2013, the Southeast Asia-Japan Cable (“SJC”) System was formally launched where Globe is the exclusive landing party in the Philippines. At the time, the SJC System was one of the highest capacity systems in the world (supporting an initial design capacity of 28 terabits per second, the fastest speed an undersea cable system can provide). This enhanced Globe’s global links to support businesses and consumers’ increasing demand for high-speed internet and connectivity., Globe joined some of the biggest names in the industry including Brunei International Gateway Sendirian Berhad (BIG), Google, SingTel, KDDI, PT Telekomunikasi Indonesia International (Telin), China Mobile, China Telecom, China Telecom Global Limited (an affiliate of China Telecom), Donghwa Telecom Co., Ltd., and TOT of Thailand, in this consortium.

On August 2014, Globe Group joined a consortium of international telecommunications companies to build a \$250 million cable system directly connecting Southeast Asia and United States, the SEA-US. Completed in August 2017, the SEA-US undersea cable system provides superior latency, delivering an additional 20Terabits per/second capacity, utilizing the latest 100 gigabits per second transmission equipment. Such additional capacity will cater to the exponential growth of bandwidth between the two continents. The SEA-US cable system is connected to the Globe cable landing station in Brgy. Talomo, Davao City which also houses the Power Feed Equipment necessary to run the system. Outside of Luzon, the undersea cable is the first direct connection of Globe to the United States via Guam, Hawaii, and California, offering faster transmission of data to the U.S.

Investments in Cable Systems

To provide resiliency and geographic diversity, Globe Group has also invested in several submarine cable systems, which Globe either owns or has rights of use on, a share of the systems’ total capacity. Investments in cable systems include the cost of the Globe Group’s ownership share in the capacity of certain cable systems under Construction & Maintenance Agreements; or indefeasible rights of use (IRUs) under Capacity Purchase Agreements.

To date, Globe has investments in the following cable systems (shown below with their major connectivity paths):

- a. APCN2 - Asia Pacific Cable Network-2 (Trans-Asian region);
- b. C2C - City-to-City (Trans-Asian region);
- c. SEA-ME-WE3 - Southeast Asia-Middle East-Western Europe 3;
- d. SJC - Southeast Asia Japan Cable System - connects Singapore, Brunei, Hong Kong, China Mainland, Japan and the Philippines;
- e. TGN-IA - Tata Global Network-Intra Asia cable system - connects the Philippines to Japan, Hong Kong, and Singapore with onward connectivity via the TGN-P (Tata Global Network-Pacific) network to the United States; and
- f. SEA-US (Southeast Asia-United States) - connects Philippines, Indonesia, Guam, Hawaii and the mainland United States
- g. AAG - Asia-America Gateway - connects Singapore, Malaysia, Thailand, Vietnam, Brunei, Hong Kong, and Philippines to Guam, Hawaii and California (investment thru Globe's subsidiary Bayan Communications)

Description of Property

Globe opened its first international cable landing station located in Nasugbu, Batangas that directly accessed the C2C cable network, a 17,000-km long submarine cable network linking the Philippines to Hong Kong, Taiwan, China, Korea, Japan and Singapore. Globe had separately purchased capacity in the C2C cable network which it subsequently transferred to its subsidiary, Innove Communications, Inc.

Additionally, Globe has acquired capacities, either through lease or IRU, in selected cable systems where Globe is not a consortium member or a private cable partner. These include capacities in East Asia Crossing ("EAC").

On 17 March 2009, Globe formally opened its second international cable landing station in Ballesteros, Cagayan with Globe being the exclusive landing party in the Philippines to the Tata Global Network – Intra Asia (TGN-IA) cable system. TGN-IA is a 6,700-km trans-Asian submarine cable system that links the Ballesteros, Cagayan cable landing station in the Philippines to Japan, Hong Kong, and Singapore with onward connectivity via the TGN-Pacific network to Guam and the United States.

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Capital Expenditures

Globe spent a total of ₱60.3 billion for capital expenditures as at December 31, 2020, which were funded by borrowings and cash flow from operations.

LEGAL PROCEEDINGS

Except as disclosed herein or in the Information Statements of Ayala's material subsidiaries, material associates, and material joint ventures, which are themselves public companies or as has been otherwise publicly disclosed, there are no material pending legal proceedings for the past five years and the preceding years until December 31, 2020 to which Ayala or any of its material subsidiaries, material associates, and material joint ventures 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.

AYALA CORPORATION

As of December 31, 2020, Ayala Corporation ("Ayala") is not involved in any litigation it considers material. In any event, below is a legal proceeding involving Ayala that may be significant:

Kevin Enterprises vs. R. Banuag, et. al.; Civil Case No. 2003-2006; RP vs. AC & E. Solidum; Civil Case No. 2004-243; RTC Branch 21, Cagayan de Oro City

On August 19, 2004, a complaint was filed challenging Ayala's ownership of a twenty (20)-hectare property located in Cagayan de Oro City. Ayala is the owner of portions of the OCT No. 632 under derivative titles TCT Nos. 43185 and 43187. The complaint was filed on the ground that the property has not been declared alienable and disposable and should be reverted to the Philippine Government.

The Corporation is resisting the complaint in that the lands were previously classified as alienable and disposable and in fact registered in the name of the Corporation's predecessors in interest in a cadastral case.

The Cagayan de Oro Hall of Justice was burned sometime in January 2015. The records of this case were among those burned and to date the Office of the Solicitor General ("OSG") has not taken efforts to reconstitute the records or refile a new complaint.

AYALA LAND, INC.

As of December 31, 2020, Ayala Land, Inc. ("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 litigations 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 certain of 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 RTC 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 July 26, 2017 and denied ALI's motions for reconsideration.

Legal Proceedings

GLOBE TELECOM, INC.

As of December 31, 2020, Globe and its subsidiaries (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 complied as early as November 2011. On December 11, 2011, the NTC One Stop Public Assistance Center (“OSPAC”) filed a complaint against Globe, 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 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 to:

- Reduce its regular SMS retail rate from ₱1.00 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 last December 5, 2012 in relation to the November 20, 2012 decision. Globe’s assessment is that Globe is in compliance with the NTC Memorandum Circular No. 02-10-2011. On June 9, 2014, Globe 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 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 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 believes that it did not violate NTC MC No. 02-10-2011 when it did not reduce its SMS retail rate from ₱1.00 to ₱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 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,

Legal Proceedings

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 and the other carriers' constitutional and statutory right to due process. However, while the decision is in Globe'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 and two other telecom carriers, filed their respective Motions for Partial Reconsideration 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 Communications, Inc. ("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, 2012. The case is now submitted for resolution.

Right of Innove to Render Services and Build Telecommunications Infrastructure in BGC

PLDT, Inc. ("PLDT") and its affiliate, Bonifacio Communications Corporation ("BCC") and Innove and Globe 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 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.

Meanwhile, a complaint filed by PLDT against the NTC, with Innove as intervenor, to annul NTC MC No. 05-05-2002 on the ground of unconstitutionality awaits pre-trial proceedings in the RTC in Quezon City.

In a case filed by BCC against FBDC, Globe, 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

Legal Proceedings

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 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, PLDT, San Miguel Corporation (“SMC”) and Vega Telcom Inc. (“VTI”) regarding the Joint Notice filed by the aforementioned parties on May 30, 2016, disclosing the acquisition by Globe 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 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. I6-002 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 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 stated that the Notice does not contain any false information.

On June 17, 2016, Globe received a copy of the second letter issued by PCC stating that notwithstanding the position of Globe, it was ruling that the transaction was still subject for review.

On July 12, 2016, Globe asked the CA to stop the government's anti-trust body from reviewing the acquisition of SMC's telecommunications business. Globe maintains the position that the deal was approved after Globe 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 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'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'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 and San Miguel be declared void for PLDT and Globe's alleged failure to comply with the requirements of the Philippine Competition Act of 2015. The PCC also prayed that the CA direct Globe 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.

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's petition was consolidated with that of PLDT, before the 12th Division. The consolidation effectively extended the benefit of PLDT's TRO to Globe. 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.

Legal Proceedings

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. 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 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.

BANK OF THE PHILIPPINE ISLANDS

As of December 31, 2020, Bank of the Philippine Islands ("BPI") is a party to various legal proceedings, claims and tax assessments which arise in the ordinary course of its operations. None of such legal proceedings, claims and tax assessments, either individually or in the aggregate, are expected to have a material adverse effect on BPI and/or any of its subsidiaries, associates including its assets, in the performance of their operations and/or in the fulfillment of their contractual obligations and even in the context of the AC Bonds.

AC ENERGY AND INFRASTRUCTURE CORPORATION

As of December 31, 2020, AC ENERGY AND INFRASTRUCTURE CORPORATION ("ACEIC") believes that none of the legal proceedings to which the ACEIC Group, or any member of the ACEIC Group, is a party would materially and adversely affect its business. Neither ACEIC nor any member of the ACEIC Group is currently involved in any arbitration proceedings that may have, or have had, a material adverse effect on its financial condition and no such proceeding is pending or threatened.

To the best knowledge and/or information of ACEIC, the current directors and the executive officers are not presently or during the last five years, involved or have been involved in any material legal proceeding adversely affecting or involving themselves and/or their property before any court of law or administrative body in the Philippines or elsewhere.

Legal Proceedings

As used in this section, the term “ACEIC Group” shall refer to ACEIC and its subsidiaries, associates and joint ventures.

MANILA WATER COMPANY, INC.

As of December 31, 2020, MWC is a party to various legal proceedings arising in the ordinary course of its operations. Set forth below is a brief description of certain legal proceedings, which, if resolved unfavorably against MWC, could have a material and adverse impact on MWC’s operations and financial results:

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) (PCA Case No. 2017-01)

On April 23, 2015, MWC served on the Philippine Government, through the Department of Finance (“DOF”), its Notice of Claim of even date demanding that the Philippine Government indemnify MWC in accordance with the indemnity clauses in Government’s Letter Undertaking dated July 31, 1997 and Letter Undertaking dated October 19, 2009.

On December 10, 2015, MWC filed a Notice of Arbitration with the Permanent Court of Arbitration (“PCA”) against the Republic of the Philippines (“Republic”) with respect to the Notice of Claim made on the Republic. The Notice of Claim was made under the Letter of Undertaking. In the Letter of Undertaking, the Republic, through the DOF, undertook to indemnify the Manila Waterworks and Sewerage System (“MWSS”) against any loss caused by any action on the part of the Republic and/or the MWSS resulting in the reduction of the standard rates below the level that would otherwise be applicable in accordance with the Concession Agreement with MWC dated February 21, 1997 (the “Concession Agreement”), thereby denying MWC the rate of return allowed from time to time to operators of long term infrastructure concession agreement in other countries having a credit standing similar to the Philippines pursuant to Section 9.4 of the Concession Agreement.

In November 2019, the Arbitral Tribunal rendered an Award which 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 actual losses it suffered from June 1, 2015 until November 22, 2019, and to pay 100% of the amounts paid by MWC to the PCA and 85% of MWC’s other claim costs.

In December 2019, MWC publicly disclosed that it will not collect the monetary claims adjudged by the Tribunal in its favor.

In March 2020, MWC was informed that the Republic, through the Office of the Solicitor General OSG, filed an application in the Singapore High Court to set aside the Award issued in the arbitration in PCA Case No. 2017-01 (HC/OS 260/2020).

MWC maintains that the application is unwarranted considering the execution by MWC of the waiver of the monetary claims adjudged in PCA Case No. 2017-01 in favor of the Republic. Additionally, any collateral issues that the Republic may have raised in the application may be resolved through the on-going renegotiation of the Concession Agreement.

The Republic’s application to set aside the Award issued in PCA Case No. 2017-01 remains pending.

Manila Water Company, Inc. and Maynilad Water Services, Inc. vs. Hon. Borbe, et al. (CBAA Case No. L-69)

This is an appeal from the denial by the Local Board of Assessment Appeals (“LBAA”) of the Bulacan Province of MWC’s (and Maynilad Water Services Inc. (“Maynilad”)) appeal from the Notice of Assessment and Notice of Demand for Payment of Real Property Tax in the amount of ₱357,110,945 made by the Municipal Assessor of Norzagaray, Bulacan. MWC is being assessed for half of the amount.

Legal Proceedings

In a letter dated April 3, 2008, the Municipal Treasurer of Norzagaray and the Provincial Treasurer of the Province of Bulacan, informed MWC and Maynilad (collectively, the “Concessionaires”) that their total real property tax accountabilities have reached ₱648,777,944.60 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 Philippine Government exempt from taxation under the Local Government Code.

The Central Board of Assessment Appeals (“CBAA”) 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 LBAA rather than by the CBAA.

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 CBAA'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 CBAA 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 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 CBAA.

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.

Manila Water Company, Inc. vs. The Regional Director, Environmental Management Bureau-National Capital Region, et al. (G.R. No. 206823)

This case arose from a complaint filed by the OIC Regional Director Roberto D. Sheen of the Environmental Management Bureau (“EMB”) - National Capital Region (“NCR”) before the Pollution Adjudication Board (“PAB”) against MWC, Maynilad and the MWSS for alleged violation of the Clean Water Act, 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 Energy 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 Philippine Clean Water Act of 2004 (“Clean Water Act”). 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.

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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 DENR 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 Clean Water Act 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 DENR Secretary issued an Order dated October 7, 2009 which found MWC, Maynilad and MWSS to have violated the Clean Water Act and imposed fines in the amount of ₱29,400,000.00 jointly and solidarily against MWC, Maynilad, and MWSS covering the period starting from May 7, 2009, the lapse of the 5th year from effectivity of the Clean Water Act, to September 30, 2009. In addition, the DENR Secretary imposed a fine of ₱200,000.00 per day against petitioners until such time that petitioners have fully complied with the Clean Water Act (Note: Under the Clean Water Act, the daily fine is subject to further 10% increase every 2 years). MWC filed its MR 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 CA. MWC thereafter filed an amended Petition for Review dated January 25, 2010.

In a Decision dated August 14, 2012, the CA denied MWC's Petition for Review and on September 26, 2012, MWC filed a MR of the CA's Decision.

On April 29, 2013, MWC received the Resolution dated April 11, 2013 of the CA, denying its MR.

MWC has filed its appeal from the Decision and Resolution of the CA in the form of a Petition for Review on Certiorari with the SC on May 29, 2013. In this Petition, MWC reinforced its argument that it did not violate Section 8 of the Clean Water Act as it was able to connect existing sewage lines to available sewage facilities, contrary to the findings of the CA. This case was consolidated with other cases of similar nature that involved the MWSS and Maynilad. In compliance with the resolution of the SC dated April 4, 2017, MWC filed on June 5, 2017 a report on the status of its compliance with the Clean Water Act and its implementing regulations.

On September 17, 2019, MWC received the SC decision dated August 6, 2019 which ordered MWC, jointly and severally with MWSS, to pay ₱921.46 million (as of August 6, 2019) in fines for its non-compliance with the Clean Water Act. In addition to said amount, MWSS and MWC are jointly and severally liable to pay a fine in the amount of ₱322,102.00 per day subject to further 10% increase every two (2) years until full compliance with Section 8 of the Clean Water Act. On October 2, 2019, MWC timely filed a MR raising, among others, the following arguments: (a) MWC is compliant with its obligations and responsibilities under Section 8 of the Clean Water Act; (b) in *MMDA vs. Concerned Citizens of Manila Bay* (2011), the SC ruled that MWC had until 2037 to complete the obligations imposed by MWC's Concession Agreement; (c) Section 8 of the Clean Water Act 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.

On October 2, 2019, MWC timely filed a Motion for Reconsideration raising, among others, the following arguments: (a) Manila Water is compliant with its obligations and responsibilities under Section 8 of the Clean Water Act; (b) in *MMDA vs. Concerned Citizens of Manila Bay* (2011), the SC ruled that concessionaires had until 2037 to complete the obligations imposed by the Concession Agreement; (c) Section 8 of the Clean Water Act cannot be interpreted as requiring MWSS and its concessionaires to install a complete centralized sewerage system within five (5) years; (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 traffic situation in Metro Manila.

On December 18, 2019, MWC received a copy of the Resolution dated November 5, 2019, which required the adverse parties to comment on the (a) Motion for Reconsideration filed by MWC; (b) Motion for Reconsideration dated October 2, 2019 filed by Maynilad; and (c) Motion for Reconsideration dated October 1, 2019 filed by MWSS.

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On July 1, 2020, MWC received a copy of the *Consolidated Comment (On the separate Motions for Reconsideration filed by petitioners Metropolitan Waterworks and Sewerage System, Maynilad Water Services, Inc., and Manila Water Company, Inc.)* dated June 24, 2020 (“*Consolidated Comment*”) filed by the OSG in behalf of the adverse parties. In response thereto, MWC filed a *Motion for Leave to File and Admit Attached Reply* dated August 17, 2020 (“*Motion for Leave and Admit Attached Reply*”) with an attached *Reply [Re: Consolidated Comment (On the separate Motions for Reconsideration filed by petitioners Metropolitan Waterworks and Sewerage System, Maynilad Water Services, Inc., and Manila Water Company, Inc.) dated June 24, 2020]* dated August 17, 2020 (“*Reply*”).

On November 3, 2020, MWC received a *Resolution* dated September 8, 2020 issued by the SC, which relevantly: (a) noted the *Consolidated Comment*; (b) granted the *Motion for Leave and Admit Attached Reply*; and (3) noted the *Reply* filed by MWC.

To date, this case remains pending.

The Consolidated Cases in relation to the Concession Agreements

In 2013, several petitions for Certiorari and Mandamus with Prayer for the Issuance of a were filed before the SC by the Waterwatch Coalition, Inc. (“Waterwatch”), Water for All Refund Movement (“WARM”) and Virginia S. Javier, et al. (“Javier” or consumers/customers of Manila Water). Subsequently, petitions for Certiorari and Prohibition were filed by the ABAKADA-Guro Party List, represented by Atty. Florante B. Legaspi, Jr. and the Bayan Muna Partylist, represented by Neri Colmenares and Carlos Isagani Zarate. Due to similarities in issues raised, these petitions were consolidated. The issues raised in these petitions are as follows:

- The Concession Agreements are unconstitutional for granting inherent sovereign powers to the Concessionaires without the benefit of legislation or at the very least, a franchise for such purpose;
- The Concessionaires are public utilities not mere agents or contractors of the MWSS;
- Concessionaires performing public service and are therefore, governed by the Public Service Law, and subject to the 12% rate of return cap;
- The Concession Agreements are State Contracts and cannot invoke the non-impairment clause in the Constitution;
- Public utility or not, Concessionaires may not, pass on their income taxes to the water consumers as expenditures; and
- Respondents should be enjoined from proceeding with arbitration between MWSS, MWC and Maynilad.

In its Comment to the petitions, MWC argued that:

- 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”.
- The Concessionaires are not public utilities in themselves but are mere agents and contractors of a public utility (i.e., MWSS).
- 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.
- 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 Commission on Audit.
- The Concessionaires are authorized to pass on corporate income taxes to water consumers.

On March 10, 2016, MWC received the Manifestation of the OSG requesting that the DOF and the OSG be excused from filing a Comment on the petitions in view of the pendency of the arbitration proceedings related to the Undertaking Letters.

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In its Resolution dated March 15, 2016, the SC granted the Manifestation of the OSG and excused it from filing a Comment. On July 25, 2016, MWC filed its Manifestation and Motion, where MWC joined Maynilad in seeking a reconsideration of the SC's Resolution dated March 15, 2016 and moved to set the consolidated cases for oral arguments.

In a Resolution dated September 19, 2017, the SC denied Maynilad's MR. Maynilad again filed another MR dated November 6, 2017 to apprise the SC that in the interim, the arbitration between the Government 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 SC granted the MR 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 30 January 2020 filed by the OSG 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 SC requiring the parties to *move in the premises* "in view of the dropping by the concessionaires of their claims against the government arising from arbitration decisions."

On February 17, 2020, MWC filed its Omnibus Motion and Motion for Extension to the SC's Notice dated January 7, 2020. Thereafter, on February 26, 2020, MWC filed its Compliance/Manifestation and Compliance with Comment of even date clarifying that MWC's waiver of the Arbitral Award is limited to the enforcement and collection of the monetary claims thereon; and informing the SC of the ongoing review and renegotiation of the Concession Agreement with the government.

In a Resolution dated March 3, 2020, the SC directed the concessionaires to: (i) furnish the Secretary of Finance with copies of the documents subject of the resolution dated January 7, 2020; and (ii) submit proof of compliance. Hence, on July 27, 2020, MWC furnished the Secretary of Finance, through the OSG, with copies of the relevant documents requested.

In a Resolution dated September 8, 2020, the SC directed the parties to file their respective comments on the OSG's Very Urgent Motion dated January 20, 2020. On October 26, 2020, MWC filed its Manifestation that it had already filed its comment on February 26, 2020. In a Manifestation dated November 16, 2020, the MWSS joined the OSG's motion to set the consolidated Petitions for oral arguments.

To date, the foregoing cases remain pending.

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. 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 Welfare 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 fifteen (15) days of vacation leave and fifteen (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 ("NLRC") have

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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

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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 MR of the petitioners.

Mr. Allan M. Mendoza proceeded to file a Petition for Certiorari with the CA. On October 24, 2016, the CA 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 CA 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 CA directed MWC to comment on the Amended Petition. MWC filed its Comment on October 30, 2017.

The CA 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 CA 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.

In a Decision dated November 24, 2020, the CA denied the Petition for Certiorari for lack of merit. On January 7, 2021, MWC received Petitioners' Motion for Single Extension of Time requesting for 30 days to file a Petition for Review on Certiorari before the SC. On February 16, 2021, MWC Received Petitioners' Petition for Review on Certiorari dated February 1, 2021.

To date, this case remains pending.

WARM vs. MWSS, et al. (G.R. No. 212581)

This is a Petition for the Issuance of Writ of *Kalikasan* with prayer for issuance of TRO against the operation of the current sewerage and sanitation system operated by respondents. Petitioners alleged that the current sewerage and sanitation system is currently causing environmental damage of such magnitude as to cause prejudice to life, health or property of the inhabitants of Metro Manila. According to petitioners, the current sewer system is dumping highly toxic raw sewerage into the neutral body of water.

In its July 26, 2013 Resolution, the CA denied the Petition on the ground that it is not sufficient in form and substance. The dismissal, however, "without prejudice to the filing of any appropriate civil, criminal or administrative remedies warranted by the relevant circumstance." Subsequently, petitioners filed a MR dated August 22, 2013 and a Supplemental MR dated October 1, 2013. On October 17, 2013, MWC filed its Comment/Opposition *Ad Cautelam* (Re: Motion for Reconsideration dated August 22, 2013). On November 13, 2013, MWC filed its Motion to Expunge with Comment *Ad Cautelam* (Re: Supplemental Motion for Reconsideration dated October 1, 2013). On May 12, 2014, the CA denied the MR and Supplemental MR.

Subsequently, on June 4, 2014, WARM filed a Petition for Review on Certiorari with the SC assailing the Decision and Resolution of the CA. MWC has filed its Comment on the Petition, arguing that (a) petitioner failed to show how the installation of a combined sewerage-drainage system could cause environmental damage of such magnitude as to prejudice the life, health or property of inhabitants in two or more cities or provinces; (b) petitioner misapplied the precautionary principle; (c) petitioner failed to show how the installation of a combined sewerage-drainage system is unlawful; (d) petitioner failed

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to allege how the MWC could have violated the SC's Writ of Continuing Mandamus; (e) petitioner did not implead indispensable government agencies' neither did petitioner comply with the rule on exhaustion of administrative remedies; and (f) the relief sought by petitioner would do more harm than good to the environment.

The SC has directed the respondents to file their respective comments on the Petition. MWC has filed its Comment on the Petition. The Petition remains pending.

In a Resolution dated July 11, 2017, the SC resolved to consolidate this case with the following cases (as discussed in item 3 of the discussion for MWC under this section):

- G.R. No. 202897 (Maynilad Water Services, Inc. vs. Secretary of the Department of Environmental and Natural Resources, et. al.);
- G.R. No. 206823 (Manila Water Company, Inc. vs. The Regional Director-Environmental Management Bureau-National Capital Region, et al.);
- G.R. No. 207969 (Metropolitan Waterworks and Sewerage System vs. Pollution Adjudication Board and Environmental Management Bureau).

In a Resolution dated January 22, 2019, the SC required the DENR, DILG and National Sewerage and Septage Management Program Office to comply with its show cause Resolution dated January 10, 2018.

In a Resolution dated February 26, 2019, the SC resolved to deconsolidate this case from the above-listed cases.

To date, this case remains pending.

Padilla et al. vs. Lapid et al. (C-C-19-0054), Office of the Ombudsman

This case before the Office of the Ombudsman was filed on May 8, 2018 by Mr. Rod Padilla and Mr. Roberto Gelito in their capacities as concerned citizens against Senator Mark A. Villar, the Tourism Infrastructure and Enterprise Zone Authority or TIEZA, formerly the Philippine Tourism Authority ("PTA"), the former and current TIEZA board members and officers, Mr. Virgilio C. Rivera, Jr., as officer of MWC, and incorporator of Boracay Island Water Company or BIWC and the incorporators of BIWC, namely, Mr. Luis Mr. Juan B. Oreta, Mr. Frank Beaumont and Mr. Jose Rene D. Almendras for their alleged violation of Section 3(e) and (g) of Republic Act No. 3019 or the Anti-Graft and Corrupt Practices Act.

The complainants alleged, among others, that unwarranted benefits, advantage or preference through manifest partiality in the selection was granted (a) to MWC as TIEZA's (then PTA's) joint venture partner for the development, financing, design, engineering, construction, upgrade, testing, commissioning, operation management and maintenance of the Boracay Waterworks and Sewerage System facilities and the operation and maintenance of drainage facilities, and (b) to BIWC when the sole and exclusive right to operate and manage the Boracay Waterworks and Sewerage System notwithstanding the constitutional prohibition on the exclusivity of franchises under Article XII, Section 11 of the 1987 Philippine Constitution. Further, the complainants alleged that undue injury was caused to the government when it entered into the joint venture agreement and concession agreement with BIWC, which terms were alleged to be manifestly and grossly disadvantageous to the Government.

On May 29, 2019, MWC and BIWC received a copy of the Order of the Ombudsman dated 10 May 2019 directing the respondents, including, Mr. Rivera of MWCI, Jr. and Mr. Oreta, Mr. Beaumont and Mr. Almendras of BIWC, to file, within 10 days from receipt of said Order, their counter-affidavit/s, affidavit/s of their witness/es and supporting documents. Mr. Rivera, Mr. Oreta, Mr. Beaumont and Mr. Almendras have filed their respective manifestations and counter-affidavits.

In a Resolution dated December 16, 2020, the Ombudsman dismissed the case and ruled that the complainants failed to present evidence that the Joint Venture Agreement and Concession Agreement subject of the case were grossly and manifestly disadvantageous to government, and that most of the public officials impleaded were not yet appointed to their posts when the said contracts were executed in 2009.

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Under the Rules of Procedure of the Office of the Ombudsman, the complainants have five (5) days from receipt of the Resolution to file a motion for reconsideration. As of date, we have not received any.

In the Matter of an Arbitration under the Rules of Arbitration of the Philippine Dispute Resolution Center, Inc. (PDRCI) between Zamboanga Water Company, Inc. and Zamboanga City Water District (PDRCI Case No. 112-2020)

On April 3, 2020, Zamboanga Water Company, Inc. ("Zamboanga Water") received a letter, dated April 1, 2020, from the Zamboanga City Water District ("ZCWD"), requesting for the termination of the 10-year Non-Revenue Water Reduction Service Agreement ("NRW RSA"). In its letter, ZCWD indicated that the erratic supply of water due to the recurrent dry spell and El Niño phenomenon affecting the District Metered Areas (DMAs) established by Zamboanga Water has rendered the NRW RSA impractical and unworkable, and thus, in the interest of fiscal responsibility and sound management of government funds, ZCWD requested for the termination of the NRW RSA.

On April 30, 2020, Zamboanga Water approved the termination of the NRW RSA but on different grounds, particularly the non-payment of fees, non-establishment of escrow account and non-adherence by ZCWD with the NRW RSA. Such termination, however, was without prejudice to Zamboanga Water's claims against ZCWD and remedies under the NRW RSA.

Despite earnest efforts, Zamboanga Water and ZCWD were unable to arrive at an amicable settlement.

On September 16, 2020, Zamboanga Water filed a Notice of Arbitration with the Philippine Dispute Resolution Center, Inc. (PDRCI), which is the arbitral body designated in the NRW RSA, seeking claims of ₱541 Million against ZCWD in the form of termination amount, unpaid fixed fees and performance fees, interest and other claims.

In a letter dated October 12, 2020, the PDRCI informed ZCWD of the Notice of Arbitration filed by Zamboanga Water, and invited ZCWD to submit its response thereto within 30 days from receipt.

On November 20, 2020, Zamboanga Water received ZCWD's Entry of Appearance with Request for Extension of Time to Submit Respondent's Response praying that ZCWD be given 30 days, or until December 25, 2020, to file its Response to the Notice of Arbitration.

On December 1, 2020, Zamboanga Water submitted its nomination of Supreme Court Associate Justice Jose P. Perez (ret.) as co-arbitrator. On December 11, 2020, Zamboanga Water received ZCWD's Manifestation nominating Congressman Rufus B. Rodriguez

On December 15, 2020, Zamboanga Water received ZCWD's Response to our Notice of Arbitration.

On December 28, 2020, Zamboanga Water filed a Notice of Challenge against ZCWD's nomination of Congressman Rodriguez. On January 4, 2021, ZCWD accepted our challenge and withdrew its appointment of Congressman Rodriguez, and has appointed former Commission on Audit Chairperson Atty. Maria Grace Pulido-Tan as its substitute arbitrator.

On January 8, 2021, ZCWD filed a Notice of Challenge questioning our appointment of Supreme Court Associate Justice Jose P. Perez (ret.) as co-arbitrator.

On January 21, 2021, Zamboanga Water filed its comment/opposition to ZCWD's challenge of Supreme Court Associate Justice Jose P. Perez (ret.).

On January 26, 2021, Zamboanga Water filed a Notice of Challenge against ZCWD's nomination of former Commission on Audit Chairperson Atty. Pulido-Tan.

The arbitration is currently ongoing.

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INTEGRATED MICRO-ELECTRONICS, INC.

As of December 31, 2020, Integrated Micro-Electronics, Inc. ("IMI") is a party to various legal proceedings arising in the ordinary course of its operations. Set forth below is a description of certain legal proceedings which, if decided adversely against IMI, could have a significant impact on IMI's operations and financial results.

Certain employees have filed illegal dismissal cases before the National Labor Relations Commission against IMI when the latter terminated their services due to violation of company rules and regulations such as acts of dishonesty, and excessive unauthorized absences. These cases are at various stages including appeal.

IMI has also filed criminal cases against certain individuals who circumvented the procedures, rules, and regulations set by IMI to pilfer materials (i.e., copper wire, solder dross, etc.) and parts. Most of these cases were withdrawn after compromise agreements were entered into.

IMI is, and may be involved, in arbitration proceedings due to certain disputes with its customers.

IMI vs. Standard Insurance (Civil Case No. 11-315)

This is an action for specific performance filed by IMI against Standard Insurance ("Standard") seeking to collect Standard's share in the loss incurred by IMI consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at IMI's Cebu facility which IMI 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 U.S.\$1,117,056.84 after payment by all of its co-insurers.

IMI had to resort to court action after Standard denied its claim on the ground that this is an excepted peril.

Standard filed a Motion to Dismiss on the ground of improper service of summons, prescription, and no cause of action. On November 9, 2011, the RTC of Makati City denied the Motion to Dismiss. Standard filed a MR, which was denied by the RTC on February 13, 2012.

Standard elevated this to the CA. The CA in a Decision promulgated on March 26, 2013, dismissed the complaint on the ground that it has prescribed. On April 19, 2013, IMI filed a MR which was denied on December 13, 2013.

IMI filed a Verified Petition for Review on Certiorari dated January 23, 2014 with the SC. On February 17, 2021, IMI received the SC's Decision dated August 27, 2020 affirming the Decision of the CA. IMI filed its Motion for Reconsideration within the reglementary period.

REGULATORY FRAMEWORK

The statements herein are based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the regulatory and environmental considerations that may be relevant to the Company and/or its subsidiaries or the offering.

Nationality Restrictions

Land Ownership

The ownership of land by foreign nationals is subject to restrictions provided under the Philippine constitution and related statutes. Under Section 7, Article XII of the Philippine Constitution, in relation to Section 2, Article XII thereof, and Chapter 5 of Commonwealth Act No. 141, private land shall not be transferred or conveyed except to Filipino nationals or to corporations or associations organized under the law of the Philippines and whose capital is least 60% owned by Filipino nationals.

Natural Resources

The Philippine Constitution provides that the exploration, development and utilization of natural resources (such as minerals and petroleum) shall be under the full control and supervision of the State. The State may directly undertake such activities, or it may enter into co-production, joint venture, or production-sharing agreements with Filipino citizens, or corporations or associations at least 60% of whose capital is owned by Filipino citizens. However, for large-scale exploration, development and utilization of minerals, petroleum and other mineral oils, the President may enter into agreements with foreign-owned corporations involving technical or financial assistance.

Property Registration

The Philippines has adopted the Torrens System of land registration which conclusively confirms land ownership, which is binding on all persons, including the Government. Once registered, title to registered land becomes indefeasible after one year from the date of entry of the decree of registration except with respect to claims noted on the certificate of title. Title to registered lands cannot be lost through adverse possession or prescription. Presidential Decree No. 1529, as amended, codified the laws relative to land registration and is based on the generally accepted principles underlying the Torrens System.

After proper surveying, application, publication, service of notice and hearing, unregistered land may be brought under the system by virtue of judicial or administrative proceedings. In a judicial proceeding, the Regional Trial Court within whose jurisdiction the land is situated confirms title to the land. Persons opposing the registration may appeal the judgment to the CA within 15 days from receiving notice of judgment. After the lapse of the period of appeal, the Register of Deeds may issue an Original Certificate of Title. The decree of registration may be annulled on the ground of actual fraud within one year from the date of entry of the decree of registration. Similarly, in an administrative proceeding, the land is granted to the applicant by the DENR by issuance of a patent and the patent becomes the basis for issuance of the Original Certificate of Title by the Register of Deeds. All land patents (i.e., homestead, sales and free patent) must be registered with the appropriate registry of deeds since the conveyance of the title to the land covered thereby takes effect only upon such registration.

Any subsequent transfer of encumbrance of the land must be registered in the system in order to bind third persons. Subsequent registration and a new Transfer Certificate of Title in the name of the transferee will be granted upon presentation of certain documents and payment of fees and taxes.

All documents evidencing conveyances of subdivision and condominium units should also be registered with the Register of Deeds. Title to the subdivision or condominium unit must be delivered to the purchaser upon full payment of the purchase price. Any mortgage existing thereon must be released within six months from the delivery of title. To evidence ownership of condominium units, a Condominium Certificate of Title is issued by the Register of Deeds.

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While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning buildings and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%.

The ownership of private lands in the Philippines is reserved for Philippine citizens and Philippine corporations at least 60% of whose capital stock is owned by Philippine citizens. The prohibition is rooted in Sections 2, 3 and 7 of Article XII of the 1987 Philippine Constitution, which states that, save in cases of hereditary succession, no private lands shall be transferred or conveyed except to individuals, corporations or associations qualified to acquire or hold lands of the public domain. In turn, the nationality restriction on the ownership of private lands is further underscored by Commonwealth Act No. 141 which provides that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

While aliens or foreign nationals are prohibited from owning private lands and lands of public domain, they are allowed to lease private lands (but not lands of public domain). A foreigner may acquire private land in the Philippines through hereditary succession if he or she is a legal or natural heir.

Any natural born Filipino citizen who has lost his or her Philippine citizenship and who has the legal capacity to enter into a contract under Philippine Laws may be a transferee of a private land up to a maximum area of 5,000 sq.m. in case of urban land or three hectares in case of rural land to be used by him for business or other purposes. In case the transferee already owns urban or rural land for business or other purposes, he or she is entitled to be a transferee of additional urban or rural land for business or other purposes which when added to those already owned by him or her must not exceed the maximum area fixed by law.

A transferee may acquire not more than two lots which should be situated in different municipalities or cities anywhere in the Philippines, but the total land area thereof must not exceed 5,000 square meters in case of urban land or three hectares in case of rural land for use by him or her for business or other purposes. A transferee who has already acquired urban land will be disqualified from acquiring rural land and vice versa.

Any corporation that is owned 100% by a foreign firm may establish a condominium corporation under Republic Act No. 4726, or the Condominium Act, provided that land on which the building is erected is held only under lease arrangement. The Condominium Act defines a condominium as an interest in real property consisting of separate interest in a unit in a residential, industrial or commercial building and an undivided interest in common, directly or indirectly, in the land on which it is located and in other common areas of the building. A condominium may include, in addition, a separate interest in other portions of such real property. Title to the common areas, including the land, or the appurtenant interests in such areas, may be held by a corporation specially formed for the purpose (condominium corporation) in which the holders of separate interest shall automatically be members or shareholders, to the exclusion of others, in proportion to the appurtenant interest of their respective units in the common areas.

Any transfer or conveyance of a unit or an apartment, office or store or other space therein, shall include the transfer or conveyance of the undivided interests in the common areas or, in a proper case, the membership or shareholdings in the condominium corporation. Where the common areas in the condominium project are owned by the owners of separate units as co-owners thereof, no condominium unit may be transferred to foreigners or corporations with foreign ownership of more than 40% of the capital stock. The transfer to aliens of units in a condominium project may be made only up to the point where the concomitant transfer of membership or stockholding in the condominium corporation would not cause the alien interest in such corporation to exceed 40% of its entire capital stock.

A foreign national or corporation may enter into a lease agreement with Filipino landowners for an initial period of up to 50 years, and renewable for another 25 years. Ownership of houses or buildings is allowed, provided that the foreigner does not own the land on which the house is built.

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Infrastructure

As provided in the Eleventh Regular Foreign Investment Negative List promulgated on October 29, 2018 (in relation to Commonwealth Act No. 541, Letter of Instruction No. 630), contracts for the construction and repair of locally funded public works shall be undertaken by Filipino individuals, or corporations, partnerships or associations, the capital of which is 60% owned by citizens of the Philippines, except (a) infrastructure or development projects covered in R.A. No. 7718 (which amended R.A. No. 6957 or the Build-Operate-Transfer (“BOT”) Law); and (b) projects that are foreign funded or assisted and required to undergo international competitive bidding (Section 2(a) of R.A. No. 7718).

The Implementing Rules and Regulations of the Government Procurement Reform Act also provides that only Philippine corporations, the shareholding interests of which are at least 75% owned by citizens of the Philippines, shall be allowed to bid for infrastructure projects, subject to the relevant exceptions.

Foreign Investments Act of 1991

Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991 (“FIA”) liberalized the entry of foreign investment into the Philippines. Under the FIA, foreigners can own as much as 100% equity in domestic market enterprises, except in areas specified in the Foreign Investment Negative List (the “Negative List”). This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. Nationalized activities include, among others, land ownership, telecommunications, mining and the operation of public utilities.

In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens. While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning buildings and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%. A corporation with more than 40% foreign equity may be allowed to lease private land for a period of 25 years, renewable for another 25 years.

In addition, under the Philippine Constitution, only citizens of the Philippines or corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens may engage in activities relating to the exploration, development and utilization of natural resources, which covers the utilization of natural resources for the operation of renewable energy power plants.

For the purpose of complying with nationality laws, the term “Philippine National” is defined under the FIA as any of the following:

- a citizen of the Philippines;
- a domestic partnership or association wholly owned by citizens of the Philippines;
- a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- a corporation organized abroad and registered to do business in the Philippines under the Revised Corporation Code of the Philippines, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or
- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100% Filipino-owned corporation.

In SEC Memorandum Circular No. 08 dated May 20, 2013, or the Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly Nationalized Activities, it is provided that for purposes

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of determining compliance with the nationality requirement, the required percentage of Filipino ownership shall be applied both to (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors. A petition for certiorari questioning the constitutionality of SEC Memorandum Circular No. 8 dated May 20, 2013 was filed in June 2013. In *Jose M. Roy III v. Chairperson Teresita Herbosa* (G.R. No. 207246) dated April 18, 2017, the SC affirmed the validity of SEC Memorandum Circular No. 08 dated May 20, 2013.

In the 2014 case of *Narra Nickel Mining and Development Corporation, et.al vs. Redmont Consolidated Mines Corp* (G.R. No. 195580) and its corresponding motions for reconsideration (the “Narra Nickel Case”), the SC affirmed that the Grandfather Rule, wherein shares owned by corporate shareholders are attributed either as Filipino or foreign equity by determining the nationality not only of such corporate shareholders, but also such corporate shareholders’ own shareholders, until the nationality of shareholder individuals is taken into consideration, is to be used jointly and cumulatively with the Control Test, which merely takes into account the nationality of the listed shareholders of the corporation. Such joint and cumulative application shall be observed as follows: (i) if the corporation’s Filipino equity falls below 60.0%, such corporation is deemed foreign-owned, applying the Control Test; (ii) if the corporation passes the Control Test, the corporation will be considered a Filipino corporation only if there is no doubt as to the beneficial ownership and control of the corporation; and (iii) if the corporation passes the Control Test but there is doubt as to the beneficial ownership and control of the corporation, the Grandfather Rule must be applied.

Foreign Investments

Board of Investments

Under Executive Order No. 226, otherwise known as the Omnibus Investments Code, as amended (the “Omnibus Investments Code”), a BOI-registered enterprise may enjoy certain incentives provided such enterprise invests in preferred areas of investment enumerated in the Investment Priorities Plan annually prepared by the Government. However, prior to registration with the BOI, the enterprise must first satisfy the minimum equity required to finance the project applied equivalent to 25% of the estimated project cost, or as may be prescribed by the BOI. Such incentives may include: (a) ITH; (b) additional deduction for labor expenses; (c) tax exemption on imported capital equipment; (d) tax credit on domestic capital equipment; (e) exemption from contractor’s tax; (f) simplification of customs procedure; (g) unrestricted use of consigned equipment; (h) employment of foreign nationals; (i) tax exemption on imported spare parts; and (j) exemption from wharfage dues and export duties and fees.

On April 12, 2019, Republic Act No. 11285, otherwise known as the Energy Efficiency and Conservation Act, was enacted. Under the Energy Efficiency and Conservation Act, upon certification by the DOE, energy efficiency projects shall be included in the annual investment priorities plan of the BOI and shall be entitled to the incentives provided under the Omnibus Investments Code, and any other applicable laws for 10 years from the effectivity of the law. The said energy efficiency projects shall also be exempt from the requirements provided under Article 32(1) of the Omnibus Investments Code. Energy efficiency projects refer to projects designed to reduce energy consumption and costs by any improvement, repair, alteration, or betterment of any building or facility, or any equipment, fixture, or furnishing to be added to or used in any building, facility, or vehicle including the manufacturing and provision of services related thereto: provided, that such projects shall be cost-effective and shall lead to lower energy or utility costs during operation and maintenance.

Retail Trade Liberalization Act

Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 (“R.A. 8762”), was enacted on March 7, 2000. R.A. 8762 liberalized the Philippine retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of R.A. 8762, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

“Retail Trade” is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities, or goods for consumption. The law provides that

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foreign-owned partnerships, associations and corporations formed and organized under the laws of the Philippines may, upon registration with the SEC and the DTI or in case of foreign-owned single proprietorships, with the DTI, engage or invest in the retail trade business, in accordance with the following categories:

- Category A — Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than U.S.\$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly owned by Filipino citizens
- Category B — Enterprises with a minimum paid-up capital of the equivalent in Philippine Pesos of U.S.\$2.5 million but less than U.S.\$7.5 million may be wholly owned by foreigners except for the first two years after the effectiveness of R.A. 8762 wherein foreign participation shall be limited to not more than 60% of total equity.
- Category C — Enterprises with a paid-up capital of the equivalent in Philippine Pesos of U.S.\$7.5 million or more may be wholly owned by foreigners, provided, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Philippine Pesos of U.S.\$830,000;⁹ and
- Category D — Enterprises specializing in high-end or luxury products with a paid-up capital of the equivalent in Philippine Pesos of U.S.\$250,000 per store may be wholly owned by foreigners.

No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

- A minimum of U.S.\$200 million net worth in its parent corporation for categories B and C, and U.S.\$50 million net worth in its parent corporation for category D;
- Five retail branches or franchises in operation anywhere around the world unless such retailers have at least one store capitalized at a minimum of U.S.\$25 million;
- Five-year track record in retail; and
- Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers, shall be allowed to engage in retail trade in the Philippines.

The implementing rules of R.A. 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers, subject to the provisions of R.A. 8762, before they are allowed to conduct business in the Philippines.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau (the “EMB”), determines whether a project is environmentally critical or located in an environmentally critical area. As a requirement for the issuance of an ECC, an environmentally critical project must submit an EIS to the EMB while a project in an environmentally critical area is generally required to submit an Initial Environmental Examination (“IEE”) to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is mandatory. The construction of major roads and bridges are considered environmentally critical projects for which EIS and ECC are mandatory. Presidential Proclamation No. 2146 also classified petroleum and petro-chemical industries as environmentally critical projects.

The EIS refers to both the document and the study of a project’s environmental impact, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB,

⁹ Category C ceased to be available as a permitted category with effect from March 25, 2002.

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environmental risk assessment if determined necessary by the EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Philippine government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the project's abandonment phase.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team, which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

In addition to the requirement for the issuance of an ECC, all public and private proponents of subdivision development projects, housing projects and other land development and infrastructure projects are required to undertake an Engineering Geological and Geohazard Assessment ("EGGA"). The EGGA is undertaken in order that project proponents can adequately and comprehensively address and mitigate the possible effects/impacts of geologic hazards. To comply with this requirement, the proponent causes the preparation of an Engineering Geological and Geohazard Assessment Report ("EGGAR") which includes the results of all engineering geological, structural geological and geohazard assessment and geotechnical tests, with any other specialised studies and tests undertaken, as prescribed by the DENR-Mines and Geosciences Bureau ("MGB"). The EGGAR shall be subject to review/verification by DENR-MGB and for appropriate transmittal or endorsement to the DENR-EMB and other concerned government Agencies. The EGGAR is used as an institutional planning tool to safeguard development projects from the hazards caused by geological phenomena.

Philippine Clean Air Act of 1999

Republic Act No. 8749, otherwise known as the "Philippine Clean Air Act", provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Philippine Clean Air Act specifies the allowable sulfur and benzene content for gasoline and automotive diesel. Under the law, oil firms are mandated to lower the sulfur content of automotive diesel oils to 0.05% by weight by January 1, 2004 nationwide. The law also prohibits a manufacturer, processor or trader of any fuel or additive to import, sell, offer for sale, or introduce into commerce such fuel or fuel additive unless these have been registered with the DOE. All the requirements of the said law have been implemented, starting with the phase-out of leaded gasoline in Metro Manila in April 2000 and all over the country in December 2000.

The Technical Committee on Petroleum Products and Additives sets the standards for all types of fuel and fuel related products, to improve fuel consumption for increased efficiency and reduced emissions. The committee is guided by strict time-bound and quality-specific targets under the mandate of the Philippine Clean Air Act and the DOE initiative on alternative fuels.

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Philippine Clean Water Act of 2004

In 2004, Republic Act No. 9275, or the “Philippine Clean Water Act”, was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country’s water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land-based sources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Philippine Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law. The Philippine Clean Water Act also authorizes the DENR to formulate water quality criteria and standards for oil and gas exploration which encounter re-injection constraints.

Ecological Solid Waste Management Act

Republic Act No. 9003, or the Ecological Solid Waste Management Act of 2000, provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centers and facilities. The same law mandates all, especially, the local government units, to adopt a systematic, comprehensive and ecological solid waste management program which shall ensure protection of public health and environment, utilize environmentally sound methods, set targets and guidelines for solid waste avoidance and reduction, and ensure proper segregation, collection, transport and storage of solid waste.

The National Solid Waste Management Commission, together with other government agencies and the different local government units, are responsible for the implementation and enforcement of the said law.

Toxic Substances and Hazardous and Nuclear Wastes Control Act

Republic Act No. 6969 or “The Hazardous Wastes Act” governs the program for the control and management of the importation, manufacture, processing, all other actions involving toxic substances and hazardous and nuclear wastes.

New chemicals are listed in the Philippine Inventory of Chemicals and Chemical Substances (“PICCS”). The PICCS is a list of existing industrial chemicals and chemical substances used, sold, distributed, imported, processed, manufactured, stored, exported, treated, or transported in the Philippines.

Once a chemical is listed in the PICCS, it may be manufactured or imported with no control, provided it is not included in the Priority Chemicals List (“PCL”) or subject to a Chemical Control Order (“CCO”).

A CCO prohibits, limits or regulates the use, manufacture, import, export, transport, processing, storage, possession and wholesale of priority chemicals that are determined to be regulated, phased-out, or banned because of the serious risks they pose to public health, the work place and the environment. The objective of a CCO is to ensure the proper management of the chemicals so that danger to human health and the environment is reduced.

Violations of this Act are punishable by fine and/or imprisonment and possible administrative fines.

Intellectual Property

Intellectual Property Code

Under the Intellectual Property Code of the Philippines, the rights to a trademark are acquired through the registration with the Bureau of Trademarks of the Intellectual Property Office, which is the principal government agency involved in the registration of brand names, trademarks, patents and other registrable intellectual property materials.

Upon registration, the Intellectual Property Office shall issue a certificate of registration to the owner of the mark, which shall confer the right to prevent all third parties not having the owner’s consent from using in the course of trade identical or similar signs or containers for goods or services which are

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identical or similar to those in respect of which the mark is registered. The said certificate of registration shall also serve as prima facie evidence of the validity of registration and the registrant's ownership of the mark. A certificate of registration shall remain in force for an initial period of 10 years and may be renewed for periods of 10 years at its expiration.

Consumer Protection

Consumer Act of the Philippines

Republic Act No. 7394, otherwise known as the Consumer Act of the Philippines ("Consumer Act"), the provisions of which are principally enforced by the DTI, seeks to: (a) protect consumers against hazards to health and safety; (b) protect consumers against deceptive, unfair and unconscionable sales acts and practices; (c) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (d) provide adequate rights and means of redress; and (e) involve consumer representatives in the formulation of social and economic policies.

This law imposes rules to regulate such matters as: (a) consumer product quality and safety; (b) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer's health and safety; (c) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (d) practices relative to the use of weights and measures; (e) consumer product and service warranties; (f) compulsory labeling and fair packaging; (g) liabilities for defective products and services; (h) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (i) consumer credit transactions.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labeling and advertisement of products and prohibits the manufacture for sale, offer for sale, distribution, or importation of products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder.

The Consumer Act also prohibits the manufacture, importation, exportation, sale, offering for sale, distribution or transfer of food products which are adulterated or mislabelled. In connection therewith, the Consumer Act provides for minimum labelling and packaging requirements for food products to enable consumers to obtain accurate information as to the nature, quality, and quantity of the contents of food products available to the general public. The minimum labeling requirements for consumer products sold in the Philippines are: (a) the correct and registered trade name or brand name; (b) the duly registered trademark; (c) the duly registered business name; (d) the address of the manufacturer, importer, repacker of the consumer product in the Philippines; (e) the general make or active ingredients; (f) the net quantity of contents, in terms of weight, measure or numerical count rounded off to at least the nearest tenths in the metric system; (g) the country of manufacture, if imported; and (h) if a consumer product is manufactured, refilled or repacked under license from a principal, the label shall so state the fact.

Local Government Code

Republic Act No. 7160, otherwise known as the Local Government Code ("LGC"), establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that every LGU shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

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Labor

Labor Code of the Philippines

The Department of Labor and Employment or DOLE is the Philippine government agency mandated to formulate policies, implement programs and services, and serves as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The DOLE has exclusive authority in the administration and enforcement of labor and employment laws such as the Labor Code of the Philippines ("Labor Code") and the Occupational Safety and Health Standards, as amended, and such other laws as specifically assigned to it or to the Secretary of the DOLE.

On March 15, 2017, Department Order No. 174 (2017) ("D.O. 174") was issued by the DOLE providing for the guidelines on contracting and subcontracting, as provided for under the Labor Code. Labor-only contracting refers to arrangement where the contractor or subcontractor merely recruits, supplies or places workers to perform a job or work for a principal, and the contractor or subcontractor does not have substantial capital, or the contractor or subcontractor does not exercise the right to control over the performance of the work of the employee. D.O. No. 174-17 expressly requires the registration of contractors with the Regional Office of the DOLE where it principally operates, without which, a presumption that the contractor is engaged in labor-only contracting arises. D.O. 174 reiterated the policy that labor-only contracting is absolutely prohibited where: (a) (i) the contractor or subcontractor does not have substantial capital, or does not have investments in the form of tools, equipment, machineries, supervision, work premises, among others; and (ii) the contractor's or subcontractor's employees recruited and placed are performing activities which are directly related to the main business operation of the principal; or (b) the contractor or subcontractor does not exercise the right to control over the performance of the work of the employee. Subsequently, DOLE issued Department Circular No. 1 (2017) clarifying that the prohibition under D.O. 174 does not apply to business process outsourcing, knowledge process outsourcing, legal process outsourcing, IT Infrastructure outsourcing, application development, hardware and/or software support, medical transcription, animation services, and back-office operations or support.

Occupational Safety and Health Standards Law

On August 17, 2018, Republic Act No. 11058 or the Occupational Safety and Health Standards Law was signed into law. It mandates employers, contractors or subcontractors and any person who manages, controls or supervises the work, to furnish the workers a place of employment free from hazardous conditions that are causing or are likely to cause death, illness or physical harm to the workers. It also requires to give complete job safety instructions or orientation and to inform the workers of all hazards associated with their work, health risks involved or to which they are exposed, preventive measures to eliminate or minimize the risks and steps to be taken in cases of emergency.

An employer, contractor or subcontractor who willfully fails or refuses to comply with the Occupational Safety and Health Standards shall be administratively liable for a fine. Further, the liability of the employer, project owner, general contractor, contractor or subcontractor, if any, and any person who manages, controls or supervises the work, shall be solidary.

Social Security System, PhilHealth and the Pag-IBIG Fund

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No. 8282 to ensure coverage of employees following procedures set out by the law and the Social Security System ("SSS"). Under the said law, social security coverage is compulsory for all employees under 60 years of age. An employer must deduct and withhold from its compulsorily covered employees their monthly contributions based on a given schedule, pay its share of contribution and remit these to the SSS within a period set by law and/or SSS regulations.

Employers are likewise required to ensure enrollment of its employees in a National Health Program administered by the Philippine Health Insurance Corporation, a government corporation attached to the DOH tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of the National Health Insurance Act of 1995, as amended by the Republic Act No. 11223, otherwise known as the Universal Health Care Act. The registration, accurate and timely deductions

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and remittance of contributions to the Philippine Health Insurance Corporation is mandatory as long as there is employer-employee relationship.

Under the Home Development Mutual Fund Law of 2009, all employees who are covered by the Social Security Act of 1997 must also be registered with and covered by the Home Development Mutual Fund, more commonly referred to as the Pag-IBIG Fund. It is a national savings program as well as a fund to provide affordable shelter financing to Filipino employees. The employer is likewise mandated to deduct and withhold, pay and remit to the Pag-IBIG Fund the respective contributions of the employees under the prescribed schedule.

Labor Code Provision on Retirement Pay

The Philippine Labor Code provides that, in the absence of a retirement plan provided by their employers, private sector employees who have reached 60 years of age or more, but not beyond 65 years of age, the compulsory retirement age for private-sector employees without a retirement plan, and who have rendered at least five years of service in an establishment, may retire and receive a minimum retirement pay equivalent to one-half month's salary for every year of service, with a fraction of at least six months being considered as one whole year. For the purpose of computing the retirement pay, "one-half month's salary" shall include all of the following: 15 days salary based on the latest salary rate; in addition, one-twelfth (1/12) of the thirteenth month pay and the cash equivalent of five days of service incentive leave pay. Other benefits may be included in the computation of the retirement pay upon agreement of the employer and the employee or if provided in a collective bargaining agreement.

DOLE Mandated Work-Related Programs

Under Republic Act No. 9165 or the Comprehensive Dangerous Drugs Act, a national drug abuse prevention program implemented by the DOLE must be adopted by private companies with 10 or more employees. For this purpose, employers must adopt and establish company policies and programs against drug use in the workplace in close consultation and coordination with the DOLE, labor and employer organizations, human resource development managers and other such private sector organizations. DOLE Department Order No. 053-03 sets out the guidelines for the implementation of Drug-Free Workplace policies and programs for the private sector.

The employer or the head of the work-related, educational or training environment or institution, also has the duty to prevent or deter the commission of acts of sexual harassment and to provide the procedures for the resolution, settlement or prosecution of such cases. Under the Anti-Sexual Harassment Act, the employer will be solidarily liable for damages arising from the acts of sexual harassment committed in the workplace if the employer is informed of such acts by the offended party and no immediate action is taken. Notwithstanding this, the victim of sexual harassment is not precluded from instituting a separate and independent action for damages and other affirmative relief. Any person who violates the provisions of this law shall, upon conviction, be penalized by imprisonment of not less than one month nor more than six months, or a fine of not less than Ten Thousand Pesos (₱10,000) nor more than Twenty Thousand Pesos (₱20,000), or both such fine and imprisonment, at the discretion of the court. Any action arising from the violation of the provisions of this law shall prescribe in three years.

Moreover, the Philippines AIDS Prevention and Control Act and its IRR require all private workplaces to have a policy on HIV and AIDS and to implement a workplace program in accordance with the Philippines AIDS Prevention and Control Act. The workplace policies aim to manage sensitive issues, such as confidentiality of medical information and continuation of employment for HIV-positive staff, and to avoid the discrimination of any employee due to HIV/AIDS. Any HIV/AIDS-related information of workers should be kept strictly confidential and kept only on medical files, whereby access to it is strictly limited to medical personnel.

All private workplaces are also required to establish policies and programs on solo parenting, Hepatitis B, and tuberculosis prevention and control.

Regulatory Framework

Data Privacy Laws

Data Privacy Act

Republic Act No. 10173, otherwise known as the Data Privacy Act of 2012 (the “DPA”), was signed into law on August 15, 2012, to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System or ICT, which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law expressly provides that it does not apply to certain types of information, including those necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes.

It mandated the creation of the NPC, which shall administer and implement the provisions of the DPA and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognizes the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The DPA seeks to protect the confidentiality of “personal information”, which is defined as “any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual.” The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on “personal information controllers” and “personal information processors”. It also provides for penal and monetary sanctions for violations of its provisions.

Intended to protect the privacy of individuals, the DPA mandates companies to inform the individuals about how their personal information are collected and processed. It also ensures that all personal information must be (a) collected and processed with lawful basis, which includes consent, and only for reasons that are specified, legitimate, and reasonable; (b) handled properly, ensuring its accuracy and retention only for as long as reasonably needed; and (c) discarded properly to avoid access by unauthorized third parties.

The DPA IRR took effect on September 9, 2016, mandating all Philippines companies to comply with the following: (a) appointment of a Data Protection Officer; (b) conduct of a privacy impact assessment; (c) adoption of a privacy management program and privacy policy; (d) implement privacy and data protection measures; and (e) establish a breach reporting procedure. In addition, companies with at least 250 employees or access to sensitive personal information of at least 1,000 individuals are required to register their data processing systems with the NPC. The DPA IRR, furthermore provides the only instances when

data sharing is allowed, to wit: (a) data sharing is authorized by law, provided that there are adequate safeguards for data privacy and security, and processing adheres to principles of transparency, legitimate purpose and proportionality; (b) in the private sector, data sharing for commercial purposes is allowed upon (i) consent of data subject, and (ii) when covered by a data sharing agreement; (c) data collected from parties other than the data subject for purpose of research shall be allowed when the personal data is publicly available; and (d) data sharing among government agencies for purposes of public function or provision of a public service shall be covered by a data sharing agreement.

Anti-Trust Laws

The Philippine Competition Act

Republic Act No. 10667 or the PCA authorizes the Philippine Competition Commission or the PCC to review mergers and acquisitions to ensure compliance with the PCA. The PCA, its Implementing Rules

Regulatory Framework

and Regulations, as amended, and the Rules on Merger Procedure (collectively, the “Merger Rules”) provides for mandatory notification to the PCC of any merger or acquisition within thirty (30) days of signing any definitive agreement relating to the transaction, where the transaction value exceeds ₱2.2 billion; and where the size of the ultimate parent entity of either party exceeds ₱5.6 billion. Parties may not consummate a notifiable transaction prior to receiving PCC approval or the lapse of the period stated in the Merger Rules. A merger or acquisition that meets the thresholds under the Merger Rules but was not notified to the PCC, or notified but consummated, in whole or in part, prior to the expiration of the waiting period, is considered void and will subject the parties to a fine ranging from 1% to 5% of the value of the transaction. Anti-competitive agreements, as defined under the law, are subject to penalties that include: (a) a fine of not less than ₱50 million but not more than ₱250 million; and (b) imprisonment for two (2) to seven (7) years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities that engage in anti-competitive agreements, abuse their dominant position and conclude prohibited mergers and acquisitions. Treble damages may be imposed where the violation involves the trade or movement of basic necessities and prime commodities.

Section 4(eee) of Republic Act No. 11494 or the Bayanihan 2 Act exempts from compulsory notification all mergers and acquisitions with transaction values below ₱50 billion if entered into within two years from the effectivity of Bayanihan 2 Act, or from 15 September 2020. A transaction is considered “entered into” upon signing by the parties of the definitive agreement.

Under the PCC Resolution No. 22-2020 adopting the rules implementing Section 4 (eee) of the Bayanihan 2 Act, mergers and acquisitions entered into within a period of two years from its effectivity shall still be subject to compulsory notification when:

- a. both the transaction value and the size of the ultimate parent entity of either party is at least ₱50 billion; and
- b. the transaction is entered into prior to the effectivity of the Bayanihan 2 Act and exceeds the thresholds applicable.

Additionally, the Bayanihan Act 2 suspends PCC’s power to motu proprio review mergers and acquisitions for one year from the effectivity of the law. However, transactions entered into prior to the effectivity of the Bayanihan 2 Act which has not yet been reviewed by the PCC and transactions pending review by the PCC prior to the effectivity of the Bayanihan 2 Act shall not be covered by the exemption from the PCC’s power to review transactions motu proprio. Further, mergers and acquisitions entered into during the effectivity of the Bayanihan 2 Act may still be reviewed by the PCC motu proprio after one year from the effectivity of the law.

Any voluntary notification shall constitute a waiver to the exemption from review.

Corporate Law

Revised Corporation Code of the Philippines

Republic Act No. 11232, or the Revised Corporation Code, was signed into law on February 20, 2019 and became effective on March 8, 2019. Among the salient features of the Revised Corporation Code are:

- a. corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Philippine SEC that it elects to retain its specific corporate term under its current Articles of Incorporation.
- b. a corporation vested with public interest must submit to its shareholders and to the Philippine SEC an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.

Regulatory Framework

- c. Banks, quasi-banks, pawnshops, non-stock savings and loan associations, and corporations engaged in money service business, preneed trust and insurance companies, and other financial required, must have at least 20% independent directors in the Board, in accordance with the Securities and Regulation Code. The Philippines is party to the United Nations Convention on Recognition and Enforcement of Foreign Arbitral Awards, though it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, a judgment or final order of a foreign court is, through the institution of an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the Philippine SEC.
- a. the Code allows the creation of a "One Person Corporation" ("OPC"), which is a corporation composed of a single stockholder, provided that, only natural person, trust or an estate may form such. No minimum authorized capital stock is also required for an OPC, unless provided for under special laws.
- b. material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.
- c. the right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.
- d. in case of transfer of shares of listed companies, the Philippine SEC may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Philippine SEC.

The Revised Corporation Code refers to the PCA in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the PCA thresholds.

Bayanihan Laws

On March 24, 2020, the Bayanihan Act into law, which conferred emergency powers on the President of the Philippines, moved statutory deadlines and timelines for filing and submission of documents, regulated public and private transportation, and implemented government assistance programs. It also obligated banks to provide 30-day grace periods for the payment of loans without interest, and 30-day grace periods for residential rental payments falling due within the period of ECQ and MECQ. On June 25, 2020, the Bayanihan Act measures implemented to address the pandemic in the Philippines expired without extension or replacement.

On September 11, 2020, the Bayanihan 2 Act was signed into law by President Duterte. Similar to the Bayanihan Act, the Bayanihan 2 Act conferred emergency powers to President Duterte which would be in effect until December 19, 2020. The Bayanihan 2 Act provided a stimulus package to struggling sectors as part of the country's COVID-19 response and recovery plan. The Bayanihan 2 Act directed all banks and lending institutions to implement a one-time 60-day grace period for all existing, current, and outstanding loans falling due, or any part thereof, on or before December 31, 2020, including salary, personal, housing, commercial, and motor vehicle loans. The same law also directed all institutions providing electric, water, telecommunications, and other similar utilities services to implement a minimum 30-day grace period for the payment of utilities falling due within the period of ECQ or MECQ without incurring penalties, interests, or other charges. Furthermore, the law provided for a minimum 30-day grace period on residential rents and commercial rents of lessees not permitted to work, micro-

Regulatory Framework

, small, and medium-sized enterprises (“MSMEs”) temporarily ceasing operations, falling due within the period of community quarantine, without incurring interests, penalties, fees, or other charges.

On December 29, 2020, the Congress passed Republic Act No. 11519, extending the availability of appropriations under the Bayanihan 2 Act until June 30, 2021.

MARKET PRICE OF AND DIVIDENDS ON THE ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Shareholders

Messrs. Jaime Augusto M. Zobel de Ayala and Fernando M. Zobel de Ayala, individually and through their control of Mermac, Inc., a private holding company incorporated in the Philippines, are the majority shareholders of and effectively control Ayala. Mermac, Inc. holds or owns 47.27741% of the outstanding common shares and 68.3894% of the outstanding voting preferred shares of the Company as of March 31, 2021. Members of the Zobel de Ayala family have been involved in Ayala's business since its establishment in 1834.

As of March 31, 2021, 51.90% of Ayala's common shares were owned by the public.

The following are the top 20 registered holders of the Company's securities as of March 31, 2021:

Common Shares

	Stockholder name	Nationality	No. of common shares	Percentage (of common shares)
1.	Mermac, Inc.	Filipino	296,625,706	47.2754%
2.	PCD Nominee Corporation (Non-Filipino)	Various	147,549,198	23.5160%
3.	PCD Nominee Corporation (Filipino)	Filipino	122,505,877	19.5246%
4.	Mitsubishi Corporation	Japanese	37,771,896	6.0199%
5.	Shoemart, Inc.	Filipino	7,529,203	1.1999%
6.	Sysmart Corporation	Filipino	1,500,912	0.2392%
7.	ESOWN Administrator 2020	Filipino	1,455,430	0.2319%
8.	SM Investment Corporation	Filipino	1,488,502	0.2308%
9.	Phil. Remnants Co., Inc.	American	823,046	0.1311%
10.	ESOWN Administrator 2019	Filipino	512,962	0.0817%
11.	ESOWN Administrator 2018	Filipino	482,414	0.0768%
12.	ESOWN Administrator 2016	Filipino	471,061	0.0750%
13.	ESOWN Administrator 2017	Filipino	430,232	0.0685%
14.	ESOWN Administrator 2015	Filipino	397,289	0.0633%
15.	Mitsubishi Logistics Corporation	Japanese	360,512	0.0574%
16.	ESOWN Administrator 2012	Filipino	315,963	0.0503%
17.	ESOWN Administrator 2014	Filipino	284,960	0.0454%
18.	Telengtan Brothers & Sons, Inc.	Filipino	136,857	0.0218%
19.	Lucio Yan	Filipino	127,996	0.0203%
20.	Era Management & Development Corp.	Filipino	106,118	0.0574%

Preferred "B" Series 1 Shares

	Stockholder name	Nationality	No. of Preferred "B" shares	Percentage of Preferred "B" shares
1.	PCD Nominee Corp – Filipino	Filipino	19,763,170	98.8159%
2.	PCD Nominee Corp – Non Filipino	Various	89,770	0.4489%
3.	Makati Central Estate Association, Inc.	Filipino	60,000	0.3000%
4.	Insigne Fortuna Holdings Inc.	Filipino	19,320	0.0966%
5.	One Point Contact, Inc.	Filipino	18,000	0.0900%
6.	Mariano Vicente Lim Tan or Katherine Tan or Elena Lim Tan	Filipino	8,000	0.0400%
7.	Santos, Leonel A. and/or Santos, Alicia	Filipino	7,000	0.0350%
8.	Tan, Ben Cuevo and/or Tan, Imelda Toralba	Filipino	6,000	0.0300%
9.	Chavez, Felix B. or Aida T. Chavez or Irene T. Chavez	Filipino	5,000	0.0250%
10.	Chan, Raymond O. or Chan Lynette	Filipino	5,000	0.0250%
11.	Philippine British Assurance Company, Inc.	Filipino	4,000	0.0200%
12.	Zalamea, Enriquez M. Jr.	Filipino	4,000	0.0200%

Market Price of and Dividends on the Issuer's Common Equity and Related Stockholder Matters

13.	Jose Maximillan F. Lumawig or Grace T. Lumawig	Filipino	4,000	0.0200%
15.	Tan Sherley Gargantos or Tan Brian Gargantos	Filipino	3,400	0.0170%
16.	Macabuhay, Melchor T.	Filipino	1,540	0.0077%
17.	Bautista, Feliciano M. and or Bautista, Elisa D.	Filipino	1,000	0.0050%
18.	Lim, Iris Veronica Go	Filipino	600	0.0030%
	GD Tan and Company	Filipino	200	0.0010%

Preferred "B" Series 2 Shares

	Stockholder name	Nationality	No. of Preferred "B" shares	Percentage of Preferred "B" shares
1.	PCD Nominee Corp – Filipino	Filipino	29,925,740	99.7525%
2.	PCD Nominee Corp – Non Filipino	Various	48,300	0.1610%
3.	Knights of Columbus Fraternal Association of the Phils. Inc.	Filipino	19,960	0.0665%
4.	Ilusorio, Marieta K.	Filipino	6,000	0.0200%

Voting Preferred Shares

	Stockholder name	Nationality	No. of voting preferred shares	Percentage of voting preferred shares
1.	Mermac, Inc.	Filipino	172,778,760	86.3894%
2.	Mitsubishi Corporation	Japanese	19,545,678	9.7728%
3.	Deutsche Bank AG Manila OBO UBS HK A/C 12105904001	Hongkong	1,561,478	0.7807%
4.	Fernando Zobel de Ayala	Filipino	554,983	0.2775%
5.	Jaime Augusto Zobel de Ayala	Filipino	543,802	0.2719%
6.	CBNA MLA OBO AC 6002079755	Filipino	364,810	0.1824%
7.	Delfin L. Lazaro	Filipino	258,297	0.1291%
8.	Britel Fund Trustees Limited	Filipino	170,064	0.0850%
9.	HSBC Manila OBO A/C 000-808154-573	Filipino	169,803	0.0849%
10.	Deutsche Regis Partners, Inc. A/C Clients	Filipino	137,372	0.0687%
11.	BDO Securities Corporation	Filipino	115,794	0.0579%
12.	AB Capital Securities Inc.	Filipino	113,164	0.0566%
13.	Deutsche Bank AG, Manila Branch	Filipino	111,385	0.0557%
14.	Mercedita S. Nollado	Filipino	84,996	0.0425%
15.	Ariston Dela Rosa Estrada, Jr.	Filipino	84,396	0.0422%
16.	Asiasec Equities Inc.	Filipino	78,007	0.0390%
17.	HSBC Manila OBO A/C 000-083766-550	Filipino	73,272	0.0366%
18.	HSBC Manila OBO A/C 000-171512-575	Filipino	72,884	0.0364%
19.	Papa Securities Corporation	Filipino	69,646	0.0348%
20.	Ansaldo Godinez & Company Inc.	Filipino	65,977	0.7807%

As of March 31, 2021, 45.7383% of the total outstanding shares of the Company or 325,611,956 common shares, 19,980,000 preferred "B" series 1 shares, 29,998,000 preferred "B" series 2 shares, and 25,736,164 voting preferred shares are owned by the public. The Company is 23.79% foreign-owned and 76.21% Filipino-owned.

Market Price of and Dividends on the Issuer's Common Equity and Related Stockholder Matters

Dividends and 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 given 5.25% and 5.575% per annum, respectively.

Dividend Declarations and Payments

On Common Shares

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			
Year	Record Date	Payment Date	Rate (₱)
2018	July 6, 2018	July 22, 2018	3.46/share
	December 20, 2018	January 5, 2019	3.46/share
2019	July 30, 2019	August 15, 2019	4.15/share
	December 19, 2019	January 4, 2020	4.15/share
2020	June 30, 2020	July 16, 2020	3.46/share
	December 18, 2020	January 2, 2021	3.46/share

On Preferred B Series 1 Shares

Cash Dividends			
Year	Record Date	Payment Date	Rate (₱)
2018	January 22, 2018 April 18, 2018 July 20, 2018 October 18, 2018	February 15, 2018 May 15, 2018 August 15, 2018 November 15, 2018	¼ of 5.2500% per annum, or 6.56250/per share
2019	January 22, 2019 April 16, 2019 July 22, 2019 October 21, 2019	February 15, 2019 May 15, 2019 August 15, 2019 November 15, 2019	¼ of 5.2500% per annum, or 6.56250/per share
2020	January 22, 2020 April 20, 2020 July 22, 2020 October 20, 2020	February 15, 2020 May 15, 2020 August 15, 2020 November 15, 2020	¼ of 5.2500% per annum, or 6.56250/per share
2021	February 11, 2021	February 15, 2021	¼ of 5.2500% per annum, or 6.56250/per share

On Preferred B Series 2 Shares

Cash Dividends			
Year	Record Date	Payment Date	Rate (₱)
2018*	January 10, 2018 April 10, 2018 July 11, 2018 October 8, 2018	February 5, 2018 May 5, 2018 August 5, 2018 November 5, 2018	¼ of 5.5750% per annum, or 6.96875/per share
2019*	January 10, 2019 April 4, 2019 July 10, 2019 October 9, 2019	February 5, 2019 May 5, 2019 August 5, 2019 November 5, 2019	¼ of 5.5750% per annum, or 6.96875/per share
2020**	January 22, 2020 April 20, 2020 July 22, 2020 October 20, 2020	February 15, 2020 May 15, 2020 August 15, 2020 November 15, 2020	¼ of 5.2500% per annum, or 6.56250/per share

Market Price of and Dividends on the Issuer's Common Equity and Related Stockholder Matters

2021**	February 11, 2021	February 15, 2021	¼ of 5.2500% per annum, or 6.56250/per share

* ACPB1

**APB2R

On Voting Preferred Shares

Cash Dividends			
Year	Record Date	Payment Date	Rate (₱)
2018	April 24, 2018	May 20, 2018	0.03695/share
2019	April 23, 2019	May 20, 2019	0.03695/share
2020	April 23, 2020	May 20, 2020	0.05773/share

*The dividend rate has been re-priced from 3.6950% 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.

Dividends Declared by Subsidiaries

See "Dividend Policy" on page 87 of this Prospectus.

Market Price of the Issuer's Equity

The following table shows the high and low prices (in ₱) of Ayala's shares in the PSE for the first quarter of the year 2021 ending on March 31, 2021, and the years 2020, 2019, and 2018:

	2021		2020		2019		2018	
	High	Low	High	Low	High	Low	High	Low
1 st qtr	840.00	725.00	808.00	360.00	1,000.00	900.00	1,095.00	916.00
2 nd qtr	-	-	810.00	446.00	931.00	838.00	990.00	876.00
3 rd qtr	-	-	797.00	685.00	983.00	884.50	1,020.00	885.00
4 th qtr	-	-	870.00	688.00	879.50	752.00	970.50	882.00

Source: Nasdaq IR Insight, Bloomberg

The market capitalization of the Company's common shares as of April 20, 2021, based on the closing price of ₱750.00/share, was approximately ₱471 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, April 20, 2021, are ₱750.00, ₱515.00 and ₱530.00, respectively.

Recent Sales of Unregistered or Exempt Securities Including Recent Issuances of Securities Constituting an Exempt Transaction

The following shares were issued to/subscribed by the Company's executives as a result of the ESOP and the ESOWN plans:

Year	No. of shares	
	ESOP	ESOWN*
2018	8,636	518,681
2019	8,273	515,904
2020	556,307	1,455,430

*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 SRC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This section should be read in conjunction with the Company's consolidated financial statements and related notes. See the cautionary statement regarding forward-looking statements on page 8 of this Prospectus for a description of important factors that could cause actual results to differ from expected results.

This section includes financial and operating data with respect to Ayala's subsidiaries (Ayala Land, Inc., Integrated Micro-Electronics, Inc., and Manila Water Company, Inc.), Associate (Bank of the Philippine Islands) and Joint Venture (Globe Telecom, Inc.). This section should be read in conjunction with the financial highlights of these Subsidiaries, Associates and Joint Ventures. The financial highlights as contained in their respective December 31, 2020, 2019, 2018, and 2017 SEC 17A reports of these Subsidiaries, Associates and Joint Ventures are available for viewing at the office of the Philippine Securities and Exchange Commission located at the Secretariat Building, PICC Complex, Roxas Boulevard, Pasay City, or at these companies' official websites.

Please refer to introduction in the Summary Financial Information portion of this Prospectus on the discussion of restatements made on the Group's financial statements namely Consolidated Statements of Financial Position and Consolidated Statements of Changes in Equity as of December 31, 2020.

This section also includes discussion of financial ratios. These financial ratios are unaudited and are not measurements of profitability in accordance with PFRS and should not be considered as an alternative to net income or any other measure of performance which are in accordance with PFRS.

Pre-PFRS pertains to amounts prior to re-presentation of operations under PFRS 5, initial adoption of PFRS 16 in 2019 and initial adoption of PFRS 15 and 9 in 2018, as applicable.

FY20 VS FY19 HIGHLIGHTS

- Excluding the divestment gains from education and power booked in 2019, the impact of the reclassification of Manila Water as asset held under PFRS 5 for both Y2019 and Y2020, and significant loan loss provisions for BPI, Ayala's core net income declined 16 percent to ₱26 billion in 2020 as the impact of mobility restrictions weighed down on its various business units.
- In December 2019, Ayala recognized a remeasurement loss of ₱18.1 billion as a result of the reclassification of its investment in Manila Water 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 Manila Water, 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.

(inMn pesos)	2020		Audited	2019
	Pre - MWCI Reclass	PFRS 5 Reclass		
Continuing Operations				
Revenues	213,658	(20,036)	193,622	264,907
Share of profit of associates & joint ventures	17,830	(214)	17,616	22,344
Interest & other income	35,965	(17,969)	17,996	43,655
	267,453	(38,219)	229,234	330,906
Cost of sales	151,479	(7,298)	144,181	189,983
General and administrative	38,809	(6,483)	32,326	32,113
Interest expense & other charges	41,147	(13,132)	28,014	22,410
Provision for income tax	6,748	(1,509)	5,239	13,984
	238,183	(28,422)	209,761	258,490
Net income from continuing operations	29,270	(9,797)	19,473	72,416
Operations segment under PFRS 5*		9,797	9,797	(30,433)
Net Income (NIAT)	29,270	-	29,270	41,982
NIAT - owners of Parent Co	17,142		17,142	35,279
NIAT - noncontrolling interests	12,129		12,129	6,703

**NIAT differs vs. the reported NIAT of MWCI due to cut-off adjustments to be taken up at AC consolidated FS for year 2021. Along with other cut-off adjustments, the net effect to consolidated NIAT is less than 1%.*

Management's Discussion and Analysis of Results of Operations and Financial Condition

- Its reported net income decreased 51 percent to ₱17.1 billion.
- Ayala's businesses recorded lower net profits due to the effects of the pandemic on business operations.
 - Ayala Land endured the severe impact of COVID-19 to its business operations in 2020 recording a 74 percent drop in net income to ₱8.7 billion.
 - BPI's net income declined 26 percent to ₱21.4 billion on the back of ₱28 billion in loan loss provisions it booked in anticipation of an increase in NPL levels. The provision was 5x higher than the ₱5.6 billion allocated in the same period the previous year.
 - Globe's net income contracted 16 percent to ₱18.6 billion driven by a moderate decline in gross service revenues, higher depreciation expenses from its continued network investments, and higher non-operating expenses.
 - AC Energy recorded a net income of ₱6.2 billion, a decline from its year-ago level of ₱25.0 billion, which included gains from the partial divestment of its thermal assets.
 - AC Industrials narrowed its net loss to ₱1.8 billion in 2020 from ₱2.4 billion the previous year mainly due to improved results of IMI and MT Group as well as lower parent impairment provisions.

Consolidated Sales of Goods and Services

- Sale of goods and rendering services posted a 27 percent decrease to ₱193.6 billion mainly because of the pandemic negatively affecting Ayala Land's construction progress, residential bookings, rental waivers, and occupancy rates as well as AC Industrial's revenues and operations.
- The decrease was partially offset by partial recovery in Q3 2020 and higher revenues stemming from the consolidation of AC Energy Philippines into AC Energy and Generika and Healthway into AC Health. As a percentage of total revenue, this account is at 88 percent and 90 percent in December 31, 2020 and 2019, respectively.

Real Estate

- Ayala Land endured the severe impact of COVID-19 to its business operations in 2020 recording a 43 percent decline in revenues to ₱96.3 billion and a 74 percent drop in net income to ₱8.7 billion
- Property development revenues were down 47 percent to ₱57.9 billion mainly due to limited construction activity resulting in lower bookings.
 - Residential revenues dropped 47 percent to ₱47.8 billion.
 - Office for sale revenues declined 72 percent to ₱3.5 billion.
 - Commercial and industrial lots sales decreased 42 percent to ₱6.6 billion.
- Residential sales reservations in 2020 reached ₱81.9 billion, 56 percent of the previous year's level, despite the limited selling activity during the quarantine period.
 - Fourth quarter sales reservations, which reached 58 percent of pre-COVID levels, totaled to ₱21.1 billion as property demand was sustained on a quarter-on-quarter basis.
- Commercial leasing revenues declined 44 percent to ₱21.9 billion because of restricted mall and hotel operations and closure of resorts.
 - Shopping center leasing revenues went down 59 percent to ₱9.1 billion.
 - Office leasing income was sustained at ₱9.4 billion from ₱9.7 billion
 - Hotels and resorts revenues decreased 56 percent to ₱3.4 billion.

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- Capital expenditures reached ₱63.7 billion in 2020, and was mainly spent for the completion of residential and commercial leasing assets.
- Ayala Land has earmarked ₱88 billion in capital expenditures and is prepared to launch ₱100 billion-worth of residential projects in 2021 as it prepares for a V-shaped recovery in the next two to three years.

Water

- Manila Water's net income decreased 18 percent to ₱4.5 billion in 2020 due to a one-off recognition for additional estimates for probable losses and lower contributions from domestic subsidiaries due to the impact of COVID-19. Excluding one-offs, core net income declined 22 percent to ₱5.8 billion.
 - Manila Water, which houses the East Zone Concession, saw net profits decline seven percent to ₱4.7 billion driven by the recognition of impairment loss in Manila Water Total Solutions, lower costs and expenses despite higher provisioning for estimated credit losses, and higher depreciation expenses.
- Revenues slightly decreased two percent to ₱21.1 billion as improved billed volume in the East Zone was dragged by lower supervision fees from Estate Water.
- EBITDA decreased six percent to ₱11.9 billion despite OPEX improvement as the recognition of net foreign exchange losses and provisions for probable losses weighed down on profitability.
- EBITDA margin stood at 57 percent.
- In December 2020, Manila Water's consortium with French water distributor Saur Group and Saudi's Miahona Company inked a seven-year agreement with the Kingdom of Saudi Arabia's state-run water agency National Water Company to manage the delivery of water and wastewater services, billing and collection, customer service, and the integration and transformation of its human capital in the North West Cluster served by NWC. This initiative is among the first of the country's plan to privatize its water infrastructure sector.
- In February 2021, Ayala, through its wholly owned subsidiary Philwater and the Razon group through Trident Water executed a share purchase agreement equivalent to the latter's acquisition of a 39.1 percent voting stake and 8.2 percent economic stake in Manila Water.

Power

- The AC Energy group generated a net income attributable to equity holder's of AC Energy's Parent of ₱6.2 billion in 2020, reflecting the group's strong performance despite the pandemic. This was a decline from ₱25.0 billion in the prior year, which included gains from its partial divestment in AA Thermal.
- The AC Energy group has expanded its geographical reach and currently operates in five markets, with the recent start of construction of its first project in Australia.
 - ACEN has 990MW of attributable capacity in the Philippines, 45 percent of which are renewable. It aims to expand its portfolio with recently announced joint ventures with Solar Philippines and Citicore.
 - The group has approximately 1,400MW of attributable capacity offshore, all of which are renewable.
 - AC Energy has more than 600MW of renewable energy capacity in Vietnam. The expansion of the Ninh Thuan solar project has recently started operations, adding 75MWdc of operating capacity to the portfolio.
 - Marking AC Energy's first investment in Australia, the group recently announced the start of construction of the first phase of the New England Solar Farm in Uralla, New South Wales, with 521.5MWdc of gross capacity.
 - Indonesia and India have 180MW and 170MW in attributable capacity, respectively.

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- In January 2021, ACEN completed its stock rights offering, bringing Ayala's effective stake in ACEN to 70 percent.
- In February 2021, ACEN announced a follow-on offering at a price range of ₱6.00 to ₱8.20 per share and submitted a registration statement with the SEC for up to 2,430,248,617 common shares (primary and secondary shares with over-allotment).

Industrial Technologies

- AC Industrials narrowed its net loss to ₱1.8 billion in 2020 from ₱2.4 billion the previous year mainly due to improved results of IMI and MT Group as well as lower parent impairment provisions. Its Philippine automotive business remained challenged due to the negative effects of the health crisis.
- IMI registered a net loss of US\$3.5 million in 2020 compared to the US\$7.8 million net loss it incurred in the same period the previous year. The improvement was mainly on the back of sound cost management including materials cost, factory overhead, and non-operating expenses.
 - Revenues decreased nine percent to US\$1.1 billion in 2020 but was trended up since the height of quarantine restrictions and surpassed pre-COVID levels in the fourth quarter. Topline increased 11 percent to US\$347 million on a quarter-on-quarter basis.
 - Gross profit margin improved by 30 basis points to 8.5 percent in 2020 due to lower materials cost leading to an appreciation of contribution margin. Quarter-on-quarter, it grew by 70 basis points to 10.3 percent.
- AC Industrial's MT CCON narrowed its net loss to EUR10.2 million from EUR10.4 million in the same period the previous year on the back of margin improvement from cost optimization initiatives.
- AC Motors incurred a net loss of ₱886 million as demand in the local automotive space softened due to the health crisis.

Share in Net Profits of Associates and JV

- Share in net profits of associates and joint ventures declined 21 percent to ₱17.6 billion due to BPI's aggressive loan loss provisions, which was partially offset by higher net interest income and other fees. This was likewise driven by Globe's lower mobile revenues and higher depreciation and receivable provisions partially offset by an increase in home broadband demand and remeasurement gain in Mynt. As a percentage of total revenues, this account is at eight percent in December 31, 2020 and 2019.

Banking

- BPI's net income decreased 26 percent to ₱21.4 billion in 2020 due to the ₱28 billion in loan loss provisions it booked in anticipation of an increase in non-performing loans. The provision is 5x larger than the ₱5.6 billion allocated the previous year.
- Total revenues increased 10 percent to ₱101.9 billion because of net interest income and non-interest income growth.
 - Net interest income was up 10 percent to ₱72.3 billion due to a 5.8 percent expansion in average asset base supported by a 14-basis point improvement in net interest margin, which stood at 3.49 percent.
 - Non-interest income rose 11 percent to ₱29.7 billion on the back of higher securities trading gains albeit tempered by fee-based income.
- Total loans declined five percent to ₱1.4 trillion primarily on soft corporate lending despite higher mortgage and microfinance loan segments, up 6.6 percent and 5.7 percent, respectively.

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- Total deposits grew one percent to ₱1.7 trillion with CASA deposits expanding 17 percent.
 - CASA ratio stood at 79.6 percent.
 - Loan-to-deposit ratio ended at 82.0 percent.
- NPL ratio and NPL coverage ratio stood at 2.68 percent and 115.2 percent, respectively.
- Operating expenses slightly decreased 0.4 percent to ₱48.2 billion because of lower premises and various discretionary costs.
 - Cost-to-income ratio stood at 47.2 percent, a 520-basis point improvement year on year.
- Total assets grew one percent to ₱2.2 trillion. Total equity amounted to ₱279.8 billion.
 - Indicative common equity tier 1 ratio stood at 16.2 percent.
 - Indicative capital adequacy ratio stood at 17.1 percent.
 - Return on assets was 0.98 percent.
 - Return on equity was 7.7 percent.
- BPI's early investments to bolster its digital infrastructure starting 2017, underscored by spending of at least seven percent of revenues per year, has benefitted from the surge in demand for remote banking amid the global health crisis. As of December 2020:
 - Enrollments to its online platform grew 18 percent to 4.4 million from year ago levels.
 - Active users increased 41 percent to 2.7 million users from year ago levels.
 - Digital transactions in December accounted for 70 percent of total while branch transactions comprised only eight percent. These were 49 percent and 15 percent, respectively in the same period the previous year.

Telco

- Globe's net income declined 16 percent to ₱18.6 billion in 2020 due to lower EBITDA and higher depreciation charges and non-operating expenses.
 - Higher non-operating expenses in the period was due to a one-time impairment loss amounting to ₱4.2 billion largely from the network change out covering the full sunset of the 3G assets and the existing copper infrastructure. This was partially offset by a ₱2.3 billion gain mostly from the deemed sale of Globe's investment in Mynt following a third-party infusion by Bow Wave and loan revaluation.
- Globe's core net income, which excludes the impact of non-recurring charges and foreign exchange and mark-to-market changes, declined 13 percent to ₱19.5 billion.
- Total service revenues dipped two percent to ₱146.4 billion on softness in the mobile segment as a result of quarantine restrictions. Total data revenues accounted for 76 percent of Globe's service revenues compared to the year-ago level of 71 percent.
- Growth in demand for data was evident in the upward momentum of Globe's mobile and home categories despite the softening in corporate due to the prevailing work-from-home setup.
 - Mobile data revenues increased one percent to ₱72 billion.
 - Mobile data traffic jumped 48 percent to 2,517 petabytes.
 - Home broadband revenues surged 23 percent to ₱26.8 billion.
 - Home broadband subscriber base increased 88 percent to 3.8 million subscribers.
 - Corporate data revenue declined by three percent to ₱12.5 billion.
- Operating expenses including subsidies were flat at ₱73 billion.
- EBITDA declined by three percent to ₱73.5 billion as a result of lower revenues, slightly dragging EBITDA margin to 50 percent from 51 percent the previous year.
- GCash maintained its status as the country's number one finance app throughout 2020. It has reached record highs amidst the pandemic, with 33 million registered users or one in every three Filipinos. Additionally, it has seen a 3.7x increase in active users as gross transaction

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value exceeded the ₱1 trillion mark in December. Owing to its success, Mynt has attracted US\$175 million in fresh investment capital from existing shareholders and Bow Wave in multiple tranches, with post-money valuation of the final tranches at close to US\$1 billion.

- Globe's CAPEX spend grew 18 percent to ₱60.3 billion, representing 41 percent of gross service revenues and 82 percent of EBITDA. The company has allocated ₱70 billion for 2021 capital expenditures.
- Despite the impact of COVID-19, Globe accelerated its cell site buildout and upgrades, fiber-to-the-home deployments, and 5G coverage. Globe was able to build close to 1,300 new cell sites or towers compared to 1,100 in the previous year. Also, the aggressive modernization of its existing network infrastructure resulted in a total of 11,529 site upgrades to 4G/LTE this year, higher than the 10,135 in 2019. Moreover, Globe deployed 5G sites in Metro Manila and in select Visayas and Mindanao cities, making 5G available in 1,045 areas in the country. These network improvements enhanced Globe's customer experience and the Filipino digital lifestyle, addressing the challenges of the new normal.

Cost and Expenses

- Cost of sales and services declined 24 percent to ₱144.2 billion, which was aligned with the decline in revenues. As a percentage of total costs and expenses, this account is an 82 percent and 86 percent December 31, 2020 and 2019, respectively.

Balance Sheet Highlights

- Total assets rose four percent to ₱1.41 trillion from end-2019 level. Inventories increased 19 percent due to an increase attributable to ALI's higher real estate inventories due to lower sales amid the pandemic. Assets under PFRS 5 increased 15 percent due to MWC's higher cash and cash equivalents and short-term investments coming from proceeds of loan availments, higher receivables resulting from credit extension of customer payment amid the pandemic and to the increase of property, plant and equipment, and service concession assets due to construction of additional facilities and concession fees. Cash and cash equivalents and short-term investments decreased 16 percent due to lower collections of subsidiaries, AC's and ALI's share buy-back programs, infusions to business units, new and additional investments such as the Yoma group and assets under AC Energy, and debt payments and dividend payout. These were partially offset by dividends to AC as well as loan availments of AC and proceeds of ALI on AREIT's IPO and IMI on VIA's IPO. These accounts comprise six percent and eight percent of total assets as of December 31, 2020 and 2019, respectively.
- Total debt increased nine percent to ₱441.8 billion due to borrowings of Ayala Land for capital expenditures, buy-back of shares, and dividend payments, borrowings of AC Energy and AC Infra for operational expansion, and borrowings of parent for its investment in the Yoma group and FLL bond issuance. These were partially offset by the loan repayments of Ayala Land and IMI as well as AYC's forex translation difference of foreign loans.
- Parent* level cash stood at ₱19.9 billion.
- Net debt of Parent* stood at ₱104.7 billion.
- Parent* net debt-to-equity ratio stood at 80 percent.
- Group net debt-to-equity stood at 64 percent.
- Loan-to-value ratio, the ratio of its parent net debt (excluding the fixed-for-life perpetuals which have no maturity) to the total value of its assets, was at 9.2 percent.
- Parent blended cost of debt at 4.5 percent ending December 2020 with average remaining life of 17.4 years.

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- Consolidated capital expenditure reached ₱152 billion in 2020.
- Parent-only CAPEX spending stood at ₱12.1 billion, which went mostly to the newer businesses of Ayala.
- For 2021, Ayala has programmed approximately ₱196 billion in group CAPEX, of which ₱11.5 billion has been earmarked under the parent to support the emerging businesses in its portfolio.

* Includes financing entities AYC and ACIFL.

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 ₱, except ratios)

	2020	2019	2018
Revenue*	219,925	295,265	283,801
Net Income Attributable to Equity Holders	17,142	35,279	31,818
Total Assets	1,405,758	1,345,286	1,197,926
Total Debt	441,754	405,338	412,262
Total Stockholders' Equity	542,422	509,314	469,108
Current Ratio ¹	1.64	1.51	1.25
Debt to Equity Ratio ²	0.81	0.80	0.88

* Excludes MWCI and GNPK 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 ₱, except ratios)

	2020	2019	2018
Revenue	95,155	166,705	163,747
Net Income Attributable to Equity Holders	8,727	33,188	29,241
Total Assets	721,494	713,923	668,820
Total Debt	211,951	211,097	187,099
Total Stockholders' Equity	260,179	242,706	220,221
Current Ratio ¹	1.62	1.30	1.26
Debt to Equity Ratio ²	0.81	0.87	0.85

Integrated Micro-Electronics, Inc.

(In thousand US dollars, except ratios)

	2020	2019	2018
Revenue	1,135,841	1,250,366	1,349,400
Net income (loss) Attributable to Equity Holders	-3,455	-7,781	47,187
Total Assets	1,133,675	1,096,336	1,077,197
Total Debt	240,810	268,475	324,314
Total Stockholders' Equity	580,863	483,779	410,635
Current Ratio ¹	1.54	1.49	1.31
Debt to Equity Ratio ²	0.41	0.55	0.79

Manila Water Company, Inc.

(In million ₱, except ratios)

	2020	2019	2018
Revenue	21,125	21,647	19,574
Net Income Attributable to Equity Holders*	4,500	5,496	6,524
Total Assets	156,527	134,602	122,533
Total Debt	73,532	56,356	51,647
Total Stockholders' Equity	60,163	55,991	53,621
Current Ratio ¹	1.68	0.66	0.59

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Debt to Equity Ratio² 1.22 1.01 0.96

*Y2020 NIAT differs vs. the reported NIAT of MWCI due to cut-off adjustments to be taken up at AC consolidated FS for year 2021. Along with other cut-off adjustments, the net effect to consolidated NIAT is less than 1%.

AC Energy and Infrastructure Corporation (formerly AC Energy, Inc.)

(In million pesos, except ratios)

	2020	2019	2018
Revenue	31,018	15,788	10,059
Net Income Attributable to Equity Holders	5,790	24,966	4,070
Total Assets	215,964	208,948	105,443
Total Debt	82,656	67,097	46,835
Total Stockholders' Equity	90,847	87,647	54,818
Current Ratio ¹	2.78	2.34	2.78
Debt to Equity Ratio ²	0.91	0.77	0.85

*Y2020 NIAT differs vs. the reported NIAT of ACEIC due to cut-off adjustments taken up at AC consolidated FS. Along with other cut-off adjustments, the net effect to consolidated NIAT is less than 1%.

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)

Balance Sheet Items

As at December 31, 2020 vs. 2019

- A. The December 31, 2020 and 2019 consolidated financial statements show MWC accounts reclassified as assets/ liabilities and operations under PFRS/ IFRS 5 in the Balance Sheet and Income Statement, respectively arising from MWC and Prime Metroline Holdings signing of a subscription agreement in February 2020. Also, the balance sheet accounts of GNPK from AC Energy group were similarly classified as assets and liabilities under PFRS/ IFRS 5. Further discussions are in Notes 2 and 25 of the Group's 2020 audited consolidated financial statements ("FS").

(Amounts in Millions)	December 2020				December 2019		Inc (Dec)
	Pre-PFRS	PFRS 5 MWC	PFRS 5 GNPK	Audited	Audited	2020 vs. 2019	
ASSETS							
Cash, cash equivalents and short-term investments	₱ 115,041	₱ (20,930)	₱ (4,635)	₱ 89,476	₱ 106,793	₱ (17,317)	-16%
Accounts and notes receivable	141,737	(2,941)	(1,702)	137,094	130,869	6,225	5%
Inventories	161,190	(318)	-	160,872	135,064	25,808	19%
Other current assets	78,716	(2,673)	(4,575)	71,468	62,933	8,535	14%
Assets under PFRS 5	(0)	137,197	58,940	196,137	170,467	25,670	15%
Noncurrent accounts and notes receivable	57,497	(50)	(65)	57,382	55,720	1,662	3%
Investments in associates and joint ventures	263,963	(8,955)	-	255,008	246,731	8,277	3%
Investment properties	226,457	-	-	226,457	246,732	(20,275)	-8%
Property, plant and equipment	146,074	(3,976)	(47,560)	94,538	88,782	5,756	6%
Service concession assets	91,437	(89,881)	-	1,556	1,639	(82)	-5%
Intangibles, ROU assets, contract assets & deferred intangibles	61,089	(4,905)	(266)	56,918	52,252	4,666	9%
Other noncurrent assets	61,557	(2,568)	(137)	58,852	47,304	11,548	24%
Total Assets	₱ 1,405,758	₱ 0	₱ (0)	₱ 1,405,758	₱ 1,345,286	₱ 60,472	4%
LIABILITIES AND EQUITY							
Liabilities							
Short-term debt	₱ 33,744	₱ -	₱ (1,304)	₱ 32,440	₱ 29,789	₱ 2,651	9%
Accounts payable and accrued expenses	190,362	(10,030)	(3,017)	177,315	195,416	(18,101)	-9%
Other current liabilities	28,642	(281)	-	28,361	30,792	(2,430)	-8%
Liabilities under PFRS 5	0	96,440	27,852	124,291	121,488	2,804	2%
Long-term debt	506,359	(73,538)	(23,507)	409,315	375,550	33,765	9%
Service concession obligation	9,055	(8,969)	-	86	66	20	31%
Lease, deferred tax and pension liabilities	39,935	(1,326)	-	38,609	34,173	4,436	13%
Other liabilities	55,238	(2,296)	(24)	52,918	48,700	4,218	9%
Total Liabilities	863,336	0	(0)	863,336	835,972	27,363	3%
Equity							
Equity attributable to owners of the parent company	339,180	1,556	(755)	339,980	330,275	9,705	3%
Reserves under PFRS 5	-	(1,556)	755	(800)	(1,467)	667	45%
Non-controlling interests	203,242	-	-	203,242	180,506	22,736	13%
Total Equity	542,422	(0)	-	542,422	509,314	33,109	7%
Total Liabilities and Equity	₱ 1,405,758	₱ 0	₱ (0)	₱ 1,405,758	₱ 1,345,286	₱ 60,472	4%

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B. The COVID-19 impacted the health and economy globally, consequently, affected the operations of the Group: from lockdown in February 2020 in certain areas of China (where the Group operates) to World Health Organization's declaring this as pandemic in March 11, 2020. The period of until July 2020 saw harsher impact of this COVID-19 pandemic in the Philippines: from state of health emergency in March 8, declaring mega Metro Manila (MM) under enhanced community quarantine (ECQ) in March 15, to implementation of wider coverage of ECQ in other parts of Luzon and certain areas of Visayas and Mindanao and also declaring the country under state of calamity in March 17. The declaration of general community quarantine (GCQ) in mega MM and other parts of the country in August 2020, allowed certain business establishments to operate and essential movements of people, which allowed certain business units in the Group to slowly commence and pick up from operations amid slowness or absence of normalcy in the general business environment. In this regard, one of the key reasons for the year-on-year variances was the impact of this ECQ/GCQ in the year ending December 2020. The following account balances reflected the effect in operations of this health and economic crisis:

- Cash & cash equivalents and Short-term investment – 16% decrease from combined balance of ₱106,793 million to ₱89,476 million
Decline primarily due to lower collections of subsidiaries, buy-back of shares (Ayala and ALI); infusions to business units, new and additional investments (e.g., Yoma group, Sacasol, Islasol and Philwind), debt payments and dividend payout; partly offset by dividends received by AC and its loan availments and for most subsidiaries (ALI, AYC, AC Energy) as well as proceeds from initial public offering of ALI - AREIT and IMI-VIA. These accounts comprise 6% and 8% and of the total assets as of December 31, 2020 and 2019, respectively.
- Accounts and notes receivable (current) – 5% increase from ₱130,869 million to ₱137,094 million
Increase attributable to ALI's and AC Energy's longer collection period due to restricted operations; partly offset by IMI's decline in receivables caused by lower consumer/telecom business lines from China sales and collections of Philippine accounts. This account is at 10% of the total assets as of December 31, 2020 and 2019.
- Inventories – 19% increase from ₱135,064 million to ₱160,872 million
Increase attributable to ALI's higher real estate inventories due to lower sales. This account is at 11% and 10% of the total assets as of December 31, 2020 and 2019, respectively.
- Accounts payable & accrued expenses, Contract liabilities and Other current liabilities – 9% decrease from combined balance of ₱224,063 million to ₱203,912 million
Decrease due to restricted operations in the current year plus settlement of outstanding suppliers' and contractors' accounts, lower customer deposits and AC's dividend payment. These were partly offset by impact of consolidation of Islasol and Sacasol entities under AC Energy. These accounts comprise at 24% and 27% of the total liabilities as of December 31, 2020 and 2019, respectively.
- Income tax payable – 20% decrease from ₱2,397 million to ₱1,907 million
Decrease from ALI group due to its lower taxable income. This account is at below 1% of the total liabilities as of December 31, 2020 and 2019.

C. Another key transaction that affected the Group's consolidated balance sheet is AC Energy Group's consolidation of Islasol and Sacasol (see Notes 2 and 24 of 2020 audited consolidated FS). This resulted in higher asset accounts such as property plant and equipment, ROU asset and intangibles (goodwill).

The movements for other balance sheet accounts are explained as follows:

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Other current assets (including contract assets) – 12% increase from ₱66,093 million to ₱74,315 million
Increase coming from ALI's higher existing project advances and deferred sales commissions and BHL's infusion to FMI/ Yoma group. This account is at 5% of the total assets as of December 31, 2020 and 2019.

Assets under PFRS 5 – 15% increase from ₱170,467 million to ₱196,137 million

Increase due to MWC's higher cash and cash equivalents and short-term investments coming from proceeds of sustainability bonds issuance, higher receivables resulting from credit extension of customer payment as a result of limited mobility of customers and to increase of property, plant and equipment and service concession assets due to construction of additional facilities and concession fees. This account is at 14% and 13% of the total assets as of December 31, 2020 and 2019, respectively.

Investment Properties – 8% decrease from ₱246,732 million to ₱226,457 million

Decrease attributable to absence of new project launches of ALI group's and transfers to real estate inventory account. This account is at 16% and 18% of the total assets as of December 31, 2020 and 2019, respectively.

Property, plant and equipment – 6% increase from ₱88,782 million to ₱94,538 million

Increase due to Islasol and Sacasol accounts. This account is at 7% of the total assets as of December 31, 2020 and 2019.

Right-of-use assets – 9% increase from ₱18,221 million to ₱19,813 million

Increase also due to Islasol and Sacasol accounts. This account is at 1% of the total assets as of December 31, 2020 and 2019.

Service concession assets – 5% decrease from ₱1,639 million to ₱1,556 million

Decrease attributable to AC's depreciation of service concession assets. This account is at below 1% of the total assets as of December 31, 2020 and 2019.

Intangible assets – 18% increase from ₱16,626 million to ₱19,625 million

Increase due to goodwill on acquisitions of AC Energy (Sacacsol and Islasol) and AC Health (Healthway). This account is at 1% of the total assets as of December 31, 2020 and 2019.

Other noncurrent assets – 24% increase from ₱47,304 million to ₱58,852 million

Increase pertains to AC Energy's additional investments in financial assets at amortized cost partly offset by decrease in ALI's recoupment of advances to contractors and suppliers. The account also includes the Group's pension asset amounting to ₱22 million and ₱81 million in December 31, 2020 and 2019, respectively.¹ This account is at 4% of the total assets as of December 31, 2020 and 2019.

Short-term debt – 9% increase from ₱29,789 million to ₱32,440 million

Increase due to borrowings of AC Energy, AC Industrials and AC Infra for operational expansion and IMI for payment of long-term debt; partly offset by ALI's loan settlement. This account is at 4% of the total liabilities as of December 31, 2020 and 2019.

Long-term debt (current) – 53% increase from ₱23,879 million to ₱36,514 million

Increase due to borrowings of AC and ALI to fund capital expenditures, buy-back of shares and dividends payment, AYC to fund investment in Yoma group; partly offset by IMI's loan repayments. This account is at 4% and 3% of the total liabilities as of December 31, 2020 and 2019, respectively.

Lease liabilities (current) – 41% increase from ₱1,028 million to ₱1,445 million

Increase coming from IMI, AC Energy and ACI groups. This account is at below 1% of the total liabilities as of December 31, 2020 and 2019.

Service concession obligation (current and noncurrent) – 31% increase from ₱66 million to ₱86 million

Increase from AC's concession obligation. This account is at below 1% of the total liabilities as of December 31, 2020 and 2019.

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Long-term debt (noncurrent) – 6% increase from ₱351,671 million to ₱372,800 million

Increase due to proceeds from AC's loans and bonds issuance of ALI, AYC (FFL bonds), AC Energy (green and FFL bonds) and MWCI (green bonds); partly offset by IMI's loan repayments and AYC's forex translation difference of foreign loans. This account is at 43% and 42% of the total liabilities as of December 31, 2020 and 2019, respectively.

Lease liabilities (noncurrent) – 6% increase from ₱21,353 million to ₱22,672 million

Increase coming from ALI, AC Energy, AC Health and AC Infra groups; partly offset by decrease in IMI group. This account is at 3% of the total liabilities as of December 31, 2020 and 2019.

Deferred tax liabilities (net) – 17% increase from ₱8,036 million to ₱9,398 million

Increase coming from ALI group. This account is at 1% of the total liabilities as of December 31, 2020 and 2019.

Pension liabilities¹⁰ – 36% increase from ₱3,756 million to ₱5,093 million

Increase attributable to ALI's provisions for pension liability this year. This account is below 1% of the total liabilities as of December 31, 2020 and 2019.

Other noncurrent liabilities – 9% increase from ₱48,447 million to ₱52,776 million

Increase attributable to ALI's higher deferred revenues on residential units and customers deposits. This account is at 6% of the total liabilities as of December 31, 2020 and 2019.

Share-based payments – 52% decrease from ₱215 million to ₱103 million

Decrease coming from issuance on the exercise of stock ownership plans of AC. This account is below 1% of the total equity as of December 31, 2020 and 2019.

Remeasurement losses on defined benefit plan – 104% increase from negative ₱3,117 million to negative ₱6,351 million

Increase attributable to actuarial loss on pension liabilities as result of adjustments on actuarial assumptions and factors. This account is at 1% of the total equity as of December 31, 2020 and 2019.

Fair value reserve of financial assets at FVOCI – 39% decrease from ₱67 million to ₱41 million

Decrease due to AC Energy's reclassification of Sacasol and Islasol investments to subsidiaries, ALI's lower marked to market valuation of its investments and iPeople's decrease in asset valuation reserve. This account is at below 1% of the total equity as of December 31, 2020 and 2019.

Cumulative translation adjustments (CTA) – 151% decrease from positive ₱3,235 million to negative ₱1,636 million

Decrease due to forex translation (movement in forex for ₱ vs. USD) of higher foreign-denominated net asset accounts of AC Energy and forex translation of foreign assets held by Globe and BPI. Forex of ₱vs USD amounted to ₱48.023 in December 2020 vs. ₱50.635 in December 2019. This account is at below 1% of the total equity as of December 31, 2020 and 2019.

Equity reserve – 22% increase from ₱25,283 million to ₱30,741 million

Increase coming from initial public offering transactions of ALI and IMI. This account is at 6% and 5% of the total equity as of December 31, 2020 and 2019, respectively.

Retained Earnings – 6% increase from ₱225,455 million to ₱238,073 million

Increase due to overall growth in net income of the group. This account is 44% of the total equity as of December 31, 2020 and 2019, respectively.

¹⁰ 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.

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Treasury stock – 15% increase from ₱5,738 million to ₱6,605 million

Increase due to AC parent's buy-back of common shares (see Note 21). This account is 1% of the total equity as of December 31, 2020 and 2019.

Reserves under PFRS 5 – 45% increase from negative ₱1,467 million to negative ₱800 million

Increase due to the CTA of GNPK partly offset by the decrease on CTA of MWC as a result of forex depreciation of its foreign-denominated assets. This account is at below 1% of the total equity as of December 31, 2020 and 2019.

Income Statement items

For the Years Ended December 31, 2020 and 2019

- A. Similar with the approach in the consolidated balance sheets, the accounts of MWC are reclassified as operations under PFRS 5 in the Group's consolidated income statement for the years ended December 31, 2020 and 2019. Please see discussion below on Operations of the segment under PFRS 5.
- B. The Covid-19 pandemic has significantly affected the operating results of certain subsidiaries and investees reflected in the consolidated income statement.

For the year ended December 2020, Ayala Land's total revenues declined 43% to ₱96.3 billion and net income fell 74% to ₱8.7 billion due to Covid-19 as a result of lower sales bookings, lower construction completion from residential projects caused by community quarantine restrictions, limited malls operations during quarantine, and lower average hotel occupancy due to quarantine and travel bans until July 2020. Easing of these restrictions starting month of August allowed ALI to show improvements in operating results. For IMI, similar government-mandated lockdowns in certain foreign countries and voluntary suspension in other sites, impacted on lower output. Moderating these restrictions at the onset of Q3 2020 onwards similarly allowed IMI to uplift revenues and bottom lines.

The impact of pandemic is shown in the following key income statement accounts.

- Sale of goods and rendering services – 27% decrease from ₱264,907 million to ₱193,622 million

Decrease affected by ECQ: ALI (lower construction completion, residential segment bookings, rental waive and lower occupancy rates); and IMI's and ACI's lower revenues caused by lower customer demand and slowdown in operations. These downtrends were partly offset by partial recovery in Q3 2020 plus higher revenues due to consolidation of AC Energy's ACEN and AC Health's Generika and Healthway. As a percentage to total revenue, this account is at 88% and 90% in December 31, 2020 and 2019, respectively.

GNPK revenues from electricity sales of ₱5,108.8 million, other income of ₱1,347.9 million from combined mark-to-market gain on derivative instrument and liquidating damages, and administrative expenses of ₱1,589.5 million as of December 31, 2020 were recognized in the consolidated income statement (see Note 25).

- Cost of sales and services – 24% decrease from ₱189,983 million to ₱144,181 million

Decrease in account is aligned with the decline in revenues. As a percentage to total costs and expenses, this account is at 82% and 86% in December 31, 2020 and 2019, respectively.

- Share in net profits of associates and joint ventures – 21% decrease from ₱22,344 million to ₱17,616 million

Decrease coming from BPI's aggressive loan loss provisions, which was partially offset by higher net interest income and other fees; and Globe's lower mobile revenues and higher depreciation and receivable provisions partly offset by increase in home broadband demand

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and dilution gain in Mynt. As a percentage to total revenue, this account is at 8% in December 31, 2020 and 2019.

- Provision for income tax (current and deferred) – 63% decrease from ₱13,984 million to ₱5,239 million

Decrease due to lower net income of ALI for the year.

- Income attributable to owners of the parent – 51% decrease from ₱35,279 million to ₱17,142 million

Decrease resulting from this year's lower net income results of most of the investees particularly ALI, ACI, AC Infra, BPI and Globe as an effect of restricted operations and BHL's provision for impairment; plus impact of last year's AC Energy's gain on sale of AA Thermal and AC's gain on AC Education and iPeople merger. This is partly offset by the reversal of MWC remeasurement loss. As a percentage to total net income, this account is at 59% and 84% in December 31, 2020 and 2019, respectively.

- Income attributable to non-controlling interests – 81% increase from ₱6,703 million to ₱12,129 million

Increase resulting from reversal of MWC remeasurement loss and AC Energy's better results; partly offset by lower net income results of ALI as an effect of the slower progress of construction. As a percentage to total net income, this account is at 41% and 16% in December 31, 2020 and 2019, respectively.

The movements for other income statement accounts are explained as follows:

Interest income from real estate and others – 5% increase from ₱11,243 million to ₱11,787 million

Increase coming from ALI's higher accretion of interest as a result of collections from sale of its trade receivables.

Dividend and other income – 81% decrease from ₱32,411 million to ₱6,209 million

Decrease due to impact of last year's AC Energy's gain on sale of AA Thermal and AC's gain on AC Education and iPeople merger, and current year's fair value adjustments on BHL's investments; partly offset by current year's higher other income of AC Energy arising from investment gains, liquidated damages on delayed completion of GNPk plant and reversal of derivative losses and IMI's gain on put options. Also includes GNPk's other income accounts (see Note 25).

Interest and other financing charges – 25% increase from ₱22,410 million to ₱28,014 million

Increase coming from ALI, AC Energy and AYCFL as a result of higher debt balance level this year. The Group's adoption of PFRS 16 also increased interest expense by ₱1.8 billion.

Operations of the segment under PFRS 5 – 132% increase from loss of ₱30,433 million to net income of ₱9,797 million

Includes the net income after tax of MWC less consolidation adjustments. Increase mainly due to decline in impairment provisions (with partial reversal of remeasurement loss this year) plus the impact of last year's bill waiver and higher billed volume this year; partly offset by provisions on fair value adjustments of investment in AJVs and various exposures.

As required by PFRS5/ IFRS 5, the investment in MWC, which was reclassified as asset held for sale, should be subsequently re-measured to its fair market value (FMV) and the corresponding difference against carrying value (CV) be recognized as reversal of or additional loss. In addition to the remeasurement loss taken up in December 2019, an amount of ₱1.79 billion (P1.63 billion net of tax) remeasurement loss was recognized in June 2020, which formed part of the GAE of operations of the segment under PFRS 5 in the consolidated income statement. In December 2020, a partial reversal of

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remeasurement loss amounting to ₱6.59 billion (₱3.39 billion of which is attributable to the owners of the Parent Company) was booked which formed part of Other income of operations of the segment under PFRS 5 (Note 25).

(Amounts in Millions)	Years Ended December 31, 2020			Years Ended December 31, 2019			Inc (Dec)	
	Pre-PFRS	PFRS 5 MWC	Audited	Pre-PFRS	PFRS 5 MWC	Audited		
CONTINUING OPERATIONS								
REVENUE (Note 19)								
Sale of goods and rendering of services*	₱ 213,658	₱ (20,036)	₱ 193,622	₱ 284,704	₱ (19,797)	₱ 264,907	₱ (71,284)	-27%
Share in net profits of associates and joint ventures	17,830	(214)	17,616	22,998	(654)	22,344	(4,729)	-21%
Interest income from real estate	8,603	-	8,603	7,891	-	7,891	712	9%
Dividend income	84	-	84	123	-	123	(39)	-32%
	240,174	(20,250)	219,925	315,716	(20,451)	295,265	(75,340)	-26%
COSTS AND EXPENSES								
Costs of sales and services	151,479	(7,298)	144,181	198,207	(8,223)	189,983	(45,802)	-24%
General and administrative expenses*	38,809	(6,483)	32,326	75,737	(43,624)	32,113	213	1%
	190,288	(13,781)	176,507	273,944	(51,848)	222,096	(45,589)	-21%
OTHER INCOME (CHARGES) - Net								
Interest income	3,687	(503)	3,184	3,757	(405)	3,352	(168)	-5%
Other income*	23,592	(17,466)	6,126	44,224	(11,935)	32,288	(26,163)	-81%
Interest and other financing charges	(30,238)	2,224	(28,014)	(24,484)	2,075	(22,410)	(5,605)	-25%
Other charges	(10,908)	10,908	-	(10,853)	10,853	-	-	-
	(13,867)	(4,837)	(18,705)	12,644	587	13,231	(31,936)	-241%
INCOME BEFORE INCOME TAX	36,019	(11,306)	24,713	54,416	31,984	86,400	(61,687)	-71%
PROVISION FOR INCOME TAX								
Current	7,831	(1,943)	5,888	15,727	(2,009)	13,718	(7,830)	-57%
Deferred	(1,083)	434	(649)	(3,293)	3,560	266	(915)	-344%
	6,748	(1,509)	5,239	12,433	1,551	13,984	(8,745)	-63%
INCOME AFTER INCOME TAX	29,270	(9,797)	19,473	41,982	30,433	72,416	(52,942)	-73%
OPERATIONS OF THE SEGMENT UNDER PFRS 5								
Net income (loss) after tax (NIAT)**	-	9,797	9,797	-	(30,433)	(30,433)	40,231	132%
NET INCOME ***	₱ 29,270	₱ -	₱ 29,270	₱ 41,982	₱ -	₱ 41,982	₱ (12,712)	-30%
Net Income Attributable to:								
Owners of the Parent Company	₱ 17,142	₱ -	₱ 17,142	₱ 35,279	₱ -	₱ 35,279	₱ (18,138)	-51%
Non-controlling interests	12,129	-	12,129	6,703	-	6,703	5,426	81%
	₱ 29,270	₱ -	₱ 29,270	₱ 41,982	₱ -	₱ 41,982	₱ (12,712)	-30%

*Includes GNPK accounts as of December 31, 2020: electricity sales of ₱5,108.8 Mn, administrative expenses of ₱1,589.5 Mn and other income of ₱1,347.9 Mn (see Note 25).

*** NIAT differs vs. the reported NIAT of MWCI due to cut-off adjustments to be taken up at AC consolidated FS for year 2021. Along with other cut-off adjustments, the net effect to consolidated NIAT is less than 1%.

****Year 2020 net income of ₱9.8 Bn consists of:** MWCI's reported NIAT attributable to equity holders of ₱4.5 Bn less additional provisions of ₱1.6 Bn (₱836 Mn AC share) booked in June 2020, add impact of reversal of remeasurement loss of ₱6.6 Bn (₱3.4 Bn AC share) booked in December 2020 and various consolidation adjustments of ₱415 Mn. **Year 2019 net loss of (-) ₱30.4 Bn consists of:** reported NIAT attributable to equity holders of ₱5.5 Bn less remeasurement loss of ₱35.2 Bn (₱18.1 Bn AC share) and other consolidation adjustments of (-) ₱690 Mn.

Outlook for 2021

The Philippines suffered a significant blow from the COVID-19 health crisis in 2020 as it endured a nationwide lockdown and a pronounced slowdown in international trade. At the peak of the pandemic's impact, the strictest form quarantine restrictions were imposed, limiting business activity and dampening consumer confidence. However, as restrictions were gradually eased in the second half of the year, mobility and business confidence consequently recovered. Ayala likewise saw a marked turnaround in demand and operations across its businesses, which continued to improve throughout the early months of 2021.

As the country enters a stage of recuperation, we see GDP growth in 2021 increasing by 6.8 per cent coming from a 9.5 per cent decline in 2020. The last six months of the year saw a meaningful recovery in mobility, indicating that consumers have found a sense of normalcy in exiting the household while taking the necessary precautions. Coupled with an eventual easing of transportation protocols and continued increase in digital consumption, we expect economic output to return to the 2019 level by 2022. Should other risks such as another lockdown materialize however, the Philippines may find it difficult to for GDP to grow beyond the 6 percent mark.

Aside from consumption, two other pillars of the economy have remained strong – overseas remittances and BPO activity. Despite massive layoffs and repatriations worldwide, remittances declined by only 0.8 percent to US\$33 billion, comprising 9.2 percent of the country's economic output.

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Meanwhile, the BPO industry was quick to bounce back from just 50 percent productivity in April 2020 to 90 percent by July. Both drivers softened the blow of the pandemic to the Philippine economy and are likely to remain as solid contributors to economic output. However, a risk factor is the Eurozone's status as renewed lockdowns and a double-dip recession may put pressure on remittances. Related to this, we see the Dollar-Peso rate depreciating to the 49 level in 2021 as the worldwide economies slowly reopen and US Dollar demand returns.

Another important factor that supported the Philippines' business environment in 2020 is the BSP Monetary Board's move to slash the interest rate to an all-time low of 2.0 percent from 4.0 percent in the year. Local businesses found strength in the cheap funding environment as low interest rates allowed them to cover their working capital needs in the face of tight cashflows. As quarantine measures continue to stay in place, we expect the Central Bank to maintain the interest rate at 2.0 percent. Further cuts may be unlikely due to the threat of growing inflation, which has already risen to 3.5 percent in December 2020 and 4.2 percent the following month. Supply side factors such as rising oil prices and higher pork prices due to the African Swine Flu continue pose as risks in elevating inflation. As such, we expect the print to increase to 3.1 percent in 2021 from 2.6 percent last year.

We also believe that in 2021, many companies will wish to move on the trends observed in 2020 more decisively. Thus, we are likely to see the private sector step up capital expenditures to develop their digital and telecommunication assets, logistical capabilities, and factory and farm equipment as well. This has the potential to trickle down into employment and improve from the -8.7 percent decrease we saw in the fourth quarter of 2020.

Against this backdrop of developments, the Ayala group closely monitors key trends and potential risks in the global and domestic economies as well as in the industries where it operates. That said, the Ayala group will continue executing in its investment programs and has allocated ₱196 Billion in combined capital expenditure for 2021.

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.

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 ALL, 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.

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(in million pesos)	2019		Audited	2018
	Pre - MWCI Reclass	PFRS 5 Reclass		
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	55,994	(12,340)	43,654	18,642
	363,696	(32,791)	330,905	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	72,415	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 13.5 percent growth in its bottom-line in 2019, which reached ₱33.2 billion for the year. Meanwhile, its total revenues (which include real estate revenue, interest from real estate sales, interest and investment income, equity in net earnings and other income) 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 were slightly down 3 percent year-on-year, reaching ₱109.7 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.

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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 2020, 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 attributable to equity holder's of AC Energy's Parent of ₱25.0 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.

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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.

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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 ₱92.3 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 ₱65.6 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 14 percent, much faster than corporate and SME loans, which also grew 10 percent and decreased by 17 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 ₱26.7 billion, an increase of 27 percent versus 2018, primarily from higher securities trading gains and fee-based income. Fees, commissions, and other income increased by 14 percent, driven by higher fees from credit cards, transaction banking, branch services, and digital channels.

Operating expenses totaled ₱48.3 billion, higher by 15 percent from the previous year. Cost-to-income ratio was at 52.4%, lower than the 54.9% recorded in the prior year. Provision for losses for 2019 was ₱5.6 billion, increasing the Bank's loss coverage ratio to 102.1%. 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 LTNCs 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.

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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 6.4 percent at the end 2019.

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.

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Ayala Corporation (Consolidated)

(In million ₱, except ratios)

	2019	2018	2017
Revenue*	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 and GNPK 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 ₱, 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	0.90

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 ₱, 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 ₱, 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	208,948	105,443	79,031
Total Debt	67,097	46,835	32,157
Total Stockholders' Equity	87,647	54,818	42,990
Current Ratio ¹	2.34	2.78	1.98
Debt to Equity Ratio ²	0.77	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).

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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 (Item 1)	PFRS 5		Audited	Restated	2019 Audited vs. 2018 Restated		
			GNPK (Item 4)	PFRS 5 MWC (Item 3)					
ASSETS									
Cash and cash equivalents	P 107,353	P -	P (4,990)	P (8,958)	P 93,405	P 60,624	P 32,780	54%	
Short-term investments	13,497	-	-	(109)	13,388	5,956	7,432	125%	
Accounts and notes receivable	135,033	-	(2,345)	(1,819)	130,869	153,992	(23,122)	-15%	
Inventories	135,802	-	(396)	(342)	135,064	120,560	14,503	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	160,305	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	6,590	3%	
Investment properties	246,732	-	-	-	246,732	227,646	19,086	8%	
Property, plant and equipment	139,753	-	(48,103)	(2,868)	88,782	104,492	(15,710)	-15%	
Right-of-use assets	-	18,517	-	(296)	18,221	-	18,221	-	
Service concession assets	77,947	-	-	(76,308)	1,639	98,404	(96,765)	-98%	
Deferred tax assets - net	13,410	2,682	-	(1,846)	14,246	15,546	(1,300)	-8%	
Other assets	73,253	-	(693)	(5,470)	67,090	60,870	6,220	10%	
Total Assets	P 1,324,087	P 21,199	P -	P -	P 1,345,286	P 1,197,926	P 147,362	12%	

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LIABILITIES AND EQUITY

Liabilities								
Short-term debt	P 29,789	P -	P -	P -	P 29,789	P 39,518	P (9,729)	-25%
Accounts payable and accrued expenses	206,690	-	(2,701)	(8,573)	195,416	204,758	(9,343)	-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	78,603	121,488	1,075	120,413	11198%
Long-term debt	470,843	-	(38,942)	(56,351)	375,550	372,744	2,805	1%
Lease liabilities	(0)	22,690	-	(309)	22,381	-	22,381	-
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	53,240	-	(1,242)	(3,298)	48,700	53,957	(5,259)	-10%
Total Liabilities	813,282	22,690	-	-	835,972	728,817	107,155	15%
Equity								
Equity attributable to owners of the parent company	329,627	(819)	-	1,467	330,275	290,607	39,669	14%
Reserves under PFRS 5	-	-	-	(1,467)	(1,467)	-	(1,467)	-
Non-controlling interests	181,178	(672)	-	-	180,506	178,501	2,005	1%
Total Equity	510,805	(1,491)	-	-	509,314	469,108	40,207	9%
Total Liabilities and Equity	P 1,324,087	P 21,199	P -	P -	P 1,345,286	P 1,197,926	P 147,362	12%

Balance Sheet Items

As at December 31, 2019 vs. 2018 (Restated)

Cash and cash equivalents – 54% increase from P60,624 million to P93,405 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 ACEN; 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 from 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 P5,956 million to P13,388 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 P153,992 million to P130,869 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 P120,560 million to P135,064 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 P57,728 million to P62,933 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.

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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, GNPDingin 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 AYCF'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.¹¹ 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 December 31, 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.

¹¹ 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.

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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) – 51% decrease from ₱48,481 million to ₱23,879 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) – 8% increase from ₱324,263 million to ₱351,671 million

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 liabilities¹ – 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% increase 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.

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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 ₱ vs. USD. Forex of ₱ 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 ACEN. 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%

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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

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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.

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 ₱113.4 billion on strong sales across its residential, office-for-sale, and commercial lot segments. Residential revenues jumped 18 percent to ₱94.63 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.

Higher bookings for One Vertis Plaza in Vertis North, Quezon City and The Stiles East Enterprise Plaza in Circuit Makati, and higher completion progress of Park Triangle Corporate Plaza in Bonifacio Global City and the Alveo Financial Tower in Makati CBD hiked revenues from the sale of office spaces by 16% to ₱11.0 billion, from ₱9.45 billion in 2017. 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 attributable to equity holders of MWC parent 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.

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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 attributable to equity holder's of AC Energy's Parent 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 GNPowder 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 GNPowder 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 GNPowder Mariveles and GNPowder 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

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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 ₱70.9 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 51 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 ₱76.6 billion on the back of a 16 percent growth in net interest income, which reached ₱55.6 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

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trading income during the year, tempered BPI's non-interest income, which slid 1 percent to ₱21.0 billion.

Operating expenses totaled ₱42.1 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 54.9 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 Industrials, 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

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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 as 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.

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 ₱, 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 ₱, 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

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Manila Water Company, Inc.

(In million ₱, 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.

²Total 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 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

- a. 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.
 - b. Integrated Micro-Electronic's (IMI's) acquisition of 80% stake in Surface Technology International Enterprises Limited (STI) in April 2017.
 - c. 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.

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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	
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

As of December 31, 2018 vs. December 31, 2017

Cash and cash equivalents – 6% decrease from ₱64,259 million to ₱60,624 million

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.

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Short-term investments – 10% increase from ₱5,400 million to ₱5,956 million

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.

Accounts and notes receivable (current) – 44% increase from ₱124,109 million to ₱178,256 million

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.

Inventories – 24% increase from ₱76,545 million to ₱94,878 million

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.

Other current assets – 13% increase from ₱45,325 million to ₱51,361 million

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 Dingin 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

Management's Discussion and Analysis of Results of Operations and Financial Condition

additional FVOCI investments. The account also includes the Group's pension asset amounting to ₱82 million.¹² 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.

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.

¹² 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.

Management's Discussion and Analysis of Results of Operations and Financial Condition

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 ₱1,806 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 PHP 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

(in million pesos)	For the year 2018			For the year 2017			Inc (dec)	
	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%

Management's Discussion and Analysis of Results of Operations and Financial Condition

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 ₱2,283 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 Shenzhen 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 ₱2,326 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.

MANAGEMENT

Board of Directors

Ayala's Board has seven members, all of whom are elected by Ayala's stockholders holding shares with voting rights at the stockholders' annual meeting. The Directors hold office for one year and until their successors are elected and qualified in accordance with Ayala's By-Laws.

The Board regularly meets at least six times every calendar year. It ensures the presence and adequacy of internal control mechanisms for good governance in accordance with the Company's Revised Manual of Corporate Governance. The minimum internal control mechanisms for the Board's oversight responsibility include, but are not limited to:

- a. Ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system;
- b. Reviewing conflict-of-interest situations and providing appropriate remedial measures for the same;
- c. Appointing a CEO with the appropriate ability, integrity and experience to fill the role, as well as defining the CEO's duties and responsibilities;
- d. Reviewing proposed senior management appointments;
- e. Ensuring the selection, appointment and retention of qualified and competent management; reviewing the Company's personnel and human resources policies, compensation plan and the management succession plan;
- f. Institutionalizing the internal audit function; and
- g. Ensuring the presence of, and regularly reviewing, the performance and quality of external audit.

On May 18, 2009, the SEC approved the amendment of the by-laws of the Company on the adoption of the SRC Rule 38 (Requirements on Nomination and Election of Independent Directors). The Company always undertakes to abide by SRC Rule 38 on the required number of independent directors subject to any revision that may be prescribed by the SEC.

As of April 23, 2021, the composition of the Board and Executive Officers was as follows:

Board of Directors

Jaime Augusto Zobel de Ayala	Chairman of the Board
Fernando Zobel de Ayala	Vice Chairman of the Board, President and Chief Executive Officer
Cezar P. Consing	Non-Executive Director
Delfin L. Lazaro	Non-Executive Director
Keiichi Matsunaga	Non-Executive Director
Antonio Jose U. Periquet	Independent Director
Rizalina G. Mantaring	Independent Director

The write-ups below include positions held as of April 23, 2021 and in the past five years, and personal data as of April 23, 2021, of the directors and executive officers.

Jaime Augusto Zobel de Ayala, Filipino, 62, Director of Ayala Corporation since May 1987. He is the Chairman of the Board of the Ayala Corporation since April 2006. He was its CEO from April 2006 to April 2021. 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 Corporation (formerly 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.; Trustee of Ayala Group Club, Inc.; Director of Alabang Commercial Corporation, AC Energy and Infrastructure Corporation (formerly 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

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, 61, Director of Ayala Corporation since May 1994. He is the Vice Chairman of the Board and President of the Company since April 2006. He was elected as the Chief Executive Officer of the Company on April 23, 2021. He holds the following positions in publicly listed companies: Chairman of Ayala Land, Inc., Manila Water Company, Inc. and AC Energy Corporation (formerly AC Energy Philippines, Inc./Phinma Energy Corporation); 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 and Infrastructure Corporation (formerly AC Energy, Inc.), Ayala Healthcare Holdings, Inc., Automobile Central Enterprise, Inc., Alabang Commercial Corporation, Accendo Commercial Corp., Altaraza Development Corporation, BPI Foundation, Ayala Group Club, Inc. and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, 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 AG Holdings Ltd., AC Infrastructure Holdings Corporation, Asiacom Philippines, Inc., Ayala Retirement Fund Holdings, Inc., BPI Asset Management and Trust Corp., 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; Member of the Philippine-Singapore Business Council, member of the 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, 75, Non-Executive Director of Ayala Corporation since January 2007. He holds the following positions in publicly listed companies: Director of 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 is an Independent Adviser to the Board of Directors of Ayala Land, Inc., a member of the BPI Advisory Council, and a Board Member of Monde Nissin Corporation. 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, 56, 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., The Japanese Chamber of Commerce & Industry of the Philippines (JCCIP) and Director of, 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.

Management

Cezar P. Consing, Filipino, 61, has been a Director of Ayala Corporation since December 3, 2020. He was the President and CEO of BPI, one of the Ayala Group's publicly listed companies, from April 2013 to April 22, 2021. He is a Director of Bank of the Philippine Islands, Globe Telecom, Inc. and AC Energy Corporation. He is an Independent Director of Jollibee Foods Corporation. His other significant positions are: Chairman of Philippine Dealing System Holdings Corp. and its operating subsidiaries namely, Philippine Dealing & Exchange Corporation, Philippine Securities Settlement Corp., and Philippine Depository & Trust Corporation, and Director of Filgifts.com., Scream Technologies and Endeavor Philippines. He is also a Director of the US-Philippines Society, and the Philippine-American Educational Foundation, trustee of the Manila Golf Club Foundation and College of St. Benilde, 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. He served as Chairman and President of the Bankers Association of the Philippines from 2019 - 2021 and was President of Bancnet, Inc. from 2017 - 2021. 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 headed 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, headed 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.

Antonio Jose U. Periquet, Filipino, 60, Independent Director of Ayala Corporation since September 2010 and Lead Independent Director since December 3, 2020. 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 (Economics) degree from Oxford University, UK, and an MBA from the University of Virginia, USA.

Rizalina G. Mantaring, Filipino, 61, has been an Independent Director of Ayala Corporation since April 24, 2020. Concurrently, she is also a Director of Sun Life Grepa Financial, Inc. and an Independent Director of Ayala Land, Inc., First Philippine Holdings Corp. Inc., PHINMA Corp. Inc., Universal Robina Corp. Inc., East Asia Computer Center Inc. and Microventures Foundation Inc. A recipient of the Asia Talent Management Award in the Asia Business Leaders Award organized by the global business news network CNBC, 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.

Executive Officers

Ayala Group Management Committee Members / Senior Leadership Team

*/**	Fernando Zobel de Ayala	Vice Chairman, President and Chief Executive Officer
**	Jose Rene Gregory D. Almendras	Senior Managing Director, President and CEO of Manila Water Company, Inc. and CEO of AC Infrastructure Holdings Corporation
**	Bernard Vincent O. Dy	Senior Managing Director, President and CEO of Ayala Land, Inc.
**	Jose Teodoro K. Limcaoco	Senior Managing Director, President and CEO of BPI
****	Alberto M. de Larrazabal	Senior Managing Director, Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer, Finance Group Head

Management

**	Arthur R. Tan	Senior Managing Director, President and CEO of Integrated Micro-Electronics, Inc. and AC Industrial Technology Holdings, Inc.
**	Ernest Lawrence L. Cu	President and CEO of Globe Telecom, Inc.
**	Alfredo I. Ayala	Managing Director, Chief Operating Officer of iPeople, inc.
***	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 and Infrastructure Corporation (formerly 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 Resources 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
	Rosario Carmela G. Austria	Assistant Corporate Secretary
	Jaime Augusto Zobel de Ayala	Advisor to the Management Committee

* *Members of the Board of Directors.*

** *Ayala Group Management Committee members.*

*** *Ayala Corporation Management Committee and Ayala Group Management Committee members*

**** *Ayala Corporation Management Committee member*

Jose Rene Gregory D. Almendras, Filipino, 61, concurrently serves as Senior Managing Director of Ayala Corporation (AC), President & CEO of Manila Water Company, Inc. (MWCI) and President & CEO of AC Infrastructure Holdings Corporation (AC Infra). He is also a member of the Ayala Group Management Committee since August 2016. He 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.; AC Energy and Infrastructure Corporation (formerly AC Energy, Inc.) and AC Energy Corporation (formerly 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, He 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. He graduated from Ateneo de Manila University with a degree in Bachelor of Science in Business Management in 1981.

Bernard Vincent O. Dy, Filipino, 57, 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 CEO 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 the Chairman of the Board of Cebu Holdings, Inc.; and a Director of AyalaLand Logistics Holdings Corp., AyalaLand Medical Facilities Leasing, Inc. and MCT Bhd of Malaysia. His other significant positions include serving as Chairman at Ayala Property Management Corporation, Makati Development Corporation, Alveo Land Corporation, Amaia Land Corporation, Bellavita Land Corporation, Altaraza Development 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., Portico Land Corporation, Philippine Integrated Energy Solutions, Inc., Avencosouth Corp., and Nuevocentro, Inc. Mr. Dy also serves as Vice Chairman of Ayala Greenfield Development Corporation

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and Alviera Country Club, Inc. He is also 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 Corporation. Mr. Dy also serves as Director of Avida Land Corporation, 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. Mr. Dy is the President of Hero Foundation Inc. and Bonifacio Art Foundation, Inc. He is also a member of Ayala Foundation, Inc. and Ayala Group Club, Inc. He earned a Bachelor's Degree in Business Administration from the University of Notre Dame in 1985, He received his MBA in 1989 and MA International Relations in 1997, both at the University of Chicago.

Jose Teodoro K. Limcaoco, Filipino, 59, is a Senior Managing Director of Ayala Corporation and is the President and CEO of BPI. He was elected to serve this in BPI role on April 22, 2021. He served as the CFO and Finance Group Head of Ayala Corporation from April 2015 to April 21, 2021. He was the Chief Risk Officer of Ayala Corporation from April 2015 to April 2021 and the Sustainability Officer of Ayala Corporation from April 2016 to April 2021. He is also an independent director of SSI Group, Inc, also a publicly listed company. He is the Chairman of AC Energy International, Inc. (formerly Presage Corporation) and FTL Holdings Corp., BPI Family Savings Bank Inc., BPI Capital Corporation and BPI/MS Insurance Corporation; Vice Chairman of BPI Century Tokyo Lease & Finance Corp. and BPI Century Tokyo Rental Corp. He is the Vice Chairman and President of BPI Foundation, Inc. He is a Trustee of Ayala Group Club, Inc. He is a Director of Globe Fintech Innovations Inc., BPI Philamlife Assurance Corporation and BPI Asset Management & Trust Corp. He is a Director and Treasurer of Just For Kids, Inc. and Olimpia Condo Corporation. 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 a director of various companies within the Ayala Group 2015 to April 2021. He served as the President of the Chamber of Thrift Banks from 2013-2015. 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.

Alberto M. de Larrazabal, Filipino, 65, is a Senior Managing Director, Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer, and Finance Group Head of Ayala Corporation since April 23, 2021. He is also a Director of IMI. He is the Chairman, President and CEO of AC Ventures Holdings Corp., Chairman of Darong Agricultural and Development Corporation; President and CEO, AYC Finance Limited, AC International Finance Limited, Bestfull Holdings Limited, and Purefoods International Limited ("PFIL NA"); Vice Chairman of Lagdigan Land Corporation; President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc.; Director of Ayala Hotels, Inc., AC Energy and Infrastructure Corporation (formerly AC Energy, Inc.), AC Infrastructure Holdings Corporation, Affinity Express Holdings Limited, Ayala Aviation Corporation, Asiacom Philippines, Inc., Ayala Group Legal, Michigan Holdings, Inc., A.C.S.T Business Holdings, Inc., Merlin Solar Technologies, Inc., Pioneer Adhesives, Inc., BF Jade E-Services Philippines, Inc., Cartera Interchange Corporation, AYC Holdings Limited, AG Holdings Limited, Fine State Group Limited, AG Region Pte. Ltd., Ayala International Holdings Limited, Ayala International Pte. Ltd., Strong Group Limited, Total Jade Group Limited, VIP Infrastructure Holdings Pte. Ltd., AI North America, Inc. and Azalea International Ventures Partners Limited ("AIVP NA"). He was Globe's Chief Commercial Officer ("CCO"). As CCO, Mr. de Larrazabal oversaw the integration and execution of Globe's strategies across all commercial units, including marketing, sales and channels, and product development for all segments of business. He joined Globe in June 2006 as Head of the Treasury Division. He became the company's Chief Finance Officer in April 2010. He had over two decades of extensive experience as a senior executive in Finance, Business Development, Treasury Operations, Joint Ventures, Mergers and Acquisitions, as well as Investment Banking and Investor Relations. Prior to joining Globe, he held such positions as Vice President and CFO of Marsman Drysdale Corp., Vice President and Head of the Consumer Sector of JP Morgan, Hong Kong, and Senior Vice President and CFO of San Miguel Corporation. He holds a Bachelor of Science degree in Industrial Management Engineering from De La Salle University.

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Arthur R. Tan, Filipino, 61, 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 CEO of IMI, a publicly listed company, since April 2002 and was re-elected as its President effective January 1, 2020. Concurrently, he is also the Chairman of the Board and Chief Executive Officer of PSI Technologies Inc. and Merlin Solar Technologies (Phils.), Inc. He is also the Vice Chairman of IMI. He is the Group President and CEO of AC Industrial Technology Holdings, Inc.; President & CEO of Speedy-Tech Electronics, Ltd., Director of Surface Technology International, Ltd. and American Motorcycles Inc.; Member of the Board of Advisors of Via Optronics; Chairman of the Advisory Board of MT-CCON Technologies; Chairman and CEO of AC Motors and Skyeeye Analytics, Inc.; and an Independent Board Member of Lyceum of the Phils. University and East Asia Computer Center/FEU Institute of Technology. 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, 60, 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. He is the Chairman of the Adspack Holdings, Inc., Globe Capital Venture Holdings, Inc., Globe Fintech Innovations, Inc., GTowers, Inc. and Techglobal Data Center, Inc.; Director of AF Payments, Inc., Asiacom Philippines, Bayan Telecommunications, Inc., Bridge Mobile Alliance, Globe Capital Venture Holdings, Inc., Innove Communications and Kickstart Ventures, Inc., Prople BPO, Inc., Concetti Globali Inc., and EDC Ventures Corporation. 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. 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 J.L. Kellogg Graduate School of Management in 1984.

Alfredo I. Ayala, Filipino, 60, 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 Livelt Investments Limited, Ayala Corporation's holding company for its business process 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, Inc.; 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 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, 43, 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 a director of several companies, including Ayala Healthcare Holdings, Inc.; Zapfam, Inc.; Healthway Philippines, Inc.; I.E. Medica Inc.; MedEthix Inc.; and the Generika Group of Companies (including Pharm Gen Ventures Corporation, Actimed, Inc., Erikagen, Inc., and Novelis Solutions Inc.). 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 Livelt 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 Bachelor of Science degree in Management Engineering from the Ateneo de Manila University and his Masters in Business Administration with honors from the Wharton School at the University of Pennsylvania.

John Eric T. Francia, Filipino, 49, has been a Managing Director and a member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since January

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2009. He is the President of AC Energy and Infrastructure Corporation, President and CEO of AC Energy Corporation (formerly AC Energy Philippines Inc.), and Chairman, President and CEO 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 established its energy platform from a standing start in 2011, to become one of the largest renewable energy platforms in Southeast Asia, with over 1800 MW of attributable renewables capacity. He is also a member of the Board of Directors of the following companies: Manila Water Company, Inc., a publicly listed company, Purefoods International Limited, Ayala Healthcare Holdings, Inc., 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 various other 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, 59, 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., IMI, AC Energy Corporation (formerly 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 other 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, 58, 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 of Harvard University.

John Philip S. Orbeta, Filipino, 59, 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. He also serves as a Board Director of AC Energy Corporation (formerly AC Energy Philippines, Inc.), AC Industrial Technology Holdings, Inc., Ayala Foundation Inc., Ayala Healthcare Holdings, Inc., Ayala Retirement Fund Holdings, 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 Corp. He previously served as the President and CEO of AC Industrial Technology Holdings Corp. and

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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, 50, is an Executive Director and has served as the Chief Audit Executive of Ayala Corporation since July 2013. She joined the Company in February 2012 as Head of Group 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 and Infrastructure Corporation, AC Infrastructure Holdings Corporation, Ayala Multi-Purpose Cooperative, Entrego Fulfillment Solutions, Inc., and Entrego Express Corporation; and Audit Committee Member of Light Rail Manila Corporation and AF Payments, Inc. She is also a member of the Good Governance Committee of Financial Executives Institute of the Philippines ("FINEX"), and Corporate Governance Scorecard Committee of and a Teaching Fellow for the Institute of Corporate Directors ("ICD"). She was the 2017 - 2019 Audit Committee Chair and 2017 - 2018 Good Governance Committee Vice Chairperson of FINEX, 2016 Finance Committee Chair of FINEX Foundation, 2015-2016 Scorecard Circle Chair of the Institute of Corporate Directors, and 2014 Chair of the Board of Trustees and a member of the Board of Directors from 2009 to 2013 of The Institute of Internal Auditors – Philippines ("IIAP"). Prior to joining Ayala Corporation, she was a Vice President and 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, 50, 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 and AYC Holdings Limited; Director, Treasurer and CFO 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 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, 50, 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 CFO of Pameka Holdings, Inc.; Director of Azalea International Venture Partner Ltd., Darong Agricultural & Development Corporation, Technopark Land, Inc., AC Ventures Holding Corporation (formerly Water Capital Works, Inc.) and Zapfam, Inc.; CFO of Michigan Holdings, Inc. and Ayala Group Legal; and Audit and Risk Committee Member of AC Energy and Infrastructure Corporation (formerly 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

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University of the Philippines in 1991 and attended an Executive Management Program from the University of California Los Angeles from 2004-2005.

Rosario Carmela G. Austria, Filipino, 38, was elected as Assistant Corporate Secretary of Ayala Corporation in April 2021. She is also the Assistant Corporate Secretary of Integrated Micro-Electronics, Inc., Ayala Foundation, Inc., AC Industrial Technology Holdings, Inc., and other companies within the Ayala Group. She is Head of the Corporate Secretarial Services Division, Corporate Governance Group of Ayala Corporation. Previously, she was Corporate Governance Manager in Ayala Group Legal from May 2019 to May 2020. Prior to joining Ayala Group, she worked in the Securities and Exchange Commission from September 2009 to April 2019 where her last post was Assistant Director of the Corporate Governance Division, Corporate Governance and Finance Department. She graduated with a Bachelor of Science degree in Legal Management, minor in International Business, from the Ateneo de Manila University in 2004 and completed her Juris Doctor degree from the same university in 2008. She was admitted to the Philippine Bar in 2009. She obtained a Master of Public Policy in 2013 from the National Graduate Institute of Policy Studies ("GRIPS") in Tokyo, Japan as a recipient of the Japan-IMF Scholarship Program for Asia.

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 Relationship

Jaime Augusto Zobel de Ayala, Chairman, and Fernando Zobel de Ayala, President and Chief Executive Officer, are brothers.

Except for the foregoing, there are no known family relationships between the current members of the Board and key officers.

Involvement in Certain Legal Proceedings

Except as disclosed herein or in the Information Statements of the Company's subsidiaries or affiliates which are themselves public companies or as has been otherwise publicly disclosed, 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 and the preceding years until December 31, 2020 to which the Company or any of its subsidiaries or affiliates 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.

Compensation of Directors and Officers

Directors

Article IV, Section 14 of Ayala's By-Laws provides:

Section 14 - Directors 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 tax of the Corporation during the preceding year. *(As amended on March 12, 2020)*

The Personnel and Compensation 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. No Director shall be involved in deciding his own remuneration during his incumbent term. *(As amended on April 18, 2011; Old Section 20 renumbered as Section 14, as amended on March 12, 2020)*

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On April 21, 2017, the Board, upon the recommendation of its Personnel and Compensation Committee 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. Their compensation, as executive directors is included in the compensation table below.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Jaime Augusto Zobel de Ayala Chairman				
Fernando Zobel de Ayala President and Chief Executive 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 2019	₱334.69M	₱280.07M	₱21.7M
	Actual 2020	₱348.13M	₱270.81M	₱0
	Projected 2021	₱355.89M	₱108.75M	₱0
All other officers** as a group unnamed	Actual 2019	₱827.10M	₱535.42M	₱59.6M
	Actual 2020	₱686.11M	₱436.25M	₱0
	Projected 2021	₱710.25M	₱224.53M	₱0

***Managers and up (including all above-named officers.)*

The total annual compensation includes basic pay and other taxable income (guaranteed bonus and performance-based bonus).

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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.

Employment Contracts and Termination of Employments and Change-In-Control Arrangements

The above-named executive officers are covered by letters of appointment stating their respective job functions, among others.

Warrants and Options Outstanding

Since 1995, the Company has offered its officers options to acquire common shares under its executive stock option plan ("ESOP"). Of the above-named officers, there were options covering 112,207 shares exercised in 2020 by the following officers, to wit:

Name	No. of Aailed Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Jose Teodoro K. Limcaoco		Various	Various	Various
John Philip S. Orbeta		Various	Various	Various
All above-named officers as a Group	112,207	Various	₱227.53*	₱330.00*
All officers ** as a Group	556,307	Various	₱245.71*	₱351.96*

* Average prices.

**Managers and up including the above-named officers

The Company has adjusted the exercise price and market price of the options awarded to the officers due to the stock dividend declared by the Company in May 2004, June 2007 and May 2008 and July 2011 and to the reverse stock split in May 2005.

Management and Certain Security Holders

Security Ownership of Certain Record and Beneficial Owners and Management

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	633,722	(indirect)	Filipino	0.0722%
Preferred B Series 1		20,000	(indirect)		0.0023%
Voting Preferred		543,802	(direct)		0.0620%
Common	Fernando Zobel de Ayala	616,376	(indirect)	Filipino	0.0702%
Voting Preferred		554,983	(direct)		0.0633%
Common	Delfin L. Lazaro	82,554	(direct & indirect)	Filipino	0.0094%
Voting Preferred		258,297	(direct)		0.0294%
Common	Keiichi Matsunaga	1	(direct)	Japanese	0.0000%
Common	Cezar P. Consing	204,380	(direct & indirect)	Filipino	0.0233%
Common	Antonio Jose U. Periquet	1,200	(direct)	Filipino	0.0001%
Common	Rizalina G. Mantaring	57,870	(direct)	Filipino	0.0066%
Voting Preferred		3,604	(indirect)	Filipino	0.0004%
CEO and most highly compensated officers					
Common	Jaime Augusto Zobel de Ayala	633,722	(indirect)	Filipino	0.0722%

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Preferred B Series 1		20,000	(indirect)		0.0023%
Voting Preferred		543,802	(direct)		0.0620%
Common	Fernando Zobel de Ayala	616,376	(indirect)	Filipino	0.0702%
Voting Preferred		554,983	(direct)		0.0633%
Common	Solomon M. Hermosura	178,268	(indirect)	Filipino	0.0203%
Voting Preferred		53,583	(direct)		0.0061%
Common	Jose Teodoro K. Limcaoco	404,889	(direct & indirect)	Filipino	0.0461%
Common	John Philip S. Orbeta	741,723	(direct & indirect)	Filipino	0.0845%
Other executive officers (Ayala group ManCom members/Senior Leadership Team)					
Common	Cezar P. Consing	204,380	(direct & indirect)	Filipino	0.0233%
Common	Bernard Vincent O. Dy	49,439	(indirect)	Filipino	0.0056%
Common	Arthur R. Tan	419,182	(indirect)	Filipino	0.0478%
Common	Jose Rene Gregory D. Almendras	259,106	(direct & indirect)	Filipino	0.0295%
Common	Alfredo I. Ayala	292,586	(direct & indirect)	Filipino	0.0333%
Common	Paolo Maximo F. Borromeo	102,027	(indirect)	Filipino	0.0116%
Common	John Eric T. Francia	121,083	(indirect)	Filipino	0.0138%
Common	Ernest Lawrence L. Cu	227,628	(indirect)	Filipino	0.0259%
Common	Ruel T. Maranan	35,094	(indirect)	Filipino	0.0040%
Common	Estelito C. Biacora	10,657	(indirect)	Filipino	0.0012%
Common	Josephine G. De Asis	38,544	(indirect)	Filipino	0.0044%
Common	Catherine H. Ang	35,345	(indirect)	Filipino	0.0040%
Voting Preferred		5,290	(direct)		0.0006%
Preferred B Series 2		2,000	(direct)		0.0002%
Common	Dodjie D. Lagazo	0		Filipino	0.0000%
Common	Joanne M. Lim	0		Filipino	0.0000%
All Directors and Officers as a group		5,953,233			0.6785%

Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of March 31, 2021:

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. ¹³ 3/F Makati Stock Exchange Building, Ayala Triangle, Ayala Avenue, Makati City	Mermac, Inc. ¹⁴	Filipino	296,625,706	56.7297%
Voting Preferred				172,778,760	
Common	PCD Nominee Corporation (Non-Filipino) ¹⁵ G/F MSE Bldg. Ayala Ave., Makati City	PCD participants acting for themselves or for their customers ¹⁶	Various Non-Filipino	147,549,198	17.8320%

¹³ The Co-Vice Chairmen of Mermac, Inc. ("Mermac"), Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala, are the Chairman and President and Chief Executive Officer of the Company, respectively. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power of Mermac.

¹⁴ The Board of Directors of Mermac has the power to decide how Ayala shares held by Mermac are to be voted.

¹⁵ PCD Nominee Corporation ("PCD") is not related to the Company.

¹⁶ 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 269,982,474 common shares registered in the name of PCD Nominee Corporation, 53,446,621 (6.4595% of the voting stock) are for the account of Deutsche Bank Manila ("DB"). The Company has no record relating to the power to decide how the shares held by PCD are to be voted. The Company did not receive any report from DB or any of their customers stating that they beneficially owns more than 5% of the Company's common shares.

Management

Common	PCD Nominee Corporation (Filipino) ⁴ G/F MSE Bldg. Ayala Ave., Makati City	PCD participants acting for themselves or for their customers ⁵	Filipino	122,505,877	14.8054%
Common	Mitsubishi Corporation ¹⁷	Mitsubishi Corporation ¹⁸	Japanese	37,771,896	6.9271%
Voting Preferred	3-1, Marunouchi 2- Chome, Chiyoda-ku, Tokyo 100-8086			19,545,678	

Security ownership of directors and management as of March 31, 2021

None of the members of Ayala's directors and management owns 2% or more of Ayala's outstanding capital stock.

Voting Trust Holders of 5% or More

Ayala knows of no person holding more than 5% of common shares under a voting trust or similar agreement.

Changes in Control

No change in control in the Company has occurred.

¹⁷ Mitsubishi Corporation ("Mitsubishi") is not related to the Company.

¹⁸ 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.

MATTERS AFFECTING LIQUIDITY AND CAPITAL EXPENDITURE

As regards internal and external sources of liquidity, funding will be sourced from internally generated cash flows, and also from borrowings or available credit facilities from other local and international commercial banks, including an affiliated bank.

There is no material commitment for capital expenditures other than those performed in the ordinary course of trade or business.

There is no significant element of income not arising from continuing operations other those disclosed in the financial statements, if any.

There have not been any seasonal aspects that had a material effect on the financial condition or results of Ayala's operations.

INDEPENDENT AUDITORS AND COUNSEL

Legal Matters

All legal opinion/matters in connection with the offering of the Offer which are subject of this Offer will be passed upon by Romulo Mabanta Buenaventura Sayoc & de los Angeles for the Joint Lead Underwriters and Bookrunners and by Co Ferrer Ang-Co & Gonzales Law Offices for the Company.

Independent Auditors

SyCip, Gorres, Velayo & Co. or SGV & Co., independent auditors and a member firm of Ernst & Young Global Limited audited Ayala's annual consolidated financial statements as at and for the years ended December 31, 2020, 2019, 2018 and 2017 as included in this Prospectus.

There is no arrangement that independent auditors will receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

a. Fees for Audit and Audit-Related Services

Ayala paid or accrued the following fees, including VAT, to its independent auditors in the past two years: (in ₱ million)

Year	Audit	Audit-Related Fees	Tax Services Fees	Non-Audit Fees
2020	₱6.06M	₱5.71M	-	₱2.25M
2019	₱5.77M	₱7.28M	-	₱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 2020. 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.

b. Tax Fees

No tax consultancy services were secured from SGV & Co. for the past two years.

c. Non-Audit Fees

In 2019 and 2020, SGV & Co. billed the Company a fee of ₱0.12M for the validation of stockholders' votes during the annual stockholders' meeting each year. The 2020 Non-Audit Fees also include one-time, non-recurring projects/consulting services.

The Board, upon the recommendation of the Company's Audit Committee approved the re-appointment 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 re-appointment of SGV & Co., and the fixing of its remuneration was approved by the Ayala stockholders at the Annual Stockholders' Meeting held on April 24, 2020. Under Section E, Oversight on External Audit, No. 5.1 of the Ayala Audit Committee Charter, Ayala's Audit Committee, which is composed of two (2) Independent Directors ("ID") and one (1) Non-Executive Director ("NED"), namely, Ms. Rizalina G. Mantaring (Chairman, ID), Mr. Antonio Jose U. Periquet. (Member, ID), and Mr. Keiichi Matsunaga (Member, NED), recommends to the Board the appointment of the independent auditor and the audit fees.

Likewise, Ayala's 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.

Independent Auditors and Counsel

SGV & Co. has no shareholdings in the Company, nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. SGV & Co. will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for the Professional Accountants in the Philippines (which is based on the International Code of Ethics for Professional Accountants developed by the International Federation of Accountants) set by the Board of Accountancy and approved by the Professional Regulation Commission.

d. Changes in, and Disagreements with, Accountants on Accounting and Financial Disclosure

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.

PHILIPPINE TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Securities based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Securities and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Securities under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Securities in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus.

The tax treatment of a holder of Securities may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Bondholder.

PROSPECTIVE PURCHASERS OF THE SECURITIES ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A SECURITY, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.

The following is a general description of certain Philippine tax aspects of the Securities. It is based on the present provisions of the Tax Code, the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Prospectus, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis.

As used in this section, the term "resident foreign individual" refers to an individual whose residence is within the Philippines and who is not a citizen thereof. A "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "domestic corporation" is created or organized under the laws of the Philippines while a "resident foreign corporation" is a foreign corporation engaged in trade or business in the Philippines. A "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

Interest-bearing obligations of Philippine residents are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine citizens, resident foreign individuals, domestic corporations, and resident foreign corporations from the Securities is subject to income tax at the rate of 20%. Generally, interest on bonds or other deposit substitutes received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% withholding tax while that received by non-resident foreign individuals not engaged in trade or business is taxed at the rate of 25%. Interest income derived by non-resident foreign corporations from the bonds or other deposit substitutes is subject to income tax at the rate of 30% and a reduced rate of 25% upon the effectivity of the CREATE Law. The income tax is withheld at source and constitutes a final settlement of Philippine income tax liability with respect to such interest.

The foregoing rates may be subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident Bondholder. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

TAX EXEMPT STATUS

Bondholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income may avail of such exemption or preferential withholding tax rate by submitting the necessary documents. Said Bondholder shall submit the following requirements, in such form and substance and in accordance with the schedule prescribed by the Issuer, to the Registrar or to the Underwriter or selling agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar:

- (i) a copy of the current and valid original tax exemption certificate, ruling or opinion issued by the BIR (dated no earlier than required to be considered valid under applicable tax regulations at the relevant time), addressed to the Bondholder confirming the exemption or preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement, or amendment thereto, and certified by the Corporate Secretary of the Bondholder as being a true copy of the original on file with the Bondholder, which notarized certification indicates that: (i.a) the exemption certificate is a true copy of the original; (i.b) the original is in the possession of the Corporate Secretary of the Bondholder as the duly authorized custodian of the same; and (i.c) the Corporate Secretary of the Bondholder has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting said certification's validity, or a copy of the law of the country of domicile allowing a deemed paid tax credit in an amount to the 15% spared or waived by the Philippines duly authenticated by the Philippine embassy or, for countries that are members to the Apostille Convention, an apostilled copy of the law of the country of domicile which apostilled or authenticated copy shall be valid for one year from the date of issuance;
- (ii) a duly notarized undertaking, substantially in prescribed form by the Issuer, executed by (ii.a) the Corporate Secretary of the Bondholder or any authorized representative of the Bondholder, who has personal knowledge of the exemption based on his official functions, if the Bondholder purchases the bonds or other deposit substitutes for its account, or (ii.b) the Trust Officer, if the Bondholder is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the bonds or other deposit substitutes pursuant to its management of tax-exempt entities (i.e., Employee Retirement Fund, etc.), declaring and warranting that the same Bondholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding of the required tax; and
- (iii) as required under Revenue Memorandum Order No. 14-2021, prior to the payment of the initial interest due, (a) three (3) originals of the submitted BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the Bureau of Internal Revenue, (b) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, (c) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer and (d) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of its authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Issuer that the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, is/are not doing business in the Philippines to support the applicability of a tax treaty relief; and
- (iv) such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief, as required under BIR

Philippine Taxation

Revenue Memorandum Order No. 14-2021, including a copy of the duly submitted Application Form for Treaty Purposes, a valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Issuer and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines provided that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar and Paying Agent.

Moreover, prior to the payment of any subsequent interests due to the Bondholder, the Bondholder shall submit to the Issuer through the Registrar the following requirements in such form and substance and in accordance with the schedule prescribed by the Issuer: (a) three (3) originals of the submitted new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Issuer deems applicable; (b) one (1) original of the valid and existing tax residency certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; and (c) other additional documents as may be required by the Issuer or pursuant to applicable tax regulations, and, if applicable, including any clarification, supplement or amendment thereto.

Transfers taking place in the Register of Bondholders after the Securities are listed in PDEX may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when allowed under, and are in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less: 5%
Maturity period is more than five years: 1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less: 5%
Maturity period is more than five years: 1%

Philippine Taxation

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debentures and certificates of indebtedness issued by Philippine companies, such as bonds, notes and other deposit substitutes, at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided, that for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be proportionate to the ratio of the debt instrument's term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

No documentary stamp tax is imposed on the subsequent sale or disposition of bonds or other deposit substitutes; trading of bonds or other deposit substitutes in a secondary market or through an exchange as long as such subsequent sale, disposition or trading is not made in the Philippines or there is no change in the maturity date or the material terms and conditions of the relevant bonds or other deposit substitutes.

TAXATION ON SALE OR OTHER DISPOSITION OF BONDS OR OTHER DEPOSIT SUBSTITUTES

Income Tax

Ordinary asset – The gain is included in the computation of taxable income, which is subject to the following graduated tax rates for Philippine citizens or resident foreign individuals, or non-resident alien engaged in trade or business in the Philippines effective January 1, 2018 until December 31, 2022:

Not over ₱250,000	0%
Over ₱250,000 but not over ₱400,000	20% of the excess over ₱250,000
Over ₱400,000 but not over ₱800,000	₱30,000 + 25% of the excess over ₱400,000
Over ₱800,000 but not over ₱2,000,000	₱130,000 + 30% of the excess over ₱800,000
Over ₱2,000,000 but not over ₱8,000,000	₱490,000 + 32% of the excess over ₱2,000,000
Over ₱8,000,000	₱2,410,000 + 35% of the excess over ₱8,000,000

and effective January 2, 2023 and onwards:

Not over ₱250,000	0%
Over ₱250,000 but not over ₱400,000	15% of the excess over ₱250,000
Over ₱400,000 but not over ₱800,000	₱22,500 + 20% of the excess over ₱400,000
Over ₱800,000 but not over ₱2,000,000	₱102,500 + 25% of the excess over ₱800,000
Over ₱2,000,000 but not over ₱8,000,000	₱402,500 + 30% of the excess over ₱2,000,000
Over ₱8,000,000	₱2,202,500 + 35% of the excess over ₱8,000,000

Philippine Taxation

For non-resident alien not engaged in trade or business, the gain shall be subject to the 25% final withholding tax.

Gains derived by domestic or resident foreign corporations on the sale or other disposition of the bonds or other deposit substitutes are subject to a 30% income tax and to a reduced rate of 25% upon the effectivity of the CREATE Law. Gross income derived by non-resident foreign corporations on the sale or other disposition of the bonds or other deposit substitutes is subject to a 30% income tax and to a reduced rate of 25% upon the effectivity of the CREATE Law, unless a preferential rate is allowed under a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Any gains realized by non-residents on the sale of the bonds or other deposit substitutes may be exempt from Philippine income tax under an applicable tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Any gains realized from the sale, exchange or retirement of bonds, debentures and other certificate of indebtedness with a maturity of more than five (5) years are not subject to income tax.

Estate and Donor's Tax

The transfer of bonds or other deposit substitutes upon the death of an individual holder to his heirs by way of succession, whether such holder was a citizen of the Philippines or an alien and regardless of residence, is subject to Philippine taxes at a fixed rate of 6% based on the value of the decedent's net estate.

Individual and corporate Bondholders, whether or not citizens or residents of the Philippines, who transfer bonds by way of gift or donation are liable to pay Philippine donors' tax at the fixed rate of 6% based on the total gifts in excess of ₱250,000 exempt gifts made during the calendar year.

Value-Added Tax

Gross receipts derived by dealers in securities from the sale of bonds or other deposit substitutes in the Philippines, equivalent to the gross selling price less the acquisition cost of bonds or other deposit substitutes sold, shall be subject to value-added tax of 12%.

"Dealer in securities" means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who, as a merchant, buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

RECENT DEVELOPMENTS RELEVANT TO BONDHOLDERS CLAIMING TAX TREATY BENEFITS

On March 31, 2021, the BIR issued Revenue Memorandum Order No. 14-2021 ("RMO 14-2021"). RMO 14-2021 was issued to streamline the procedures and documents for the availment of the tax treaty benefits. Said issuance will apply to the income derived by the nonresident Bondholder on the interest payments from the Bonds. To avail of the tax treaty relief benefits, the following guidelines and procedures will be observed:

- The nonresident income recipient should submit to the withholding agent or income payor the submitted BIR Form No. 0901-I (Interest Income) or Application Form for Treaty Purposes, Tax Residency Certificate duly issued by the foreign tax authority, and the relevant provision of the applicable tax treaty on whether to apply a reduced rate of, or exemption from, withholding at source on the income derived by the nonresident income recipient. The documents should be submitted to each withholding agent or income payor prior to the payment of income for the first time. The failure to provide the said documents when requested may lead to the withholding using the regular withholding rates without the tax treaty benefit. rate.
- When the preferential tax rates have been applied by the withholding agent, it shall file with the International Tax Affairs Division ("ITAD") a request for confirmation on the propriety of the withholding tax rates applied by the withholding agent. On the other hand, if the regular

Philippine Taxation

withholding rates have been imposed on the income, the nonresident income recipient shall file a tax treaty relief application ("TTRA") with ITAD. In either case, each request for confirmation and TTRA shall be supported by the documentary requirements set out in the issuance.

- The request for confirmation shall be filed by the withholding agent at any time after the payment of withholding tax but shall in no case be later than the last day of the fourth month following the close of each taxable year. On the other hand, the filing of the TTRA may be filed by the nonresident income recipient at any time after the receipt of the income.

If the BIR determines that the withholding tax rate applied is lower than the rate that should have been applied on an item of income pursuant to the treaty, or that the nonresident income recipient is not entitled to treaty benefits, it will issue a BIR Ruling denying the request for confirmation or TTRA. Consequently, the withholding agent shall pay the deficiency tax plus penalties. On the contrary, if the withholding tax rate applied is proper or higher than the rate that should have been applied, the BIR will issue a certificate confirming the nonresident income recipient's entitlement to the treaty benefits. In this case, the nonresident income recipient may apply for a refund of the excess withholding tax.

The original or certified true copy of the following documents, as may be applicable, shall be submitted to the International Tax Affairs Division of the BIR when claiming the tax treaty relief:

- A. General Requirements
 1. Letter-request
 2. Application Form duly signed by the nonresident Bondholder or its/his/her authorized representative
 3. Tax Residency Certificate for the relevant period, duly issued by the tax authority of the foreign country in which the Bondholder is a resident
 4. Bank documents/certificate of deposit/telegraphic transfer/telex/money transfer evidencing the payment/remittance of income
 5. Withholding tax return with Alphalist of Payees
 6. Proof of payment of withholding tax
 7. Notarized Special Power of Attorney issued by the nonresident Bondholder to its/his/her authorized representative(s), which shall expressly state the authority to sign the Application Form as well as to file the tax treaty relief application or request for confirmation
- B. Additional general requirements for legal persons and arrangements, and individuals:
 1. Authenticated copy of the nonresident legal person or arrangement's Articles/Memorandum of Incorporation/Association, Trust Agreement, or equivalent document confirming its establishment or incorporation, with an English translation thereof if in foreign language
 2. Original copy of the Certificate of Non-Registration of the Bondholder or certified true copy of License to Do Business in the Philippines duly issued by the SEC for legal persons and arrangements, or original copy of the Certificate of Business Registration/Presence duly issued by the Department of Trade and Industry for individuals
- C. Additional general requirements for fiscally transparent entities:
 1. A copy of the law of the foreign country showing that tax is imposed on the owners or beneficiaries of the foreign fiscally transparent entity;
 2. List of owners/beneficiaries of the foreign entity;
 3. Proof of ownership of the foreign entity; and
 4. Tax Residency Certificate issued by the concerned foreign tax authority to the owners or beneficiaries of the fiscally transparent entity.

The BIR may require additional documents during the course of its evaluation as it may deem necessary. Upon the confirmation of the entitlement to the tax treaty benefit or confirmation of the correctness of the withholding tax rates applied, the BIR will issue a certification to that effect. Any adverse ruling may be appealed to the Department of Finance within thirty (30) days from receipt.

If the income of the nonresident Bondholder has been subjected to regular withholding rates, the Bondholder may file a claim for refund with the BIR independently of, or simultaneously with, the TTRA. Nonetheless, all claims for refund shall be filed within the two-year prescriptive period provided under Section 229 of the National Internal Revenue Code, as amended.

ISSUER

Ayala Corporation

32/F to 35/F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1226

ISSUE MANAGER

BPI Capital Corporation

11/F Tower One, Ayala North Exchange
6796 Ayala Avenue corner Salcedo Street
Legaspi Village, Makati City 1229

JOINT LEAD UNDERWRITERS AND BOOKRUNNERS

BDO Capital & Investment Corporation

33rd Floor BDO Towers Valero
8741 Paseo de Roxas, Salcedo Village, Makati City,
1226

BPI Capital Corporation

11/F Tower One, Ayala North Exchange
6796 Ayala Avenue corner Salcedo Street
Legaspi Village, Makati City 1229

China Bank Capital Corporation

28/F BDO Equitable Tower
8751 Paseo de Roxas,
Makati City

First Metro Investment Corporation

45/F GT Tower International
6813 Ayala Ave. cor. H.V. De la Costa St.
Makati City 1227

SB Capital Investment Corporation

18th Floor, Security Bank Centre
6776 Ayala Avenue
Makati City

LEGAL COUNSEL

To the Issuer

Co Ferrer Ang-Co & Gonzales

11/F Atlanta Centre
31 Annapolis St. Greenhills,
San Juan

To the Joint Lead Underwriters and Bookrunners

Romulo Mabanta Buenaventura

Sayoc & de los Angeles

21/F Philamlife Tower, 8767 Paseo de Roxas
Makati City 1226

INDEPENDENT AUDITOR

SyCip Gorres Velayo & Co.

SGV & Co.
6760 Ayala Avenue
1226 Makati City

FINANCIAL INFORMATION

The following pages set forth Ayala Corporation's audited consolidated financial statements as at December 31, 2020, 2019, 2018 and 2017, and for each of the four (4) years in the period ended December 31, 2020.

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

3	4	2	1	8					

COMPANY NAME

A	Y	A	L	A		C	O	R	P	O	R	A	T	I	O	N		A	N	D		S	U	B	S	I	D	I	A
R	I	E	S																										

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

3	2	F	-	3	5	F		T	o	w	e	r		O	n	e		a	n	d		E	x	c	h	a	n	g	e
P	l	a	z	a	,		A	y	a	l	a		T	r	i	a	n	g	l	e	,		A	y	a	l	a		A
v	e	n	u	e	,		M	a	k	a	t	i		C	i	t	y												

Form Type

A	A	C	F	S

Department requiring the report

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's Email Address

acquery@ayala.com.ph

Company's Telephone Number

7908-3000

Mobile Number

No. of Stockholders

6,408

Annual Meeting (Month / Day)

April 23

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Josephine G. De Asis

Email Address

deasis.jg@ayala.com.ph

Telephone Number/s

7908-3000

Mobile Number

CONTACT PERSON'S ADDRESS

32nd-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.



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

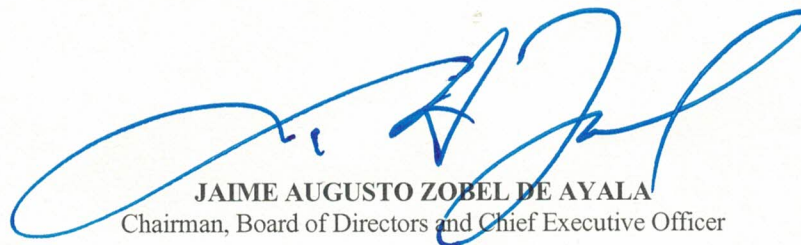
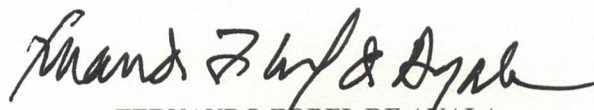
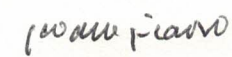
The management of Ayala Corporation (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the years ended December 31, 2020, 2019 and 2018, in accordance with the prescribed financial reporting framework 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.

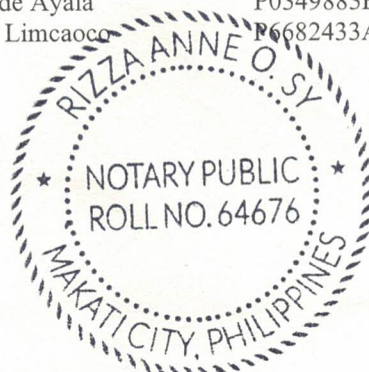

JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors and Chief Executive Officer
FERNANDO ZOBEL DE AYALA
President & Chief Operating Officer
JOSE TEODORO K. LIMCAOCO
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this MAR 09 2021 at Makati City, affiants exhibiting to me their respective Passports, to wit:

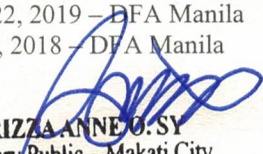
Name	Passport No.
Jaime Augusto Zobel de Ayala	P9640299A
Fernando Zobel de Ayala	P0349883B
Jose Teodoro K. Limcaoco	P6682433A

Date & Place of Issue
November 21, 2018 - DFA Manila
January 22, 2019 - DFA Manila
April 5, 2018 - DFA Manila

Doc. No. 159 ;
Page No. 33 ;
Book No. 1A ;
Series of 2021.



Notarial DST pursuant to
Sec. 188 of the Tax Code
affixed on Notary Public's copy.


RIZZA ANNE O. SY
Notary Public - Makati City
Appt. No. M/187 until December 31, 2020
Extended until June 30, 2021
Roll of Attorneys No. 64676
Lifetime IBP No. 018509 - 01/04/18 - Bulacan
PTR No. 8533982ME - 01/04/2021 - Makati City
MCLE Compliance No. VI - 0009493 - 06/20/2018
4th Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

ACCELERATING
THE FUTURE

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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020 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 Lease Concessions

In line with the rental relief framework implemented by the government to support businesses and the broader economy due to the impact of coronavirus pandemic, Ayala Land, Inc. and its subsidiaries (ALI Group) waived its right to collect rent and other charges as part of various lease concessions it granted to lessees such as lease payment holidays or lease payment reductions. The ALI Group assessed that the lease concessions it granted to lessees do not qualify as lease modifications since the terms and conditions under the corresponding lease contracts have not been modified by the waiver. The ALI Group accounted for the lease concessions in the form of negative variable rent which the ALI Group recorded when the concession is granted regardless of the period to which the concession pertains. The ALI Group's accounting for lease concession under PFRS 16 is significant to our audit because there were numerous lease concessions granted to lessees during the period; the recorded amounts are material to the consolidated financial statements; and accounting for lease concession involves the application of significant judgment in determining whether or not the lease concession is a lease modification.

The disclosures related to the lease concessions are included in Notes 4 and 31 to the consolidated financial statements.

Audit Response

We determined the population of lease contracts and obtained an understanding of the type, extent and periods covered under the various lease concessions granted by the ALI Group to the lessees during the year.

On a sample basis, we tested the population of lease agreements covered by the lease concessions by comparing the lease contracts under the operations report against the lease contract database which include contract number, contract name, contract type and rental rate, among others.

On a test basis, we obtained and inspected the communications of the ALI Group to the lessees and traced the relevant information to the schedule of calculation of the amounts of lease concession. On a sample basis, we test computed the amounts of lease concessions. We obtained management's assessment supporting the conclusion that the lease concessions granted by the ALI Group to the lessees do not qualify as lease modifications. We reviewed the legal opinion issued by the Group's external legal counsel to support the ALI Group's assessment and conclusion about the waiver of its right to collect rent and other charges from lessees. We involved our internal specialist in evaluating the legal basis supporting management assessment. We also reviewed the disclosures relating to the lease concessions.

Accounting for Subsidiaries under PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations

As of December 31, 2020, the Group has investments in subsidiaries that were accounted for under PFRS 5. We considered this as a key audit matter because it requires management to exercise significant judgment and estimates in determining (a) whether these subsidiaries still qualify as discontinued operations even beyond the one-year period from initial classification, and (b) the fair values of these subsidiaries for purposes of determining any impairment loss or reversal thereof.

Management's disclosures on the subsidiaries classified under PFRS 5 are included in Notes 4 and 25 to the consolidated financial statements.



Audit Response

We evaluated management's assessment whether the Group's investments in subsidiaries still qualify as held for sale as of December 31, 2020 based on the criteria set forth by PFRS 5 by considering the events or circumstances which caused the extension of the period required to complete the sale. We inquired with management if there is any change to the executed term sheet and subscription agreement and obtained updates and understanding of the accounting impact for those with amendments. We also assessed the fair value of these subsidiaries with reference to the term sheet and the requirements of PFRS 13, *Fair value measurement*. We test computed the reversal of impairment loss by comparing the carrying amounts of the subsidiaries with their respective fair values. We reviewed whether the amount recognized by the Group as assets held for sale and liabilities held for sale as of December 31, 2020 represent the assets and liabilities, respectively, of the consolidated subsidiaries that have been classified as held for sale as of that date. We reviewed the adequacy of the Group's disclosures on the subsidiaries classified under PFRS 5.

Revenue Recognition from Real Estate and Water Infrastructure Services

The ALI Group's 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 (buyer's equity) in relation to the total contract price. 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, after considering the impact of coronavirus pandemic, if it would still support its current threshold of buyer's equity before commencing revenue recognition.

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, as prepared by the third party surveyor and 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 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 Manila Water Company 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 22 and 25 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 cancellations from buyers with accumulated payments above the collection threshold. We also considered the impact of the coronavirus pandemic to the level of cancellations during the year. We traced the analysis to the supporting documents such as deed of cancellations.
- 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 statement.



Accounting for Business Combinations

The Group had a number of acquisitions in 2020, including step acquisitions, which resulted in the recognition of property, plant and equipment, intangible assets, goodwill, gain on bargain purchase, and remeasurement loss, among others. 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 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 cost/expenses and earnings forecast, and others against historical information and relevant market data. We recomputed the remeasurement loss of previously-held interest. We reviewed the presentation and disclosures related to these business combinations in the consolidated financial statements.

Impairment Testing of Goodwill

The Group has goodwill which is required to be tested for impairment at least annually. The impairment testing is a key audit matter because it requires management to make significant judgment and is based on assumptions which are subject to higher level of estimation uncertainty due to the current economic conditions which have been impacted by the coronavirus pandemic, specifically the estimated future cash flows of the related cash-generating units, revenue growth rate, gross margin, long-term growth rate and the discount rate used in calculating the present value of future cash flows.

Management's disclosures on goodwill are included in Note 14 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, long-term growth rate 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, taking into consideration the impact associated with coronavirus pandemic. We tested the parameters used in the determination of the discount rate against market data. We evaluated how the Group considered the impact of the coronavirus pandemic in the cash flow forecast by examining the movements in the prior year forecast compared with the revised current year forecast, including the basis of the movements in revenue forecast.



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 goodwill.

Accounting for Investments in Associate and Joint Venture

The Group has effective ownership of 48.5% 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, 2020, which are both accounted for using the equity method. BPI Group and Globe Group contributed ₱10.06 billion and ₱5.56 billion or 34% and 19%, respectively, to the Group's consolidated net income in 2020.

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, including the impact of the coronavirus pandemic. Meanwhile, Globe Group's net income is affected by the propriety of the revenue recognized given the significant volume of transactions processed through various systems which heavily relies on automated processes and controls from account activation and recording of usage and billing.

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 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, 2020.

We reviewed their audit working papers and obtained relevant conclusion statements related to their audit procedures. We also considered the impact of coronavirus pandemic and reviewed the procedures performed in relation to the impact of the pandemic.

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, and rationale for the changes in impairment provisioning, including considerations made because of the impact of coronavirus pandemic. We reviewed the procedures performed in testing the processes and controls over loan loss provisioning and reviewed the procedures performed in assessing the adequacy of loan loss provisioning.

In the case of Globe Group, 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. 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 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, 2020.

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 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 period of the concession agreements. It considers different factors such as population growth, supply and consumption, which have been impacted by the coronavirus pandemic, and service coverage, including ongoing and future expansions.

Relevant disclosures related to this matter are provided in Notes 3 and 25 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 management's specialist who estimated the total billable water volume. We also reviewed the report of the management's specialist and gained an understanding of the methodology and the basis of computing the forecasted volumes, taking into consideration the impact associated with coronavirus pandemic. Furthermore, we compared the estimated billable water volume for the year against the actual data generated from the billing system. We recalculated the amortization expense for the year based on the actual billed water volume.

Complex Consolidation Process

Ayala Corporation is the holding company of a multiple number of domestic and foreign legal entities 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.

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 the 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. We also evaluated whether the accounting policies of the Group have been consistently applied.



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, 2020, 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, 2020 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
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. 08-001998-046-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534232, January 4, 2021, Makati City

March 9, 2021



AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 32, 33 and 34)	₱88,653,956	₱93,405,253
Short-term investments (Notes 6, 32, 33 and 34)	822,410	13,387,801
Accounts and notes receivable (Notes 7, 32, 33 and 34)	137,094,187	130,868,711
Contract assets (Note 16)	2,847,272	3,159,675
Inventories (Note 8)	160,871,941	135,064,303
Other current assets (Notes 9 and 33)	71,467,620	62,932,994
	461,757,386	438,818,737
Assets under PFRS 5 (Note 25)	196,136,570	170,466,694
Total Current Assets	657,893,956	609,285,431
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 7, 33 and 34)	57,382,232	55,720,290
Investments in associates and joint ventures (Note 10)	255,007,953	246,731,276
Investment properties (Note 11)	226,456,967	246,732,338
Property, plant and equipment (Note 12)	94,537,980	88,781,755
Right-of-use assets (Note 31)	19,812,516	18,220,572
Service concession assets (Note 13)	1,556,241	1,638,516
Intangible assets (Note 14)	19,624,573	16,625,926
Deferred tax assets - net (Note 26)	14,634,045	14,246,325
Other noncurrent assets (Notes 15, 32, 33 and 34)	58,851,529	47,303,529
Total Noncurrent Assets	747,864,036	736,000,527
Total Assets	₱1,405,757,992	₱1,345,285,958
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt (Notes 19, 32, 33 and 34)	₱32,439,507	₱29,788,643
Accounts payable and accrued expenses (Notes 17, 32, 33 and 34)	177,315,357	195,416,247
Contract liabilities (Note 16)	142,292	252,341
Income tax payable	1,907,146	2,396,901
Current portion of:		
Long-term debt (Notes 19, 32, 33 and 34)	36,514,381	23,878,725
Lease liabilities (Note 31)	1,445,492	1,028,067
Service concession obligation (Notes 13, 33 and 34)	19,880	13,607
Other current liabilities (Notes 18, 33 and 34)	26,454,148	28,394,709
	276,238,203	
Liabilities under PFRS 5 (Note 25)	124,291,482	121,487,625
Total Current Liabilities	400,529,685	402,656,865
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 32, 33 and 34)	372,800,369	351,670,789
Lease liabilities - net of current portion (Note 31)	22,672,228	21,353,099
Service concession obligation - net of current portion (Notes 13, 33 and 34)	66,338	52,412
Deferred tax liabilities - net (Note 26)	9,398,205	8,035,817
Pension liabilities (Note 28)	5,093,406	3,756,048
Other noncurrent liabilities (Notes 20, 33 and 34)	52,775,650	48,447,370
Total Noncurrent Liabilities	462,806,196	433,315,535
Total Liabilities	863,335,881	835,972,400

(Forward)



	December 31	
	2020	2019
Equity		
Equity attributable to owners of the parent company		
Paid-in capital (Note 21)	₱85,613,944	₱84,876,225
Share-based payments (Note 29)	102,619	214,617
Remeasurement losses on defined benefit plans (Note 28)	(6,351,002)	(3,117,329)
Fair value reserve of financial assets at fair value through other comprehensive income (FVOCI) (Note 15)	40,792	66,917
Cumulative translation adjustments	(1,635,505)	3,234,618
Equity reserve (Notes 2 and 24)	30,741,420	25,282,942
Retained earnings (Note 21)	238,072,873	225,454,620
Treasury stock (Note 21)	(6,605,153)	(5,737,896)
Reserves under PFRS 5 (Note 25)	(800,218)	(1,467,449)
	339,179,770	328,807,265
Non-controlling interests (Note 2)	203,242,341	180,506,293
Total Equity	542,422,111	509,313,558
Total Liabilities and Equity	₱1,405,757,992	₱1,345,285,958

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		
	2020	2019	2018
CONTINUING OPERATIONS			
REVENUE			
Sale of goods and rendering of services (Notes 11, 22, 30 and 32)	₱193,622,435	₱264,906,534	₱256,891,287
Share in net profits of associates and joint ventures (Notes 10 and 30)	17,615,774	22,344,352	19,760,662
Interest income from real estate (Note 7)	8,602,775	7,890,972	7,042,078
Dividend income	83,575	122,903	106,803
	219,924,559	295,264,761	283,800,830
COSTS AND EXPENSES			
Costs of sales and services (Notes 8, 23 and 32)	144,181,349	189,983,258	189,706,638
General and administrative expenses (Notes 23, 29 and 32)	32,326,129	32,112,815	25,956,728
	176,507,478	222,096,073	215,663,366
OTHER INCOME (CHARGES) – Net			
Interest income (Notes 23 and 32)	3,183,823	3,352,308	2,293,765
Other income (Notes 23 and 24)	6,125,806	32,288,490	9,198,888
Interest and other financing charges (Notes 19, 23 and 32)	(28,014,198)	(22,409,526)	(17,378,936)
	(18,704,569)	13,231,272	(5,886,283)
INCOME BEFORE INCOME TAX	24,712,512	86,399,960	62,251,181
PROVISION FOR INCOME TAX (Note 26)			
Current	5,887,920	13,717,739	14,297,198
Deferred	(648,740)	266,398	(929,997)
	5,239,180	13,984,137	13,367,201
NET INCOME AFTER TAX	19,473,332	72,415,823	48,883,980
OPERATIONS OF THE SEGMENT UNDER PFRS 5 (Note 25)			
Net income (loss) after tax	9,797,011	(30,433,493)	6,181,134
NET INCOME	₱29,270,343	₱41,982,330	₱55,065,114
Net Income Attributable to:			
Owners of the Parent Company (Note 27)	17,141,714	₱35,279,330	₱31,817,721
Non-controlling interests	12,128,629	6,703,000	23,247,393
	₱29,270,343	₱41,982,330	₱55,065,114
EARNINGS PER SHARE BEFORE OPERATIONS OF SEGMENT UNDER PFRS 5 (Note 27)			
Basic	₱17.04	₱79.37	₱43.74
Diluted	₱16.96	₱79.12	₱43.31
EARNINGS PER SHARE (Note 27)			
Basic	₱25.33	₱54.12	₱48.80
Diluted	₱25.24	₱53.93	₱48.35

See accompanying Notes to Consolidated Financial Statements.



AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2020	2019	2018
NET INCOME	P29,270,343	P41,982,330	P55,065,114
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences arising from translations of foreign investments	(1,932,115)	1,674,874	(560,840)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on defined benefit plans (Note 28)	(958,301)	(985,132)	(252,675)
Changes in fair values of financial assets at FVOCI - net (Note 15)	(424,522)	13,564	(975,439)
Tax effect relating to components of other comprehensive income	206,096	—	(153,017)
	(3,108,842)	703,306	(1,941,971)
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences arising from translations of foreign investments	(2,421,507)	(2,121,987)	392,731
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on defined benefit plans	(2,473,965)	(1,107,730)	307,648
Changes in fair values of financial assets at FVOCI - net (Note 15)	(108,754)	596,195	(56,073)
	(5,004,226)	(2,633,522)	644,306
TOTAL OTHER COMPREHENSIVE LOSS, NET OF TAX	(8,113,068)	(1,930,216)	(1,297,665)
TOTAL COMPREHENSIVE INCOME	P21,157,275	P40,052,114	P53,767,449
Total Comprehensive Income Attributable to:			
Owners of the Parent Company	P9,450,509	P35,111,130	P30,606,268
Non-controlling interests	11,706,766	4,940,984	23,161,181
	P21,157,275	P40,052,114	P53,767,449

See accompanying Notes to Consolidated Financial Statements.



AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(Amounts in Thousands)

	Other Comprehensive Income										Non-controlling Interests (Note 2)	Total Equity
	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)	Reserves under PFRS 5 (Note 25)	Retained Earnings (Note 21)	Treasury Stock (Note 21)	Total		
For the year ended December 31, 2020												
As of January 1, 2020	₱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
Net income	-	-	-	-	-	-	-	17,141,714	-	17,141,714	12,128,629	29,270,343
Share in other comprehensive income (loss) of associates and joint ventures	-	-	(2,473,965)	(108,754)	(2,421,507)	-	-	-	-	(5,004,226)	-	(5,004,226)
Other comprehensive income (loss)	-	-	(752,205)	(99,453)	(1,835,311)	-	-	-	-	(2,686,969)	(421,873)	(3,108,842)
Reclassification of fair value loss on investment in equity securities of FVOCI	-	-	-	181,884	-	-	-	(181,884)	-	-	-	-
Reserves under PFRS 5 (Note 25)	-	-	(7,503)	198	(613,305)	(46,621)	667,231	-	-	-	-	-
Total comprehensive income (loss)	-	-	(3,233,673)	(26,125)	(4,870,123)	(46,621)	667,231	16,959,830	-	9,450,519	11,706,756	21,157,275
Buy-back of common shares	-	-	-	-	-	-	-	-	(867,257)	(867,257)	-	(867,257)
Exercise of ESOP/ESOWN	737,719	(111,998)	-	-	-	-	-	-	-	625,721	-	625,721
Cash dividends	-	-	-	-	-	-	-	(4,341,577)	-	(4,341,577)	(2,252,352)	(6,593,929)
Change in non-controlling interests	-	-	-	-	-	5,505,099	-	-	-	5,505,099	12,182,300	17,687,399
Business combinations during the year	-	-	-	-	-	-	-	-	-	-	1,099,344	1,099,344
At December 31, 2020	₱85,613,944	₱102,619	(₱6,351,002)	₱40,792	(₱1,635,505)	₱30,741,420	(₱800,218)	₱238,072,873	(₱6,605,153)	₱339,179,770	₱203,242,341	₱542,422,111

See accompanying Notes to Consolidated Financial Statements.



EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY

	Other Comprehensive Income										Total	Non-controlling Interests (Note 2)	Total Equity
	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 25)	Retained Earnings (Note 21)	Treasury Stock (Note 21)			
For the year ended December 31, 2019													
As of January 1, 2019	₱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

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY

	Other Comprehensive Income										Total	Non-controlling Interests (Note 2)	Total Equity
	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)				
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	



AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	₱24,712,512	₱86,399,960	₱62,251,181
Income (loss) before income tax from operations of segment under PFRS 5	11,306,203	(31,984,213)	7,933,658
Income before income tax	36,018,715	54,415,747	70,184,839
Adjustments for:			
Interest and other financing charges - net of amount capitalized (Note 23)	30,238,160	24,484,235	19,101,077
Depreciation and amortization (Note 23)	19,871,923	18,641,311	13,561,593
Provision for impairment/losses on (Note 23):			
Investments in associates and joint ventures	2,142,824	839,419	589,109
Receivables	1,307,156	671,601	317,218
Intangible and other assets	749,361	805,233	361,170
Property, plant and equipment	623,884	4,493	71,430
Investment properties	225,208	—	—
Inventory obsolescence	144,326	236,644	125,460
Impairment loss on remeasurement to fair value less costs to sell (Note 25)	1,626,460	33,244,121	—
Reversal of impairment loss on remeasurement to fair value less cost to sell (Note 25)	(6,591,755)	—	—
Cost of share-based payments (Note 29)	326,351	135,946	(9,001)
Pre-PFRS 5 impairment loss (Note 25)	—	5,574,910	—
Write-down of inventories	—	111,216	—
Remeasurement gain on previously held interest	—	(2,020,662)	—
Dividend income	(83,575)	(122,903)	(106,803)
Other investment income (Note 23)	(94,174)	(220,960)	(1,637,720)
Gain on sale of (Note 23):			
Investments	(30,490)	(24,696,571)	(1,514,439)
Other assets	(163,813)	(192,202)	(62,463)
Mark-to-market gain on financial assets at fair value through profit or loss (Note 23)	(887,682)	(528,011)	(996,170)
Mark-to-market gain on derivative contracts	(1,041,055)	—	—
Interest income	(12,289,789)	(11,647,937)	(9,747,726)
Share in net profit of associates and joint ventures (Note 10)	(17,829,613)	(22,997,854)	(20,459,804)
Operating income before changes in operating assets and liabilities	54,262,422	76,737,776	69,777,770
Decrease (increase) in:			
Accounts and notes receivable - trade	716,605	12,256,330	(34,762,405)
Contract assets	(720,503)	(401,809)	(1,332,372)
Inventories	(9,718,103)	(3,419,900)	6,422,504
Service concession assets (Note 13)	(10,883,185)	(12,011,636)	(10,445,119)
Other current assets	(12,423,790)	2,151,818	2,733,232
Increase (decrease) in:			
Accounts payable and accrued expenses	(14,634,459)	(11,394,983)	29,311,790
Contract liabilities	77,944	483,816	(166,729)
Net pension liabilities	1,523,304	977,070	(291,599)
Other current liabilities	1,969,952	(3,992,761)	7,301,018
Cash generated from operations	10,170,187	61,385,721	68,548,090
Interest received	11,743,775	10,914,748	9,694,345
Interest paid	(22,394,778)	(24,764,393)	(18,646,300)
Income tax paid	(8,462,019)	(16,428,414)	(15,649,993)
Net cash provided by (used in) operating activities	(8,942,835)	31,107,662	43,946,142

(Forward)



	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of financial assets at FVOCI	₱14,289	₱65,660	₱23,447
Sale/maturities of financial assets at FVTPL	8,264,138	765,763	71,690
Sale/redemptions of investments in associates and joint ventures (Note 10)	188,876	30,353,702	1,106,080
Disposals of:			
Property, plant and equipment (Note 12)	767,760	766,655	3,581,848
Investment properties (Note 11)	2,313,197	1,632,666	1,754,974
Land and improvements	—	—	1,105,170
Proceeds from (additions to) short-term investments	12,545,346	(7,540,567)	(556,250)
Deductions/transfers (Additions) to:			
Service concession assets (Note 13)	(19,539)	(29,525)	(10,725)
Investments in associates and joint ventures	(5,557,577)	(11,898,192)	(37,633,169)
Property, plant and equipment (Note 12)	(12,318,121)	(20,965,834)	(14,006,370)
Investment properties (Note 11)	(4,585,946)	(29,306,538)	(37,287,003)
Financial assets at FVTPL	(7,988,808)	(1,435,128)	(1,122,194)
Financial assets at FVOCI	—	(3,137,883)	(92,673)
Financial assets at amortized cost	(12,926,369)	—	—
Accounts and notes receivable - non trade	(7,800,234)	(3,580,862)	(11,265,591)
Intangible assets (Note 14)	(110,225)	849,934	(488,357)
Dividends received from associates, joint ventures and investments in equity securities (Note 10)	10,728,197	9,004,700	7,478,203
Acquisitions through business combinations - net of cash acquired (Note 24)	(5,207,797)	(1,143,592)	(6,831,376)
Increase in other noncurrent assets	(6,005,752)	(14,448,144)	(13,819,311)
Net cash used in investing activities	(27,698,565)	(50,047,185)	(107,991,607)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term and long-term debt	343,081,145	289,335,723	188,614,111
Issuance of preferred shares	—	15,000,000	—
Issuance of common shares	74,132	—	8,069,960
Payments of short-term and long-term debt	(296,558,117)	(202,331,063)	(137,303,524)
Acquisition of treasury shares - common	(867,257)	(3,737,896)	—
Dividends paid (Note 21)	(8,830,976)	(11,919,555)	(10,769,921)
Redemption of preferred shares	—	(13,500,000)	—
Payment of principal portion of lease liabilities	(2,925,244)	(2,051,769)	—
Service concession obligation paid (Note 13)	(1,211,983)	(838,286)	(712,941)
Collections of subscriptions receivable	129,193	274,677	303,904
Cost of issuance/reissuance of shares	(1,647)	(120,327)	(13,703)
Interest paid	(7,008,620)	—	—
Increase (decrease) in:			
Other noncurrent liabilities	1,422,200	(749,827)	12,202,242
Non-controlling interests in consolidated subsidiaries (Note 24)	17,687,401	(3,692,798)	20,321
Net cash provided by financing activities	44,990,227	65,668,879	60,410,449
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(1,613,159)	—	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,735,668	46,729,356	(3,635,016)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	107,353,619	60,624,263	64,259,279
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	₱114,089,287*	₱107,353,619*	₱60,624,263

*Includes cash and cash equivalents of assets under PFRS 5.
See accompanying Notes to Consolidated Financial Statements



AYALA CORPORATION AND SUBSIDIARIES

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 47.3% 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, telecommunications, water, infrastructure, industrial technologies and automotives, power, healthcare, business process, outsourcing, air charter, consulting services, investment holdings, agriculture, and technology services.

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	
		2020	2019
AC Energy and Infrastructure Corporation (formerly 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
Ayala Land, Inc. (ALI)	Real Estate and Hotels	44.4	44.5
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)	Healthcare	100.0	100.0
Bestfull Holdings Limited (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 (AC Ventures)	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

Acquisition of interest in Philippine Wind Holdings Corporation (PhilWind)

On February 27, 2020, ACEI Group executed Deeds of Absolute Sale of Shares for the acquisition of 27.07% effective interest of Philippine Investment Alliance for Infrastructure (PINAI) in PhilWind with a total cost of ₱2,573.30 million (see Note 10).

Investment in Ingrid Power Holdings, Inc. (Ingrid)

AC Energy Corporation (formerly AC Energy Philippines, Inc.) (ACEN) and ACE Endeavor signed a Shareholders' Agreement (the Agreement) with Axia Power Holdings Philippines Corporation (APHPC), a subsidiary of Marubeni Corporation, for the development, construction and operation of the 150 megawatt (MW) diesel power plant project in Pililla, Rizal (the Ingrid Project), which is expected to be operational in the first quarter of 2021.

Under the Agreement, Axia will acquire 50% of the shares and 50% of the economic rights in ACEN's subsidiary Ingrid Power Holdings, Inc. (Ingrid), the special purpose vehicle of the Ingrid Project, while the Company will hold 50% shares and 45% of the economic rights, with ACE Endeavor having a 5% share of the economic rights in Ingrid.

On November 24, 2020, Philippine Competition Commission (PCC) issued Decision No. 20-M-017/2020 finding that the transaction "will not likely result in substantial lessening of competition" and resolving "to take no further action with respect to the proposed transaction among Axia, ACEN, ACE Endeavor and Ingrid.

Ingrid and ACE Endeavor were among the AC Energy's subsidiaries acquired by ACEN in exchange for ACEN shares. As of December 31, 2020, ACEN has infused ₱649 million into Ingrid to fund the Ingrid Project.

Share Buy-Back Transactions of ACEN Shares

On March 18, 2020, the BOD of ACEN approved a share buy-back program to support its share prices through the repurchase in the open market of up to ₱1,000.00 million worth of common shares beginning March 24, 2020. As of December 31, 2020, cumulative number of shares repurchased is at 14.5 million for an aggregate repurchase price of ₱28.66 million.

Approval of Assets-for-Shares Swap

On March 17, 2020, ACEI's BOD approved the consolidation of its international business and assets into ACEN via a tax-free exchange, whereby ACEI will transfer 100% of its shares of stock in Presage (a 100%-owned subsidiary holding ACEI's international business and investments), consisting of 1,650,166,347 common shares and 15,035,347,600 redeemable shares, to ACEN in exchange for the issuance to ACEI of additional common shares.

On March 18, 2020, BOD of ACEN approved the consolidation of ACEI's international business and assets into ACEN via a tax-free exchange, on terms to be set by ACEN's Executive Committee.

On April 1, 2020, ACEN's Executive Committee approved the terms of the exchange at 16,685,800,533 additional primary shares of ACEN to ACEI at an issue price of ₱2.97 per share in exchange for property consisting of 100% of ACEI's shares in Presage. As of December 31, 2020 and March 9, 2021, ACEI and ACEN are still in discussions as to the timing and the implementation of the share swap, pending regulatory requirements.



ACEN Stock Rights Offering

On November 11, 2020, the Board of ACEN approved the pricing for, and volume of, the shares that will be issued pursuant to ACEN's stock rights offering (SRO). ACEN will issue 2,267.6 million shares at ₱2.37 per share subject to the requisite approval by the SEC of the details of the offer, including the offer price. ACEI will not participate in the SRO to provide maximum availability of rights shares to the minority stockholders, but that ACEI will have the option to participate in the institutional offer.

On December 11, 2020, ACEN received the confirmation letter from the SEC that the SRO is exempt from registration requirements under Section 8 of the Code pursuant to Section 10.1 thereof. On December 16, 2020, Philippine Stock Exchange (PSE) approved ACEN's application for the listing of additional shares of up to 2,267.6 million common shares covering its SRO to all stockholders as of the proposed record date of January 13, 2021, at ₱2.37 per share. The SRO is comprised of two rounds and a domestic institutional offer.

ACEN was able to fully issue 2,267.6 million shares during the offer period which were subsequently listed with the PSE on January 29, 2021.

Change in Business Structure

On April 2020, the Executive Committee of the Parent Company has approved the consolidation of its energy, water and transport and logistics businesses under a holding company to create a sizeable and agile platform that would boost its foothold within the country's physical infrastructure space. The integrated infrastructure platform will house the Parent Company's stake in listed companies, ACEN and MWC and its unlisted unit AC Infra. ACEI will be used as the vehicle for the consolidated entity, which will be renamed to AC Energy and Infrastructure Corporation.

On November 18, 2020, SEC approved the change of name from AC Energy Inc. to AC Energy and Infrastructure Corporation.

On October 1, 2020, ACEI's BOD approved the consolidation of the water and logistics businesses of the Parent Company under ACEI. Also, on the same date, ACEI's BOD approved the creation of a wholly owned subsidiary corporation that will hold the logistics investments and businesses of the Parent Company to be registered with SEC under the corporate name "AC Logistics".

As of December 31, 2020 and March 9, 2021, the restructuring has not yet commenced.

Step Acquisition of San Carlos Solar Energy, Inc. (SACASOL) and Negros Island Solar Power Inc. (ISLASOL)

In 2020, ACEN acquired additional 96.0% and 98.0% ownership interest in SACASOL and ISLASOL, respectively, bringing ACEN's stake to 100% in both entities after the completion of the acquisition (see Note 24).

Prior to the step acquisition, ACEI Group had 4.0% interest in SACASOL and 2.0% interest in ISLASOL.

ThomasLloyd CTI (TLCTI) Asia's Subscription for ISLASOL Shares

A series of transactions were entered into by ACEN together with TLCTI Asia for the investment and entry in ISLASOL which were assessed to be linked agreements and thus, were accounted for as a single transaction that resulted to recognition of non-controlling interest amounting to ₱1,099.3 million (see Note 24).

ACEN's Subscriptions for Giga Ace 1, Giga Ace 2 and Giga Ace 3 Shares

On February 27, 2020, ACEN subscribed to 75,000 common shares of Giga Ace 1 with par value of ₱1 per share to be issued out of the unissued authorized capital stock (ACS), and 43,069,625 common shares with par value of ₱1 per share and 53,562,609 Class A redeemable preferred shares with par value of ₱40 per share to be issued out of increase in ACS of Giga Ace 1.



On March 4, 2020, ACEN signed a subscription agreement with Giga Ace 1 for the subscription by the ACEN to additional 1,170,000 common shares and 32,500 Class A redeemable preferred shares to be issued out of the increase in ACS of Giga Ace 1.

On March 20, 2020, ACEN signed a subscription agreement with Giga Ace 2 and Giga Ace 3 for the subscription by ACEN to 3,041,096,860 common shares with par value of ₱1 per share and 1,662,654,537 common shares with par value of ₱1 per share, respectively, to be issued out of the increase in ACS of Giga Ace 2 and Giga Ace 3.

GIC Private Limited (GIC)'s Investment in ACEN

On December 30, 2020, ACEN and ACEI signed an Investment Agreement with Arran Investment Pte Ltd. (Arran), an affiliate of GIC, for GIC's acquisition of an effective 17.5% ownership interest in ACEN.

Tariff Adjustment

On May 26, 2020, Energy Regulatory Commission (ERC) approved the adjustments to the Feed-in Tariff (FIT) of renewable energy producers through Resolution No.06, series of 2020. Renewable energy subsidiaries under the FIT system include Guimaras Wind Corporation, Monte Solar Energy, Inc. (MSEI), SACASOL, and NorthWind Power Development Corp. (Northwind) (see Note 22).

Baseload PSA and the mid-merit PSA

On September 16, 2019, ACEN 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 ERC. On May 13, 2020 and June 1, 2020, ACEN received copies of the orders of the ERC granting ACEN's motions for reconsideration for the baseload and mid-merit rates, respectively (see Note 36).

Power Barge (PB) 102 Oil Spill

ACEN's PB 102 located in Barrio Obrero, Iloilo City, accidentally discharged fuel oil in the afternoon of July 3, 2020. Based on initial investigation, there was an explosion in one of the barge's fuel tanks which ruptured the hull of the barge and resulted in the oil spill (see Note 37).

Additional subscription to Bataan Solar Energy, Inc. (BSEI)

On October 15, 2020, ACEN signed a subscription agreement with BSEI for subscription of additional 8.00 million common shares and 71.99 Class A Redeemable Preferred Shares to be issued out of the increase in ACS of BSEI, with subscription price of ₱40.00 million and ₱359.96 million, respectively, to be paid in tranches with ₱99.99 million payable on date of acquisition.

Investment in AA Thermal

During the first half of 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). The transaction resulted in a net gain on sale of US\$448.96 million (₱23.6 billion) included under "Other 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" (see Note 10).

In 2020, ACEI Group invested additional US\$7.31 million (₱373.53 million) in AA Thermal following the capital calls.

Acquisition of ACEN

On June 24, 2019, ACEI completed the acquisition of ACEN, resulting in an ownership interest of 66.34% (see Note 24). On July 10, 2019, South Luzon Thermal Energy Corp (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 ACEN (see Notes 10 and 24). On October 11, 2019, the SEC approved the change in corporate name of PHEN to ACEN.

As of December 31, 2019, the Parent Company infused a total of ₱5.1 billion additional capital for the ACEN acquisition and another ₱5.8 billion via subscription on ACEI's redeemable preferred shares.

The fair value of ACEN shares held by ACEI Group amounted to ₱11,128.3 million and ₱100,579.0 million as of December 31, 2020 and 2019, respectively

Divestment of Investment in GN Power Kauswagan Ltd. Co. (GNPK)

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 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 were reclassified to "Assets under PFRS 5" and "Liabilities under PFRS 5", respectively in 2019 (see Note 25).

The lenders' consent for ACEI's full divestment from the project has been obtained as of December 31, 2020. The ACEI Group continues to take up the full profit and loss of GNPK until December 31, 2020 because the control has not transferred yet to buyers.

Events or circumstances may extend the period to complete the sale beyond one year. ACEI Group assessed that extension of the period required to complete the sale does not preclude the assets and liabilities from being classified as "Assets and liabilities and operations of segment under PFRS 5" since ACEI Group remains committed to its plan to sell its stake in GNPK and has, in fact, already obtained the necessary lenders' consent to be able to implement a full divestment from GNPK.

Investment in AC Infra

Transfer of delivery services operation

Beginning January 1, 2020, the delivery services operation of AC Infra was transferred from Entrego Fulfillment Solutions, Inc. (Entrego) to Entrego Express Corporation (Entex), formerly Bedacon Express Corporation, a 100% subsidiary of Reliant Logistics Holdings Company, Inc. (Reliant) (a subsidiary of AC Infra). Entrego remained as the shared service provider of Entex and as a vehicle for future logistics-related projects.

Credit facilities from BPI and RCBC

In 2020, Entrego obtained and drawn ₱1,000.0 million short-term credit facilities from BPI and RCBC to fund its operations. Entex also obtained and drawn ₱1,000.0 million short-term credit facilities from RCBC (see Note 19).

Reliant's ownership interest in Entex

On February 5, 2020, Entrego entered into an SPA with Reliant for the purchase of Reliant's 100% ownership interest in Entex, equivalent to 500,000 common shares, for a total acquisition cost ₱6.0 million. On September 1, 2020, Entrego and Reliant executed the Deed of Absolute Sale of Shares of Stock for Entrego's purchase of Reliant's 100% ownership in Entex. This acquisition completed the SPA and effective September 1, 2020, Entex is now consolidated by Entrego.

On February 17, 2020, SEC approved the amendments to Entrego's primary and secondary purpose of its articles of incorporation.

Private Express and/or Messengerial Delivery Service (PEMEDES) license

On February 18, 2020, Entrego filed its application to secure PEMEDES license with the Department of Information and Communications Technology (DICT). On February 20, 2020, a petition for grant of provisional authority pending suspension of processing of applications was also filed with DICT. On October 9, 2020, DICT completed its assessments of the applications.



As of December 31, 2020, Postal Regulation Division endorsed Entrego's application to the Committee for the appropriate action.

Civil Aeronautics Board (CAB) Certificate of Authority and Registration

On July 27, 2020, an application for the accreditation with the CAB was filed by Entrego for a license to transport packages via air carriers. The CAB Certificate of Authority and Registration, valid for five (5) years, was issued last September 7, 2020.

Re-naming of Reliant Logistics Holdings Company, Inc.

On September 3, 2020, SEC approved the re-naming of Reliant Logistics Holdings Company, Inc. to Reliant Logistics Company, Inc. and amendment of its primary purpose to "engage in the business of contract logistics and warehousing services as well as to provide software, engineering, support application development, and system integration services relating to logistics management".

NAIA Consortium

On July 10, 2020, the NAIA Consortium received a letter from the Manila International Airport Authority (MIAA) in response to the letter submitted to the National Economic Development Authority (NEDA) notifying NEDA that, given the impact of the pandemic, the NAIA consortium can only move forward with the NAIA Project under the revised conditions that the NAIA Consortium proposed (see Note 36).

Dissolution of Light Rail Manila Holdings 2 and 6

On July 16, 2020, AC Infra BOD approved the dissolution of Light Rail Manila Holdings 2, Inc. and Light Rail Manila Holdings 6, Inc., the holding companies established for the planned LRT 2 and LRT 6 projects, by shortening its corporate life until September 30, 2021.

Increase in authorized capital stock and creation of preferred shares

On July 16, 2020, AC Infra Stockholders and BOD approved the (a) increase in authorized capital stock by ₱1.51 billion to ₱4.51 billion; and (b) creation of ₱1.51 billion preferred shares. The application for increase in authorized capital stock was approved by the SEC on December 29, 2020.

Capital infusions

On various dates in 2020, AC Infra made a capital infusion of ₱525.0 million into LRMHI to fund the Cavite Extension Project in which the project timetable was impacted by the pandemic (see Note 10). AC Infra also 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 and to AF Payments, Inc for the subscription of additional 30.0 million preferred shares at ₱1.00 per share.

On various dates in 2020 and 2019, the Parent Company infused additional capital to AC Infra amounting to ₱1,280.0 million and ₱2,371.0 million, respectively. In 2020, the additional funding was used for the funding for Entrego, E-commerce center and joint venture in providing ATM services, operating and capital expenditures of AC Infra and rehabilitation project of Ninoy Aquino International Airport. In 2019, the additional capital was mainly for LRT 1 project (Cavite extension) and MCX ECC Facility projects.

Investment in ACIFL

Repurchased shares

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 value 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.

Capital infusions

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\$115.4 million to fund its various investments particularly its subscription to redeemable cumulative preferred stock (RCPS) of IMI Singapore.



Investment in AC Industrial

Ayala Corporation Technology Innovation Venture Fund (ACTIVE Fund)

In 2019, AC Industrial participated in ACTIVE Fund with US\$20 million investment commitment. On various dates in 2020, ACI Singapore invested US\$1.4 million (₱65.8 million) in ACTIVE Fund for 11.11% share.

Capital infusions

On various dates in 2020, the Parent Company made a capital infusion to AC Industrials amounting to ₱345.6 million for investments and to support its automotive business unit's operation.

In 2019, the Parent Company infused ₱1.8 billion for AC Industrial's acquisition of the Kia distributorship business.

KP Motor Corporations (KPMC)

On January 17, 2019, 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 ACI's ownership at KPMC at 67.2% voting interest and 65% economic interest.

Relaunch of Kia brand

On January 30, 2019, AC Industrial relaunched the Kia brand in the Philippines wherein three (3) new vehicle models were introduced.

Acquisition of C-CON Group

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).

Investment in IMI

Initial public offering (IPO)

VIA Optronics, a 76%-owned German subsidiary of IMI, raised gross proceeds of \$93.75 million (net \$87.19 million after deducting underwriting discounts and commissions) through an IPO and was listed on the New York Stock Exchange on September 25, 2020. As a result of the IPO, IMI's ownership interest in VIA was diluted from 76.01% to 50.32% (see Note 24).

VTS-Touchsensor Co., Ltd. (VTS)

In 2019, IMI finalized the purchase price allocation of VTS with certain changes to the provisional values based on additional information subsequently obtained (see Note 24).

The fair value of the IMI shares held by the Group amounted to ₱10.5 billion and ₱9.1 billion as of December 31, 2020 and 2019, respectively. The voting rights held by the Group in IMI is 52.1% in 2020 and 2019, respectively.

Investment in AAC

Capital infusion

On various dates in 2020 and 2019, the Parent Company made additional investments in AAC's common shares amounting to ₱286.6 million and ₱158.8 million, respectively, to fund its various expenditures. Outstanding subscriptions as of December 31, 2020 and 2019 amounted to ₱170.0 million and ₱39.4 million, respectively.



Investment in iPeople, Inc. (IPO)

Merger

October 1, 2018, AC Education, Inc. (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).

Investment in ALI

Incorporation of Swift Aerodrome Services, Inc.

Swift Aerodrome Services, Inc. was incorporated on January 20, 2020 and is 100% owned by ALI Capital Corporation (ALICAP), a wholly owned subsidiary of ALI. The company was organized primarily to manage and operate airports owned by ALI.

Incorporation of Altaraza Development Corporation

Altaraza Development Corporation was incorporated on May 27, 2020 and is 51% owned by ALI and 49% owned by Gregorio Araneta, Inc. and Araza Resources, Inc. (Araneta Group). The company was organized primarily to acquire and develop or hold land for investments in Altaraza Estate in Bulacan.

Buyback program

On February 20, 2020, the BOD 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 PSE.

On various dates in February to March 2020, ALI purchased a total of 4,412,000 common shares at an average price of ₱35.67/share for a total consideration of ₱156.4 million, pursuant to its share buyback program.

AREIT, Inc.'s (AREIT) Initial Public Offering

On April 24, 2019, ALI's subsidiary, 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. AREIT filed its application for a REIT offering to the SEC on February 7, 2020. SEC issued its pre-approval of REIT registration on July 10, 2020.

As of December 31, 2020, AREIT is 45.04% owned by ALI, 9.39% owned by AyalaLand Offices, Inc. (ALOI), a wholly-owned entity of ALI, and 45.57% public after the company was listed in the PSE on August 13, 2020. Effectively, ALI's effective ownership is now at 54.43% from 100.00% as a result of public offering (see Note 24).

AREIT's BOD Approvals

On October 22, 2020, the BOD of AREIT, at its regular board meeting, approved the following items:

- The acquisition of the 30th from its Sponsor, ALI for a purchase price of ₱5.1 billion, VAT-inclusive, as endorsed by the Related Party Transactions Review Committee.
- The raising of up to ₱6.4 billion, with a tenor of up to 10 years, through the issuance of retail bonds and/or corporate notes for listing on the Philippine Dealing & Exchange Corp. (PDEX), and/or bilateral term loans, and/or preferred shares for the purpose of financing asset acquisitions.
- The establishment of credit facilities with banks amounting to ₱12.0 billion.
- Amendments, as endorsed by the Corporate Governance and Nomination Committee:
 - a. Article VI of the Articles of Incorporation and Section 2 of Article III of the By-Laws to increase the number of directors from seven (7) to eight (8); and



- b. Various sections of the By-Laws to align with the Revised Corporation Code and with recognized good corporate governance practices, and to digitalize certain governance processes.

Collateralized shares

ALI shares with carrying value of ₱798.0 million and ₱258.9 million as of December 31, 2020 and 2019, respectively, were collateralized to secure the Parent Company's loan facility. The fair value of ALI shares collateralized amounted to ₱42.8 billion and ₱15.4 billion as of December 31, 2020 and 2019, respectively (see Note 19).

Guaranteed exchangeable bonds

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.

Employee Stock Ownership Plan (ESOWN)

The BOD of ALI approved the 2020 and 2019 stock option program pursuant to their ESOWN (see Note 29).

The fair value of ALI shares held by the Parent Company amounted to ₱267.7 billion and ₱297.8 billion as of December 31, 2020 and 2019, respectively. The voting rights held by the Parent Company in ALI is 67.3% as of December 31, 2020 and 2019.

Investment in AC Health

Healthway Philippines, Inc. (Healthway)

On December 6, 2019, AC Health signed a binding agreement to acquire a 100% stake in Healthway from Healthway Asia Ltd. On January 15, 2020, AC Health and Healthway Asia Ltd. completed the transaction, making AC Health the new sole owner of Healthway (see Note 24).

In October 2020, AC Health subscribed to 10,728,500 common shares and 10,848,500 redeemable preferred shares of Healthway both at ₱100 par value per share. On October 13, 2020, AC Health partially paid the subscription amounting to ₱493.10 million. Increase in the authorized capital stock of Healthway is pending approval with SEC.

On October 15, 2020, AC Health entered into a deed of assignment with Healthway to assign the 100% ownership in Zodiac Health Ventures, Inc. (Zodiac). AC Health assigned to Healthway the 6.5 million common shares and 58.5 million preferred shares and ₱12.75 million subscription payable to Zodiac a consideration of ₱0.50 million.

Generika Companies

In 2019, AC Health acquired additional stake in the Generika companies which increased its ownership from 50% to 52.5% (see Notes 10 and 24).

Incorporation of Vigos Ventures Inc. (VVI)

On November 27, 2019, the BOD approved the incorporation of VVI. On January 7, 2020, VVI was approved by the SEC for incorporation with an authorized capital stock of ₱200 million. AC Health subscribed to 0.45 million common shares and 0.05 million common shares at a subscription price of ₱10.0 per share.

Acquisition of Mercado General Hospital, Inc. (MGHI)

On October 2020, AC Health, through its wholly owned subsidiary, Healthway, entered into a share purchase agreement with White Knight Holdings, Inc. (White Knight), a wholly-owned subsidiary of ALI to purchase 39.20% share in the outstanding capital stock of MGHI, the holding company of Qualimed healthcare network of hospitals and clinics (see Notes 24 and 41).



Capital infusions

On various dates in 2020, the Parent Company made capital infusion to AC Health amounting to ₱2,487.4 million mainly to support new businesses as follows: Healthway (₱1,431.4 million), Zapfam, Inc. (₱121.4 million), VVI (₱120.0 million) and Zodiac Prime Ventures Holdings, Inc. (₱275.0 million).

On April 17, 2020, AC Health received ₱165.0 million (part of the total amount infused by the Parent Company) as a payment for the 75 million common shares subscribed at ₱5.00 per share. This was part of the Group's commitment to combat COVID-19. The funding was used in a joint project with Mercado Group that converted the Qualimed Hospital in Sta. Rosa, Laguna to a dedicated COVID-19 hospital and facility.

On various dates in 2020, AC Health received ₱231.0 million as a partial payment for the subscription. On September 11, 2020, the Parent Company subscribed and paid ₱160 million for an additional 80.0 million redeemable preferred shares at ₱2 per share. These payments and additional subscription form part of the total infusion made by the Parent Company.

Capital infusions were also used to fund another COVID19 initiative in forming a network of PCR laboratories in Tropical Disease Foundation, Qualimed Hospitals and the University of Cebu Medical Center.

On various dates in 2019, the Parent Company infused ₱1,666.7 million to AC Health for certain capital expenditure, clinic expansion and new business development. Outstanding subscription as of December 31, 2019 amounted to ₱1,959.7 million.

Incorporation of AHCHI Pharma Ventures, Inc. ("APV")

On October 14, 2019, APV was incorporated with a primary purpose to acquire, hold, sell, exchange, deal and invest in the stocks, bonds or securities. AC Health subscribed to 108,600,000 common shares equivalent to 100% interest in APV for a total subscription price of ₱1.09 billion.

On November 2019, APV signed an 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 (see Note 10).

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.

In 2020, the earn out liability recognized and interest expense incurred amounted to ₱267.6 million and ₱17.3 million, respectively.

Investment in BHL

Investment in Yoma Group

On 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) (see Note 9). 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).

On January 23, 2020, VIP disbursed US\$82.5 million into FMI via a convertible loan facility after securing approval from the Central Bank of Myanmar (see Note 9).



ACTIVE Fund

In 2019, the Ayala Group established the ACTIVE Fund which 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. The ACTIVE Fund will be managed by Kickstart Ventures, Inc. and AC Ventures (thru Total Jade Group Limited, a wholly-owned subsidiary of BHL) 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 Telecom, Inc. (US\$25 million), ACEI (US\$25 million), BPI (US\$20 million), and ACI (US\$20 million).

In 2020, BHL Group, through Total Jade Group, has contributed US\$6.8 million.

Investment in MWC

Amended Articles of Incorporation

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. The BOD also approved the increase in the carved-out shares from 300.0 million to 900.0 million unissued common shares. On July 2, 2020, MWC received formal notice from the SEC approving several key amendments to MWC's Amended Articles of Incorporation (see Note 25).

Trident Water Company Holdings, Inc.'s (Trident Water) acquisition of voting interest in MWC

On February 1, 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, 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, 2020 and 2019 (see Note 25).

On August 25, 2020, MWC received a copy of the resolution from PCC, indicating that the PCC will take no further action with respect to the transaction, Trident Water's acquisition of 51% voting interest in MWC (see Note 25).

In 2020 and 2019, investment in MWC was classified as "Assets and liabilities and operations of segment under PFRS 5" (see Note 25).

The Parent Company assessed that the extension of the period required to complete the sale does not preclude the assets and the liabilities from being classified as held for sale since the Parent Company remains committed to its plan to dispose its shares which will result to loss of control on MWC (see Notes 3, 4 and 25).

On February 15, 2021, MWC and Prime Strategic Holdings, Inc. (previously Prime Metroline Holdings, Inc.) signed an Amendment to the Subscription Agreement which was entered into last February 1, 2020. (see Note 41).

Foreign Currency Differential Adjustment (FCDA)

Effective April 1 and October 1, 2020, an FCDA per cubic meter was implemented on the water rates of East Zone customers (see Note 25).

Healthy Family Business Division

On August 26, 2020, Manila Water Total Solutions Corp. (MWTS) announced the permanent closure of its Healthy Family Business Division effective October 31, 2020 due to its recurring losses and inability to financially sustain business operations (see Note 25).



The fair value of the MWC shares held by the Group amounted to ₱13.9 billion and ₱9.0 billion as of December 31, 2020 and 2019, respectively. The voting rights held by the Group in MWC is 80.2% as of December 31, 2020 and 2019.

Investment in AC Ventures

Capital infusion

On various dates in 2020, the Parent Company made a capital infusion to AC Ventures amounting to ₱155.4 million to fund its additional investment in BF Jade E-Service Philippines, Inc (see Note 10). The Parent Company also paid ₱69.6 million of its outstanding subscription payable in 2020.

Joint venture with BPI Capital Corporation and Telly Systems

On July 12, 2019, the BOD of AC Ventures approved the investment of ₱63.75 million for a 25.5% ownership in Cartera Interchange Corporation, a joint venture with BPI Capital Corporation and Telly Systems, Inc. for the development of an integrated payment exchange platform.

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:

2020	ALI	MWC	IMI*
	(In Thousands, except for %)		
Proportion of equity interests held by non-controlling interest	55.6%	48.6%	47.9%
Voting rights held by non-controlling interest	32.7%	19.8%	47.9%
Accumulated balances of non-controlling interest	₱155,770,958	₱22,726,144	₱13,498,751
Net income (loss) allocated to non-controlling interest	6,357,849	4,659,969	(182,619)
Comprehensive income allocated to material non-controlling interest	5,875,572	4,351,112	119,494
Dividends paid to non-controlling interest	931,185	7,356,681	-
<i>*Translated using the exchange rate at the reporting date (US\$1:₱48.02 on December 29, 2020).</i>			
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
<i>*Translated using the exchange rate at the reporting date (US\$1:₱50.64 on December 27, 2019).</i>			



The summarized financial information of these subsidiaries are provided below which are based on amounts before inter-company eliminations and PFRS 5 adjustments:

2020	ALI	MWC	IMI*
		(In Thousands)	
Statement of financial position			
Current assets	₱324,271,101	₱27,737,694	₱35,257,237
Noncurrent assets	397,223,273	128,788,871	19,185,226
Current liabilities	199,729,307	16,526,952	22,895,265
Noncurrent liabilities	261,585,735	79,836,158	3,652,428
Statement of comprehensive income			
Revenue	95,154,730	21,125,135	54,546,473
Profit attributable to:			
Owners of the parent	8,727,155	4,500,453	(165,922)
Non-controlling interests	2,267,083	45,334	(140,161)
Total comprehensive income attributable to:			
Owners of the parent	7,872,357	4,069,682	1,149,053
Non-controlling interests	1,977,371	93,930	(28,177)
Statement of cash flows			
Operating activities	(12,507,497)	(609,983)	3,740,816
Investing activities	(3,215,397)	(1,192,548)	(627,011)
Financing activities	12,673,776	13,571,546	1,455,441
Net increase (decrease) in cash and cash equivalents	(₱3,049,118)	₱11,769,015	₱4,569,246

*Translated using the exchange rate at the reporting date (US\$1:₱48.02 on December 29, 2020).

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

2018	ALI	MWC	IMI*
		(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).



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 amounts are rounded to the nearest pesos 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, to defer the implementation of the following accounting pronouncements until December 31, 2020. These accounting pronouncements address the issues of PFRS 15, *Revenue from Contracts with Customers affecting the real estate industry*.

Deferral of the following provisions of Philippine Interpretations Committee (PIC) Q&A 2018-12, PFRS 15 Implementation Issues Affecting the Real Estate Industry

- a. Treatment of land in the determination of the percentage-of-completion (POC)
- b. Assessing if the transaction price includes a significant financing component (as amended by PIC Q&A 2020-04)
- c. Treatment of uninstalled materials in the determination of the POC (as amended by PIC Q&A 2020-02); and
- d. Accounting for Common Usage Service Area (CUSA) Charges

In December 2020, the SEC issued MC No. 34-2020, allowing the further deferral of the adoption of provisions (a) and (b) above of PIC Q&A 2018-12 and the IFRIC Agenda Decision on Borrowing Cost, for another other (three) 3 years or until December 31, 2023.

The details and the impact of the adoption of the above financial reporting reliefs are discussed in Note 3.

PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards (PAS) 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, 2020 and 2019 and for each of the three years in the period ended December 31, 2020.

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, 2020 and 2019, the call options are accounted for in accordance with PFRS 9, *Financial Instruments*, as a derivative asset carried at FVTPL.

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.

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, 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, the adoption of these new pronouncements did not have significant impact on the consolidated financial statements of the Group.

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

The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Group enter into any business combinations.

The Group applied the amendments in accounting for business combinations for the period ended December 31, 2020 (see Note 24). These amendments will also apply to future business combinations of the Group.

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

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

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

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

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- *Conceptual Framework for Financial Reporting issued on March 29, 2018*

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop



consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

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

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

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

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

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

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The Group adopted the amendments beginning January 1, 2020.

- Adoption of PIC Q&A 2020-03, Q&A No. 2018-12-D: STEP 3- *On the accounting of the difference when the percentage of completion is ahead of the buyer's payment*

PIC Q&A 2020-03 was issued by the PIC on September 30, 2020. The latter aims to provide an additional option to the preparers of financial statements to present as receivables, the difference between the POC and the buyer's payment, with the POC being ahead. This PIC Q&A is consistent with the PIC guidance issued to the real estate industry in September 2019.

The adoption of this PIC Q&A did not impact the consolidated financial statements of the Group since it has previously adopted the additional guidance issued by the PIC in September 2019.

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, 2021

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

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

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships



- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Group shall also disclose information about:

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

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

Effective beginning on or after January 1, 2022

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

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately. At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

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

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

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

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

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

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

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

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



- *Annual Improvements to PFRSs 2018-2020 Cycle*

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2023

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

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

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



The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- **PFRS 17, *Insurance Contracts***

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

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

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

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

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 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.

- **Deferral of Certain Provisions of PIC Q&A 2018-12, PFRS 15 Implementation Issues Affecting the Real Estate Industry (as amended by PIC Q&As 2020-02 and 2020-04)**

On February 14, 2018, the PIC issued PIC Q&A 2018-12 which provides guidance on some PFRS 15 implementation issues affecting the real estate industry. On October 25, 2018 and February 08, 2019, the Philippine Securities and Exchange Commission (SEC) issued SEC MC No. 14-2018 and SEC MC No. 3-2019, respectively, providing relief to the real estate industry by deferring the application of certain provisions of this PIC Q&A for a period of three years until



December 31, 2020. On December 15, 2020, the Philippine SEC issued SEC MC No. 34-2020 which further extended the deferral of certain provisions of this PIC Q&A until December 31, 2023. A summary of the PIC Q&A provisions covered by the SEC deferral and the related deferral period follows:

	Deferral Period
a. Assessing if the transaction price includes a significant financing component as discussed in PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04)	Until December 31, 2023
b. Treatment of land in the determination of the POC discussed in PIC Q&A 2018-12-E	Until December 31, 2023
c. Treatment of uninstalled materials in the determination of the POC discussed in PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02)	Until December 31, 2020
d. Accounting for CUSA Charges discussed in PIC Q&A No. 2018-12-H	Until December 31, 2020

The SEC Memorandum Circulars also provided the mandatory disclosure requirements should an entity decide to avail of any relief. Disclosures should include:

- The accounting policies applied.
- Discussion of the deferral of the subject implementation issues in the PIC Q&A.
- Qualitative discussion of the impact on the financial statements had the concerned application guidelines in the PIC Q&A been adopted.
- Should any of the deferral options result into a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular), such accounting change will have to be accounted for under PAS 8, i.e., retrospectively, together with the corresponding required quantitative disclosures.

In November 2020, the PIC issued the following Q&As which provide additional guidance on the real estate industry issues covered by the above SEC deferrals:

- PIC Q&A 2020-04, which provides additional guidance on determining whether the transaction price includes a significant financing component
- PIC Q&A 2020-02, which provides additional guidance on determining which uninstalled materials should not be included in calculating the POC

After the deferral period, real estate companies would have to adopt PIC Q&A No. 2018-12 and any subsequent amendments thereto retrospectively or as the SEC will later prescribe.

ALI Group availed of the SEC reliefs to defer the above specific provisions of PIC Q&A No. 2018-12. Had these provisions been adopted, ALI Group assessed that the impact would have been as follows:

- The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments provided for in the contract to sell might constitute a significant financing component. In case of the presence of significant financing component, the guidance should have been applied retrospectively and would have resulted in restatement of prior year financial statements. Adoption of this guidance would have impacted interest income, interest expense, revenue from real estate sales, installment contracts receivable, provision for deferred income tax, deferred tax asset or liability for all years presented, and the opening balance of retained earnings. ALI Group has yet to assess if the mismatch constitutes a significant financing component for its contracts to sell.
- The exclusion of land and uninstalled materials in the determination of POC would have reduced the percentage of completion of real estate projects. Adoption of this guidance would have reduced revenue from real estate sales, cost of sales and installment contracts receivable; increased real estate inventories and would have impacted deferred tax asset or liability and provision for deferred income tax for all years presented, and the opening balance of retained earnings.



- c. Had the ALI Group accounted for the revenue from air-conditioning services, CUSA and handling services as principal, this would have resulted in the gross presentation of the related revenue, costs and expenses. Currently, the related revenue is presented net of costs and expenses. There is no impact on opening retained earnings, income and expense and the related balance sheet accounts.

The above would have impacted the cash flows from operations and cash flows from financing activities for all years presented.

- Deferral of PIC Q&A 2018-14, Accounting for Cancellation of Real Estate Sales (as amended by PIC Q&A 2020-05)

On June 27, 2018, PIC Q&A 2018-14 was issued providing guidance on accounting for cancellation of real estate sales. Under SEC MC No. 3-2019, the adoption of PIC Q&A No. 2018-14 was deferred until December 31, 2020. After the deferral period, real estate companies will adopt PIC Q&A No. 2018-14 and any subsequent amendments thereto retrospectively or as the SEC will later prescribe.

On November 11, 2020, PIC Q&A 2020-05 was issued which supersedes PIC Q&A 2018-14. This PIC Q&A adds a new approach where the cancellation is accounted for as a modification of the contract (i.e., from non-cancellable to being cancellable). Under this approach, revenues and related costs previously recognized shall be reversed in the period of cancellation and the inventory shall be reinstated at cost. PIC Q&A 2020-05 will have to be applied prospectively from approval date of the Financial Reporting Standards Council which was November 11, 2020.

ALI Group availed of the SEC relief to defer of adoption of this PIC Q&A until December 31, 2020. Currently, the Group records the repossessed inventory at cost. The Group has opted to implement approach 3 in its accounting for sales cancellation.

As prescribed by SEC MC No. 34-2020, for financial reporting periods beginning on or after January 1, 2021, the availment of the above deferral will impact the Group's financial reporting during the period of deferral as follows:

- a. The financial statements are not considered to be in accordance with PFRS and should specify in the "*Basis of Preparation of the Financial Statements*" section of the financial statements that the accounting framework is:

PFRS, as modified by the application of the following financial reporting reliefs issued and approved by the Securities and Exchange Commission in response to the COVID-19 pandemic:

- 1) Treatment of land in the determination of the percentage-of-completion
- 2) Assessing if the transaction price includes a significant financing component (as amended by PIC Q&A 2020-04); and
- 3) Treatment of uninstalled materials in the determination of the POC (as amended by PIC Q&A 2020-02)

- b. The Auditor's report will:

- i. reflect in the Opinion paragraph that the financial statements are prepared in accordance with the compliance framework described in the notes to the financial statements; and
- ii. include an Emphasis of Matter paragraph to draw attention to the basis of accounting that has been used in the preparation of the financial statements.

Upon full adoption of the above deferred guidance, the accounting policies will have to be applied using full retrospective approach following the guidance under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.



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

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 are classified as liability or equity in accordance with the substance of the contractual arrangement. 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.

Initial recognition and measurement



Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVTPL.

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 FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

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 FVOCI (debt instruments)

The Group measures debt instruments at FVOCI 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 FVOCI, 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.

This category includes investment in bonds classified as financial assets at fair value through OCI.

Financial assets designated at FVOCI (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's financial assets at FVOCI includes investments in quoted and unquoted equity instruments.

Financial assets at FVTPL

Financial assets at FVTPL 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.

Modification of financial assets

The Group derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

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

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 (EIR). 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-month 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 FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

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 FVTPL 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 FVTPL.

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 EIR 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).

Exchange or modification of financial liabilities

The Group considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the



present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

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 a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

When the exchange or modification of the existing financial liability is not considered as substantial, the Group recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial instrument and are amortized over the remaining term of the modified financial instrument.

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 EIR 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.

Concession Receivable

The Group accounts for its concession arrangement with the DOTr 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, the Group is awarded the right to build and operate an integrated transport terminal for Metro Manila and its adjacent provinces. The legal title to these assets shall be transferred to the government at the end of the concession period.

The "Concession Financial Receivable" pertains to the fair value of the Annual Grantor Payment related to the operating and maintenance services and recovery of construction costs of the terminal facility. These are amortized using the effective interest rate over the life of the related concession.

In addition, the Group recognizes and measures construction revenues and costs in accordance with 'percentage of completion method'. Contract revenue and costs from construction works are recognized as "Construction Revenue" and "Construction Costs" in profit or loss in the period in which the work is performed.

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.

Distinction of inventories and investment properties

If it is in the Group's ordinary course of business (supported by its strategy) to hold property for short-term sale rather than for long-term capital appreciation or rental income, the entire property (including the leased units) are accounted for and presented as inventory. This will continue to be the case as long as it remains the intention to sell the property in the short term. Rent received are included in other income as it does not represent a reduction in the cost of inventory.

Properties intended for sale in the ordinary course of business, no matter whether leased out or not, are outside the scope of PAS 40. However, if a property is not intended for sale, PAS 40 requires the property to be transferred from inventory to investment property when there is a change in use. The change can be evidenced by the commencement of an operating lease to another party.

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.

Extension of the period required to complete a sale

An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). An exception to the one-year requirement shall apply in the following situations which such events or circumstances arise:

- (a) at the date an entity commits itself a plan to sell a non-current asset (disposal group) it reasonably expects that others (not buyer) will impose conditions on the transfer of the asset (or disposal group) that will extend the period required to complete the sale, and:
 - (i) actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained, and
 - (ii) a firm purchase commitment is highly probable within one year.
- (b) an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a non-current asset (or disposal group) previously classified as held for sale that will extend the period required to complete the sale, and:
 - (i) Timely actions necessary to respond to the conditions have been taken, and
 - (ii) a favorable resolution of the delaying factors is expected.
- (c) During the initial one-year period, circumstances arise that were previously considered unlikely and, as a result, a non-current asset (or disposal group) previously classified as held for sale is not sold by the end of that period, and:
 - (i) during the initial one-year period the entity took action necessary to respond to the change in circumstances,
 - (ii) the non-current asset (or disposal group) is being actively marketed at a price that is reasonable, given the change in circumstances, and
 - (iii) the criteria to classify non-current assets and disposal groups as held for sale are met



Reversal of impairment loss of a Disposal Group

Any subsequent increase in fair value less costs to sell of an asset up to the cumulative impairment loss previously recognized either in accordance with PFRS 5 or in accordance with PAS 36 should be recognized as a gain. In the case of a disposal group, any subsequent increase in fair value less costs to sell should be recognized:

- a) to the extent that it has not been recognized under another standard in relation to those assets outside the scope of PFRS 5's measurement requirements; but
- b) not in excess of the cumulative amount of losses previously recognized under PFRS 5 or before that under PAS 36 in respect of the non-current assets in the group which are within the scope of the measurement rules of PFRS 5.

Any impairment loss (or any subsequent gain) recognized for a disposal group should be allocated to the non-current assets in the group that are within the scope of the measurement requirements of PFRS 5. The order of allocation should be:

- first, to reduce the carrying amount of any goodwill in the group; and
- then, to the other non-current assets of the group pro rata on the basis of the carrying amount of each asset in the group.

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 or 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 which comprised of buildings, ranges from 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 of December 31, 2020 and 2019. 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 and income approach by reference to the value of income, cash flow or cost saving generated by the asset.

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), Calasiao Water District (CWD) and Bulacan Water District (BuWD); JVAs with Pagsanjan Water District (PAGWAD), Tanauan Water District (TnWD), Lambunao Water District (LWD), and Calbayog City Water District (CCWD); and SMA with CIWD 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.

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 are as follows:

Leasehold rights	20 to 23 years
Customer relationships	5 years
Unpatented technology/intellectual properties	5 years
Developed software	3 years
Licenses	3 years
Trademarks	14 years
FIT contract	20 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.

Leases effective January 1, 2019

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 follows:

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.



Lease concessions

The Group determines whether the rent concessions granted has changed the scope of the lease, or the consideration thereof, that was not part of the original terms and conditions of the lease. Where the Group has evaluated that the rent concessions do not qualify as a lease modification, the Group accounts for the lease concessions in the form of negative variable rent which the Group records when the concession is granted, regardless of the period to which the concession pertains.

For the year ended December 31, 2018, leases are accounted for as follows:

Leases prior to adoption of PFRS 16

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.

Combinations of Entities Under Common Control

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 and intangible assets with indefinite life, 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 APIC. 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 APIC 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

The Group accounted for its revenue under PFRS 15, *Revenue from Contracts with Customers*, as follows:

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. Under the SEC Memorandum Circular No. 34, the relief has been extended until December 31, 2023.

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.

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.

Marketing fees, management fees from administration and property management are recognized when services are rendered.



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 (Non-revenue Water Reduction Service Agreement) 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 and supervision fees*
Prior to January 1, 2020, revenue from supervision fees of MWPVI, Aqua Centro, EcoWater, and Laguna Water is accounted for as 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 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.

With the new information gathered from operating greenfield projects and changes in circumstances, the allocation of the transaction price between connection fees and future water services was reassessed. As a result, the supervision fees are allocated between connection fees and future water services (as consideration for water affordability or lower water tariff) based on the relative stand-alone selling price method for contracts and projects initiated starting January 1, 2020. The stand-alone selling price of connection fee is estimated based on adjusted market assessment approach while the stand-alone selling price allocated to future water services is estimated considering actual and projected water tariffs. The change in estimate is accounted prospectively and supervision fees pertaining to existing projects as of December 31, 2019 will continue to be accounted for entirely as connection fee.

- *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) 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 goods 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 them, 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, 2020 and 2019.

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 Wholesale Electricity Spot Market (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 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.



AC Industrials' Revenue from Contracts with Customers

AC Industrials primarily derives its revenue from sales of vehicles, parts and accessories and services. Revenue from contract 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 it expects to be entitled in exchange for those goods or services. AC Industrials assesses its revenue arrangements against specific criteria in order to determine whether it is acting as principal or as an agent.

Revenue from sale of vehicles, parts and accessories

Revenue from sale of vehicles, parts and accessories is recognized at the point in time when the control of the asset is transferred to the customer. Payment terms on sales of vehicles ranges from 30 to 90 days. Revenue from sale of vehicles also includes revenue from the registration services provided. Revenue is measured at the fair value of the considerations received or receivable, net of sales returns and discounts.

AC Industrials considers whether there are other promises in the contract that are separate performance obligation to which a portion of the transaction price needs to be allocated. In determining the transaction price of multiple performance obligation identified in one contract, allocation is based on relative stand-alone selling price of each of the promised goods or services.

A contract liability is the obligation to transfer goods or services to a customer for which the AC Industrials has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the transfer of goods or services to a 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 AC Industrials performs under the contract.

AC Industrials considers "Customers' deposits" account presented under the liabilities section of the statement of financial position as contract liabilities.

Revenue from sales of services

Revenue from services and others include vehicle repairs, rust proofing, incentives from insurance and financing and management fee. Revenue from sales of services are recognized overtime and payment is generally due upon completion of the units and acceptance of the customers.

Contract Balances

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

ALI 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, ALI Group determines whether there is an indication that cost to obtain a contract may be impaired. If such indication exists, ALI Group makes an estimate by comparing the carrying amount of the assets to the remaining amount of consideration that ALI Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, ALI 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

IMI Group pays sales commission to its employees for each contract that they obtain for bundled sales of equipment and installation services. IMI Group has elected to apply the optional practical expedient for costs to obtain a contract which allows IMI Group to immediately expense sales commissions (included under employee benefits and part of cost of sales) because the amortisation period of the asset that IMI 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.

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 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.



Government Grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is initially recognized as a liability in the consolidated balance sheet and recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to the acquisition or construction of a fixed asset, it is initially recognized as a liability in the consolidated balance sheet and recognized as income in equal amounts over the period of depreciation of the related asset.

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 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 29 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 29.

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, CDC, OWD, CWD, PAGWAD, TnWD, BuWD, LWD and CCWD, 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 38).

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 ALI Group continues with the objective of collecting contractual cash flows until maturity.

Assessment on whether lease concessions granted constitute a lease modification

In view of the COVID-19 pandemic in 2020, ALI Group granted lease concessions to its lessees in the form of discounts on or waivers of the rents and charges due under their respective lease contracts.

ALI Group applies judgment when assessing whether the rent concessions granted is considered a lease modification under PFRS 16.

In making this judgment, ALI Group determines whether the rent concessions granted has changed the scope of the lease, or the consideration thereof, that was not part of the original terms and conditions of the lease. ALI Group believes that the rent concession granted is essentially a waiver of ALI Group's right to collect the full rent and other charges due from the lessees under the lease contracts. The waiver is not deemed to have changed the original terms and conditions under the lease agreement and therefore, is not a lease modification under PFRS 16.

The rent concessions granted by ALI Group for the year ended December 31, 2020 amounted to ₱6.15 billion.

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.

MWC Group

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 connection fees, 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 unlikelihood 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.g. Bayanihan Acts I and II considerations)
- 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

ALI Group considers that it controls certain entities even though it owns 50% or less than majority of the voting rights. Control is achieved when exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect that return through its power over the investee.

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. 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 2020 and 2019. Research expenditure recognized as expense amounted to \$4.94 million (₱237.2 million), \$0.85 million (₱44.0 million), and \$2.37 million (₱124.9 million) in 2020, 2019 and 2018, 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, CWD and BuWD; JVAs with PAGWAD, TnWD, LnWD, and CCWD; and SMA with CIWD 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 bulk water sale and purchase agreements with MWCD, TWD, and CIWD 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 MCWD, TWD, and CCWD.

The accounting policy on the Group's SCA under the Intangible Asset and Financial model is discussed in Note 3.

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.

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).

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 37).



Classification of assets (liabilities) held for sale

In 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.

ACEI Group continues to take up full profit and loss of GNPK until December 31, 2020 because control has not yet transferred.

Events or circumstances may extend the period to complete the sale beyond one year. ACEI Group assessed that extension of the period required to complete the sale does not preclude the assets and liabilities from being classified as held for sale since ACEI Group remains committed to its plan to sell its stake in GNPK and has, in fact, already obtained the necessary lenders' consent to be able to implement a full divestment from GNPK.

Depreciation of GNPK Property, Plant, and Equipment

Depreciation of GNPK property, plant, and equipment begins when it is available in the location and condition for them to be capable of operating in the manner intended by management based on the contract with the contractors. As of December 31, 2020, GNPK is still in its testing and commissioning stage and the property, plant, and equipment is not yet in the condition intended by management, thus no depreciation was recognized in 2020.

Recognition of deferred tax liabilities on taxable temporary differences arising from investments in foreign subsidiaries, associates and joint ventures

The Group did not recognize deferred tax liabilities on the taxable temporary differences arising from undistributed earnings, cumulative translation adjustment and OCI accounts of its foreign subsidiaries, associates and joint ventures since management believes that the timing of the reversal of these taxable temporary differences can be controlled by the Group and management does not expect reversal of these taxable temporary differences in the foreseeable future.

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.

The Parent Company continues to classify MWC as a disposal group held for sale since it remains committed to its plan to dispose its shares which will result to loss of control on MWC. The extension of the period required to complete the sale does not preclude the assets and the liabilities from being classified as held for sale (see Notes 3 and 25).



The Parent Company recognizes an impairment loss for any initial or subsequent write-down of the disposal group to fair value less costs to sell, to the extent that it has not been recognized. The Parent Company recognizes a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized. In 2019, 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. In addition to the remeasurement loss taken up in December 2019, an amount of ₱1,626.5 million remeasurement loss was recognized in June 2020. On December 29, 2020, the fair market value of MWC shares based on stock price increased to ₱15.98 per share which resulted to remeasurement loss reversal amounting to ₱6,591.8 million (see Notes 3 and 25).

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 quantity 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 Circular No. 14-2018 as of 2018 for the implementation issues of PFRS 15 affecting the real estate industry.

Following the pattern of real estate revenue recognition, the cost to obtain contract (e.g. commission), is determined using the percentage of completion. In view of continuing community quarantine and restricted mobility, the progress of ALI Group's performance obligation is adversely affected which resulted to lower percentage-of-completion in 2020.

As of December 31, 2020, revenue from real estate amounted to ₱65.9 billion, and ₱133.73 billion and ₱134.47 billion, respectively (see Note 22) .

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, 2020, 2019 and 2018, MWC Group's revenue from and cost of rehabilitation works amounted to ₱10,976.2 million, and ₱10,852.9 million and ₱9,662.0 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, MWC Group makes an estimate of such period over which MWC 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, MWC Group has determined that the period of revenue recognition is the term of the customer contract. For connection fees revenue, MWC Group has estimated that the customer receives control over the remaining concession period or remaining customer contract term.

As of December 31, 2020, 2019 and 2018, MWC Group's revenue from connection fees amounted to ₱149.7 million, and ₱161.6 million and ₱268.3 million, respectively.

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 owners of 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 34.

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 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.



ALI Group has considered impact of COVID-19 pandemic and revised its assumptions in determining the macroeconomic variables and loss rates in the computation of ECL. The changes in the gross carrying amount of receivables from sale of real estate during the year and impact of COVID-19 pandemic did not materially affect the allowance for ECLs.

The information about the ECLs on ALI Group's trade receivables is disclosed in Note 7.

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.

In compliance with the mandate of MWSS and in line with the Bayanihan to Heal as One Act, MWC suspended disconnection activities; extended payment terms for specific billing periods covered by the enhanced community quarantine (ECQ) or modified ECQ (MECQ) during the year; and provided installment payment schemes to customers, as necessary, without incurring interests, penalties and other charges. These factors were incorporated in MWC Group's determination of historical observed default rates.

For ACEI Group, qualitative criterion is in place such as forbearance offered to customers in financial difficulty, as ACEI Group complies with the Department of Energy circulars on granting extensions on deferment of payments and obligation. The changes in economic activity brought about by the community quarantine measures and lowering of WESM prices have resulted in lower electricity demand and consumption. Consequently, this affected the revenue targets of the Distribution Companies, Generation Companies, and Retail Energy Sales (RES) business units. However, projects under FIT were not affected by the movements in the WESM prices. Nevertheless, ACEI Group has been in constant discussions, and has been working together with its customers and other key stakeholders to minimize the impact of the pandemic to the respective parties' power supply agreements.

IMI Group has considered impact of COVID-19 pandemic and revised its assumptions in determining the macroeconomic variables and loss rates in the computation of ECL. The changes in the gross carrying amount of receivables from the sales of IMI Group during the year and impact of COVID-19 pandemic did not materially affect the allowance for ECLs.

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.

NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell.

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.

In line with the impact of COVID-19, ALI Group experienced limited selling activities while IMI Group experienced lower demand and production which resulted to lower sales in 2020.

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 and intangible assets with indefinite life are 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.

In view of the continuing community quarantines and restricted travel, the ALI Group's hotels and resorts segment continues to be adversely affected by the lower number of guests and reduced room rates, both of which have significantly impacted the revenues reported for this segment. Also, many restaurants remain closed or allowed limited operations which impacted the food and beverage revenues of the segment. In addition, because of the coronavirus pandemic, there is the heightened level of uncertainty on the future economic outlook and market forecast. These events and conditions are impairment indicators requiring the assessment of the recoverable amount of the property and equipment and right-of-use assets.

Moreover, lockdown to IMI Group manufacturing sites due to the impact of COVID-19 pandemic leads to lower production post impairment indicators requiring the assessment of the recoverable amount for the said assets.

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, 2020 and 2019. 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.

In 2020, MWC Group also considered the impact on future billable volume considering the ongoing coronavirus pandemic which has affected the billed volume mix and consumption.

For the years ended December 31, 2020 and 2019, SCA amortization expense based on the UOP method amounted to ₱2,854.7 million and ₱2,272.6 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, 2020 and 2019, MWC and BIWC's deferred FCDA classified under "Other noncurrent assets" amounted to ₱403.2 million and ₱1,669.04 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 25.

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 financial performance in assessing the sufficiency of future taxable income.

Further details on deferred tax assets 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 29.

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 28.

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 34.

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 ₱24.1 billion and ₱22.4 billion as of December 31, 2020 and 2019, respectively.



5. Cash and Cash Equivalents

This account consists of the following:

	2020	2019
	(In Thousands)	
Cash on hand and in banks (Note 32)	₱48,674,560	₱50,403,614
Cash equivalents (Note 32)	39,979,396	43,001,639
	₱88,653,956	₱93,405,253

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.

Foreign currency-denominated cash amounted to ₱52.0 billion and ₱54.4 billion as of December 31, 2020 and 2019, respectively (see Note 33).

Interest income earned from cash in banks and cash equivalents amounted to ₱760.6 million, ₱497.9 million, and ₱630.4 million in 2020, 2019, and 2018, respectively (see Note 23).

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 0.1% to 0.8% per annum in 2020 and 0.9% to 6.0% per annum in 2019.

As of December 31, 2020 and 2019, the Group's short-term investments amounted to ₱0.8 billion and ₱13.4 billion, respectively. Interest income arising from these investments amounted to ₱0.4 billion, ₱1.18 billion, and ₱0.7 billion in 2020, 2019, and 2018, respectively (see Note 23).

7. Accounts and Notes Receivable

This account consists of the following:

	2020	2019
	(In Thousands)	
Trade:		
Real estate and hotels	₱123,805,518	₱124,310,805
Industrial Technologies	13,351,269	14,687,014
Power	6,318,019	4,689,762
Automotive	3,276,007	3,047,040
International and others	676,166	848,985
Outsourcing	332,240	314,422
Advances to other companies	26,559,594	23,593,209
Receivable from related parties (Note 32)	20,113,339	14,491,228
Receivable from officers and employees (Note 32)	1,434,231	1,505,310
Dividend receivable (Note 32)	—	145,010
Others (Note 32)	1,787,494	1,384,578
	197,653,877	189,017,363
Less allowance for expected credit losses	3,177,458	2,428,362
	194,476,419	186,589,001
Less noncurrent portion	57,382,232	55,720,290
	₱137,094,187	₱130,868,711



The classes of trade receivables of the Group are follows:

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 5.8% to 16.0%. 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.

On March 25, 2020, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act ("Bayanihan 1 Act") was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the ECQ Period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act ("Bayanihan 2 Act"), was enacted. Under Bayanihan 2 Act, a one-time sixty (60)-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

In 2020, ALI Group provided reliefs under Bayanihan 1 Act and Bayanihan 2 Act, which offered financial reliefs to its borrowers/counterparties as a response to the effect of the COVID-19 pandemic. These relief measures included the restructuring of existing receivables including extension of payment terms. Based on ALI Group's assessment, the modifications in the contractual cash flows as a result of the reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets.

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 ₱20,458.0 million in 2020 and ₱9,976.3 million in 2019. These were sold at a discount with total proceeds of ₱18,431.9 million and ₱9,281.2 million, respectively. ALI Group recognized loss on sale amounting to ₱2,064.0 million in 2020 and ₱775.2 million in 2019 (see Note 23).

Interest income from real estate amounted to ₱8,602.8 million, ₱7,891.0 million, ₱7,042.1 million in 2020, 2019 and 2018, respectively.



Industrial Technologies

Pertain to receivables arising from manufacturing and other related services for electronic products and components and have credit terms averaging 70 days from invoice date.

Power

Power generation receivables pertain to ACEI Group's receivable from Independent Electricity Market Operator of the Philippines, 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. Significant portion of outstanding balance pertains to receivables from MERALCO Baseload and Mid-Merit PSAs. It consists of both noninterest-bearing and interest-bearing receivables. The term is generally 30-to-60 days.

Noncurrent trade receivables which consist of refundable amount from PEMC and MERALCO Baseload and Mid-Merit PSAs as well as FIT system adjustments are expected to be realized beyond 12 months after end of reporting period.

Among the provisions of Bayanihan 1 Act is the granting of grace periods and payment extensions to energy consumers with payments due within quarantine period. For this purpose, the receivables falling due during quarantine are amortized in four equal installments and are payable in the four months following the end of the quarantine.

Bayanihan 2 Act resulted to deferral of settlement of trade receivables of ACEI Group as of December 31, 2020.

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.

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-outsourcing 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 includes 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, 2020 and 2019, receivables from MRTDC shareholders amounted to ₱441.1 million and ₱422.3 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 ₱1,605.0 million 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, 2020 and 2019, loans receivable from RCI amounted to ₱1,827.7 million and ₱1,605.0 million, respectively.

In 2019, ACEI and UPC Renewables Asia Pacific Holdings Limited (URAPHL) entered into an interest-bearing loan agreement to fund the development of renewable energy and energy storage projects. The interest-bearing loan has a total facility of US\$33.00 million and bears annual fixed rate interest and payable upon maturity. The principal and interest of the loan are payable on January 31, 2023.

As of December 31, 2020 and 2019, outstanding balance of the interest-bearing loan amounted to US\$30.45 million (₱1,462.69 million) and US\$33.00 million (₱1,674.55 million), respectively. Interest income amounted to US\$2.52 million (₱120.94 million) and US\$0.90 million (₱4.77 million) for the years ended December 31, 2020 and 2019.

Receivables from Philippine Electricity Market Corporation (PEMC) Multilateral Agreements arises from recalculation of November and December 2013 spot prices as directed by the Energy Regulation Commission. In 2014, ACEI, PEMC, and other WESM participants signed a Multilateral Agreement pending the resolution of cases filed by WESM participants in the Supreme Court. On various dates in 2014 to 2016, ACEN recorded collections in relation to the Multilateral Agreement amounting to nil and ₱1,123.51 million as of December 31, 2020 and 2019, respectively.

In 2020, ACEI, BIM Energy Holdings Corporation (BIMEH) and BEHS Joint Stock Company BEHS entered into an extended short-term loan facility for the purpose of implementing the business plans of these companies. The short-term loan has a total facility of \$21.00 million and \$9.00 million for BIMEH and BEHS, respectively. The loans bear fixed rate, drawable in tranches and maturing within 11 months from the first drawdown date on June 8, 2020.

As of December 31, 2020, outstanding receivable from BIMEH and BEHS are US\$19.60 million (₱941.51 million) and US\$8.40 million (₱403.51 million), respectively. Interest income amounted to US\$1.69 million (₱81.29 million) for the years ended December 31, 2020.

Receivables from NGCP are non-interest-bearing receivables from NGCP arising from (1) the sale of transmission assets, which are collectible annually within 3 years, discounted using the PHP BVAL reference rates on transaction date ranging from 2.14% - 4.56%; and (2) SLTEC's receivable from NGCP for the remaining uncollected consideration for the sale of the 230KV Salong Switching Station and related assets.

The receivables from related parties and selected third parties discussed above bear interest ranging from 4.00% to 12.00% annually. Interests are payable upon maturity of the interest-bearing loan.

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 2020 and 2019 for the assignment of interest-bearing employee receivables amounting to nil and ₱108.9 million, respectively. The transactions were without recourse and did not result to any gain or loss.

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 are as follows (amounts in thousands):

	2020					
	Real Estate and Hotels	Industrial Technologies	Outsourcing	Power	Automotive and Others	Total
At January 1	₱1,186,293	₱120,151	₱188,778	₱688,547	₱244,593	₱2,428,362
Provisions during the year (Note 23)	805,807	28,656	11,243	–	21,581	867,287
Write-offs	(2,116)	–	(791)	–	(3,051)	(5,958)
Reversals/adjustments	(53,166)	–	(10,014)	–	(5,384)	(68,564)
Reclassification/others	8,642	(13,331)	–	(144,962)	105,982	(43,669)
At December 31	₱1,945,460	₱135,476	₱189,216	₱543,585	₱363,721	₱3,177,458

*Disclosure of individually and collectively impaired receivables is not required under PFRS 9.

	2019						
	Real Estate and Hotels	Industrial Technologies	Water	Outsourcing	Power	Automotive and Others	Total
At January 1	₱872,268	₱105,908	₱1,239,761	₱176,552	₱367,369	₱254,380	₱3,016,238
Provisions during the year (Note 23)	675,923	14,998	111,532	22,369	147,675	36,307	1,008,804
Write-offs	(254,498)	(1,534)	—	(10,221)	—	—	(266,253)
Reversals/adjustments	(107,148)	—	(50,651)	(102)	(100,984)	(17,437)	(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	₱—	₱188,778	₱688,547	₱244,593	₱2,428,362

*Disclosure of individually and collectively impaired receivables is not required under PFRS 9.



8. Inventories

This account consists of the following:

	2020	2019
	(In Thousands)	
At cost:		
Residential and condominium units and offices	₱85,605,985	₱67,924,015
Residential and commercial lots	61,137,607	52,363,671
Materials and supplies	5,215,536	5,783,188
Vehicles	4,357,949	4,142,126
Work-in-process	883,588	832,632
Finished goods	450,941	282,823
Others	154,707	468,676
	157,806,313	131,797,131
At NRV:		
Materials and supplies	2,372,837	2,616,629
Finished goods	213,600	268,639
Work-in-process	479,191	381,904
	3,065,628	3,267,172
	₱160,871,941	₱135,064,303

A summary of the movements of real estate inventories is set out below.

2020

	Residential and Commercial Lots	Residential and Condominium units and Offices	Total
	(In Thousands)		
Opening balances at January 1	₱52,363,671	₱67,924,015	₱120,287,686
Land acquired during the year	3,269,732	17,744,257	21,013,989
Construction/development costs incurred	7,148,687	15,006,722	22,155,409
Disposals (recognized as cost of sales)	(15,932,741)	(16,983,486)	(32,916,227)
Transfers from/to investment properties and other assets (Note 11)	14,288,258	1,914,477	16,202,735
Closing balances at December 31	₱61,137,607	₱85,605,985	₱146,743,592

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 (Note 11)	1,260,223	9,894,883	11,155,106
Closing balances at December 31	₱52,363,671	₱67,924,015	₱120,287,686

The Group recognized provision for inventory obsolescence amounting to ₱144.3 million, ₱236.6 million and ₱125.5 million in 2020, 2019 and 2018, respectively. 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 ₱3,077.1 million and ₱3,272.8 million as of December 31, 2020 and 2019, respectively. Write-down of inventories amounted to nil in 2020 and 2018 and ₱111.2 million in 2019 (see Note 23).



Inventories recognized as cost of sales amounted to ₱85,348.0 million, ₱129,030.0 million and ₱138,365.0 million in 2020, 2019 and 2018, 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:

	2020	2019
	(In Thousands)	
Advances to contractors	₱19,150,239	₱13,260,900
Prepaid expenses	16,502,145	15,374,122
Input VAT	14,182,766	15,877,481
Creditable withholding tax	10,225,631	5,546,478
Financial assets at FVTPL	8,447,145	9,726,080
Deposits in escrow	770,990	239,526
Derivative assets (Notes 33 and 34)	250,230	338,612
Others	1,938,474	2,569,795
	₱71,467,620	₱62,932,994

Advances to contractors

Advances to contractors represents prepayments for the construction of inventories. These are recouped from billings which are expected to occur in a short period of time.

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 ₱3,281.1 million and ₱2,876.2 million in 2020 and 2019, 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).

Input VAT

Input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

Financial Assets at FVTPL

Infigen Energy Ltd. (Infigen)

On various dates in April, May and July 2020, ACEI acquired 194,130,203 shares in Infigen which represents 20.00% ownership interest. Infigen is an Australia-based renewable energy company that owns, develops and operates renewable energy generation assets. The shares of Infigen are listed and actively traded in the Australian Securities Exchange.

Total cost of the investment amounted to AU\$159.61 million (₱5,672.10 million), inclusive of AU\$5.56 million (₱197.54 million) directly attributable cost. On September 9, 2020, ACEI sold its 20.00% ownership interest at AU\$0.92 per share resulting to realized mark-to-market gain of AU\$24.54 million (₱867.07 million) booked under “Other income” (see Note 23). The gain was subjected to corporate income tax of AU\$5.56 million (₱197.68 million).



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\$13.7 million (P657.9 million) and US\$1.4 million (P67.2 million), respectively, in 2020 and US\$21.7 million (P1.1 billion) and US\$5.7 million (P292.9 million), respectively, in 2019.

In 2020 and 2019, the Group made additional investment in TRG investments amounting to nil and US\$0.2 million (P10.1 million), respectively, representing capital call for the year.

As of December 31, 2020 and 2019, the Group's remaining capital commitment with the TRG Investments amounted to US\$0.1 million (P4.8 million) and US\$0.1 million (P5.0 million), respectively.

Unit Investment Trust Fund (UITF) investments

As of December 31, 2020, ALI Group invested in BPI Money Market Fund (MMF) with a fair value of P209 million. The BPI MMF's Net Asset Value (NAV) was at P61,961.9 million with duration of 255 days.

As of December 31, 2019, ALI Group invested in BPI MMF with a fair value of P80.9 million. The BPI MMF's NAV was at P23,980.6 million with duration of 131 days.

As of December 31, 2020 and 2019, the carrying value of ALI Group's UITF investments amounted to P378.1 million and P96.4 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, 2020 and 2019, the carrying amount of the BHL Group's investment in ARCH Fund I amounted to US\$0.1 million (P4.8 million) and US\$0.7 million (P35.4 million), respectively.

In 2020 and 2019, the ARCH Fund I returned capital amounting to nil and US\$0.9 million (P45.6 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, 2020 and 2019, the carrying amount of the ARCH Fund II amounted to US\$16.49 million (P791.8 million) and US\$17.08 million (P864.8 million), respectively.

On various dates in 2020 and 2019, ARCH Fund II made capital calls where BHL Group's share amounted to US\$0.072 million (P3.5 million) and US\$0.3 million (P15.2 million), respectively. In 2020 and 2019, the ARCH Fund II returned capital amounting to US\$0.5 million (P24.0 million) and US\$0.1 million (P5.1 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, 2020 and 2019, the carrying amount of the investment in the ARCH Fund III amounted to US\$62 million (P2,977.2 million) and US\$65 million (P3,291.3 million), respectively.

On various dates in 2020 and 2019, the ARCH Fund III made capital calls where the Group's share amounted to US\$1.2 million (P57.6 million) and US\$2.6 million (P131.7 million), respectively. In 2020 and 2019, the ARCH Fund III returned capital amounting to US\$2.6 million (P124.9 million) and US\$1.1 million (P55.7 million), respectively.



As of December 31, 2020 and 2019, the Group's remaining capital commitment with the ARCH Fund III amounted to US\$2.6 million (P124.9 million) and US\$5.0 million (P253.2 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, 2020 and 2019, the carrying amount of the investment in the ARCH Fund IV amounted to US\$10.6 million (P509.0 million) and US\$10.7 million (P541.7 million), respectively.

On various dates in 2020 and 2019, the ARCH Fund IV made capital calls where the Group's share amounted to US\$3.3 million (P158.5 million) and US\$9.7 million (P492.1 million), respectively. In 2020 and 2019, the ARCH Fund IV returned capital amounting to US\$0.5 million (P24.0 million) and US\$3.2 million (P162.0 million), respectively.

As of December 31, 2020 and 2019, BHL's remaining capital commitment with the ARCH Fund IV amounted to US\$5.1 million (P244.9 million) and US\$11.7 million (P592.4 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, 2020 and 2019, ALI Group's investment in ARCH Fund amounted to P328.0 million and P389.0 million, respectively. Contributions and return of capital in 2020 amounted to nil and P12.5 million, respectively. In 2019, contributions and return of capital amounted to P30.1 million and P24.4 million, respectively.

Maloeke Capital Fund 2

Maloeke Capital Fund 2 is a venture capital fund which focuses on technology investments in Indonesia and Southeast Asia. As of December 31, 2019, the Group has invested US\$0.2 million (P10.1 million) in Maloeke Capital Fund 2 representing 15.38% of the Class A shares of the fund.

On 16 November 2020, Total Jade Group Ltd disposed and transferred the entire investment of 1,391,107 Class A shares for a total consideration of USD1,391,107.

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, AC Ventures, 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, 2020 and 2019, the carrying amount of the investment in the Alibaba amounted to US\$0.9 million (P43.2 million) and US\$0.7 million (P35.7 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. 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\$0.08 million as of December 31, 2020 and 2019, respectively.

In 2020 and 2019, Arbor Fund I made capital calls where the Group's share amounted to nil and US\$0.6 million (P3.0 million), respectively.

As of December 31, 2020 and 2019, the carrying amount of the investment in Arbor Fund I amounted to US\$3.2 million (P153.7 million) and US\$2.8 million (P141.0 million), respectively.



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\$0.6 million and US\$1.12 million as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the carrying amount of the investment in Arbor Fund II amounted to US\$1.4 million (P67.2 million) and US\$0.7 million (P39.4 million), respectively.

In 2020 and 2019, the Arbor Fund II returned capital amounting to nil and US\$0.1 million (P5.1 million), respectively.

Indies Pelago Investments, L.P. (Indies Pelago)

Indies Pelago targets relatively more mature, growth stage technology companies in Southeast Asia, giving investors access to technology sector leaders without the venture capital risk associates with earlier stage funding. As of December 31, 2020 and 2019, the carrying amount of the investment amounted to US\$1.8 million (P72.0 million) and US\$1.2 million (P61.6 million), respectively.

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\$0.3 million and US\$0.8 million as of December 31, 2020 and 2019, respectively.

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, 2020 and 2019, Total Jade's remaining capital commitment to Ikhlas amounted to US\$17.1 million and US\$18.9 million, respectively. The carrying amount of the investment in Ikhlas amounted to US\$2.4 million (P115.3 million) and US\$1 million (P54.2 million) as of December 31, 2020 and 2019, respectively.

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 Promissory 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 Promissory 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. As of December 31, 2020 and 2019, the carrying amount of the investment amounted to USD\$15.0 million (P718.0 million) and USD\$13.3 million (P672.9 million), respectively.

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 2020 and 2019, the Group received return of capital and realized loss amounting to US\$0.11 million and nil, respectively (see Note 23).

The aggregate carrying amount of GOF and SOF amounted to US\$0.81 million (P38.7 million) and US\$1.3 million (P65.8 million) as of December 31, 2020 and 2019, 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 2019 and 2018, SRG II, SRG III, and the SRG Co-Investment collectively returned capital amounting to US\$9.6 million (P461.0 million) and US\$3.2 million (P162.0 million), respectively. As of December 31, 2020 and 2019, the carrying amount of the total investment in SRG II, SRG III, and the SRG Co-Investment amounted to US\$29.9 million (P1,435.9 million) and US\$25.3 million (P1,281.1 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.

Renewable Energy Test Center, RETC LLC

As of December 31, 2020 and 2019, the carrying amount of the investment in RETC amounted to US\$4.5 million (P216.1 million) and US\$4.4 million (P224.3 million), respectively.

Wave Computing

In 2018, the Group invested US\$2.0 million (P105.2 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.

A provision of US\$2.0 was made to fully provide for this investment.

Fibronostics

AC Health, 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 AC Health and SPRIM, the bioscience R&D firm from which Fibronostics was spun off. As of December 31, 2020 and 2019, the carrying amount of the investment amounted to P33.5 million and P32.4 million, respectively.

Tikehau (TKS I, LP)

During 2018, AC Health invested in TKS I, LP, a Singapore limited partnership investing globally in healthcare and life sciences industries. As of December 31, 2020 and 2019, the carrying amount of the investment amounted to P10.5 million and P13.2 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 P887.7 million, P528.0 million and P996.2 million gain in 2020, 2019 and 2018, respectively, is included under "Other income" 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.

Others

Others mainly include deferred charges and accrued liquidated damages in 2020 and deferred charges in 2019.



10. Investments in Associates and Joint Ventures

This account consists of the following:

	2020	2019
	(In Thousands)	
Investment in stocks - cost		
Balance at beginning of year	₱181,519,261	₱183,766,711
Additions	5,557,577	16,280,890
Acquisition through business combination (Note 24)	-	6,819,774
Disposal/transfers/others	(383,417)	(2,681,308)
Acquisition of control	-	(9,157,794)
Reclassification to PFRS 5	-	(13,509,012)
Balance at end of year	186,693,421	181,519,261
Accumulated equity in net earnings:		
Balance at beginning of year	69,404,262	57,979,970
Impact of adoption of PFRS 9	187,852	-
Balance at beginning of the year	69,592,114	57,979,970
Equity in net earnings of continuing operations during the year	17,615,774	22,344,352
Equity in net earnings of segment under PFRS 5 during the year	-	653,502
Dividend income	(10,057,692)	(7,772,351)
Acquisition of control	-	(502,406)
Disposals/transfers/others	1,575,465	(766,419)
Provision and others		
Provision (net) (Note 23)	(1,802,179)	(839,419)
Dilution gain	27,592	91,629
Reclassification to PFRS 5	-	(1,784,596)
Balance at end of year	76,951,074	69,404,262
Other Comprehensive Income:		
Balance at beginning of year	(4,192,247)	(1,332,525)
Impact of adoption of PFRS 9	(187,852)	-
Balance at beginning of the year	(4,380,099)	(1,332,525)
Additions (deductions)	(4,256,443)	(2,633,522)
Reclassification to PFRS 5	-	(226,200)
Balance at end of year	(8,636,542)	(4,192,247)
	₱255,007,953	₱246,731,276

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	
	2020	2019	2020	2019
	(In Millions)			
<i>Domestic:</i>				
Bank of the Philippine Islands (BPI)	32.9	32.9	₱111,682	₱108,440
Liontide Holdings, Inc. (LHI)*	78.1	78.1	51,531	49,266
Globe Telecom, Inc. (Globe)*	30.8	30.9	26,008	25,654
Ortigas Land Corporation (OLC) (formerly OCLP Holdings, Inc.)	21.0	21.0	8,677	8,540
AA Thermal, Inc.	40.0	40.0	5,906	5,349
iPeople, Inc. (IPO)	33.5	33.5	5,307	5,183
Light Rail Manila Holdings, Inc. (LRMHI)	50.0	50.0	4,874	4,595
Philippine Wind Holdings Corporation (PhilWind)*	57.0	42.7	4,837	1,662
ALI-ETON Property Development Corporation*	50.0	50.0	4,499	3,295
Emerging City Holdings, Inc. (ECHI)*	50.0	50.0	3,886	4,076
AKL Properties, Inc.*	50.0	50.0	3,034	2,274
Berkshires Holdings, Inc. (BHI)*	50.0	50.0	1,921	2,003
Asiacom Philippines, Inc. (Asiacom)*	60.0	60.0	1,468	1,427
Cebu District Property Enterprise, Inc. (CDPEI)*	35.0	35.0	1,426	1,443

(Forward)



	Percentage of Ownership		Carrying Amounts	
	2020	2019	2020	2019
			(In Millions)	
Bonifacio Land Corporation (BLC)	10.0	10.0	₱1,406	₱1,479
IE Medica, Inc. (IEM)	49.0	49.0	1,233	1,192
Alveo-Federal Land Communities, Inc.*	50.0	50.0	929	904
BF Jade E-Services Philippines, Inc. (BF Jade)	44.7	44.7	773	762
Rize-Ayalaland (Kingsway) GP Inc. (Rize-Ayalaland)	49.0	49.0	403	451
<i>Foreign:</i>				
Star Energy Salak-Darajat B.V. (incorporated in Indonesia)	19.8	19.8	9,330	11,041
Yoma Strategic Holdings, Inc. (YSH) (incorporated in Myanmar)	14.9	14.9	4,822	5,498
UPC-AC Energy Australia HK Ltd. (incorporated in Hong Kong)*	50.0	50.0	1,009	1,327
Others – net	Various	Various	47	870
			₱255,008	₱246,731

*Joint ventures

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	2020	2019
	(In Millions, except earnings per share)	
Total resources	₱2,233,443	₱2,205,030
Total liabilities	1,951,486	1,931,996
Equity	281,957	273,034
Less: non-controlling interest	2,122	3,457
Equity attributable to the equity holders of BPI	279,835	269,577
Share in equity	91,967	88,715
Notional goodwill	20,131	20,131
Adjustments in goodwill	(416)	(406)
Carrying value of investment	111,682	108,440
Net interest income and other income	101,923	94,334
Total expenses	80,271	65,251
Net income	21,652	29,083
Net income attributable to:		
Equity holders of BPI	21,409	28,803
Non-controlling interests	243	280
Group's share in net income for the year	7,125	9,571
Other comprehensive loss	(3,387)	128
Group's share in other comprehensive loss	(1,115)	39
Total comprehensive income	18,264	29,211
Total comprehensive income attributable to:		
Equity holders of BPI	17,949	28,769
Non-controlling interests	315	442
Group's share in total comprehensive income	6,010	9,613
Basic and diluted earnings per share	4.48	6.39
Dividends received from BPI	₱2,503	₱2,503



Salak Darajat	2020	2019
	(In Millions)	
Current assets	US\$295	US\$250
Noncurrent assets	2,473	2,494
Current liabilities	55	115
Noncurrent liabilities	1,742	1,592
Equity	971	1,037
Share in equity	192	206
Fair value adjustment on land	15	15
Others	(13)	–
Carrying value of investment	194	221
Revenue	338	332
Cost and expenses	266	247
Net income	72	85
Group's share in net income for the year	16	17
Total comprehensive income	74	64
Group's share in total comprehensive income for the year	15	13
Dividends received from Salak Darajat	US\$28	US\$–
BLC		2019
	(In Millions)	
Current assets		₱10,997
Noncurrent assets		32,438
Current liabilities		3,066
Noncurrent liabilities		7,176
Equity		33,193
Less: noncontrolling interest		14,896
Equity attributable to Parent Company		18,297
Proportion of Group's ownership		10.1%
Group's share in identifiable net assets		1,848
Carrying amount of the investment		1,479
Negative goodwill		(369)
Revenue		5,790
Cost and expenses		(3,150)
Net income (continuing operations)		2,640
Net loss attributable to minority interest		(1,243)
Net income attributable to parent		1,397
Group's share in net income for the year		141
Total comprehensive income attributable to equity holders of the Parent Company		1,397
Group's share in total comprehensive income for the year		141
Dividends received		₱81
LRMHI		2019
	(In Millions)	
Current assets		₱2,341
Noncurrent assets		28,066
Current liabilities		2,115
Noncurrent liabilities		15,293
Equity		12,999
Revenue		3,451
Cost and expenses		2,822
Net loss		629
Group's share in net loss for the year		220
Total comprehensive loss		613
Group's share in total comprehensive loss for the year		214
Dividends received from LRMHI		₱–



In 2020, BLC and LRMHI were assessed to be immaterial associates.

Financial information on significant joint ventures (amounts in millions, except earnings per share figures) follows:

LHI	2020	2019
	(In Millions)	
Current assets, including cash and cash equivalents amounting to ₱1,377.7 million in 2020 and ₱1,447.7 million in 2019	₱1,378	₱1,448
Noncurrent assets	55,925	53,950
Current liabilities	84	91
Noncurrent liabilities	7,981	8,969
Equity	49,238	46,338
Share in equity	38,442	36,177
Notional goodwill	12,988	12,988
Adjustments in goodwill	101	101
Carrying value of investment	51,531	49,266
Revenue	4,317	5,779
Interest income	21	43
Costs and expenses		
Net income	3,793	5,235
Group's share in net income for the year	2,961	4,089
Other comprehensive income (loss)	-	-
Group's share in other comprehensive loss	-	-
Total comprehensive income	3,793	5,235
Group's share in total comprehensive income	2,961	4,089
Dividends received from LHI	₱156	₱82
Globe	2020	2019
	(In Millions)	
Current assets, including cash and cash equivalents amounting to ₱19.5 billion in 2020 and ₱8.3 billion in 2019	₱64,098	₱61,739
Noncurrent assets	275,682	242,551
Current liabilities including financial liabilities* amounting to ₱8.5 billion in 2020 and ₱12.9 billion in 2019	80,275	84,577
Noncurrent liabilities, including financial liabilities* amounting to ₱156.3 billion in 2020 and ₱122.9 billion in 2019	176,700	138,466
Equity	82,804	81,247
Less: non-controlling interest	237	135
Equity attributable the equity holders of the Parent	82,567	81,112
Share in equity	22,158	21,745
Notional goodwill	3,939	3,939
Adjustments in goodwill	(89)	(30)
Carrying value of investment	26,008	25,654
Revenue	160,520	166,660
Interest income	195	500
Costs and expenses		
Depreciation and amortization	35,412	34,144
Interest expense	7,111	6,803
Provision for income tax	8,517	10,544
Net income	18,623	22,284
Net income attributable to:		
Equity holders of the Parent	18,578	22,269
Non-controlling interests	45	14
Share in net income for the year	5,587	6,774
Other comprehensive income (loss)	(2,545)	(2,253)

(Forward)



Globe	2020	2019
	(In Millions)	
Share in other comprehensive income (loss) for the year	(P786)	(P696)
Total comprehensive income	16,078	20,031
Share in total comprehensive income for the year	4,968	6,078
Earnings per share:		
Basic	135.04	162.96
Diluted	134.40	162.20
Dividends received from Globe	P4,445	P3,745

*excluding trade and other payables and provisions

ECHI	2020
	(In Millions)
Current assets	P11,741
Noncurrent assets	30,018
Current liabilities	(2,863)
Noncurrent liabilities	(7,286)
Equity	31,610
Less: noncontrolling interest	23,308
Equity attributable to Parent Company	8,302
Portion of Group's ownership	50%
Group's share in identifiable net assets	4,151
Carrying amount of the investment	3,886
Revenue	3,872
Cost and expenses	2,476
Net income	1,397
Group's share in net income	208
Total comprehensive income	417
Group's share in total comprehensive income for the year	208
Dividends received	P398

In 2020, ECHI was assessed to be material associate.

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:

	2020	2019
	(In Millions)	
Carrying amount	P50,177	P52,330
Share in net income	1,496	1,125
Share in other comprehensive income (loss)	442	(912)
Share in total comprehensive income	P1,938	P213

The following significant transactions affected the Group's investments in associates and joint ventures:

Investment in BPI

On January 24, 2020, BPI upsized its Bond Offer five-fold to P15.3 billion from an initial target size of P3 billion, due to strong demand from both retail and institutional investors. The Bonds has been issued, and is now tradable on the PDEX. The issuance is BPI's second peso bond transaction, following its landmark P25 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.



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 retails clients. The Bonds has been issued and 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 (1 1/2) years. BPI closed the offer period on March 6, 2020. 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.

On July 8, 2020, BPI concluded the offer period of its CARE Bonds with a tenor of 1.75 years and an interest rate of 3.05% p.a, paid quarterly.

Due to the COVID-19 situation, BPI has seen an increase in the level of non-performing loans (NPL) attributable to the temporary/permanent closure of certain businesses, suspended business operations and limited travel and exchange of goods. As a result, BPI booked ₱27,556 million in impairment provisions for NPL in 2020.

The actual delinquency status or effect on the NPL levels across different segments and products of BPI Group became evident in the last quarter of 2020 after the lapse of the Bayanihan Act I and may be more pronounced in the early quarters of 2021 considering the effect of Bayanihan Act II relief measures.

The fair value of the BPI shares held by the Parent Company amounted to ₱120.7 billion and ₱130.4 billion as of December 31, 2020 and 2019, respectively. In 2020, the voting rights held by the Group in BPI is 49.7%.

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, 2020 and 2019, 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 ₱73.6 billion and ₱79.5 billion as of December 31, 2020 and 2019, respectively.

Investment in Globe

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.

On January 20, 2020, Globe received the approval of the SEC on the incorporation of Telecommunications Connectivity Inc. The Globe Group invested ₱10.0 million for 33.33% ownership TCI.

On July 16, 2020, Globe successfully priced a USD 300 million 10-year and USD 300 million 15-year US dollar-denominated senior notes with coupon rate of 2.5% and 3.0%, respectively.

On July 24, 2020, the notes are unrated and have been listed on Singapore Exchange Securities Trading Limited. The net proceeds from the issue of the notes will be used to finance Globe's capital expenditures, refinance maturing and/or existing obligations, and for general corporate requirements.



On August 17, 2020, GTI Business Holdings, Inc. (GTI) entered into a SPA for the acquisition of 67% of Third Pillar Business Applications, Inc. (TPBAI). TPBAI, organized under the laws of the Philippines, is engaged in systems integration, license reselling, and data management services. TPBAI previously owns 11% of Third Pillar Global Delivery Center Inc. (TPGDC). GTI's acquisition of TPBAI also mandated TPBAI's acquisition of the remaining 89% ownership of TPGDC making TPBAI the sole owner of TPGDC. TPGDC is engaged in software implementation and maintenance services and the outsourcing arm of TPBAI.

On July 30, 2020, GTI incorporated Caelum Pacific Corp. (Caelum Pacific), a wholly owned subsidiary, organized under the laws of the Philippines for the purpose of providing technical consulting and IT related services. On July 31, 2020, Caelum US Holdings Inc. (Caelum US), a wholly owned subsidiary of Caelum Pacific, was incorporated under the laws of the state of Delaware as holding company. On August 3, 2020, Caelum Northwest Corp. (Caelum Northwest), a wholly owned subsidiary of Caelum US, was incorporated under the laws of the state of Washington for the purpose of customized cloud software development and providing cloud consulting services.

Globe Group recognized higher amount of impairment loss on receivables in 2020 due to the increase in lower quality receivables brought about by the pandemic and quarantine. Impairment loss on receivables amounted to ₱5,067.1 million in 2020.

On 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 Xurpas 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 49.3 million shares in the firm priced at ₱31.3 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.

The fair value of Globe shares held by the Parent Company amounted to ₱83.5 billion and ₱83.1 billion as of December 31, 2020 and 2019. In 2020, the voting rights held by the Group in Globe is 46.7%.

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, 2020 and 2019. The Parent Company does not exercise control over Asiacom and Globe since it is a joint venture with Singapore Telecommunications Limited (SingTel).



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, 2020, the re-engineering project, RSS rehabilitation and security network systems projects are 99.0%, 90.6% and 98.2% complete, respectively.

As of December 31, 2020 and 2019, AC Infra's remaining equity investment commitment for the LRT 1 project amounted to ₱2.4 billion and ₱2.9 billion, respectively.

Investment in OCLP

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 for ₱7,320.7 million.

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).

In 2020, ACEI Group invested additional US\$7.3 million (₱373.5 million) in AA Thermal following the capital calls made.

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 ₱3,148.5 million and ₱3,319.9 million as of December 31, 2020 and 2019, respectively. Impairment loss recognized by the Parent Company in its investment in IPO amounted to ₱846.6 million in 2020.

Investment in PhilWind

On November 4, 2019, ACEI Group approved and authorized the share purchase agreement to acquire PINAI's ownership interest in NLR and PhilWind, which was formally executed on November 11, 2019.

On November 14, 2019, ACEN signed a First Amended and Restated Share Purchase Agreement with the investors of PINAI for acquisition of PINAI's indirect ownership interest in NLR.

PINAI effectively has a 31% preferred equity and 15% common equity ownership in NLR. NLR is a joint venture of ACEI, UPC Philippines, Luzon Wind Energy Holdings and PINAI. NLR owns and operates an 81 MW wind farm in Pagudpud, Ilocos Norte, which started operations in November 2014. PWHC is the parent company of NLR. PWHC directly and indirectly owns 67% of NLR, through its 38% direct interest and 28.7% indirect interest through its 100% wholly owned subsidiary, Ilocos Wind Energy Holdings Co., Inc.

On February 27, 2020, ACEI Group purchased all shares of PINAI Investors in PhilWind through its wholly owned subsidiary Giga Ace 1, Inc. amounting to ₱2,573.30 million increasing ownership interest by 27.07%.

The investment in PhilWind is accounted for as investments in joint venture as the relevant activities in PhilWind and NLR require the unanimous consent of the stockholders.

On June 22, 2020, upon the effectivity of ACEI's share swap transaction with ACEN, ACEI's effective ownership interest in PhilWind became 56.98%.

ACEI Group's investment amounted to ₱2,573.30 million. As of December 31, 2020, the fair values of identifiable assets and liabilities acquired amounted to ₱9,103.9 million and ₱2,305.5 million, respectively. ACEI Group's share in net assets of PhilWind is ₱2,265.50 million and corresponding notional goodwill on this investment amounted to ₱307.80 million which formed part of the carrying amount of the investment as of December 31, 2020. The goodwill recognized on the acquisition can be attributed to future earnings from ACEI's investments in renewable energy plants.

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 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.



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.

ALI made additional equity infusions to ALI-Eton to fund the development requirements of Parklinks amounting to ₱1,083.5 million and ₱1,195.0 million as of December 31, 2020 and 2019 respectively.

Investment in ECHI, BHI and BLC

As of December 31, 2020 and 2019, ALI Group's effective interest in BLC is 45.1%. ALI's 5.3% direct investment in BLC and 4.8% through Regent Time are accounted for using the equity method because the Parent Company 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.

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 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 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 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 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.

On August 31, 2017, the parties completed the closing of the transaction and the new investors subscribed to shares of BF Jade which resulted 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.

The Parent Company and ALI assigned their rights to subscribe to their wholly owned subsidiaries AC Ventures and AMSI, Inc., respectively.

As of December 31, 2020 and 2019, the fair values of the identifiable assets and liabilities acquired amounted to ₱1,293.4 million.

On April 8, 2020, AC Ventures infused additional capital of ₱214.8 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, AC Ventures assumed their portion of the capital infusion, increasing the ownership stake from 43.9% to 44.6%, subject to regulatory approval for an increase in the authorized capital stock of BF Jade. Following AC Ventures' infusion, the Parent Company's combined ownership remained at 49.0%. As of December 31, 2020, the approval of the increase in authorized capital stock is pending with SEC.



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 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 assets and operations include the Darajat and Salak geothermal fields in West Java, Indonesia, with a combined capacity of 637MW of steam and power.

Investment in Yoma Strategic Holdings Ltd. (YSH)

On October 14, 2019, 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 FMI (see Note 9). 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 was 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 BHL 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.

On November 27, 2020, VIP invested in a USD46.4 million loan as its second tranche investment into YSH. The term of the loan is five (5) years with an option to extend to either seven (7) or ten (10) years, with coupon interest of 5.243% resettable after each 6-month period to coupon rate equal to the sum of 6-month LIBOR plus 5%. The said loan to YSH is not convertible to YSH shares.

The fair value of the YSH shares held by the Group, assuming only the listed price in the Singapore Exchange without considering any premium or goodwill, amounted to US\$73.0 million (P3.5 billion) and US\$86.5 million (P4.4 billion) as of December 31, 2020 and 2019, respectively.

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 (P1,519.1 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 (NESF) 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 (P176.2 million) and US\$6.59 million (P333.7 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 (P1,592.5) 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.

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 P35.0 million and P30.0 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 P78.4 million in 2019 and 2018, respectively. As of December 31, 2020 and 2019, the net carrying value of the investment in AFPI amounted to nil.

As of December 31, 2020 and 2019, AC Infra's remaining equity investment commitment for the project amounted to P59.6 million and P90.0 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 P154.66 million. As of December 31, 2019, the fair values of identifiable assets and liabilities acquired amounted to P0.85 million and P0.59 million, respectively. ACEI Group's share in net assets of IslaBio is P0.11 million and corresponding notional goodwill on this investment amounted to P154.55 million which formed part of the carrying amount of the investment as of December 31, 2019. 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.

In 2020, ACEI Group assessed that its investment in Isla Bio was impaired. The Group expects the return on its investment in Isla Bio through dividends. Given however that the projects where Isla Bio has investments have not started commercial operations, are still completing pertinent regulatory permitting requirements, and in the process are accumulating pre-operating costs and losses, ACEI Group has provided allowance for impairment losses amounting to P195.6 million (see Note 23).



Investment in Generika Group of Companies

On March 13, 2019, AC Health 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, AC Health proceeded with the closing of the increase to 52.5% equity stake in Erikagen, Inc.

AC Health recognized a gain amounting to ₱281.9 million as a result of measuring at fair value its 50% equity interest in Generika held before the business combination (see Note 24).

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. The PCC approved the transaction on August 23, 2017. On September 27, 2017, parties completed the closing of this transaction resulting to Parent Company's 10% ownership in Mynt.

On December 16, 2019, Mynt issued new shares in exchange for additional capital infusion from GCVHI and Ant Financial. The Parent Company (through AC Ventures) did not participate in this capital call, leading to a dilution of the Parent Company's ownership in Mynt to 7.6%.

On various dates in 2020, Mynt issued new shares in exchange for additional capital infusion from GCVHI, Ant Financial, and new investor ASP Philippines LP.

ASP Philippines LP is a limited partnership fund managed by investment firm Bow Wave Capital Management (Bow Wave), a close-ended private equity fund with a mandate to invest globally in online and mobile payment ecosystem companies.

Mynt raised over US\$175 million in fresh capital from Bow Wave and its existing shareholders in multiple tranches, with post-money valuation of the final tranches at close to US\$1 billion. Bow Wave's investment in Mynt, its first in the Philippines, will translate to a minority equity interest in the Mynt.

The Parent Company (through AC Ventures) did not participate in these capital calls, leading to a dilution of the Parent Company's ownership in Mynt to 5.9% as of December 31, 2020.

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. As of and for the period ended December 31, 2020, the Parent Company has booked a ₱397.4 million dilution gain on its Mynt investment, triggered by the various capital calls from GCVHC, Ant Financial and Bow Wave.

In October 2020, Mynt has attracted fresh capital investment from ASP Philippines LP, a limited partnership fund managed by investment firm Bow Wave Capital Management ("Bow Wave"), to further spur growth of financial inclusion and the digitization of payments and financial services in the Philippines. Mynt raised over US\$175 million in fresh capital from Bow Wave and its existing shareholders in multiple tranches, with post-money valuation of the final tranches at close to US\$1 billion.

Bow Wave is a close-ended private equity fund with a mandate to invest globally in online and mobile payment ecosystem companies. Bow Wave's investment in Mynt, its first in the Philippines, will translate to a minority equity interest in the Mynt.



Bow Wave's capital infusion resulted in dilution of Globe Group's ownership in Mynt from 46% to 40%. Accordingly, gain on deemed sale amounting to ₱2,042.4 million was recognized by Globe from this transaction.

As of December 31, 2020 and 2019, 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:

2020

	Land	Building	Construction- in-Progress	Total
	(In Thousands)			
Cost				
Balance at beginning of year	₱89,170,261	₱129,096,246	₱64,546,542	₱282,813,049
Additions	1,523,773	2,025,977	2,327,959	5,877,709
Exchange differences	(150,753)	(33,667)	—	(184,420)
Disposals	(562,284)	(1,865,197)	(157,541)	(2,585,022)
Transfers (Notes 8 and 12)	(18,073,185)	844,905	(784,535)	(18,012,815)
Balance at end of year	71,907,812	130,068,264	65,932,425	267,908,501
Accumulated depreciation and amortization				
Balance at beginning of year	—	35,951,270	—	35,951,270
Depreciation and amortization (Note 23)	—	5,610,176	—	5,610,176
Disposals	—	(332,815)	—	(332,815)
Exchange differences	—	(960)	—	(960)
Transfers (Notes 8 and 12)	—	(130,786)	—	(130,786)
Balance at end of year	—	41,096,885	—	41,096,885
Accumulated impairment losses				
Balance at beginning and end of year	129,441	—	—	129,441
Impairment losses (Note 23)	—	225,208	—	225,208
Balance at end of year	129,441	225,208	—	354,649
Net book value	₱71,778,371	₱88,746,171	₱65,932,425	₱226,456,967

2019

	Land	Building	Construction- in-Progress	Total
	(In Thousands)			
Cost				
Balance at beginning of 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 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



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 development and construction period normally range from three years to five years and depends heavily on the size of the assets.

The aggregate fair value of the Group's investment properties - land and building - amounted to ₱458,146.2 million and ₱495,845.1 million as of December 31, 2020 and 2019, respectively. The fair values of the investment properties were determined by independent professionally qualified appraisers.

2020

		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	₱266,211,236	₱-	₱266,211,236
Retail properties	Various	84,187,480	-	84,187,480
Office properties	Various	106,441,044	-	106,441,044
Hospital properties	Various	1,306,435	-	1,306,435

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

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 fair values of the construction-in-progress were carried at cost. The Group expects the fair value of investment property to be reliably measured when constructions are completed.

The significant unobservable inputs to valuation of investment properties ranges from ₱1,500 to ₱278,000 per sqm. in 2020 and 2019.

Interest capitalized amounted to ₱40.1 million, ₱22.8 million and ₱19.0 million in 2020, 2019 and 2018, respectively. The capitalization rates are 2.63 to 5.18%, 4.41 to 7.00% and 2.00 to 7.65% in 2020, 2019 and 2018, respectively.



Consolidated rental income from investment properties amounted to ₱18,468.9 million, ₱31,687.1 million and ₱28,522.4 million in 2020, 2019 and 2018, respectively. Consolidated direct operating expenses arising from the investment properties amounted to ₱7,467.0 million, ₱6,822.3 million and ₱5,906.2 million in 2020, 2019 and 2018, respectively.

Depreciation and amortization expense pertaining to investment properties amounted to ₱5,610.2 million, ₱4,404.5 million and ₱4,052.3 million in 2020, 2019 and 2018, respectively (see Note 23).

Except as stated otherwise, the Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct and develop investment properties or for repairs, maintenance and enhancements.

Certain short-term and long-term debt are secured by real estate mortgages dated September 2, 2014 and March 14, 2016 covering both land and building of the Greenbelt Mall.

12. Property, Plant and Equipment

The movements in property, plant and equipment follow:

	2020						
	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	₱35,911,906	₱46,209,533	₱18,686,025	₱12,847,266	₱5,367,559	₱1,885,665	₱120,907,954
Additions	1,762,611	1,751,151	883,692	1,160,724	236,935	5,218,531	11,013,644
Additions through business combination (Note 24)	668,172	1,303,102	—	214,592	896	—	2,186,762
Disposals	(362,637)	(1,021,491)	—	(460,353)	(290,594)	(15,283)	(2,150,358)
Transfers (Note 11)	1,382,874	(6,215,990)	—	6,970,064	(14,392)	(384,957)	1,737,599
Exchange differences	(47,723)	(267,355)	—	(56,349)	(974)	6,366	(366,035)
Others	(485,131)	57,249	—	(380,694)	53,788	565,277	(189,511)
At December 31	38,830,072	41,816,199	19,569,717	20,295,250	5,353,218	7,275,599	133,140,055
Accumulated depreciation and amortization and impairment loss							
At January 1	8,218,897	12,461,668	2,840,234	6,536,626	2,068,774	—	32,126,199
Depreciation and amortization for the year (Note 23)	1,864,485	3,873,620	565,920	1,011,222	569,848	—	7,885,095
Impairment loss/reversal (Note 23)	—	513,306	—	13,958	—	96,620	623,884
Disposals	(146,932)	(763,417)	—	(364,551)	(168,996)	—	(1,443,896)
Transfers (Note 11)	25,704	79,769	—	(105,518)	45	—	—
Exchange differences	(7,460)	(295,987)	—	(57,919)	(5,845)	—	(367,211)
Others	112,228	94,566	—	(447,849)	19,059	—	(221,996)
At December 31	10,066,922	15,963,525	3,406,154	6,585,969	2,482,885	96,620	38,602,075
Net book value	₱28,763,150	₱25,852,674	₱16,163,563	₱13,709,281	₱2,870,333	₱7,178,979	₱94,537,980

	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 (Note 25)	(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

(Forward)



	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)						
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 (Note 23)	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 (Note 25)	(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

In 2019, additions through business combination of land, building and improvements and plant, machinery and equipment of SLTEC and ACEN amounting to ₱489.8 million and ₱13.3 million, respectively, was transferred to right-of-use of asset.

In 2020, the ACEI Group acquired assets with a total cost of ₱6,452.42 million, excluding property, plant and equipment acquired through a business combination. The net book value of assets acquired through the business combination with SACASOL and ISLASOL amounted to ₱618.94 million and ₱1,500.86 million, respectively (see Note 24).

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 (see Note 25).

In 2020, ACEI Group invested significant capital expenditures related to the following projects:

- ₱3,321.33 million for its 120 MW solar farm project in Alaminos, Laguna through its subsidiary, Solarace1 Energy Corp.;
- ₱464.75 million for its 150 MW diesel-fired power facility in Pililia, Rizal through its subsidiary, Ingrid Power Holdings, Inc.
- ₱1,657.69 million for its 60 MW solar power project in Palauig, Zambales through its subsidiary, Gigasol 3, Inc.;
- ₱105.18 million for its 5 MW Solar Plant Project in Mariveles Bataan through its subsidiary, BSEI.
- Capital expenditures for One Subic Power amounting to ₱269.24 million which consists of crankshaft engine, air cooler, major parts for diesel engines.
- Capitalized costs for ACEN amounting to ₱100.63 million which consists of drydocking costs of PB101, cylinder head cover and installation costs of engine bearing.

On September 20, 2020, Bataan Solar Energy, Inc. (BSEI) issued the Notice to Proceed (NTP) for the development of a 4.375 MWdc Renewable Energy Laboratory Facility with Energy Storage System Project (the Project) in Brgy. Batangas-II Mariveles, Bataan. The project utilizes state-of-the art technologies in the solar and storage industry with various types of modules, mounting structures, inverters and energy storage system with the view of acquiring first-hand experience in operating such technologies. Power generated will be initially sold to WESM. Given however the lack of economies of scale for the project, the management assessed that the expected revenue cannot cover return of the investment in the project and thereby provided impairment for the project's various spending to date for its construction in progress and tools and miscellaneous assets under property, plant and equipment and advances to contractors amounting to ₱97.58 million, ₱14.89 million and ₱49.88 million, respectively.



In 2020, ACEN recognized full provision for impairment of its Power Barges (PB) 102 and 103 totaling to ₱270.53 million. These assets are not operational as at December 31, 2020 and there are no existing ancillary service contracts to utilize these assets for income generation. The group reassessed the depreciation policies of its property, plant and equipment and estimated that their useful lives will not be affected following this decision.

Due to declining demand brought by the global automotive downturn, IMI Group recognized impairment losses on certain machineries amounting to US\$2.62 million in 2020.

ALI Group performed impairment testing on its hotel property and equipment with a carrying value of ₱21,527.0 million as of December 31, 2020, by assessing its recoverable amount through estimation of its value in use VIU. VIU is the present value of the future cash flows expected to be derived from an asset. The significant assumptions used in the valuation are discount rates of 7.00% to 12.00% with an average growth rate of 3.00%. ALI Group also considered in its assumptions the impact of the pandemic on the occupancy rate and room rates which are not expected to normalize until 2024. Based on the impairment testing, there is no impairment loss on the Group's hotel property and equipment (see Note 4).

Guimaras Wind's wind farm with carrying value of ₱3,909.77 million and ₱4,106.00 million as at December 31, 2020 and 2019, respectively included under "Plant, Machinery and Equipment" account is mortgaged as security for the long-term loan.

Except as otherwise stated, ALI Group has no restrictions on its property, plant and equipment and none of these have been pledged as security for its obligations. Capital expenditures for hotel buildings in the course of construction amounted to ₱6,775.5 million and ₱5,915.9 million as of December 31, 2020 and 2019, respectively, and are included in property, plant and equipment. The total contractual commitments arising from awarded contracts for the acquisition, development and construction of property, plant and equipment amounted to ₱368.7 million.

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱7.9 billion, ₱9.5 billion and ₱5.3 billion in 2020, 2019 and 2018, respectively (see Note 23).

13. Service Concession Assets and Obligations

Service Concession Assets (SCA)

The movements in this account follow:

	2020	2019
	(In Thousands)	
Cost		
At January 1	₱2,165,260	₱132,606,673
Additions during the year		
Construction and rehabilitation works	19,541	10,728,197
Concession fees	-	2,526,529
Local component cost	-	62,411
Transfers	-	2,578
Reclassification to PFRS 5	-	(143,761,128)
At December 31	2,184,801	2,165,260
Accumulated amortization		
At January 1	526,744	34,202,187
Amortization (Note 23)	101,816	2,905,938
Impairment loss	-	5,207,000
Reclassification to PFRS 5	-	(41,788,381)
At December 31	628,560	526,744
Net book value	₱1,556,241	₱1,638,516



As of December 31, 2020 and 2019, SCA pertains to the Parent Company's concession agreement with the DPWH.

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 (ROW) 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, 2020, the variation order claim is still being evaluated.

As of December 31, 2020 and 2019, 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:

	2020	2019
	(In Thousands)	
Current	₱19,880	₱13,607
Noncurrent	66,338	52,412
	₱86,218	₱66,019

MWC's Concession Agreement

The movements in this account follow:

	2020	2019
	(In Thousands)	
Cost		
Balance at beginning of year	₱143,761,127	₱130,498,989
Additions:		
Rehabilitation works	10,747,465	10,670,620
Concession fees	755,514	2,526,529
Transfers (Note 9)	—	2,579
Local component cost	59,503	62,410
Balance at end of year	155,323,609	143,761,127
Accumulated amortization		
Balance at beginning of year	67,453,129	33,781,926
Amortization	2,349,999	2,799,454
Pre-PFRS 5 impairment loss (Note 25)		5,207,000
Impairment loss (reversal) on remeasurement to fair value less costs to sell (Note 25)	(4,360,667)	25,664,749
Balance at end of year	65,442,461	67,453,129
Net book value	₱89,881,148	₱76,307,998

SCA consists of the present value of total estimated concession fee payments, including regulatory costs and local component costs of MWC, Laguna Water, Boracay Water, Clark Water, Obando Water, Calasiao Water, Bulakan Water, South Luzon Water, Lambunao Water and Aqua Centro (Lambunao Project) pursuant to MWC Group's concession agreements, JVA and septage management agreement (SMA), and the revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements, JVAs and SMA. As of December 31, 2020 and 2019, SCA includes assets under construction amounting to ₱27,683.14 million and ₱22,920.69 million, respectively.

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 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 ₱1,637.3 million, ₱980.92 million and ₱1,018.3 million in 2020, 2019 and 2018, respectively. The capitalization rates used range from 6.62% to 11.68%, 4.50% to 7.66%, and 6.57% to 7.57% in 2020, 2019 and 2018, respectively.

As of December 31, 2020 and 2019, noncash acquisitions of SCA amounted to ₱145.24 million and ₱338.70 million, respectively.

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*
2021	\$7,545,467	₱395,714,907	₱758,070,869
2022	7,228,510	395,714,907	742,849,643
2023	8,209,469	395,714,907	789,958,237
2024	8,009,162	395,714,907	780,338,894
2025	3,857,667	395,714,906	580,971,648
2026 onwards	77,997,023	4,352,863,974	8,098,515,010
	\$112,847,298	₱6,331,438,508	₱11,750,704,301

*Peso equivalent is translated using the PDEX closing rate as of December 29, 2020 amounting to ₱48.02 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, 2020 and 2019 amounted to ₱12.02 million and ₱50.98 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:

- Servicing the aggregate peso equivalent of all liabilities of BWSS as of commencement date;
- 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes which are for the account of BIWC; and
- 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:

- Annual franchise fee of ₱1.5 million;
- 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, 2020 and 2019, concession fees recognized as part of SCA arising from the concession agreement with OWD amounted to ₱436.6 million and ₱454.5 million, respectively. For the years ended December 31, 2020 and 2019, concession fees recognized as part of SCO arising from the concession agreement with OWD amounted to ₱392.1 million and ₱383.8 million

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) calendar 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) calendar 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

<u>Appointment Period</u>	<u>Revenue Share</u>
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:

<u>Appointment Period</u>	<u>Revenue Share</u>
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 ₱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:

<u>Appointment Period</u>	<u>Revenue Share</u>
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 2020 and 2019, 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:

	2020									
	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	₱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
Additions during the year	-	-	-	16,123	34,458	-	-	8,736	-	59,317
Additions through business combination (Note 24)	516,994	-	-	-	-	1,290,414	-	-	2,191,814	3,999,222
Exchange differences	(72,182)	(48,172)	(39,531)	-	4,330	285	(53,805)	-	-	(209,075)
Retirement/disposals	-	-	-	(790,859)	-	-	-	-	-	(790,859)
Reclassification/others	787	-	20,440	(93)	(14,441)	(4,839)	77,525	11,341	258,603	349,323
At December 31	12,449,019	1,073,049	1,470,494	88,899	785,647	2,181,118	1,300,264	4,339,349	2,572,201	26,260,040
Accumulated amortization and impairment loss										
At January 1	2,457,900	1,046,233	392,727	807,646	525,292	15,430	291,193	682,400	7,365	6,226,186
Amortization (Note 23)	-	42,069	167,818	20,370	57,678	-	261,935	150,033	127,463	827,366
Impairment loss (Note 23)	27,117	-	81,750	-	-	23,886	228,661	-	-	361,414
Exchange differences	(18,030)	(52,591)	(25,782)	-	(5,424)	8,441	(24,198)	-	-	(117,584)
Retirement/disposals	-	-	-	(790,798)	-	-	-	-	-	(790,798)
Reclassification/others	-	-	(2,024)	153	(13,079)	-	78,948	-	64,885	128,883
At December 31	₱2,466,987	1,035,711	614,489	37,371	564,467	47,757	836,539	832,433	199,713	6,635,467
Net book value	₱9,982,032	₱37,338	₱856,005	₱51,528	₱221,180	₱2,133,361	₱463,725	₱3,506,916	₱2,372,488	₱19,624,573

	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 (Note 25)	(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/others	-	21,366	(20,268)	12,973	(506)	-	(1,021)	(38,669)	(5,598)	(31,723)
Reclassification to PFRS 5 (Note 25)	-	-	-	-	-	-	-	(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



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):

	2020		2019	
	In US\$	In Php*	In US\$	In Php*
STI	US\$58,638	₱2,815,781	US\$56,628	₱2,867,334
VIA	48,728	2,339,938	44,325	2,244,395
Speedy Tech Electronics, Ltd. (STEL)	38,225	1,835,573	38,225	1,935,532
IMI	1,098	52,715	1,098	55,586
IMI CZ	556	26,701	506	25,611
	US\$147,245	₱7,070,708	US\$140,782	₱7,128,458

*Translated using the PDEx closing exchange rate at the consolidated statement of financial position date (US\$1:₱48.02 in 2020 and US\$1:₱50.64 in 2019).

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:

	2020	2019
VIA	10.11%	12.78%
STEL	11.45%	12.36%
STI	12.85%	9.47%
IMI CZ	10.60%	7.90%

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.



In 2020 and 2019 despite the weak economy and impact of the pandemic, management assessed that no additional impairment loss should be recognized given the strategies in place to improve the financial projections and lower discount rates. No impairment loss was assessed for STI, VIA, IMI and IMI CZ in 2020, 2019 and 2018. For STEL, an impairment loss amounting to US\$6.90 million was recognized triggered by slowing growth in the region in 2018 (see Note 23).

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of STI, VIA, STEL 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 2020 and 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 2020, 2019 and 2018.

ACEI Group

Goodwill recognized in 2020 came from the acquisition of ISLASOL amounting to ₱12.5 million (see Note 24).

ACEI Group performs its annual impairment test in December and when circumstances indicate that the carrying value may be impaired. In light of the impact of COVID-19 and the enhanced community quarantine restricting movements and construction activities, management reassessed recoverable amounts for ACEI Group's goodwill. Forecasts and the underlying assumptions from an earlier impairment testing date (those disclosed in the annual consolidated financial statements as of December 31, 2019), have been revised to reflect the economic conditions as of December 31, 2020 and updated to reflect the potential impact of COVID-19.

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. Based on management's assessment, there is no impairment loss to be recognized on goodwill as of December 31, 2020 despite reduction in forecasted WESM prices. The pre-tax discount rates in the updated analysis range from 7.3% to 10.6% 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. An impairment will result if the discount rate is at 12%.

No impairment loss was recognized in 2020, 2019 and 2018, respectively.

Changes to the way in which ACEI Group manages its activities resulted in changes to its operating segments. ACEI Group reallocated its goodwill following the changes in its operating segments since ACEI Group has previously allocated goodwill at segment level.

Prior to change, the CGUs of ACEI Group were comprised of renewable and thermal. Subsequent to change, the CGUs of ACEI Group are comprised of Philippines renewables, International renewables and thermal. Goodwill of ₱479.3 million and ₱307.0 million were allocated between Philippines-renewables and International-renewables, respectively. ACEI Group reallocated the goodwill based



on the relative values. The change in the composition of CGU and reallocation of goodwill did not result to any impairment.

The Group also performed impairment testing for all other goodwill. Total impairment loss recognized by the Group on goodwill amounted to ₱27.1 million, ₱367.9 million and nil in 2020, 2019 and 2018, respectively.

Customer relationships

Customer relationships pertain to STEL Group, IMI BG and VTS' 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 (₱945.9 million) were fully amortized as of December 31, 2020 and 2019.

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.

As of December 31, 2020 and 2019, the carrying value of STEL Group and Merlin USA's unpatented technology amounted to ₱576.1 million and ₱529.5 million, respectively.

The unpatented technology amounting to \$0.01 million (₱0.5 million) was fully amortized as of December 31, 2020 and 2019.

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, 2020 and 2019, the carrying value of VIA and VTS's intellectual properties amounted to \$5.9 million and \$6.6 million, respectively.

Licenses

This includes acquisitions of computer software, applications and modules.

Developed Software

Developed software includes the system application acquired by the AC Health 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 from the acquisition of Merlin USA and trademark recognized by AC Health from the acquisition of Healthway Philippines, Inc. and Generika Group by AC Health in 2020 and 2019, respectively. The trademark of AC Industrial has a definite useful life while the trademarks of AC Health have an indefinite useful life.

Project development cost

Project development cost includes cost arising from the development phase of certain projects of IMI which are still undergoing qualification. Due to significant delay in the ramp up of certain projects and declining demand brought by the global automotive downturn, IMI Group recognized impairment loss amounting to ₱228.7 million in 2020 (see Note 23).



Leasehold and other rights

Leasehold rights consist of the following:

- Through the acquisition of AyalaLand Logistics Holdings Corp. (ALLHC), formerly Prime Orion Philippines, Inc. (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 rights 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). 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.

Others

Other intangible assets include contract of ACEI Group for the supply and distribution of water to third parties. This also includes intangible asset arising from identifiable FIT contract which was recognized from the acquisition of SACASOL with remaining useful life of 14 years (see Note 24).

15. Other Noncurrent Assets

This account consists of the following:

	2020	2019
	(In Thousands)	
Investment in debt and equity securities	₱24,918,211	₱8,208,898
Deferred charges	11,861,180	11,517,876
Advances to contractors	9,387,018	13,664,137
Deferred input VAT	4,122,796	2,045,667
Deposits - others	2,654,421	3,330,646
Creditable withholding taxes	1,343,207	2,208,663
Pension assets (Note 28)	22,472	80,596
Others (Note 32)	4,542,224	6,247,046
	₱58,851,529	₱47,303,529



Investments in debt and equity securities

This account consists of debt and equity investments, which are classified as financial assets at amortized cost, financial assets at fair value through OCI and financial assets at fair value through profit or loss as follows:

	2020	2019
	(In Thousands)	
Financial assets at amortized cost		
Redeemable preferred shares and subscription deposits	₱8,181,268	₱3,374,290
Convertible loans	7,115,837	—
Financial assets at FVOCI		
Investment in bonds	2,309,440	2,305,402
Quoted equity investments	2,124,826	1,633,763
Unquoted equity investments	1,224,942	895,443
Financial assets at FVTPL		
Convertible loans	3,961,898	—
	₱24,918,211	₱8,208,898

Financial assets at amortized cost

Investment in redeemable preferred shares and subscription deposits

The rollforward analysis of this account follows:

	2020	2019
	(In Thousands)	
Balances at beginning of year	₱3,374,290	₱1,780,834
Additions	2,899,776	2,264,805
Subscription deposits	2,087,275	—
Redemption	—	(449,371)
Cumulative translation adjustment	(180,072)	(221,978)
Balances at end of year	₱8,181,268	₱3,374,290

Investments in redeemable preferred shares

UPC Renewables Asia III Ltd. (UPC Asia III)

On January 11, 2017, ACEI Group entered into an agreement for subscription to Redeemable Class A preferred shares of UPC Asia III. UPC Asia III owns 75MW Wind Farm in South Sulawesi, Indonesia. Redeemable Class A preferred shares are entitled to dividends at fixed, cumulative, and compounding rate annually. The Redeemable Class A preferred shares are non-voting shares and are redeemable at par plus any accrued dividends at the holder's option within 60 days from earlier of July 15, 2035 or date as soon as funds are realized by UPC Asia III or its subsidiaries.

As of December 31, 2020 and 2019, investment in Redeemable Class A preferred shares amounted to US\$21.9 million (₱1,050.2 million) and US\$21.9 million (₱1,109.5 million), respectively. Interest income amounted to US\$4.2 million (₱200.8 million) and US\$4.6 million (₱233.7 million) in 2020 and 2019, respectively.

AMI AC Renewables Corporation (AAR)

On January 22, 2018, ACEI Group entered into an agreement for subscription to Redeemable Class A and B preferred shares of AAR. AAR owns a combined 80MW of Solar Farm in Khan Hoa and Dak Lak Province, Vietnam. Redeemable Class A and B preferred shares are entitled to dividends at fixed base rate annually. The Redeemable Class A and Class B preferred shares are redeemable at par and only by cash at the issuer's option on "first in, first out" basis but no earlier than the 5th year from subscription date and no later than the end of the project, and all accrued coupons are current.



As of December 31, 2020 and 2019, investment in Redeemable Class A and B preferred shares amounted to US\$66.3 million (₱3,185.6 million) and US\$20.0 million (₱1,012.3 million), respectively. Interest income amounted to US\$4.7 million (₱224.1 million) and US\$2.2 million (₱107.9 million) in 2020 and 2019, respectively.

BIM Renewable Energy Joint Stock Company (BIMRE)

In November 2019, ACEI Group converted deposit for future equity in BIMRE into 3,437,000 redeemable Class A preferred shares and 3,437,000 redeemable Class B preferred shares. BIMRE owns 300MW of Solar Farm in Ninh Thuan Province, Vietnam. The Redeemable Class A and Class B preferred shares are non-voting shares entitled to dividends at fixed, cumulative and compounding base rate annually. Shares are redeemable at par and only by cash and at the issuer's option on "first in, first out" basis but no earlier than the 13th year (for Class A) and 7th year (for Class B) from subscription date and no later than the end of project, and all accrued coupons are current.

As of December 31, 2020 and 2019, investment in Redeemable Class A and Class B preferred shares amounted to US\$20.4 million (₱981.3 million) and US\$20.4 million (₱1,036.62 million), respectively. Interest income amounted to US\$2.8 million (₱132.0 million) and US\$2.3 million (₱112.6 million) in 2020 and 2019, respectively.

BIM Energy Joint Stock Company (BIME)

On November 4, 2019, ACEI Group converted deposit for future equity in BIME into 343,700 redeemable Class A preferred shares and 343,700 redeemable Class B preferred shares. BIMRE owns 30MW of Solar Farm in Ninh Thuan Province, Vietnam. The Redeemable Class A and Class B preferred shares are non-voting shares entitled to dividends at fixed, cumulative and compounding base rate annually. Shares are redeemable at par and only by cash and at the issuer's option on "first in, first out" basis but no earlier than the 13th year (for Class A) and 7th year (for Class B) from subscription date and no later than the end of project, and all accrued coupons are current.

As of December 31, 2020 and 2019, investment in Redeemable Class A and Class B preferred shares amounted to US\$4.3 million (₱204.3 million) and US\$4.3 million (₱215.86 million), respectively. Interest income amounted to US\$0.6 million (₱26.7 million) and US\$0.3 million (₱14.1 million) in 2020 and 2019, respectively.

UPC-AC Energy Solar Limited (UPC Solar)

On July 29, 2020, the Group entered into an agreement for subscription of Class A Redeemable Preferred Shares. UPC Solar is currently developing solar farms with combined capacity of 210 MW in the Provinces of Rajasthan and Gujarat, India. The Class A Redeemable Preferred Shares are nonvoting shares entitled to dividends at fixed, cumulative, compounding base rate annually. These are redeemable at the option of the issuer and subject to cash availability and these will be redeemed after commercial operations date and no later than the end of project.

As of December 31, 2020, investment in Class A Redeemable Preferred shares amounted to US\$14.0 million (₱672.5 million). Interest income amounted to US\$0.3 million (₱14.4 million) in 2020.

Redeemable preferred shares bear coupon ranging from 11.2% to 14.0% per annum. Dividends on redeemable preferred shares which are classified and accrued as interest income on a monthly basis are subject to declaration prior to payment.

Subscription Deposits

In 2020, ACEI Group entered into an Amendment and Supplement to Share Subscription Agreement for additional Common Shares, Class A Preferred Shares and Class B Preferred Shares for 30% ownership in BIMRE. As of December 31, 2020, total subscriptions deposit made is at \$4.0 million (₱190.1 million).



On April 16, 2020, ACEI Group entered into a Share Subscription and Deposit Agreement for additional Class A Preferred Shares of AAR. AAR owns the 50 MW solar plant in Khan Hoa province and 30 MW solar plant in Dak Lak province, both in Vietnam. As of December 31, 2020, ACEI Group made a subscription deposit of \$7.5 million (P361.4 million).

On July 7, 2020, ACEI Group entered into a Share Subscription and Deposit Agreement for non-interest deposit with BIM Wind. As of December 31, 2020, ACEI Group made a subscription deposit of \$32.0 million (P1,535.8 million)

Convertible loans

The rollforward analysis of this account follows (in thousands):

Balance at January 1, 2020	P-
Reclassified from receivables from related parties	1,196,290
Additions	5,983,388
Cumulative translation adjustment	(63,841)
Balance at December 31, 2020	P7,115,837

UPC-AC Energy Australia HK Ltd

On May 26, 2020, the Group entered into an agreement with UPC-AC Energy Australia HK Ltd. to make available a convertible loan facility in aggregate principal amount not exceeding US\$48.5 million (P2,350.6 million). The Convertible Shareholder Loan Agreement was entered for the development and construction of NESF Project. The principal and interest of the convertible loan are payable on 25th anniversary of the drawdown date. The Group, from time to time until the 25th anniversary of the drawdown date, has an irrevocable right to convert all or part of the conversion amount into conversion shares at US\$1.00 per share. Shares issued shall be valid, fully paid, non-assessable, redeemable preferred shares with no voting rights. Redeemable preferred shares shall earn coupon rate which is fixed, cumulative, and compounding annually and are not entitled to any additional dividends. The redeemable preferred shares are redeemable only by cash at the issuer's option on "first in first out" basis but no later than end of the project.

On June 30, 2020, the Group entered into an agreement to make available a convertible term loan facility in an aggregate principal amount of US\$275.0 million (P13,327.9 million). The Convertible Shareholder Loan Agreement was entered to fund various investments in Australia. The principal and interest of the convertible loan are payable on 25th anniversary of the drawdown date. The Group, from time to time until the 25th anniversary of the drawdown date, has an irrevocable right to convert all or part of the conversion amount into conversion shares at US\$1.00 per share. Shares issued shall be valid, fully paid, non-assessable, redeemable preferred shares with no voting rights. Redeemable preferred shares shall earn coupon rate which is fixed, cumulative, and compounding annually and are not entitled to any additional dividends. The redeemable preferred shares are redeemable only by cash at the issuer's option on "first in first out" basis but no later than end of the project.

As of December 31, 2020, outstanding balance of the convertible loan amounted to US\$64.8 million (P3,113.1 million). Interest income amounted to US\$2.0 million (P93.9 million) in 2020.

Vietnam Wind Energy Limited

On April 17, 2020, the Group entered into a Convertible Shareholder Agreement with Vietnam Wind Energy Limited to make available a convertible loan facility in aggregate principal amount not exceeding US\$38.0 million (P1,841.7 million). The Convertible Shareholder Agreement was entered to provide financing for the development and construction of various wind projects in Vietnam. The convertible loan bears annual fixed rate and payable upon maturity. The principal and interest of the convertible loan are payable 220 months after the project commercial operations date. The Group, from time to time until the maturity date, has an irrevocable right to convert all or part of the conversion amount into conversion shares at US\$1.00 per share. Shares issued shall be valid, fully paid, non-assessable, redeemable preferred shares with no voting rights. Redeemable preferred



shares shall earn coupon rate which is fixed, cumulative, and compounding annually and are not entitled to any additional dividends. The redeemable preferred shares are redeemable only by cash at the issuer's option on "first in first out" basis no later than end of the project.

As of December 31, 2020, outstanding balance of the convertible loan amounted to US\$38.0 million (P1,825.4 million). Interest income amounted to US\$2.9 million (P138.1 million) in 2020.

Asian Wind Power 1 HK Ltd

On April 12, 2019, the Group entered into a Convertible Preferred A Facility Agreement with Asian Wind Power 1 HK Ltd to make available a convertible loan facility in aggregate principal amount not exceeding US\$26.00 million (P1,260.09 million). The Convertible Preferred A Facility Agreement was entered to finance the development and construction of Dai Phong Project. The convertible loan bears annual fixed rate payable quarterly. The principal and interest of the convertible loan are payable on 25th anniversary of drawdown date. The Group, from time to time until the 25th anniversary of the drawdown date, has an irrevocable right to convert all or part of the conversion amount into conversion shares at US\$1.00 per share. Shares issued shall be valid, fully paid, non-assessable, Class A preferred shares with no voting rights. Class A preferred shares shall earn coupon rate which is fixed, cumulative, and compounding annually and are not entitled to any additional dividends. The Class A preferred shares is redeemable only by cash at the issuer's option on "first in first out" basis.

As of December 31, 2020 and 2019, outstanding balance of the convertible loan amounted to US\$24.6 million (P1,180.5 million) and US\$23.6 million (P1,196.2 million), respectively. Interest income amounted to US\$5.4 million (P260.1 million) and US\$2.0 million (P94.2 million) in 2020 and 2019, respectively. In 2019, this was presented as receivable from related party.

Asian Wind Power 2 HK Ltd

In March 2020, the Group entered into a Convertible Preferred A Facility Agreement with Asian Wind Power 2 HK Ltd to make available a convertible loan facility in aggregate principal amount not exceeding US\$23.0 million (P1,114.7 million). The Convertible Preferred A Facility Agreement was entered to finance the development and construction of Hong Phong 1 Project. The convertible loan bears annual fixed rate payable quarterly. The principal and interest of the convertible loan are payable on 25th anniversary of drawdown date. The Group, from time to time until the 25th anniversary of the drawdown date, has an irrevocable right to convert all or part of the conversion amount into conversion shares at US\$1.0 per share. Shares issued shall be valid, fully paid, non-assessable, Class A preferred shares with no voting rights. Class A preferred shares shall earn coupon rate of which is fixed, cumulative, and compounding annually and are not entitled to any additional dividends. Class A preferred share is redeemable only by cash at the issuer's option on "first in first out" basis.

As of December 31, 2020, outstanding balance of the convertible loan amounted to US\$20.8 million (P996.9 million). Interest income amounted to US\$1.7 million (P83.3 million) in 2020.

Both for Asian Wind Power 1 HK Ltd and Asian Wind Power 2 HK Ltd, loans converted to investment in redeemable preferred shares are redeemable at the option of the issuer at par and has to be redeemed in case a liquidation event occurs and before returning the capital to the ordinary shareholders.

Convertible loan facilities bear interest ranging from 8.50% to 12.00% per annum.

Financial assets at FVOCI

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 other comprehensive income. 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 ₱1,578.6 million and ₱1,478.4 million as of December 31, 2020 and 2019, 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.

The carrying amount of the investment in CII amounted to US\$3.7 million (₱177.1 million) and US\$3.8 million (₱196.3 million) as of December 31, 2020 and 2019, 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 from ACEI Group:

Investments in Negros Island Solar Power, Inc. (ISLASOL) and San Carlos Solar Energy, Inc. (SACASOL)

In 2019, ACEI's investments in ISLASOL and SACASOL amounting to ₱55.20 million and ₱172.51 million, respectively, are equity securities of domestic corporations whose shares are not listed in PSE. Following ACEI Group's acquisition of ISLASOL and SACASOL, previously held interest in these companies were reclassified from financial assets at FVOCI to investment in subsidiaries (see Note 24).

The net fair value gain (loss) on financial assets at FVOCI as reflected in the equity section is broken down as follows:

	2020	2019
	(In thousands)	
Net unrealized gain on financial assets at FVOCI of the Parent Company and its consolidated subsidiaries	(₱1,099,522)	(₱1,181,953)
Share in the net unrealized loss on financial assets at FVOCI of associates and joint ventures	1,139,643	1,248,397
Reserves under PFRS 5	671	473
	₱40,792	₱66,917

The rollforward of unrealized gain (loss) on financial assets at FVOCI of the Parent Company and its consolidated subsidiaries is as follows:

	2020	2019
	(In thousands)	
At January 1	(₱1,181,953)	(₱1,196,758)
Changes in fair value recognized in equity	(99,453)	14,805
Reclassification of the FV loss on FVOCI equity investments	181,884	—
At December 31	(₱1,099,522)	(₱1,181,953)



Financial assets at FVTPL

Convertible loans

First Myanmar Investment Public Co. (FMI)

On November 8, 2019, the Parent Company signed definitive agreements to acquire a 20% stake in FMI.

The investment in FMI will be via US\$82.5 million convertible loan, which was made by VIP on January 23, 2020. VIP disbursed US\$82.5 million into FMI after securing approval from the Central Bank of Myanmar. The transaction forms part of the VIP's \$237.5 million investment in Yoma Group.

The term of the loan is two (2) years with an option to extend to five (5) years. The said loan is convertible to a 20% stake in FMI, and is subject to the satisfaction of certain conditions, including the issuance of regulations by the relevant Myanmar authorities allowing FMI to list the shares received by VIP upon conversion and VIP to trade the said shares, among others. Interest on the said loan shall be equal to any dividends or distributions declared by FMI from time to time to existing shareholders. As of December 31, 2020, the convertible loan remains unconverted.

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.

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.

Advances to contractors

Advances to contractors represents prepayments for the construction of investment properties, property and equipment and service concession assets.

Deferred input VAT

Deferred input VAT pertains to unamortized VAT portion from purchases of capital goods.

Deposits - others

This includes deposits and advances for projects which include escrow deposits and security deposits on land leases, electric and water meter deposits.

Others

Others pertain to prepayments for expenses that is amortized for more than one year. In 2020 and 2019, this includes restricted cash which amounted to ₱4,083.3 million and ₱4,261.8 million, 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:

	2020	2019
	(In Thousands)	
Contract Assets		
Current	₱2,847,272	₱3,159,675
Contract Liabilities		
Current	₱142,292	₱252,341



Set out below is the nature of contract assets and liabilities of the Group:

IMI Group

Contract assets and liabilities

As of December 31, 2020 and 2019, IMI Group's contracts assets and contract liabilities consist of:

	2020		2019	
	In US\$	In ₱	In US\$	In ₱
	(In Thousands)		(In Thousands)	
Contract assets – current	US\$54,525	₱2,618,291	US\$58,908	₱2,982,813
Contract liabilities – current	1,515	75,750	4,742	240,120

**Translated using the exchange rate at the reporting date (US\$1: ₱48.02 and US\$1: ₱50.64 on December 31, 2020 and 2019, respectively).*

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 ₱198.6 million and ₱171.9 million pertain to the unbilled delivery service revenue recognized by AC Infra Group as of December 31, 2020 and 2019, respectively. Upon issuance of the related service invoices, these shall be recognized as trade receivables.

17. Accounts Payable and Accrued Expenses

This account consists of the following:

	2020	2019
	(In Thousands)	
Accounts payable	₱95,403,179	₱104,887,772
Accrued expenses		
Project costs	18,220,433	18,269,215
Personnel costs	8,680,897	8,615,806
Professional and management fees	3,189,430	4,303,302
Repairs and maintenance	1,796,103	2,059,901
Rental and utilities	1,283,483	3,665,886
Advertising and promotions	1,128,123	1,418,547
Various operating expenses	5,963,087	5,679,698
Taxes payable	20,263,873	23,436,569
Liability for purchased land	9,316,978	9,936,887
Retentions payable	4,801,113	4,190,349
Interest payable	3,740,812	3,371,968
Dividends payable	2,251,883	4,496,286
Related parties (Note 32)	1,275,963	1,084,061
	₱177,315,357	₱195,416,247



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 project costs are billings not yet received from suppliers for direct materials and services from subcontractors. These are accruals of project costs such as equipment charges, materials, labor, overhead and provision for repairs and maintenance.

Accrued various operating expenses include accruals for supplies, commissions, transportation and travel, insurance, representation, dues and fees and others.

Taxes payable consists of output VAT, withholding taxes, business taxes, capital gains tax and other statutory payables, which are due within one year.

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.

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.

18. Other Current Liabilities

This account consists of:

	2020	2019
	(In Thousands)	
Deposits	₱25,124,784	₱25,481,979
Nontrade payables	704,620	1,075,740
Financial liabilities on put option (Notes 24 and 33)	466,712	1,584,703
Installment payable	153,784	13,876
Derivative liability	4,248	238,411
	₱26,454,148	₱28,394,709

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 ₱21,087.9 million and ₱22,826.6 million in 2020 and 2019, 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.

VIA

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%.

In 2020, the put options of VIA was terminated in accordance with the amendment in the shareholders' agreement. Triggered by VIA's IPO, the balance of \$15.3 million liability before the termination was closed to equity under Additional paid-in capital account of IMI (see Note 24).

STI

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 (losses) on put options included under "Other income" account amounted to \$6.1 million, \$3.5 million and (\$5.37) million in 2020, 2019 and 2018, respectively.

C-CON

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 exercised 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:

	2020	2019
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 2.4% to 6.5% per annum in 2020 and 5.30% to 6.70% per annum in 2019	₱21,791,882	₱23,176,325
Foreign currency debt - with interest rates ranging from 1.16% to 4.73% in 2020 and 2.45% to 4.98% in 2019	10,647,625	6,612,318
	₱32,439,507	₱29,788,643

ALI Group

The short-term debt of ALI Group amounting to ₱9,131.3 million and ₱18,032.8 million as of December 31, 2020 and 2019, respectively, represents peso and foreign-currency denominated bank loans with various interest rates. Peso-denominated short term loans had a weighted average cost of 4.0% and 4.98% per annum in 2020 and 2019, respectively.

In compliance with Bangko Sentral ng Pilipinas (BSP) rules on directors, officers, stockholders and related interests, certain short-term and long-term debt with a carrying value of ₱13,231.3 million and ₱24,416.9 million as of December 31, 2020 and 2019, respectively, 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 ₱2,288.3 million and ₱2,451.2 million as of December 31, 2020 and 2019, respectively, which is accounted as part of the "Investment properties" account.



AC Industrial Group

The Philippine peso debt of AC Industrial Group pertains to short-term loans with various banks and institutions amounting to ₱5.2 billion and ₱4.13 billion as of December 31, 2020 and 2019, respectively. These loans are unsecured and bear interest rate of 4.8% to 5.8% and 5.20% to 7.48% per annum in 2020 and 2019, respectively.

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 ₱507.2 million and ₱292.3 million as of December 31, 2020 and 2019, respectively. These loans are unsecured and bear interest rate at 3.3% to 5.5% and 4.85% to 5.85% per annum in 2020 and 2019, respectively.

IMI Group

As of December 31, 2020 and 2019, IMI Group has unsecured short-term loans aggregating to US\$206.5 million (₱9,916.3 million) and US\$126.1 million (₱6,382.6 million), respectively. These short-term loans have maturities ranging from 30-180 days and bear fixed interest rates ranging from 1.42% to 2.94% and 2.45% to 2.95% per annum in 2020 and 2019, respectively.

AC Infra

Entrego

In 2019, Entrego obtained up to ₱600.0 million unsecured short-term credit facilities, which is subject to interest based on prevailing market rates of 5.0% to 6.5% from BPI and RCBC, each, to fund its operations. Entrego successfully drawn ₱350.0 million and ₱250.0 million from its BPI and RCBC credit facilities as of December 31, 2019.

In 2020, Entrego obtained and drawn ₱1,000.0 million unsecured short-term credit facilities, which are subject to interest based on prevailing market rates of 4.8% to 6.0% from BPI and RCBC to fund its operations. Entrego made payments on RCBC loan amounting to ₱600.0 million reducing the outstanding loan balance to ₱1,000.0 million.

Entex

In 2020, Entex obtained and drawn a ₱1,000.0 million unsecured short-term credit facility, which is subject to interest based on prevailing market rate of 4.9% from RCBC to fund its operations.

As of and for the year ended December 31, 2020, interest payable and interest expense incurred related to the loan amounted to ₱1.1 million.

ACEI Group

As of December 31, 2020 and 2019, ACEI Group has short-term loans aggregating to ₱4,635.0 million and nil, respectively. These short-term bear fixed interest rates ranging from 1.88% to 10.0% in 2020.

Long-term debt consists of:

	2020	2019
	(In Thousands)	
The Parent Company:		
Bank loans - with fixed interest rates ranging from 3.8% to 6.0% and floating interest rates based on applicable benchmark plus credit spread ranging from 0.45% to 0.70% with varying maturity dates up to 2030	₱40,884,551	₱25,833,141
Bonds	39,757,939	39,710,925
	80,642,490	65,544,066

(Forward)



	2020	2019
	(In Thousands)	
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 0.70% to 5.13% in 2020 and 0.87% to 6.88% in 2019;	₱15,434,094	₱15,557,079
Philippine peso - with interest rates ranging from 1.90% to 9.00% in 2020 and 3.75% to 9.00% in 2019 (Note 24)	95,886,763	92,218,214
Bonds:		
Fixed for life notes	48,455,104	60,544,798
Green Bonds	36,880,885	20,727,418
Due 2020	–	3,995,321
Due 2021	13,996,408	13,934,766
Due 2022	22,608,179	12,614,111
Due 2023	14,943,504	14,887,529
Due 2024	17,944,498	17,915,811
Due 2025	21,130,603	14,908,645
Due 2026	15,896,222	15,856,414
Due 2027	7,942,687	7,924,640
Due 2028	9,916,583	9,896,154
Due 2033	1,986,730	1,985,276
Fixed Rate Corporate Notes (FXCNs)	5,650,000	7,039,272
	328,672,260	310,005,448
	409,314,750	375,549,514
Less current portion	36,514,381	23,878,725
	₱372,800,369	₱351,670,789

Reconciliation of carrying amount against nominal amount follows:

	2020	2019
	(In Thousands)	
Nominal amount	₱411,022,203	₱377,185,582
Unamortized discount	(1,707,453)	(1,636,068)
	₱409,314,750	₱375,549,514

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 ₱42.8 billion and ₱15.4 billion as of December 31, 2020 and 2019, respectively, in accordance with BSP regulations. A portion of the Parent Company's loans with BPI are also secured by dollar deposits of a subsidiary amounting to ₱4.1 billion as of December 31, 2020. 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 December 2013, the Parent Company drew ₱4.3 billion loan from BPI secured by ALI shares with a maturity date of December 14, 2020. The ₱4.3 billion loan had 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 December 2020, the Parent Company paid the remaining balance which amounted to ₱4,037.5 million.

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 5.29% 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 September 2020, the Parent Company and the local bank amended the existing agreement to lower the rate to 4.25%. As of December 31, 2020, the Parent Company has paid a total of ₱90.0 million, ₱30.0 million of which was paid in August 2020.

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 February 13, 2020 and April 7, 2020, the Parent Company drew down ₱2.5 billion and ₱7.5 billion, respectively, both payable for two years, from the same revolving term loan agreement. Both drawdowns are repriced quarterly.

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.

₱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 2020, 2019 and 2018, the Parent Company paid eleven principal payments, respectively for the ₱1.9 billion loan amounting to ₱23.8 million each.

In March 2020, as a result of a decrease in the fair value of the shares held as collateral, the Parent Company delivered additional ALI shares to be used as collateral (see Note 2).



10.0 Billion 10-year Loan Facility with US\$ Deposits as Collateral

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. In 2020, the Parent Company made four principal payments which amounted to ₱12.5 million each.

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 2020, the Parent Company also made four principal payments which amounted 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 amount was fully drawn on April 30, 2018. The original terms of the loan stipulated a fixed interest rate of 6.00% 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. On July 31, 2020, the Parent Company and the local bank agreed to revise the interest rate to 4.60% up to April 30, 2023 based on the applicable three (3) year PHP BVAL plus a corresponding spread. 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. In 2020, the Parent Company paid three principal payments amounting to ₱153.8 million each.

On October 5, 2020, the Parent Company signed a ₱10.0 billion term loan agreement with BPI secured by ALI shares. The said facility has tenor of ten (10) years with a term structure of 3Y + 3Y + 4Y and an interest rate based on the applicable BVAL rate + 100 basis points or 3.7500%, whichever is higher. On November 27 and December 22, 2020, the Parent Company drew ₱5.0 billion each for a total drawdown of ₱10.0 billion, both at a rate of 3.75%. Principal repayments amounting 1.25% of the total loan amount drawn shall be paid on the last day of each quarter after the one (1) year grace period has elapsed.

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
				2020	2019	
2011	10 years	6.80%	9,903,400	₱9,898,507	₱9,885,752	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	9,959,081	9,952,651	Callable from the 10th anniversary issue until every year thereafter until the 14th anniversary issue date
2016	7 years	3.92%	10,000,000	9,958,183	9,942,735	Callable from the 5.5th anniversary issue at call option price of 100.25%
2017	8 years	4.82%	10,000,000	9,942,168	9,929,787	Callable from the 6.5th anniversary issue at call option price of 100.25%
			₱39,903,400	₱39,757,939	₱39,710,925	



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, 2020 and 2019.

Interest accrued amounted to ₱3.6 billion and ₱3.9 billion in 2020 and 2019, respectively (see Note 18).

Subsidiaries

Foreign Currency Debt

For AYCFL’s bank borrowings, refer to Note 36 Commitments.

IMI Group

IMI

The long-term debts of IMI aggregating to US\$29.8 million and US\$135.8 million as of December 31, 2020 and 2019, respectively, were obtained from Singapore-based and local banks with terms of three to five years, subject to fixed annual interest rates ranging from 3.80% in 2020 and 2.70% to 3.41% in 2019.

VTS and IMI CZ

VTS and IMI CZ have unsecured long-term loans with Japanese and Czech-based banks that are payable in regular monthly installments both with terms of five years. The VTS loan has interest rate of 1.67% while the CZ loan bears interest based on 1-month EURIBOR plus 0.9% but is not to exceed 15% per annum.

VTS and IMI CZ incurred interest expense on its long-term debt amounting to \$0.06 million, \$0.08 million and \$0.06 million in 2020, 2019 and 2018, respectively.

ALI Group

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, repriced quarterly. The proceeds were on lent to MCT to refinance its existing loans. The loan will mature on the fifth anniversary of the initial drawdown date.

As of December 31, 2020 and 2019, the remaining aggregate balance of US Dollar-denominated long term loans amounted to ₱6,002.9 million and ₱6,329.4 million, respectively.

Philippine Peso Debt

ALI Group

In August to September 2015, ALI assumed an aggregate of ₱15,526.9 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, 2020 and 2019, the remaining balance of the assumed long-term facilities amounted to ₱11,592.5 million and ₱14,107.8 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. In June 2020, the ALI prepaid the remaining ₱12,662.0 million.

In January 2020, ALI executed and availed a ₱5,000.0 million 10-year long-term facility with a domestic bank. The loan carries a fixed interest rate of 4.500% p.a. for the initial 5 years. In December 2020, ALI also executed and availed a ₱10,000.0 million 10-year long-term facility with a domestic bank. The loan carries a fixed interest rate of 4.000% p.a. for the first 7 years. Both loans will be repriced on the 5th and 7th anniversary, respectively.

As of December 31, 2020 and 2019, remaining balance of the Peso-denominated long-term loans amounted to ₱41,230.0 million and ₱41,885.1 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 part 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, 2020 and 2019 amounted to ₱24,154.5 million and ₱25,401.3 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.

As of the years ended December 31, 2020 and December 31, 2019, outstanding balance of the interest-bearing loan amounted to ₱1,000.00 million.

On August 3, 2020, the ACEI prepaid ₱2,250.00 million of its long-term debt with Philippine National Bank (PNB) in accordance with the terms of the loan agreement. This is part of the ₱7,000.00 million loan with PNB, payable seven (7) years from initial drawdown date. ACEI pays 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. For 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 80% 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 ₱2,000 million was made by ACEI. Principal repayment amounted to ₱108.75 million and ₱8.7 million in 2019 and 2018, respectively. On August 3, 2020, ACEI prepaid ₱2,250.00 million of its loan in accordance with the terms of the loan agreement. The prepayments made were on initial drawdowns of ₱250.00 million on May 3, 2017 and ₱2,000.00 on May 25, 2018. As of December 31, 2020 and 2019, ACEI has undrawn loan amounted to ₱4.8 billion. The outstanding balance as of December 31, 2020 and 2019 is ₱nil and ₱2.1 billion, respectively.



On September 25, 2020, ACEI secured a 12-year term loan facility from BDO Unibank, Inc with maximum loanable amount of ₱10,000.00 million or its US dollar equivalent. On November 23, 2020 and on December 22, 2020 ACEI made drawdowns from the loan facility amounting to US\$62.50 (₱3,015.63 million) and US\$37.50 million (₱1,802.33 million), respectively. ACEI shall pay interest on the outstanding principal amount of the loan at the fixed rate of 4.04% and 4.03% per annum for the first five years term with duration of three (6) months commencing on the drawdown date. Interest shall then be repriced on the 5th anniversary from the drawdown date and will be fixed for the next 7 years until maturity.

As of the year ended December 31, 2020, outstanding balance of the interest-bearing loan amounted to ₱4,803.60 million.

On November 27, 2020, ACEI secured a 12-year term loan facility from Bank of the Philippine Islands with maximum loanable amount of US\$60.00 million. On December 22, 2020 ACEI made a US\$60.00 million (to ₱2,883.72 million) drawdowns from the loan facility. ACEI shall pay interest on the outstanding principal amount of the loan at the fixed rate of 3.00% per annum for the first five years term with duration of three (3) months commencing on the drawdown date. Interest shall then be repriced on the 5th and 10th anniversary from the drawdown date.

As of the year ended December 31, 2020, outstanding balance of the interest-bearing loan amounted to ₱2,882.16 million.

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, 2020 and 2019, the outstanding balance is ₱97.0 million and ₱100.0 million, respectively.

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, 2020 and 2019, the outstanding balance of these loans is ₱10.6 billion and ₱10.7 billion, respectively.

SLTEC has entered into a New Omnibus Loan and Security Agreement with syndicated banks to finance the construction of its power plants. In compliance with the New Omnibus Agreement, SLTEC is required to maintain funds in cash flow waterfall accounts to cover for the expected repayments of loan principal and interest classified under restricted cash under the audited consolidated statement of financial position. The waterfall accounts are under the possession, dominion and control of a security trustee. Restricted cash accounts balance as of December 31, 2020 and 2019 amounted to ₱212.24 million and ₱165.99 million, respectively.



SLTEC's land, buildings, machineries and other equipment, with a carrying amount of ₱14,734.83 million and ₱15,470.85 million as at December 31, 2020 and 2019, respectively were pledged as a collateral under the real estate and chattel mortgage to secure the New Ombinus Loan and Security Agreement.

SLTEC has complied with its contractual agreements and is compliant with the loan covenants as at reporting dates. As compliance with the debt covenants, SLTEC should maintain a minimum DSCR of 1.1 times, and a maximum Net debt to Equity ratio of 3 times.

ACEN

Description	Interest Rate (per annum)	Terms	2020	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	₱4,901.88	₱4,957.72
₱7.00 billion loan with China Banking Corporation (CBC)	Fixed at a rate of 5.00% per annum which shall be payable at the end of the interest period of six months	Availed on July 10, 2020. First and second drawdown amounting to ₱500 million and ₱1,000 million have a term of one hundred twenty (120) months from and after the initial drawdown date. The payments shall be made in semi-annual principal installments commencing on the eighteenth (18th) month from the initial drawdown date; contains negative pledge.	1,489.12	—
₱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	837.64	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	837.68	904.00

(Forward)



Description	Interest Rate (per annum)	Terms	2020	2019
₱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
₱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 5.8146% 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 July 30, 2014, payable in quarterly installments within 10 years to commence 1 year after the first interest payment date with final repayment on April 30, 2024; contains negative pledge	—	452.08
Carrying value (net of unamortized debt issue costs and embedded derivatives of ₱62.03 million and ₱58.26 million as of December 31, 2020 and 2019 respectively)			₱8,066.32	₱8,576.55

In 2020 and 2019, principal payments made relative to ACEN's loans amounted to ₱2,006.47 million and ₱1,094.06 million respectively. ACEN paid ₱11.25 million and ₱43.00 million debt issue costs for the additional loans availed in 2020 and 2019 respectively.

In 2020, ACEN was able to obtain waivers of compliance for the Debt Service Coverage Ratio, Debt-to-Equity ratio and Current ratio covenants on its legacy loans with SBC (₱1.18 billion) and DBP (₱1.18 billion) as required by the terms of each respective Lender's loan agreement. The waivers granted on the covenants for ACEN are valid until the next succeeding testing date. These ratios are computed based on the annual consolidated audited financial statements of ACEN, and the next testing date will be sometime during the first quarter of 2022, based on the 2021 consolidated audited financial statements. ACEN classified the loans amounting to ₱1.68 billion as noncurrent as at December 31, 2020.

Guimaras Wind Corporation (formerly PHINMA Renewable)

On December 18, 2013, Guimaras Wind entered into a ₱4.30 billion Term Loan Facility with Security Bank Corporation ("SBC") and Development Bank of the Philippines ("DBP"). The proceeds were used to partially finance the 54 MW San Lorenzo Wind Farm composed of 272 MW wind turbine generators and related roads, jetty, substations, transmission line facilities and submarine cable to connect to the grid. The loan facility is divided into two tranches amounting to ₱2.15 billion 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 a minimum interest rate of 6.25% for the first 10 years, to be repriced at higher of existing rate or 5-year PDST-F plus a spread of 1.25% 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 a minimum interest rate of 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.

On April 1, 2015, the publication of PDST-F rates ceased pursuant to the memo of the Bankers Association of the Philippines ("BAP") dated January 8, 2015. Subsequently, the parties agreed to adopt PDST-R2 and BVAL rates as benchmark rate in lieu of PDST-F rates. BVAL rates were adopted starting October 29, 2018 when the Bankers Association of the Philippines (BAP) launched



its new set of reference rates to replace the current set of PDST Reference Rates, PDST-R1 and PDST-R2.

The loan facility also contains a prepayment provision which allows Guimaras Wind to make optional prepayment for both Tranche A and Tranche B in the amount calculated by the facility agent as accrued interest and other charges on the loan up to the prepayment date plus, the higher of (a) the principal amount of the loan being prepaid, or (b) the amount calculated as the present value of the remaining principal amortizations and interest payments on the loan being prepaid, discounted at the comparable benchmark tenor as shown in the Philippine Dealing and Exchange Corporation ("PDEX") Market Page, Reuters and the PDS website (www.pds.com.ph) at approximately 11:16 am on the business day immediately preceding the prepayment date. In addition, Guimaras Wind is allowed to prepay the Tranche A loan, without penalty or breakfunding cost, on the interest re-pricing date. The prepayment option was assessed as closely related to the loan and, thus, was not bifurcated.

The loan facility is secured by Guimaras Wind's wind farm, included in "Machinery and equipment" account under "Property, plant and equipment" with carrying values amounting to ₱3,909.77 million and ₱4,106.00 million as at December 31, 2020 and 2019, respectively (see Note 9). In addition, as a security for the timely payment, discharge, observance and performance of the obligations, ACEN entered into a Pledge Agreement covering the subscriptions of stocks of ACEN and its nominees.

Guimaras Wind was in compliance with the loan covenants as at December 31, 2020 and 2019. The compliance with the debt covenants is assessed annually by the lenders. Guimaras Wind continues to take necessary measures to ensure compliance with loan covenants.

As of the year ended December 31, 2020 and December 31, 2019, outstanding balance of the interest-bearing loan amounted to ₱1,410.26 million and ₱1,531.74 million, respectively.

North Wind Power Development Corporation (NPDC)

On May 31, 2012, 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.



On May 29, 2020, NPDC entered into a long-term loan facility with BPI amounted to ₱2,300.00 million. The proceeds of the loan were used to fully repay the senior loans of Northwind amounting to ₱2,467.18 million. The payments shall be made in twenty-four (24) sculpted semi-annual amortizations set forth in the agreement. The interest rate is fixed for the initial period of ten (10) years to be repriced after the 10th anniversary at a rate equivalent to (a) the 2-year base fixed rate plus a spread of 1.115%, or (b) 5.125% per annum, whichever is higher.

The loan facility contains a prepayment provision which allows the NPDC to make optional prepayment, wholly or partially, any time during the term of the loan. The amount payable to BPI shall be the principal amount of the loans being prepaid, accrued interest on such principal amount up to the voluntary prepayment date, any additional taxes, including additional GRT as a result of such prepayment, and prepayment penalty as indicated in the loan agreement.

The prepayment option was assessed as closely related to the loan and, thus, was not bifurcated.

The loan facility is secured by NPDC's Land and Wind Turbine Generator account under "Property, plant and equipment" with a carrying amount of ₱2,200.00 million and ₱2,350.00 million as at December 31, 2020 and 2019, respectively.

NPDC closely monitors its debt covenants and maintains a capital expenditure program and dividend declaration policy that keeps the compliance of these covenants into consideration. NPDC is required to maintain a minimum historical DSCR of 1.05 times.

As at December 31, 2020 and 2019, NPDC is compliant with its loan covenants.

As of December 31, 2020, the outstanding balance of NPDC's loans amounted to ₱2.23 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 were 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, 2020 amounted to ₱90.0 million, respectively. Interest expense recognized in the statements of comprehensive income amounted to ₱12.07 million and ₱17.05 million for the period ended December 31, 2020 and 2019, respectively. Accrued interest as of December 31, 2020 and 2019 amounted to ₱2.29 million and ₱3.43 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 ₱0.41 million and ₱0.58 million in 2020 and 2019, 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, 2020 and 2019. 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, the outstanding balance of the Bonds amounted to nil.

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, 2020 and 2019. 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 the ALI Parent Company:

Year Issued	Term (Years)	Interest rate	Principal Amount (In thousands)	Carrying Value (In thousands)		Features
				2020	2019	
2012	10.0	6.0000%	5,650,000	₱5,650,000	₱5,645,304	Fixed rate bond due 2022
2013	7.0	4.6250%	4,000,000	–	3,995,321	Fixed rate bond due 2020
2013	20.0	6.0000%	2,000,000	1,986,730	1,985,276	Fixed rate bond due 2033
2013	10.5	5.0000%	15,000,000	14,966,062	14,936,647	Fixed rate bond due 2024
2014	11.0	5.6250%	8,000,000	7,968,512	7,952,880	Fixed rate bond due 2025
2015	7.0	4.5000%	7,000,000	6,987,688	6,968,807	Fixed rate bond due 2022
2016	9.5	4.7500%	7,000,000	6,969,407	6,955,765	Fixed rate bond due 2025
2016	10.0	4.8500%	8,000,000	7,961,918	7,946,612	Fixed rate bond due 2026
2016	7.0	3.8915%	7,000,000	6,980,787	6,961,631	Fixed rate bond due 2023
2017	10.0	5.2624%	7,000,000	6,979,065	6,972,611	Fixed rate bond due 2027
2018	10.0	5.9203%	10,000,000	9,916,583	9,896,154	Fixed rate bond due 2028
2018	5.0	7.0239%	8,000,000	7,962,717	7,925,898	Fixed rate bond due 2023
2019	7.0	6.3690%	8,000,000	7,934,304	7,909,802	Fixed rate bond due 2026
2019	5.0	4.7580%	3,000,000	2,978,436	2,979,164	Fixed rate bond due 2024
2019	2.0	4.2463%	9,000,000	8,781,628	8,937,450	Fixed rate bond due 2021
2019	7.25	4.9899%	1,000,000	963,622	952,029	Fixed rate bond due 2027
2020	2.0	3.0000%	10,000,000	9,970,491	–	Fixed rate bond due 2022
2020	5.0	3.8620%	6,250,000	6,192,684	–	Fixed rate bond due 2025
Total				₱121,150,634	₱108,921,351	



Philippine Rating Services Corporation (PhilRatings) rated the ALI's 2020 bond issue "PRS Aaa" with a stable outlook, and maintained the "PRS Aaa" rating with a stable outlook for all other outstanding bonds.

On February 20, 2020, the ALI's 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.

On May 26, 2020, the BOD during its meeting approved the raising of up to ₱19 billion through the issuance of retail bonds and/or corporate notes for listing on PDEX, and/or bilateral term loans for the purpose of refinancing outstanding loans.

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 and 2022

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 tranche of debt securities issued under ALI's new ₱50.0 billion Debt Securities Program registered with the SEC and listed on PDEX.

In June 2020, ALI issued a ₱10.0 billion, 2-year fixed-rate bond due 2022 with a coupon rate of 3.00% per annum. This was the fourth tranche of bonds issued under the 2019 ₱50.0 billion shelf registration of ALI.

Philippine Peso 5-year Bonds due 2025

In September 2020, ALI issued a ₱6.25 billion fixed rate bond due 2025 at a rate equivalent to 3.862% per annum. The Bonds represent the fifth tranche of the new ₱50.0 billion debt securities program approved by the SEC in May 2019.

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.

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(I) 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(I) 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, 2020 and 2019, the remaining balance of the FXCN amounted to ₱950.0 million and ₱960.0 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, 2020 and 2019, the remaining balance of the note amounted to ₱4,700.0 million and ₱4,750.0 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.

ACEI Group

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.

ACEFIL may redeem the senior undated guaranteed notes (in whole but not in part) on December 4, 2022 or any interest payment date thereafter at the principal amount plus any accrued but unpaid interest (the "Redemption Price").

On December 2, 2020, ACEFIL successfully completed the tender of US\$186.89 million 5.65% senior undated guaranteed notes. As of December 31, 2020, only US\$213.11 million of the notes remain outstanding. Total expense related to prepayment amounted to US\$9.54 million (₱458.62 million) covering finance charges and amortization of remaining bond interest costs presented under interest expense, and professional fees presented under cost and expenses under consolidated statements of comprehensive income.

Green Bonds

Medium Term Note (MTN) Programme

On January 16, 2019, ACEFIL established its MTN Programme with an aggregate amount of US\$1,000.00 million (₱48,470.00 million). The proceeds from each issue under the MTN Programme will be used for general corporate purposes, including eligible green projects and other use of proceeds under ACEFIL's green bond framework.

On November 17, 2020, ACEFIL amended the MTN Programme to increase the aggregate amount to US\$2,000.00 million (₱94,960.00 million) and allow the issuance of senior undated guaranteed notes under the MTN Programme.



As of December 31, 2020, ACEFIL has issued US\$770.00 million (₱37,321.90 million) notes under the MTN Programme.

Senior guaranteed notes due 2024 and 2029 and Senior undated guaranteed notes under the MTN Programme

On January 29, 2019, ACEFIL issued US\$225.00 million (₱10,905.75 million) senior guaranteed notes due 2024 guaranteed by ACEIC with a fixed coupon of 4.75%. The notes were priced at 99.45.

On February 12, 2019, ACEFIL issued US\$75.00 million (₱3,635.25 million) senior guaranteed notes to International Finance Corporation (IFC) due 2024 with a fixed coupon of 4.75%. The notes were priced at 99.998. On the same date, ACEFIL issued US\$110.00 million (₱5,331.70 million) senior guaranteed notes due 2029 with a fixed coupon of 5.25%. The notes were priced at 99.616. Both notes due 2024 and 2029 were issued under the MTN Programme and are guaranteed by ACEIC. On the July 9, 2020, ACEFIL issued US\$60.00 million (₱2,908.20 million) senior guaranteed notes due 2029 guaranteed by ACEIC with a fixed coupon of 4.75%. The notes were priced at 104.75.

On November 25, 2020, ACEFIL issued US\$300.00 million (₱14,541.00 million) senior undated guaranteed notes with a fixed coupon of 5.10% for life. The notes were priced at par. The new issue was used to finance the successful tender of US\$186.89 million (₱9,058.45 million) of the US\$400.00 million (₱19,388.00 million) 5.65% senior undated guaranteed notes at a tender price of 104.

At any time, ACEFIL may on any one or more occasions redeem all or part of the “notes under the MTN Programme”, by giving notice, at redemption price equal to 100% of the principal amount of the “notes under the MTN Programme” redeemed, plus the applicable premium (as defined in the respective pricing supplements) as of date, and accrued and unpaid interest, if any, to the date of redemption, subject to the rights of the person in whose name the “notes under the MTN Programme” is registered on the relevant record date to receive interest due on the relevant interest payment date.

The unsecured US dollar-denominated senior Green Bonds requires ACEI Group to comply with certain covenants including among others, limitations on the incurrence or guarantee of additional indebtedness, creation or incurrence of certain liens, creation or permission of any restrictions on the payment of dividends to ACEI Group by certain of ACEI Group's subsidiaries, entering into unrelated businesses or engagement in certain activities, and limitations on the consolidation, merging or selling of all or substantially all of ACEI Group's properties and assets with other entities if ACEI is not the surviving entity. The incurrence test for additional debt requires the Group to maintain a Net Debt to Total Equity ratio not exceeding 2.5 to 1.0. These were complied with by ACEI Group as of December 31, 2020 and 2019.

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, 2020 and 2019. The Parent Company maintains among others certain ratios like debt to equity ratio not to exceed 3:1 in compliance with the loan covenants of AYCFCL.

Interest expense on short-term debt amounted to ₱2,247.2 million, ₱1,307.6 million and ₱595.4 million in 2020, 2019 and 2018, respectively. Interest expense on long-term debt amounted to ₱19,579.6 million, ₱18,971.4 million and ₱16,216.5 million, respectively (see Note 23).

Interest capitalized by subsidiaries amounted to ₱40.1 million and ₱128.2 million in 2020 and 2019, respectively. The capitalization rates are 2.63% to 5.18% in 2020 and 4.41% to 7.01% in 2019.



20. Other Noncurrent Liabilities

This account consists of the following:

	2020	2019
	(In Thousands)	
Deposits and deferred credits	₱34,074,201	₱23,073,011
Retentions payable	6,056,667	6,751,643
Contractors payable	5,711,140	6,595,611
Liability for purchased land	2,111,165	5,426,645
Deferred output vat	1,524,810	1,721,402
Subscriptions payable	498,567	498,687
Others	2,799,100	4,380,371
	₱52,775,650	₱48,447,370

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.

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.

Contractors payable

Contractors payable represents accrued costs incurred for property development that are not yet billed.

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.

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, 2020 and 2019, ALI Group has unpaid subscription in Cyber Bay amounting to ₱481.7 million. The investment in Cyber Bay under "Investment in debt and equity securities" amounted to ₱472.0 million and ₱513.6 million as of December 31, 2020 and 2019, respectively (see Note 15).

Others

Others include nontrade payables. In 2020, this includes collections by ACEI Group in relation to Philippine Electricity Market Corporation Multilateral Agreement amounting to ₱1,123.5 million. 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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	(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	633,160	631,162
Outstanding shares										
At beginning of year	-	-	50,000	47,000	-	-	200,000	200,000	626,683	630,627
Issuance of shares	-	-	-	-	-	-	-	-	-	-
(Forward)										
Issued shares on exercise of share options	₱-	₱-	₱-	₱-	₱-	₱-	₱-	₱-	₱543	₱19



	Preferred A shares		Preferred B shares		Preferred C shares		Voting Preferred shares		Common shares	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
(In Thousands, except par value per share)										
Subscribed shares	-	-	-	-	-	-	-	-	1,455	516
Treasury shares	-	-	-	(27,000)	-	-	-	-	-	-
Redemption	-	-	-	30,000	-	-	-	-	-	-
Re-issuance	-	-	-	-	-	-	-	-	-	-
Acquisition	-	-	-	-	-	-	-	-	(1,266)	(4,479)
At end of year	-	-	50,000	50,000	-	-	200,000	200,000	627,415	626,683

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

Details of Preferred B shares as follows (in Thousands, except par value per share).

	Series 1		Series 2		Total	
Preferred B	2020	2019	2020	2019	2020	2019
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	-	-	8,000	8,000
Outstanding shares	20,000	20,000	30,000	30,000	50,000	50,000
Cost of treasury shares	₱800,000	₱800,000	₱	₱-	₱800,000	₱800,000

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 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.

On January 15, 2020, the Parent Company has fully utilized the proceeds from the reissuance of Preferred B Series 2 shares.

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.

Common Shares

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.

In 2020, 542,509 common shares were issued under ESOP (see Note 29).

Treasury shares

The Parent Company, pursuant to the share buyback program of ₱10.0 billion worth of shares approved by the BOD on December 5, 2019, purchased on various dates in 2020 a total of 1,266,210 of its common shares with a price ranging from ₱408 to ₱755 per share.

As of December 31, 2020 and 2019, treasury shares include 12.0 million Preferred A shares amounting ₱1.2 billion and 8.0 million Preferred B shares amounting to ₱800 million or a total amount of ₱2 billion. Treasury shares also includes 5.7 million common shares and 4.5 million common shares amounting to ₱4.6 billion and ₱3.7 billion, as of December 31, 2020 and 2019, respectively.

The details of the Parent Company's paid-in capital follow:

2020

	Preferred Stock - A	Preferred Stock - B	Voting Preferred	Common Stock	Subscribed	Additional Paid-in Capital	Subscription s Receivable	Total Paid-in Capital	Treasury Stock
(In Thousands)									
At beginning 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)
Redemption of Preferred B Series 2 shares	-	-	-	-	-	(920)	-	(920)	-
Exercise/Cancellation/ Subscription of ESOP/ ESOWN	-	-	-	27,125	72,772	1,160,698	(685,100)	575,495	-
Issuance of shares upon full payment of subscription	-	-	-	68,334	(68,334)	-	-	-	-
Collection of subscription receivable	-	-	-	-	-	-	163,144	163,144	-
Buyback of common shares	-	-	-	-	-	-	-	-	(867,257)
At end of year	₱1,200,000	₱5,800,000	₱200,000	₱31,437,119	₱220,891	₱48,997,024	(₱2,241,090)	₱85,613,944	(₱6,605,153)

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)

The Additional Paid-in Capital pertaining to preferred shares amounted to ₱19,696.7 million and ₱19,697.6 million as of December 31, 2020 and 2019, respectively.



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.

				2020	2019
	Number of shares registered	Issue/offer price	Date of approval	Number of holders of securities as of December 31	Number of holders of securities as of December 31
Common shares	200,000,000*	₱1.00 par value**; ₱4.21 issue price	July 1976	6,408	6,424
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	18	19
Preferred B shares-Series 2*****	30,000,000	₱100 par value; ₱500 issue price	November 2019	3	2
	27,000,000	₱100 par value; ₱500 issue price	October 2014	-	-
Voting preferred shares	200,000,000	₱1 par value; ₱1 issue price	March 2010	1,040	1,039

*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 ₱195,017.2 million, ₱184,615.5 million and ₱142,844.6 million as of December 31, 2020, 2019 and 2018, 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, 2020 and 2019 amounted to ₱45.9 billion and ₱46.5 billion, respectively.

Dividends consist of the following:

	Per Share			Amount (In Thousands)		
	2020	2019	2018	2020	2019	2018
Dividends to common shares						
Cash dividends declared during the year	6.92	8.30	6.92	₱4,341,577	₱5,204,472	₱4,333,459
Dividends to equity preferred shares declared during the year						
Cash dividends						
Preferred Shares B - Series 1	-	5.2500%	5.2500%	-	525,000	525,000
Preferred Shares B - Series 2	-	4.8214%	5.5750%	-	723,210	752,625
Voting Preferred Shares	-	5.7730%	3.6950%	-	11,546	7,390
Dividend-in-arrears						
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	-	-

As of December 31, 2020 and 2019, the Parent Company has dividend payable to common and preferred stockholders amounting to ₱2.0 billion and ₱3.9 billion.



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, 2020, 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 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.

	2020	2019
	(In Thousands)	
Short-term debt	₱32,439,507	₱29,788,643
Long-term debt	409,314,750	375,549,514
Total debt	441,754,257	405,338,157
Less:		
Cash and cash equivalents	88,653,956	93,405,253
Short-term investments	822,410	13,387,801
Restricted cash	5,195,377	4,261,796
Net debt	₱347,082,514	₱294,283,307
Total equity	₱542,422,111	₱509,313,558
Debt to equity	81.4%	79.6%
Net debt to equity	64.0%	57.8%

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, 2020 and 2019.

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.

	2020	2019
	(In Thousands)	
Net income attributable to owners of the parent	₱17,141,714	₱35,279,330
Less:		
Dividends to equity preferred shares	1,259,756	1,259,756
	₱15,881,958	₱34,019,574
Average common equity attributable to owners of the parent	₱309,096,335	₱285,499,690
Return to common equity	5.1%	11.9%



22. Revenue

This account consists of

	2020	2019	2018
	(In Thousand)		
Revenue from contracts with customers			
Real estate	₱67,370,349	₱125,843,303	₱127,432,396
Manufacturing services	56,464,998	64,677,782	69,731,033
Power generation	27,688,935	12,485,966	3,588,213
Automotive and others	23,629,282	30,212,408	27,617,225
	175,153,564	233,219,459	228,368,867
Rental income (Note 31)	18,468,871	31,687,075	28,522,420
Sale of goods and rendering services	193,622,435	264,906,534	256,891,287
Share in net profits of associates and joint ventures	17,615,774	22,344,352	19,760,662
Interest income from real estate	8,602,775	7,890,972	7,042,078
Dividend income	83,575	122,903	106,803
Total	₱219,924,559	₱295,264,761	₱283,800,830

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:

	2020	2019	2018
	(In Thousands)		
Revenue from contracts with customers			
Residential development	₱66,461,372	₱117,580,972	₱120,396,794
Hotels and resorts	3,388,190	7,624,159	6,386,896
Construction	3,152,324	3,076,549	2,393,683
Other	2,971,238	5,452,595	5,297,101
Total Revenue	₱75,973,124	₱133,734,275	₱134,474,474

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

	2020	2019	2018
	(In Thousands)		
Type of Product			
Middle Income Housing	₱21,239,940	₱36,023,183	₱35,046,620
Coremid	20,445,730	34,813,550	33,694,884
Condominium	18,231,721	29,326,334	33,401,701
Lot only	6,543,981	17,417,905	18,253,589
	₱66,461,372	₱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

	2020	2019	2018
	(In thousands)		
Type of Services			
Rooms	₱1,775,632	₱4,447,172	₱3,909,395
Food and beverage	731,812	2,090,953	2,116,548
Other operated department	607,322	761,712	296,049
Others	273,424	324,322	64,904
	₱3,388,190	₱7,624,159	₱6,386,896

ALI Group's revenue from hotels and resorts is attributed to the operations from the development and management of hotels and resorts/serviced apartments. In view of the continuing community quarantines and restricted travel, the Group's hotels and resorts segment continues to be adversely affected by the lower number of guests and reduced room rates, both of which have significantly impacted the revenues reported under this segment. Also, many restaurants remain closed or allowed limited operations which impacted the food and beverage revenues of the segment. ALI Group's construction revenue pertains to transactions with related parties such as joint ventures and associates.

Others are mainly composed of property management facilities of ALI Group and third party projects.

In line with the rental relief framework implemented by the government to support businesses and the broader economy due to the impact of COVID-19, ALI Group waived its right to collect rent and other charges as part of various lease concessions it granted to lessees such as lease payment holidays or lease payment reductions. Rent discounts and concessions given vary for merchants that are (1) forced to close and those that are still (2) operational. Rental fees and common charges of merchants who were forced to close during the quarantine period were waived with 50% discount in their common are usage expenses.

Set-out below is ALI's reconciliation of contracts with customers with the amounts disclosed in segment information (in millions):

	2020					
	Residential Development	International	Construction	Hotels and Resorts	Property Management and Others	Total
Sales to external customers	₱53,014	₱4,845	₱3,152	₱3,388	₱2,971	₱67,370
Interest	8,603	-	-	-	-	8,603
Total revenue from contracts with customers	₱61,617	₱4,845	₱3,152	₱3,388	₱2,971	₱75,973

	2019					
	Residential Development	International	Construction	Hotels and Resorts	Property Management and Others	Total
Sales to external customers	₱102,981	₱6,709	₱3,076	₱7,624	₱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					Total
	Residential Development	International	Construction	Hotels and Resorts	Property Management and Others	
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 (iii) 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 an unbilled receivable or customers' deposit.

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 of December 31, 2020 and 2019 are as follows:

	2020	2019
	(In Thousands)	
Within one year	₱31,535,337	₱42,267,120
More than one year	₱62,554,555	56,363,261
	₱94,089,892	₱98,630,381

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, 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:

	2020	2019	2018
		(In thousands)	
Manufacturing of goods	₱56,049,563	₱64,399,776	₱69,609,283
Non-recurring engineering services	415,435	278,006	221,750
Revenue from contracts with customers	₱56,464,998	₱64,677,782	₱69,731,033

Translated using the weighted average exchange rate for the year (US\$1:₱49.62 in 2020 and \$1:₱ 51.78 in 2019).

The following table presents revenue per market segment:

	2020	2019	2018
		(In Thousands)	
Automotive	₱25,903,508	₱31,011,316	₱28,351,717
Industrial	17,670,828	16,310,945	17,509,064
Consumer	4,254,932	6,584,754	9,218,063
Telecommunication	3,227,736	4,907,555	7,015,392
Aerospace/defense	2,352,235	2,737,345	2,973,384
Medical	1,889,747	826,599	677,805
Multiple market/others	1,166,012	2,299,268	3,985,608
	₱56,464,998	₱64,677,782	₱69,731,033

Translated using the weighted average exchange rate for the year (US\$1:₱49.62 in 2020, \$1:₱ 51.73 in 2019, and US\$1:₱52.32 in 2018).

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.

ACEI Group

Tariff Adjustment

On May 26, 2020, the ERC approved the adjustments to the FIT of renewable energy producers through Resolution No.06, series of 2020. FIT adjustments used 2014 as the base period calendar year for the Consumer Price Index and foreign exchange variations through Discounted Cash Flows Model per Renewable Energy technology, covering for the years 2016, 2017, 2018, 2019 and 2020.

Renewable energy subsidiaries under the FIT system which include Guimaras Wind Corporation, MSEI, SACASOL, and Northwind, accrued the retroactive revenue adjustment amounting to ₱791.48 million. This will be recovered for a period of five (5) years.

North Luzon Renewable Energy Corporation (NLR), a renewable energy producer and a joint venture through PhilWind, also accrued the retroactive revenue adjustment amounting to ₱635.51 million.



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:

	2020	2019	2018
	(In Thousands)		
Cost of sales (Notes 8 and 32)	₱85,348,040	₱129,029,980	₱138,365,033
Cost of services:			
Depreciation and amortization (Notes 11, 12, 13 and 14)	₱13,039,779	₱12,143,989	₱8,823,927
Cost of power operations	12,548,784	5,790,293	546,890
Personnel costs (Notes 28 and 32)	12,278,229	12,589,037	10,440,253
Taxes and licenses	4,579,508	4,076,513	3,076,684
Professional fees, management fees and commissions	4,231,365	9,399,302	6,874,268
Repairs and maintenance	2,781,668	3,334,893	2,256,489
Hotels and resorts operations	2,718,449	3,001,616	3,030,787
Rental, utilities and supplies	2,439,092	6,007,394	11,259,227
Contract labor	1,636,858	1,687,412	1,072,874
Insurance	723,718	570,397	406,645
Transportation and travel	612,392	1,049,462	415,316
Others	1,243,466	1,302,970	3,138,245
	58,833,309	60,953,278	51,341,605
Costs of sales and services	₱144,181,349	₱189,983,258	₱189,706,638

Cost of sales includes, among others, the cost of real estate inventories amounting to ₱32.9 billion, ₱59.4 billion and ₱67.8 billion in 2020, 2019 and 2018, respectively; electronics goods amounting to ₱38.2 billion, ₱45.0 billion and ₱49.5 billion in 2020, 2019 and 2018, respectively; and cost of vehicles, automotive parts and accessories amounting to ₱11.7 billion, ₱19.6 billion and ₱19.7 billion in 2020, 2019 and 2018, respectively.

“Others” include various costs such as communication, dues and fees and miscellaneous overhead, among others.

General and administrative expenses included in the consolidated statements of income are as follows:

	2020	2019	2018
	(In Thousands)		
Personnel costs (Notes 28 and 32)	₱12,901,657	₱15,179,174	₱12,352,751
Provision for impairment/losses on:			
Investments in associates and joint ventures (Note 10)	1,802,179	839,419	589,109
Receivables (Note 7)	867,287	671,601	317,218
Property, plant and equipment (Note 12)	623,884	4,493	-
Intangible and other assets (Notes 14 and 24)	651,262	805,233	279,794
Investment properties (Note 11)	225,208	-	-
Inventories (Note 8)	144,326	236,644	125,460
Depreciation and amortization (Notes 11, 12, 13 and 14)	3,315,515	2,882,734	1,946,638
Taxes and licenses	2,912,164	2,079,132	1,681,497
Professional fees	2,887,595	2,525,381	2,289,367
Contract labor	1,029,917	1,472,599	1,046,312

(Forward)



	2020	2019	2018
		(In Thousands)	
Advertising and promotions	₱827,362	₱973,506	₱892,869
Repairs and maintenance	703,723	764,658	736,212
Donations and contributions	489,688	227,812	254,030
Transportation and travel	484,413	895,350	697,149
Insurance	424,393	245,152	292,265
Rental and utilities	419,127	605,863	963,986
Postal and communication	348,504	432,702	340,702
Dues and fees	301,904	349,681	255,509
Supplies	249,382	244,714	264,112
Research and development	207,649	45,069	14,372
Entertainment, amusement and recreation	75,699	140,979	149,592
Write-down of inventories (Note 9)	-	111,216	-
Others	433,291	379,703	467,784
	₱32,326,129	₱32,112,815	₱25,956,728

“Others” include various expenses such as plant relocation costs, management fees, marketing, collection charges, sales commission, bank service charge, periodicals and miscellaneous operating expenses.

Depreciation and amortization expense included in the consolidated statements of income follows:

	2020	2019	2018
		(In Thousands)	
Included in:			
Cost of sales and services	₱13,039,779	₱12,143,989	₱8,823,927
General and administrative expenses	3,315,515	2,882,734	1,946,638
	₱16,355,294	₱15,026,723	₱10,770,565

Personnel costs included in the consolidated statements of income follow:

	2020	2019	2018
		(In Thousands)	
Included in:			
Cost of sales and services	₱12,278,229	₱12,589,037	₱10,440,253
General and administrative expenses	12,901,657	15,179,174	12,352,751
	₱25,179,886	₱27,768,211	₱22,793,004

Other income consists of:

	2020	2019	2018
		(In Thousands)	
Mark-to-market gain on financial assets at FVTPL (Notes 9 and 34)	₱887,682	₱528,011	₱996,170
Revenue from management contracts	466,293	909,212	622,149
Insurance claim	418,967	633,935	71,793
Collateral income on automotive sales	413,962	438,967	492,115
Gain on sale of other assets	113,844	192,202	62,463
Gain on sale of investments (Notes 2, 10 and 24)	30,490	24,696,571	1,514,439
Recoveries of account written off (Note 7)	23,597	3,038	5,690
Connection fees and engineering services	20,124	23,603	265,530

(Forward)



	2020	2019	2018
	(In Thousands)		
Remeasurement gain (loss) on previously held interest (Note 24)	P-	P2,020,662	(P1,968,599)
Foreign exchange loss (Note 33)	(52,310)	(258,223)	(222,845)
Others	3,803,157	3,100,512	7,359,983
	P6,125,806	P32,288,490	P9,198,888

In 2019, "Gain on sale of investments" includes net gain on ACEI's sale of AA Thermal amounting to P23.6 billion and gain on merger of AEI and iPeople amounting to P865.2 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 (P1.0 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 2020, this includes mark-to-market gain on derivative instruments amounting to P802.64 million, liquidated damages amounting to P509.04 million, reversal of provision for impairment of property, plant and equipment amounting to P374.35 million, gain from pre-terminated derivative contracts amounting to P238.41 million, miscellaneous income amounting to P208.20 million, mark-to-market gain on call and put option amounting to P189.62 million, government subsidy amounting to P170.03 million, financing income amounting to P139.07 million, fee from advisory service amounting to P121.84 million, and guarantee fee income amounting to P108.72 million. In 2019, this includes gain on reversal of put option amounting to \$3.45 million (P178.0 million) (see Note 18), gain on reversal of contingent consideration amounting to \$3.73 million (P193.0 million) and liquidated damages amounting to P1,157.0 million. In 2018, this includes, among others, gain on reversal of contingent consideration amounting to US\$21.3 million (P1.0 billion), liquidated damages amounting to US\$36.0 million (P1.8 billion), commission income amounting to P827.2 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.

Interest income consists of:

	2020	2019
Interest income on:		
Cash and cash equivalents	P760,592	P497,891
Short-term investments	388,836	1,175,225
Receivables, financial assets at amortized cost and other current assets	1,955,598	1,673,286
Others	78,797	5,906
	P3,183,823	P3,352,308

Interest and other financing charges consist of:

	2020	2019	2018
	(In Thousands)		
Interest expense on:			
Short-term debt (Note 19)	P2,247,210	P1,307,581	P595,375
Long-term debt (Note 19)	19,579,599	18,971,380	16,216,479
Accretion of lease liabilities (Note 31)	1,714,322	1,202,425	-
Amortization of discount on long-term debt	608,881	249,819	7,259
Others	3,864,186	678,321	559,823
	P28,014,198	P22,409,526	P17,378,936



“Others” include, among others, various charges, such as pretermination costs, bond offering fees, and credit card charges. Pre-termination costs include fees paid by the ALI and ACEI Group upon prepayment of long-term facility and/or borrowings amounting to ₱924.3 million in 2020. Others also include ALI Group’s loss on sale of residential receivables without recourse amounting to ₱2,064.0 million in 2020 (see Note 7).

24. Business Combinations and Transactions with Non-controlling Interests

2020 Acquisitions

San Carlos Solar Energy, Inc. (SACASOL)

On December 2, 2019, ACEN signed a share purchase agreement with PINAI Investors, collectively made up of Macquarie Infrastructure Holdings (Philippines) Pte. Limited, Langoer Investments Holding B.V., and the Government Service Insurance System, for the acquisition of PINAI’s 96% ownership interest in SACASOL. ACEN received the PCC approval for the transaction on February 13, 2020.

On March 23, 2020, the acquisition of the PINAI Investors’ ownership interest in SACASOL and payment of the purchase price in the amount of ₱2,981.9 million by Giga Ace 2, Inc were completed. Subsequently, purchase price was adjusted to ₱3,088.1 million based on the provisions of the share price agreement. Prior to the step acquisition, ACEI Group has 4% interest in SACASOL. ACEN acquired 96% interest in SACASOL resulting to 100% ownership interest.

Prior to the step acquisition, ACEI Group has 4% interest in SACASOL.

Giga Ace 2 is ACEN's wholly owned subsidiary and the entity designated by ACEN to purchase the PINAI Investors’ shares in SACASOL.

The transaction was accounted for using the acquisition method under PFRS 3. The fair value of receivables, input VAT, other current assets, and accounts payable and other current liabilities approximate their carrying amounts since these are short-term in nature. The fair values of the identifiable FIT contract as intangible asset and property, plant and equipment were determined using the income approach. The fair value measurements are classified as level 3, for both, with unobservable inputs. The application of a different set of assumptions or technique could have a significant effect on the resulting fair value estimates.

SACASOL runs a 45- megawatt (MW) solar farm which is under the government’s FIT regime. ACEI Group’s acquisition is in line with its strategy to expand its business operations in renewable energy platform.

The following are the fair values of the identifiable assets and liabilities as of the date of acquisition (in thousands):

Assets	
Cash and cash equivalents	₱232,560
Receivables	113,812
Input value added tax	46,793
Other current assets	34,077
Property, plant and equipment*	1,207,318
Intangible assets	2,191,814
Deferred income tax assets – net	41,417
Other noncurrent assets	5,757
	3,873,548

(Forward)

Liabilities



Accounts payable and other current liabilities	₱43,259
Income and withholding taxes payable	1,000
Lease liabilities	523,006
Other noncurrent liabilities	65,374
	632,639
Net assets	3,240,909
Less: Cost of acquisition	3,088,109
Fair value of previously held interest	102,830
Gain on bargain purchase	₱49,970

**Balance includes right-of-use assets.*

The acquisition resulted to a gain on bargain purchase which is recognized under Other income account in the consolidated statement of income (see Note 23).

Consideration transferred was paid in cash on transaction date.

Net cash outflow on acquisition is as follows:

	In ₱ (In Thousands)
Cash consideration	₱3,088,109
Less: Cash acquired from the subsidiary**	232,560
Net cash outflow	₱2,855,549

***Cash acquired with the subsidiary is included in cash flows from investing activities.*

If the acquisition had taken place at the beginning of 2020, revenue contribution for the year ended December 31, 2020 would have been ₱697.2 million. Since this is a step acquisition, the incremental contribution to the net income attributable to ACEN for the year ended December 31, 2020 amounted to ₱339.0 million from the date of acquisition. Moreover, had the transaction taken place at the beginning of 2020, the incremental contribution to the net income attributable to ACEN would have amounted to ₱402.8 million.

Negros Island Solar Power, Inc. (ISLASOL)

On December 2, 2019, the following significant transactions were executed:

- ACEN and TLCTI Asia entered into Investment Agreement with the intention to own 66% and 34% voting interest, and 60% and 40% economic interest, respectively, in ISLASOL. The investment agreement details the series of undertakings, to wit:
 - acquisition of ACEN or its Designee, as the case may be, of ISLASOL, in accordance with the terms and conditions of the share purchase agreement between PINAI and ACEN.
 - creation by ISLASOL of a new class of shares ("Class E Redeemable Preferred Shares") by increasing its authorized capital stock from ₱6,917.0 million to ₱8,000.0 million. Class E Redeemable Preferred Shares shall have the same features as of the other redeemable preferred shares of ISLASOL (that are not Class D Redeemable Preferred Shares) and shall have voting rights.
 - subscription by TLCTI Asia to ISLASOL's Class E Redeemable Preferred Shares for a total subscription of ₱2,780.2 million, which includes a premium over par value amounting to ₱1,745.0 million. As of December 31, 2019, ISLASOL has outstanding notes payable to TLCTI Asia amounting to ₱2,140.73 million.
 - ACEN signed a share purchase agreement with PINAI Investors for the acquisition of PINAI's 98% ownership interest in ISLASOL.

TLCTI Asia and ISLASOL amended the original loan agreement entered into on September 14, 2015 under which TLCTI Asia agreed to provide ISLASOL financing of up to ₱2,140.0 million. Under the amended loan agreement, the residual amount of ₱1,745.0 million shall be payable by ISLASOL to TLCTI Asia only in the event that ISLASOL is able to raise additional equity funding through primary issuance of shares.

On February 26, 2020, PCC approved ACEN's acquisition of the PINAI Investors' ownership interest in ISLASOL.



On March 23, 2020, the acquisition of the PINAI Investors' ownership interest in ISLASOL and payment of the purchase price in the amount of ₱1,629.9 million by Giga Ace 3, Inc. were completed. Subsequently, purchase price was adjusted to ₱1,632.3 million based on the provisions of the share purchase agreement. Giga Ace 3 is ACEN's wholly owned subsidiary and the entity designated by ACEN to purchase the PINAI Investors' shares in ISLASOL.

On March 30, 2020, a resolution to increase the authorized capital stock of ISLASOL was approved by its BOD and ratified by the stockholders.

On May 22, 2020, a subscription agreement was signed between TLCTI Asia and ISLASOL which finalizes the subscription of TLCTI Asia to the increase in ISLASOL's authorized capital stock. On the same date, Giga Ace 3, TLCTI Asia and ISLASOL entered into a Shareholders' Agreement which sets out the provisions of their ownership interest in ISLASOL.

On October 30, 2020, ISLASOL, VRC, and TLCTI Asia entered into letter agreement on the extension of payment for the balance of subscription payable by TLCTI Asia in favor of ISLASOL in the amount of ₱405.9 million with an interest rate of 8% for any portion paid on or before February 28, 2021, and 10% for any portion paid after February 28, 2021. TLCTI Asia has until December 31, 2021 to pay the balance of the subscription price.

The abovementioned series of transactions provided ACEN an economic interest of 60%, on fully diluted basis post subscription of TLCTI Asia. ACEN assessed that although executed subsequent to the acquisition date (March 23, 2020), the subscription agreement between TLCTI Asia and ISLASOL dated May 22, 2020 was executed in contemplation of the Investment Agreement, with an overall economic objective for ACEN and TLCTI Asia to have 60% and 40% economic interest, respectively.

The transaction was accounted for using the acquisition method under PFRS 3. The fair value of receivables, fuel and spare parts, input VAT, other current assets, and accounts payable and other current liabilities approximate their carrying amounts since these are short-term in nature. The fair value of the property, plant and equipment was determined using the income approach. The fair value measurement is classified as level 3, with unobservable level of inputs. The application of a different set of assumptions or technique could have a significant effect on the resulting fair value estimates.

ISLASOL owns and operates an 80-MW solar farm in Negros Occidental. ACEI Group's acquisition is in line with its strategy to expand its business operations in renewable energy platform.

The following are the fair values of the identifiable assets and liabilities as of the date of acquisition (in thousands):

Assets	
Cash and cash equivalents	₱461,012
Receivables	1,106,301
Fuel and spare parts	10,558
Input value added tax	44,339
Other current assets	33,023
Property, plant and equipment*	1,908,579
Deferred income tax assets – net	117,512
Other noncurrent assets	2,626
	3,683,950

(Forward)

Liabilities	
Accounts payable and other current liabilities	₱50,868



Income and withholding taxes payable	21
Short-term loans	395,388
Lease liabilities	367,798
Other noncurrent liabilities	121,515
	935,590
Net assets	2,748,360
Less: Cost of acquisition	1,632,324
Fair value of previously held interest	29,145
Non-controlling interest	1,099,344
Goodwill	₱12,453

**Balance includes right-of-use assets.*

Net cash outflow on acquisition is as follows:

	In ₱ (In Thousands)
Cash consideration	₱1,632,324
Less: Cash acquired from the subsidiary**	461,012
Net cash outflow	₱1,171,312

***Cash acquired with the subsidiary is included in cash flows from investing activities.*

Goodwill comprises the fair value of expected synergies arising from the acquisition. This is presented under intangible assets in the consolidated statements of the financial position. None of the goodwill recognized is expected to be deductible for income tax purposes.

Consideration transferred was paid in cash on transaction date.

If the acquisition had taken place at the beginning of 2020, revenue contribution for the period ended December 31, 2020 would have been ₱222.7 million. Since this is a step acquisition, the net loss contribution to the net income attributable to ACEN for the period ended December 31, 2020 amounted to ₱7.5 million from the date of acquisition. Moreover, had the transaction taken place at the beginning of 2020, the incremental contribution to the net income attributable to ACEN would have amounted to ₱5.4 million

Healthway Philippines, Inc.

On December 6, 2019, AC Health signed a binding agreement to acquire a 100% stake in Healthway Philippines, 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, AC Health and Healthway Asia Ltd. completed the transaction, making AC Health the new sole owner of Healthway Philippines, Inc.

The fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follow (in thousands):

Assets	
Cash and cash equivalents	₱125,894
Receivables	82,894
Medicine and medical supplies	6,834
Other current assets	8,955
Tradename	1,290,414
Property and equipment	66,967
(Forward)	
Right-of-use asset	₱142,235
Other noncurrent assets	72,524
	1,796,717



Assets	
Liabilities	
Accounts other current payables	210,145
Tax payable	895
Lease Liability	145,743
Other current liability	25,674
Pension liability	78,636
Other noncurrent liabilities	146,211
Deferred tax liability	387,124
	994,428
Net assets (Deficit)	802,289
Less: Cost of acquisition	1,306,830
Goodwill	P504,541

Healthway trademark has been identified as intangible asset arising from this acquisition. AC Health has performed an internal valuation to determine fair value of this trademark amounting to P1,290.4 million.

AC Health also determined that purchase price includes Goodwill amounting to P0.5 million which is due to expected synergies from combining its healthcare operations.

Net cash outflow on acquisition is as follows:

	In P (In Thousands)
Cash consideration	P1,306,830
Less: Cash acquired from the subsidiary	125,893
Net cash outflow	P1,180,937

The fair value of the receivables is the same as their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

From the date of acquisition and if the combination had taken place at the beginning of 2020, AC Health's share in Healthway's revenue and net income amounted to P706.1 million and P207.2 million, respectively.

Mercado General Hospital, Inc. (MGHI)

AC Health, through its wholly owned subsidiary Healthway, has executed agreements to acquire a 54.2% economic interest in MGHI through:

- (1) purchase of 28,125,782 common shares and 330,607 preferred shares from White Knight, a wholly owned subsidiary of ALI, equivalent to 39.2% of the outstanding capital stock of shares of MGHI, and
- (2) purchase of 10,887,842 common shares from Dr. Edwin M. Mercado, Ma. Soledad V. Mercado, Dr. Edward V.A. Lim, Susan M. Lat, Dr. Jose V. Tecson III, Atty. Nirmala Barbara S. Vanguardia, Edwin G. Magsino, Diana Kristine L. Carpio, Dr. Alma Panganiban-Andal, Prescilla T. Molinyawe, Nerissa M. Austria, Zosimo C. Malabanan, and Dr. Menandro A. Villadelgado (collectively, "Mercado Group"), which is equivalent to 15% of the outstanding capital stock of shares of MGHI.

Furthermore, Healthway will subscribe to 38,250,000 cumulative, redeemable, and non-participating preferred shares from White Knight and Mercado Group equivalent to 34.51% of the outstanding capital stock of shares of MGHI. This will bring Healthway's voting interest in MGHI to 70%.

The transactions are subject to fulfillment of certain conditions precedent.

As of December 31, 2020, the purchase is still subject to the fulfillment of certain closing conditions (see Note 41).



2019 Acquisitions

ACEN (Formerly: PHINMA Energy Corporation)

On January 9, 2019, PHINMA Corporation approved and signed the Heads of Agreement for the sale of its shares in ACEN, 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 ACEN 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 ACEN 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 ACEN shareholders from May 20 to June 19, 2019. On June 24, 2019, ACEI Group completed its acquisition of ACEN, 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 ACEN's total outstanding shares of stock.

On October 11, 2019, the SEC approved the change in corporate name of PHEN to ACEN.

The 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
Other current assets	454,712
Investment in joint ventures and associates	6,819,774
Property, plant and equipment	3,029,250
Intangibles	135,172
Other noncurrent assets	2,868,546
	<u>19,640,174</u>
Liabilities	
Accounts payable and accrued expenses	2,804,425
Loans and other noncurrent liabilities	7,785,492
	<u>10,589,917</u>
Net assets	<u>₱9,050,257</u>
Cost of acquisition	₱6,301,353
Less: Share in the fair value of net assets acquired	6,003,940
Goodwill	<u>₱297,413</u>
Non-controlling interest	<u>₱3,046,317</u>



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 ACEN'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 ACEN's revenue and net loss would have been ₱1.4 billion and ₱0.5 million, respectively.

In June 2020, ACEI Group finalized its purchase price allocation of the acquisition of ACEN resulting to a goodwill. The fair value of receivables, other assets, and accounts payable and accrued expenses approximate their carrying amounts since these are short-term in nature. The fair value of property, plant and equipment are based on latest appraised values as of June 24, 2019. Standard valuation methodologies such as the current replacement cost method and discounted cash flows were used to determine fair value computations in finalizing the purchase price allocation of 2019 acquisition. This includes estimates on the fair value of receivables, property, plant, and equipment, investments in joint venture and associates and intangible assets and discount rates. There were no changes in the fair value as a result of finalization.

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 ACEN. 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 fair values of the identifiable assets and liabilities acquired and goodwill arising as of 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)
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

The unpaid acquisition cost for the 20% interest in SLTEC is payable in tranches until September 2021

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.

In June 2020, ACEI Group finalized its purchased price allocation of the acquisition of SLTEC resulting to a goodwill. Standard valuation methodologies such as the current replacement cost method and discounted cash flows were used to determine fair value computations in finalizing the purchase price allocation of 2019 acquisition. This includes estimates on the fair value of receivables, and property, plant and equipment and discount rates. There were no changes in the fair value as a result of finalization.

Generika Companies

On March 13, 2019, AC Health 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 AC Health 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 AC Health'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, AC Health 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, AC Health 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

(Forward)



	Actimed	Novelis	Erikagen	PharmGen
		<i>(In Thousands)</i>		
Trademark	P554,420	P—	P223,010	P—
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	26,265	1,014	632
Total Liabilities	1,288,059	94,164	148,271	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	P667,227	P51,326	P65,048	P44,399
Cash paid	P7,065	P1,559	P31,578	P37,796
Gain on Remeasurement	217,563	17,765	20,085	27,874
CV of Investment in Generika	442,599	32,002	13,385	(21,271)
	P667,227	P51,326	P65,048	P44,399

AC Health recognized a gain of P281.91 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 (see Note 23).

The Generika name and house brand have been identified as intangible assets arising from this acquisition. AC Health has performed an internal valuation to determine the fair value of these trademarks amounting to P777.43 million.

AC Health also determined that the purchase price includes Goodwill amounting to P421.98 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 P (In Thousands)
Cash consideration	P78,000
Less: Cash acquired from the subsidiary	165,482
Net cash flow (included in cash flows from investing activities)	(P87,482)

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, AC Health'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 fair 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 (P102.8 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.

In 2020, AC Industrial Group finalized its purchase price allocation and there were no changes to the fair values of the assets acquired and liabilities assumed.

From the date of acquisition, AC Industrial's share in C-con's revenue and net losses amounted to €15.7 million (P902.9 million) and €2.2 million (P124.3 million) respectively, covering nine months from April to December 2019. If the combination had taken place at the beginning of 2019, the ACI's share in C-con's revenue and net losses would have been €20.9 million (P1,216.2 million) and €3.0 million (P174.1 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 P6.0 billion. ALI Group remeasured its previously held interest in MCT based on its acquisition-date fair value which resulted to a remeasurement loss of P1.8 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 P1.8 billion. The net gain of P60.0 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	P1,078,224
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

(Forward)



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 of 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%)	(P149,283)
Goodwill	44,911
Cost of acquisition	P1,160,736

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 P13.9 million were recognized as expense in 2018.

Analysis of cash flows on acquisition follows:

	In P
Cash consideration	P1,160,736
Less: Cash acquired from the subsidiary	(53,719)
Net cash flow (included in cash flows from investing activities)	P1,107,017

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 ACI'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 P*
Assets		
Cash	US\$65	P3,386
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	P693,572



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 ACI's portfolio, as well as expected synergies from cross-selling and organizational efficiencies with other ACI 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, ACI'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 ACI'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 of 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
	<u>1,405</u>
Liabilities	
Accounts payable and accrued expenses	1,497
Net assets (liabilities)	(92)
Goodwill	2,592
Cost of acquisition	<u>₱2,500</u>

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)	<u>₱1,625</u>

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 of 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
	<u>122,522</u>
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 with 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.

As of December 31, 2020 and 2019, MWC Group's goodwill balance amounted to ₱136.6 million. This 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.

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

On February 7, 2020, ALI's subsidiary, AREIT, (formerly One Dela Rosa Property Development, 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.

On July 10, 2020, the SEC issued its pre-effective approval of AREIT registration for a REIT IPO with an offer of up to ₱15,000.0 million. The base offer is up to 456.8 million common shares at an offer price of up to ₱30.05 per share, with a stabilization option of up to 45.7 million common shares (collectively, the "Offer Shares"). In total, this represents up to 49% of AREIT's capital stock. PSE approved AREIT's IPO on July 15, 2020.

AREIT was listed in the PSE on August 13, 2020. On the same date, ALI sold through a public listing its 49.00 % effective noncontrolling interest in AREIT, Inc. at ₱27 per share. Subsequently during a one-month stabilization process, BPI Capital Corporation acquired a 3.43% interest in AREIT at an average price of ₱26/share and redelivered this to ALI, increasing its effective ownership back to 54.4%. ALI's net equity reserve from the sale and buy-back transactions aggregated to ₱7,641.7 million out of the ₱12,343.5 million net proceeds. ALI's non-controlling interest increased by ₱4,701.7 million as a result of the public offering.

As of December 31, 2020, AREIT is 45.04% owned by ALI, 9.39% owned by ALOI, and 45.57% public. Effectively, ALI's ownership was reduced from 100.00% to 54.43% as a result of public offering.

Equity reserve and non-controlling interest amounting to ₱3,386.8 million and ₱8,956.7 million, respectively, were recognized in the Group's consolidated statements of changes in equity as a result of AREIT's IPO.

The fair value of the AREIT shares held by ALI Group amounted to ₱12,526.4 billion as of December 31, 2020.

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 ALLHC, formerly 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 (In Thousands)	Difference recognized within Equity as Equity Reserve
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 SIECO and an individual to develop Sicogon Island into a new leisure destination. The investment of SIECO 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.

Below are several acquisitions of shares in existing subsidiaries in 2013 up to 2016 that resulted to equity reserve:

	Consideration paid	Carrying value of Non-controlling interests	Difference recognized within Equity
		(In Thousands)	
2016			
10.5% in CHI	₱1,209,784	₱748,746	₱461,038



	Consideration paid	Carrying value of Non-controlling interests (In Thousands)	Difference recognized within Equity
2015			
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

	Consideration paid	Carrying value of Non-controlling interests acquired (In Thousands)	Difference recognized within Equity
2013			
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 VIA

On September 25, 2020, VIA Optronics, a 76%-owned German subsidiary of IMI, raised some proceeds through an IPO and was listed on the New York Stock Exchange under the ticker symbol "VIAO". The IPO involves issuance of 6,250,000 American Depositary Shares (ADSs), representing 1,250,000 ordinary shares at a public offering price of \$15.00 per ADS, for gross proceeds of \$93.75 million (net \$87.19 million after deducting underwriting discounts and commissions). Corning Research & Development Corporation ("Corning"), one of VIA's commercial partners, has also agreed to purchase 1,403,505 ADSs, representing 280,701 ordinary shares, at an aggregate purchase price of approximately \$20 million (net \$19.6 million after commissions) in a separate concurrent private placement.

As a result of the IPO, IMI's ownership interest in VIA was diluted from 76.01% to 50.32%. In relation to the dilution without loss of control, the carrying amount of the non-controlling interest was increased by \$62.5 million to reflect the changes in the relative interests in VIA (including allocation of goodwill). IMI recognized directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attributed it to the owners of IMI. The amount recognized in equity amounted to \$32.4 million and was included under "Additional paid-in capital" account of IMI.

The put options of VIA was terminated upon IPO and balance of \$15.3 million was reverted to equity under "Additional paid-in capital" account (see Note 18).

As a result of VIA's IPO and termination of put options, a total of ₱1,206.4 million was recognized as equity reserve in the Group's statements of changes in equity.

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

Assets and liabilities under PFRS 5 consist of the following:

	2020	2019
<i>Assets under PFRS 5</i>	<i>(In Thousands)</i>	
MWC	₱137,196,183	₱109,762,135
GNPK	58,940,387	60,704,559
	₱196,136,570	₱170,466,694
	2020	2019
<i>Liabilities under PFRS 5</i>	<i>(In Thousands)</i>	
MWC	₱96,439,767	₱78,602,385
GNPK	27,851,715	42,885,240
	₱124,291,482	₱121,487,625

MWC

Amended Articles of Incorporation

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.

On July 2, 2020, MWC received formal notice from the SEC approving several key amendments to the MWC’s Amended Articles of Incorporation. Particularly, these amendments are

1. to increase the carved-out shares from 300.0 million unissued common shares to 900.0 million unissued common shares allocated for issuance in one or more transactions or offerings for cash, properties, or assets to carry out MWC’s corporate purposes as approved by the BOD; and
2. 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. Carved-out shares are common shares which are waived of shareholders’ pre-emptive rights and are earmarked for specific corporate purposes.

Trident Water’s acquisition of voting interest in MWC

On February 1, 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 subscription agreement will become effective after certain conditions precedent are met, including relevant third-party consents and regulatory approvals. 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.



On August 25, 2020, MWC received a copy of the resolution from PCC, indicating that the PCC will take no further action with respect to the transaction, Trident Water's acquisition of 51% voting interest in MWC. Specifically, it was deemed that the proposed acquisition of Trident Water of shares in MWC will not likely result in substantial lessening of competition.

MWC is still in the process of completing the regulatory requirements as of December 31, 2020. The Parent Company remains committed to its plan to sell the subsidiary.

The issuance of the primary shares to Trident Water by MWC and the assignment of portion of the preferred shares voting rights will result in the Parent Company's loss of control over MWC. Accordingly, as of December 31, 2020 and 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).

MWC is still in the process of completing certain conditions precedent to the subscription agreement, including completion of regulatory requirements. The Parent Company continues to classify MWC as a disposal group held for sale since it remains committed to its plan to dispose its shares which will result to loss of control on MWC and (see Notes 3 and 4).

The results of MWC for the years ended December 31, 2020, 2019 and 2018 are presented below:

	2020	2019	2018
		<i>(In Thousands)</i>	
Revenue from contracts with customer	₱20,362,361	₱20,729,630	19,027,915
Cost of Services	(7,297,793)	(8,223,313)	(6,900,923)
Gross profit	13,064,568	12,506,317	12,126,992
Operating expenses	(4,856,294)	(4,805,302)	(3,865,331)
Other income (expenses) - net	(1,867,366)	(866,197)	(328,003)
Pre-PFRS 5 impairment loss (Notes 13 and 14)	—	(5,574,910)	—
Impairment reversal (loss) recognized on remeasurement to fair value less costs to sell	4,965,295	(33,244,121)	—
Income (loss) before income tax	11,306,203	(31,984,213)	(76,474,743)
Provision for income tax			
Related to income from ordinary activities for the period	(1,509,192)	(2,031,058)	(1,752,524)
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	₱9,797,011	(₱30,433,493)	₱(28,882,773)

The net income attributable to owners of the Parent Company and NCI from continuing and operations of segment under PFRS 5 are as follows:

	2020	2019	2018
		<i>(In Thousands)</i>	
Net Income (Loss) Attributable to:			
Owners of the Parent Company (Note 27)			
From continuing operations	₱11,944,679	₱51,149,782	₱28,653,435
From operations of segment under PFRS 5	5,197,035	(15,870,452)	3,164,287
Non-controlling interest			
From continuing operations	7,528,653	21,266,041	20,230,545
From operations of segment under PFRS 5	4,599,975	(14,563,041)	3,016,848



<i>Earnings per share</i>	2020	2019	2018
Basic, net income (loss) from operations of segment under PFRS 5	₱8.29	(₱25.25)	₱5.06
Diluted, net income (loss) from operations of segment under PFRS 5	₱8.28	(₱25.19)	₱5.04

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, 2020 and 2019:

2020

	Manila Concession and Head Office	Domestic Subsidiaries	Total
	<i>(In Thousands)</i>		
Revenue from contracts with customers			
Water and sewer	₱15,913,347	₱3,603,080	₱19,516,427
Other operating income	212,828	633,106	845,934
	₱16,126,175	₱4,236,186	₱20,362,361
Timing of revenue recognition			
Revenue recognized over time	₱16,035,535	₱4,145,171	20,180,706
Revenue recognized at a point in time	90,641	91,015	181,655
	₱16,126,175	₱4,236,186	₱20,362,361

2019

	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Total
	<i>(In Thousands)</i>			
Revenue from contracts with customers				
Water and sewer	₱12,638,077	₱3,290,741	₱—	₱2,986,337
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
	<i>(In Thousands)</i>			
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
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

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

In 2019, 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.

As required by PFRS 5, the investment in MWC, which was reclassified as asset held for sale, should be subsequently re-measured at lower of the carrying amount and fair value less costs to sell, and an impairment loss or reversal of impairment loss to the extent of the cumulative impairment loss that has been recognized shall be recorded. In addition to the remeasurement loss taken up in December 2019, an amount of ₱1,626.5 million remeasurement loss was recognized in June 2020 which was allocated as follows (amounts in thousands).

Service Concession Asset	₱1,398,102
Investments in associates and joint ventures	168,109
Property, Plant and Equipment	60,248

Write-up of non-financial assets

On December 29, 2020, the fair market value of MWC shares based on stock price increased to ₱15.98 per share which resulted to remeasurement loss reversal amounting to ₱6,591.8 million which was allocated to the following non-financial assets (amounts in thousands):

Service Concession Asset	₱5,758,769
Investments in associates and joint ventures	576,832
Property, Plant and Equipment	256,154

The major classes of assets and liabilities of the MWC classified under PFRS 5 as of December 31, 2020 and 2019 are as follows:

	2020	2019
<i>Assets under PFRS 5</i>		<i>(In Thousands)</i>
Cash and cash equivalents	₱20,800,349	₱8,339,714
Short-term investments	129,300	727,798
Receivables	2,990,506	1,871,875
Contract assets	2,504,480	2,526,112
Inventories	318,148	342,440
Investments in associates	8,954,877	9,779,814
Property, plant and equipment	3,975,525	2,867,910
Service concession assets - net (Note 13)	89,881,148	76,307,998
Right-of-use assets	362,609	295,675
Deferred tax assets	1,855,900	1,846,449
Other assets	5,423,341	4,856,350
Total assets under PFRS 5	₱137,196,183	₱109,762,135
<i>Liabilities under PFRS 5</i>		
Accounts and other payables	₱10,029,669	₱8,573,299
Contract liabilities	508,751	345,644
Lease liabilities	393,937	308,482

(Forward)



	2020	2019
Service concession obligations (Note 13)	₱8,969,281	₱9,017,457
Income tax payable	167,049	308,404
Short-term and long-term debt	73,538,023	56,350,986
Pension liabilities	219,602	194,194
Deferred tax liabilities	712,224	543,777
Other liabilities	1,901,231	2,960,142
Total liabilities under PFRS 5	₱96,439,767	₱78,602,385

Cash and Cash Equivalents and Short-term Investments

Cash in banks earn interest at the respective bank deposit rates ranging from 0.09% to 0.40%, 0.05% to 1.20%, and 0.01% to 3.33% in 2020, 2019, and 2018, respectively. Cash equivalents are highly liquid investments with varying periods of up to three (3) months and earn interest at the respective short-term rates.

Short-term investments pertain to time deposits with maturities of more than three (3) months up to one year and earned interest of 0.13% to 0.88% and 0.87% in 2020 and 2019, respectively.

Receivables

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.

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 ₱5.3 million, ₱27.81 million, and ₱28.08 million in 2020, 2019, and 2018, respectively.

Contract assets

As of December 31, 2020 and 2019, contracts assets consists of:

	2020	2019
	<i>(In Thousands)</i>	
Contract assets from:		
Supervision fees	₱478,946	₱323,470
Bulk Water Supply Agreement with MCWD	167,468	238,983
Pipeworks and integrated used water services	102,058	188,642
NRWSA with ZCWD	55,050	64,762
Bulk Water Sales and Purchase Agreement with TWD	89,704	46,563
Current portion	893,226	862,420

(Forward)



	2020	2019
Bulk Water Supply Agreement with MCWD	₱978,944	₱831,508
Bulk Water Sales and Purchase Agreement with TWD	738,951	570,126
NRWSA with ZCWD	230,879	278,010
Noncurrent portion	1,948,774	1,679,644
	2,842,000	2,542,064
Less allowance for ECL	337,520	15,952
	₱2,504,480	₱2,526,112

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 pipeworks and integrated used water services are initially recognized for revenue earned arising from water and wastewater network related services. These contract assets are reclassified to "Receivables" upon acceptance of and billings to customers of MWTS and MWT.

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 "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 NRWSA, 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. As of December 31, 2020, Zamboanga Water has recognized allowance for ECL on its contract assets with ZCWD amounting to ₱285.9 million (nil in 2019).

Contract assets arising from the Bulk Water Supply Agreement with MCWD and the Bulk Water Sales and Purchase Agreement with TWD consist of the cost of rehabilitation works which will be reclassified to "Receivables" when Cebu Water and Tagum Water completes all performance obligations under its concession arrangements with MCWD and TWD.

In 2020, 2019 and 2018, Cebu Water invoked the force majeure clause of its Bulk Water Supply Agreement due to high water turbidity which resulted to intermittent delivery of the required thirty-five (35.00) million liters of water per day to MCWD. As a result, Cebu Water recognized impairment loss amounting to ₱23.29 million in 2020, ₱1.35 million in 2019, and ₱3.34 million in 2018.

In 2020, Tagum Water was not able to meet the contractual obligations under the Bulk Water Sales and Purchase Agreement due to the low yield of the Riverbank Filtration Intake structures and delay in the construction of the Artificial Recharge which resulted to intermittent delivery of the required twenty-six (26) million liters of water per day to TWD. As a result, Tagum Water recognized impairment loss amounting to ₱12.35 million in 2020 (nil in 2019 and 2018).



Inventories

This account consist of water treatment chemicals, water meters and connection supplies, maintenance materials and raw materials and finished goods. These are carried at cost except for maintenance materials, raw materials, and finished goods which are carried at NRV.

Allowance for obsolescence amounted to ₱0.2 million and ₱1.5 million as of December 31, 2020 and 2019, respectively. Loss from inventory obsolescence is presented under operating expenses.

Investments in associates

Details of MWC's investments in associates are as follows:

Thu Duc Water

Thu Duc Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam.

On October 12, 2011, TDWH and Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII) entered into a share sale and purchase agreement whereby CII will sell to TDWH its 49.00% interest (equivalent to 2.45 million common shares) in Thu Duc Water. On December 8, 2011, TDWH completed the acquisition of CII's interest in the common shares of Thu Duc Water after which TDWH obtained significant influence in Thu Duc Water.

Kenh Dong Water

Kenh Dong Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam.

On May 17, 2012, MWC, through KDWH, entered into a sale and purchase agreement with CII for the purchase of 47.35% of CII's interest in Kenh Dong Water. The share purchase transaction was completed on July 20, 2012 and KDWH gained significant influence in Kenh Dong Water.

Saigon Water

Saigon Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam. Saigon Water is listed in the Ho Chi Minh City Stock Exchange.

On October 8, 2013, MWC, through MWSAH, entered into an Investment Agreement for the acquisition of a 31.47% stake in Saigon Water. The share subscription transaction was completed on October 8, 2013 and MWSAH gained significant influence in Saigon Water.

Cu Chi Water Supply Sewerage Company Ltd. (Cu Chi Water)

Cu Chi Water is incorporated in the Socialist Republic of Vietnam with principal place of business in Ho Chi Minh City, Vietnam.

On October 10, 2015, MWSAH executed a Capital Transfer Agreement with Saigon Water for the acquisition of 24.50% of the charter capital of Cu Chi Water. Pursuant to the Capital Transfer Agreement, Saigon Water granted a put option to MWSAH and VIAC (No 1) Limited Partnership, another party to the agreement, which option can be exercised upon the occurrence of certain trigger events. As of December 31, 2020 and 2019, no trigger event has occurred and the value of the put option was determined to be nil.

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.



MWC recognized impairment loss amounting to ₱340.6 million and ₱74.3 million in 2020 and 2019, respectively.

Property, plant and equipment

This accounts consist of land, plant and technical equipment, office furniture and equipment, transportation equipment, leasehold improvements and construction in progress.

The net book value of noncash transfers to SCA in 2020 and 2019 amounted to nil and ₱2.58 million, respectively.

Right-of-use assets

MWC Group leases office space, storage and plant facilities, land, and right-of-way wherein it is the lessee. The terms of the lease range from one year or until the end of the concession period.

Amortization of plant facilities used for the construction amounting to ₱13.55 million was capitalized in 2020 (nil in 2019).

Other assets

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.

In 2020, MWC recognized adjustments to the amounts relative to FCDA recoveries of foreign exchange losses (gains) arising from MWSS and MWC foreign currency loans in accordance with Amendment 1 of the Concession Agreement.

Effective April 1, 2020, a Foreign Currency Differential Adjustment (FCDA) of ₱0.48 per cubic meter was implemented on the water rates of East Zone customers. This adjustment was based on the exchange rate of US\$1.00 to ₱50.767 and JPY1.00 to ₱0.465. The FCDA of the water bill will be adjusted to 1.69% of the 2020 average basic charge of ₱28.52 per cubic meter.

Effective October 1, 2020, an FCDA of ₱0.33 per cubic meter will be implemented on the water rates of East Zone customers. This adjustment was based on the exchange rate of USD1.00 to ₱50.097 and JPY1.00 to ₱0.466. The FCDA of the water bill will be adjusted to 1.77% of the 2020 average basic charge of ₱28.52 per cubic meter.

Water rights

This account pertains to the rights to draw water from the Luyang River, Pampanga River, Abacan River, Pasig-Potrero River, Agno River and Cagayan 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, 2020 and 2019, CMWDI's water banking right amounted to ₱45.0 million.

In 2020 and 2019, MWPVI incurred costs to acquire conditional water permits from the NWRB amounting to ₱137.3 million and ₱129.0 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 device and water distribution system, and environmental compliance certification by the Department of Environmental and Natural Resources, among others. On August 27, 2019, the NWRB granted MWPVI the permit to use water from the Agno River which superseded the conditional water permit granted in 2018. As of December 31, 2020, 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.



MWC Group estimates the useful lives of its water rights to be indefinite considering that the water permits remain valid for as long as water is beneficially used.

Accounts and other payables

This account consists of trade payables and accrued expenses which are non-interest bearing and are normally settled on fifteen (15) to sixty (60)-day terms, contractors' payable which pertains to the accrual of expenses which requires MWC Group to pay the contractor based on progress billings, and interest payable which pertains to the unpaid portion of interest arising from the short-term and long-debt debts of MWC Group. Other payables are non-interest bearing and are normally settled within one (1) year.

Contract liabilities

Contract liabilities from supervision fees are initially recognized for advance payments of customers for the provision of design and project management services in the development of water and used water facilities. Contract liabilities are reclassified to "Supervision fees" under "Other operating income" upon completion of performance milestones for these services.

Contract liabilities from connection fees pertain to customer payments for the set-up of a connection from the customer's establishment to the Group's water or sewer network. These are initially recognized at the time of receipt of customer payments and reclassified to "Connection fees from water and service connections" under "Other operating income" upon provision of the related water and sewer services to customers.

Lease liabilities

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.

Income tax payable

The use of Optional Standard Deductions (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 effective 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.

In 2020, MWC used itemized deductions in the calculation of its current income tax. The tax rate of 30% was used in computing for the deferred income taxes of MWC as this is the rate that the underlying deferred tax assets or liabilities are expected to be recovered, settled or utilized in the future. As a result of the shift from OSD to itemized deduction, MWC recorded additional deferred income tax assets amounting to ₱1,181.15 million.

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 ₱274.0 million and ₱130.41 million as of December 31, 2020 and 2019, respectively.

Short-term and Long-term

Short-term debt

₱900.00 million Philippine National Bank (PNB) Short-term Loan

On November 28, 2019, MWC entered into a loan agreement with PNB for a short-term facility amounting to ₱900.00 million. Fixed nominal rate of 5.25% was payable quarterly with principal payable at a bullet in 364 days. On January 31, 2020, MWC made its first and only drawdown amounting to ₱900.00 million. The loan was fully paid as of December 31, 2020.



₱3.00 billion Bank of the Philippines Islands (BPI) Short-term Loan

On March 24, 2020, MWC entered into a loan agreement with BPI amounting to ₱3.00 billion, with interest rates of 5.5% on the first three (3) months, 4.75% on the fourth month, and 3.875% on the last month. The loan was fully paid as of December 31, 2020.

Long-term debt - Foreign Currency Debt

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, 2020 and 2019 is US\$126.5 million (₱6,074.6 million) and US\$109.3 million (₱5,504.8 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, 2020 and 2019 amounted to nil and US\$19.0 million (₱937.3 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, 2020 and 2019 is JPY10,212.0 million (₱4,727.1 million) and JPY20,482.5 billion (₱9,481.4 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, 2020 and 2019, outstanding balance of the LBP loan amounted to JPY507.5 million (₱234.9 million) and JPY0.8 billion (₱391.7 million), respectively.

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 2021. 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 and €90.00 million in 2020. The carrying value of the loan as of December 31, 2020 and 2019 amounted to €133.6 million (₱7,530.8 million) and €39.41 million (₱2,221 million).



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, 2020 and 2019 amounted to THB5,278.6 million (₱8,455.7 million) and THB5,271.3 million (₱8,861.3 million), respectively.

MWC Parent Company - US\$500 million 4.375% 10 Non-call 5-year Senior Unsecured Fixed Rate Sustainability Notes

On July 22, 2020, MWC announced its plan to issue an offering of USD-denominated senior unsecured notes, which qualify as ASEAN sustainability bonds. Proceeds from the issuance of the bond are intended to refinance debt and finance programmed capital expenditures for 2020 to 2021, pursuant to the Sustainability Financing Framework (SFF) which MWC recently established; proceeds are targeted towards financing projects related to:

1. Sustainable water and wastewater management,
2. Terrestrial and aquatic biodiversity conservation, and
3. Affordable basic infrastructure categories.

The MWC's SFF is aligned with the Green Bond Principles 2018 and Social Bond Principles 2018 and likewise complies with the ASEAN Sustainability Bond Standards and SEC Memorandum Circular No. 8, s 2019.

On July 23, 2020, MWC successfully issued the USD500 million ASEAN sustainability bonds, debuting in the international debt capital markets. MWC is the first Philippine Corporate to issue an ASEAN sustainability bond. Equally important, this issuance is the single largest green, social or sustainability bond issued by a listed private water utility in Asia. The 10-year bond was priced at 99.002 with a coupon rate of 4.375% per annum p.a. payable in equal installments semi-annually in arrear, on January 30 and July 30 of each year.

The successful bond issuance enables the Parent Company to diversify its fund sources, to refinance maturing obligations, as well as fund its committed water and wastewater infrastructure projects in the East Zone concession. The carrying value of the bonds as of December 31, 2020 amounted to US\$489.25 million (₱23,495.1 million) (nil as of December 31, 2019).

Long-term debt - Philippine Peso Debt

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, 2020 and 2019 amounted to nil and ₱4,846.7 million, respectively.

₱5.0 billion PNB Loan

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, 2020 and 2019 amounted to ₱3,852.0 million and ₱4,346.3 million, respectively.

Fixed Rate Corporate Notes

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, 2020 and 2019 amounted to nil and ₱4,805.4 billion, respectively.

₱5.00 billion BDO Loan

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, 2020 and 2019 amounted to ₱4,970.8 million and ₱3,771.45 million, respectively.

Amendments to Omnibus Agreements, Intercreditor Agreement and Loan Agreements

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 facility 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 nil and ₱66.6 million as of December 31, 2020 and 2019, 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, 2020 and 2019 amounted to ₱374.3 million and ₱403.6 million, respectively.

On January 9, 2014, LAWC exercised 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 ₱642.5 million and ₱692.82 million as of December 31, 2020 and 2019, 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 ₱1,912.8 million and ₱2,103.3 million as of December 31, 2020 and 2019, 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, 2020 and 2019, the carrying value of the loan amounted to CAD0.87 million (₱32.6 million).

On June 28, 2019, LWC signed a ten (10)-year term loan facility amounting to ₱2.50 billion with . 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 ₱1,093.1 million and ₱694.9 million as of December 31, 2020 and 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, 2020 and 2019 amounted to ₱325.4 million and ₱355.6 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 PWRP
- Sub-tranche 2B, the loan in the amount of ₱125.0 million to be provided by a local bank and funded through PWRP
- 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, 2020 and 2019 amounted to ₱324.0 million and ₱353.9 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, 2020 and 2019 amounted to ₱576.9 million and ₱630.1 million, respectively.

Omnibus Loan and Security Agreement –BPI

On December 20, 2017, BIWC signed a Fourth Omnibus Loan and Security Agreement in the amount of ₱2.4 billion with the 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, 2020 and 2019 amounted to ₱1,240.1 million to ₱596.0 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 ₱929.1 million and ₱1,022.4 million as of December 31, 2020 and 2019, 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, respectively. The carrying value of the loan amounted to ₱317.5 million and ₱180.00 million as of December 31, 2020 and 2019, respectively.

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, 2020 and 2019 amounted to ₱568.7 million and ₱612.19 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, 2020 and 2019 amounted to ₱5,461.7 million and ₱2,928.52 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.

MWPVI has exercised its option to borrow an additional ₱3.00 billion under the Greenshoe Option of the Omnibus Loan and Security Agreement (OLSA) with Security Bank Corporation and Metropolitan Bank and Trust Company, Inc. MWPVI signed the Second OLSA on May 22, 2020 and made the first drawdown of ₱750 million from each lender. The proceeds of the loan will be used to finance MWPVI's capital expenditures, existing projects of subsidiaries or equity investments, and other general corporate requirements.

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, 2020 and 2019 amounted to ₱401.9 million and ₱401.5 million, respectively.

Pension liabilities

The MWC, Clark Water, Laguna Water, Boracay Water and MWPVI have funded a noncontributory defined benefit pension plans covering substantially all of their respective regular employees. The benefits are based on current salaries and years of service and compensation as of the last year of employment. The latest actuarial valuations were made on December 31, 2020.

Other liabilities

Deferred credits

This pertains to the unamortized discounts of the customers' guaranty deposits.

Customers' guaranty deposits and other deposits

Pertain to the deposits paid by the customers for the set-up of new connections which will be refunded to the customers upon termination of the customers' water service connections or at the end of the concession, whichever comes first.



Reserves

The reserves under PFRS 5 pertain to MWC reserves as follows:

	2020	2019
<i>Reserves under PFRS 5</i>		<i>(In Thousands)</i>
Remeasurement losses on defined benefit plans	(P40,542)	(P48,045)
Fair value reserve of financial assets at fair value through OCI	(671)	(473)
Cumulative translation adjustments	(13,134)	128,906
Equity reserve	(1,501,217)	(1,547,837)
Total reserves under PFRS 5	(P1,555,564)	(P1,467,449)

Stock Option Purchase Plans

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.

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 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 P27.31 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.

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.

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and Black-Scholes Merton Formula, taking 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
Number of shares granted	16,054,873	7,281,647	6,627,100
Number of unsubscribed shares	5,161,140	884,873	351,680
Fair value of each option	P5.74	P11.58	P10.58
Weighted average share price	P26.55	P21.35	P23.00
Exercise price	P27.31	P26.00	P22.92
Expected volatility	24.92%	26.53%	24.90%
Dividend yield	2.80%	2.55%	3.47%
Risk-free interest rate	3.43%	3.79%	2.99%
Expected life of option	45 days	4 years	4 years



Movements in the number of stock options outstanding under ESOWN as of December 31, 2019 is as follows:

	2019	Weighted average exercise price
At January 1	131,600	₱23.49
Cancelled	(131,600)	—
At December 31	₱—	₱23.49

There were no additional stock options in 2020. Total expense arising from equity-settled share-based payment transactions of MWC (included under “General and administrative expenses”) amounted to ₱18.8 million, ₱20.2 million and ₱24.0 million in 2020, 2019 and 2018, 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.

As of December 31, 2020, MWC reclassified the following business units as operations under PFRS 5:

Healthy Family Business Division (MWTS-HF)

On August 26, 2020, MWTS announced the permanent closure of its MWTS-HF effective October 31, 2020 due to its recurring losses and inability to financially sustain business operations. While MWTS-HF, launched in 2015, has made strong efforts to improve operations and profitability, the ever-increasing competition in the bottled water industry and the recent economic challenges have proved too difficult to cope and keep the business afloat. MWTS, as an entity, shall continue to exist and operate based on its primary purpose to engage in water and wastewater and environmental services.

Zamboanga Water

On April 30, 2020, Zamboanga Water approved the termination of the NRWRSA. Such termination, however, is without prejudice to Zamboanga Water’s claims against ZCWD and remedies under the NRWRSA.

On September 16, 2020, Zamboanga Water filed a Notice of Arbitration with the Philippine Dispute Resolution Center, Inc. (PDRCI), which is the arbitral body designated in the NRWRSA.

As of December 31, 2020, total assets and liabilities of MWTS-HF and Zamboana Water amounted to ₱97.6 million and ₱112.6 million, respectively

Financial Instruments

Foreign exchange risk

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 68.90% and 48.78% of debt as of December 31, 2020 and 2019, respectively, was denominated in foreign currency.



Liquidity risk

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.

Credit risk

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.

Provisions

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 as of December 31, 2019.



As of December 31, 2020 and 2019, 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

The net cash flows of MWC are as follows:

	2020	2019
	<i>(In Thousands)</i>	
Operating	(P609,983)	P549,262
Investing	(1,192,548)	(692,482)
Financing	13,571,545	(289,128)
Net cash outflow/inflow	P11,769,014	(P432,348)

GNPK

On July 1, 2019, the ACEI and PP executed the Divestment Term Sheet for the acquisition in tranches by PP of the ACEI Group's indirect partnership interest in GNPK. The completion of the first tranche of the transaction will result in PP gaining control over GNPK's coal power plant. The Group classified the assets and liabilities of GNPK as assets and liabilities held for sale in 2019 since based on management's assessment, the criteria under PFRS 5 have been met. The transaction is subject to certain conditions precedent, including PCC approval that was already obtained on September 30, 2019, and lenders' consent for ACEI's full divestment from the project which was been obtained last December 15, 2020.

On December 28, 2020, ACEI, PP and their related companies amended and restated the Divestment Term Sheet and signed and executed an Amended and Restated Term Sheet for the divestment of ACEI from GNPK to update the terms and conditions of the divestment.

The Group has continued to classify the assets and liabilities of GNPK as "Assets held for sale" and "Liabilities held for sale", respectively, in the 2020 consolidated statement of financial position as the sale is highly probable and intended to be completed within the first quarter of 2021, subject to the completion of other condition precedent specified in the term sheet such as restructuring which ACEI is currently working on. ACEI Group continues to consolidate the balances pending closing of the transactions and fulfillment of conditions precedent as of December 31, 2020.

The major classes of assets and liabilities of the GNPK classified under PFRS 5 as of December 31, 2020 and 2019 are as follows:

	2020	2019
	<i>(In Thousands)</i>	
Assets Held for Sale		
Cash and cash equivalents	P4,634,983	P4,990,109
Receivables	1,766,502	2,378,369
Input VAT	3,124,214	3,839,980
Property, plant and equipment	47,560,398	48,102,754
Intangible assets	265,860	280,311
Other assets	1,588,430	1,113,035
Total assets under PFRS 5	P58,940,387	P60,704,558
Liabilities under PFRS 5		
Accounts and other payables	P3,016,711	P2,700,672
Loans Payable	24,811,025	38,942,070
Deferred tax liability - net		288,225
Other liabilities	23,979	954,273
Total liabilities under PFRS 5	P27,851,715	P42,885,240



As of December 31, 2020 and 2019, total reserves of GNPK amounted to ₱755.3 million and ₱208.6 million, respectively.

Claims for Property Damage and Business Interruption

GNPK has the right to claim Delay Liquidated Damages for any construction delay. Total compensation recognized under “Other income” for the periods ended December 31, 2020 and 2019 amounted to US\$10.0 million (₱509.04 million) and US\$22.7 million (₱1,191.8 million), respectively. Total compensation recognized as cost recovery or cost reduction to “Construction in Progress” account under “Property, plant and equipment” amounted to nil as of December 31, 2020 and US\$16.26 million (₱842.2 million) as of December 31, 2019.

GNPK revenues from electricity sales of ₱5,108.7 million and mark-to-market gain on derivative instrument of ₱802.6 million as of December 31, 2020 were recognized in the Group’s consolidated statement of comprehensive income.

As at Dec 31, 2020, the carrying value of the GNPK’s power plant amounted to ₱47,880.00 million. GNPK has assessed that the units will be available in the location and condition for them to be capable of operating as intended by management when the units have achieved the unit performance test level as agreed with the EPC Agreement. As at December 31, 2020, the units are not yet available for their intended use as there are still expected testing and costs that will be incurred until the units achieve the agreed and expected conditions to operate. Consequently, no depreciation was recognized as at December 31, 2020.

Performance Guarantee

GNPK is entitled to compensation or reduction in construction cost if the power plant does not meet performance criteria for net electrical output in accordance with the testing conditions agreed in the EPC Agreement. On May 18, 2020, as security that EPC contractor will rectify the remaining defects to achieve the contractual performance criteria based on the EPC Agreement, GNPK fully drew the performance guarantee-under the EPC Agreement amounting to US\$47.73 million (₱2,429.3 million). GNPK initially treated the drawn amount as advances from contractors as of December 31, 2020. GNPK is still in discussion with the EPC Contractor for the final settlement agreement in connection with the performance guarantee liquidated damages.

Derivative Asset

The onshore and offshore loan agreements of GNPK have embedded prepayment options subject to a 3.00% prepayment penalty. The embedded derivative for the onshore dollar loan is assessed to be not closely related to the host contract, and thus, bifurcated and accounted for separately. For the year ended December 31, 2020, the net fair value changes in profit or loss during the year amounted to ₱802.64 million. This is presented as mark-to-market gains in the consolidated statement of comprehensive income.

Cash flow movement

The table below provides summary of the cash flows of GNPK for the period ended December 31, 2020 and 2019:

	2020	2019
	<i>(In Thousands)</i>	
Net cash flows provided by operating activities	₱7,392,125	₱637,165
Net cash used in investing activities	(546,593)	(2,534,554)
Net cash provided by (used) in financing activities	(6,938,180)	5,618,639
Effect of exchange rate changes on cash and cumulative translation adjustment	(262,478)	(25,118)
Net increase (decrease) in cash and cash equivalents	(₱355,126)	₱3,696,132



26. Income Tax

The components of the Group's deferred taxes are as follows:

Net deferred tax assets

	2020	2019
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	₱9,036,026	₱9,549,758
Lease liability	4,905,414	4,512,578
Accrued expenses	1,154,094	1,057,660
Allowance for probable losses	797,113	677,677
Remeasurement loss	566,376	9,106
NOLCO	540,184	286,175
Retirement benefits	276,158	675,029
MCIT	126,446	857,344
Unrealized foreign exchange loss	111,900	-
Allowance for inventory obsolescence	36,642	16,648
Allowance for doubtful accounts	27,439	26,931
Advanced rental	14,671	11,366
Fair value adjustment on property, plant and equipment arising from business combination	-	3,978
Others	488,181	396,154
	18,080,644	18,080,404
Deferred tax liabilities on:		
ROU asset	(2,813,000)	(3,223,526)
Capitalized interest and other expenses	(436,181)	(485,077)
Unrealized foreign exchange gain	(119,900)	-
Contract asset	(11,692)	-
Others	(65,826)	(125,476)
	(3,446,599)	(3,834,079)
Net deferred tax assets	₱14,634,045	₱14,246,325



Net deferred tax liabilities

	2020	2019
	(In Thousands)	
Deferred tax assets on:		
Lease liability	₱536,482	₱339,392
Difference between tax and book basis of accounting for real estate transactions	301,965	92,021
Accrued expenses	110,114	184,672
NOLCO	72,669	3,871
Allowance for probable losses	54,074	51,820
Allowance for inventory obsolescence	10,419	–
Allowance for doubtful accounts	6,631	–
Unrealized foreign exchange loss	6,502	11,664
Retirement benefits	432	418
Advanced rental	15	10
Others	329,789	95,665
	1,429,092	779,533
Deferred tax liabilities on:		
Difference between tax and book basis of accounting for real estate transactions	(4,464,495)	(2,018,940)
Fair value adjustment arising from business combination	(3,912,586)	(3,807,047)
ROU asset	(1,222,752)	(1,010,026)
Acquisition of trademarks and patents	(631,571)	(264,485)
Capitalized interest and other expenses	(106,013)	(297,873)
Accrued receivables	(13,502)	(17,466)
Unrealized fair value gain less costs to sell of biological assets	(6,467)	(4,492)
Prepaid expenses	(5,357)	–
Contract asset	(4,653)	(11,517)
Unrealized foreign exchange gain	(4,474)	(28,153)
Difference between carrying amount of nonmonetary asset and their tax base	–	(634,249)
Others	(455,427)	(721,102)
	(10,827,297)	(8,815,350)
Net deferred tax liabilities	(₱9,398,205)	(₱8,035,817)

The Group has NOLCO amounting to ₱25.6 billion and ₱18.9 billion in 2020 and 2019, respectively, and MCIT amounting to ₱210.3 million and ₱203.2 million in 2020 and 2019, 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, 2020, total unrecognized NOLCO and MCIT amounted to ₱16.6 billion and ₱31.8 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.

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



As of December 31, 2020, NOLCO that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities, respectively, is as follows:

Year incurred	Expiry Date	NOLCO (In Thousands)
2018	2021	₱6,555,855
2019	2022	6,710,337

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

Year incurred	Expiry Date	NOLCO (In Thousands)
2020	2025	₱7,289,430

For the NOLCO of certain entities within the Group, this expires between three (3) to ten (10) years from the date incurred depending on the jurisdiction the entity is operating. Details are as follows (in thousands):

Year incurred	NOLCO
2017 and prior	₱833,541
2018	996,514
2019	1,759,036
2020	1,472,444

As of December 31, 2020, MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities, respectively, is as follows:

Year incurred	Expiry Date	MCIT (In Thousands)
2018	2021	₱132,281
2019	2022	44,803
2020	2023	33,236

As of December 31, 2020 and 2019 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 reconciliation between the statutory and the effective income tax rates follows:

	2020	2019	2018
Statutory income tax rate	30%	30.00%	30.00%
Tax effects of:			
Nontaxable share in net profits of associates and joint ventures	(14.85)	(12.68)	(8.75)
Nondeductible expenses	0.43	17.12	0.44
Interest income and capital gains subjected to lower rates	(2.91)	(16.58)	(1.28)
Income under income tax holiday	(0.37)	(0.90)	(0.59)
Others	6.44	5.89	1.72
Effective income tax rate	18.74%	22.85%	21.54%



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.

Corporate Recovery and Tax Incentives for Enterprises Act” or “CREATE”

On February 1, 2021, the Bicameral Conference Committee, under the 18th Congress of the Philippines, approved the reconciled version of the House Bill No. 4157 and Senate Bill No.1357 (the CREATE). The general features of the CREATE bill are the following:

- Reduction in current income tax rate effective July 1, 2020;
- Proprietary educational institutions and hospitals which are nonprofit previously subject to a tax of 10% on their taxable income, shall be imposed a tax rate of 1% beginning July 1, 2020 until June 30, 2023;
- Increased threshold on sale of real estate properties that is exempt from VAT;
- Regional operating headquarters of multinational companies previously subject to a tax of 10% on their taxable shall be subject to the regular corporate income tax effective December 31, 2020; and
- Effective July 1, 2020 until June 30,2023, the MCIT rate shall be one percent 1%.

As at February 24, 2021, the harmonized copy of the CREATE bill has been transmitted to the Office of the President for signing or approval into law.

ALI

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, whichever is earlier.

MWC

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 and 2018 (see Note 25).

The effective 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.

In 2020, the MWC used itemized deductions in the calculation of its current income tax. The tax rate of 30% was used in computing for the deferred income taxes of MWC as this is the rate that the underlying deferred tax assets or liabilities are expected to be recovered, settled or utilized in the future (see Note 25).



27. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to owners of the Parent Company:

	2020	2019	2018
	(In Thousands, except EPS figures)		
Net income attributable to the owners of the Parent Company			
Continuing operations	₱11,944,679	₱51,149,782	₱28,653,435
Segment under PFRS 5	5,197,035	(15,870,452)	3,164,287
Less: Dividends on preferred stock	(1,259,756)	(1,259,756)	(1,285,015)
	15,881,958	34,019,574	30,532,707
Less profit impact of assumed conversions of potential ordinary shares of investees	(41,861)	(51,642)	(178,364)
	₱15,840,087	₱33,967,932	₱30,354,343
Weighted average number of common shares	626,900	628,558	625,644
Dilutive shares arising from stock options	684	1,312	2,119
	627,583	629,870	627,763
EPS before operations of segment under PFRS 5			
Basic	₱17.04	₱79.37	₱43.74
Diluted	₱16.96	₱79.12	₱43.31
EPS			
Basic	₱25.33	₱54.12	₱48.80
Diluted	₱25.24	₱53.93	₱48.35

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 ₱916.2 million, ₱926.1 million and ₱800.2 million in 2020, 2019 and 2018, respectively, net of retirement costs of segment reclassified to PFRS 5 amounting to nil, ₱104.1 million and ₱78.3 million in 2020, 2019 and 2018, 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:

	2020	2019	2018
		(In Thousands)	
Current service cost	₱735,991	₱875,495	₱763,607
Past service cost	—	—	10,563
Net interest cost on benefit obligation	179,206	160,820	104,197
Loss (gain) on curtailment and settlements	1,010	(6,049)	84
Reclassification to PFRS 5	—	(104,148)	(78,273)
Total pension expense	₱916,207	₱926,118	₱800,178

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:

	2020	2019	2018
		(In Thousands)	
Loss (gain) on plan assets (excluding amount included in net interest)	₱55,869	(₱261,290)	₱699,513
Actuarial loss due to liability assumption changes - experience and demographic assumptions	183,736	389,358	102,522
Actuarial loss (gain) due to liability assumption changes - financial	692,207	947,590	(549,360)
Reclassification to PFRS 5	—	(90,526)	—
Remeasurements in other comprehensive income	₱931,812	₱985,132	₱252,675

The funded status and amounts recognized in the consolidated statements of financial position for the pension plan as of December 31, 2020 and 2019, as follows:

	2020	2019
	(In Thousands)	
Benefit obligations	₱9,786,399	₱9,714,281
Plan assets	(4,692,993)	(5,958,233)
Net pension liability position	₱5,093,406	₱3,756,048

As of December 31, 2020 and 2019, pension assets (included under "Other Noncurrent Assets") amounted to ₱22.5 million and ₱80.6 million (see Note 15), respectively, and pension liabilities amounted to ₱5,093.4 million and ₱3,756.0 million, respectively.



Changes in net defined benefit liability of funded funds in 2020 and 2019 are as follows:

2020

	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)	Subtotal	Benefits paid	Return on plan assets*	Actuarial loss due to liability experience	Actuarial loss due to demographic assumption changes	Actuarial gain due to liability assumption changes	Subtotal	Transfer payments	Contribution by employer	Foreign currency exchange differences	Settlements	December 31
					on												
					Curtailments and Settlements												
(In Thousands)																	
Present value of defined benefit obligation	₱9,714,281	₱735,991	₱–	₱421,792	₱1,010	₱1,158,793	(₱2,043,415)	₱–	₱77,579	₱106,157	₱692,207	₱875,943	₱87,846	₱–	₱–	(₱7,049)	₱9,786,399
Fair value of plan assets	(5,958,233)	–	–	(242,586)	–	(242,586)	2,186,738	55,869	–	–	–	55,869	19,047	(753,639)	(189)	–	(4,692,993)
Net defined benefit liability (asset)	₱3,756,048	₱735,991	₱–	₱179,206	₱1,010	₱916,207	₱143,323	₱55,869	₱77,579	₱106,157	₱692,207	₱931,812	₱106,893	(₱753,639)	(₱189)	(₱7,049)	₱5,093,406

2019

	Net benefit cost in consolidated statement of income						Remeasurements in other comprehensive income										Settlements	December 31
	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	demographic assumption changes	Actuarial loss due to financial assumption changes	Subtotal	Transfer payments	Contribution by employer	Foreign currency exchange differences	Reclassification to PFRS 5		
(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



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

	2020	2019
	(In Thousands)	
Balance at beginning of year	₱9,714,281	₱10,027,735
Current service cost	735,991	875,495
Interest cost	421,792	698,392
Remeasurements in other comprehensive income:		
Actuarial changes arising from experience adjustments and changes in demographic assumptions	106,157	389,358
Actuarial changes arising from changes in liability assumptions	769,786	947,590
Benefits paid from plan assets	(2,043,415)	(2,116,363)
Settlements	(7,049)	(14,972)
Transfer payments	87,846	(9,306)
Foreign currency exchange difference	-	(4,439)
Loss (Gain) on curtailment and settlements	1,010	(6,049)
Reclassification to PFRS 5	-	(1,073,160)
	₱9,786,399	₱9,714,281

Fair value of plan assets

	2020	2019
	(In Thousands)	
Balance at beginning of year	₱5,958,233	₱7,437,883
Contributions	753,639	793,655
Interest income on plan assets	242,586	537,572
Return on plan assets (excluding amount included in net interest)	(55,869)	261,290
Foreign currency exchange difference	189	(9,288)
Benefits paid	(2,186,738)	(2,157,149)
Transfer payments	(19,047)	(7,502)
Settlements	-	(19,263)
Reclassification to PFRS 5	-	(878,965)
	₱4,692,993	₱5,958,233

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

	2020	2019
	(In Thousands)	
Assets		
Cash and cash equivalents	₱9,511	₱30,672
Debt investments	2,646,332	3,790,049
Government securities	1,473,268	1,405,429
AAA related debt securities	778,804	1,425,134
Not related debt securities	394,260	959,486
Equity investments	1,948,743	2,400,021
Holding firms	1,010,681	1,238,636
Unit investment trust fund	429,510	717,136
Mutual funds	248,060	228,224
Property	110,863	146,087

(Forward)



	2020	2019
	(In Thousands)	
Financials	₱31,083	₱69,938
Others	118,546	—
Other assets	167,153	580,538
	4,771,739	6,801,280
Liabilities		
Trust fee payable	(1,501)	(8,528)
Reclassifications to PFRS 5	—	(878,965)
Net Asset Value*	₱4,770,238	₱5,913,787

*The difference of ₱77.2 million and ₱44.4 million in the fair value of plan assets as of December 31, 2020 and 2019, 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:

	2020	2019
Discount rates	3.3% to 5.5%	0.4% to 7.6%
Future salary increases	3.0% to 8.0%	4.0% to 7.5%

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:

		2020	2019
	Increase (decrease)	Net Pension Liabilities	
		(In Thousands)	
Discount rates	1%	(₱513,845)	(₱528,235)
	(1%)	711,979	590,037
Future salary increases	1%	694,575	572,983
	(1%)	(503,925)	(493,721)

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 58.77% of debt instruments, 38.09% of equity instruments and 2.97% other assets.

The Group expects to contribute ₱925.9 million to the defined benefit pension plan in 2021.



The average duration of the defined benefit obligation at the end of the reporting period is 7.0 to 24.0 years in 2020 and 3.95 to 24.0 years in 2019.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2020 (amounts in thousands):

	2020	2019
Less than 1 year	₱885,936	₱1,910,766
More than 1 year to 5 years	2,333,180	3,945,150
More than 5 years	38,072,550	52,658,759
	₱41,291,666	₱58,514,675

As of December 31, 2020 and 2019, the plan assets include shares of stock of the Parent Company with total fair value of ₱397.2 million and ₱327.7 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):

2020	Historical Cost	Fair Value	Unrealized Gain (Loss)
		(In Thousands)	
Equity securities	₱1,142,699	₱1,136,531	(₱6,168)
Debt securities	1,307,327	1,343,714	36,387
Unit investment trust funds	17,085	17,085	—
Others	19,595	19,669	74
	₱2,486,706	₱2,516,999	₱30,293

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

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.

On various dates in 2020, a total of 556,307 common shares were exercised under the Parent Company's ESOP.

A summary of the Parent Company's stock option activity and related information for the years ended December 31, 2020, 2019 and 2018 follows:

	2020		2019		2018	
	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	934,456	₱282.66	1,024,067	₱287.82	1,032,703	₱287.32
Exercised	(556,307)	235.59	(89,611)	341.61	(8,636)	227.53
Cancelled	(6,863)	227.53	—	—	—	—
Outstanding, at end of year	371,286	₱354.21	934,456	₱282.66	1,024,067	₱287.82

The options have a contractual term of 10 years. As of December 31, 2020 and 2019, the weighted average remaining contractual life of options outstanding is 1.76 years and 1.64 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. 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.

On April 2020, the BOD approved the 2020 stock option program pursuant to its Employee Stock Ownership Plan (the "Plan"). The program authorizes the grant to 32 executives, in accordance with the terms of the Plan, stock options covering up to a total of 1,461,423 common shares at a subscription price of ₱470.72 per share, which is the rounded off volume-weighted average prices of our common shares at the PSE over the last 5-day trading days from March 13 to 23, 2020.

ESOWN grants totaling 1,455,430, 515,904 and 492,875 were subscribed in 2020, 2019 and 2018, respectively. Movements in the number of options outstanding under ESOWN as of December 31, 2020, 2019 and 2018 follow:

	2020		2019		2018	
	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	1,461,423	470.72	767,942	883.83	494,683	926.00
Subscribed	(1,455,430)	(470.72)	(515,904)	(883.83)	(492,875)	(926.00)
Expired	(5,993)	470.72	(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 17, 2020	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	₱224.23	₱263.51	₱256.30	₱222.49	₱176.82	₱444.59	₱619.00
Share price	₱597.00	₱895.00	₱919.00	₱859.00	₱732.00	₱718.88	₱673.96
Exercise price	₱470.72	₱883.83	₱926.00	₱837.53	₱717.30	₱611.05	₱480.00
Expected volatility	29.74%	29.17%	30.28%	29.55%	30.31%	38.23%	42.13%
Dividend yield	1.27%	0.78%	0.75%	0.61%	0.70%	0.67%	0.74%
Interest rate	3.03%	5.64%	3.68%	2.89%	1.46%	4.81%	4.38%

In 2020 and 2019, the Parent Company recognized ₱326.4 million and ₱135.9 million as share-based payments expense, respectively.

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 2020, 2019 and 2018.

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 11,610,720 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 10,453,766 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.

On August 17, 2020, the BOD approved ALI's 2020 stock option program pursuant to the company's Employee Stock Ownership Plan (the "Plan"), covering up to 18,194,618 common shares at a subscription price of ₱27.72 per share, which is the average price of ALI common shares at the Philippine Stock Exchange over the last 15-day trading as of August 14, 2020, less 15% discount.

On September 28, 2020, 169 stock option grantees subscribed to 14,845,498 common shares at ₱27.72 per share and became effective on the same day. As a result of the subscription of the 169 stock option grantees, the number of ALI outstanding common shares increased to 14,730,395,599.



Movements in the number of options outstanding and weighted average exercise prices (WAEP) under ESOWN follow:

	2020	WAEP	2019	WAEP	2018	WAEP
At January 1	305,415	₱35.94	5,601,470	₱32.71	5,150,628	₱19.31
Granted	18,194,618		11,610,720		10,384,365	-
Subscribed	(14,845,498)	27.72	(10,453,766)	43.70	(9,933,523)	41.14
Availment	39,436		487,585		96,516	-
Cancelled	(3,693,971)		(6,940,594)		(96,516)	-
At December 31	-	₱25.03	305,415	₱35.94	5,601,470	₱32.71

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							
	August 17, 2020	March 21, 2019	March 28, 2018	March 01, 2017	April 05, 2016	March 20, 2015	March 20, 2014	March 18, 2013
Number of unsubscribed shares	-	-	-	-	181,304	-	1,369,887	1,713,868
Fair value of each option (BTM)	₱-	₱-	₱-	₱8.48	₱13.61	₱16.03	₱12.60	₱16.05
Fair value of each option (BSM)	₱9.12	₱17.13	₱12.71	₱-	₱18.21	₱20.63	₱12.16	₱11.85
Weighted average share price	₱32.61	₱44.70	₱41.02	₱39.72	₱35.58	₱36.53	₱31.46	₱30.00
Exercise price	₱27.72	₱44.49	₱45.07	₱35.81	₱26.27	₱29.58	₱22.55	₱21.45
Expected volatility	25.05%	31.48%	34.04%	30.95%	32.03%	31.99%	33.50%	36.25%
Dividend yield	0.81%	1.16%	1.22%	1.34%	1.27%	1.02%	1.42%	1.93%
Interest rate	1.13%	5.57%	4.14%	4.41%	4.75%	4.11%	3.13%	2.78%

Total expense (included under “General and administrative expenses”) recognized in 2020, 2019 and 2018 in the consolidated statement of income arising from share-based payments of ALI amounted to ₱111.9 million, ₱142.86 million and ₱98.5 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 subscription date, respectively.

Movements in the number of shares outstanding under ESOWN in 2020, 2019 and 2018 follow:

	2020		2019		2018	
	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	137,692,186	₱6.62	₱139,364,849	₱6.65	140,406,496	₱6.67
Forfeitures	(315,235)	10.49	(1,672,663)	9.39	(1,041,647)	9.40
At end of year	137,376,951	₱6.61	₱137,692,186	₱6.62	₱139,364,849	₱6.65

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 2020, 2019 and 2018, respectively.



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 - 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 2020 and 2019, investment in MWC was classified to “Assets and liabilities and operations of segment under PFRS 5” (see Note 25).



- Industrial Technologies - 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 - 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, 2020, 2019 and 2018, 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 various business segments in the Group is not affected by seasonality in operations.



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, 2020 (amounts in millions):

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Electronics	Power Generation	Automotive and Others	Intersegment Eliminations / Consolidation Adjustments	Consolidated
Revenue									
Sales to external customers	P236	P85,970	P-	P-	P56,288	P27,774	P23,354	P-	P193,622
Intersegment	113	43	-	-	(51)	669	536	(1,310)	-
Share in net profits of associates and joint ventures	-	579	10,057	5,591	-	1,682	(293)	-	17,616
Interest income	-	8,603	-	-	-	-	-	-	8,603
Dividend income	60	-	-	-	-	14	10	-	84
	409	95,195	10,057	5,591	56,237	30,139	23,607	(1,310)	219,925
Costs and expenses									
Costs of sales and services	-	56,505	-	-	51,472	16,344	18,379	1,481	144,181
General and administrative	4,512	8,719	-	-	5,057	4,855	9,582	(399)	32,326
	4,512	65,224	-	-	56,529	21,199	27,961	1,082	176,507
Other income (charges)									
Interest income	302	1,000	-	-	17	2,188	283	(606)	3,184
Other income	635	469	-	-	765	2,772	1,786	(301)	6,126
Interest and other financing charges	(5,970)	(16,000)	-	-	(520)	(4,990)	(739)	204	(28,015)
	(5,033)	(14,531)	-	-	262	(30)	1,330	(703)	(18,705)
Net income (loss) before income tax	(9,136)	15,440	10,057	5,591	(30)	8,910	(3,024)	(3,095)	24,713
Provision for (benefit from) income tax	49	4,147	-	-	245	885	(132)	46	5,240
	(9,185)	11,293	10,057	5,591	(275)	8,025	(2,892)	(3,141)	19,473
Operations of the segment under PFRS 5	-	-	-	-	-	-	-	9,797	9,797
Net income (loss)	(P9,185)	P11,293	P10,057	P5,591	P(275)	P8,025	P(2,892)	P6,656	P29,270
Other information									
Segment assets	P70,512	P684,552	P-	P-	P54,617	P120,285	P52,345	(P42,332)	P939,979
Investments in associates and joint ventures	191,365	26,570	-	-	-	23,705	13,368	-	255,008
Deferred tax assets	86	12,122	-	-	199	521	1,341	365	14,634
Assets under PFRS 5	-	-	-	-	-	-	-	196,137	196,137
Total assets	P261,963	P723,244	P-	P-	P54,816	P144,511	P67,054	P154,170	P1,405,758
Segment liabilities	P171,598	P454,149	P-	P-	P26,643	P96,645	P25,378	(P44,766)	P729,647
Deferred tax liabilities	85	7,149	-	-	92	816	1,256	-	9,398
Liabilities under PFRS 5	-	-	-	-	-	-	-	124,291	124,291
Total liabilities	P171,683	P461,298	P-	P-	P26,735	P97,461	P26,634	P79,525	P863,336
Segment additions to property, plant and equipment and investment properties	P135	P8,643	P-	P-	P899	P6,130	P1,970	(P873)	P16,904
Depreciation and amortization	P232	P9,573	P-	P-	P2,753	P2,401	P1,493	P3,420	P19,872
Non-cash expenses other than depreciation and amortization	P777	P738	P-	P-	P380	P634	P1,786	P2,831	P7,146
Cash flows provided by (used in):									
Operating activities	(P4,037)	(P12,575)	P-	P-	P3,335	P11,553	(P10)	(P7,209)	(P8,943)
Investing activities	P2,668	(P3,215)	P-	P-	(P648)	(P18,587)	(P5,847)	(P2,070)	(P27,699)
Financing activities	P6,395	P12,674	P-	P-	P1,482	(P6,998)	P8,688	P22,749	P44,990



2019

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Industrial Technologies	Power	Automotive and Others	Intersegment Eliminations / Consolidation Adjustments	Consolidated
Revenue									
Sales to external customers	P279	P157,474	P-	P-	P63,651	P12,665	P30,838	P-	P264,907
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)	(P6,769)	P37,535	P13,567	P6,766	(P499)	P25,357	(P2,756)	(P31,219)	P41,982
Other information									
Segment assets	P69,273	P677,107	P-	P-	P55,330	P105,166	P43,140	(P36,175)	P913,841
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	P255,473	P713,929	P-	P-	P55,597	P127,156	P119,132	P73,999	P1,345,286
Segment liabilities	P149,684	P465,090	P-	P-	P30,922	P77,621	P19,961	(P36,829)	P706,449
Deferred tax liabilities	82	6,091	-	-	179	820	864	-	8,036
Liabilities under PFRS 5	-	-	-	-	-	-	42,885	78,602	121,487
Total liabilities	P149,766	P471,181	P-	P-	P31,101	P78,441	P63,710	P41,773	P835,972
Segment additions to property, plant and equipment and investment properties	P116	P35,852	P-	P-	P1,936	P49,811	P1,811	(P39,254)	P50,272
Depreciation and amortization	P270	P9,281	P-	P-	P2,567	P1,503	P1,258	P3,762	P18,641
Non-cash expenses other than depreciation and amortization	(P100)	P151	P-	P-	P249	P450	P832	P17	P1,599
Cash flows provided by (used in):									
Operating activities	P7,444	P42,452	P-	P-	P2,977	P2,004	P541	(P29,300)	P26,118
Investing activities	(P6,887)	(P49,061)	P-	P-	(P3,014)	(P4,271)	(P17,219)	P30,405	(P50,047)
Financing activities	P8,065	P3,025	P-	P-	P2,060	P35,814	P18,742	(P2,037)	P65,669



2018

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Industrial Technologies	Power	Automotive and Others	Intersegment Eliminations / Consolidation Adjustments	Consolidated
Revenue									
Sales to external customers	P243	P155,892	P-	P-	P69,731	P3,778	P27,247	P-	P256,891
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)	(P7,298)	P33,207	P10,906	P5,646	P2,587	P4,285	(P538)	P6,270	P55,065
Other information									
Segment assets	P46,267	P632,398	P-	P-	P56,109	P73,485	P31,601	P92,216	P932,076
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	P214,550	P668,815	P-	P-	P56,275	P104,413	P43,830	P110,042	P1,197,925
Segment liabilities	P140,318	P442,705	P-	P-	P34,705	P49,908	P10,444	P38,663	P716,743
Deferred tax liabilities	80	5,895	-	-	207	757	172	3,888	10,999
Liabilities under PFRS 5	-	-	-	-	-	-	1,075	-	1,075
Total liabilities	P140,398	P448,600	P-	P-	P34,912	P50,665	P11,691	42,551	P728,817
Segment additions to property, plant and equipment and investment properties	P189	P123,364	P-	P-	P-	P-	P1,521	(P73,781)	P51,293
Depreciation and amortization	P304	7,446	P-	P-	P2,311	P394	P319	P2,787	P13,561
Non-cash expenses other than depreciation and amortization	P-	P66	P-	P-	P499	P20	P153	P327	P1,065
Cash flows provided by (used in):									
Operating activities	(P5,811)	P11,767	P-	P-	(P701)	(P5,034)	(P795)	P44,520	P43,946
Investing activities	P15,296	(P2,978)	P-	P-	(P4,373)	(P23,925)	(P8,233)	(P83,779)	(P107,992)
Financing activities	(P164)	(P6,264)	P-	P-	P6,026	P23,674	P10,585	P26,553	P60,410



Geographical Segments

	Revenue			Total Assets		Investment Properties and Property, Plant and Equipment Additions	
	2020	2019	2018	2020	2019	2020	2019
Philippines	₱159,123	₱225,705	₱210,263	₱1,123,684	₱1,242,566	₱16,136	₱48,901
Europe	29,036	32,626	33,330	23,462	14,671	494	490
Asia	24,069	23,561	23,395	226,546	58,480	241	435
USA	7,697	13,373	16,813	32,066	29,569	33	446
	₱219,925	₱295,265	₱283,801	₱1,405,758	₱1,345,286	₱16,904	₱50,272

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 assets recognized and the movements during the period, net of amounts attributable to MWC, are as follows:

	2020			
	Right-of-use Assets			
	Land, Building and Improvements	Transportation Equipment	Others	Total
	(In Thousands)			
Cost				
At January 1*	₱17,999,340	₱1,588,794	₱208,394	₱19,796,528
Additions				
Due to business combination	996,102	—	—	996,102
Additions during the year	2,205,264	82,108	551,519	2,838,891
Modifications/adjustments	(240, 683)	—	14,256	(226,427)
At December 31	20,960,023	1,670,902	774,169	23,405,094
Accumulated Depreciation and Amortization				
At January 1*	₱1,326,257	₱182,615	₱8,279	₱1,517,151
Depreciation (Note 23)	1,620,379	102,143	208,322	1,930,844
Capitalized depreciation	6,183	731	—	6,914
Cumulative translation adjustment	60,400	4,744	3,315	68,459
Modification/adjustments	30,013	(34,170)	73,367	69,210
At December 31	3,043,232	256,063	293,283	3,592,578
Net Book Value	₱17,916,791	₱1,414,839	₱480,886	₱19,812,516

*Excluding MWC total cost of ₱368.3 million and total accumulated depreciation of ₱131.4 million.



	2019			
	Right-of-use Assets			
	Land, Building and Improvements	Transportation Equipment	Others	Total
	(In Thousands)			
Cost				
At January 1, as previously reported	P–	P–	P–	P–
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 (Note 23)	1,268,930	180,285	4,693	1,471,908
Capitalized depreciation	95,129	–	3,586	98,715
Cumulative translation adjustment	75,610	2,300	–	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)	–	–	(295,665)
Net Book Value	P16,614,278	P1,406,179	P200,115	P18,220,572

The rollforward analysis of lease liabilities follows (in thousands):

	2020	2019
At January 1, 2020	P22,381,166	P21,564,084
Additions	2,994,028	1,711,468
Accretion of interest expense (Note 23)	1,714,322	1,231,380
Remeasurement due to lease modification/adjustments	39,777	–
Capitalized interest	24,210	388,242
Foreign exchange gain	(23,606)	(48,776)
Cumulative translation adjustment	(34,272)	(98,749)
Remeasurement due to termination of lease contract	(152,093)	–
Payments	(2,825,810)	(2,051,769)
Disposals	–	(6,232)
	24,117,720	22,689,648
Reclassification to PFRS 5 (Note 25)	–	(308,482)
As at December 31	24,117,720	22,381,166
Current lease liabilities	(1,445,492)	(1,028,067)
Noncurrent lease liabilities	P22,672,228	P21,353,099

The following are the amounts recognized in the consolidated statement of income (in thousands):

	2020	2019
Depreciation expense of right-of-use assets	P1,930,844	P1,471,908
Interest expense on lease liabilities	1,714,322	1,231,380
Expense relating to short-term leases	187,007	401,745
Expense relating to leases of low-value assets	122,367	1,013
Variable lease payments	307,108	438,431
Foreign exchange loss	94	–
	P4,261,742	P3,544,477

The Group had a total cash outflows for leases of P2,825.8 million and P2,051.8 million in 2020 and 2019, respectively. In 2020, the Group had non-cash additions to right-of-use assets and lease liabilities of P3,834.9 million and P2,994.0 million, respectively. In 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of P1,632.1 million and P1,711.5 million, respectively



Shown below is the maturity analysis of the undiscounted lease payments (in thousands):

	2020	2019
Within one year	₱3,758,142	₱1,635,474
After one year but no more than five years	9,970,234	6,155,314
More than five years	52,993,780	57,540,360

The significant leases entered into by the Group are as follows:

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 was renewed for another year with the same terms. It was again renewed in 2020, with lease term of one year commencing on November 14, 2020.

ALI Group

ALI Group entered into lease agreements with third parties. 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. Management'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):

	2020		
	Fixed Payments	Variable Payments	Total
Fixed	₱1,504,945	₱—	₱1,504,945
Variable rent with minimum payment	115,669	164,885	280,554
Variable rent only	—	146,490	146,490
At December 31	₱1,620,614	₱311,375	₱1,931,989

	2019		
	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

ALI

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 assigned the parcels of land to Bay City in December 2017.

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.

Ayalaland MetroNorth, Inc. (AMNI)

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. The rights were subsequently assigned by ALI to the Company in 2015.

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.

NTDCC

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.

In consideration of the lease, the Group will be charged an annual rent related to the original DRP obligation on the MRTDC and 5% of the rental income from the Group's commercial center business. Of the 5% variable amount due, 2.42% shall be directly paid by the 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.

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, 2020 and 2019, the DRP obligation amounted to ₱3,703.3 million and ₱3,778.2 million, respectively. Total DRP obligation paid amounted to ₱244.0 million and ₱236.4 million in 2020 and 2019, respectively.

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.

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:

	2020	2019
	(In Thousands)	
Within one year	₱64,996	₱31,449
More than one (1) year but less than five (5) years	310,176	165,839
More than five (5) years	650,006	535,330
	₱1,025,178	₱732,618



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:

	2020	2019
	(In Thousands)	
Within one year	₱9,961,331	₱8,815,419
After one year but not more than five years	33,927,015	28,960,892
More than five years	30,014,821	23,871,373
	₱73,903,167	₱61,647,684

In 2020, ALI Group granted rent concessions to its tenants which were affected by the community quarantine imposed by the government amounting to ₱6.15 billion. These rent concessions did not qualify as a lease modification, thus, were accounted for as a variable lease payments and reported as reduction of lease income in 2020.

Total rental income from the lease agreements amounted to ₱18,468.9 million, ₱31,687.1 million and ₱28,522.4 million in 2020, 2019 and 2018, respectively (see Note 22).

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, 2020 and 2019, the Group maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows (amounts in thousands):

	2020	2019
Cash in banks	₱6,724,006	₱5,951,704
Cash equivalents	8,091,312	18,972,412
Short-term investments	449,630	247,739
Financial assets at FVTPL	358,120	80,864
Financial assets at FVOCI	262,021	–
Other noncurrent assets - others (Note 15)	4,083,252	4,261,796

- ii. From the Group's placements and short-term investments with BPI, the Group has accrued interest receivable amounting to ₱1.6 million and ₱35.4 million as of December 31, 2020 and 2019, respectively. Cash in banks and cash equivalents earn interest at 2.5% to 6.0% per annum for Philippine Peso-denominated and 1.0% to 3.0% per annum for USD-denominated investments. Investment in FVTPL pertain to MMF which earns interest depending on the duration of time invested in the fund with fair value of ₱358.1 million and ₱80.9 million, as of December 31, 2020 and 2019, respectively. Interest income earned from all the deposits, placements and investments amounted to ₱231.6 million in 2020, ₱626.8 million in 2019 and ₱476.0 million in 2018.

The Group also has short-term and long-term debt payable to BPI aggregating to ₱38.5 billion and ₱46.0 billion as of December 31, 2020 and 2019, respectively. These short-term and long-term debts are interest bearing with varying rates ranging from 2.4% to 6.5%, 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 ₱41.3 million and ₱43.2 million as of December 31, 2020 and 2019, respectively. Interest expense incurred from the debt amounted to ₱839.8 million in 2020, ₱578.6 million in 2019 and ₱785.2 million in 2018.

Transactions with BPI will be settled in cash.

b. Outstanding balances of related party transactions follow (amounts in thousands):

	Receivables		Payables	
	2020	2019	2020	2019
Associates:				
BIM Renewable Energy Joint Stock Company (BIMRE)	₱1,763,469	₱–	₱–	₱–
BPI	486,272	568,194	182,703	148,328
Alveo-Federal Land Communities, Inc. (Alveo-Federal Land)	218,600	154,836	–	–
CDPEI	168,909	136,242	69	629
BF Jade E-Services Philippines Inc. (BF Jade)	101,126	57,522	–	89,905
Honda Cars Philippines, Inc. (HCP)	83,271	102,215	206,694	269,294
Bonifacio Land Corp. (BLC)	573	573	212,696	214,412
BIM Energy Joint Stock	–	223,891	–	–
	2,822,220	1,243,473	602,162	722,568
Joint ventures:				
Yoma Group	3,419,054	476,590	–	–
ALI-ETON Property Development Corporation	3,012,391	3,267,222	4,236	3,942
UPC-AC Energy Australia HK Ltd. (UPC Australia)	1,100,855	–	–	–
The Blue Circle Pte. Ltd. (TBC)	487,500	903,243	–	–
(Forward)				
Globe	₱257,721	₱256,168	₱43,540	₱41,225



	Receivables		Payables	
	2020	2019	2020	2019
UPC Renewables Asia III Limited (UPC III)	137,062	1,434,560	-	-
AMI AC Renewables Corporation (AAR)	127,869	46,808	-	-
Maibara Geothermal, Inc.	-	-	128,447	-
	8,542,452	6,384,591	176,223	45,167
Other related parties:				
Asian Wind Power 1 HK Ltd. (Asian Wind 1)	3,062,083	3,063,669	-	-
FBDC	1,256,517	1,540,411	155,466	-
Vietnam Wind Energy	1,187,241	-	-	-
BIM Wind Power Joint Stock Company (BIM Wind)	866,567	-	-	-
UPC Solar Asia Pacific Ltd. (UPC Solar)	826,107	304,464	-	-
Asian Wind Power 2 HK Ltd. (Asian Wind 2)	1,093,370	-	-	-
Columbus Holdings, Inc.	-	-	267,355	267,355
Others	456,782	1,954,620	74,757	48,971
	8,748,667	6,863,164	497,578	316,326
	P20,113,339	P14,491,228	P1,275,963	P1,084,061

- i. Receivable from BPI includes trade receivables on vehicles sold and financing dealer incentives by ACI 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 BF Jade pertains to delivery services provided by the Group to BF Jade which are normally collectible within 15 to 45 days from invoice date, as well as from rent receivable arising from the lease of the MCX ECC Facility.
- iv. Receivable from HCP pertains to marketing and sales incentives arising from the sale of vehicles.
- v. Receivable from BLC pertains to parcels and documents delivery by Entrego.
- vi. Receivable from ALI-ETON pertains to the sale of land by Alveo to ALI-ETON.
- vii. Receivable from Globe includes trade receivables on vehicles sold and project management and professional fees.
- viii. 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.
- ix. Receivable from BIMRE pertains to an interest-bearing loan agreement to partially fund the construction of the incremental project expansion. The interest-bearing loan has a total facility of US\$40.00 million, bears an annual fixed interest and is payable 12 months from the drawdown date. First drawdown was made on June 9, 2020.
- x. Receivable from Yoma includes an interest-bearing loan facility to fund the development of Yoma Micro Power and is guaranteed by Yoma. The loan facility is drawable in tranches. The loan and interest are payable on June 30, 2021.
- xi. Receivable from UPC Australia pertains to an interest-bearing loan facility agreement for the implementation of the borrower's business plans. The principal and interests are payable on December 9, 2022.
- xii. 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 and interest are payable on June 30, 2022.
- xiii. For the 2019 balance, 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.
- xiv. Receivable from Asian Wind 1 pertains to an interest-bearing loan agreement to refinance the Preferred B Facility Agreement with ACEI and to provide additional funding for the development, financing and construction of the Dai Phong Project. The interest-bearing loan has a total facility of US\$61.0 million and bears an annual fixed rate and payable 12 months from the commissioning date. The loan and interest are payable on April 12, 2024.



- xv. Receivable from Vietnam Wind Energy pertains to an interest-bearing loan facility to provide bridge financing and to partially fund the construction of the Soc Trang Wind projects. The loan and interest are payable on June 30, 2021.
- xvi. Receivable from BIM Wind pertains to an interest-bearing loan agreement to fund the pre-development costs and turbine reservation fees for the project of BIM Wind. The interest-bearing loan has a total facility of US\$45.00 million and bears an annual fixed interest and payable 12 months from the drawdown date. First drawdown was made on May 5, 2020.
- xvii. 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 and interest are payable on January 31, 2023.
- xviii. Receivable from Asian Wind 2 pertain to a Preferred B Facility Agreement with Asian Wind Power 2 HK to make available a convertible term loan facility (convertible to redeemable preferred shares) in an aggregated amount not exceeding US\$54.00 million (P2,617.00 million) to finance the development and construction of Hong Phong 1 Project. The principal and interest are payable on earlier of 5 business days from the date of drawdown of Debt Replacement facility or 25th anniversary of drawdown date. The redeemable preferred shares shall earn coupon rate which is fixed, cumulative, and compounding annually and are not entitled to any additional dividends, is redeemable only by cash at the issuer's option on "first in first out".
- xix. ACEI Group's interest-bearing receivables with related parties bear interest ranging from 4% to 12% annually.

ACEI Group has redeemable preferred shares and convertible loans with related parties. Refer to Note 15 for the details of the transactions, balances, and terms and conditions.

As of December 31, 2020 and 2019, accrued interest receivable of ACEI Group from its interest-bearing receivables, redeemable preferred shares and convertible loans from related parties amounted to P1,166.6 million and P684.1 million, respectively.

- xx. 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.
- xxi. All these are unsecured, interest free, will be settled in cash and are due and demandable, unless otherwise stated.
- xxii. 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.
- xxiii. Payable to BF Jade pertains to COD collections payable which consists of amounts collected on behalf of the Group's clients pertaining to parcels delivered with a cash-on-delivery scheme and remitted to the client normally 5-7 days after collection.
- xxiv. Payable to 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.
- xxv. Payable to Columbus pertains to non-interest bearing advances for stock redemption.
- xxvi. The other outstanding balances of payable to related parties at year-end pertain to advances, including those for development costs and land acquisitions, and expenses incurred on utilities, professional services, logistics and other miscellaneous services. Unless otherwise stated, all these are unsecured, interest free, will be settled in cash and are due and demandable.
- xxvii. Allowance for doubtful accounts on amounts due from related parties amounted to P10.1 million and P9.9 million as of December 31, 2020 and 2019, respectively. Reversal of provision for doubtful accounts amounted to P17.4 million in 2019 (see Note 7). Provision for doubtful accounts amounted to P50.4 million in 2018 (see Note 23).

Other related parties pertain to entities which are either subsidiaries, associates or joint ventures of the Group's associates or joint ventures.



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 nil and ₱145.0 million as of December 31, 2020 and 2019, respectively (see Note 7).

c. Receivables from officers and employees amounting to ₱1,432.2 million and ₱1,505.3 million as of December 31, 2020 and 2019 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).

d. Revenue and expenses from related parties follow:

	Revenue			Costs and Expenses		
	2020	2019	2018	2020	2019	2018
	(In Thousands)					
Associates:						
BPI	₱712,045	₱1,178,279	₱913,974	₱1,728,437	₱629,603	₱1,078,384
BF Jade	229,892	171,662	59,733	-	10,288	-
HCPI	21,414	11,810	25,720	4,678,668	7,318,560	8,668,766
Joint ventures:						
Globe	216,926	320,500	355,957	270,430	301,542	233,742
Alveo-Federal	-	-	56,305	-	-	-
Asian Wind Power 1 HK Limited	362,131	-	-	-	-	-
AMI AC Renewables Corporation (formerly New Energy Investments Corp)	229,888	-	-	-	-	-
UPC Renewables Asia III Ltd	205,973	-	-	-	-	-
Vietnam Wind Energy BIM Renewable Energy Joint Stock Company	135,446	-	-	-	-	-
Asian Wind Power 2 HK Ltd.	99,324	-	-	-	-	-
UPC AC Energy Australia HK Ltd.	96,366	-	-	-	-	-
UPC AC Energy Solar Ltd.	61,031	-	-	-	-	-
The Blue Circle Pte. Ltd.	59,610	-	-	-	-	-
BIM Expansion	56,165	-	-	-	-	-
	2,650,938	1,682,251	1,411,689	6,677,535	8,259,993	9,980,892
Other related parties:						
FBDC	-	-	₱188,747	13,690	13,890	₱2,182
Others	93,380	42,424	20,148	30,785	59,343	21,321
	93,380	42,424	208,895	44,475	73,233	23,503
	₱2,744,318	₱1,724,675	₱1,620,584	₱6,722,010	₱8,333,226	₱10,004,395

Revenue recognized from related parties includes:

- Leasing and project development and management services rendered by ALI Group.
- Water and sewerage services rendered by MWC.
- Automotive sales and repair services rendered by ACI Group.
- Energy sales provided by ACEI Group.
- Interest and miscellaneous income from cash deposits and money market placement as well as financing dealer incentive from BPI and other entities.
- Interest income earned by ACEI Group on interest-bearing receivables, redeemable preferred shares and convertible loans from related parties.
- 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. Purchases of vehicles and parts and accessories from HCP.
- v. Others include miscellaneous operating expenses such as professional and management services.

e. The Group's compensation of key management personnel by benefit type follows:

	2020	2019	2018
		(In Thousands)	
Short-term employee benefits	₱1,438,860	₱1,681,229	₱1,329,281
Post-employment benefits	182,820	91,166	74,087
Share-based payments	153	7,616	705
	₱1,621,833	₱1,780,011	1,404,073

Key management personnel of the Group include all officers with position of vice president and up.

- f. Integrated Micro-Electronics Bulgaria EOOD (IMI BG) has agreed to provide continuing operational, investment and financial assistance to the facilities of C-Con GmbH (C-Con), a related party and an entity under common control of ACI, for C-Con will duly and timely perform all required obligations under contracts to be entered into with a particular customer. In case of C-Con's failure to perform its contractual obligations under the contract including but not limited to failure to perform due to C-Con's insolvency (Breach), IMI BG will indemnify and hold harmless the customer from any and all costs, liabilities, damages, losses, and reasonable amount of actually-incurred out of pocket expenses (including court costs and legal expenses) of the customer occasioned by or arising from such Breach.

As consideration for extending said guarantee, IMI BG will be charging C-Con a guarantee fee equivalent to two (2%) of the revenue for the projects won using or relying upon IMI BG's guarantee. Additionally, IMI BG's guarantee to C-Con is backstopped by AC Industrials (Singapore) Pte. Ltd., another related party of IMI BG.

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 amortized cost, FVTPL and FVOCI, 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, 2020 and 2019, with all variables held constant.

Cash flow interest rate risk

	Change in basis points	Effect on profit before tax	
		2020	2019
		(In Thousands)	
Parent Company -			
Floating rate			
Borrowings	+100	(P156,638)	(P100,213)
	-100	156,638	100,213
Subsidiaries -			
Floating rate			
Borrowings	+100	(P151,697)	(P267,731)
	-100	151,697	267,731

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 the corresponding nominal amounts and carrying values are as follows (amounts in thousands):

December 31, 2020

Group	Interest terms (per annum)	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	₱88,653,956	₱88,653,956	₱-	₱-	₱88,653,956
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	822,410	822,410	-	-	822,410
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	1,133,447	760,819	179,877	192,751	1,133,447
Receivables from related parties	Fixed at the date of transaction	Various	10,672,187	4,713,261	4,962,490	996,436	10,672,187
Financial assets at amortized cost	Fixed at the date of transaction	Various	15,297,105	-	-	15,297,105	15,297,105
			₱116,579,105	₱94,950,446	₱5,142,367	₱16,486,292	₱116,579,105
Parent Company							
Long-term debt							
Fixed							
Peso	Fixed at 4.60%	8 years	₱11,000,000	-	-	10,942,731	10,942,731
Peso	Fixed at 3.92%	7 years	10,000,000	-	9,958,183	-	9,958,183
Peso	Fixed at 4.82%	8 years	10,000,000	-	9,942,168	-	9,942,168
Peso	Fixed at 6.875%	15 years	10,000,000	-	-	9,959,081	9,959,081
Peso	Fixed at 6.80%	10 years	9,903,400	9,898,507	-	-	9,898,507
Peso	Fixed at 4.1936%	2 years	7,500,000	75,000	7,387,214	-	7,462,214
Peso	Fixed at 3.75%	10 years	5,000,000	62,500	1,225,958	3,674,430	4,962,888
Peso	Fixed at 3.75%	10 years	5,000,000	62,500	1,225,773	3,674,331	4,962,604
Peso	Fixed at 4.25%	7 years	2,910,000	30,000	2,876,093	-	2,906,093
Peso	Fixed at 4.3554%	2 years	2,500,000	25,000	2,463,491	-	2,488,491
Peso	Fixed at 6.0043%	5 years	1,538,462	615,384	916,278	-	1,531,662
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	5,663,750	320,000	1,570,670	3,737,197	5,627,867
Subsidiaries							
Short-term debt	Ranging from 2.40% to 6.50%	Monthly	19,301,057	19,301,057	-	-	19,301,057
	Ranging from 1.16% to 4.73%	Monthly	10,647,625	10,647,625	-	-	10,647,625
Long-term debt							
Fixed							
Peso and foreign currency	Fixed at 1.86% to 9.00%	3, 4, 5, 7, 10, 15 years	325,866,896	25,249,538	223,057,143	77,561,358	325,868,039
Floating							
Peso	Variable	3 months, Monthly	5,296,189	2,666,777	1,768,963	859,307	5,295,047
			₱442,127,379	₱68,953,888	₱262,391,934	₱110,408,435	₱441,754,257



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							
<i>Fixed</i>							
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
<i>Floating</i>							
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							
<i>Fixed</i>							
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
<i>Floating</i>							
	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



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 2020 and 2019, the Group entered into currency forward contracts 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 2020 and 2019, 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 62% and 61% of IMI Group's sales for the years ended December 31, 2020 and 2019, respectively, and 58% and 48% of costs for the years ended December 31, 2020 and 2019, 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.

Information on the Group's significant foreign currency-denominated monetary assets and liabilities and their Php equivalent follows:

	December 31, 2020		December 31, 2019	
	US\$	Php Equivalent*	US\$	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	US\$26,311	₱1,288,052	US\$994,643	₱50,370,483
Accounts and notes receivables	120,138	5,656,951	109,956	5,653,120
Other current assets	4,936	240,064	2,458	125,349
Investment in bonds & other securities	—	—	—	—
Other noncurrent assets	200,380	9,624,936	380	19,242
Total assets	351,765	16,810,003	1,107,437	56,168,194
Liabilities				
Accounts payable and accrued expenses	319,666	15,360,487	12,215	616,536
Other current liabilities	283	14,733	906	45,900
Short-term debt	115,114	5,529,616	5,773	292,295
Long-term debt	285,000	13,688,635	252,903	12,805,733
Other noncurrent liabilities	11,192	546,627	67,863	3,439,006
Total liabilities	731,255	35,140,098	339,660	17,199,470
Net foreign currency denominated assets (liabilities)	(US\$379,490)	(₱18,330,095)	US\$767,777	₱38,968,724

*Translated using the exchange rate at the reporting date (US\$1:₱48.02 on December 31, 2020 and US\$1:₱ 50.64 on December 31, 2019).



	December 31, 2020		December 31, 2019	
	JPY	Php Equivalent*	JPY	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	JPY800,384	₱370,726	JPY329,343	₱152,323
Accounts and notes receivable	393,761	182,219	615,632	284,733
Other noncurrent assets	2,332	1,080	2,398	1,109
Total assets	1,196,477	554,025	947,373	438,165
Liabilities				
Accounts payable and accrued expenses	790,563	366,177	841,612	389,250
Other current liabilities	–	–	75,701	35,042
Short-term debt	134,107	62,116	102,295	47,312
Long-term debt	208,082	96,381	21,686,410	10,038,498
Other noncurrent liabilities	–	–	378,348	175,137
Total liabilities	1,132,752	524,674	23,084,366	10,685,239
Net foreign currency denominated liabilities	JPY63,725	₱29,351	(JPY22,136,993)	(₱10,247,074)

*Translated using the exchange rate at the reporting date (JPY1:₱0.4627 on December 31, 2020 and JPY1:₱0.4619 on December 31, 2019).

	December 31, 2020		December 31, 2019	
	RMB	Php Equivalent*	RMB	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	RMB250,636	₱1,844,668	RMB 132,334	₱958,907
Accounts and notes receivables	478,809	3,524,014	597,898	4,332,427
Other current assets	393	2,894	–	–
Total assets	729,838	5,371,576	730,232	5,291,334
Liabilities				
Accounts payable and accrued expenses	477,537	3,514,653	498,772	3,614,149
Short-term debt	18,601	136,905	127,692	925,271
Total liabilities	496,138	3,651,558	626,464	4,539,420
Net foreign currency denominated assets	RMB233,700	₱1,720,018	RMB103,768	₱751,914

*Translated using the exchange rate at the reporting date (RMB1: ₱7.3449 on December 31, 2020 and RMB1: ₱7.2356 on December 31, 2019).

	December 31, 2020		December 31, 2019	
	EUR	Php Equivalent*	EUR	Php Equivalent
	(In Thousands)			
Assets				
Cash and cash equivalents	EUR105,351	₱6,192,237	EUR38,750	₱2,185,163
Accounts and notes receivable	68,351	4,013,284	79,216	4,465,576
Other current assets	2,772	162,929	7,430	418,870
Other noncurrent assets	153,629	9,030	–	17
Total assets	176,628	10,377,480	125,396	7,069,626
Liabilities				
Accounts payable and accrued expenses	37,726	2,216,215	35,726	2,014,524
Other current liabilities	71	4,195	15,174	855,400
Short term debt	3,067	180,244	14,055	792,299
Long-term debt	333	19,593	40,413	2,277,344
Other noncurrent liabilities	5,186	304,026	3,037	171,291
Total liabilities	46,383	2,724,273	108,405	6,110,858
Net foreign currency denominated assets	EUR130,245	₱7,653,207	EUR16,991	₱958,768

*Translated using the exchange rate at the reporting date (EUR1: ₱58.6745 on December 31, 2020 and EUR1: ₱56.2302 on December 31, 2019)



	December 31, 2020		December 31, 2019	
	VND	Php Equivalent*	VND	Php Equivalent
	(In Thousands)			
Assets				
Cash and cash equivalents	VND4,788,602	₱9,922	VND15,702,138	₱34,309
Other current assets	–	–	178,430	390
Investment in bonds & other securities	85,600,000	177,102	–	–
Other noncurrent assets	–	–	120,436	263
Total assets	90,388,602	187,024	16,001,004	34,962
Liabilities				
Accounts payable and accrued expenses	865,165	1,793	907,163	1,979
Other current liabilities	6,290,944	13,017	–	–
Total liabilities	7,156,109	14,810	–	–
Net foreign currency denominated assets	VND83,232,493	₱172,214	VND15,093,841	₱32,983

Translated using the exchange rate at the reporting date (VND1:₱0.0021 on December 31, 2020 and VND1:₱ 0.0022 on December 31, 2019).

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	
		2020	2019
US\$	₱1.00	(₱379,491)	₱767,777
	(1.00)	379,491	(767,777)
JPY	1.00	63,725	(22,136,993)
	(1.00)	(63,725)	22,136,993
RMB	1.00	233,700	103,768
	(1.00)	(233,700)	(103,768)
EUR	1.00	130,245	16,991
	(1.00)	(130,245)	(16,991)
VND	1.00	83,232,493	15,093,841
	(1.00)	(83,232,493)	(15,093,841)

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)
2020	PSEi	5% (5%)	₱27,593 (27,593)
2019	PSEi	5% (5%)	₱31,922 (31,922)

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.



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

	December 31, 2020				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
	(In Thousands)				
Accounts payable and accrued expenses					
Accounts payable	P95,403,178	P—	P—	P—	P95,403,178
Project costs	18,220,433	—	—	—	18,220,433
Accrued expenses	13,360,227	—	—	—	13,360,227
Personnel costs	8,680,897	—	—	—	8,680,897
Dividends payable	2,251,883	—	—	—	2,251,883
Retentions payable	4,801,114	6,056,667	—	—	10,857,781
Related parties	1,275,962	—	—	—	1,275,962
Contractors payable	—	—	—	5,711,140	5,711,140
Nontrade Payable	704,620	—	—	—	704,620
Subscription payable	—	498,567	—	—	498,567
Liability for purchased land	9,316,978	—	—	2,111,165	11,428,143
Financial liabilities on put option	466,712	—	—	—	466,712
Service concession obligation	19,880	—	—	66,338	86,218
Deposits and deferred credits	25,124,784	—	—	34,074,201	59,198,985
Short-term debt	32,439,507	—	—	—	32,439,507
Long-term debt	18,732,401	146,659,708	75,691,453	168,231,188	409,314,750
Lease Liabilities	1,445,492	1,277,019	3,387,891	18,007,318	24,117,720
Other liabilities	158,032	—	—	2,799,101	2,957,133
Interest payable*	9,799,487	9,141,674	13,712,510	22,348,215	55,001,886
	P242,201,587	P163,633,635	P92,791,854	P253,348,666	P751,975,742

*includes future interest 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	P104,887,772	P—	P—	P—	P104,887,772
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
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
	P263,513,385	P37,984,468	P62,556,887	P417,526,013	P781,580,753

*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, 2020 and 2019 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, 2020 and 2019, the exposure at default amounts to ₱12,400.1 million and ₱14,354.9 million, respectively. The expected credit loss rate is 7.2% and 5.3% that resulted in the ECL of ₱1,945.5 million and ₱1,186.3 million as of December 31, 2020 and December 31, 2019, 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.



The aging analysis of accounts and notes receivables that are past due but not impaired follows:

December 31, 2020

December 31, 2021

	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	₱104,805,750	₱9,062,913	₱1,147,234	₱2,202,345	₱967,309	₱3,795,799	₱17,175,600	₱1,824,168	₱123,805,518
Industrial Technologies	11,034,102	1,269,865	513,631	151,439	48,488	261,917	2,245,340	71,827	13,351,269
Automotive	1,106,725	466,650	240,282	290,804	314,818	774,428	2,086,982	82,300	3,276,007
Power	6,237,028	-	-	-	-	-	-	80,991	6,318,019
Outsourcing	214,616	61,093	24,823	7,599	4,435	19,674	117,624	-	332,240
International and others	485,918	92,705	37,016	17,148	8,588	34,791	190,248	-	676,166
Advances to other companies	16,472,824	201,301	1,283,855	85,053	37,131	7,716,642	9,323,982	762,788	26,559,594
Receivable from related parties	19,366,020	129,328	92,087	91,082	88,176	336,503	737,176	10,143	20,113,339
Receivable from officers and employees	986,855	13,724	8,841	6,757	3,178	413,521	446,021	1,355	1,434,231
Dividend receivable	-	-	-	-	-	-	-	-	-
Others	1,748,265	-	-	-	-	39,229	39,229	-	1,787,494
Total	₱162,458,103	₱11,297,579	₱3,347,769	₱2,852,227	₱1,472,123	₱13,392,504	₱32,362,202	₱2,833,572	₱197,653,877

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
Industrial Technologies	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
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

The table below shows the credit quality of the Group's financial assets as of December 31, 2020 and 2019 (amounts in thousands):



December 31, 2020

	Neither past due nor impaired				Past due but not impaired	Impaired	Total
	High Grade	Medium Grade	Low Grade	Total			
Cash and cash equivalents excluding cash on hand	₱88,653,956	₱-	₱-	₱88,653,956	₱-	₱-	₱88,653,956
Short-term investments	822,410	-	-	822,410	-	-	822,410
Other current assets							
FVTPL financial assets	-	12,409,043	-	12,409,043	-	-	12,409,043
Derivative assets	250,230	-	-	250,230	-	-	250,230
Deposits in escrow	770,990	-	-	770,990	-	-	770,990
Other noncurrent assets							
Deposits -others	2,654,421	-	-	2,654,421	-	-	2,654,421
Others	4,542,224	-	-	4,542,224	-	-	4,542,224
Accounts and notes receivables							
Trade							
Real estate and hotels	91,199,488	8,096,426	5,509,836	104,805,750	17,175,600	1,824,168	123,805,518
Industrial Technologies	323,219	10,290,105	420,777	11,034,101	2,245,341	71,827	13,351,269
Automotive	316,459	753,223	37,042	1,106,724	2,086,983	82,300	3,276,007
Power	6,237,028	-	-	6,237,028	-	80,991	6,318,019
Outsourcing	214,616	-	-	214,616	117,624	-	332,240
International and others	485,918	-	-	485,918	190,248	-	676,166
Receivable from related parties	16,169,019	623,341	2,573,660	19,366,020	737,176	10,143	20,113,339
Receivable from officers employees	1,297,831	795	2,727	1,301,353	132,878	-	1,434,231
Dividend receivable	-	-	-	-	-	-	-
Other receivable	1,748,265	-	-	1,748,265	39,229	-	1,787,494
Financial assets at amortized cost	15,297,105	-	-	15,297,105	-	-	15,297,105
Financial assets at FVOCI							
Investment in bonds	2,309,440	-	-	2,309,440	-	-	2,309,440
Quoted shares of stocks	2,124,826	-	-	2,124,826	-	-	2,124,826
Unquoted shares of stocks	-	1,224,942	-	1,224,942	-	-	1,224,942
	₱235,417,445	₱33,397,875	₱8,544,042	₱277,359,362	₱22,725,079	₱2,069,429	₱302,153,870



December 31, 2019

	Neither past due nor impaired				Past due but not impaired	Impaired	Total
	High Grade	Medium Grade	Low Grade	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
Industrial Technologies	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	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
Dividend receivable	145,010	-	-	145,010	-	-	145,010
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



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 financial assets at amortized cost, advances to other companies and related party receivables

High grade pertains to cash and cash equivalents and short-term investments, quoted financial assets, financial assets at amortized cost, related party transactions and receivables with high probability of collection.

Medium grade pertains to unquoted financial assets other than cash and cash equivalents, FVTPL financial assets 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, power, outsourcing 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.

Industrial Technologies - 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.

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, 2020 and 2019 (amounts in thousands):

	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS AT FVTPL				
Held for trading – current	₱8,447,145	₱8,447,145	₱9,726,080	₱9,726,080
Convertible loans – noncurrent	3,961,898	3,961,898	–	–
Derivative assets				
Freestanding	250,230	250,230	338,612	338,612
Total financial assets at FVTPL	12,659,273	12,659,273	10,064,692	10,064,692

(Forward)



	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
AT AMORTIZED COST				
Accounts and notes receivables				
Noncurrent trade receivables				
Real estate	₱42,547,808	₱45,313,900	₱42,994,112	₱42,994,112
Nontrade receivables				
Receivable from officers and employees	1,434,231	1,372,578	1,505,311	1,443,659
Financial assets at amortized cost	15,297,105	16,456,725	3,374,290	3,374,290
Total at amortized cost	59,279,144	63,143,203	47,873,713	47,812,061
FINANCIAL ASSETS AT FVOCI				
Investment in bonds	2,309,440	2,309,440	2,305,402	2,305,402
Quoted equity investments	2,124,826	2,124,826	1,633,763	1,633,763
Unquoted equity investments	1,224,942	1,224,942	895,443	895,443
Total Financial assets at FVOCI	5,659,208	5,659,208	4,834,608	4,834,608
OTHER FINANCIAL ASSETS				
Deposits	3,425,411	3,425,411	3,570,171	3,570,171
Total Other Financial Assets	3,425,411	3,425,411	3,570,171	3,570,171
Total financial assets	₱81,023,036	₱84,887,095	₱66,343,184	₱66,281,532
FINANCIAL LIABILITIES AT FVTPL				
Financial liabilities on put option	₱466,712	₱466,712	₱1,584,703	₱1,584,703
Derivative liabilities	4,248	4,248	238,411	238,411
	₱470,960	₱470,960	1,823,114	1,823,114
OTHER FINANCIAL LIABILITIES				
Long-term debt	409,314,750	409,105,254	375,549,514	370,299,700
Service concession obligation	86,218	86,218	66,020	66,020
Deposits and other noncurrent liabilities	59,198,985	46,983,229	54,552,768	48,496,423
Total other financial liabilities	468,599,953	456,174,701	430,168,302	418,862,143
Total financial liabilities	₱469,070,913	₱456,645,661	₱431,991,416	₱420,685,257

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.

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 2020 and 2019.

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 5.75% to 16.00% and 6.25% to 13.50% as of December 31, 2020 and 2019.

Financial assets at FVOCI investment in bonds - fair value of the bonds is based on binomial lattice approach.

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 0.17% for VIA and 0.17% and 0.20% and 0.74% for STI for 2020 and 2019, respectively. 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 contingent liability was fully reversed in 2019.

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 of December 31, 2020 and 2019 (amounts in thousands):

2020

	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 - current	P-	P-	P8,447,145	P8,447,145
Convertible loans - noncurrent	-	-	3,961,898	3,961,898
Derivative assets				
Freestanding	-	-	250,230	250,230
Total Financial assets at FVTPL	-	-	12,659,273	12,659,273
Financial assets at FVOCI				
Investment in bonds	-	-	2,309,440	2,309,440
Quoted equity investments	1,427,032	697,794	-	2,124,826
Unquoted equity investments	-	-	1,224,942	1,224,942
	P1,427,032	P697,794	P16,193,655	P18,318,481
Recurring financial assets for which fair values are disclosed:				
Noncurrent trade and nontrade receivables	P-	P-	P46,651,918	P46,651,918
Financial assets at amortized cost	-	-	16,456,725	16,456,725
Deposits	-	-	3,425,411	3,425,411
	P-	P-	P66,534,054	P66,534,054
Recurring financial liabilities measured at fair value				
Financial liabilities on put option	P-	P-	P466,712	P466,712
Derivative liabilities	-	-	4,248	4,248
	P-	P-	P470,960	P470,960
Recurring financial liabilities for which fair values are disclosed:				
Long-term debt	P-	P-	P409,105,254	P409,105,254
Service concession obligation	-	-	86,218	86,218
Deposits and other noncurrent liabilities	-	-	46,983,229	46,983,229
	P-	P-	P456,174,701	P456,174,701
Nonfinancial assets for which fair values are disclosed:				
Investment properties	P-	P-	P458,146,195	P458,146,195
Investments in associates and joint ventures*	264,784,769	-	-	264,784,769
	P264,784,769	P-	P458,146,195	P722,930,964

*Fair value of investments in listed associates and joint ventures for which there are published price quotations

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	P-	P85,724	P9,640,356	P9,726,080
Derivative assets				
Freestanding	-	-	338,612	338,612
Total Financial assets at FVTPL	-	85,724	9,978,968	10,064,692
Financial assets at FVOCI				
Investment in bonds	-	-	2,305,402	2,305,402
Quoted equity investments	1,114,880	518,883	-	1,633,763
Unquoted equity investments	-	-	895,443	895,443
	P1,114,880	P604,607	P13,179,813	P14,899,300
Recurring financial assets for which fair values are disclosed:				
Noncurrent trade and nontrade receivables	P-	P-	P44,437,771	P44,437,771
Deposits	-	-	3,570,171	3,570,171
Financial assets at amortized cost	-	-	3,374,290	3,374,290
	P-	P-	P51,382,232	P51,382,232



	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	P=	P85,724	P9,640,356	P9,726,080
Derivative assets				
Freestanding	—	—	338,612	338,612
Total Financial assets at FVTPL	—	85,724	9,978,968	10,064,692
Financial assets at FVOCI				
Investment in bonds	—	—	2,305,402	2,305,402
Quoted equity investments	1,114,880	518,883	—	1,633,763
Unquoted equity investments	—	—	895,443	895,443
Recurring financial liabilities measured at fair value				
Financial liabilities on put option	P=	P=	P1,584,703	P1,584,703
Derivative liabilities				
Freestanding	—	238,411	—	238,411
	P=	P238,411	P1,584,703	P1,823,114
Recurring financial liabilities for which fair values are disclosed:				
Long-term debt	P=	P=	P370,299,700	P370,299,700
Service concession obligation	—	—	66,020	66,020
Deposits and other noncurrent liabilities	—	—	48,496,423	48,496,423
	P=	P=	P418,862,143	P418,862,143
Nonfinancial assets for which fair values are disclosed:				
Investment properties	P=	P=	P495,845,136	P495,845,136
Investments in associates and joint ventures*	278,883,519	—	—	278,883,519
	P278,883,519	P=	P495,845,136	P774,728,655

*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, 2020

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	Probability of trigger events occurring	1% - 10% (%)
			Increase in the probability to 10% would result in an increase in fair value by US\$0.01 million. Decrease in the probability to 1% would result in a decrease in fair value by US\$0.01 million.



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.

ACEI Group categorizes equity instruments at FVOCI, loans payable and notes payable under Level 3 valuation techniques:

Equity instruments at FVOCI

Estimated fair value is based on the discounted value of future cash flows using the applicable discount rates relevant to the industry of investee companies. Interest rates used in discounting cash flows ranged from 4% to 13.50% in 2020 and 2019. This is a Level 3 valuation technique.

Loans and Notes payable

Estimated fair values are based on the discounted value of future cash flows using the applicable rates for similar types of loans and liabilities. Interest rates used in discounting cash flows ranged from 2.98% to 5.03% in 2020 and 2019 for dollar-denominated loans and 2.61% to 4.87% in 2020 and 2019 for peso-denominated loans. This is a Level 3 valuation technique.

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	2020	2019
At January 1	₱9,726,080	₱9,236,804
Additions	3,263,628	826,637
Recognized in consolidated statement of income	24,028	528,011
Exchange difference and others	(604,693)	(865,372)
At December 31	₱12,409,043	₱9,726,080



Financial Liabilities at FVTPL	2020	2019
At January 1	₱1,584,703	₱1,567,146
Adjustment to additional paid-in capital	(736,142)	—
Recognized in consolidated statement of income	(353,184)	114,373
Exchange difference and others	(28,665)	(96,816)
At December 31	₱466,712	₱1,584,703

Derivatives

	2020	2019
Derivative Assets		
Call option of AC Industrial and AC Health	₱164,656	₱332,485
Forward contract of AC Energy, IMI and AIVPL	85,574	6,127
	₱250,230	₱338,612
Derivative Liabilities		
Put option and forward contract of IMI and ACEI	₱4,248	₱238,411

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\$1.6 million and US\$22.4 million as of December 31, 2020 and 2019, 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 exercised by the minority shareholders on April 1, 2027 or the 8th anniversary year after the acquisition date.

The acquisition of MT in 2017 and C-CON Group in 2019 included put options over the non-controlling interests. The put options resulted in a financial liability of US\$8.1 million and US\$8.9 million as of December 31, 2020 and 2019, respectively.

Free standing derivatives

As of December 31, 2020, and 2019, the outstanding forward contracts have a net fair value of \$88,361 (liability) and \$5,321 (asset), respectively. The changes in fair value of currency forwards recognized in 2020 and 2019 amounted to \$0.1 million loss and \$0.02 million gain, respectively. 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. The call option resulted in a derivative asset of US\$2.5 million and US\$0.2 million as of December 31, 2020 and 2019, respectively.

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 having 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 having 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 amounting to ₱222.7 million. The fair value of derivative liability as of December 31, 2019 amounted to ₱238.4 million.

In 2020, ACEI Group and SLPGC and DPSI mutually agreed to pre-terminate their derivative contracts. Under both contracts, ACEI Group or SLPGC or DPSI, has the obligation to pay the exposure fee in accordance with the fee computation formula agreed to by both parties. With the mutual agreement to pre-terminate the derivative contracts without fee, ACEI Group reversed the derivative liability resulting in gain in the consolidated statements of comprehensive income of ₱238.4 million



Fair Value Changes on Derivatives

The net movements in fair values of the Group's derivative instruments as of December 31, 2020 and 2019 follow (amounts in thousands):

Derivative Assets

	2020	2019
Balance at beginning of year	₱338,612	₱65,324
Additions (disposals) during the year	(88,382)	365,273
Net changes in fair value of derivatives	-	287,780
	250,230	718,377
Reclassification to PFRS 5	-	(379,765)
Balance at end of year	₱250,230	₱338,612

Derivative Liabilities

	2020	2019
Balance at beginning of year	₱238,411	₱15,700
Net changes in fair value of derivatives	(234,163)	222,711
Balance at end of year	₱4,248	₱238,411

No other financial assets or liabilities are carried at fair value as of December 31, 2020 and 2019.

Net changes in fair value of derivative assets 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, 2020						
	Pre-PFRS 5	Liabilities Held for Sale	Cash Flows	Non-cash Changes	Foreign Exchange Movement	Liabilities Held for Sale	December 31, 2020
Short-term debt and Long-term debt	₱405,338,157	₱95,293,056	₱46,523,028	(₱785,842)	(₱6,265,094)	(₱98,349,048)	₱441,754,257
Dividends payable	4,496,286	-	(8,830,976)	6,593,930*	-	(7,357)	2,251,883
Other noncurrent liabilities	48,447,370	8,938	1,422,200	4,796,443	-	(1,899,301)	52,775,650
Lease liabilities	22,381,166	308,482	(2,925,244)	4,747,254**	-	(393,938)	24,117,720
Service concession obligation	66,019	9,017,457	(1,211,983)	1,184,006**	-	(8,969,281)	86,218
Total liabilities from financing activities	₱480,728,998	₱104,627,933	₱34,977,025	₱16,535,791	(₱6,265,094)	(₱109,618,925)	₱520,985,728

*pertains to dividends declared during the year

**pertains generally to additions during the year

	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	(₱94,088,735)*	₱160,600	₱405,338,157
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	(₱68,904,175)	₱111,824	₱480,728,998

*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



Below is the reconciliation of amounts presented in the consolidated statements of cash flows and as presented in the consolidated statements of financial position or consolidated statements of income:

	As Presented in (2020)		Assets held for	As Presented in
	Statements of	Statements of	Sale/ Discontinued Operations	Statements of
	Financial Position	Income		Cashflows
Pretax income	₱—	₱24,712,512	₱11,306,203	₱36,018,715
Interest income (real estate and other income)	—	11,786,598	503,192	12,289,790
Interest and other financing charges	—	28,014,198	2,223,962	30,238,160
Depreciation and amortization (Note 23)	—	16,355,294	3,516,629	19,871,923
Share in profit in associates and joint ventures	—	17, 615,774	213,839	17,829, 613
Provision for impairment losses on (Note 23):				
Investment in associates and joint ventures	—	1,802,179	340, 645	2,142,824
Inventories	—	144,326	—	144,326
Receivables	—	867,287	439,870	1,307,157
Intangibles and other assets	—	651,262	98,099	749,361
Investment properties	—	225,208	—	225,208
Property, plant and equipment	—	623,884	—	623,884
Foreign exchange loss	—	52,310	510,113	562,423
Cash and cash equivalents	88,653,956		25,435,332	114,089,288

The Group's noncash investing and financing activities are as follows:

2020

- Additions to right-of-use assets and lease liabilities during the year amounting to ₱3,816.1 million and ₱2,994.0 million
- Reclassification of assets and liabilities of MWC and GNPK to PFRS 5 (see Note 25)
- Transfer from investment properties to inventories amounting to ₱18,563.9 million
- Transfer from inventories to investment properties amounting to ₱2,361.2 million
- Transfer from investment properties to property and equipment amounting to ₱591.6 million
- Transfer from right-of-use assets and lease liabilities to investment properties amounting to ₱6.9 million and ₱24.2 million, respectively

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 AYCFI 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 AEI 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
- Inclusion of the ₱4,990.1 million balance of GNPK in the December 31, 2019 cash and cash equivalents balance.



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.

36. Commitments

Parent Company

The Parent Company acted as guarantor to AYCFL's term loans and borrowings as follows:

Description of loans and borrowings	Date Contracted	2020	2019
		Outstanding balance (Amounts in thousands)	
US\$400.0 million Perpetual Undated Notes	October 31, 2019	US\$400,000	US\$400,000
US\$400.0 million Perpetual Undated Notes	September 13, 2017	400,000	400,000
US\$300.0 million Exchangeable Bonds	May 2, 2014	—	—
US\$200 million Transferrable Loan Facility	February 1, 2018	100,000	—
US\$200 million Revolving Credit Facility	March 18, 2016	—	—
US\$200 million Transferrable Term Loan Facility	March 18, 2016	20,000	—
		US\$920,000	US\$800,000

US\$200 million Transferrable Loan Facility

On February 2018, AYCFL entered into a US\$400 million Bilateral Transferable Revolving Credit Facility with interest rates at certain basis points over LIBOR. The available amount of the facility was reduced to US\$200 million, when the option to retain the full amount of US\$400 million was not exercised in September 2018. 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.

On March 17, 2020, AYCFL drew US\$25.0 million from the facility with an interest rate repricing of three (3) months. The amount was repaid on December 17, 2020.

On April 8, 2020, AYCFL drew US\$100 million from the facility with an interest rate repricing of three (3) months. The amount remained outstanding as of December 31, 2020.



US\$200 million Revolving Credit Facility

On March 18, 2016, AYCFL converted a US\$200.0 million Club Term Loan facility into Revolving Credit facility with interest rates at certain basis points over LIBOR and maturing in March 2020. A subsequent Amendment and Restatement Agreement in March 2018 split the facility into two; Facility A worth US\$100.0 million maturing in March 2020, and Facility B worth US\$ 100.0 million maturing in March 2022. 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 March 2016, AYCFL increased the existing Bilateral Term Loan Facility with a bank 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 original availability period of 5 years which offers the same flexibility as a Revolving Credit Facility. A subsequent Amendment and Restatement Agreement was made in March 2018 and a second (2nd) Amendment on September 2018, split the facility into Facility A worth US\$ 100.0 million to mature in September 2022, and Facility B worth US\$ 100.0 million with a maturity of September 2023.

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. On March 19, 2020, AYCFL drew US\$20.0 million with a repricing rate of three (3) months which remains outstanding as of December 31, 2020.

Parent Guarantee

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.

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 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.

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 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.

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 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.

The loan agreements on long-term debt of the Parent Company and AYCFL 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 Parent Company as of December 31, 2020 and 2019. 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
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 late 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.



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, as of August 1, 2018 the ALI Group has fully paid ₱4.56 billion, excluding taxes. The SM-ALI Group has finished with the joint masterplan and has secured the development permit last November 2019 from the Cebu City Council.

On January 29, 2020, SM-ALI Group broke ground 263,384sqm development and the constructions of road networks and underground utilities commence on February 18, 2020.

As of December 2020, the construction completion is at 47.51% and is forecasted to be finished in May 2022.

The development is positioned to be the Entertainment Capital of the Region which are the epicenter of fun, strategically located and accessible and celebrated Cebu experience.

It is envisioned to create a commercially viable mixed-use development and to create a living, vibrant community with world-class facilities, a well-designed urban setting, and lush, extensive landscaping.

Assignment Agreement between Metro Rail Transit Corporation (Metro Rail) and MRTDC

On August 8, 1997, an Assignment Agreement was executed between Department of Transportation and Communications (DOTC), Metro Rail whereby MRTDC agreed to be bound by all obligations in respect of the Development Rights and make payments to DOTC.

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 2023, 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 Bloomerry 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, 2020, 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 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 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 (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 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 remit to the DPWH as their share, 5% of all gross revenues arising from the grant of business concessions for non-toll and toll user related facilities situated within the basic and additional right of way of the MCX.

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. NTP 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, 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 VAT) 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 TRB, the petition has to be filed on or before September 30. 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 Parent Company'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.

Vehicle Class	Adjusted Toll Rate (flat rate)
Class 1: Light vehicles	₱17.00
Class 2: Medium-weight vehicles	35.00
Class 3: Heavy vehicles	52.00

The approved new toll rates were published by the Parent Company as directed in the TRB resolution prior to the issuance of the Notice to Start Collection, on April 5, 12, and 21, 2019. The new toll rates were implemented on July 1, 2019.

On September 29, 2020, the third toll rate increase petition was 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 November 26, 2020. Accordingly, the petition was published on December 30, 2020, January 6 and 13, 2021.

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, 2020, discussions are ongoing for the implementation of the Interoperability Project.

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 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 which will be computed as the total cost of providing the services (the base amount) plus 5% of the base amount, exclusive of VAT, and novated the existing agreement among MCXI and Egis for the Parent Company to replace MCXI as the principal contracting party to the Operation Advisory Contract and Maintenance contract.

Expressway Sponsorship Agreement

On November 25, 2019, the Parent Company entered into Expressway Sponsorship Agreement with FWD Life Insurance Corporation (FWD) for eight (8) years from effectivity, renewable for another 8 years. The agreement became effective in December 2019. Under the agreement, the Parent Company granted FWD exclusive branding rights and entitlements along the MCX. FWD will pay the Parent Company an annual fee amounting to 15.1 million, subject to a 3% yearly escalation rate.

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. On February 10, 2020, the lease agreement was amended for a new lease area of approximately 4,073 square meters with an amended lease term of 20 years from May 17, 2019 to May 16, 2039, renewable for a period not exceeding March 28, 2045. The amended fixed initial monthly basic rent amounted to ₱0.3 million, exclusive of VAT, and subject to a 5% annual escalation rate.

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.

In April 2020, the Parent Company signed the lease agreement with AC Infra for an approximate area of 16,001 square meters for the location of the MCX E-Commerce Center. The lease is for a period of eleven (11) years and 21 days effective September 1, 2018 until September 21, 2029, renewable for another period not exceeding June 28, 2045 upon mutual agreement. The initial monthly basic rent amounted to 1.4 million, exclusive of VAT, subject to escalation of 2.4% at the start of the second year and every year thereafter. The rental payment commenced on September 28, 2020.

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. 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, 2001; 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, and
- ₱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.

MWC asserted that the Republic interfered with the specific mechanism contained in Article 9.4 (General Rate Setting Policy/Rate Rebasing Determination) of the Concession Agreement thereby causing the impairment of the MWC's rate of return.

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 MWC 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, 2020 and March 9, 2021, MWC has yet to formally receive a copy of the proposed revisions to the Concession Agreement.

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. The following FCDA adjustments and their related foreign exchange basis took effect in 2018 to 2020.

Approval Date	Effective Date	FCDA	Foreign Exchange Rate Basis
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
March 6, 2019	April 1, 2019	₱0.52 per cubic meter	USD1: ₱52.77 / JPY1: ₱0.47
September 26, 2019	October 13, 2019	₱0.69 per cubic meter	USD1: ₱52.41 / JPY1: ₱0.47
March 11, 2020	April 1, 2020	₱0.48 per cubic meter	USD1: ₱50.77 / JPY1: ₱0.47 / EUR1: ₱56.36
September 14, 2020	October 1, 2020	₱0.33 per cubic meter	USD1: ₱50.10 / JPY1: ₱0.47 / EUR1: ₱56.37
December 1, 2020	January 1, 2021	₱0.19 per cubic meter	USD1: ₱48.51 / JPY1: ₱0.46 / EUR1: ₱57.22

There were no FCDA adjustments for the third quarters of 2019 as the MWSS BOT did not approve the adjustments until the fourth quarter of 2019. On May 29, 2020, the MWSS BOT approved a FCDA adjustment for the third quarter of 2020 similar to the prevailing FCDA adjustment for the second quarter of 2020 of ₱0.48 per cubic meter which had no impact on customer bills.

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
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.

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, pursuant to the expansion of the service area of Laguna Water under its amended concession agreement with PGL.

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.

BIWC's Concession Agreement

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.

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 18, 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/m³ to ₱24.63/m³) effective September 1, 2014, subject to the Extraordinary Price Adjustment; and
- e. Increase in tariff rates by:
 - ₱0.41/m³ (from ₱24.63/m³ to ₱25.04/m³) in 2018
 - ₱0.42/m³ (from ₱25.04/m³ to ₱25.45/m³) in 2019
 - ₱0.42/m³ (from ₱25.45/m³ to ₱25.87/m³) in 2020
 - ₱0.43/m³ (from ₱25.87/m³ to ₱26.30/m³) 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, 2020, Clark Water's 2018 rate rebasing is still ongoing which put on hold the approved tariff increases when the concession agreement was amended in August 15, 2014.

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.

As of December 31, 2020, the parties are still engaged in negotiations towards the settlement of the dispute.

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 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.

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.

Per Section 1.10 of the NRWSA, 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.

On April 3, 2020, ZWC received a letter, dated April 1, 2020, from the Zamboanga City Water District (ZCWD), requesting for the termination of the NRWSA. In its letter, ZCWD indicated that the erratic supply of water due to the recurrent dry spell and El Niño phenomenon affecting the District Metered Areas (DMAs) established by ZWC has rendered the NRWSA impractical and unworkable, and thus, in the interest of fiscal responsibility and sound management of government funds, ZCWD requested for the termination of the NRWSA.

On April 30, 2020, ZWC approved the termination of the NRWSA. Such termination, however, is without prejudice to Zamboanga Water's claims against ZCWD and remedies under the NRWSA.

On September 16, 2020, ZWC filed a Notice of Arbitration with the Philippine Dispute Resolution Center, Inc. (PDRCI), which is the arbitral body designated in the NRWSA.

As of December 31, 2020, the arbitration is currently ongoing.

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.

On February 7, 2020, the Tagum Water BOD finalized the approval of the additional capital expenditure in the amount of ₱154.00 million.

On April 4, 2020, the extended commissioning period has concluded. However, the operation started only on May 18, 2020 due to -19 quarantine measures in the region.

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.

TWD issued a Notice of Award for the Construction of Wells 3 and 4 amounting to ₱27.00 million dated January 9, 2020, Notice of Award for the Construction of Artificial Recharge amounting to ₱75.00 million dated February 21, 2020, and Notice of Award for the Interim Wells Generator sets amounting to ₱11.00 million last March 29, 2020.

A Notice of Award on the variation order for the construction of an additional Cofferdam on Design and Build of Artificial Recharge amounting to ₱4.27 million was issued last June 23, 2020.

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, 2020 and 2019, Aqua Centro and MWPVI has eight (8) and one (1) signed MOAs with the SM Group, respectively.

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 VAT and/or any applicable tax, to be charged to the customers for the first three (3) years of the concession agreement 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 vehicle (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, Digamy, 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, 2020, 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.

On August 4, 2020, MWPVI's BOD approved the assignment of the Lease Agreement for the Operations and Management of the Water and Used Water Facilities of the PEZA in the CEZ from MWPVI to EcoWater.

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 ₱29.7 million and ₱4.99 million in 2020 and 2019, 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.

Ilagan Water's Bulk Water Sales and Purchase Agreement with City of Ilagan Water District (CIWD)

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.

On March 16, 2020, Ilagan Water signed and executed a BWSPA and SMA with the City of Ilagan Water District (CIWD), for the supply of bulk water and septage management to CIWD for a period of twenty-three (23) years and twenty-two (22) years from the Operation Start Date, respectively.

As of December 31, 2020, Ilagan Water's BWSPA and SMA did not have any impact on the Group's financial position and operations since Ilagan Water has yet to commence any activities in relation to these agreements.

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 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 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.



On January 21, 2020, South Luzon Water's BOD approved and clarified that the assignment has a retroactive application effective June 1, 2019, considering the actual commencement date of the takeover and operation of the Tanuan Project.

Notice of Award from Lambunao Water District

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.

Notice of Award from Calinog Water District

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.

Aqua Centro and Laguna Water APAs with Extraordinary Development Corporate Group (EDCG)

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, 2020 and 2019, Aqua Centro has already started operations in nine (9) out of the ten (10) subdivisions. As of December 31, 2020, 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.

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.

Joint Venture Agreement (JVA) with CCWD

On July 15, 2020, Calbayog Water and Tubig Pilipinas Group, Inc. (TPGI) entered into a Stakeholder Management Agreement, where TPGI agrees to provide support to the Operations Management/ Stakeholder Management of Calbayog Water.

On the same date, Calbayog Water and TPGI entered into a Subscription Agreement whereas TPGI agreed to subscribe to Calbayog Water's shares at a subscription price of ₱1.00 per share for a total subscription of Forty-Nine Million One Hundred Seventy Thousand Pesos (₱49,170,000.00), payable in tranches up to 2022.

Assignment of MWPVI Lease Agreement with the Philippine Economic Zone Authority (PEZA). On August 4, 2020, the MWPVI BOD approved the assignment of the Lease Agreement for the Operation and Management of the Water and Used Water Facilities of the PEZA in the Cavite Economic Zone (CEZ) from MWPVI to EcoWater.



San Jose Water District and Manila Water Philippine Ventures

On March 4, 2020, San Jose Water District and Manila Water Philippine Ventures signed a Joint Venture Agreement for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply and sanitation facilities and services of San Jose Water District.

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.

On August 4, 2020, the MWPVI BOD approved the assignment of the franchises, rights and obligations granted to MWPVI by the local government units of Malasiqui, San Fabian, and Manaoag in the province of Pangasinan to North Luzon Water.

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 franchise 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.

On December 4, 2020, Amendment to the MOA with RLI for Pasinaya North was executed. The amendment states a one-time fee or charge amounting to ₱5.47 million for the right to use for 25 years of RLI's Water Distribution Facilities in Pasinaya North.



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, Guimaras Wind Corporation received its Certificate of Compliance from the ERC which entitles Guimaras Wind Corporation 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 ₱268.4 million and ₱190.89 million as of December 31, 2020 and December 31, 2019, respectively.

Power Supply Agreement with MERALCO

Baseload Demand

On September 9, 2019, the bid submitted by ACEN was declared as one of the best bids of MERALCO's 1200 MW. ACEN will supply MERALCO a baseload demand of 200MW from December 26, 2019 until December 25, 2029 subject to the approval of the ERC.

On October 22, 2019, MERALCO and ACEN ("the Parties") filed with the ERC a joint application for approval of its baseload PSA. Under the PSA, ACEN will supply, at a fixed rate, 200 MW baseload capacity to MERALCO for ten (10) years from the issuance by the ERC of a provisional approval. Hearings were conducted on January 14, 21, and 28, 2020.

On January 31, 2020, ACEN received a copy of the Order from the ERC, provisionally approving the baseload PSA between MERALCO and ACEN (the "PA Order"). Under the PA Order, the ERC granted a rate of ₱4.2366/kWh regardless of the plant capacity factor and not subject to any escalation rate.

On February 7, 2020, ACEN filed a Motion for Reconsideration and Urgent Re-evaluation of the Provisionally Approved Rates, arguing among others that: (a) the terms of reference of the competitive selection process of MERALCO allowed ACEN to provide a competitive offer; (b) inclusion of the plant capacity factor in determining the rate is essential in managing the risks of ACEN; (c) the proposed escalation rate is within the parameters of the bidding terms, the rate offered by ACEN is inclusive of the escalation rate and is lower than the expiring power supply agreements of MERALCO; (d) retroactive application of the rates under the PSA is warranted.

On May 13, 2020, ACEN received a copy of the Order of the ERC granting ACEN's Motion for Reconsideration ("Order Granting the MR"). The ERC, in its Order Granting the MR, approved a rate of ₱4.2366/kWh at 100% plant capacity factor, allowed 60% of the approved rate to escalate by 3.5% on 2021 and 2.5% on 2022, and allowed a retroactive recovery of approved rate from December 26, 2019, among others. The Parties have already agreed on the amortization schedule



and/or payment schedule for the collection of the retroactive differential adjustment amounting to ₱618.27 million.

Mid-merit Supply

On September 11, 2019, the bid submitted by ACEN was declared as one of the best bids of MERALCO's 500 MW. ACEN 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 ACEN 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.

On October 22, 2019, MERALCO and ACEN ("the Parties") filed with the ERC a joint application for approval of the mid-merit PSA. Under the PSA, ACEN will supply, at a fixed rate, 110 MW mid-merit capacity to MERALCO for five (5) years from the issuance by the ERC of a provisional approval. Hearings were conducted on December 3, 2019, January 14, 21, and 28, 2020.

On January 31, 2020, ACEN received a copy of the Order from the ERC, provisionally approving the mid-merit PSA between MERALCO and ACEN. Under the PA Order, the ERC granted a rate of ₱4.2366/kWh regardless of the plant capacity factor.

On February 07, 2020, ACEN filed a Motion for Reconsideration and Urgent Re-evaluation of the Provisionally Approved Rates, arguing among others that: (a) the terms of the competitive selection process of MERALCO allowed ACEN to provide its competitive offer; (b) the application of the baseload rate to a mid-merit capacity should be reconsidered; (c) inclusion of the plant capacity factor in determining the rate is essential in managing the risks of ACEN; (d) the financial nature of the PSA allows ACEN to source from its nominated power plants, including its coal and solar plants, other power plants, or from the WESM; and (e) a retroactive application of the rates under the PSA is warranted.

On June 01, 2020, ACEN received a copy of the Order of the ERC granting ACEN's Motion for Reconsideration. The ERC, in its Order Granting the MR, approved a rate of ₱4.8763/kWh at 60% plant capacity factor, and allowed a retroactive recovery of approved rate from January 30, 2020, among others. The Parties are finalizing the agreement for the amortization schedule and/or payment schedule for the collection of the retroactive differential adjustment amounting to ₱158.50 million.

Power Administration and Management Agreement (PAMA)

ACEN entered into PAMA with its subsidiaries Bulacan Power, CIPP and One Subic Power. Under the terms of PAMA, ACEN 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 Bulacan 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.

On January 12, 2018, PAMAs of ACEI Group with CIPP and Bulacan 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

ACEN 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. Pending ERC's issuance of a final approval, provisional approval is extended every year.



Other Electricity Supply Agreements (ESA) / Contract for the Sale of Electricity (CSE) with customers
ACEN 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.

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.

As of December 31, 2020, the EPC Works related to the Existing System Rehabilitation, the Re-engineering Project, the RSS Rehabilitation Project and the Security Network Systems Project are 74.3%, 99.0%, 90.6%, 98.2% complete, respectively.

Total interest payments made in 2020 amounted to ₱1,072.7 million and total drawdowns made to finance EPC payments amounted to ₱3.7 billion.

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, 2020 and 2019, the EPC Works related to the Cavite Extension Works is 47.0% and 33.9% complete, respectively.

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.

On July 6, 2020, the NAIA Consortium submitted a letter to NEDA notifying NEDA that, given the impact of the pandemic, the NAIA consortium can only move forward with the NAIA Project under the revised conditions that the NAIA Consortium proposed.

On July 10, 2020, the NAIA Consortium received a letter from MIAA, notifying the NAIA Consortium that MIAA is terminating any further negotiations with the Consortium on the NAIA unsolicited proposal and withdraws/revokes the Original Proponent Status and approvals earlier granted. This letter is in response to the above consortium's letter addressed to NEDA.

AC Industrial Group

On December 5, 2018, ACI signed a Distributorship Agreement with Kia Motors Corporation (KMC) to distribute the Kia brand in the Philippines. A joint venture company, with ACI 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 ACI 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.

ACEI

PB 102 Oil Spill

ACEN's PB 102 located in Barrio Obrero, Iloilo City, accidentally discharged fuel oil in the afternoon of July 3, 2020. Based on initial investigation, there was an explosion in one of the barge's fuel tanks which ruptured the hull of the barge and resulted in the oil spill. Bulacan Power Generation Corporation (BPGC), the operator and maintenance services provider of PB 102, immediately activated containment protocols. With the assistance of the Philippine Coast Guard ("PCG") and industry and community partners, the leakage was substantially contained within the same day. After containment, ACEN, through BPGC, and the PCG immediately started recovery of the spilled fuel oil with recovery capacity being accelerated with the deployment of additional oil skimming equipment. ACEN has also engaged Harbor Star Shipping Services, Inc. (Harbor Star), a leading maritime services provider, to complete the clean-up of both the waters and the coastline.

ACEN has notified the insurers of PB 102 about the event, and discussions are ongoing in this regard. As of December 31, 2020, ACEI group has incurred ₱31.60 million in fuel loss, community assistance oil containment and recovery of expenses, net of insurance proceeds. ACEI group will continue to take measures to mitigate the environmental impact of the spill and to fully cooperate with authorities to address all relevant concerns.

On July 28, 2020, ACEN received a Resolution dated July 27, 2020 issued by Department of Environment and Natural Resources – Environmental Management Bureau (DENR-EMB) Region VI, in relation to Notice of Violation No.20-NOVW-0630-164, for possible violation of Section 27(a) of DENR Administrative Order 2005-10, the Implementing Rules and Regulations of the Philippine Water Act of 2004 (Republic Act No. 9275), in connection with the oil spill involving PB 102 which occurred on July 3, 2020.

Possible payment of fines to be determined by the Pollution Adjudication Board, in the range of (1) ₱10,000 to ₱200,000 per day from the time of the incident (July 3, 2020) until full recovery of the discharged fuel (July 13, 2020), for alleged violation of RA 9275; and (2) ₱50,000 to ₱1,000,000 or imprisonment of not less than one (1) year but not more than six (6) years, or both, for alleged violation of Section 4 of PD 979.

ACEN has contested this Resolution and filed a Motion for Reconsideration.

ACEN has received claims for compensation for property damages and loss of livelihood from claimants in Iloilo and Guimaras which were allegedly affected by the oil spill. These claims are undergoing validation.

Refund of Market Transaction Fee from PEMC

On July 9, 2020, the ERC issued its Decision on ERC Case 2015-160 RC ordering the PEMC to refund the over collection in the Market Transaction Fee (MTF) in 2016 and 2017. The Commission determined the over collection by getting the variance between the MTF collected in 2016 and 2017, and the ERC-Approved Budget of PEMC for the same period. The total refund was determined at ₱433.2 million which shall be apportioned among all the Luzon and Visayas participants. The ERC directed PEMC to implement the refund over twelve (12) months beginning on the next billing month upon receipt of the relevant Decision. PEMC filed a motion for reconsideration with the ERC.



PEMC filed a motion for reconsideration with the ERC, which motion remains pending.

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. On June 17, 2019, the Supreme Court decision on the case became final and executory and was thereby recorded in the Book of Entries of Judgments.

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 order to ease the widespread inconvenience of the water supply shortage to the customers who were affected by the unprecedented water shortage, MWC announced a one-time voluntary Bill Waiver Program on March 26, 2019. This program had two parts, namely:

- (1) all customers will receive a bill waiver of the minimum charge in their consumption which represents ten (10) cubic meters covering water, environmental and sewer charges; and
- (2) all customers from hard-hit barangays with absolutely no water service for at least seven (7) days from March 6 to March 31, 2019 will not be charged at all for the month of March 2019.

The bill waiver is in the nature of an abatement or reduction from the gross amount or price to be paid by the customers. This was implemented in April 2019 and was treated as sales discount in the customer's billings.

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 MWC for its failure to meet its service obligation to provide 24/7 water supply to its customers. While the development of new water sources is, under the Concession Agreement, ultimately the responsibility of MWSS, MWC 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 MWC, 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 MWC 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 MWC liable for fines in violation of Section 8 of the Clean Water Act in the following manner:

- a. MWC 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. From finality of the Decision until full payment of the ₱921.46 million fine, MWC 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. 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, MWC filed a Motion for Reconsideration with the Supreme Court.

On July 1, 2020, MWC received a copy of the Consolidated Comment (on the separate Motions for Reconsideration filed by petitioners MWSS, Maynilad Water Services, Inc. and MWC) filed by the Office of the Solicitor General in behalf of the adverse parties.

On August 17, 2020, MWC filed with the Supreme Court a Motion for Leave to file and admit its Reply.

On November 3, 2020, MWC received a Resolution dated September 8, 2020 issued by the Supreme Court, which relevantly:

1. noted the Consolidated Comment;
2. granted the Motion for Leave and Admit Attached Reply; and
3. noted the Reply filed by MWC.

As of December 31, 2020, the Motion for Reconsideration remains pending.

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 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 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 2020, MWC engaged the services of Royal Asia Appraisal Corporation to conduct a re-appraisal of the assets managed by MWC as of December 31, 2020. Total appraised value as of December 31, 2020 amounted to ₱28.0 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. Payments amounting to ₱36.40 million each year is recorded in 2020 and 2019 as deduction to lease liabilities. In 2018, total rent payments amounted to ₱32.3 million, 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 amounting to ₱16.2 million each year which is recorded in 2020 and 2019 as deduction to lease liabilities and in 2018, 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 ₱2,138.4 million with a sound value of ₱1,596.2 million.

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 these 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

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 VAT 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 ERC in consultations with the National Renewable Energy Board.

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). 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 upon registration.

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 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 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 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.



Last February 2018, Northwind received FIT adjustment from ₱5.76 to ₱5.96 applied from billing periods July 25, 2015 to January 25, 2018.

MSEI

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, MSEI received another provisional authority to operate by the ERC dated December 8, 2016 but this time, as a renewable energy generation company, which allows MSEI 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, MSEI collected the first FIT differential payment from Transco.

As of December 31, 2017, MSEI recognized FIT differential totaling ₱233.3 million covering the period March to August 2016 and January to September 2017.

Tariff Adjustment

On May 26, 2020, ERC approved the adjustments to the FIT of renewable energy producers through Resolution No.06, series of 2020. The resolution was published in a newspaper of general circulation in the country on November 17, 2020. Renewable energy subsidiaries under the FIT system include Guimaras Wind Corporation, MSEI, SACASOL, and NorthWind.

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. Impact of the Coronavirus Disease 2019 (COVID-19) Outbreak

The declaration last March 2020 by World Health Organization (WHO) of COVID-19 as a pandemic led to government-mandated lockdowns in several countries. The declaration of nationwide state of calamity and implementation of community quarantine measures throughout the country immediately took effect. These factors including immediate action to contain COVID caused disruptions in the Group's business activities – both in local and foreign operations.

ALI

ALI group was significantly affected - from construction, real estate sales, leasing to resorts and hotels operations segments. While there are recent signs of increased market activity with the easing of quarantine measures and increased mobility in key areas in the Philippines, management believes that the impact of COVID-19 situation remains fluid and evolving and the pace of recovery remains uncertain.

As of the reporting date, all shopping malls have reopened at adjusted operating hours and construction works for commercial and residential projects have resumed while following the safety protocols mandated by the national government. Most hotels remained open throughout the community quarantine period, catering mostly to business process outsourcing employees and returning overseas Filipino workers.

IMI

The manufacturing operations of IMI was highly affected by lockdowns in China, Philippines and Mexico and voluntary shutdowns in the Europe factories to align with the demand slowdown during the first half of the year. Revenues in the second half of the year recouped, 39% better than first half and 7% higher year-on year on the back of strong demand recovery and subsequent normalization of operations. The global demand for security and I-o-T products boosted industrial revenue while mobility-focused European and North American facilities benefitted from the rapid rise of global automotive production. In addition, IMI's growing foothold in the profitable medical segment also led to increased higher margin sales for its manufacturing plants in Asia.



To mitigate the impact of the lockdowns, various sites affected obtained approvals to run essential businesses, optimized manpower resources and implemented various cost cutting initiatives. IMI Group also collaborated with local government units to secure various forms of employee related subsidies in Bulgaria, China, Czech Republic, France, Mexico, Serbia, and Singapore. These, along with improved manufacturing efficiency drove improved margins and lower losses compared to last year.

The effects of potential recurrence of pandemic related shutdowns after the reporting period may pose risks and unfavorable impact to the Company but will not materially affect the Company's ability to continue as going concern.

ACEI

With respect to ACEI Group's operations in the Philippines, the community quarantines resulted in delays in the construction of power projects, a decline in demand for ACEI Group's output from industries, offices, and shopping malls which account for the bulk of energy consumption, and a decline in WESM prices as demand for electricity decreased. In addition, the ERC directed distribution utilities and retail electricity suppliers to allow consumers a grace period for the payment of their electric consumption without interest, penalties and other charges. As of December 31, 2020, ACEI has collected all receivables.

Nevertheless, as the Department of Energy recognizes that energy utilization is a basic necessity and is vital to the society, the movement of energy related good and the movement of energy related personnel, subject to adherence to necessary public health precautions prescribed by the Department of Health, continue to be permitted. As such, ACEI Group continues to ensure uninterrupted access to power regardless of any community quarantine restrictions imposed. Construction has resumed in ACEI Group's project located in the Philippines, while construction in Vietnam, and India has been proceeding as planned. The Company's operations in Vietnam and Indonesia were not significantly affected by the outbreak and continue to enjoy stable cash flows pursuant to long term contracts and FIT schemes.

Refer to Notes 3, 4, 7, 10, 14 and 22 for additional discussion of specific impact of COVID-19 to certain financial statement accounts.

41. Events after the Reporting Period

The Group

House of Representatives ratifies Corporate Recovery and Tax Incentives for Enterprises ("CREATE") Act

The House of Representatives on February 3, 2021 ratified the bicameral conference committee report on the proposed CREATE Act. The bicameral had settled the disagreeing provisions of House Bill No. 4157 and Senate Bill No. 1357 or the two chambers' respective versions of CREATE Act, previously called the Corporate Income Tax and Incentives Reform Act (CITIRA) bill. The measure seeks to reform corporate income taxes and incentives in the country.

The chamber approved the final version of the CREATE bill, which seeks to lower corporate income tax from 30% to 25% for large corporations and 20% for small and medium corporations, to bring it closer to the ASEAN region's average and keep up with other neighboring countries.

As at report date, the Group is assessing the possible impact of the Act, should it pass into Law, subsequently.

Parent Company

Capital Infusion

In January 2021, the Parent Company made capital infusion amounting to ₱490.0 million to AC Infra to fund operating requirements of LRT 1 through LRMC.



Loan Agreement with BPI

On January 8, 2021, the Parent Company entered into a US\$10.0 million loan agreement with BPI which shall mature on April 8, 2021. On the same date, the Parent Company entered into a three (3)-month foreign currency swap with a local bank for the same amount.

Declaration of Cash Dividends

In January 2021, the Parent Company declared cash dividends to its Preferred B Series 1 and Series 2 shareholders amounting to ₱131.3 million and ₱180.8 million, respectively.

Additional Investment

In February 2021, the Parent Company made an additional investment in the preferred shares of AC Health amounting to ₱1,648.0 million to fund its acquisition of MGHI.

Issuance of Fixed Rate Bonds

On March 9, 2021, the BOD of Parent Company approved the issuance of a fixed rate bonds in the aggregate principal amount of up to ₱6.0 billion with an oversubscription option of up to an additional ₱4.0 billion, which will constitute the first tranche of the Company's ₱30 Billion shelf registration that had been earlier approved by the BOD and that will be filed with the SEC.

ACEI

Acquisition by ACEN of Shares in Solar Philippines Central Luzon Corporation

On January 22, 2021, ACEN signed a Deed of Absolute Sale of Shares with Solar Philippines Power Project Holdings, Inc. ("SP") for the acquisition by ACEN of SP's 0.24 million common shares in Solar Philippines Central Luzon Corporation ("SPCLC") with a par value of ₱1.00 per share or a total par value of ₱0.24 million.

On the same date, ACEN signed a Subscription Agreement with SPCLC for the subscription by ACEN to 0.38 million common shares with a par value of ₱1.00 per share or a total par value for a total subscription price of ₱0.38 million, to be issued out of the unissued authorized capital stock of SPCLC.

The acquisition will allow ACEN to have a significant ownership interest in SPCLC and is meant to implement the joint venture between ACEN and SP for the development of solar power projects in the Philippines.

SPCLC is a special purpose vehicle for the development and operation of solar power projects.

Withdrawal from SC 6 consortium by ACE Enexor (ACEX)

On January 27, 2021, ACEN's Executive Committee approved ACEN's withdrawal from the SC 6 consortium. ACEN holds 7.78% participating interests in SC 6 Block A, located in offshore North Palawan. SC 6 does not have any commercial operations.

ACEI Group has determined that such subsequent event is not considered as an adjusting event since withdrawal from the SC 6 consortium was proposed and approved subsequent to December 31, 2020. Accordingly, its impact was not reflected in the Group's financial statements as of and for the year ended December 31, 2020 as there is no indicator of impairment nor withdrawal was determined as at December 31, 2020.

Completion of SRO

During the Rights Offer Period from January 18, 2021 to January 22, 2021, ACEN sold, by way of SRO, a total of 2,267.58 million common shares at an Offer Price of ₱2.37 per share to eligible stockholders of record as at January 13, 2021.



There were 2,094.90 million shares and 172.68 million shares sold in first round and second round allocation, respectively. The Rights Shares was listed with the PSE on January 29, 2021.

The resulting total outstanding shares after the SRO is 15,960.04 million.

Shareholders' Agreement among ACEN, ACE Endeavor, and Citicore Solar Energy Corporation (CSEC)

On February 4, 2021, ACEN and ACE Endeavor signed a Shareholders' Agreement with CSEC, and Greencore Power Solutions 3, Inc. ("Greencore"), for the development, construction, and operation of a PV Solar Power Plant in Arayat and Mexico, Pampanga, Philippines with an installed nominal capacity of 50 MWac (72MWdc) (the "Project").

The Project is scheduled to start operations in November 2021. Under the Shareholders' Agreement, CSEC will have 50% of the shares in Greencore, the special purpose vehicle of the Project, while ACEN and Endeavor will hold 45% and 5% interest, respectively. ACEN has agreed to provide a term loan facility to Greencore to finance the construction of the Project. The Shareholders and Greencore agreed to execute the necessary loan and security agreement for this purpose.

Subscription by the ACEN to shares of Greencore

On February 4, 2021, ACEN signed a subscription agreement with Greencore for the subscription by ACEN of 2.25 million common shares with a par value of ₱1.00 per share or a total par value of ₱2.25 million to be issued out of the unissued authorized capital stock of Greencore. The subscription will be used by Greencore to partially fund the development and construction of a PV Solar Power Plant in Arayat and Mexico, Pampanga, Philippines with an installed nominal capacity of 50 MWac. ACEN has fully paid the Subscription Price.

Term Loan Facility with Greencore

On February 4, 2021, ACEN and ACE Endeavor signed an Omnibus Agreement with Greencore and CSEC for the financing of Greencore's 50MWac (72MWdc) PV Solar Power Plant in Arayat and Mexico, Pampanga, and associated facilities.

Under the Omnibus Agreement, ACEN will be extending a term loan facility to Greencore in the amount of up to ₱2,675.00 million to finance the design, engineering, financing, construction, procurement and supply, manufacturing, commissioning, start up, testing, delivery, ownership, operation and maintenance of the power plant, which is expected to be operational in November 2021. The loan will be secured by (1) a real estate mortgage over Greencore's real assets in favor of ACEN, (2) a mortgage and pledge over the shareholding of the shareholders of ACEN, and (3) the cashflows of the project.

ACEN's planned Follow-On Offering ("FOO")

On February 4, 2021, ACEN's Executive Committee approved the FOO price range of ₱6.00-₱8.20 per share. On February 16, 2021, ACEN submitted a registration statement for up to 2,000.00 million common shares (primary) with the SEC.

The FOO is planned to be conducted by middle of 2021.

Finalization of the Divestment Agreement for GNPK

On March 5, 2021, ACEI, PP and certain of their affiliated companies, signed a Divestment Agreement for the transfer by ACEI of its indirect ownership interest in GNPK in favor of PP and its affiliates. The transfer will be implemented in tranches with the purchase price to be paid on a deferred basis.

The transfer of ACEI's interest in the GNPK Project is part of ACEI's plan to rebalance its generation portfolio as it aims to grow its renewable energy assets with a target of achieving at least 5GW of attributable renewable energy capacity by 2025.



ALI

Purchase of Land

On January 5, 2021, AREIT, Inc., purchased 9.8 hectares of land owned by TLI, in Laguna Technopark through a deed of sale for ₱1.1 billion, VAT-inclusive. The purchase is payable in cash upon execution of the deed of sale and on January 21, 2021. The land is composed of four (4) parcels which is being leased by IMI for its manufacturing operations for the next seven years from January 1, 2021 until December 31, 2027 with annual escalation rate of 5%.

BOD Approvals

On February 23, 2021, the BOD approved the following:

- a. The merger of ALI and its listed subsidiary, CHI as well as its other subsidiaries, Asian I-Office Properties, Inc. (AiO), Arca South Commercial Ventures Corp. (ASCVC) and Central Block Developers Inc. (CBDI), with Ayala Land Inc., as the surviving entity. The plan of merger will be submitted for the approval of our stockholders during their annual meeting on April 21, 2021.

CHI is 71.1% subsidiary. ASCVC is our wholly owned subsidiary, while AiO is a wholly owned subsidiary of CHI, and CBDI is 55% owned by CHI and 45% owned by ALI. The merger is an internal restructuring as well as a consolidation of the Group's Cebu portfolio under one listed entity. The merger is expected to result in operational synergies, efficient funds management and simplified reporting to government agencies.

- b. The amendment of ESOWN Plan to increase the share allocation for ESOWN grants from 2.5% to 3% of our authorized capital stock. This will be presented to the stockholders for approval on April 21, 2021.
- c. The filing with the SEC of a new 3-year shelf registration of up to ₱50 billion of debt securities.
- d. The raising of up to ₱41 billion through the issuance of retail bonds and/or corporate notes for listing on the PDEX, and/or bilateral term loans for the purpose of refinancing outstanding loans and to partially finance our general corporate requirements.
- e. The declaration of cash dividends of ₱0.136 per outstanding common share payable on March 25, 2021 to stockholders of common shares as of record date March 10, 2021. This reflects a 49% decrease from the cash dividends declared in the first half of 2020 amounting to ₱0.268 per share.

AC Health

Acquisition of MGHI

As of February 26, 2021, the shares of White Knight in MGHI which is equivalent to 39.2% have already been sold to Healthway. The sale of White Knight's interest in MGHI allowed ALI to redeploy capital and focus on its core businesses and provided AC Health with a network of general hospitals. Further details are as follows:

- The transaction has been completed for the 11% of the 15% to be acquired from Mercado Group (The remaining 4% is expected to be completed within March 2021).
- The subscription agreement for voting preferred shares to take Healthway Philippines, Inc. voting in MGHI to 70% has been completed.
- The execution of the agreements for MGHI's relevant subsidiaries to purchase the hospital buildings from ALI's subsidiaries and related companies has been included as part of the conditions precedent to close the transaction.

The transaction is treated as a normal business combination at AC Health but accounted as a step-acquisition at AC Consolidation.



AC Infra

Capital Infusion

On January 13, 2021, the Parent Company infused ₱490.0 million to AC Infra for 490.0 million redeemable preferred shares.

On January 14, 2021, AC Infra infused ₱490.0 million to LRMC through LRMHI for 245.0 million additional common shares.

MWC

Trident Water's acquisition of voting interest in MWC

On February 15, 2021, MWC and Prime Strategic Holdings, Inc. signed an Amendment to the Subscription Agreement which both parties entered into last February 1, 2020. The amendment covers the inclusion of Trident Water as party to the Subscription Agreement following its establishment, as well as the updated payment terms which is 50.0% upon Closing and 50.0% upon call of MWC's BOD.

On the same date, Philwater and Trident Water executed a Share Purchase Agreement wherein Philwater agrees to sell 2,691,268,205 of its preferred shares in the MWC to Trident Water with a payment term over a five (5)-year period. The purchase of the preferred shares reflects a 39.09% voting stake and 8.19% economic stake in MWC. The rights and title to the shares, except voting rights covered by the proxies, which shall be executed upon the execution of the Shareholders' Agreement, shall not be transferred until all payments are made. Dividends earned by the preferred shares shall continue to be for the account of Philwater until full payment has been made.

MWC has not issued, and Trident Water has not acquired, the 820.00 million common shares subject of the Subscription Agreement pending the completion of the following conditions to closing:

1. Execution of the Shareholders' Agreement by Ayala, Philwater, and Trident Water, and
2. Compliance with and completion of the mandatory tender offer by Trident Water to the shareholders of the Parent Company as may be required by the SEC.

Trident Water will initiate the mandatory tender offer after receipt of written approval by the SEC. The mandatory tender offer is estimated to be completed by April 2021. The Shareholders' Agreement will be signed after the completion of the mandatory tender offer.

MWPVI and TPGI Joint Venture Agreement with SJCWD

On January 14, 2021, the consortium of MWPVI and TPGI has signed and executed a JVA with the SJCWD 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.

Clark Water' Compliance Action Plan (CAP)

On June 16, 2016, the DENR promulgated DENR Administrative Order (DAO) No. 2016-08 regulating the discharge of nutrients and imposing additional limits and parameters. Pursuant to Section 10 of DAO No. 2016-08, Clark Water sought the approval of the DENR of its CAP which would have extended the current five (5)-year CAP of Clark Water. On July 17, 2020, Clark Water received the approval of DENR on its submitted CAP with project completion deadline of December 31, 2021. On October 19, 2020, the CDC sent a letter to the DENR in support of Clark Water's request for extension of its CAP to 2023. On November 11, 2020, however, the CDC received a letter from the DENR denying Clark Water's request citing the DAO No. 2016-08's clear five (5)-year limit for the grace period. On November 26, 2020, CDC sent another letter to the DENR appealing to the DENR for reconsideration of their request to postpone the DAO No. 2016-08. On December 7, 2020, the DENR sent a letter to the CDC, denying their request for the second time. On January 29, 2021, Clark Water received a show cause order from the Environmental Management Bureau requiring Clark Water to justify why it should not be penalized for not being able to commence construction last January 15, 2021. Clark Water is given 60 days to respond.



As of date of authorization for issuance of this report, Clark Water has not yet started the implementation of projects to comply with the CAP and DAO No. 2016-08 as Clark Water has not obtained (1) CDC's necessary approval of the Extraordinary Tariff Adjustment in relation to the projects, and (2) CDC's issuance of construction-related permits to the contractor for the Bionutrient Removal (BNR)-related projects. Non-compliance to the CAP and DAO No. 2016-08 may result to possible fines and penalties as indicated under Section 28 of RA No. 9275.

AC Industrial

Sale of Shares

On January 5, 2021, AC Industrial sold 250 common shares (including the shares assigned to nominee directors) of Merlin Solar Technologies (Philippines) Inc., to Merlin Solar Technologies, Inc. for

₱100 peso per share or total purchase price of ₱25,000.

US Dollar-denominated loans

In January 2021, AC Industrial granted additional US Dollar-denominated loans to Merlin US amounting to US\$1.30 million.

BPI

BPI and BPI Family Banks (BFB) Merger

BPI announced on January 22, 2021, subject to shareholder and regulatory approvals, that it will merge with BFB, its wholly owned thrift bank subsidiary, with BPI as the surviving entity. The integration of both entities will provide considerable advantages to the customers and employees of BPI and BFB, and present potential synergies that will benefit shareholders. The accelerated shift to digital, the focus on operational efficiency and the expected reduction in the gap in regulatory reserve requirements between commercial banks and thrift banks were factors in the timing of the transaction.

Globe

Declaration of Cash Dividends

On February 9, 2021, 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 24, 2021. Total dividends amounting to ₱3.6 billion will be payable on March 11, 2021.

42. Approval of the Consolidated Financial Statements

The consolidated financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 were endorsed for approval by the Audit Committee on March 4, 2021 and authorized for issue by the BOD on March 9, 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, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, included in this Form 17-A, and have issued our report thereon dated March 9, 2021. 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. 08-001998-046-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534232, January 4, 2021, Makati City

March 9, 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, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated March 9, 2021. 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 definitions, 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 Price per share, components of these financial soundness indicators have been traced to the consolidated financial statements as at December 31, 2020 and for each of the three years in the period ended December 31, 2020 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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PTR No. 8534232, January 4, 2021, Makati City

March 9, 2021



INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

- A.** Financial Assets
- B.** Amounts receivable from Directors, Officers and Employees
- 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
- G.** Capital Stock
- 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, 2020
(In Thousand Pesos)

AYALA CORPORATION AND SUBSIDIARIES

SCHEDULE A - Financial Assets

As of December 31, 2020

A. Financial Assets at Fair Value Through Profit and Loss (FVTPL) - Current **Not applicable**

Financial Assets at FVTPL amounted to ₱8,447,145k is shown under the Other Current Assets account and is 1.3% of the ₱657,893,956k Total Current Assets as of December 31, 2020.

B. Financial Assets at Fair Value Through Profit and Loss (FVTPL) - Noncurrent **Not applicable**

Financial Assets at FVTPL-noncurrent amounted to ₱3,961,898k is shown under the Other Noncurrent Assets account and is 0.5% of the ₱747,864,036k Total Noncurrent Assets as of December 31, 2020.

C. Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) - Noncurrent **Not applicable**

Financial Assets at FVOCI amounted to ₱5,659,208k is shown under Other Noncurrent Assets account and is 0.8% of the ₱747,864,036k Total Noncurrent Assets as of December 31, 2020.

D. Financial Assets at Amortized Cost - Noncurrent **Not applicable**

Financial Assets at amortized cost amounted to ₱15,297,105k is shown under Other Noncurrent Assets account and is 2.1% of ₱747,864,036k Total Noncurrent Assets as of December 31, 2020.

Schedule B – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
As of December 31, 2020
(In Thousand Pesos)

Account Type	Beginning Balance	Additions	Deductions	Ending Balance	Current	Non-current	Payment Period
Advances to Employees	620,282	717,341	(638,003)	699,620	540,461	159,159	30 days to 1 year
Housing and Related Loan	223,943	155,112	(305,082)	73,973	(68,806)	142,779	1 year to 15 years
Car and Related Loan	181,636	59,769	(108,028)	133,377	74,808	58,569	1 year to 5 years
Others	479,449	129,275	(81,463)	527,261	352,056	175,205	6 months to 1 year
TOTAL*	1,505,310	1,061,497	(1,132,576)	1,434,231	898,519	535,712	

* Please refer to Notes 7 and 32 in the 2020 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, 2020
(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	34,600	970,400	1,005,000	Dividends from AC Energy and DADC
AC	Parent	Other receivable	242,097	85,578	327,675	Rental fees, with interest on overdue accounts; other receivables
AAC	Subsidiary	Subscription receivable	39,400	130,600	170,000	Deposits on subscriptions, non-interest bearing
AC Health	Subsidiary	Subscription receivable	1,959,695	(1,950,554)	9,141	Deposits on subscriptions, non-interest bearing
AC Ventures	Subsidiary	Subscription receivable	70,318	(69,605)	714	Deposits on subscriptions, non-interest bearing
AGCC	Subsidiary	Trade receivable	42,167	(30,530)	11,637	Legal fees
ALI	Subsidiary	Accounts receivable	448,869	6,917	455,787	Advances, non-interest bearing and retention accounts for construction projects
AYC	Subsidiary	Other receivable	36,360,081	3,983,176	40,343,257	Mainly non-interest bearing receivable from ACIFL (for various investment)
IMI	Subsidiary	Other receivable	22,278	(7,907)	14,371	Advances, non-interest bearing
MWC	Subsidiary	Accounts receivable	102,038	(17,302)	84,736	Trade receivables
PFIL	Subsidiary	Other receivable	77,965	(4,022)	73,943	Other receivables from ACIFL
Others	Subsidiary	Other receivable	84,836	(1,885)	82,952	Reimbursement of expenses, etc.
TOTAL			39,484,345	3,094,867	42,579,212	

Schedule C2. – Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
As of December 31, 2020
(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	2,311,209	(1,841,806)	469,403	Deposits on subscriptions; advances, non-interest bearing
AC Energy	Subsidiary	Dividends payable	-	1,000,000	1,000,000	Dividends payables to AC
ACI	Subsidiary	Accounts payable	46,861	19,857	66,718	Mainly rental fees, with interest on overdue accounts
ACIFL	Subsidiary	Accounts payable	36,360,081	3,983,176	40,343,257	Non-interest bearing payable to AYC (for various investment)
ACIFL	Subsidiary	Accounts payable	77,965	(4,022)	73,943	Other payables to PFIL
AGCC	Subsidiary	Accounts payable	25,469	275	25,745	Rental fees, with interest on overdue accounts
AGCC	Subsidiary	Dividends payable	30,000	(30,000)	-	Dividends payables to AC
ALI	Subsidiary	Other payables	346,855	(95,586)	251,269	Advances, non-interest bearing
MHI	Subsidiary	Other payables	-	122,000	122,000	Other payables to AC
MWCI	Subsidiary	Retention payable	194,033	(39,769)	154,263	Mainly retention accounts for construction projects
Others	Subsidiary	Other payables	91,873	(19,259)	72,615	Reimbursement of expenses, etc.
TOTAL			39,484,345	3,094,867	42,579,212	

Schedule D – Long-term Debt
As of December 31, 2020
(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 3.8% to 6.0% and floating interest rates based on applicable benchmark plus credit spread ranging from 0.45% to 0.70% with varying maturity dates up to 2030		P 1,190,385	P 39,694,166	P 40,884,551
Bonds		9,898,507	29,859,432	39,757,939
Due 2021	P 9,903,400	9,898,507	-	9,898,507
Due 2023	P 10,000,000	-	9,958,183	9,958,183
Due 2025	P 10,000,000	-	9,942,168	9,942,168
Due 2027	P 10,000,000	-	9,959,081	9,959,081
		11,088,892	69,553,598	80,642,490
SUBSIDIARIES:				
Loans from banks and other institutions:				
Foreign currency - with interest rates ranging from 0.70% to 5.13% in 2020		5,883,809	9,550,285	15,434,094
Philippine peso - with interest rates ranging from 1.90% to 9.00% in 2020		5,545,272	90,341,491	95,886,763
		11,429,081	99,891,776	111,320,857
Bonds:				
Fixed for life notes	\$ 1,012,156	-	48,455,104	48,455,104
Green bonds	\$ 767,776	-	36,880,885	36,880,885
Due 2021	P 14,000,000	13,996,408	-	13,996,408
Due 2022	P 22,650,000	-	22,608,179	22,608,179
Due 2023	P 15,000,000	-	14,943,504	14,943,504
Due 2024	P 18,000,000	-	17,944,498	17,944,498
Due 2025	P 21,250,000	-	21,130,603	21,130,603
Due 2026	P 16,000,000	-	15,896,222	15,896,222
Due 2027	P 8,000,000	-	7,942,687	7,942,687
Due 2028	P 10,000,000	-	9,916,583	9,916,583
Due 2033	P 2,000,000	-	1,986,730	1,986,730
		13,996,408	197,704,995	211,701,403
Fixed Rate Corporate Notes (FXCNs)		-	5,650,000	5,650,000
TOTAL		P 36,514,381	P 372,800,369	P 409,314,750

AYALA CORPORATION AND SUBSIDIARIES
Schedule E – Indebtedness to Related Parties (Long-term Loans from Related Parties)
As of December 31, 2020
(In Thousand Pesos)

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
Bank of the Philippine Islands (BPI)*	30,259,087	27,903,347
<i>Decrease due to payments made by ALI (P2.4B) and AC Energy (P5.5B) partly offset by borrowings made by AC (P5.5B).</i>		

*Amounts shown form part of the short-term and long-term debt payable to BPI per Note 32 of the 2020 Consolidated Audited Financial Statements.

Schedule F – Guarantees of Securities of Other Issuers
As of December 31, 2020
(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 \$920M is outstanding as of December 31, 2020.*	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 2020 Consolidated Audited Financial Statements for the detailed discussion.

AYALA CORPORATION AND SUBSIDIARIES
Schedule G – Capital Stock*
As of December 31, 2020
(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	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.	5,247,281
Issued and subscribed on exercise of share options		4,125,588			
Treasury Shares reissuance/acquisition	-	(5,744,854)			
Common shares outstanding	900,000,000	627,415,324			
Preferred A shares ^{b/}	12,000,000	-			
Preferred B shares ^{c/}	58,000,000	50,000,000			
Preferred C shares	40,000,000	-			
Voting Preferred shares ^{d/}	200,000,000	200,000,000			1,419,559

^{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 2020 Consolidated Audited Financial Statements for the related discussion.

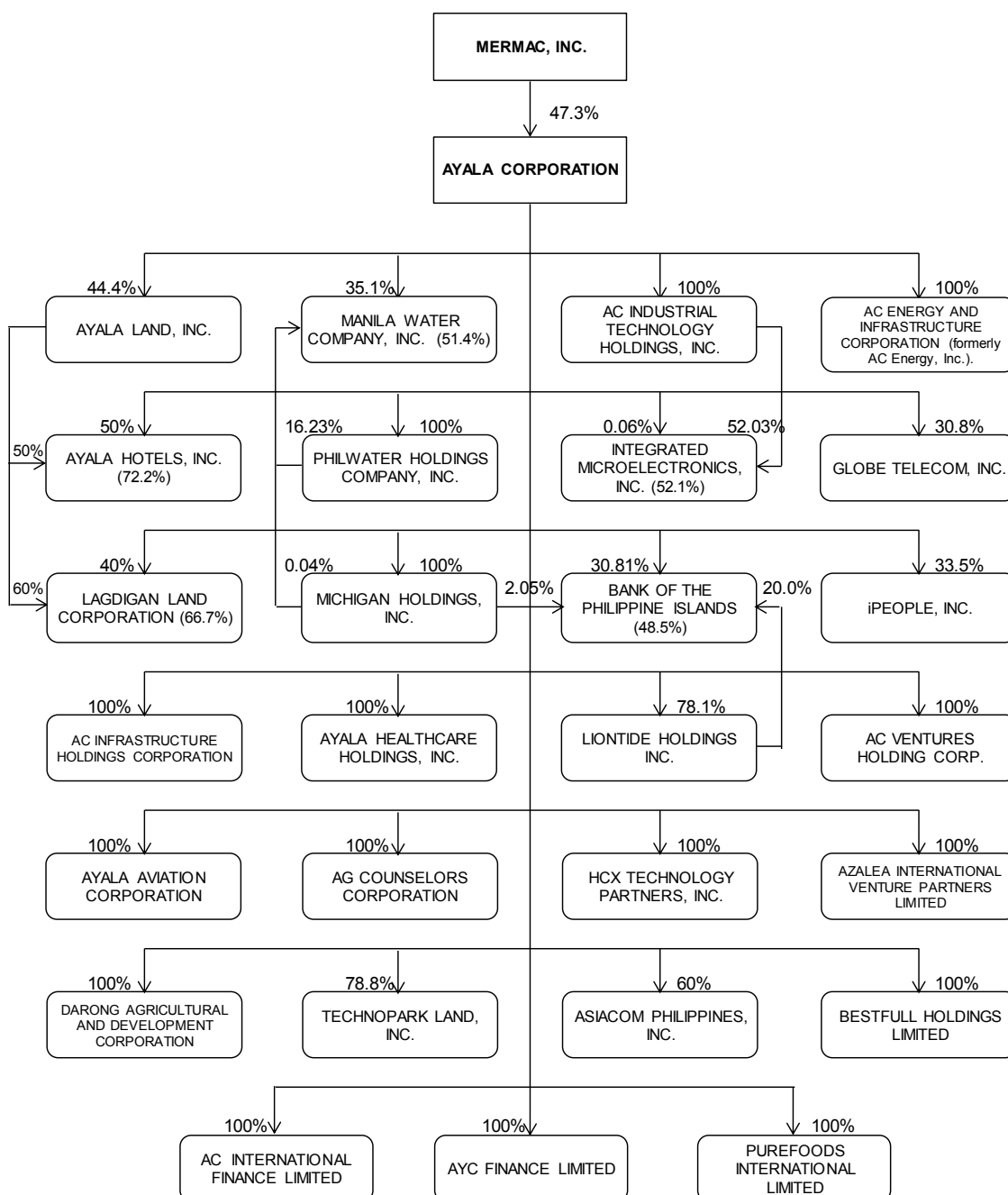
Schedule H – Reconciliation of Retained Earnings Available for Dividend Declaration
As of December 31, 2020
(In Thousand Pesos)

	December 2020	December 2019
	In Thousands	
Unappropriated Retained earnings, as adjusted to available for dividend distribution, beginning	₱ 46,534,196	₱ 34,034,850
Add: Net income actually earned/realized during the period - Parent co.	4,554,651	22,382,508
Add (Less):		
Dividend declarations during the period	(4,341,577)	(6,464,228)
PFRS adjustments in retained earnings	-	18,962
Treasury shares	(867,257)	(3,437,896)
	(5,208,834)	(9,883,162)
Retained earnings available for dividends	₱ 45,880,013	₱ 46,534,196

Reconciliation of Beginning Retained earnings to Retained earnings available for dividend follows:

	December 2020	December 2019
	In Thousands	
Unappropriated Retained Earnings, beginning	₱ 52,272,092	₱ 36,334,850
Less: Treasury shares	(5,737,896)	(2,300,000)
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning of the year	₱ 46,534,196	₱ 34,034,850

AYALA CORPORATION AND SUBSIDIARIES
Schedule I – Map of Relationships of the Companies within the Group
As of December 31, 2020



Legend:

% of ownership appearing outside the box - direct % of economic ownership

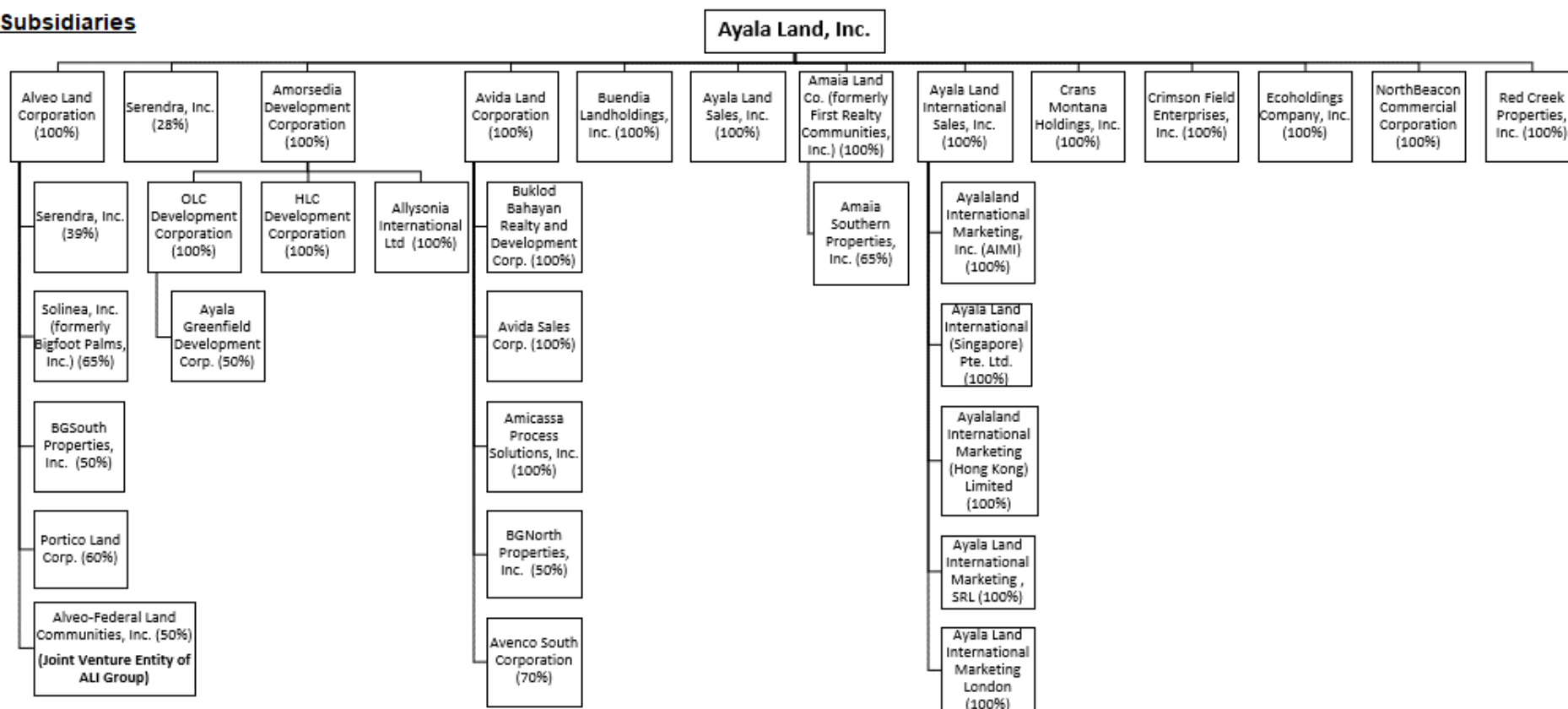
% of ownership appearing inside the box - effective % of economic ownership

AYALA CORPORATION AND SUBSIDIARIES

Schedule I – Map of Relationships of the Companies within the Group

As of December 31, 2020

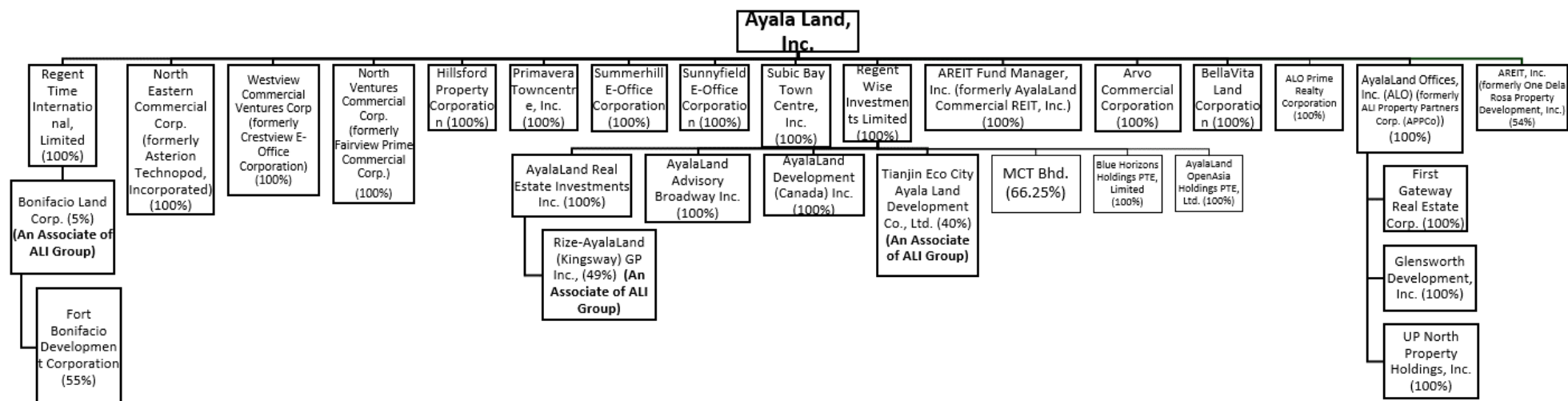
Subsidiaries



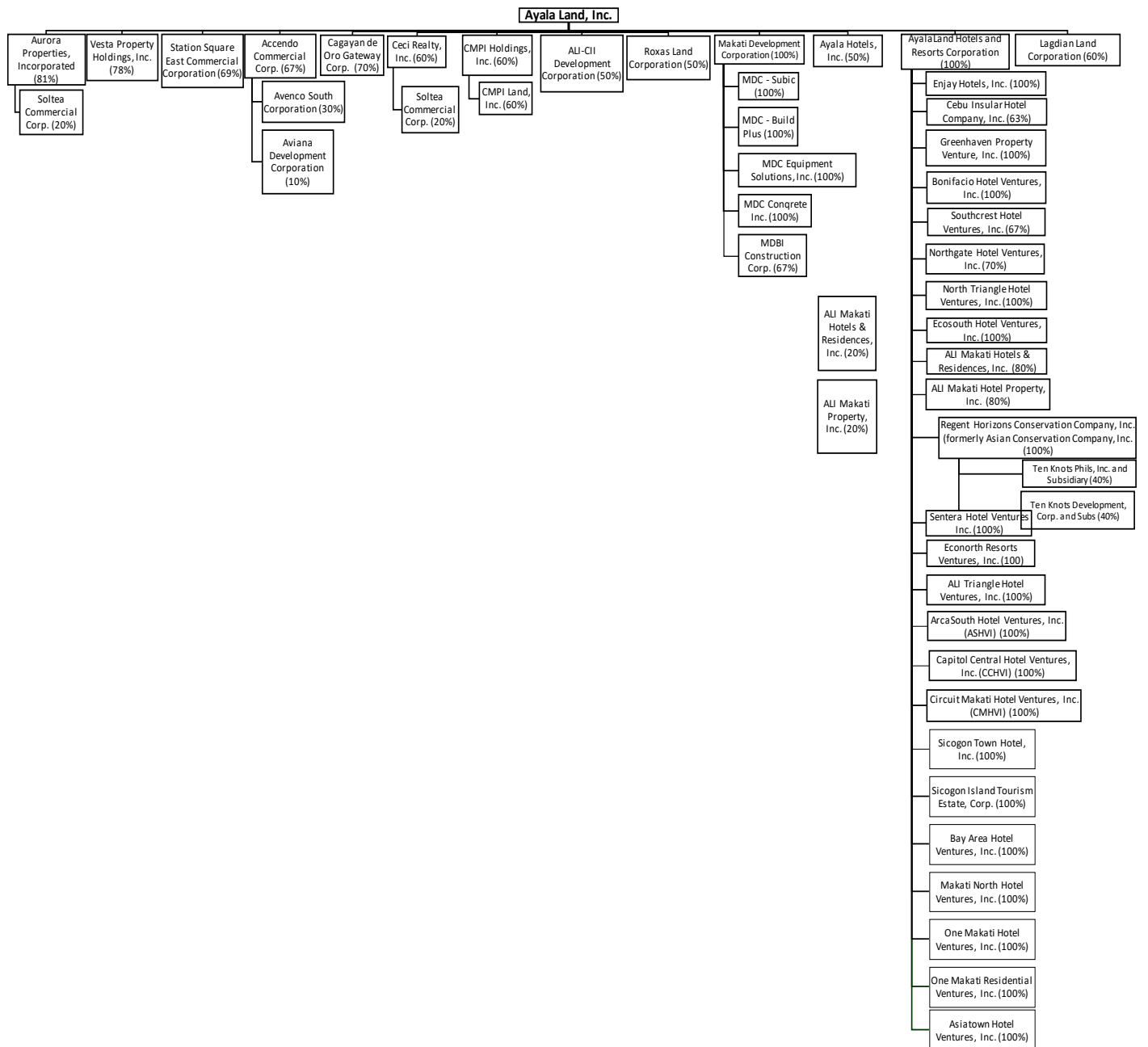
AYALA CORPORATION AND SUBSIDIARIES

Schedule I – Map of Relationships of the Companies within the Group

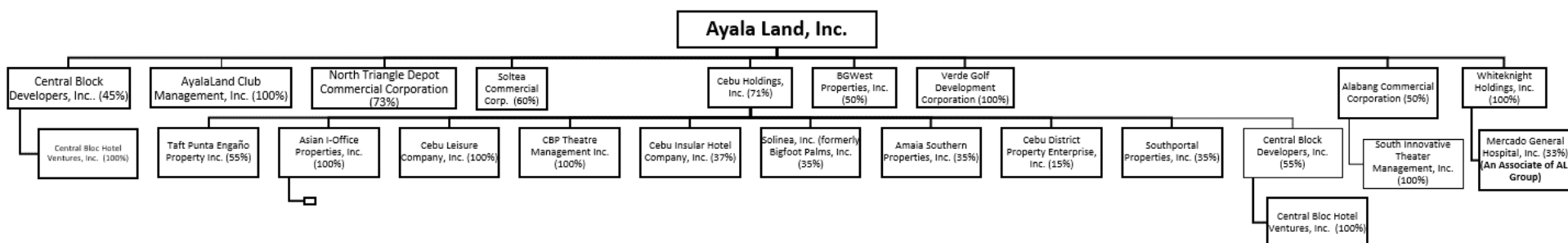
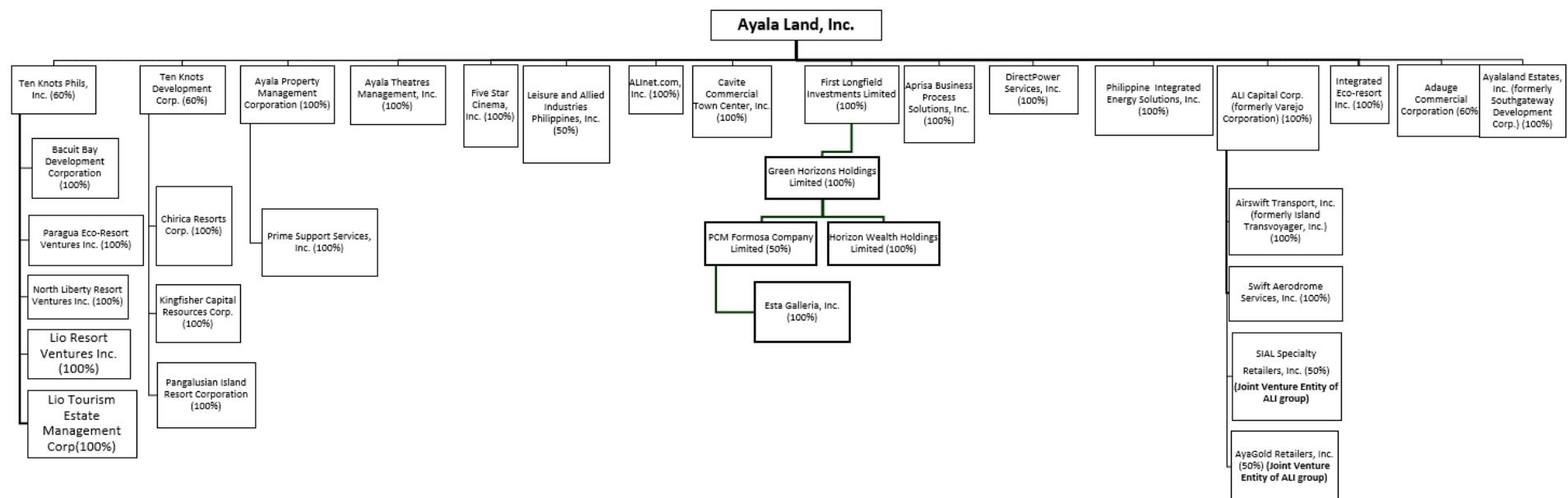
As of December 31, 2020



AYALA CORPORATION AND SUBSIDIARIES
Schedule I – Map of Relationships of the Companies within the Group
As of December 31, 2020



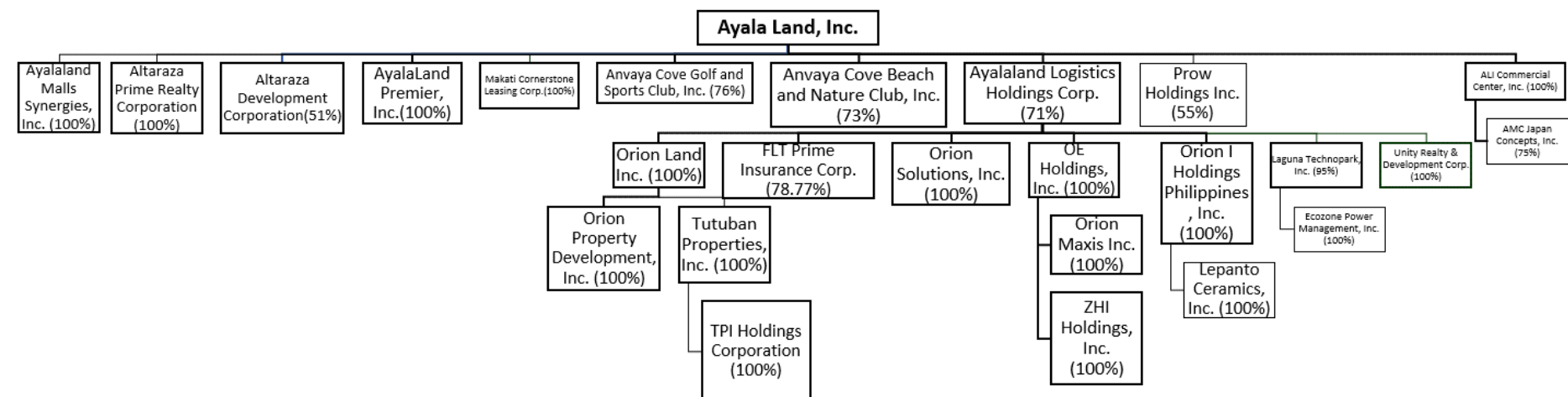
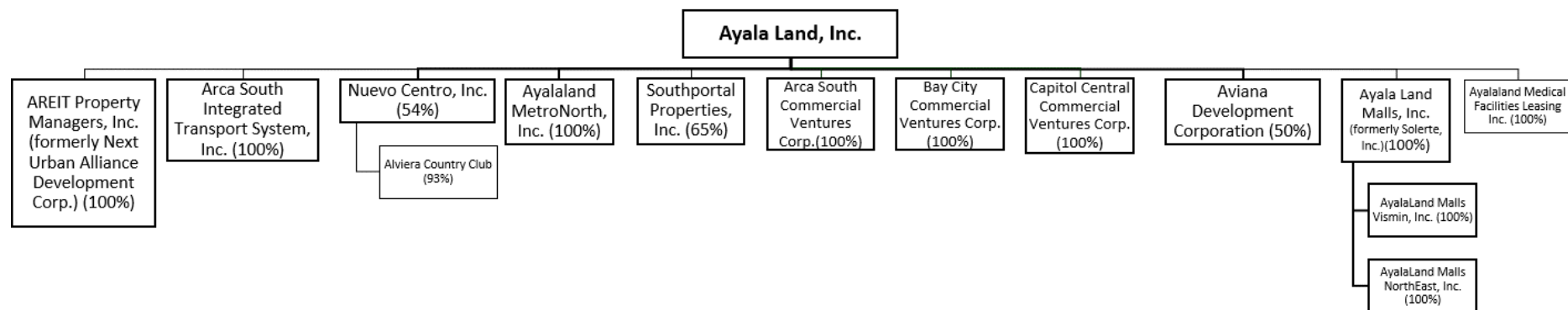
Schedule I – Map of Relationships of the Companies within the Group
As of December 31, 2020



AYALA CORPORATION AND SUBSIDIARIES

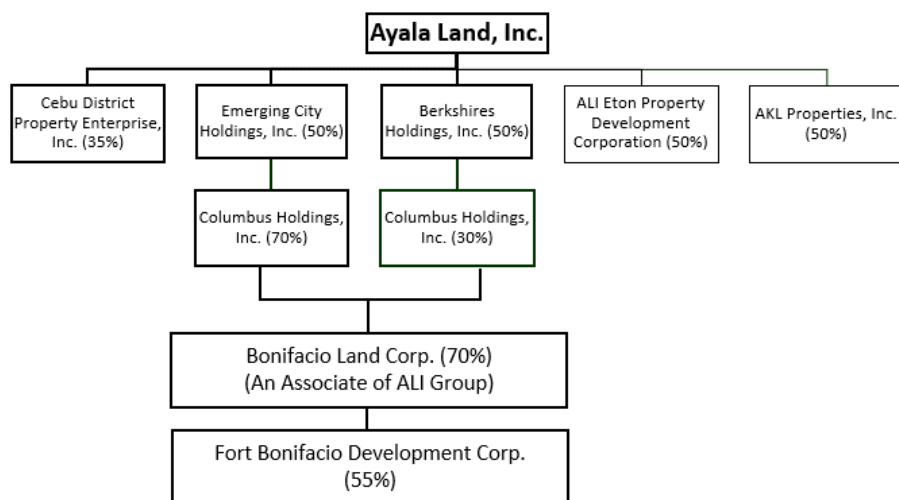
Schedule I – Map of Relationships of the Companies within the Group

As of December 31, 2020

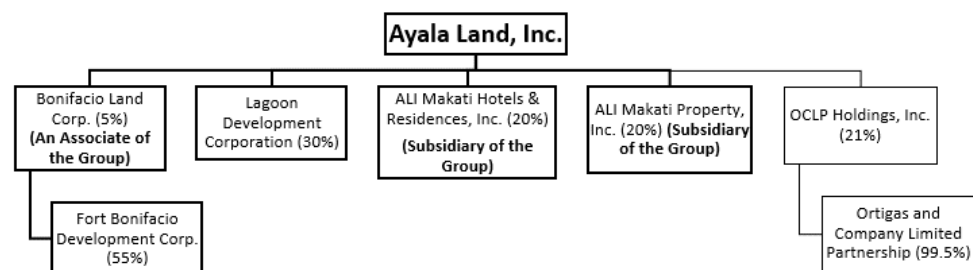


AYALA CORPORATION AND SUBSIDIARIES
Schedule I – Map of Relationships of the Companies within the Group
As of December 31, 2020

Direct Investments in Joint Ventures



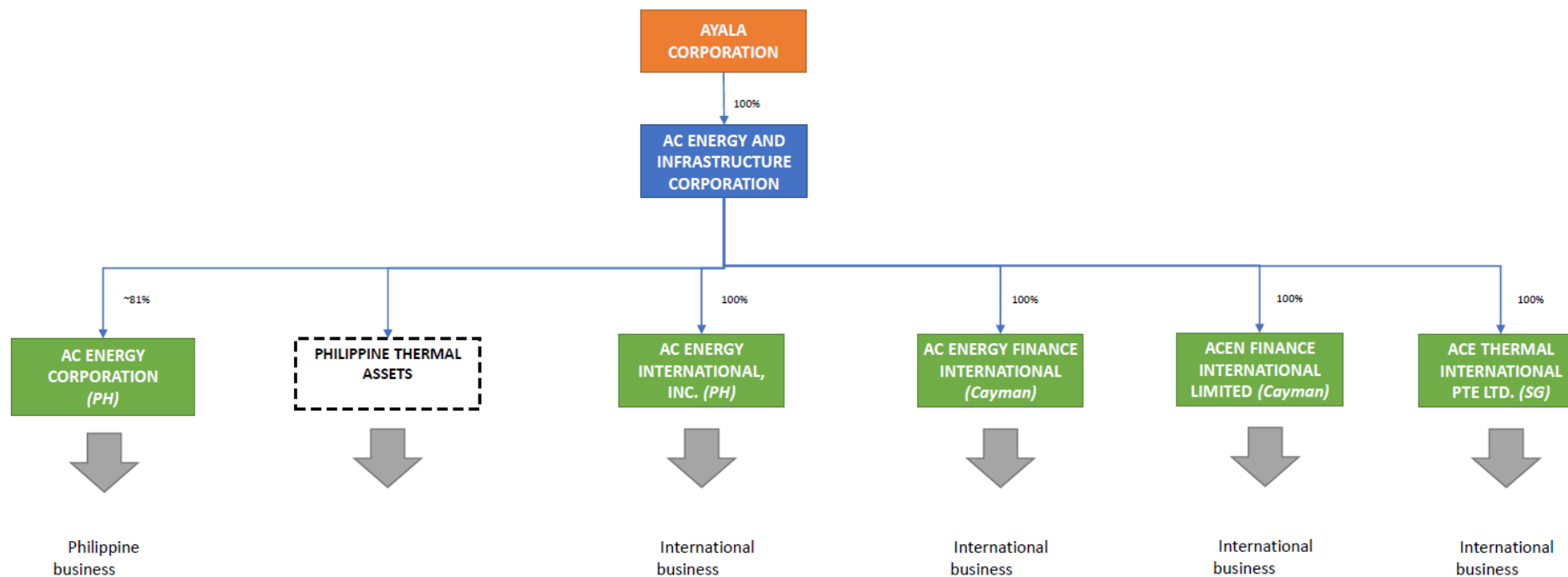
Direct Investments in Associates



AYALA CORPORATION AND SUBSIDIARIES

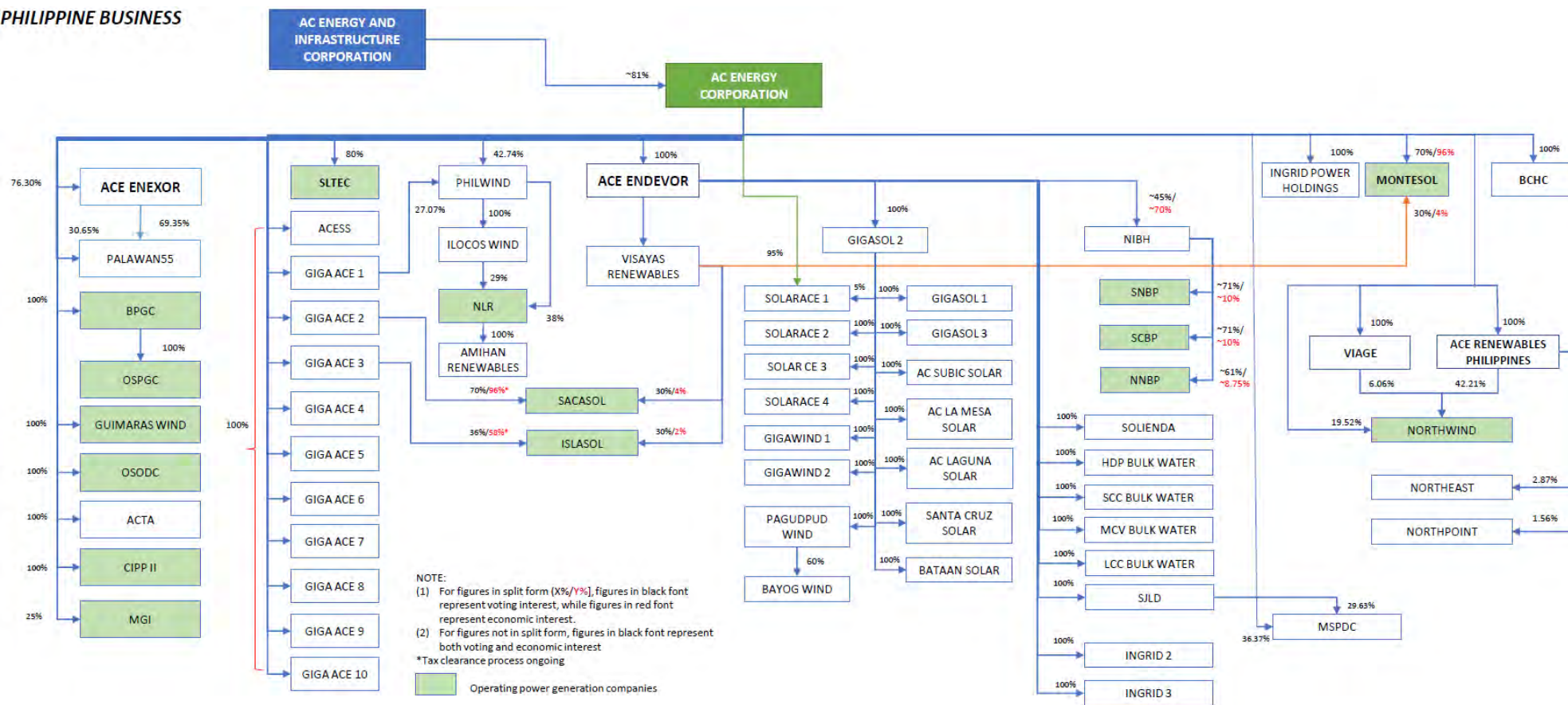
Schedule I – Map of Relationships of the Companies within the Group

As of December 31, 2020



AYALA CORPORATION AND SUBSIDIARIES
Schedule I – Map of Relationships of the Companies within the Group
As of December 31, 2020

PHILIPPINE BUSINESS

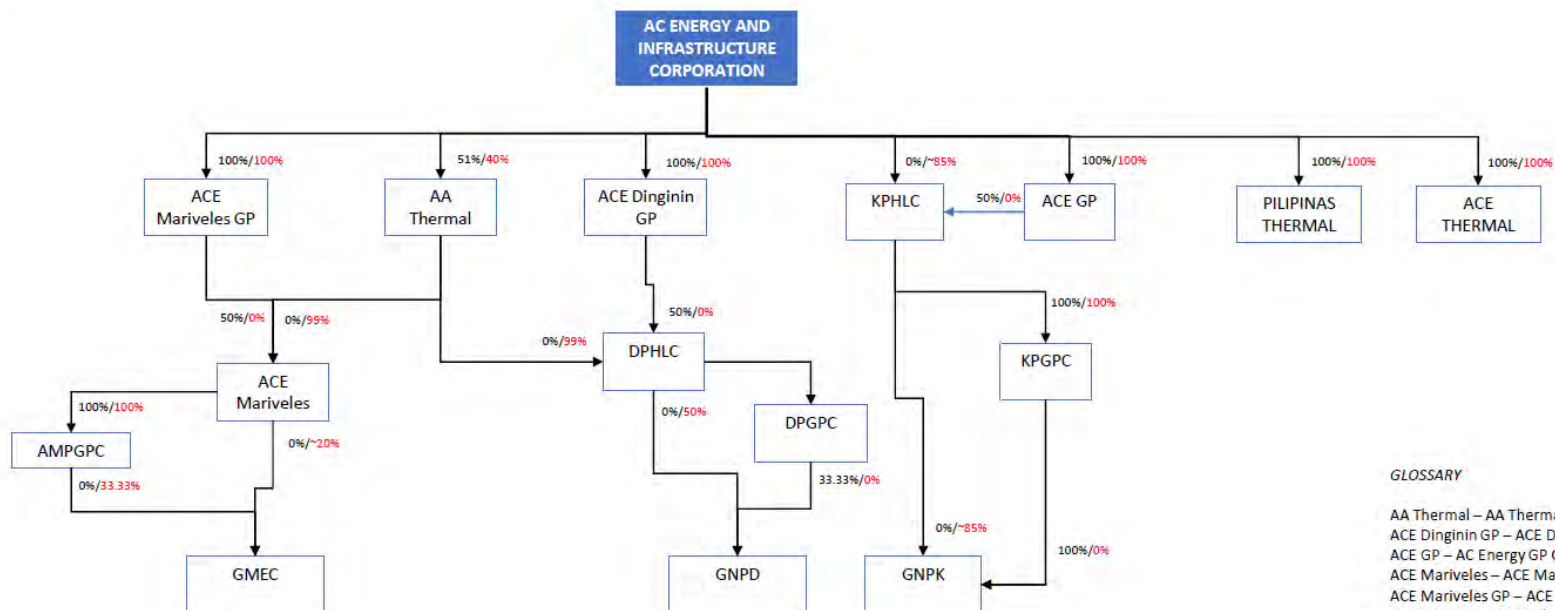


AYALA CORPORATION AND SUBSIDIARIES

Schedule I – Map of Relationships of the Companies within the Group

As of December 31, 2020

PHILIPPINE THERMAL ASSETS



Note:

Figures in black font represent voting interest, while figures in red font represent economic interest.

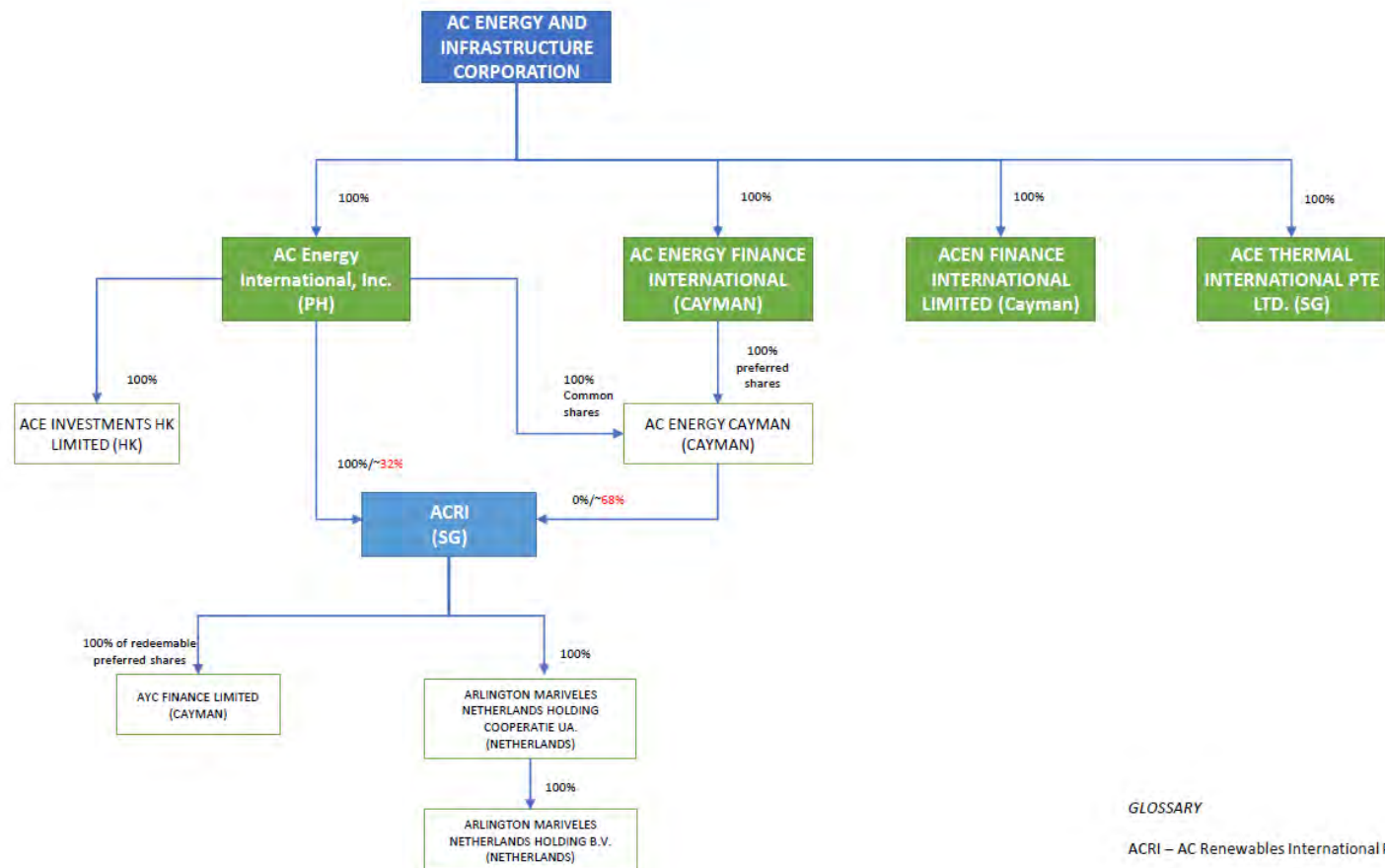
GLOSSARY

AA Thermal – AA Thermal, Inc.
 ACE Dinginin GP – ACE Dinginin GP Corp.
 ACE GP – AC Energy GP Corp.
 ACE Mariveles – ACE Mariveles Power Ltd. Co.
 ACE Mariveles GP – ACE Mariveles GP Corp.
 ACE THERMAL – ACE Thermal, Inc.
 AMPGPC – Arlington Mariveles Power GP Corp.
 DPGPC – Dinginin Power GP Corp.
 DPHLC – Dinginin Power Holdings Ltd. Co.
 KPGPC – Kauswagan Power GP Corp.
 GMEC – GNPowder Mariveles Energy Center Ltd. Co.
 GNPDP – GNPowder Dinginin Ltd. Co.
 GNPK – GNPowder Kauswagan Ltd. Co.
 PILIPINAS THERMAL – Pilipinas Thermal, Inc.

AYALA CORPORATION AND SUBSIDIARIES

Schedule I – Map of Relationships of the Companies within the Group As of December 31, 2020

INTERNATIONAL BUSINESS - GENERAL



Note:

- (1) For figures in split form (X%/Y%), figures in black font represent voting interest, while figures in red font represent economic interest.
- (2) For figures not in split form, figures in black font represent both voting and economic interest

GLOSSARY

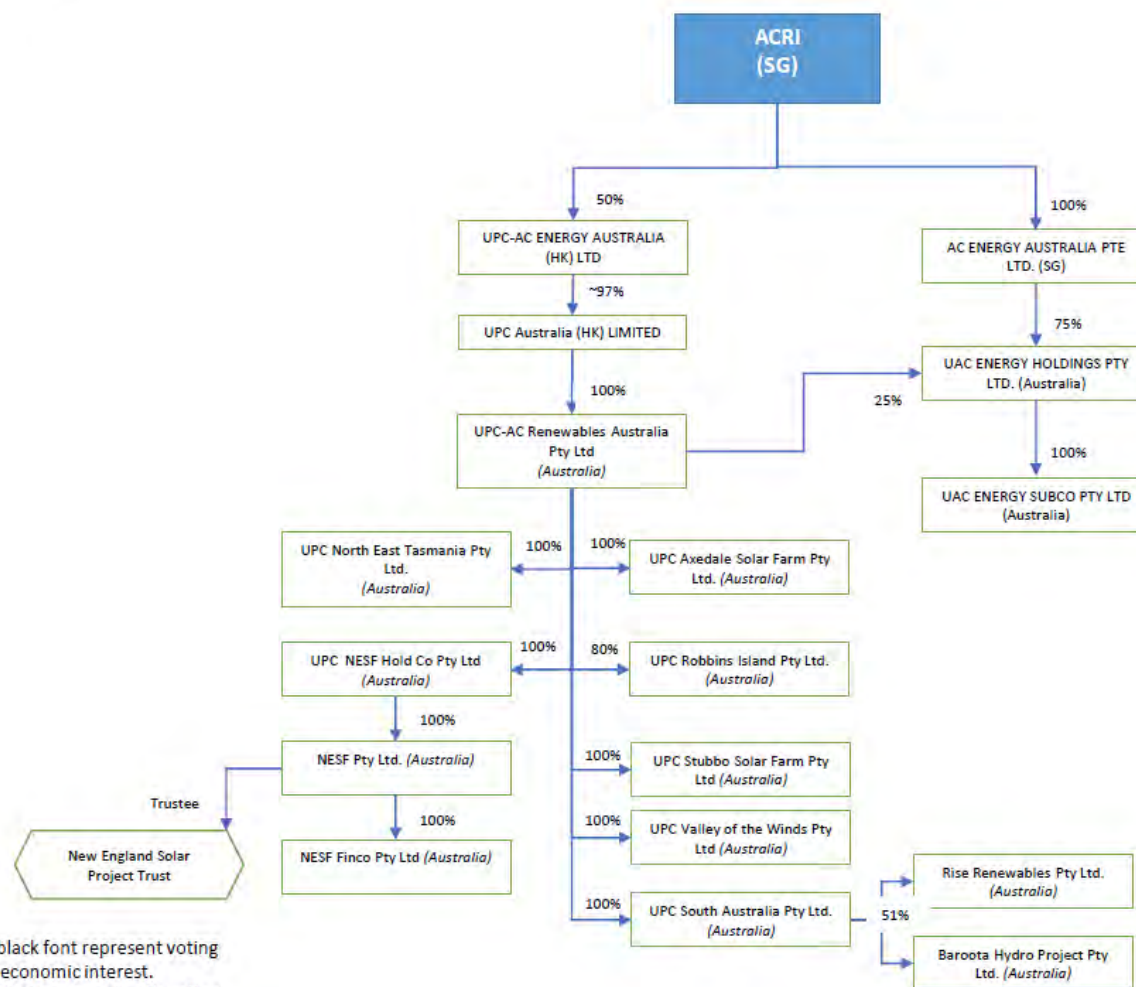
ACRI – AC Renewables International Pte Ltd.

AYALA CORPORATION AND SUBSIDIARIES

Schedule I – Map of Relationships of the Companies within the Group

As of December 31, 2020

INTERNATIONAL BUSINESS - AUSTRALIA



Note:

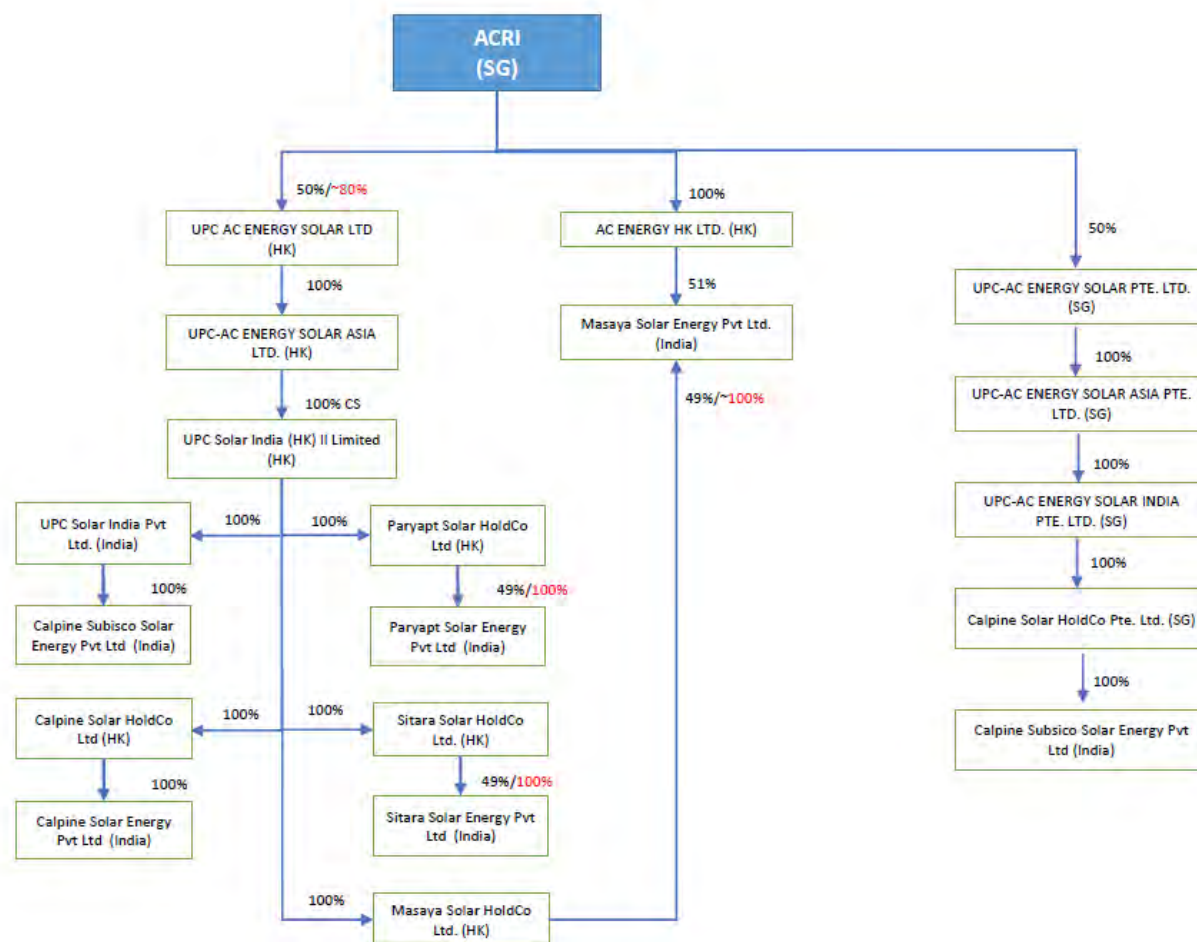
- (1) For figures in split form (X%/Y%), figures in black font represent voting interest, while figures in red font represent economic interest.
- (2) For figures not in split form, figures in black font represent both voting and economic interest

AYALA CORPORATION AND SUBSIDIARIES

Schedule I – Map of Relationships of the Companies within the Group

As of December 31, 2020

INTERNATIONAL BUSINESS - INDIA



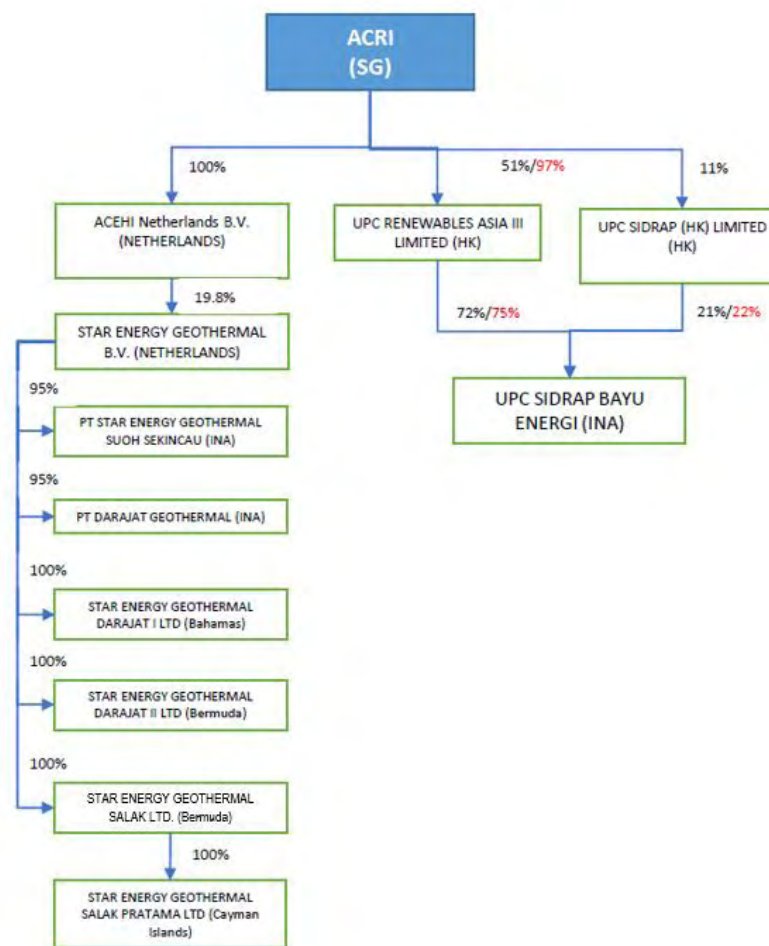
Note:

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AYALA CORPORATION AND SUBSIDIARIES

Schedule I – Map of Relationships of the Companies within the Group As of December 31, 2020

INTERNATIONAL BUSINESS - INDONESIA



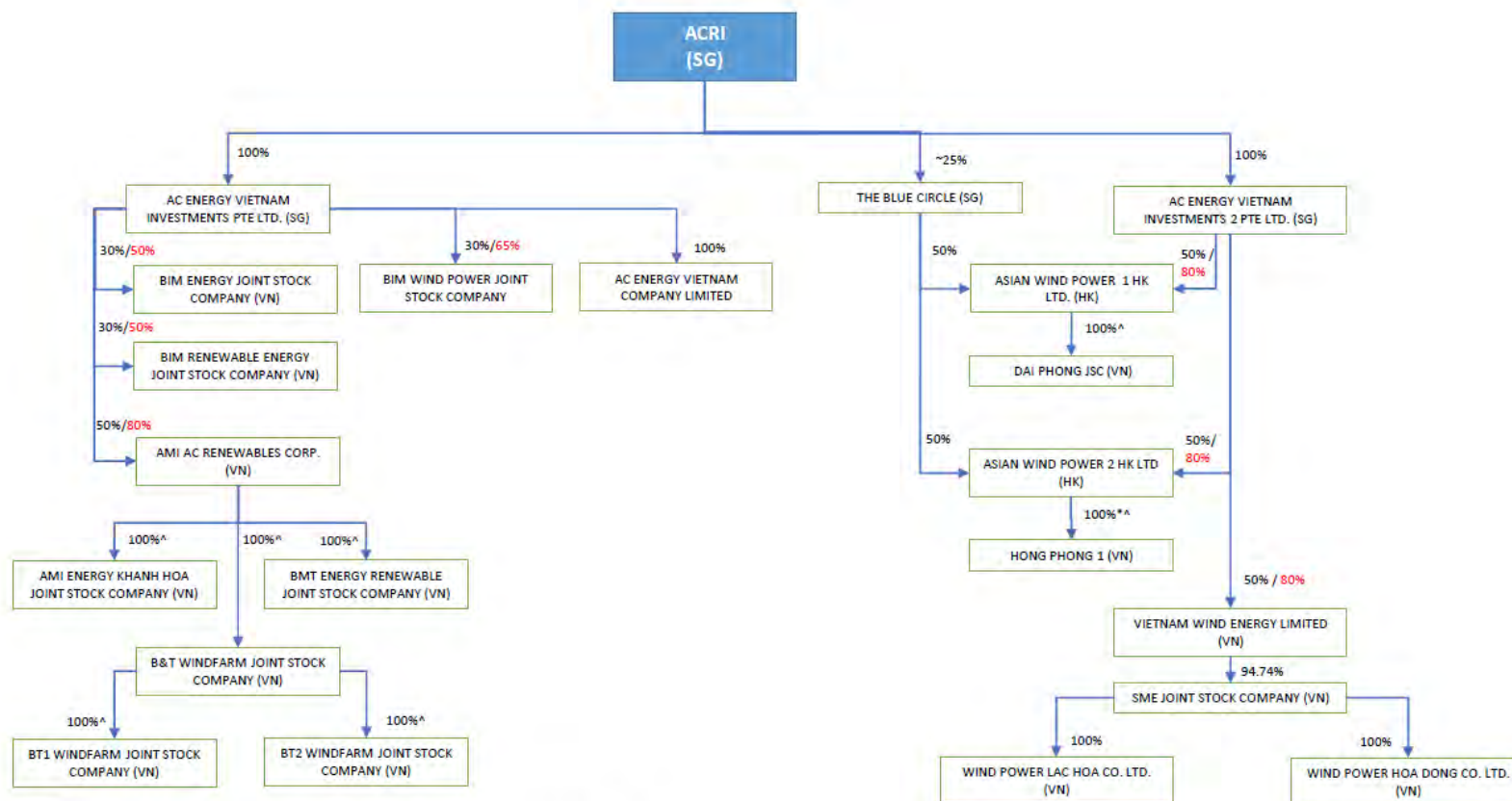
Note:

- (1) For figures in split form (X%/Y%), figures in black font represent voting interest, while figures in red font represent economic interest.
- (2) For figures not in split form, figures in black font represent both voting and economic interest

AYALA CORPORATION AND SUBSIDIARIES

Schedule I – Map of Relationships of the Companies within the Group As of December 31, 2020

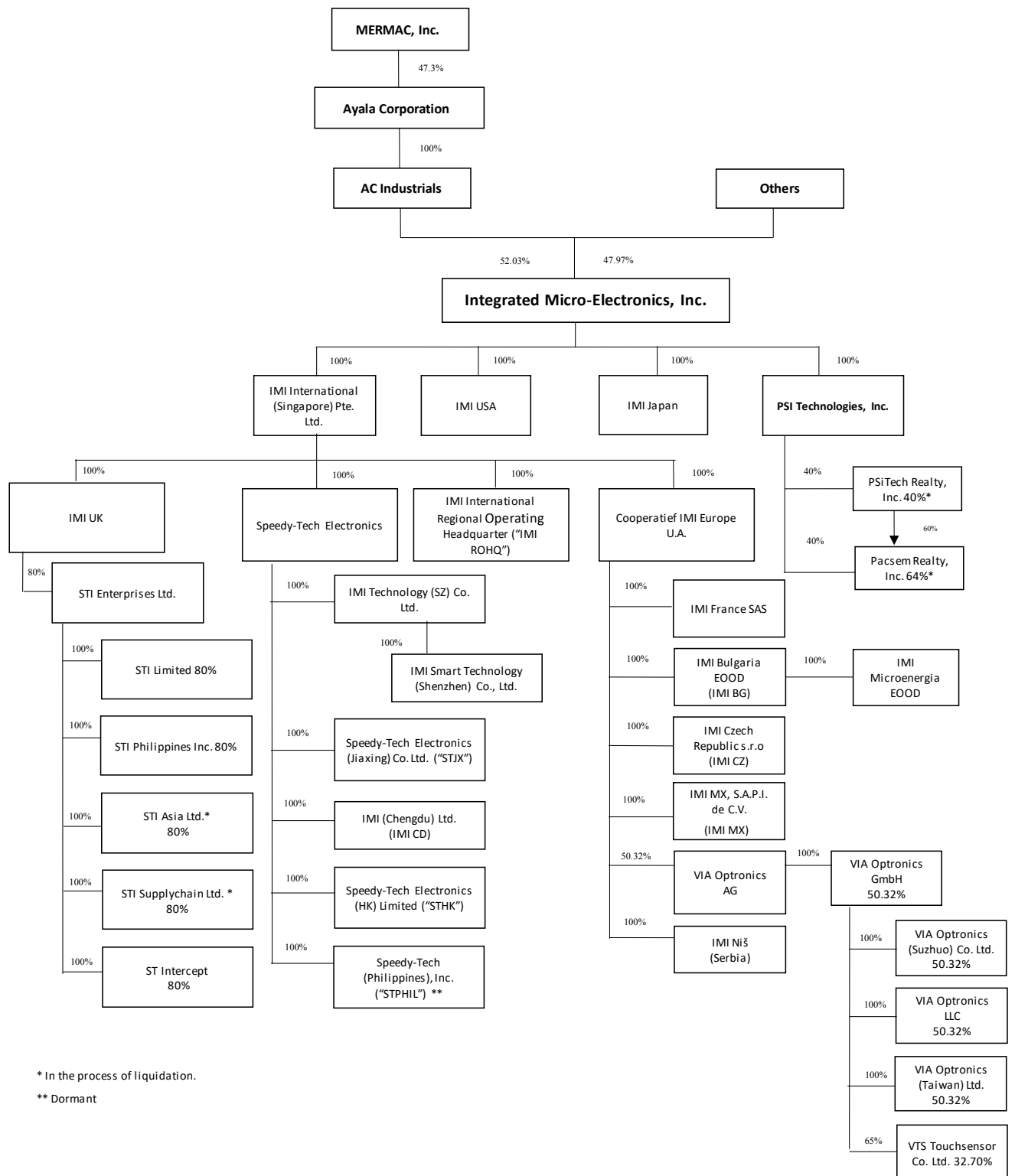
INTERNATIONAL BUSINESS – VIETNAM



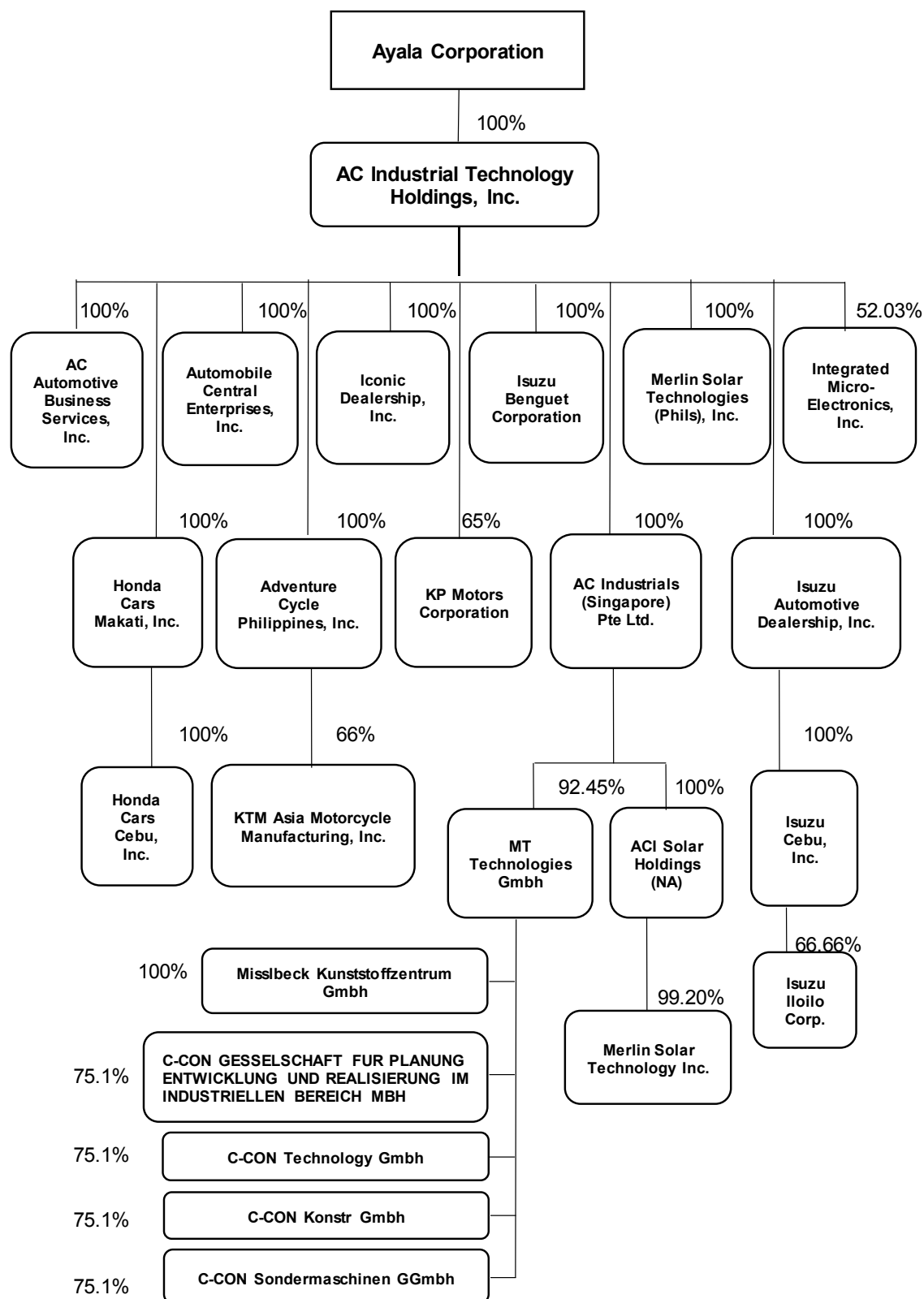
Note:

- (1) For figures in split form (X%/Y%), figures in black font represent voting interest, while figures in red font represent economic interest.
- (2) For figures not in split form, figures in black font represent both voting and economic interest

AYALA CORPORATION AND SUBSIDIARIES
Schedule I – Map of Relationships of the Companies within the Group
As of December 31, 2020



AYALA CORPORATION AND SUBSIDIARIES
Schedule I – Map of Relationships of the Companies within the Group
As of December 31, 2020

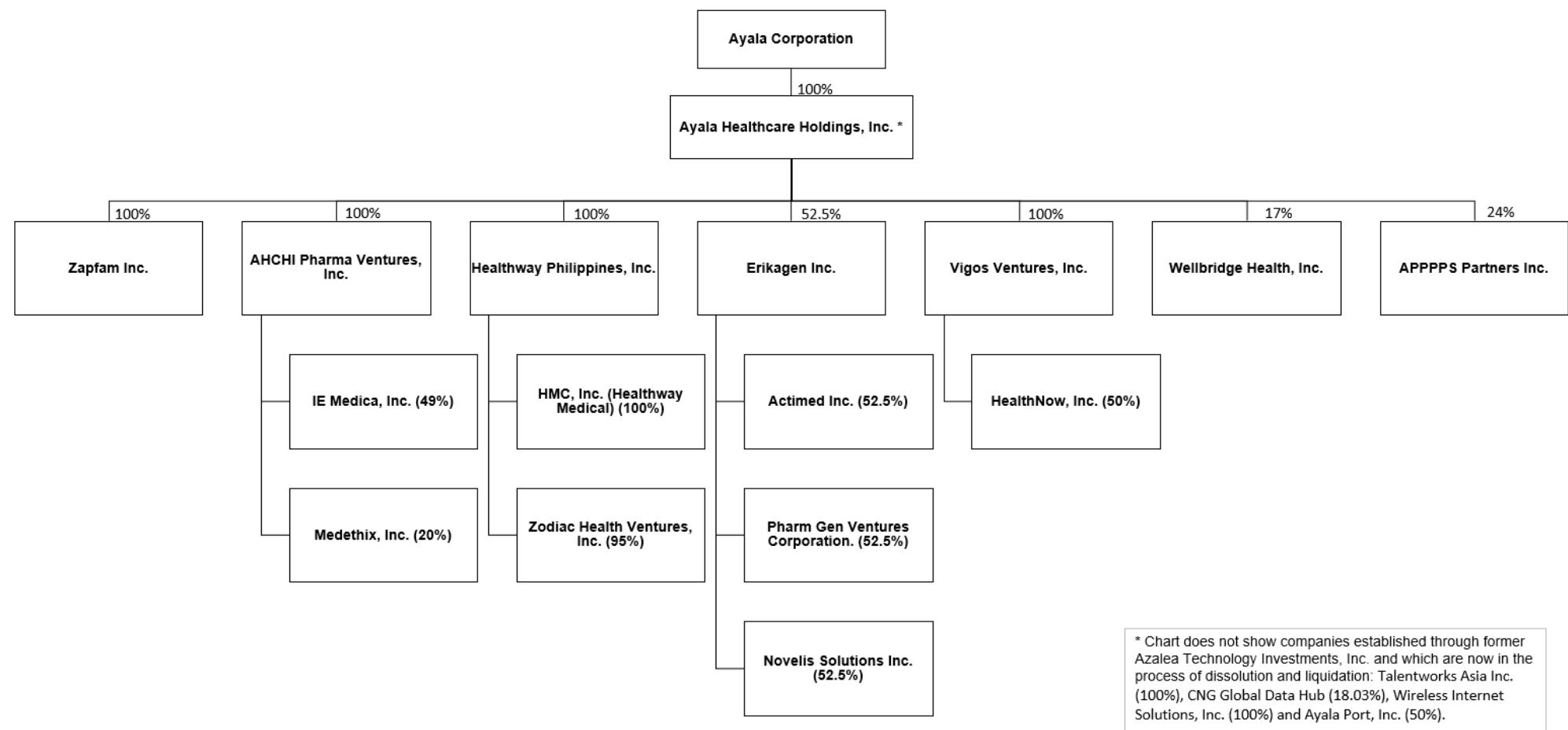


Legend:

% of ownership appearing outside the box - direct economic % of ownership

% of ownership appearing inside the box - effective % of economic ownership

AYALA CORPORATION AND SUBSIDIARIES
Schedule I – Map of Relationships of the Companies within the Group
As of December 31, 2020

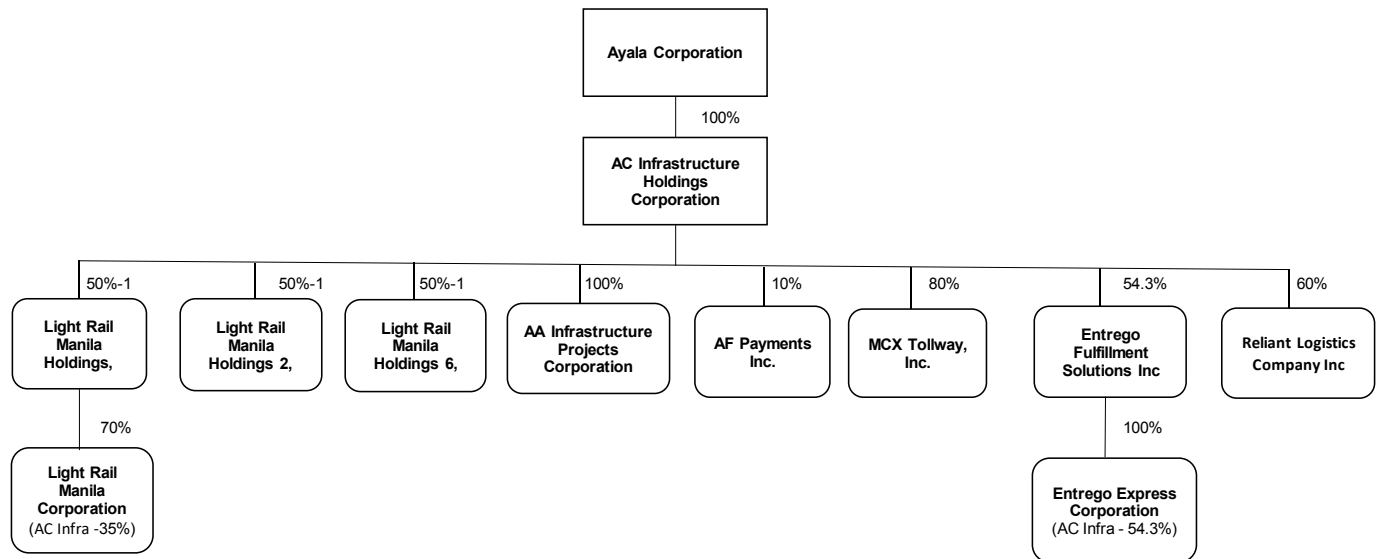


Legend:
 % of ownership appearing outside the box - direct economic % of ownership
 % of ownership appearing inside the box - effective % of economic ownership

AYALA CORPORATION AND SUBSIDIARIES

Schedule I – Map of Relationships of the Companies within the Group

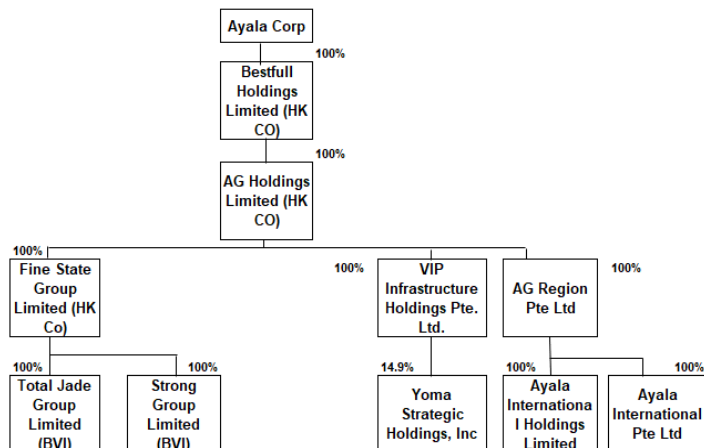
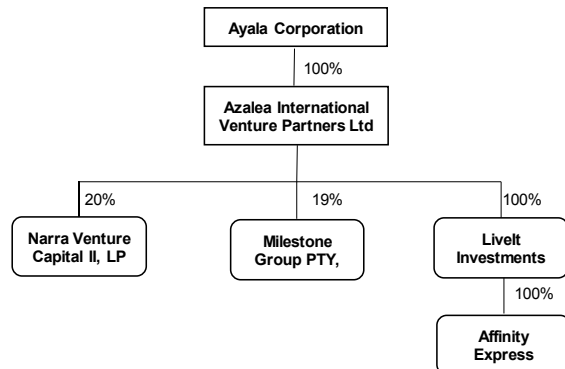
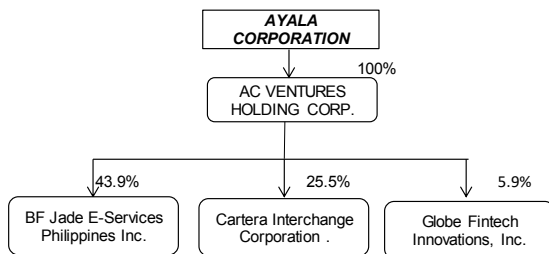
As of December 31, 2020



Legend:

% of ownership appearing outside the box - direct economic % of ownership

% of ownership appearing inside the box - effective % of economic ownership



AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Financial Ratios
As of December 31, 2020

Ratio	Formula	December 2020 (In thousands)	December 2019	December 2020	December 2019
Liquidity Analysis Ratios					
Liquidity Ratio*	Cash & Cash equivalents + Short-term investments	89,476,365	106,793,054	0.22	0.27
	Current Liabilities	400,529,685	402,656,865		
	Cash & Cash equivalents	88,653,955	93,405,253		
	Short-term investments	822,410	13,387,801		
	Total	89,476,365	106,793,054		
Current Ratio*	Current Assets	657,893,956	609,285,431	1.64	1.51
	Current Liabilities	400,529,685	402,656,865		
Quick Ratio*	Quick assets	284,383,300	288,380,312	0.71	0.72
	Current Liabilities	400,529,685	402,656,865		
	Current assets	657,893,956	609,285,431		
	Inventories	(160,871,941)	(135,064,303)		
	Assets under PFRS 5	(196,136,570)	(170,466,694)		
	Prepayments	(16,502,145)	(15,374,122)		
	Quick assets	284,383,300	288,380,312		
Solvency Ratio*	Total Assets	1,405,757,992	1,345,285,958	1.63	1.61
	Total Liabilities	863,335,881	835,972,400		
Financial Leverage Ratios					
Assets- to-Equity Ratio*	Total Assets	1,405,757,992	1,345,285,958	2.59	2.64
	Total Stockholders' Equity	542,422,111	509,313,558		
Interest Rate Coverage Ratio**	Earnings Before Interest and Taxes (EBIT)	52,726,710	108,809,486	1.88	4.86
	Interest and other financing charges	28,014,198	22,409,526		
	Income after income tax from continuing operations	19,473,332	72,415,823		
	Provision for income tax	5,239,180	13,984,137		
	Interest and other financing charges	28,014,198	22,409,526		
	EBIT	52,726,710	108,809,486		
Debt Ratio*	Short-term debt + Long-term debt	441,754,257	405,338,157	0.31	0.30
	Total Assets	1,405,757,992	1,345,285,958		
	Short-term debt	32,439,507	29,788,643		
	Long-term debt (current & noncurrent)	409,314,750	375,549,514		
	Total debt	441,754,257	405,338,157		
Debt-to-Equity Ratio*	Short-term debt + Long-term debt	441,754,257	405,338,157	81.4%	79.6%
	Total Stockholders' Equity	542,422,111	509,313,558		
Net Debt-to-Equity Ratio*	Net debt	347,082,515	294,283,307	64.0%	57.8%
	Total Stockholders' Equity	542,422,111	509,313,558		
	Short-term debt	32,439,507	29,788,643		
	Long-term debt (current & noncurrent)	409,314,750	375,549,514		
	Total debt	441,754,257	405,338,157		
	Less:				
	Cash and cash equivalents	88,653,955	93,405,253		
	Short-term investments	822,410	13,387,801		
	Restricted cash	5,195,377	4,261,796		
	Net debt	347,082,515	294,283,307		

AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Financial Ratios
As of December 31, 2020

Ratio	Formula	December 2020 (In thousands)	December 2019	December 2020	December 2019
Profitability Ratios					
Gross Profit Margin**	Sale of goods & rendering of services - Cost of sales & services	49,441,086	74,923,276	0.26	0.28
	Sale of goods & rendering of services	193,622,435	264,906,534		
	Sale of goods & rendering of services	193,622,435	264,906,534		
	Cost of sales & services	(144,181,349)	(189,983,258)		
	Gross profit	49,441,086	74,923,276		
Net Profit Margin**	Net Profit	17,114,957	42,810,461	0.09	0.16
	Sale of goods & rendering of services	193,622,435	264,906,534		
	Gross profit	49,441,086	74,923,276		
	General and administrative expenses	(32,326,129)	(32,112,815)		
	Net Profit	17,114,957	42,810,461		
Return on Equity**	Net Income to Owners of the Parent	17,141,714	35,279,330	3.2%	6.9%
	Total Stockholders' Equity	542,422,111	509,313,558		
Return on Common Equity***	Net Income to Owners of the Parent (Common)	15,881,958	34,019,574	5.1%	11.9%
	Common Equity Attributable to Owners of the Parent (Average)	309,096,335	285,499,690		
	Net income to owners of the Parent	17,141,714	35,279,330		
	Less: Dividends on preferred stock	(1,259,756)	(1,259,756)		
	NIAT to Common	15,881,958	34,019,574		
		December 2020	December 2019		
	Equity attributable to owners of the parent	339,179,770	328,807,265		
	Less:				
	Preferred Shares - A	1,200,000	1,200,000		
	Preferred Shares - B	5,800,000	5,800,000		
	Voting Preferred Shares	200,000	200,000		
	Additional paid-in capital - preferred shares	19,696,722	19,697,642		
	Treasury shares - preferred shares	(2,000,000)	(2,000,000)		
		24,896,722	24,897,642		
	Common equity attributable to owners of the Parent	314,283,048	303,909,623		
	Average common equity attributable to owners of the Parent	309,096,335			
		December 2019	December 2018		
	Equity attributable to owners of the parent	328,807,265	290,607,469		
	Less:				
	Preferred Shares - A	1,200,000	1,200,000		
	Preferred Shares - B	5,800,000	5,800,000		
	Voting Preferred Shares	200,000	200,000		
	Additional paid-in capital - preferred shares	19,697,642	18,617,712		
	Treasury shares - preferred shares	(2,000,000)	(2,300,000)		
		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			
Return on Assets**	Net Income	29,270,343	41,982,330	2.1%	3.1%
	Total Assets	1,405,757,992	1,345,285,958		
Price/Earnings Ratio**	Price Per Share	827.00	785.50	32.64	14.51
	Earnings Per Common Share (Basic)	25.33	54.12		
Other Ratio					
Book Value per Share*	Common Equity Attributable to Owners of the Parent	314,283,048	303,909,623	500.92	484.95
	Outstanding Common Shares	627,415	626,684		

* Based on "As at" December 31, 2020 and 2019 balances.

** Includes both "As at" and "Period ended" December 31, 2020 and 2019 balances.

*** Includes both "As at" and "Period ended" December 31, 2020, 2019 and 2018 balances.