A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BUT HAS NOT YET BECOME EFFECTIVE. THESE SECURITIES MAY NOT BE SOLD NOR OFFERS TO BUY THEM BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT IS RENDERED EFFECTIVE. THIS PRELIMINARY PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR BE CONSIDERED A SOLICITATION TO BUY.

37/F TO 39/F, AYALA TRIANGLE GARDENS TOWER 2, PASEO DE ROXAS COR.
MAKATI AVENUE, MAKATI CITY, PHILIPPINES 1226
TELEPHONE NUMBER (+632) 7908-3000 / (+632) 7908-3357

# PRELIMINARY PROSPECTUS

**Up to ₱15 Billion**
**Re-issuance in the Philippines of**
**Up to 6,000,000 Preferred "A" Shares**
**With a Dividend Rate of [●] and up to ₱10 Billion Oversubscription**
**Option of up to an additional 4,000,000 Preferred "A" Shares**
**At an Offer Price of ₱2,500.00 per Preferred Share to be listed and**
**traded on the Main Board of The Philippine Stock Exchange, Inc.**

**Issue Manager**

**Joint Lead Underwriters and Bookrunners**

**[Selling Agents]**
**PSE Trading Participants**

**The date of this Preliminary Prospectus is March 22, 2023.**

**A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC"), BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE THEREBY, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO THE NOTICE OF ITS ACCEPTANCE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR BE CONSIDERED A SOLICITATION OF AN OFFER TO BUY.**

**THE SEC 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**
**37/F TO 39/F, AYALA TRIANGLE GARDENS TOWER 2,**
**PASEO DE ROXAS COR. MAKATI AVENUE,**
**MAKATI CITY, PHILIPPINES 1226**
**TELEPHONE NUMBER: (+632) 7908-3000/(+632) 7908-3357**
**WEBSITE: https://www.ayala.com**

This Prospectus relates to Ayala Corporation's ("**Ayala**", the "**Issuer**" or the "**Company**"), a corporation organized under Philippine Law, offer and sale by way of re-issuance of up to ₱15,000,000,000.00 worth of up to 6,000,000 cumulative, non-convertible, non-voting, non-participating, redeemable, Philippine Peso-denominated perpetual preferred "A" shares (the "**Base Offer**", and such shares the "**Base Preferred Shares**"), with an oversubscription option of up to ₱10,000,000,000.00 (the "**Oversubscription Option**", together with the Base Offer, the "**Offer**") of up to 4,000,000 preferred "A" shares (the "**Oversubscription Shares**", together with the Base Preferred Shares, the "**Preferred Shares**").

The Preferred Shares shall be re-issued on [●] or such other date as may be agreed upon by the Issuer and BDO Capital & Investment Corporation, BPI Capital Corporation, China Bank Capital Corporation, RCBC Capital Corporation, and SB Capital Investment Corporation (each a **"Joint Lead Underwriter and Bookrunner**" and collectively, the "**Joint Lead Underwriters and Bookrunners**").

Each of the Joint Lead Underwriters and Bookrunners, with the consent of the Issuer, reserve the right, but not the obligation, to exercise the Oversubscription Option and will have the discretion to allocate the Oversubscription Option.

The Preferred Shares will be issued from the previously issued and redeemed (not currently outstanding) preferred shares in the Company's treasury stock. Each Preferred Share has a par value of ₱100.00.

The Preferred Shares are being offered for subscription solely in the Philippines through the Joint Lead Underwriters and Bookrunners and Selling Agents named herein at a subscription price of ₱2,500.00 per Preferred Share (the "**Offer Price**" or the "**Issue Price**").

Following the Offer, assuming the Oversubscription Option is exercised in full, the Company will have (a) 619,148,362 of 900,000,000 authorized common shares, (b) up to 10,000,000 of 12,000,000 authorized Preferred "A" Shares, (c) 50,000,000 of 58,000,000 authorized preferred "B" shares, and (d) 0 of 40,000,000 of authorized preferred "C" shares, and (e) 200,000,000 of 200,000,000 authorized voting preferred shares, issued and outstanding. The holders of the Preferred Shares do not have identical rights and privileges with holders of existing common shares of the Company.

The Preferred Shares will be listed on the Main Board of The Philippine Stock Exchange, Inc. ("**PSE**") on [●] (the "**Issue Date**") under the trading symbol "**ACPAR**" for the Preferred Shares.

The declaration and payment of Dividends on the Preferred Shares on each Dividend Payment Date will be subject to the sole and absolute discretion of the Issuer's Board of Directors (the "**Board**") to the extent permitted by law and subject to the Dividend Payment Conditions (as defined below). The declaration and payment of dividends (except stock dividends) do not require any further approval from the shareholders.

As and if declared by the Board, dividends on the Preferred Shares shall be at a fixed rate of [●]% per annum calculated in respect of each Preferred Share by reference to the Offer Price thereof in respect of each Dividend Period (as defined herein) (also the "**Initial Dividend Rate**"). Subject to the limitations described in this Prospectus, dividends on the Preferred Shares will be payable quarterly in arrear on [●], [●], [●], and [●] of each year (each a "**Dividend Payment Date**" as defined herein). Unless the Preferred Shares are redeemed by the Company on the Dividend Rate Re-Setting Date, the Dividend Rate for all following Dividend Periods shall be the higher of (a) the prevailing Applicable Dividend Rate (as defined below)on such Dividend Rate Re-Setting Date or (b) the sum of (i) the

applicable Reference Rate, and (ii) the Step-Up Spread (see "**Summary of the Offering**" on page 34).

Dividends on the Preferred Shares will be cumulative. If, for any reason, the Issuer's Board does not declare a dividend on the Preferred Shares for a dividend period, the Issuer will not pay a dividend on the Dividend Payment Date for that Dividend Period. However, on any future Dividend Payment Date on which dividends are declared, holders of the Preferred Shares as of record date of such dividends must receive the Dividends due them on such Dividend Payment Date as well as all Dividends accrued and unpaid to the holders of the Preferred Shares as of the same record date prior to such Dividend Payment Date (see "**Description of the Securities**" on page 43).

As and if declared by the Board, the Issuer may redeem the Preferred Shares on the Dividend Rate Re-Setting Date or any Dividend Payment Date after the Dividend Rate Re-Setting Date (as defined in this Prospectus) in whole (or in part), at a redemption price equal to the Issue Price plus any accrued and unpaid dividends after deduction for any tax and customary transfer costs to effect the redemption (the "**Redemption Payment**"). The Redemption Payment shall be made to holders of the Preferred Shares as of the record date set by Ayala for such redemption.

Subject to compliance with law, Ayala may purchase the Preferred Shares at any time at any price either through the PSE, by public tender or through negotiated transactions. Any Preferred Shares redeemed or purchased by Ayala shall be recorded as treasury stock of Ayala and may be re-issued in the future once fully redeemed at such terms and at such time as Ayala may determine.

All payments in respect of the Preferred Shares 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 the Government of the Republic of the Philippines (the "**Government**"), including, but not limited to, stamp, issue, registration, documentary, value-added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the Issuer will pay additional amounts so that holders of Preferred Shares will receive the full amount of the relevant payment which otherwise would have been due and payable, provided, however, that the Issuer shall not be liable for, and the foregoing payment undertaking of the Company shall not apply to: (a) any withholding tax applicable on dividends earned or on any amounts payable to the holders of the Preferred Shares prescribed under the National Internal Revenue Code of 1997, as amended (the "**Tax Code**") including any additional tax on such dividends imposed by changes in law, rule, or regulation; (b) any income tax (whether or not subject to withholding); percentage tax (such as stock transaction tax), documentary stamp tax or other applicable taxes on the redemption (or receipt of the redemption price) of the Preferred Shares; (c) any expanded value-added tax which may be payable by any holder of the Preferred Shares on any amount to be received from the Issuer under the Offer; (d) any withholding tax, including any additional tax imposed by change in law, rules, or regulation, on any dividend payable to any holder of Preferred Shares or any entity which is a non-resident foreign corporation; and (e) any applicable taxes on any subsequent sale or transfer of the Preferred Shares by any holder of the Preferred Shares which shall be for the account of such holder (or the buyer in case such buyer shall have agreed to be responsible for the payment of such taxes).

If payments become subject to additional withholding or any new tax as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Preferred Shares in whole, but not in part, on any Dividend Payment Date (having given not more than 60 nor less than 30 days' notice by publication in two national newspapers) at the Issue Price plus all accrued and unpaid dividends, if any (see "**Summary of the Offering**" on page 34; the taxes applicable on the Preferred Shares are discussed in the section on "**Philippine Taxation**" on page 382).

If an Accounting Event (as defined below) occurs that will result in a change in accounting treatment of the Shares, the Issuer may redeem the Shares in whole, but not in part, on any Dividend Payment Date (having given not more than 60 nor less than 30 days' prior notice) at the Offer Price, plus all accrued and unpaid dividends, if any (see "**Summary of the Offering**" on page 34).

The Preferred Shares will constitute direct and unsecured subordinated obligations of the Issuer ranking at least *pari passu* in all respects and rateably without preference or priority among themselves with all other Preferred Shares issued by the Issuer.

The Preferred Shares will be issued in scripless form. Title to the Preferred Shares shall pass by endorsement and delivery to the transferee and registration in the registry of shareholders to be maintained by the Registrar and Depository Agent (as defined herein). Settlement of the Preferred Shares in respect of such transfer or change of title to the Preferred Shares, including the settlement of documentary stamp taxes, if any, arising from subsequent transfers, shall be similar to the transfer of title and settlement procedures for listed securities in the PSE (see "**Summary of the Offering**" on page 34).

The gross proceeds from the Offer are expected to reach approximately ₱15 billion or, should the Joint Lead Underwriters and Bookrunners, with the consent of the Issuer, exercise in full its Oversubscription Option, ₱25 billion. The net proceeds from the Offer, estimated to be at ₱14.89 bilion or ₱24.85 billion, if the Oversubscription Option is exercised in full, is determined by deducting from the gross proceeds the SEC registration fees, PSE Filing Fee, documentary stamp taxes, total underwriting and selling fees, SEC listing fees, taxes and other related fees and out-of-pocket expenses (see "**Use of Proceeds**" on page 70). The Joint Lead Underwriters and Bookrunners shall receive an estimated fee of 0.375% of the gross proceeds from the Offer. The net proceeds are intended to be used by the Company for refinancing certain Philippine Peso-denominated bonds and short term loans, partially funding its capital expenditures, and refinancing its callable preferred "B" shares due 2023.

Some of the Company's existing loan agreements contain covenants that restrict the declaration or payments of dividends under certain circumstances, such as the occurrence of an event of default under such loan agreements or if such payment would cause an event of default to occur, if certain financial ratios are not met or payment would cause them not to be met, requiring revenues of the Company to be applied toward certain expenses prior to the payment of dividends and other circumstances (see "**Description of the Securities**" on page 43).

On March [•], 2023, Ayala filed a Registration Statement with the Securities and Exchange Commission ("**SEC**"), in connection with the re-issuance of up to 6,000,000, non-convertible, non-participating, non-voting, redeemable, perpetual, Philippine Peso-denominated preferred "A" shares with an Oversubscription Option for up to an additional 4,000,000 preferred "A" shares.

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 Preferred Shares in any jurisdiction other than the Philippines, where action for that purpose is required. Accordingly, the Preferred Shares may not be offered or sold, directly or indirectly, nor may any offering material relating to the Preferred Shares 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 Preferred Shares 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.

Full information on the Company and this Offer are only available on the basis of the combination of this the Prospectus, and all the Transaction Documents. All information contained in the Prospectus are deemed qualified by, and should be read together with the disclosures, reports, and filings of the Company submitted to the SEC and the PSE pursuant to the Revised Corporation Code, the Securities Regulation Code, and the Revised Disclosure Rules of the PSE ("**Company Disclosures**"). Investors should review all information contained in the Prospectus and the Company Disclosures.

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 the Prospectus misleading in any material respect. The Joint Lead Underwriters and Bookrunners have exercised due diligence in ascertaining that all material representations contained in this Prospectus, 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 the date provided. 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 neither of the Company nor the Joint Lead Underwriters and Bookrunners make any representation as to the accuracy of such information. Each person contemplating an investment in the Preferred Shares 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 Preferred Shares. A person contemplating an investment in the Preferred Shares 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 that are high-risk.Investing in the Preferred Shares involves a higher degree of risk compared to debt instruments. For a discussion of certain factors to be considered in respect of an investment in the Preferred Shares, see the section entitled "**Risk Factors**" beginning on page 53.

An application to list the Preferred Shares has been filed with the PSE on [●]. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of this Prospectus. The re-issuance of the Preferred Shares is subject to the approval of the Board of Directors of the PSE. Such approval for re-issuance is permissive only and does not constitute a recommendation or endorsement of the Preferred Shares by the PSE.

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 "**Philippine Peso",** "**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.

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

**AYALA CORPORATION**
By:

**CEZAR P. CONSING**
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 CEZAR P. CONSING with Passport No. P6868155A issued at DFA NCR South on April 17, 2018 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 _____________ at Makati City.

Doc No.___________:
Book No.__________:
Page No._________:
Series of 2023.

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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 associates of Ayala in the course of business;
- Increasing competition in the industries in which Ayala’s subsidiaries and associates operate;
- Industry risk in the areas in which Ayala’s subsidiaries and associates operate;
- Changes in laws and regulations that apply to the segments or industries in which Ayala, its subsidiaries and associates 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 Preferred Shares 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

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 | ACEN CORPORATION |
| 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, Inc. |
| ADAS | Advanced Driver-Assistance Systems |
| 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. |
| 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 Preferred Shares |
| Arran | Arran Investment Pte. Ltd. |
| 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. |
| 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. |
| BanKo | BPI Direct BanKo, Inc. |
| BAP | Bankers Association of the Philippines |
| Bayan Muna | Bayan Muna Party List |
| 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 |
| 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 |
| Business Day | A day, other than a public non-working holiday, Saturday, or Sunday on which the BSP’s Philippine Payment and Settlement System (PhilPaSS) and the Philippine Clearing House Corporation (PCHC) (or, in the event of the discontinuance of their respective functions, their respective replacements) are open and available for clearing and settlement, and banks are open for business in Metro Manila, Philippines |

| | |
|---|---|
| BVAL | Bloomberg Valuation Service, the electronic financial information service provider, and when used in connection with the designated page of the Benchmark Rate, the display page so designated on BVAL (or such other page as may replace that page on that service), or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices to that Benchmark Rate |
| 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 |
| CAPEX | Capital expenditures |
| 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 |
| 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 |
| 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 |

| | |
|---|---|
| CWD | Calasiao Water District |
| DAR | Department of Agrarian Reform |
| DBS | Development Bank of Singapore |
| DENR | Department of Environment and Natural Resources |
| Depository Agent | Philippine Depository & Trust Corp. |
| 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 |
| eCARs | Electronic Certificates Authorizing Registration |
| EGG | Entertainment Gateway Group |
| EIS | Environment Impact Statement |
| EMB | Environmental Management Bureau |
| EMS | Electronics Manufacturing Services |
| ENEX | ENEX Energy Corp. |
| 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 |
| 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. |
| 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 |

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| IRR | Implementing Rules and Regulations |
| ISIS | Islamic State in Iraq and Syria |
| Islacom | Isla Communications Company, Inc. |
| Issue Date | [●], 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 and the PSE. |
| 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, RCBC Capital 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 |
| LHI | Liontide Holdings, Inc. |
| LIB | Liberty Telecom Holdings, Inc. |
| Liquidation Right | The preference granted to the holders of preferred "A" 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 |
| LiveIt | LiveIt 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 |

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| LPG Industry Rules | Rules and Regulations Governing the Liquefied Petroleum Gas Industry |
| LPWAN | Low Power Wide Area Network |
| LRMHI | Light Rail Manila Holdings, Inc. |
| LTE | Long-Term Evolution |
| LTI | Laguna Technopark, Inc. |
| LTO | Land Transportation Office |
| LTS | License to Sell |
| LV | Loanable Value |
| LTV | Loan-to-Value |
| 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. |
| MWIS | Manila Water Infratec Solutions |
| NCR | National Capital Region |

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| 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 |
| NPL | Non-performing Loans |
| NRW | Non-revenue Water |
| NSFR | Net Stable Funding Ratio |
| NTC | National Telecommunications Commission |
| 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 |
| OLC | Ortigas Land Corporation (formerly OCLP Holdings, Inc.) |
| 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 |
| 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 |
| PDTC | Philippine Depository & Trust Corp. |
| PEZA | Philippine Economic Zone Authority |
| PFM | Philippine FamilyMart CVS, Inc. |
| PFRS | Philippine Financial Reporting Standards |
| PHWHC | Philippine Wind Holdings Corporation |
| 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 |
| PPA | Power Purchase Agreement |
| PPP | Public-Private Partnership |
| PPS | Participating preferred shares |
| Preferred Shares | Re-issuance of up to 6,000,000 cumulative, non-voting, non-convertible, non-participating, redeemable, |

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| | perpetual, Philippine Peso-denominated preferred “A” shares with an oversubscription option of up to 4,000,000 preferred “A” shares |
| Prospectus | means the prospectus of the Issuer dated [●] and any amendments, supplements and addenda thereto for the offer and sale to the public of the Preferred Shares. |
| PSA | Philippine Standards on Auditing |
| PSE | The Philippine Stock Exchange, Inc. |
| PSE EDGE | PSE’s Electronic Disclosure Generation Technology |
| PSi | PSi Technologies, Inc. |
| PTA | Philippine Tourism Authority |
| Qualified Institutional Buyers | Qualified buyers, as defined in Section 10.1 (l) of the Securities Regulation Code (Republic Act No. 8799) and Rule 10.1.3 of the 2015 Implementing Rules and Regulations of the SRC, as amended. |
| PTMWI | PT Manila Water Indonesia |
| R.A. | Republic Act |
| REIT | Real Estate Investment Trust |
| Record Date | Cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due |
| Registrar, Receiving and Paying Agent or Stock Transfer Agent | Stock Transfer Service, Inc. |
| 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 |
| RRHI | Robinsons Retail Holdings, Inc. |
| 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) |
| Selling Agents | PSE Trading Participants [and [•]] |
| SES | Supervision and Examination Sector |
| SGV & Co. | SyCip Gorres Velayo & Co. |
| SLEX | South Luzon Expressway |
| Smart | Smart Telecommunications, Inc. |

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| 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 |
| 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. |
| STSI | Stock Transfer Service, Inc. |
| 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. |
| Terms and Conditions | the terms and conditions of the issuance of the Preferred Shares as set forth in Annex A of the Trust Indenture. |
| TIEZA | Tourism Infrastructure and Enterprise Zone Authority |
| 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 |

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| 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 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 and is one of the largest and most diversified groups in the Philippines. Ayala's business activities are divided into:

I. core value drivers in (a) real estate, (b) financial services, (c) telecommunications, (d) power;
II. emerging businesses in (a) healthcare, (b) logistics; and
III. portfolio investments in (a) industrial technologies, (b) water, (c) infrastructure, (d) education, and (e) technology ventures.

**Core value drivers**

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 associate, 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 and digital solutions is carried out through a joint venture, Globe Telecom, Inc. ("**Globe**"), a leading telecommunications company in the Philippines. Ayala's investments in the power sector are held under AC Energy and Infrastructure Corporation ("**ACEIC**" or "**AC Energy**"), which owns 65% of ACEN Corporation ("**ACEN**"), one of the fastest growing energy companies in the region and Ayala's main platform for its energy investments.

**Emerging businesses**

Ayala's emerging business in healthcare is conducted through Ayala Healthcare Holdings ("**AC Health**"), and logistics operations are housed under AC Logistics Holdings Corporation ("**AC Logistics**").

**Portfolio Investments**

In portfolio investments, Ayala's 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 water infrastructure are under Manila Water Company, Inc. ("Manila Water" or "**MWC**"). Its investments in infrastructure are housed under AC Infrastructure Holdings Corp. ("**AC Infra**"). Ayala's interest in education is conducted through iPeople, inc. ("**iPeople**"), where it owns a 33.5% stake while its investments in technology ventures are in AC Ventures Holding Corp. ("**AC Ventures**").

Ayala became a publicly listed corporation in 1976 when it listed its common shares with the then Makati Stock Exchange. As of December 31, 2022, Ayala had a market capitalization of ₱438 billion based on its closing price of ₱695 per share. In addition, certain members of the Ayala Group, namely ALI, BPI, Globe, ACEN, MWC, Integrated Micro-Electronics, Inc. ("**IMI**"), AREIT, AyalaLand Logistics Holdings ("**ALLHC**" or formerly known as Prime Orion Philippines Inc. ("**POPI**") and ENEX Energy Corp. ("**ENEX**"), formerly known as ACE Exenor, Inc., are likewise publicly listed corporations. Some of Ayala's subsidiaries and associates have holdings in the equity of other subsidiaries and associates.

Mermac, Inc., a private holding company incorporated in the Philippines (which held 47.91% of Ayala common shares as at December 31, 2022), 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 and incubate new businesses. 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.

The Group's strategic priority revolves around its 3-point agenda, which includes (a) supporting the continued expansion of its core businesses that are well-position to capture fundamental shifts triggered by the pandemic, (b) supporting its emerging units, AC Health and AC Logistics, to achieve scale and become new sources of growth and value for Ayala, and (c) sharpen its portfolio and strengthen its balance sheet through value realization initiatives from which it aims to raise U.S.$1 billion in proceeds by 2023.

Ayala maintains a healthy balance sheet with access to various financing options to meet debt and dividends 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 March 9 2023, the Board of Directors approved the Offer, which matter will be presented to the Company's stockholders for ratification at its annual stockholders' meeting on April 28, 2023. The Board of Directors also approved amendments of the Audit Committee Charter, as endorsed by the Audit Committee, to align with the requirements of the ASEAN Corporate Governance Scorecard ("**ACGS**"), Integrated Annual Corporate Governance Report ("**I-ACGR**") and reflect current practices, and of the Sustainability Committee Charter, as endorsed by the Sustainability Committee, to update the Committee's roles and responsibilities.

On January 13 2023, Arran Investment Pte. Ltd. ("**Arran**") completed the sale of its remaining 10,384,903 redeemable preferred shares in Liontide Holdings, Inc. ("**LHI**"), a joint venture company of AC to Robinsons Retail Holdings, Inc. ("**RRHI**"). Effective on the same date, Arran, LHI and AC terminated their existing Shareholders' Agreement while RRHI, LHI and AC entered into a new Shareholder's Agreement to govern their relationship as well as the conduct of the business and management of LHI.

On April 19, 2022 and May 12, 2022, the Board of Directors approved and confirmed the declaration of property dividends consisting of the ACEN shares acquired from ACEIC to AC's common shareholders at a ratio of 3 ACEN shares per 1 AC common share, subject to: a) completion of the acquisition of ACEN shares by AC, and b) applicable regulatory approvals. The SEC issued on October 24, 2022 the Certificate of Filing the Notice of Property Dividend Declaration. On December 29, 2022, the Bureau of Internal Revenue ("**BIR**") released the electronic Certificates Authorizing Registration ("**eCARs**") to stockholders who have met the BIR requirements, including the submission of their Tax Identification Numbers. As fixed by the Management, pursuant to its Board-delegated authority, the payment date for the Property Dividend is January 9, 2023 for such stockholders or, for stockholders who have not been issued an eCAR by the BIR for the payment of the Property Dividend, the 5th business day following the submission of an eCAR to AC.

**Future Plans and Prospects**

2022 was a year of recovery for the country as the COVID-19 pandemic subsided and strict quarantine measures were lifted. This resulted in a surge of mobility and consumer activity which surpassed pre-pandemic levels by year-end. As a result, Philippine GDP ("**Gross Domestic Product**") grew by 7.6% in 2022, exceeding the National Economic and Development Authority's target of 6.5-7.5%. This was achieved in spite of high inflation, which averaged at 5.8% for the year, and the 350 basis point increase in policy rates from 2% to 5.5%.

For 2023, Ayala expects consumer demand to continue driving growth in the country, though at a more tempered level as elevated inflation discretionary spending and the full impact of rate hikes is felt. Ayala expects inflation to decline gradually, averaging at 4.5% for 2023. On interest rates, Ayala anticipates this to further increase to 4.75%, however rate cuts are possible by the second half if a global recession comes into play. Meanwhile, the Peso may continue to weaken in the near term as imports grow with strengthening demand. Moreover, the country's widening current account deficit may temper any appreciation of the Peso.

There continues to be growth drivers, however, in the form of strong remittances boosted by the still expensive dollar and the recent wage hikes. As such, Ayala expects the Philippines' GDP to still reach 5.6% for the year. Ayala believes stronger exports and investment spending will also help support growth in 2023 as the macroeconomic environment stabilizes.

Ayala's optimism is reflected in Ayala capital expenditures ("**CAPEX**") level for the year. For 2023, Ayala is allocating ₱264 billion across the Group as Ayala continues to invest for the future.

At the same time, Ayala continues to fortify its balance sheet, ensuring access to various funding options to meet requirements. A robust risk management system allows Ayala to maximize opportunities for reinvention, and navigate the challenges faced by its business units. This has allowed Ayala to keep our average cost of debt low at 4.5% and average duration long at 18.5 years, a competitive advantage in a rising interest rate environment.

**RISKS OF INVESTING**

An investment in the Preferred Shares involves a certain degree of risk. A prospective purchaser of the Preferred Shares 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 Preferred Shares.

**Risks Associated with the Company and the Group**

- Regulatory risk
- Holding company structure risk
- Cyclical risk
- Risks associated with cartain industries
- Controlling shareholders risk
- Financing risk
- Risks associated with new investments
- Related party risk
- Risks associated with debt covenants
- Dependence on senior management risk
- Anti-trust risk
- Global macroeconomic, social and political developments risk
- Industry Risk
- Change in accounting standards risk
- Environmental, Social and Governance ("ESG") Risks
- Information and Cyber Security Threats
- Personell risk
- Brand and Reputational Risk

**Risks Associated with the Philippines**

- Risk of COVID-19 Resurgence and Insufficient COVID-19 Response
- Slowdown in economic growth
- Sovreign credit rating risk
- Depreciation in the Value of the Peso Against Other Currencies
- Political and Social Instability
- Slowdown in the Economic Growth, High Inflation and Interest Rate
- Tensions with other countries
- Political and economic developments abroad
- Heightened Impacts of Climate Change

**Risks Associated with the Preferred Shares**

- Suitability for investors
- Partial or non-payment on dividends
- Subordination to other indebtedness
- Unavailability of assets of Subsidiaries to make payments
- Insufficienct distributions upon liquidation
- Limitation by terms of other indebtedness
- Volatility of market price
- No stated maturity and sole right of redemption with issuer
- Lack of public market
- Limited liquidity
- Non-payment of dividends
- Re-investment risk
- No voting rights
- Foreign ownership restrictions

**Risks Relating to Statements in this Prospectus**

- Certain statistical and industry information

A detailed discussion on the above enumerated risks appears in the "**Risk Factors**" of this Prospectus, which includes additional risks or updated discussions of certain risks to those stated in the Prospectus. Accordingly, the "**Risk Factors**" of this Prospectus should be read in conjunction with the "**Risk Factors**" of the 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.

## SUMMARY OF FINANCIAL INFORMATION

*The following tables set forth financial and operating information on Ayala. Prospective purchasers of the Preferred Shares 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, 2022, 2021, 2020, and 2019 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 audited by SyCip Gorres Velayo & Co. ("**SGV & Co.**") in accordance with Philippine Standards on Accounting ("**PSA**").*

*This section also includes financial and operating data with respect to Ayala's subsidiaries - Ayala Land, IMI, and AC Energy or ACEIC (with key subsidiary ACEN), associates (BPI and Manila Water) and joint venture (Globe). This section should be read in conjunction with the financial highlights of these subsidiaries, Associates and Joint Ventures which can be accessed at these companies' official websites.*

*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 year, except for the amended PFRS and improvements to PFRS which were adopted beginning January 1, 2022. 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, *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.

- Amendments to PAS 16, *Property, 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.

- 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.

- *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 in the parent's consolidated financial statements, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    - 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.

- 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.

*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 when they become effective.

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed.

- Amendments to PAS 8, *Definition of Accounting Estimates*

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted.

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

*Effective beginning on or after January 1, 2024*

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

The amendments clarify:

- That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
- 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, 2024 and must be applied retrospectively.

- Amendments to PFRS 16*, Lease Liability in a Sale and Leaseback*

The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.

*Effective beginning on or after January 1, 2025*

- 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

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.
  PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

*Deferred effectivity*

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

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

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

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

- 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, SEC issued SEC Memorandum Circular (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, 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 |
|---|---|
| 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 |

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

a. The accounting policies applied.
b. Discussion of the deferral of the subject implementation issues in the PIC Q&A.
c. Qualitative discussion of the impact on the financial statements had the concerned application guidelines in the PIC Q&A been adopted.
d. 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.

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 relief on the accounting for significant financing component of PIC Q&A No. 2018-12. Had this provision 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 or applied using modified retrospective approach. 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. These would have impacted the cash flows from operations and cash flows from financing activities for all years presented. While there maybe instances that the performance obligation differs from the buyer's amortization schedule, initial calculation showed SFC but the consolidated impact is expected to be not material to the Group. Assumptions are still under assessment and evaluation, and the refinement to the calculation to determine the SFC is ongoing.

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, 2022, 2021, 2020, and 2019:

| CONSOLIDATED STATEMENTS OF INCOME *(Amounts in ₱ Thousands)* | As of December 31 | | | |
|---|---|---|---|---|
| | (Audited) | (Audited) | (Audited) | (Audited) |
| | 2022[1] | 2021[1] | 2020[2] | 2019[3,4] |
| **CONTINUING OPERATIONS REVENUE** | | | | |
| Rendering of Services | ₱167,233,350 | ₱141,578,166 | ₱123,384,171 | ₱129,911,395 |
| Sale of goods | 96,587,104 | 84,013,760 | 70,238,264 | 134,995,139 |
| Share in net profits of associate and joint ventures | 36,128,918 | 23,384,709 | 17,615,774 | 22,344,352 |
| Interest income from real estate | 6,694,930 | 6,801,012 | 8,602,775 | 7,890,972 |
| | 306,644,302 | 255,777,647 | 219,840,984 | 295,141,858 |
| **COST AND EXPENSES** | | | | |

[1] The consolidated financial statements have been prepared in accordance with PFRS, as modified by the application of the financial reporting relief on the accounting for significant financing components issued and approved by the SEC in response to the COVID-19 pandemic.

The Group has availed of the relief granted by the SEC under Memorandum Circular (MC) No. 34-2020 which further extended the deferral of PIG Q&A 2018-12-0 (assessment if the transaction price includes a significant financing component) until December 31, 2023.

[2] The consolidated financial statements have been prepared in compliance with PFRS, 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 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 (PIG) 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
b. Assessing if the transaction price includes a significant financing component (as amended by PIG Q&A 2020-04)
c. Treatment of uninstalled materials in the determination of the PCO (as amended by PIG Q&A 2020-02); and
d. Accounting for Common Usage Service Area (GUSA) 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 PIG Q&A 2018-12 and the IFRIC Agenda Decision on Borrowing Cost, for another three (3) years or until December 31, 2023.

[3] The consolidated financial statements have been prepared in compliance with PFRS, which include the availment of the relief granted by the SEC under Memorandum Circular Nos. 14-2018 and 3-2019 for the following implementation issues of PFRS 15 affecting the real estate industry:
a. Exclusion of land and uninstalled materials in the determination of percentage of completion discussed in PIC Q&A No. 2018-12-E
b. Accounting for significant financing component discussed in PIG Q&A No. 2018-12-0
c. Accounting for Common Usage Service Are (GUSA) Charges discussed in PIC Q&A No. 2018-12-H
d. Adoption of PIC Q&A No. 2018-14: PFRS 15 -Accounting for Cancellation of Real Estates Sales

[4] Ayala Group 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 year ended December 31, 2018 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 Group'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 Offer Supplement, for the effect of the adoption of PFRS 16.

## Summary of Financial Information

| CONSOLIDATED STATEMENTS OF INCOME | As of December 31 | | | |
|---|---|---|---|---|
| | **(Audited)** | **(Audited)** | **(Audited)** | **(Audited)** |
| *(Amounts in ₱ Thousands)* | **2022[1]** | **2021[1]** | **2020[2]** | **2019[3,4]** |
| Cost of rendering services | 149,948,636 | 118,743,530 | 97,057,136 | 106,962,448 |
| Cost of goods sold | 60,620,088 | 57,151,237 | 47,124,213 | 83,020,810 |
| General and Administrative expenses | 34,626,616 | 30,301,486 | 32,326,129 | 32,112,815 |
| | 245,195,340 | 206,196,253 | 176,507,478 | 222,096,073 |
| **OTHER INCOME(CHARGES) - Net** | | | | |
| Interest income | 8,857,744 | 5,077,847 | 3,183,823 | 3,352,308 |
| Other income | 10,883,179 | 15,129,602 | 6,209,381 | 32,411,393 |
| Interest and other financing charges | (29,102,049) | (27,089,924) | (28,014,198) | (22,409,526) |
| | (9,361,122) | (6,819,475) | (18,620,994) | 13,354,175 |
| **INCOME BEFORE INCOME TAX** | 52,087,840 | 42,761,919 | 24,712,512 | 86,399,960 |
| **PROVISION FOR INCOME TAX** | | | | |
| Current | 7,919,811 | 6,575,514 | 5,887,920 | 13,717,739 |
| Deferred | (1,705,902) | (1,663,819) | (648,740) | 266,398 |
| | 6,213,909 | 4,911,695 | 5,239,180 | 13,984,137 |
| **NET INCOME AFTER TAX** | ₱45,873,931 | ₱37,850,224 | ₱19,473,332 | ₱72,415,823 |
| **OPERATIONS OF THE SEGMENT UNDER PFRS 5** | | | | |
| Net Income (loss) after tax | - | (1,814,033) | 9,797,011 | (30,433,493) |
| **NET INCOME** | ₱45,873,931 | ₱36,036,191 | ₱29,270,343 | ₱41,982,330 |
| **NET INCOME ATTRIBUTABLE TO:** | | | | |
| Owners of the parent | ₱27,397,791 | ₱27,774,183 | ₱17,141,714 | ₱35,279,330 |
| Non-controlling interests | 18,476,140 | 8,262,008 | 12,128,629 | 6,703,000 |
| | ₱45,873,931 | ₱36,036,191 | ₱29,270,343 | ₱41,982,330 |
| **EARNINGS PER SHARE BEFORE OPERATIONS OF THE SEGMENT UNDER PFRS 5** | | | | |
| Basic | ₱42.20 | ₱43.33 | ₱17.04 | ₱79.37 |
| Diluted | ₱42.02 | ₱43.17 | ₱16.96 | ₱79.12 |
| **EARNINGS PER SHARE** | | | | |
| Basic | ₱42.20 | ₱42.58 | ₱25.33 | ₱54.12 |
| Diluted | ₱42.02 | ₱42.42 | ₱25.24 | ₱53.93 |

Summary of Financial Information

| CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(Amounts in ₱ Thousands)* | As of December 31 | | | |
|---|---|---|---|---|
| | (Audited) | (Audited) | (Audited) | (Audited) |
| | 2022[1] | 2021[1] | 2020[2] | 2019[3,4] |
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | ₱73,847,371 | ₱90,483,909 | ₱88,653,956 | ₱93,405,253 |
| Short-term investments | 3,201,800 | 930,938 | 822,410 | 13,387,801 |
| Accounts and notes receivable | 161,601,551 | 145,075,394 | 137,094,187 | 130,868,711 |
| Inventories | 201,517,144 | 166,406,837 | 160,871,941 | 135,064,303 |
| Other current assets | 89,793,317 | 81,941,737 | 74,314,892 | 66,092,669 |
| | 529,961,183 | 484,838,815 | 461,757,386 | 438,818,737 |
| Assets under PFRS 5 | 11,821,057 | 12,433,522 | 196,136,570 | 170,466,694 |
| Total Current Assets | 541,782,240 | 497,272,337 | 657,893,956 | 609,285,431 |
| **Noncurrent Assets** | | | | |
| Noncurrent accounts and notes receivable | 96,029,149 | 83,301,217 | 57,382,232 | 55,720,290 |
| Investments in associates and joint ventures | 328,120,295 | 294,063,019 | 255,007,953 | 246,731,276 |
| Investment properties[5] | 246,733,570 | 246,806,097 | 226,456,967 | 246,732,338 |
| Property, plant and equipment (see footnote 9) | 114,113,551 | 96,682,935 | 94,537,980 | 88,781,755 |
| Right-of-use assets | 22,861,767 | 20,996,946 | 19,812,516 | 18,220,572 |
| Service concession assets | 1,420,977 | 1,481,976 | 1,556,241 | 1,638,516 |
| Intangible assets | 43,536,382 | 22,128,005 | 19,624,573 | 16,625,926 |
| Deferred tax assets | 18,370,869 | 16,294,100 | 14,634,045 | 14,246,325 |
| Other noncurrent assets | 65,576,336 | 69,959,308 | 58,851,529 | 47,303,529 |
| Total Noncurrent Assets | 936,762,896 | 851,713,603 | 747,864,036 | 736,000,527 |
| **Total Assets** | ₱1,478,545,138 | ₱1,348,985,940 | ₱1,405,757,992 | ₱1,345,285,958 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| **Current Liabilities** | | | | |
| Short-term debt | ₱36,526,898 | ₱34,712,039 | ₱32,439,507 | ₱29,788,643 |
| Accounts payable and accrued expenses | 203,115,284 | 168,750,801 | 177,315,357 | 195,416,247 |
| Income tax payable | 1,272,406 | 803,495 | 1,907,146 | 2,396,901 |
| Current portion of: | | | | |
| Long-term debt | 31,496,742 | 31,493,713 | 36,514,381 | 23,878,725 |
| Lease liabilities | 2,364,727 | 2,110,226 | 1,445,492 | 1,028,067 |
| Service concession obligation | 60,280 | 40,069 | 19,880 | 13,607 |
| Other current liabilities | 34,178,420 | 30,184,417 | 26,596,440 | 28,647,050 |
| | 309,014,757 | 268,094,760 | 276,238,203 | 281,169,240 |
| Liabilities under PFRS 5 | | - | 124,291,482 | 121,487,625 |
| Total Current Liabilities | 309,014,757 | 268,094,760 | 400,529,685 | 402,656,865 |
| **Noncurrent Liabilities** | | | | |
| Long-term debt – net of current portion | 484,464,227 | 412,310,822 | 372,800,369 | 351,670,789 |

| CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(Amounts in ₱ Thousands)* | As of December 31 | | | |
|---|---|---|---|---|
| | **(Audited)** | **(Audited)** | **(Audited)** | **(Audited)** |
| | **2022[1]** | **2021[1]** | **2020[2]** | **2019[3,4]** |
| Lease liabilities - net of current portion | 27,978,713 | 25,503,531 | 22,672,228 | 21,353,099 |
| Service concession obligation – net of current portion | 51,515 | 60,961 | 66,338 | 52,412 |
| Deferred tax liabilities - net | 9,193,910 | 9,180,901 | 9,398,205 | 8,035,817 |
| Pension liabilities | 3,499,705 | 4,020,623 | 5,093,406 | 3,756,048 |
| Other noncurrent liabilities | 49,043,265 | 64,501,574 | 52,775,650 | 48,447,370 |
| Total Noncurrent Liabilities | 574,231,335 | 515,578,412 | 462,806,196 | 433,315,535 |
| **Total Liabilities** | 883,246,092 | 783,673,172 | 863,335,881 | 835,972,400 |
| **Equity** | | | | |
| Equity attributable to the parent company | | | | |
| Paid-in Capital | 86,380,257 | 86,075,527 | 85,613,944 | 84,876,225 |
| Share-based payments | 38,590 | 44,664 | 102,619 | 214,617 |
| Remeasurement gains/(losses) on defined benefit plans | (4,516,242) | (4,798,349) | (6,351,002) | (3,117,329) |
| Fair value reserve of financial assets at fair value through other comprehensive income | (3,042,026) | (1,720,601) | 40,792 | 66,917 |
| Cumulative translation adjustments | 4,344,422 | 1,137,912 | (1,635,505) | 3,234,618 |
| Equity reserve | 29,091,712 | 34,262,567 | 30,741,420 | 25,282,942 |
| Equity – conversion option | - | – | – | – |
| Retained earnings | 267,836,258 | 260,112,458 | 238,072,873 | 225,454,620 |
| Treasury stock | (13,070,802) | (12,382,517) | (6,605,153) | (5,737,896) |
| Reserves under PFRS 5 | - | – | (800,218) | (1,467,449) |
| | 367,062,529 | 362,731,661 | 339,179,770 | 328,807,265 |
| Non-controlling interests | 228,236,515 | 202,581,107 | 203,242,341 | 180,506,293 |
| Total Equity | 595,299,044 | 565,312,768 | 542,422,111 | 509,313,558 |
| **Total Liabilities and Equity** | ₱1,478,545,136 | ₱1,348,985,940 | ₱1,405,757,992 | ₱1,345,285,958 |

## SUMMARY OF THE OFFERING

*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 Preferred Shares. 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 Preferred Shares. Each prospective investor must rely on its own appraisal of the Company and the Preferred Shares 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 Preferred Shares 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 |
| The Offer | : | Ayala, through the Joint Lead Underwriters and Bookrunners and Selling Agents named herein, is offering, by way of a re-issuance from treasury, up to 6,000,000 cumulative, non-convertible, non-participating, non-voting, redeemable, perpetual and Philippine Peso-denominated preferred "A" shares, with an Oversubscription Option of up to an additional 4,000,000 preferred "A" shares, with a par value of ₱100.00 per Preferred Share. |
| Offer Price | : | ₱2,500.00 per share. |
| Initial Dividend Rate | : | The Preferred Shares will, subject to the Dividend Payment Conditions (see below), bear cumulative non-participating dividends based on the Offer Price, payable quarterly in arrear on the Dividend Payment Date (as defined below) at the rate equivalent to [•]% per annum from the Issue Date, as may be subsequently adjusted on a Dividend Rate Re-Setting Date (as defined below). Dividends will be calculated on a 30/360-day basis. |
| Applicable Dividend Rate | : | The Applicable Dividend Rate for a Dividend Period will be (a) the Initial Dividend Rate or (b) if the dividend rate is subject to re-setting, such dividend rate resulting from the Dividend Rate Adjustment. |
| Dividend Rate Re-Setting Date | : | Unless such date is a Redemption Date, the Initial Dividend Rate will be re-set on the following Dividend Rate Re-Setting Dates:<br><br>(a) the payment date of the [●] Dividend Period (the "**Initial Dividend Rate Re-Setting Date**"), indicatively on the 5th anniversary of the Issue Date;<br>(b) the payment date of the [●] Dividend Period (the "**Final Dividend Rate Re-Setting Date**"), indicatively on the 10th anniversary of the Issue Date. |
| Dividend Rate Adjustment | : | On and from the Dividend Rate Re-Setting Date, the Applicable Dividend Rate for all subsequent Dividend Periods (as defined below), shall be the higher of:<br><br>a) the Applicable Dividend Rate on such Re-Setting Date;or<br><br>b) the applicable Step-Up Benchmark Reference Rate (as defined below) on Dividend Rate Re-Setting Date plus the |

Step-Up Spread.

Step-Up Benchmark Reference Rate : The simple average of the applicable PHP BVAL Reference Rate, as published on the website of the Philippine Dealing System Group or, if unavailable, the Philippine Dealing & Exchange Corp. ("**PDEx**") page of Bloomberg (or such successor website or page of the publication agent or electronic service provider), as relevant, for the three (3) consecutive Business Days immediately preceding and ending on the applicable Dividend Rate Re-Setting Date:

| Dividend Rate Re-Setting Date | Applicable Benchmark Rate |
|---|---|
| 5th anniversary of the Issue Date | [5]-year PHP BVAL Reference Rate |
| 10th anniversary of the Issue Date | [25]-year PHP BVAL Reference Rate |

In the event that BVAL is replaced by a new benchmark rate as determined by the Bankers Association of the Philippines ("**BAP**") or the Bangko Sentral ng Pilipinas ("**BSP**"), such new benchmark rate shall be adopted for purposes of determining the dividend rate.

Step-Up Spread :

| **Dividend Rate Re-Setting Date** | **Applicable Step-Up Spread** |
|---|---|
| 5th anniversary of the Issue Date | 1.50% |
| 10th anniversary of the Issue Date | 2.50% |

Conditions for the Declaration of Dividends : Ayala has full discretion over the declaration and payment of dividends on the Preferred Shares, to the extent permitted by law. The Board will not declare and pay dividends on any Dividend Payment Date where (a) payment of the Dividend would cause Ayala to breach any of its financial covenants; or (b) the unrestricted retained earnings available to Ayala for distribution as dividends are not sufficient to enable Ayala to pay the dividends in full on all other classes of Ayala's outstanding shares that are scheduled to be paid on or before any Dividend Payment Date and that have an equal right and priority to dividends as the Shares.

If the unrestricted retained earnings available to distribute as dividends are, in the Board's opinion, not sufficient to enable Ayala to pay both dividends on the Preferred Shares and the dividends on other shares that have an equal right and priority to dividends as the Preferred Shares, in full and on the same date, then Ayala may: first, pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that dividend payment date on any shares with a right to dividends ranking higher in priority to that of the Preferred Shares; and second, to pay dividends on the Preferred Shares and any other shares ranking equally with the Shares as to participation in such retained earnings *pro rata* to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include

| | | |
|---|---|---|
| | | the amount of any dividend payable on that date and any arrear on any past cumulative dividends on any Preferred shares ranking equal in priority with the Shares to receive dividends.<br><br>The profits available for distribution are, in general and with some adjustments, equal to Ayala's accumulated, realized profits less accumulated, realized losses.<br><br>If for any reason Ayala's Board of Directors does not declare a dividend on the Preferred Shares for a dividend period, Ayala will not pay a dividend on the Dividend Payment Date for that dividend period. However, on any future Dividend Payment Date on which dividends are declared, the Shareholders must receive the Dividends due to them on such Dividend Payment Date as well as all Dividends accrued and unpaid to the Shareholders prior to such Dividend Payment Date. Shareholders shall not be entitled to participate in any other or further dividends beyond the dividends specifically payable on the Preferred Shares |
| Dividend Payment Dates | : | Dividends will be payable on [●],[●],[●] and [●] of each year (each a "**Dividend Payment Date**"), being the last day of each 3-month dividend period (a "**Dividend Period**"), as and if declared by Ayala in accordance with the terms and conditions of the Shares. If the Dividend Payment Date is not a Business Day, Dividends will be paid on the next succeeding Business Day, without adjustment as to the amount of dividends to be paid. |
| Payment on the Shares | : | All payments of dividends and any other amounts under the Preferred Shares shall be paid by Ayala in Philippine Pesos. On the relevant payment dates, the Paying Agent shall make available to Shareholders, checks drawn against the Payment Settlement Account in the amount due to each Shareholder of record as of the relevant Record Date, either (i) for pick-up by the Shareholder or its duly authorized representative at the office of the Paying Agent or (ii) delivery via courier or, if courier service is unavailable for deliveries to the address of the relevant Shareholder, via mail, at the Shareholder's risk, to the address of the Shareholder appearing in the Register of Shareholders. |
| Optional Redemption and Purchase | : | [Ayala has the option, but not the obligation, to redeem all or part of the outstanding Preferred Shares (having given not less than 30 days' notice) on:<br><br>a) the Initial Dividend Rate Re-Setting Date; or<br><br>b) any Dividend Payment Date after the Initial Dividend Rate Re-Setting Date.<br><br>Exercise of Ayala's redemption option shall be completed by payment of the redemption price equal to the Offer Price plus any accrued and unpaid dividends after deduction for any tax and customary transfer costs to effect the redemption (the "**Redemption Payment**"). Administrative costs and expenses, including the cost of checks used, supplies, paying agent services, courier and mailing costs in relation to effecting the redemption shall be for the account of Ayala. The Redemption Payment shall be made to the Shareholders as of the record date set by Ayala for such redemption. |

Subject to compliance with law, Ayala may purchase the Preferred Shares at any time at any price either through the PSE, by public tender or through negotiated transactions.

Any Preferred Shares redeemed or purchased by Ayala shall be recorded as treasury stock of Ayala and may be re-issued in the future once fully redeemed at such terms and at such time as Ayala may determine.]

Early Redemption Due to Occurrence of a Tax Event : [If payments become subject to additional withholding or any new tax as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to Ayala, Ayala may redeem the Preferred Shares in whole, or in part, on any Dividend Payment Date (having given not less than 30 nor more than 60 days' notice) at the Offer Price plus all accrued and unpaid dividends, if any.]

Early Redemption Due to Changes in Accounting Treatment of the Shares : [If an Accounting Event occurs that will result in a change in accounting treatment of the Preferred Shares, the Issuer may redeem the Preferred Shares in whole, or in part, on any Dividend Payment Date (having given not more than 60 nor less than 30 days' prior notice) at the Offer Price plus all accrued and unpaid dividends, if any.

An Accounting Event shall occur if in the opinion of Ayala with due consultation with its independent auditors, at the relevant time there is a change in applicable accounting standards that result in more than an insubstantial risk that either Preferred Shares or the funds raised through the issuance of the Preferred Shares may no longer be recorded as "**equity**" to the full extent as at the Issue Date pursuant to PFRS, or such other accounting standards, which succeed PFRS, as adopted in the Philippines, applied by the Issuer for drawing up its financial statements for the relevant financial year.]

No Sinking Fund : Ayala has not established, and currently does not intend to establish a sinking fund for the redemption of the Preferred Shares.

Philippine Taxation : All payments in respect of the Preferred Shares 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, documentary stamp, issue, registration, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, Ayala will pay additional amounts so that Shareholders will receive the full amount of the relevant payment which otherwise would have been due and payable. Provided, however, that Ayala shall not be liable for:

a) any withholding tax applicable on dividends earned or on any amounts payable to the holders of the Preferred Shares prescribed under the Tax Code including any additional tax on such dividends imposed by changes in law, rule, or regulation;

b) any income tax (whether or not subject to withholding); percentage tax (such as stock transaction tax), documentary stamp tax or other applicable taxes on the redemption (or receipt of the redemption price) of the Preferred Shares;

c) any expanded value-added tax which may be payable by any holder of the Preferred Shares on any amount to be received from the Issuer under the Offer;

d) any withholding tax, including any additional tax imposed by change in law, rules, or regulation, on any dividend payable to any holder of Preferred Shares or any entity which is a non-resident foreign corporation; and

e) any applicable taxes on any subsequent sale or transfer of the Preferred Shares by any holder of the Preferred Shares which shall be for the account of such holder (or the buyer in case such buyer shall have agreed to be responsible for the payment of such taxes).

Any documentary stamp tax for the recording of the Preferred Shares in the name of an investor under the Offer shall be paid for by Ayala. After the Issue Date, taxes generally applicable to a subsequent sale of the Shares by any Shareholder, including receipt by such Shareholder of a Redemption Payment, shall be for the account of the said Shareholder.

Liquidation Rights : In the event of a return of capital in respect of Ayala's winding up or otherwise (whether voluntarily or involuntarily) (but not on a redemption or purchase by Ayala of any of its share capital), the Shareholders at the time outstanding will be entitled to receive, in Philippine Pesos out of Ayala's assets available for distribution to shareholders, together with the holders of any other of Ayala's shares ranking, as regards repayment of capital, *pari passu* with the Preferred Shares and before any distribution of assets is made to holders of any class of Ayala's shares ranking junior to the Preferred Shares as regards repayment of capital, liquidating distributions in an amount of ₱2,500.00 per Preferred Share plus an amount equal to any dividends declared but unpaid in respect of the previous dividend period and any accrued and unpaid dividends for the then-current dividend period to (and including) the date of commencement of Ayala's winding up or the date of any such other return of capital, as the case may be. If, upon any return of capital in Ayala's winding up, the amount payable with respect to the Preferred Shares and any other of Ayala's shares ranking as to any such distribution *pari passu* with the Preferred Shares are not paid in full, the holders of the Preferred Shares and of such other shares will share rateably in any such distribution of Ayala's assets in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the Shareholders will have no right or claim to any of Ayala's remaining assets and will not be entitled to any further participation or return of capital in a winding up.

Form, Title and Registration of the Shares : The Preferred Shares will be in scripless form and are required tobe lodged with the PDTC upon listing. The applicant must provide the information required for the PDTC lodgment of the Preferred Shares. The Preferred Shares shall be lodged with the

PDTC on the Issue Date. The applicant may request to receive stock certificates through their nominated PDTC depository participant after the Issue Date. Any expense to be incurred for such issuance of certificates shall be borne by the applicant.

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| Status of the Shares in the Distribution of Assets in the Event of Dissolution | : | The Preferred Shares will constitute the direct and unsecured subordinated obligations of Ayala ranking at least *pari passu* in all respects and rateably without preference or priority among themselves with all other preferred shares issued by Ayala. |
| Selling and Transfer Restrictions | : | Initial placement of the Preferred Shares and subsequent transfers of interests in the Preferred Shares shall be subject to applicable selling restrictions and registration requirements for equity securities as may prevail in the Philippines from time to time. |
| Title and Transfer | : | Legal title to the Preferred Shares shall pass by endorsement and delivery to the transferee and registration in the Registry of Shareholders to be maintained by the Registrar. Settlement of the Preferred Shares in respect of such transfer or change of title to the Shares, including the settlement of documentary stamp taxes, if any, arising from subsequent transfers, shall be similar to the transfer of title and settlement procedures for listed securities in the PSE. |
| Governing Law | : | The Preferred Shares will be re-issued pursuant to, and the terms and conditions of the Preferred Shares will be governed by, the laws of the Republic of the Philippines. |
| Offer Period | : | The Offer Period shall commence at 9:00 a.m. on [May 8, 2023] and end at 12:00 noon on [May 12, 2023], or on such other dates as may be agreed upon between the Issuer and the Joint Lead Underwriters and Bookrunners. Ayala and the Joint Lead Underwriters and Bookrunners reserve the right to extend or terminate the Offer Period with the approval of the SEC and the PSE. |
| Minimum Subscription | : | Each Application shall be for a minimum of 20 Preferred Shares, and thereafter, in multiples of 5 Preferred Shares. No Application for multiples of any other number of Preferred Shares will be considered. |
| Eligible Investors | : | The Preferred Shares may be owned or subscribed to by any person, partnership, association or corporation regardless of nationality, provided that at any time, at least 60% of the outstanding capital stock of Ayala shall be owned by citizens of the Philippines or by partnerships, associations or corporations at least 60% of whose voting stock or voting power is owned and controlled by citizens of the Philippines. In addition, under certain circumstances Ayala may reject an Application or reduce the number of Preferred Shares applied for subscription or purchase.<br><br>Subscription to the Preferred Shares may be restricted by law or in certain jurisdictions. Foreign investors interested in subscribing to or purchasing the Preferred Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign |

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| | | exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Preferred Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Preferred Shares. |
| Application Procedure | : | Application Forms may be obtained from a Joint Lead Underwriter and Bookrunner or Selling Agent. All applications shall be evidenced by the Application Form, duly executed in each case by an authorized signatory of the applicant and accompanied by two completed signature cards, the corresponding payment for the Preferred Shares covered by the application and all other required documents including documents required for registry with the Registrar and Depository Agent. The duly executed Application Form and required documents should be submitted to the Joint Lead Underwriters and Bookrunners or Selling Agents on or prior to the set deadline for submission of Applications for the Joint Lead Underwriters and Bookrunners and Selling Agents, respectively. If the Applicant is a corporation, partnership, or trust account, the application must be accompanied by the required documents indicated on the Application Form.<br><br>The Company plans to make available 20% of the Base Preferred Shares or 1,200,000 Preferred Shares for distribution to the respective clients of the [125] Trading Participants of the PSE, acting as Selling Agents. The Preferred Shares allocated to the PSE Trading Participants will be distributed following the procedures indicated in the implementing guidelines for the Preferred Shares to be announced in the PSE Electronic Disclosure Generation Technology by the PSE. |
| Payment for the Shares | : | The Preferred Shares must be paid for in full upon submission of the Application. The purchase price must be paid in full in Pesos upon the submission of the duly completed and signed Application Form and specimen signature card together with the requisite attachments.<br><br>[Payment shall be in the form of either:<br><br>• For the Trading Participants, (i) a personal or corporate check drawn against an account with a BSP authorized bank having a clearing period of no more than one (1) Business Day; (ii) a manager's or cashier's check issued by a BSP authorized bank having a clearing period of no more than one (1) Business Day; or (iii) a direct deposit to the designated bank account to be indicated in a notice containing the final allocation of said Trading Participant ("***Allocation Notice***"). Proof of full payment must be submitted to the Receiving Agent, together with the Application to Purchase and required attachments. All checks should be made payable to "**[•]**", crossed "Payee's Account Only".<br><br>• For applicants submitting their Application to Purchase to any of the Joint Lead Underwriters and Bookrunners, in accordance with the instructions to be provided by such Joint Lead Underwriter and Bookrunner.] |
| Acceptance/Rejection of | : | The actual number of Preferred Shares that an Applicant will be |

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| Applications | | allowed to subscribe to is subject to the confirmation of the Joint Lead Underwriters and Bookrunners. Ayala reserves the right to accept or reject, in whole or in part, or to reduce any Application due to any grounds specified in the Issue Management and Underwriting Agreement entered into by Ayala, the Issue Manager and the Joint Lead Underwriters and Bookrunners.<br><br>Applications which were unpaid or where payments were insufficient and those that do not comply with the terms of the Offer shall be rejected. Moreover, any payment received pursuant to the Application does not ensure or indicate approval or acceptance by Ayala of the Application.<br><br>An Application, when accepted, shall constitute an agreement between the Applicant and Ayala for the subscription to the Preferred Shares at the time, in the manner and subject to terms and conditions set forth in the Application Form and those described in the Prospectus. Notwithstanding the acceptance of any Application by Ayala, the actual subscription by the Applicant for the Preferred Shares will become effective only upon listing of the Preferred Shares on the PSE and upon the obligations of the Joint Lead Underwriters and Bookrunners under the Issue Management and Underwriting Agreement becoming unconditional and not being suspended, terminated or cancelled, on or before the Issue Date, in accordance with the provision of the said agreements. If such conditions have not been fulfilled on or before the periods provided above, all Application payments will be returned to the Applicants without interest. |
| Refunds of Application Payments | : | In the event that the number of Preferred Shares to be allotted to an Applicant, as confirmed by a Joint Lead Underwriter and Bookrunner, is less than the number covered by its Application, or if an Application is wholly or partially rejected by Ayala, then Ayala shall refund, without interest, within five (5) Business Days from the end of the Offer Period, all, or a portion of the payment corresponding to the number of Preferred Shares wholly or partially rejected. All refunds shall be made through the Joint Lead Underwriter and Bookrunner, Receiving Agent, or Selling Agent with whom the Applicant has filed the Application. In case of joint Applicants, the check refund shall be made payable to the first named Applicant. |
| Registration of Foreign Investments | : | The BSP requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the domestic banking system. The registration with the BSP of all foreign investments in the Preferred Shares shall be the responsibility of the foreign investor. |
| Use of Proceeds | : | The net proceeds are intended to be used by the Company for refinancing certain Philippine Peso-denominated bonds and short term loans, partially funding its capital expenditures, and refinancing its callable preferred “B” shares due 2023. Please refer to the Use of Proceeds on Page 70 of this Prospectus. |
| Stock Transfer and Receiving Agent | : | Stock Transfer Service, Inc. |

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| Registrar | : | Stock Transfer Service, Inc. |
| Paying Agent | : | Stock Transfer Service, Inc. |
| Depository Agent | : | Philippine Depository & Trust Corporation |
| Issue Manager | : | BPI Capital Corporation (“**BPI Capital**”) |
| Joint Lead Underwriters and Bookrunners | : | BPI Capital<br>BDO Capital & Investment Corporation (“**BDO Capital**”)<br>China Bank Capital Corporation ("**China Bank Capital**")<br>RCBC Capital Corporation (“**RCBC Capital**”)<br>SB Capital Investment Corporation (“**SB Capital**”) |
| Schedule of the Offer | : | The Offer is scheduled as follows: |

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| SEC en banc meeting | [April 25, 2023] |
| PSE Board Approval | [May 3, 2023] |
| Initial Dividend Rate Setting Date | [May 3, 2023] |
| Offer Period | [May 8 to 12, 2023] |
| Submission of Firm Order from Trading Participants to the Receiving Agent | [11:00 a.m. on May 10, 2023] |
| Issue Date | [•] |

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| Issue Date | : | The Preferred Shares are expected to be re-issued and recorded in the name of accepted applicants and listed on the PSE on [•], or on such other date as may be agreed upon between the Issuer and the Joint Lead Underwriters and Bookrunners. Trading of the Preferred Shares will commence on the same date. |

# DESCRIPTION OF THE SECURITIES

*The following are general information relating to the Company's capital stock and does not purport to be a complete listing of all the features, rights, obligations, or privileges of the Preferred Shares, and is qualified in its entirety by reference to applicable provisions of the Company's amended Articles of Incorporation and amended By-laws, as well as the Receiving, Paying Agency and Registry Agreement. Some rights, obligations, or privileges may be further limited or restricted by other documents.*

## AYALA'S SHARE CAPITAL

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in the articles of incorporation and the by-laws of the corporation.

The Board approved on March 9, 2023 the re-issuance of up to 10,000,000 million preferred "A" shares with a par value of ₱100.00 per share and the delegation of the authority to the Chief Finance Officer and Treasurer of the Company to negotiate and finalize the terms and conditions of the Offer. Pursuant to the authority delegated by the Board to the Chief Finance Officer and Treasurer of the Company, the Offer Price per Preferred Share was set at ₱2,500.00 per Preferred Share.

Following the Offer, the Company will have (a) 619,148,362 of 900,000,000 authorized common shares, (b) up to 10,000,000 of 12,000,000 authorized preferred "A" shares, (c) 50,000,000 of 58,000,000 authorized preferred "B" shares, and (d) 0 of 40,000,000 of authorized preferred "C" shares, and (e) 200,000,000 of 200,000,000 authorized voting preferred shares, issued and outstanding. The holders of the Preferred Shares do not have identical rights and privileges with holders of existing common shares of the Company.

As of February 1, 2023, the Company had an authorized capital stock consisting of (a) 900,000,000 common shares with a par value of ₱50.00 per share, of which 619,148,362 were issued and outstanding; (b) 12,000,000 preferred "A" shares with a par value of ₱100.00 per share, of which none were outstanding, (c) 58,000,000 preferred "B" shares with a par value of ₱100.00 per share, of which 50,000,000 are issued and outstanding, (d) 40,000,000 preferred "C" shares with a par value of ₱100.00 per share, of which none were outstanding, and (e) 200,000,000 voting preferred shares with a par value of ₱1.00 per share, all of which are issued and outstanding. The Company has (a) 15,244,852 common shares; (b) 12,000,000 preferred "A" shares; and (c) 8,000,000 preferred "B" shares, held in Treasury.

After the Offer, assuming the Oversubscription Option is exercised in full, the Company will have the following issued and outstanding shares: (a) 619,148,362 of 900,000,000 authorized common shares, (b) up to 10,000,000 of 12,000,000 authorized preferred "A" shares, (c) 50,000,000 of 58,000,000 authorized preferred "B" shares, (d) 0 of 40,000,000 authorized preferred "C" shares, and (e) 200,000,000 of 200,000,000 authorized Voting preferred shares. The Company will have (a) 15,244,852 common shares; (b) 2,000,000 preferred "A" shares; and (c) 8,000,000 preferred "B" shares, held in Treasury.

## THE PREFERRED SHARES

### General Features

Under the amended Articles of Incorporation, preferred "A" shares have the following features, rights and privileges:

1. The issue value of preferred "A" shares will be determined by the Board at the time of issuance;
2. The dividend yield of preferred "A" shares will be determined by the Board at the time of issuance;
3. Cumulative in payment of current dividends as well as any unpaid back dividends;
4. Non-convertible into common shares;

5. Preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation of the Company and in the payment of the dividend at the rate specified at the time of issuance;
6. Non-participating in any other or further dividends beyond the dividends specifically payable on preferred “A” shares;
7. Non-voting except in those cases specifically provided by law;
8. No pre-emptive rights to any issue of the Company’s shares, whether common or preferred;
9. Redeemable at the option of the Company under such terms as the Board may approve at the time of the issuance of preferred “A” shares; and
10. Re-issuable when fully redeemed.

The holders of the Preferred Shares do not have identical rights and privileges with holders of the existing common shares of the Company.

**Features Specific or Particular to the Preferred Shares**

Following are certain features specific or particular to the Preferred Shares.

*In General: No Voting Rights*

Under the amended Articles of Incorporation, the holders of the Preferred Shares shall have no voting rights except as specifically provided by law. Thus, holders of the Preferred Shares shall not be eligible, for example, to vote for or elect the Company’s Directors or to vote for or against the issuance of a stock dividend.

Holders of Preferred Shares, however, may vote on matters which the Revised Corporation Code considers significant corporate acts that may be implemented only with the approval of shareholders, including those holding shares denominated as non-voting in the articles of incorporation. These acts, which require the approval of shareholders representing at least two-thirds (2/3) of the issued and outstanding capital stock of the Company in a meeting duly called for the purpose, are as follows:

1. Amendment of the Articles (including any increase or decrease in capital stock);
2. Amendment of the Company’s By-laws;
3. Sale, lease, exchange, mortgage, pledge or other disposition of all or a substantial part of the Company’s assets;
4. Incurring, creating or increasing bonded indebtedness;
5. Increase or decrease of capital stock;
6. Merger or consolidation of the Company with another corporation or corporations;
7. Investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the Company was organized; and
8. Dissolution of the Company.

*Dividend Policy in Respect of the Preferred Shares*

The declaration and payment of dividends on each Dividend Payment Date will be subject to the sole and absolute discretion of the Board to the extent permitted by law.

As and if declared by the Board, dividends on the Preferred Shares shall be at a fixed rate of [•]% per annum calculated in respect of each Preferred Share by reference to the Offer Price thereof or the Initial Dividend Rate.

Unless the Preferred Shares are redeemed by the Company on the relevant Dividend Rate Re-Setting Date, the Dividend Rate for all following Dividend Periods shall be the higher of (a) the prevailing Dividend Rate on such Dividend Rate Re-Setting Date or (b) the sum of (i) the relevant Step-Up Benchmark Reference Rate applicable for such Dividend Rate Re-Setting Date, and (ii) the Step-Up Spread.

As and if declared by the Board, the dividends on the Preferred Shares will be calculated on a 30/360-day basis and will be paid quarterly in arrear on a Dividend Payment Date, which is the last day of each three-month Dividend Period. Subject to limitations described in this Prospectus, dividends on the Preferred Shares will be payable on [•], [•], [•], and [•] of each year (each, a "**Dividend Payment Date**").

If the Dividend Payment Date is not a Business Day, Dividends will be paid on the next succeeding Business Day, without adjustment as to the amount of dividends to be paid.

The Board will not declare and pay dividends on any Dividend Payment Date where (a) payment of the Dividend would cause the Issuer to breach any of its financial covenants or (b) the profits available to the Issuer to distribute as dividends are not sufficient to enable the Issuer to pay in full both the dividends on the Preferred Shares and the dividends on all other classes of the Issuer's shares that are scheduled to be paid on or before the same date as the Dividends on the Preferred Shares and that have an equal right to dividends as the Preferred Shares.

If the profits available to distribute as dividends are, in the Board's opinion, not sufficient to enable the Issuer to pay in full on the same date both dividends on the Preferred Shares and the dividends on other shares that have an equal right to dividends as the Preferred Shares, the Issuer is required first, to pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that dividend payment date on any shares with a right to dividends ranking in priority to that of the Preferred Shares; and second, to pay dividends on the Preferred Shares and any other shares ranking equally with the Preferred Shares as to participation in profits pro rata to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include the amount of any dividend payable on that date and any arrear on past cumulative dividends on any shares ranking equal in the right to dividends with the Preferred Shares.

The profits available for distribution are, in general and with some adjustments, equal to the Issuer's accumulated, realized profits less accumulated, realized loss. In general, under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings. Unrestricted retained earnings represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual or legal purposes and which are free for distribution to the shareholders as dividends.

Dividends on the Preferred Shares will be cumulative. If for any reason the Issuer's Board does not declare a dividend on the Shares for a dividend period, the Issuer will not pay a dividend on the Dividend Payment Date for that dividend period. However, on any future Dividend Payment Date on which dividends are declared, holders of the Shares must receive the Dividends due them on such Dividend Payment Date as well as all Dividends accrued and unpaid to the holders of the Preferred Shares prior to such Dividend Payment Date.

Holders of Preferred Shares shall not be entitled to participate in any other or further dividends beyond the dividends specifically payable on the Preferred Shares.

*Redemption of the Preferred Shares*

As and if declared by the Board, the Issuer may redeem the Preferred Shares on any Dividend Rate Re-Setting Date or on any Dividend Payment Date (the "**Optional Redemption Date**") thereafter in whole (but not in part only), at the Redemption Payment. The Redemption Payment shall be made to holders of the Shares as of the record date set by Ayala for such redemption. The Issuer has not established, and currently has no plans to establish, a sinking fund for the redemption of the Preferred Shares.

The Issuer may purchase the Preferred Shares at any time in the open market or by public tender or by private contract at any price through the PSE. The Preferred Shares so purchased may either be redeemed and cancelled (after the Redemption Date) or kept as treasury shares.

The Issuer shall give not less than 30 or more than 60 days' prior written notice of its intention to redeem the Preferred Shares, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Preferred Shares at the Redemption Date stated in such notice.

In the event an Optional Redemption Date which the Issuer has chosen as the date to redeem the Preferred Shares falls on a day that is not a Business Day, the redemption shall be made on the next succeeding day that is a Business Day, without adjustment as to the Redemption Payment and the amount of dividends to be paid.

*Early Redemption Due to Taxation*

If payments become subject to additional withholding or any new tax as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Preferred Shares in whole, but not in part, on any Dividend Payment Date (having given not more than 60 nor less than 30 days' notice by publication in two national newspapers) at the Issue Price plus all accrued and unpaid dividends, if any.

Documentary stamp tax for the re-issuance of the Preferred Shares and the documentation, if any, shall be for the Issuer's account.

*Early Redemption Due to an Accounting Event*

If an Accounting Event occurs that will result in a change in accounting treatment of the Shares, the Issuer may redeem the Shares in whole, but not in part, on any Dividend Payment Date (having given not more than 60 nor less than 30 days' prior notice) at the Offer Price plus all accrued and unpaid dividends, if any.

An Accounting Event shall occur if in the opinion of Ayala with due consultation with its independent auditors, at the relevant time there is a change in applicable accounting standards that result in more than an insubstantial risk that either Shares or the funds raised through the issuance of the Shares may no longer be recorded as "**equity**" to the full extent as at the Issue Date pursuant to PFRS, or such other accounting standards, which succeed PFRS, as adopted in the Philippines, applied by the Issuer for drawing up its financial statements for the relevant financial year.

*Liquidation Rights in Respect of the Preferred Shares*

The Preferred Shares will constitute direct and unsecured subordinated obligations of the Issuer ranking at least *pari passu* in all respects and rateably without preference or priority among themselves with all other preferred shares issued by the Issuer.

In the event of a return of capital in respect of the Issuer's winding up or otherwise (whether voluntarily or involuntarily) (but not on a redemption or purchase by the Issuer of any of its share capital), the holders of the Preferred Shares at the time outstanding will be entitled to receive, in Pesos out of the Issuer's assets available for distribution to shareholders, together with the holders of any other of the Issuer's shares ranking, as regards repayment of capital, *pari passu* with the Preferred Shares and before any distribution of assets is made to holders of any class of the Issuer's shares ranking after the Preferred Shares as regards repayment of capital, liquidating distributions in an amount of ₱[●] per Preferred Share plus an amount equal to any dividends declared but unpaid in respect of the previous dividend period and any accrued and unpaid dividends for the then current dividend period to (and including) the date of commencement of the Issuer's winding up or the date of any such other return of capital, as the case may be. If, upon any return of capital in the Issuer's winding up, the amount payable with respect to the Preferred Shares and any other of the Issuer's shares ranking as to any such distribution *pari passu* with the Preferred Shares are not paid in full, the holders of the Preferred Shares and of such other shares will share rateably in any such distribution of the Issuer's assets in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Preferred Shares will have no right or claim to any of the Issuer's remaining assets and will not be entitled to any further participation or return of capital in a winding up.

*Payments vis-à-vis Preferred Shares*

All payments in respect of the Preferred Shares 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, stamp, issue, registration, documentary, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the Issuer will pay additional amounts so that holders of the Preferred Shares will receive the full amount of the relevant payment which otherwise would have been due and payable. Provided, however, that the Issuer shall not be liable for: (a) the final withholding tax applicable on dividends earned on the Preferred Shares prescribed under the Tax Code, (b) expanded value added tax which may be payable by any holder of the Preferred Shares on any amount to be received from the Issuer under the Preferred Shares and (c) any withholding tax on any amount payable to any holder of the Share or any entity which is a non-resident foreign corporation.

Documentary stamp tax for the re-issuance of the Shares and the documentation, if any, shall be for the account of the Issuer.

The standard taxes applicable to the subsequent sale of the Preferred Shares by any holder of the Preferred Shares shall be for the account of the said holder.

*No Pre-emptive Rights*

The Articles currently deny pre-emptive rights to holders of Preferred Shares over all issuances of the Company's common, preferred "A" shares, preferred "B" shares and preferred "C" shares. However, shareholders representing at least two-thirds (2/3) of the Company's issued and outstanding capital stock voting at a shareholders' meeting duly called for the purpose may amend the Articles to grant pre-emptive rights to subscribe to a particular issue or other disposition of shares from Ayala's capital.

*Transfer of Shares and Share Register*

The Preferred Shares will be re-issued in scripless form.

Legal title to the Preferred Shares will be shown in the Register of Shareholders which shall be maintained by the Registrar. The Registrar shall send (at the cost of the Issuer) at least once every quarter a Statement of Account to all Shareholders named in the Register of Shareholders confirming the number of Shares held by each Shareholder on record in the Register of Shareholders. Such Statement of Account shall serve as evidence of ownership of the relevant Shareholder as of a given date thereof. Any request by Shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Shareholder.

Initial placement of the Preferred Shares and subsequent transfers of interests in the Preferred Shares shall be subject to normal Philippine selling restrictions for listed securities as may prevail from time to time.

After the Issue Date, Shareholders of the Preferred Shares may apply with PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a Shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC shall implement its procedure of upliftment under which PCD Nominee and will transfer back to the Shareholder the legal title to the shares lodged. The Shareholder who requested for the upliftment shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The Stock Transfer Agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the Shareholder who requested the upliftment.

Upon the issuance of stock certificates for the Preferred Shares in the name of the Shareholder applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the Shareholder who requested the upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of Shareholder whose Preferred Shares are the subject of an upliftment shall have been issued by the Stock Transfer Agent.

Philippine law does not require transfers of the Preferred Shares to be effected on the PSE, but any off-exchange transfers will subject the transferor to a capital gains tax and documentary stamp tax that may be significantly greater than the stock transfer tax applicable to transfers effected on an exchange. See "**Philippine Taxation**". All transfers of shares on the PSE must be effected through a licensed stock broker in the Philippines.

*Not Convertible into Common Shares*

The Preferred Shares shall not be convertible into Ayala's common shares.

**Other Rights and Incidents Relating to the Preferred Shares**

Following are other rights and incidents relating to the Preferred Shares, which may also apply to other classes of Ayala's stock.

*Restrictions on Foreign Ownership of Ayala's Shares by Non-Philippine Nationals*

Under Philippine law, no more than 40% of the capital of corporations holding land may be owned by non-Philippine nationals. Ayala currently owns certain parcels of land. Accordingly, the Preferred Shares and Ayala's other 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 Company's outstanding capital stock shall be owned by citizens of the Philippines or by partnerships, associations or corporations 60% of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

*Directors*

Unless otherwise provided by law or the Company's Amended Articles of Incorporation, the Company's corporate powers are exercised, its business is conducted, and its property is controlled by the Board. Ayala has seven Directors who are elected by holders of shares entitled to voting rights under the Company's Amended Articles of Incorporation during each annual meeting of the shareholders for a term of one year. As mentioned, holders of Preferred Shares are not entitled to vote for and elect the Company's Directors.

Ayala's Amended By-laws currently disqualify or deem ineligible for nomination or election to the Board any person who is engaged in any business which competes with or is antagonistic to that of the Company. Without limiting the generality of the foregoing, a person shall be deemed so engaged:

a) If he is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of, any corporation (other than one in which the Company owns at least 30% of the capital stock) engaged in a business which the Board, by at least three-fourths vote, determines to be competitive or antagonistic to that of the Company;
b) If he is an officer, manager, controlling person of, or the owner (either of record or beneficially of 10% or more of any outstanding class of shares of any other corporation or entity engaged in any line of business of the Company, when in the judgment of the Board, by at least three-fourths vote, the laws against combinations in restraint of trade shall be violated by such person's membership in the Board); and
c) If the Board, in the exercise of its judgment in good faith, determines by at least three-fourths vote that he is the nominee of any person set forth in (a) or (b).

In determining whether or not a person is a controlling person, beneficial owner, or the nominee of another, the Board may take into account such factors as business and family relations.

The Company conforms to the requirement to have at least one independent director or such number of independent directors as may be required by law. As of the date of this Prospectus, the Company's independent directors are Rizalina G. Mantaring, Chua Sock Koong and Cesar V. Purisima.

Directors may only act collectively; individual Directors have no power as such. Two-thirds (2/3) of the number of Directors as fixed in the Amended Articles of Incorporation constitute a quorum for the

transaction of corporate business, except for the election of officers, which shall require the presence of all directors. Every decision of a majority of the quorum duly assembled as a board is valid as a corporate act. Any vacancy created by the death or resignation of a Director prior to expiration of his term may be filled by the remaining members of the Board, if still constituting a quorum. Any Director elected in this manner by the Board shall serve only for the unexpired term of the Director whom he replaces. Any such vacancy may also be filled by the shareholders entitled to vote, by ballot, at any meeting or adjourned meeting held during such vacancy, provided that the notice of the meeting mentions such vacancy or expected vacancy.

*Appraisal Rights*

Philippine law recognizes the right of a shareholder to institute, under certain circumstances, proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights, as for example, where the directors themselves are the malefactors.

In addition, the Revised Corporation Code grants a shareholder a right of appraisal in certain circumstances where he has dissented and voted against a proposed corporate action, including:

a) an amendment of the articles of incorporation which has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or of extending or shortening the term of corporate existence;
b) the sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all the assets of the corporation;
c) the investment of corporate funds in another corporation or business or for any purpose other than the primary purpose for which the corporation was organized; and
d) a merger or consolidation.

In these circumstances, the dissenting shareholder may require the corporation to purchase his shares at a fair value which, in default of agreement, is determined by three disinterested persons, one of whom shall be named by the stockholder, one by the corporation, and the third by the two thus chosen. The SEC will, in the event of a dispute, determine any question about whether a dissenting shareholder is entitled to this right of appraisal. The dissenting stockholder will be paid if the corporate action in question is implemented and the corporation has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting shareholders.

*Shareholders' Meeting*

At the annual meeting or at any special meeting of the Company's shareholders, the latter may be asked to approve actions requiring shareholder approval under Philippine law.

*Quorum*

The Revised Corporation Code provides that, except in instances where the assent of shareholders representing two-thirds (2/3) of the outstanding capital stock is required to approve a corporate act (usually involving the significant corporate acts where even non-voting shares may vote, as identified above) or where the by-laws provide otherwise, a quorum for a meeting of shareholders will exist if shareholders representing a majority of the capital stock are present in person or by proxy.

*Voting*

At each shareholders' meeting, each shareholder shall be entitled to vote in person, or by proxy, all shares held by him which have voting power, upon any matter duly raised in such meeting.

The Company's Amended By-laws provide that proxies shall be in writing and signed and in accordance with the existing laws, rules and regulations of the SEC. Duly accomplished proxies must be submitted to the office of the Corporate Secretary not later than seven business days prior to the date of the stockholders' meeting. Validation of proxies shall be conducted by the Proxy Validation Committee at least five business days prior to the date of the stockholders' meeting.

*Fixing Record Dates*

The Board has the authority to fix in advance the record date for shareholders entitled: (a) to notice of, to vote at any shareholders' meeting; (b) to receive payment of dividends or other distributions or allotment of any rights; or (c) to exercise any rights in respect of any change, conversion or exchange of stock, or (d) for any lawful action or for making any other proper determination of shareholders' rights, provided that the stock and transfer book will be closed at least 20 days for regular meetings and seven days for special meetings, before the scheduled date of the meeting.

*Issues of Shares*

Subject to applicable limitations, the Company may issue additional shares to any person for consideration deemed fair by the Board, provided that such consideration shall not be less than the par value of the issued shares.

*Mandatory Tender Offers*

Under the Securities Regulation Code and its implementing rules, subject to certain exceptions:

a) Any person or group of persons acting in concert, who intends to acquire 35% or more of equity shares in a public company shall disclose such intention and contemporaneously make a tender offer for the percent sought to all holders of such class. In the event that the tender offer is oversubscribed, the aggregate amount of securities to be acquired at the close of such tender offer shall be proportionately distributed across both selling shareholder with whom the acquirer may have been in private negotiations and minority shareholders.

b) Any person or group of persons acting in concert, who intends to acquire 35% or more of equity shares in a public company in one or more transactions within a period of 12 months, shall be required to make a tender offer to all holders of such class for the number of shares so acquired within the said period.

c) If any acquisition of even less than 35% would result in ownership of over 51% of the total outstanding equity securities of a public company, the acquirer shall be required to make a tender offer for all the outstanding equity securities to all remaining stockholders of the said company at a price supported by a fairness opinion provided by an independent financial advisor or equivalent third party.

The acquirer in such a tender offer shall be required to accept any and all securities thus tendered.

*Accounting and Auditing Requirements / Rights of Inspection*

Philippine stock corporations are required to file copies of their annual financial statements with the SEC and the BIR. Corporations whose shares are listed on the PSE are also required to file quarterly and annual reports with the SEC and the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a balance sheet as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board is required to present to shareholders at every annual meeting a financial report of the operations of the corporation for the preceding year. This report is required to include audited financial statements.

*Notice to the Preferred Shareholders*

Notices to the Preferred Shareholders shall be sent to their mailing address or electronic address, as appearing in the Registry of Shareholders, by the Registrar when required to be made through registered mail, surface mail, electronic mail, or personal delivery. Except where a specific mode or notification is provided for herein, notices to Shareholders shall be sufficient when made in writing and

transmitted in any one of the following modes: (a) registered mail; (b) electronic mail; (c) surface mail; (d) by one-time publication in a newspaper of general circulation in the Philippines; (e) personal delivery or electronic mail to the mailing address or electronic address, respectively, on record in the Registry of Shareholders; or (f) disclosure through the Online Disclosure System of the PDEx or the PSE.

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 Ayala to the SEC, the PDEx or the PSE on a matter relating to the Preferred Shares shall be deemed a notice to the Shareholders of said matter on the date of the first publication.

# 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. There may be a considerable difference between the buying price and the selling price of these securities.*
- *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 and the PSE, which are available to the public.*

## PROFESSIONAL ADVICE

*An investor should seek professional advice if it/she/he 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 Preferred Shares described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Preferred Shares 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 Preferred Shares. 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 and the Prospectus including the risk factors described below, before deciding to invest in the Preferred Shares. 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 Policies and Regulations Management 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 the Company's Subsidiaries', Associates' or Joint Ventures' ability to distribute dividends would have a negative effect on the Company's financial condition and results of operations and its ability to fulfil its obligations under the Preferred Shares.***

The Company is a holding company that conducts its operations through its Subsidiaries, Associates and Joint Ventures. As a holding company, the Company's income is derived primarily from dividends paid to the Company by its Subsidiaries, Associates and Joint Ventures. For the year ended December 31, 2020, 2021, and 2022 the Company recognized ₱11.1 billion, ₱15.3 billion and ₱26.3 billion in dividends, respectively.

The Company is reliant on these sources of funds with respect to its obligations and in order to finance its Subsidiaries. The ability of the Company's direct and indirect Subsidiaries, Associates and Joint Ventures to pay dividends to the Company (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 the Company's Subsidiaries, Associates and/or Joint Ventures to distribute dividends or make other distributions to the Company, either due to regulatory restrictions, debt covenants, operating or financial difficulties or other limitations, could have a negative effect on the Company's cash flow and therefore, its financial condition. Furthermore, such restrictions could likewise impact the Company's ability to fulfill its obligations under the Preferred Shares.

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

To ensure that Company 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 Company'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 loans to value and cash flow adequacy ratios at the end of December 2022 were 11.1% and 1.31x, 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 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 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, 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, telecommunications, and energy 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.

***The Company is controlled by the Controlling Shareholder, whose interests may not be the same as those of other shareholders.***

Mermac, Inc. ("**Mermac**") the principal and Controlling Shareholder of the Company, is a private holding company incorporated in the Philippines. It held 47.91% of the outstanding Common Shares, and 86.39% of the outstanding voting preferred shares (the "**Voting Preferred Shares**"), or 57.30% of the total voting shares of the Company, as of December 31, 2022. Mermac is able to elect members of the Board and pass shareholder resolutions (not including special resolutions, which require a two-thirds (2/3) majority), which under the By-laws generally require a majority vote by its shareholders. If the interests of the Controlling Shareholder conflict with the interests of other shareholders of the Company, there can be no assurance that the Controlling Shareholder would not cause the Company to take action in a manner which might differ from the interests of other shareholders.

The Board is responsible for strategic decisions that affect the business practices or general direction of the Corporation.The Board is responsible for promoting and adhering to the principles and best practices of corporate governance, for fostering the long-term success of the Corporation, for overseeing the proper monitoring and management of climate-related risks and opportunities and other sustainability-related concerns and for securing its sustained competitiveness in the global environment in a manner consistent with its fiduciary responsibility. 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 Analysis team complements these activities with regular deep-dive analysis of portfolio and business unit performance. The Senior Management Team is also expected to strengthen relationships and establish networks with potential partners and advisers.

***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 31 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.

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).

***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 associates 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.***

Ayala relies on certain key individuals in senior management for leadership. The experience, knowledge, business relationships and expertise that would be lost should these 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.

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

Republic Act ("**R.A.**") 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. Based on public information as of September 30, 2022, Globe's share of industry service revenues was 40.8%.

In the past, members of the Group have been subject to regulatory scrutiny in respect of certain actions. In particular, the Philippine Competition Commission ("**PCC**") has claimed that the acquisition of VTI by, among others, Globe cannot be claimed to be deemed approved. Following a Decision dated October 18, 2017 by the Court of Appeals ("**CA**") to permanently enjoin and prohibit the PCC from reviewing the acquisition and compelling the PCC to recognize the same as deemed approved, the PCC elevated the case to the Supreme Court via Petition for Review on Certiorari and the case remains pending. *See* **"Legal Proceedings – Acquisition by Globe and PLDT of the Entire Issued and Outstanding Shares of VTI**" *on page 299 of the Prospectus*. 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 the Company'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 the Company, may have a material adverse effect on its business and strategies.

In addition, the PCA authorizes the PCC to review mergers and acquisitions to ensure compliance with the PCA. The PCA, its Implementing Rules and Regulations ("**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 thirty (30) days of signing any definitive agreement relating to the transaction, where the value of such transaction exceeds ₱2.9 billion, where the size of the ultimate parent entity of either party exceeds ₱7 billion and other prescribed thresholds are met. 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 to a fine equivalent to five percent (5.00%)

of one percent (1.00%) of the value of the transaction for the first thirty (30) days of delay or fraction thereof. The fine shall be increased by 1% of 1% of the value of the transaction for every additional 30 days of delay or fraction thereof, provided that the total amount of fine to be imposed shall not exceed ₱2.2 million. Criminal penalties for entities that enter into anti-competitive agreements, as defined, include: (a) a fine of not less than ₱110 million but not more than ₱275 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 ₱110 million to ₱275 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 the Group's transactions, mergers or acquisitions undertaken by the Group would likely meet the notification threshold under the PCA and its IRR.

***The Group's international businesses and results of operations are subject to the macroeconomic, social and political developments and conditions of the countries where its projects and investments are located.***

In addition to the Philippines, the Group's portfolio of projects and investments are located in other jurisdictions around the world. Existing operations and future plans for 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. While the Company endeavors to carefully consider the prevailing macroeconomic, social and political conditions in each of the jurisdictions in which it does business, nevertheless it cannot provide assurance of adequate mitigation to such systemic risks. As a result, there is no guarantee that the Group's operations, investments and expansion plans will be successful in those countries. The Group's financial condition, prospects and results of operations could be adversely affected if it is not successful internationally or if these international markets are affected by changes in political, economic and other factors, over which the Group has no control.

***The Company's subsidiaries and associates are subject to specific industry risks.***

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

a) High level of competition;

b) Slowdown in business activity due to global financial and local political, socio-economic turmoil, and security concerns;

c) Lack of skilled and properly trained workforce to deploy to its various business operations;

d) Risks associated with information and technology infrastructure;

e) Risks associated with market disruptors and changes or shifts in technology and market preferences;

f) Non-compliance to, or breach of, regulatory limits imposed on some of its highly regulated businesses;

g) Changes in tax policies, government regulations, laws, or the interpretation thereof, and sudden shifts in government policies and initiatives that could adversely affect Ayala's businesses;

h) Loss of key personnel or the inability to attract and retain them;

i) Litigation risks both on business dealings with the private and public sectors, which could result in financial losses or harm its businesses;

j) Natural catastrophes;

k) Shortages in raw materials, or the increase in the prices thereof, that can limit the production and operations of some of its subsidiaries and associates; 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 95 of this Prospectus.

***The implementation and effects of current and any future changes in accounting standards may affect the financial reporting of the Group and its members.***

The Philippine Financial Reporting Standards Council, or other regulatory bodies, periodically introduce modifications to financial accounting and reporting standards under which the Group and its members prepare their financial statements. Although the Group closely monitors its compliance with the relevant financial accounting and reporting standards, it cannot anticipate the significance of the impact that the implementation of new accounting standards in the Philippines may have on the Group's and its individual members' financial statements in the future.

***The Group's business operations are subject to Environmental, Social, and Governance ("ESG") risks.***

Over the past years, various stakeholders have begun requiring companies to report on ESG risks as a means of determining the companies' sustainable practices. Investors and creditors in particular are looking into how companies address ESG risks as part of their investment decisions. Customers are increasingly becoming aware of issues concerning ESG, and have been seen to not support companies that do not incorporate sustainable practices into their businesses. Governments and regulators around the world, including here in the Philippines, have also begun setting up regulations that will require companies to report on ESG risks as part of ensuring good corporate governance practices. ESG risks include, but not limited to:

- Environmental Risks – risks concerning responsible use of natural resources, responsible handling and disposal of waste and other pollutants, reduction of greenhouse gas emission and resource consumption footprint, evaluating vulnerability to climate change and biodiversity loss, adopting green technologies and other opportunities.
- Social Risks – risks concerning employee health, safety, and welfare, diversity and inclusion, adherence to labor standards, transparency and accountability over products and services, upholding privacy and data security, and delivering positive impact to the communities served.
- Governance Risks – risks concerning responsible business operations (including supply chain), commitment to good corporate governance practices, transparency and accountability at the top management level, transparent and responsible reporting of financial and tax information, compliance with prevailing laws and regulations, stand against corruption and unethical business practices.

Aside from these, various stakeholders are conscious of the manner by which companies address climate-related physical and transition risks. As the regulatory landscape is slowly shifting its support towards environment-friendly and low GHG emission practices, the Group is monitoring climate change as an emerging risk that could have a major impact in its businesses in the future. Further, the shift in consumer preferences to organic and waste-free products and services is also starting to shape the market in selected industries. If left unaddressed, these may cause significant difficulty in maximizing the Group's value for stakeholders and may adversely impact the Group's brand and reputation.

While certain listed companies in the Group, together with ACEN, have committed to Net Zero emissions by 2050, the Group will continue to identify and assess risks associated with climate change, as well as uncover opportunities and improve disclosures to provide clear and reliable information to stakeholders.

***Failure to manage risks associated with information and technology systems ("IT"), cyber threats or other breaches of network or IT security could adversely affect the business of the Group.***

The Group is subject to risks relating to its information and technology systems and processes, as the hardware and software used by the Group in their respective IT systems are 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.

Although the incidents above did not result in material loss or expense to the Group, there can be no assurance that future similar incidents will not result in material adverse losses or expenses to the Group. 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 the Group. These may, in turn, adversely affect the Group's business, financial condition and results of operations.

Further, work-from-home arrangements necessitated by the quarantine measures imposed in response to the COVID pandemic heightened the cybersecurity risk faced by the Group. New technologies and systems being installed in the name of advanced capabilities and processing efficiencies may introduce new risks which could outpace the Group's ability to properly identify, assess and address such risks. Furthermore, new business models that rely heavily on global digitization, use of cloud, big data, mobile and social media may expose the Group to even more cyber-attacks.

The Group seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by the increased use of the internet. Certain Group companies employ security systems, including firewalls and password encryption, designed to minimize the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. Nevertheless, 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 the Group's business, reputation, financial condition and results of operations.

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

The Group has experienced a recent increase in the attrition rate of its employees as workers have been leaving their jobs in a job market trend that has been enhanced by COVID-19's unprecedented disruption and uncertainty. Employees in search of better work-life balance have resulted in job vacancies widely reported as the "**General Resignation**" or the "**Great Reshuffle**." The Company believes that health and wellness issues brought about by the pandemic have been significant factors. 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, 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.

***Negative publicity associated with the "Ayala" brand could negatively impact the Group.***

The Group is exposed to reputational risks which may result from its actions or that of its competitors; indirectly due to the actions of an employee, through actions of outsourced partners, suppliers, or joint venture partners. Damage to the Group'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 against the Group'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 by the Group to identify and address existing gaps, thus minimizing exposure to reputational risks arising from problem areas. Further, the Group closely monitors online sentiment to quickly detect issues being surfaced in social media and to be able to manage them early on.

**RISKS RELATING TO THE PHILIPPINES**

***The continuing impacts of the COVID-19 pandemic remain 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 Group'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. There is no assurance that various areas in the Philippines will not be put under more stringent community quarantine in the future. Due to numerous uncertainties and factors beyond its control, the Group 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 Group operates;
- the emergence of more virulent or contagious variants of the virus;
- the appointment of a secretary of the department of health and other key government officials;
- 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 Group's personnel and the Group's ability to maintain staffing needs to effectively operate its businesses;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates and recessionary pressures;
- 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 Group's supply chain, including manufacturers or suppliers of products and logistics or transportation providers, and on the Group'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 Group's actions in response thereto;
- the pace of recovery when the pandemic subsides; and
- the long-term impact of the pandemic on the Group's businesses.

The above factors and uncertainties, or others of which the Group is not currently aware, may result in adverse impacts to the Group'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 Group's businesses and results of operations. While the Philippines was subjected to Enhanced Community Quarantine ("**ECQ**") at the onset of the pandemic, the community quarantine measures eventually eased up throughout 2020. Metro Manila shifted to General Community Quarantine ("**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 COVID-19 cases, Metro Manila and the provinces of Bulacan, Cavite, Laguna and Rizal were 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 COVID-19 cases. The restrictions limit travel in and out of covered areas, prohibit in-door dining, and impose curfews. From August 6, 2021 to August 20, 2021, Metro Manila as well as other parts of the nation have reverted to ECQ to arrest the spread of the highly transmissible COVID-19 Delta variant. Metro Manila was subsequently placed under MECQ from August 21, 2021 to September 15, 2021.

Starting September 16, 2021, the Philippine government reduced the community quarantine to either ECQ or GCQ with the latter having an alert-level system (Alert Level 1 to 4) with each alert level limiting restrictions only to identified high-risk activities. On September 16, 2021, Metro Manila was placed under GCQ with Alert Level 4. Effective October 16, 2021 to November 4, 2021, Metro Manila was placed under GCQ with Alert Level 3. With the slowdown of COVID-19 cases and to further ease the allowed activities and movement, the Philippine government reduced Metro Manila's Alert Level to 2 from November 5, 2021 to January 2, 2022. With the increasing number of COVID-19 case due to the omicron variant, Metro Manila was placed under Alert Level 3 effective January 3, 2022 to January 31, 2022. For the entire month of February 2022, Metro Manila was on Alert Level 2.

On February 27, 2022, with the declining number of COVID-19 cases in the country, the Philippine government announced that it will ease restrictions in most areas, placing NCR and thirty-eight other areas under Alert Level 1 from March 1 to 15, 2022, subject to the imposition of granular lockdowns and without prejudice to minimum public health standards and health and safety protocols issued by national government agencies for specific sectors. Alert Level 1 was further extended over NCR until April 15, 2022.

As of the date of this Prospectus, President Marcos has not appointed a Department of Health Secretary. NCR remains under Alert Level 1 while other areas in the Philippines has been declared by as under Alert Level 2. Given the uncertainty of a resurgence of COVID-19 in the Philippines and the inadequate preparation against a possible mutation of COVID-19, the Group's performance and business and financial results may be adversely affected.

***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:

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. The Philippines enjoys investment grade credit ratings from the following major agencies:

- Fitch Ratings - BBB (negative), which was affirmed last October 2022
- Standard & Poor's - BBB (positive) which was affirmed last November 2022
- Moody's Investors Service - Baa2 (stable), which was affirmed last January 2023

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.

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

The Company'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, the Company taps the international market to raise needed funds and capitalize on the offshore market's flexibility in volume and in pricing. The Company only incurs foreign currency debt for foreign currency assets. To hedge against minimal foreign currency exposure, the Company may utilize short to medium term hedges to protect itself from any Peso depreciation. Furthermore, the Company also keeps short-term U.S. Dollar investment as part of its liquid assets.

Further, Globe's foreign exchange risk results primarily from movements of the Philippine Peso against the U.S. Dollar with respect to its USD-denominated financial assets, liabilities, revenues and expenditures. Part of its total service revenues are in USD while substantially all of its capital expenditures are in USD. In addition, part of its long-term debt is denominated in USD before taking into account any related hedges. There can be no assurance that declines in the value of the Philippine Peso will not occur in the future or that the availability of foreign exchange will not be limited. The

occurrence of these conditions may adversely affect Globe's financial condition and results of operations.

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 Philippine 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. There is no assurance that the Philippine Peso will not depreciate further against other currencies and that such depreciation will not have an adverse effect on the Philippine economy and the Group's financial condition and results of operation. As of December 29, 2022, according to the BSP reference exchange rate bulletin, the Peso was at ₱ 55.755 per U.S.$1.00 from ₱50.999 and ₱48.023 per U.S.$1.00 at the end of 2021 and 2020, respectively.

***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.

The Philippine general elections for national, provincial, and local officials took place on May 9, 2022. Ferdinand "Bongbong" Marcos, Jr., his vice presidential running mate, Sara Duterte, and a number of his senatorial slate won the elections. The present administration faces threats of political and military instability that will adversely affect the economy of the Philippines.

An unstable political or social environment in the Philippines could negatively affect the general economic conditions and business environment in the Philippines and critical sectors which, in turn, could have a material and adverse impact on the Group's business, prospects, financial position and financial performance.

There can be no assurance that the current administration will continue to implement social and economic policies that promote a favorable and stable macroeconomic and business environment. Any major deviation from the previously established policies or a fundamental change of direction, including with respect to Philippine foreign policy, may lead to an increase in political or social uncertainty and instability. Any such instability could materially and adversely affect the Company's business, financial conditions, results of operations and prospects, reduce consumer demand or result in inconsistent or sudden changes in regulations and policies that affect the Company's business operations, which could adversely affect the Company's results of operations and financial condition.

***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 GDP output further deteriorated to 1.1% in 2009.

In 2020, the COVID-19 pandemic pushed the country to implement tight quarantine restrictions and constrained economic activity resulting into a 9.6% decline in GDP. However, the country subsequently

exhibited signs of recovery and recorded GDP growth rates of 5.7% and 7.6% in 2021 and 2022, respectively. Despite the GDP growth in the recent years, there can be no assurance that the Philippines will achieve strong economic fundamentals in the future.

***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 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 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.

Tensions over the West Philippine Sea continue to run high in 2023. On February 2023, Philippine Coast Guard reported that Chinese coast guards aimed military-grade lasers at Filipino crew members which disrupted a resupply mission to the BRP Sierra Madre in Ayungin Shoal and prompted the Department of Foreign Affairs to file another diplomatic protest. In March 2023, more than 40 Chinese vessels, including vessels of the People's Liberation Army ("**PLA**") of China and suspected Chinese maritime militia were spotted anchored off Thitu Island (locally known as Pag-asa) in the Kalayaan Island Group. President Ferdinand Marcos, Jr. summoned China's envoy to Manila to protest the continued occupation in the area.

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. In February 2023, the Philippine and United States governments announced the designation of four new sites in connection with the implementation of the

Enhanced Defense Cooperation Agreement. This expansion is viewed to make the alliance between the Philippines and the United States stronger and more resilient. South Asian nations and claimants involved in West Philippine Sea dispute dispute also continue to enforce their sovereign rights against China as well as other South Asian nations.

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.

***The operations and financial results of the Group may be influenced by major political and economic developments abroad***

The growth and profitability of the Group may be influenced by major political and economic developments, which may have a negative effect on the operations and financial results of the Group. On February 21, 2022, Russian president Vladimir Putin announced that Russia recognizes the independence of two pro-Russian breakaway regions in eastern Ukraine. On February 22, 2022, the Russian Federation Council unanimously authorized the use of military force, and the entry of Russian soldiers into both territories. On February 24, 2022, places across Ukraine, including Kyiv, the national capital, were struck with missiles. The Ukrainian Border Guard reported attacks on posts bordering Russia and Belarus. Shortly afterwards, Russian Ground Forces entered Ukraine prompting Ukrainian President Volodymyr Zelenskyy to enact martial law and general mobilization (the "**Russo-Ukrainian War**"). While the Group does not expect any material impact from the ongoing Russo-Ukrainian War to its current and future businesses, the ongoing tensions may affect oil and commodity prices in the near to medium term.

Any political or economic developments of a global scale could impact prices in general and disrupt supply chains, which could in turn increase the costs of the Group. The Group continuously monitors such developments abroad and will assess any direct and indirect impact that the Russo-Ukrainian War may have on its current and future businesses.

**RISKS ASSOCIATED WITH THE PREFERRED SHARES**

***The Preferred Shares may not be a suitable investment for all investors***

Each potential investor in the Preferred Shares must determine the suitability of that investment in light of its own circumstances and risk tolerance. In particular, each potential investor should:

a) have sufficient knowledge and experience to make a meaningful evaluation of the Preferred Shares, the merits and risks of investing in the Preferred Shares and the information contained in this Prospectus;
b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Preferred Shares and the impact the Preferred Shares will have on its overall investment portfolio;
c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Preferred Shares, including where the currency for principal or dividend payments is different from the potential investor's currency;
d) understand thoroughly the terms of the Preferred Shares and be familiar with the behavior of any relevant financial markets; and
e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

***Dividends on the Preferred Shares may not be paid in full, or at all***

Under the terms and conditions governing the Preferred Shares, the Company may pay no dividends or less than full dividends on a Dividend Payment Date. Holders of the Preferred Shares will not receive

dividends on a Dividend Payment Date or for any period during which the Issuer does not have retained earnings out of which to pay dividends.

If the profits available to distribute as dividends are, in the Board's opinion, not sufficient to enable the Issuer to pay in full on the same date both dividends on the Preferred Shares and the dividends on other shares that have an equal right to dividends as the Preferred Shares, the Issuer is required first, to pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that dividend payment date on any shares with a right to dividends ranking in priority to that of the Preferred Shares; and second, to pay dividends on the Preferred Shares and any other shares ranking equally with the Preferred Shares as to participation in profits pro rata to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include the amount of any dividend payable on that date and any arrear on past cumulative dividends on any shares ranking equal in the right to dividends with the Preferred Shares.

***Ayala's obligations in respect of the Preferred Shares are subordinated to all of the Company's indebtedness***

Ayala's obligations in respect of the Preferred Shares are subordinated to all of the Company's indebtedness, and it will not make any payments under the Preferred Shares unless it can satisfy in full all of its other obligations that rank senior to the Preferred Shares.

Ayala's obligations under the Preferred Shares are unsecured and will, in the event of the winding-up of the Company, rank junior in right of payment to all indebtedness of the Company and junior in right of payment to securities of, or claims against, the Company which rank or are expressed to rank senior to the Preferred Shares. Accordingly, Ayala's obligations under the Preferred Shares will not be satisfied unless Ayala can satisfy in full all of its other obligations ranking senior to the Preferred Shares.

There are no terms in the Preferred Shares that limit Ayala's ability to incur additional indebtedness, including indebtedness that ranks senior to or *pari passu* with the Preferred Shares.

***Unavailability of the Assets of Subsidiaries for Making Payments under the Preferred Shares***

A significant portion of Ayala's business is operated through its subsidiaries, and Ayala's right to participate in any distribution of the assets of certain of its subsidiaries, upon a subsidiary's dissolution, winding-up, liquidation or reorganization or otherwise, and thus, the ability of a holder of the Preferred Shares to benefit indirectly from such distribution is subject to the prior claims of creditors of that subsidiary, except to the extent that Ayala may be a creditor of that subsidiary and its claims are recognized. There are legal limitations to the extent to which some of Ayala's subsidiaries may extend credit, pay dividends or otherwise supply funds to, or engage in transactions with, the Company or some of its other subsidiaries. Accordingly, the Preferred Shares will be effectively subordinated to all existing and future liabilities of Ayala's subsidiaries.

***There may be insufficient Distributions upon Liquidation***

Upon any voluntary or involuntary dissolution, liquidation or winding up of Ayala, holders of Preferred Shares will be entitled only to the available assets of the Company remaining after the Company's indebtedness is satisfied. If any such assets are insufficient to pay the full amount due to the holders of the Preferred Shares, then holders of Preferred Shares shall share ratably in any such distribution of assets in proportion to the full distributions to which they would otherwise be respectively entitled.

***Ayala's ability to make payments under the Preferred Shares is limited by terms of Ayala's other indebtedness***

Ayala has and will continue to have a certain amount of outstanding indebtedness. The current terms of Ayala's financing agreements contain provisions that could limit the ability of the Company to make payments on the Preferred Shares. For example, if Ayala were in default on its payment obligations to one or more of its lenders, or if it is non-compliant with certain covenants and such non-compliance is uncured for a period of 30 days, the Company may be prohibited from making cash payments in respect of the Preferred Shares. Also, Ayala may in the future, directly or indirectly through its subsidiaries, enter into other financing agreements which may restrict or prohibit the ability of the Company to make

payments on the Preferred Shares. There can be no assurance that existing or future financing arrangements will not adversely affect Ayala's ability to make payments on the Preferred Shares.

***The market price of the Preferred Shares may be volatile, which may result in the decline in the value of investments of the investors.***

The market price of the Preferred Shares could be affected by several factors, including: (a) general market, political and economic conditions; (b) changes in earnings estimates and recommendations by financial analysts; (c) changes in market valuations of listed stocks in general and other retail stocks in particular; (d) the market value of our assets; (e) changes to Government policy, legislation or regulations; and (f) general operational and business risks.

In addition, many of the risks described elsewhere in this Prospectus could materially and adversely affect the market price of the Preferred Shares.

In part as a result of the global economic downturn, the global equity markets have experienced price and volume volatility that has affected the share prices of many companies. Share prices for many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. Fluctuations such as these may adversely affect the market price of the Preferred Shares.

***The Preferred Shares have no stated maturity date and Ayala has the sole right to redemption***

The Preferred Shares have no fixed maturity date, and the Preferred Shares are not repayable in cash unless the Issuer, at its sole discretion, redeems them for cash. Furthermore, holders of the Preferred Shares have no right to require the Issuer to redeem the Preferred Shares. The Preferred Shares are only redeemable at the option of the Issuer on the Optional Redemption Date, or at any time in the event that Dividend Payments become subject to additional withholding tax as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to Ayala. Accordingly, if a Preferred Shareholder wishes to obtain the cash value of the investment, the holder will have to sell the Preferred Shares in the secondary market.

***There may be a lack of public market for the Preferred Shares***

The Philippine securities markets are substantially less liquid and more volatile than major securities markets in other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The Company cannot guarantee that the market for the Preferred Shares will always be active or liquid upon commencement of their trading on the PSE. The nationality restriction on ownership of the Preferred Shares may also restrict the trading and liquidity of the Shares.

***The Preferred Shares may have limited liquidity***

The Joint Lead Underwriters and Bookrunners are not obligated to create a trading market for the Preferred Shares and any such market making will be subject to the limits imposed by applicable law, and may be interrupted or discontinued at any time without notice. Accordingly, the Company cannot predict whether an active or liquid trading market for the Preferred Shares will develop or if such a market develops, if it can be sustained. Consequently, a holder may be required to hold his Preferred Shares for an indefinite period of time or sell them for an amount less than the Offer Price.

***Non-payment of Dividends May Affect the Trading Price of the Preferred Shares***

If dividends on the Preferred Shares are not paid in full, or at all, the Preferred Shares may trade at a lower price than they might otherwise have traded if dividends had been paid. The sale of Preferred Shares during such a period by a holder of Preferred Shares may result in such holder receiving lower returns on the investment than a holder who continues to hold the Preferred Shares until dividend payments resume. In addition, because of the dividend limitations, the market price for the Preferred Shares may be more volatile than that of other securities that do not have these limitations.

***Holders of Preferred Shares may be unable to reinvest at a similar return on investment***

On the Dividend Rate Re-Setting Date, or any Dividend Payment Date thereafter, or at any time redemption occurs, Ayala may redeem the Preferred Shares for cash at the redemption price, as described in ''Description of the Shares''. At the time of redemption, interest rates may be lower than at the time of the issuance of the Preferred Shares and, consequently, the holders of the Preferred Shares may not be able to reinvest the proceeds at a comparable rate of return or purchase securities otherwise comparable to the Preferred Shares.

***The Preferred Shares have no voting rights***

Holders of Preferred Shares will have no voting rights, except with respect to certain fundamental matters set forth in the Company's Amended Articles of Incorporation and as required by Philippine law (see ''Description of the Preferred Shares''). Further, holders of Preferred Shares will not be entitled to elect the Directors of the Company.

***The Preferred Shares are subject to restrictions on foreign ownership***

Under Philippine law, no more than forty percent (40%) of the capital of corporations holding land may be owned by non-Philippine nationals. Ayala currently owns certain parcels of land. Accordingly, the Preferred Shares may be owned or purchased by or transferred to any person, partnership, association or corporation regardless of nationality, provided that at any time at least sixty percent (60%) of the Company's outstanding capital stock shall be owned by citizens of the Philippines or by partnerships, associations or corporations, sixty percent (60%) of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

**RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS**

***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.

## USE OF PROCEEDS

Following the offer and sale of the Preferred Shares in the amount of up to ₱15 Billion under the Base Offer, Ayala expects that the net proceeds of the Base Offer shall amount to approximately ₱14,890,466,850 after fees, commission, and expenses. Assuming the full exercise of the Oversubscription Option resulting in the sale of Preferred Shares for up to an amount of ₱10 Billion, Ayala expects that the net proceeds of the Offer shall amount to approximately ₱24,848,966,850 after fees, commission, and expenses. Net proceeds from the Offer are estimated as follows:

| | **Base Offer of up to ₱15 Billion** | **Base Offer with Oversubscription Option for up to an additional ₱10 Billion** |
|---|---|---|
| Estimated proceeds from the sale of the Preferred Shares | ₱15,000,000,000 | ₱25,000,000,000 |
| Less: | | |
| SEC Registration and Legal Research Fee (incl. DST) | 6,880,625 | 6,880,625 |
| Documentary Stamp Tax | 6,000,000 | 10,000,000 |
| PSE Filing Fee | 25,000,000 | 25,000,000 |
| VAT on PSE Filing Fee | 3,000,000 | 3,000,000 |
| SEC Listing Fee | 2,525 | 2,525 |
| Underwriting Fees [1] | 56,250,000 | 93,750,000 |
| Fees to be paid to the PSE Trading Participants | 3,750,000 | 3,750,000 |
| Stock Transfer Service Inc.'s ("STSI") receiving agent service fee | 650,000 | 650,000 |
| Estimated Professional Expenses | 7,000,000 | 7,000,000 |
| Marketing/Printing/Photocopying Costs and out-of-pocket expenses | 1,000,000 | 1,000,000 |
| Total Estimated Upfront Expenses | 109,533,150 | 151,033,150 |
| **Estimated net proceeds to Ayala** | **₱14,890,466,850** | **₱24,848,966,850** |

*[1] The underwriting fee rate is at 0.375% of the total amount raised.*

Aside from the fees enumerated above, the Company will be paying an estimated annual fee in the amount of ₱350,000.00 related to the Offer Shares to STSI as Receiving Agent.

Expenses incurred in connection with the offering of the securities, including documentary stamp tax, underwriting fees, and the registrar, receiving and paying agency or stock transfer agency fees will be for the account of the Company.

Net proceeds amounting to approximately ₱14,890,466,850, assuming base offer of up to ₱15 billion or net proceeds amounting to approximately ₱24,848,966,850, assuming the full exercise of the Oversubscription Option for up to an additional amount of ₱10 billion, 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 as follows.

## Use of Proceeds

| ***Type*** | ***Base Offer up to ₱15 billion*** | ***Base Offer with Oversubscription Option of up to an additional ₱10*** *billion* | ***Schedule of disbursement*** | ***Details*** |
|---|---|---|---|---|
| *Refinancing the 3.92% ₱10.0 billion Fixed Rate Bond* | ₱10.0 billion | ₱10.0 billion | *3rd Quarter 2023* | *Refinancing of the 3.92% ₱10.0 billion Fixed Rate Bond, due in July 2023* |
| *Partial Repayment of Short-Term Loan* | ₱3.9 billion | ₱3.8 billion | *2nd Quarter 2023* | *Partial Repayment of the ₱4.5 billion Short-Term Bank Loan with BPI (the "**BPI Loan**")* |
| *Funding for Capital Expenditure Project* | ₱1.0 billion | ₱1.0 billion | *2nd Quarter to 4th Quarter 2023* | *Funding for AC Infra's share in the capital calls of Light Rail Manila Corporation ("**LRMC**").* |
| *Refinancing of Preferred "B" Shares, Series 1 at 5.25%* | | ₱10.0 billion | *4th Quarter 2023* | *Refinancing of Preferred "B" Shares, Series 1 with dividend rate of 5.25%, callable on November 15, 2023* |
| ***Total*** | ₱14.9 billion | ₱24.8 billion | | |

**Refinancing of the 3.92% ₱10.0 billion Fixed Rate Bond**

Approximately ₱10.0 billion of the net proceeds of the Preferred Shares and ₱10.0 billion of the net proceeds assuming the full exercise of the Oversubscription Option will be used to refinance the ₱10.0 billion Fixed Rate Bond due on July 7, 2023 with an interest rate of 3.92% per annum.

The 3.92% ₱10.0 billion Fixed Rate Bond was issued in June 2016 with BDO Capital & Investment Corporation as issue manager, BDO Capital & Investment Corporation, BPI Capital Corporation, China Bank Capital Corporation and First Metro Investment Corporation as joint lead underwriters. East West Banking Corporation and PNB Capital and Investment Corporation acted as co-lead managers.

**Partial Repayment of Short-Term Loan**

Approximately ₱3.9 billion of the net proceeds of the Preferred Shares and ₱3.8 billion of the net proceeds assuming the full exercise of the Oversubscription Option will be used to partially repay the ₱4.5 billion Short-Term Loan of the Company with BPI. with an interest rate of 5.58% per annum maturing on June 28, 2023 (the "BPI Loan"). Any remaining amounts due under the BPI Loan will be paid from internally generated funds.

BPI Capital is the Issue Manager and is one of the Joint Lead Underwriters and Bookrunners of the Preferred Shares and is the wholly-owned investment banking subsidiary of BPI. The Preferred Shares and the BPI Loan 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.

**Funding for Capital Expenditure Project**

Approximately ₱1.0 billion of the net proceeds of the Preferred Shares and ₱1.0 billion of the net proceeds assuming the full exercise of the Oversubscription Option will be used to fund Ayala's equity contributions amounting ₱1.3 billion to its wholly owned subsidiary, AC Infra. which will be used to fund AC Infra's share in the capital calls of LRMC. LRMC will use the proceeds to finance capital expenditures related to the construction of the LRT-1 Cavite Extension Project. The first phase of the Cavite Extension Project aims to extend LRT1 with 5 additional stations from Baclaran to Dr. Santos Avenue in Paranaque, spanning over seven kilometers. Upon completion in early 2025, average daily ridership is forecasted to double compared to current levels. A portion of the fund will also be used to

service LRMC debt. The remaining amount of ₱300 million will be funded using internally generated funds or from the available working capital lines.

Ayala anticipates that AC Infra will later return such equity infusion to it by way of dividends.

**Refinancing the ₱10.0 billion 5.25% Preferred "B" Shares, Series 1 due on November 15, 2023**

Approximately ₱10.0 billion of the net proceeds of the Preferred Shares assuming the full exercise of the Oversubscription Option will be used to refinance the ₱10.0 billion cumulative, non-convertible, non-voting, non-participating, and redeemable Preferred "B" Shares, callable on November 15, 2023 (the "Preferred "B" Shares"). The Preferred "B" Shares were issued in October 2013 with BPI Capital as issue manager, BDO Capital , BPI Capital and First Metro Investment Corporation as joint lead underwriters, The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V. Manila Branch, RCBC Capital Corporation, SB Capital Investment Corporation and Standard Chartered Bank as co-lead underwriters.

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 utilization of the net proceeds of the Preferred Shares as provided in 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.

**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 and the PSE.

# PLAN OF DISTRIBUTION

*Ayala plans to re-issue the Preferred Shares to institutional and retail investors through a public offering to be conducted through the Joint Lead Underwriters and Bookrunners.*

## THE OFFER

The Offer of the Preferred Shares covered by this Prospectus and described below was authorized by resolutions of the Board of Directors of the Company dated March 9, 2023. This Prospectus relates to the offering and sale by way of re-issuance of up to ₱15,000,000,000.00 worth of up to 6,000,000 cumulative, non-convertible, non-voting, non-participating, redeemable, Philippine Peso-denominated perpetual preferred "A" shares with an oversubscription option of up to ₱10,000,000,000.00 of up to 4,000,000 preferred "A" shares. A registration statement in connection with the Offer was filed by the Company with the SEC on [●]. An application to list the Preferred Shares was filed with the PSE on [●].

## JOINT LEAD UNDERWRITERS AND BOOKRUNNERS

BPI Capital, BDO Capital, China Bank Capital, RCBC Capital, and SB Capital pursuant to an Issue Management and Underwriting Agreement with Ayala dated [●] (the "**Underwriting Agreement**"), have agreed to act as the Joint Lead Underwriters and Bookrunners to distribute and sell the Preferred Shares at the Offer Price, and have also committed severally and not jointly to underwrite, the Base Offer on a firm commitment 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 Preferred Shares, the Joint Lead Underwriters and Bookrunners will receive a fee of up to 0.375%, on the final aggregate nominal principal amount of the Preferred Shares.

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

| | |
|---|---:|
| BPI Capital | Up to ₱[3,450,000,000.00] |
| BDO Capital | Up to ₱[3,000,000,000.00] |
| China Bank Capital | Up to ₱[2,850,000,000.00] |
| RCBC Capital | Up to ₱[2,850,000,000.00] |
| SB Capital | Up to ₱[2,850,000,000.00] |
| **TOTAL** | **Up to ₱**[15,000,000,000.00] |

The Oversubscription Option, once exercised during the Offer Period, shall be deemed firmly underwritten by the Joint Lead Underwriters and Bookrunners, in addition to the amounts above. Any Preferred Shares issued under the Oversubscription Option will be allocated subject to the discretion of the Joint Lead Underwriters and Bookrunners, with the consent of the Company.

There is no arrangement for the Joint Lead Underwriters and Bookrunners to return any unsold Preferred Shares to Ayala. The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to Ayala of the net proceeds of the Preferred Shares.

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 are each duly licensed by the SEC to engage in the underwriting or distribution of the Preferred Shares. The Joint Lead Underwriters 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 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 associate of Ayala in which Ayala has an effective ownership of [48.5]%[6] as of December 31, 2022.

BPI Capital, BDO Capital, China Bank Capital, RCBC Capital, and SB Capital have undertaken the requisite due diligence over Ayala as Joint Lead Underwriters and Bookrunners of the Preferred Shares. 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. BPI Capital is the wholly-owned investment banking subsidiary of Bank of the Philippine Islands. This relationship is 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.

**BDO Capital & Investment Corporation**

BDO Capital is the wholly owned investment banking subsidiary of BDO Unibank, Inc., which, in turn, is an Associate of the SM Group. BDO Capital is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital commenced operations in March 1999. It obtained its license to operate as an investment house in 1998 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. As of September 30, 2022, it had ₱5.00 billion and ₱4.70 billion in assets and capital, respectively.

**BPI Capital Corporation**

BPI Capital is the wholly-owned investment banking subsidiary of BPI. BPI Capital is an investment house focused on corporate finance and the securities distribution business. It began operations as an investment house in December 1994 and has grown to be one of the biggest investment banks in the country. As of December 31, 2021, BPI Capital had total assets of ₱[3.51 billion] and total capital funds of ₱[3.39 billion].

**China Bank Capital Corporation**

China Bank Capital is the wholly owned investment banking subsidiary of China Banking Corporation. It was registered and licensed as an investment house in 2015 as a result of the spin-off of China Banking Corporation's Investment Banking Group. The firm offers a full suite of investment banking solutions that enable clients to achieve their fundraising objectives and strategic goals. The company's services include arranging, managing, and underwriting debt and equity transactions, such as bond offerings, corporate notes issuances, initial public offerings and follow-on offerings of common and

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[6] This 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.

preferred shares, private placement of securities, structured loans, project finance, real estate investment trusts, and asset securitizations. China Bank Capital also provides financial advisory services, such as deal structuring, valuation, and execution of mergers, acquisitions, divestitures, joint ventures, and other corporate transactions. As of December 31, 2022, it has total assets of ₱3.09 billion and a capital base of ₱3.00 billion.

**RCBC Capital Corporation**

RCBC Capital is a licensed investment house providing a complete range of capital raising and financial advisory services. Established in 1974, RCBC Capital has over 49 years of experience in underwriting of equity, quai-equity and debt securities, as well as in managing and arranging the syndication of loans, and in financial advisory. RCBC Capital is a wholly-owned subsidiary of the Rizal Commercial Banking Corporation and a part of the Yuchengco Group of Companies, one of the country's largest fully integrated financial services conglomerates. As of December 31, 2022, its total assets amounted to ₱3.23 billion and its capital base amounted to ₱3.16 billion.

**SB Capital Corporation**

SB Capital is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital provides a wide range of investment banking services including underwriting of debt and equity securities, project finance, loan syndications, mergers and acquisitions, and other corporate / financial advisory services. SB Capital is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major debt and equity issues, both locally and internationally.

**SALE AND DISTRIBUTION**

The distribution and sale of the Preferred Shares shall be undertaken by the Joint Lead Underwriters and Bookrunners who shall sell and distribute the Preferred Shares to third party buyers/investors. Nothing herein shall limit the rights of the Joint Lead Underwriters and Bookrunners from purchasing the Preferred Shares for their own respective accounts. [The Underwriters are authorized to organize a syndicate of sub-underwriters, soliciting dealers and/or agents for the purpose of the Offer.]

Of the 6,000,000 Preferred Shares to be offered, [80]% or 4,800,000 Preferred Shares are being offered through the Joint Lead Underwriters and Bookrunners for subscription and sale to Qualified Institutional Buyers and the general public. The Company plans to make available [20]% or 1,200,000 Preferred Shares for distribution to the respective clients of the [125] Trading Participants of the PSE, acting as Selling Agents. The total number of Preferred Shares allocated to the PSE Trading Participants will be distributed following the procedures indicated in the implementing guidelines for the Preferred Shares to be announced in the PSE EDGE by the PSE. Each Trading Participant shall be allocated [9,600] Preferred Shares (computed by dividing the Preferred Shares allocated to the Trading Participants by [125]), subject to reallocation as may be determined by the Receiving Agent. Trading Participants may undertake to purchase more than their allocation of [9,600] Preferred Shares. Any requests for shares in excess of [9,600] may be satisfied via the reallocation of any Preferred Shares not taken up by other Trading Participants. The remainder of the [●] Preferred Shares plus any Preferred Shares allocated to the PSE Trading Participants but not taken up by them, will be allocated first to the Trading Participants who subscribed to their allotment and indicated additional demand, at the sole discretion of the Joint Issue Manager. PSE Trading Participants who take up the Preferred Shares shall be entitled to a selling fee of 0.125% of the Preferred Shares taken up and purchased by the relevant trading participant. The selling fee, less a withholding tax of 10%, will be paid to the PSE Trading Participants within [●] Business Days after the Issue Date.

The Company will not allocate any Preferred Shares for the Local Small Investors.

Prior to the close of the Offer Period, any Preferred Shares not taken up by the Trading Participants shall be distributed by the Joint Lead Underwriters and Bookrunners directly to their clients and the general public.

All Preferred Shares not taken up by the Trading Participants, the general public and the Underwriters' clients shall be purchased by the Underwriters pursuant to the terms and conditions of the Underwriting Agreement. Nothing herein or in the Underwriting Agreement shall limit the rights of the Underwriters from purchasing the Preferred Shares for their own respective accounts.

The obligations of each of the Joint Lead Underwriters will be several, and not solidary, and nothing in the Underwriting Agreement shall be deemed to create a partnership or joint venture between and among any of the Joint Lead Underwriters. Unless otherwise expressly provided in the Underwriting Agreement, the failure by a Joint Lead Underwriter to carry out its obligations thereunder shall neither relieve the other Joint Lead Underwriters of their obligations under the same Underwriting Agreement, nor shall any Joint Lead Underwriter be responsible for the obligation of another Joint Lead Underwriter.

**MANNER OF DISTRIBUTION**

The Joint Lead Underwriters and Bookrunners shall, at their discretion, determine the manner by which proposals for subscriptions to, and issuances of, Preferred Shares shall be solicited, with the sale of the re-issued Preferred Shares to be effected only through the Joint Lead Underwriters and Bookrunners and Selling Agents.

**OFFER PERIOD**

The Offer Period shall commence at 9:00 a.m. on [May 8, 2023] and end at 12:00 noon on [May 12, 2023] or on such other date as the Issuer and Joint Lead Underwriters and Bookrunners may agree upon.

# DIVIDEND POLICY

*This section is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this Prospectus. Prospective investors should read the entire Prospectus carefully, including the section entitled "**Risk Factors**" and the audited financial statements and the related notes to those statements included in this Prospectus.*

**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 (2/3) 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, in property, 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 June 17, 2022, the dividend rate shall be determined by the Board of Directors at the time of issuance of the shares.

The following tables summarize the cash dividends declared and paid by Ayala from May 11, 2021 until December 31, 2022:

On Common Shares

| Cash Dividends | | | |
|---|---|---|---|
| Year | Record Date | Payment Date | Rate (₱) |
| 2021 | July 29, 2021<br>December 24, 2021 | August 13, 2021<br>January 7, 2022 | 3.46/share<br>3.46/share |
| 2022 | July 28, 2022<br>December 27, 2022 | August 13, 2022<br>January 12, 2023 | 3.46/share<br>3.46/share |

On Preferred B Series 1 Shares

| Cash Dividends | | | |
|---|---|---|---|
| Year | Record Date | Payment Date | Rate (₱) |
| 2021 | February 11, 2021<br>April 22, 2021<br>August 3, 2021<br>November 2, 2021 | February 15, 2021<br>May 15, 2021<br>August 15, 2021<br>November 15, 2021 | ¼ of 5.2500% per annum, or 6.56250 per share |
| 2022 | January 31, 2022<br>May 2, 2022<br>August 1, 2022<br>October 31, 2022 | February 15, 2022<br>May 15, 2022<br>August 15, 2022<br>November 15, 2022 | 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 (₱) |
| 2021** | February 19, 2021<br>May 7, 2021<br>August 13, 2021<br>November 16, 2021 | February 28, 2021<br>May 29, 2021<br>August 29, 2021<br>November 29, 2021 | ¼ of 4.8214% per annum, or 6.02675 per share |
| 2022 | February 15, 2022<br>May 13, 2022<br>August 15, 2022<br>November 16, 2022 | February 28, 2022<br>May 29, 2022<br>August 29, 2022<br>November 29, 2022 | ¼ of 4.8214% per annum, or 6.02675 per share |

***APB2R*

On Voting Preferred Shares

| Cash Dividends | | | |
|---|---|---|---|
| Year | Record Date | Payment Date | Rate (₱) |
| 2021 | April 26, 2021 | May 20, 2021 | 0.05773/share |
| 2022 | May 4, 2022 | May 20, 2022 | 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 associates.

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.

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.

The following tables summarize the cash dividends declared and paid by ALI from May 11, 2021 until December 31, 2022:

| CASH DIVIDEND (Per Common Share) | | | |
|---|---|---|---|
| PESO AMOUNT | DECLARATION DATE | RECORD DATE | PAYMENT DATE |
| 0.1360 | October 19, 2021 | November 3, 2021 | November 18, 2021 |
| 0.1352 | February 24, 2022 | March 11, 2022 | March 25, 2022 |
| 0.1355 | October 21, 2022 | November 8, 2022 | November 18, 2022 |
| 0.1495 | February 21, 2023 | March 7, 2023 | March 23, 2023 |

| CASH DIVIDEND (Per Voting Preferred Share) | | | |
|---|---|---|---|
| PESO AMOUNT | DECLARATION DATE | RECORD DATE | PAYMENT DATE |
| 0.00474786 | May 27, 2021 | June 10, 2021 | June 25, 2021 |
| 0.00474786 | May 31, 2022 | June 9, 2022 | June 24, 2022 |

*Bank of the Philippine Islands*

The following tables summarize the cash dividends declared and paid by BPI from May 11, 2021 until December 31, 2022:

| **Date Declared** | **Date of Payment** | **Amount of Dividends** | |
|---|---|---|---|
| | | **Per Share** | **Total (in ₱ millions )** |
| May 18, 2022 | June 22, 2022 | 1.06 | 4,784 |
| November 16, 2022 | December 23, 2022 | 1.06 | 4,784 |

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.

*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 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.

Globe distributes cash dividends to its shareholders at the rate of 60% to 75% of prior year’s core net income, and is committed to a sustainable dividend policy in line with earnings and cash flow generation.

Cash dividends are subject to approval by Globe’s Board of Directors but no stockholder approval is required. Total cash dividends distributed from May 11, 2021 until December 31, 2022:

| COMMON CASH DIVIDEND (Per Share) | | | |
|---|---|---|---|
| AMOUNT (₱) | DECLARATION DATE | RECORD DATE | PAYMENT DATE |
| 27.00 | February 8, 2022 | February 22, 2022 | March 10, 2022 |
| 27.00 | May 4, 2022 | May 19, 2022 | June 3, 2022 |

| | | | |
|---|---|---|---|
| 27.00 | August 11, 2022 | August 25, 2022 | September 9, 2022 |
| 25.00 | November 11, 2022 | November 25, 2022 | December 9, 2022 |

| VOTING PREFERRED STOCK CASH DIVIDEND (Per Share) | | | |
|---|---|---|---|
| AMOUNT (₱) | DECLARATION DATE | RECORD DATE | PAYMENT DATE |
| 0.32 | November 11, 2022 | November 25, 2022 | December 9 2022 |

| NON-VOTING PREFERRED STOCK CASH DIVIDEND (Per Share) | | | |
|---|---|---|---|
| AMOUNT (₱) | DECLARATION DATE | RECORD DATE | PAYMENT DATE |
| 13.00 | May 6, 2021 | July 28, 2021 | August 23, 2021 |

The Board of Directors of Globe approved in separate approvals the declaration of the quarterly distributions of cash dividends of ₱27 per share, paid each last March 10, 2022, June 3, 2022, September 9, 2022. On November 11, 2022, the Board of Directors approved the declaration of the fourth quarter cash dividend of ₱25 per share paid last December 9, 2022. Each cash dividend payment for common stock total to about ₱3.6 billion, bringing total distribution by end of December 2022 to ₱14.4 billion.

Also, on November 11, 2022, the Board of Directors of Globe approved the declaration of the cash dividend for holders of its voting preferred shares paid last December 9, 2022 to shareholders on record as of November 25, 2022. The amount of the cash dividend is based on the 2019 Benchmark rate of the 3-day average of the 5-year BVAL* (i.e. average of October 24, 25, 28, 2019) plus 2%. The aggregate dividend payment for the voting preferred shares was about ₱50.0 million.

Stock dividends, which come in the form of additional shares of stock, are subject to approval by both the Company's Board of Directors and the Company's 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 (2/3) 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. The Company has declared the following cash dividends since then:

| Declaration Date | Payment Date | Amount* (₱ thousands) | Nature of Dividends Declared |
|---|---|---|---|
| November 17, 2022 | December 19, 2022 | 192,000 | 0.048 cash dividends to PPS |
| | | 1,092,253 | 0.379 cash dividends cash dividends to common shares |
| November 18, 2021 | December 16, 2021 | 332,000 | 0.053 cash dividends to PPS (inclusive of 10% accumulated cash dividends to PPS) |
| | | 1,863,850 | 0.531 cash dividends to common shares |

** 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 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.

IMI did not declare cash dividends in 2020 and 2021. However, its Singaporean subsidiary made dividend payments for the same period as set out below:

2021

IMI Singapore ("**IMI SG**") paid dividends on the redeemable cumulative preferred stocks ("**RCPS**") to AC Industrials (Singapore) Pte, Ltd. ("**ACI SG**") amounting to US$1.52 million on March 2021. In August 2021, IMI SG redeemed in full the remaining RCPS from ACI SG and paid the accrued dividends amounting to US$2.15 million as of redemption date. No dividend payment was declared to common shareholders.

2020

IMI SG paid dividends on the RCPS to ACI SG on the anniversary dates amounting to US$3.47 million and US$2.02 million in March 2020 and October 2020, respectively. In November 2020, dividends were paid to the redeemed portion of the RCPS that have accrued as of redemption date amounting to US$1.01 million. No dividend payment was declared to common shareholders.

*AC Energy and Infrastructure Corporation*

Wholly-owned ACEIC does not have a dividend policy. Since 2019, ACEIC has declared an average of ₱2 billion in regular 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.

On March 8, 2022, the ACEN Board of Directors in its regular meeting approved, among others, the declaration of cash dividends of six centavos (₱0.06) per share on the 38,315,838,177 outstanding shares of ACEN, or a total dividend amount of ₱2,298,950,290.62 to be paid on or before April 19, 2022 to stockholders of record as of April 5, 2022.

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 cash dividends previously declared and paid by ACEN from May 11, 2021 until December 31, 2022:

| Date of Declaration | Record Date | Payment Date | Rate in ₱ |
|---|---|---|---|
| March 8, 2022 | April 5, 2022 | On or before April 19, 2022 | 0.06/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, 2022 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, 2022 attached to this Prospectus.

| | **As of December 31, 2022** | | | | |
|---|---|---|---|---|---|
| *(In ₱ thousands)* | **Actual** | **Adjustments*** | **As Adjusted for Base Offer size (₱15 Bn)** | **Adjustments**** | **As Adjusted for maximum Offer size (₱25 Bn)** |
| **Debt** | | | | | |
| Short-term debt | ₱36,526,898 | - | ₱36,526,898 | - | ₱36,526,898 |
| Current portion of long-term debt | 31,496,742 | - | 31,496,742 | - | 31,496,742 |
| Long-term debt - net of current portion | 484,464,227 | | 484,464,227 | | 484,464,227 |
| **Total Debt** | **552,487,867** | **-** | **552,487,867** | **-** | **552,487,867** |
| | | | | | |
| **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 | - | 1,200,000 |
| Preferred Stock - B, ₱100 par value per share | 5,800,000 | - | 5,800,000 | - | 5,800,000 |
| Preferred Stock - Voting | 200,000 | - | 200,000 | - | 200,000 |
| Common Stock | 31,460,875 | - | 31,460,875 | - | 31,460,875 |
| Subscribed | 258,521 | - | 285,521 | - | 285,521 |
| Additional paid-in capital | 49, 981, 886 | 14,400,000 | 64,381,886 | 9,600,000 | 73,981,886 |
| Subscriptions receivable | (2,521,025) | | (2,521,025) | | (2,521,025) |
| | 86,380,257 | 14,400,000 | 100,780,257 | 9,600,000 - | 110,380,257 |
| | | - | | - | |
| Share-based payments | 38,950 | - | 38,950 | - | 38,950 |
| Remeasurement losses on defined benefit plans | (4,516,242) | - | (4,516,242) | - | (4,516,242) |
| Fair value reserve of financial assets at fair value through other comprehensive income | (3,042,026) | - | (3,042,026) | - | (3,042,026) |
| Cumulative translation adjustments | 4,344,422 | - | 4,344,422 | - | 4,344,422 |
| Equity reserve | 29,091,712 | - | 29,091,712 | - | 29,091,712 |
| Retained earnings | 267,836,258 | - | 267,836,258 | - | 267,836,258 |
| Treasury stock | (13,070,802) | 600,000 | 12,470,802 | 400,000 | 12,070,802 |
| Reserves under PFRS 5 | - | - | - | - | - |
| | **367,062,529** | **15,000,000** | **382,062,529** | **10,000,000** | **392,062,529** |
| Non-controlling interests | 228,236,515 | - | 228,236,515 | - | 228,236,515 |
| **Total Equity** | **595,299,044** | 15,000,000 | **610,299,044** | **10,000,000** | **620,299,044** |
| | | | | | |
| **Total Capitalization***** | ₱1,147,786,911 | ₱15,000,000 | ₱1,162,786,911 | ₱10,000,000 | ₱1,172,786,911 |

** Reflects gross proceeds of ₱15.0 billion assuming a total issue size of ₱15.0 billion of Preferred Shares .*
*** Reflects an additional ₱10.0 billion in gross proceeds assuming the Oversubscription Option is exercised, bringing the total issue size to ₱25.0 billion of Preferred Shares .*
****Total capitalization is the sum of Total Debt and Total Equity.*

# DILUTION

The Company is offering to the public by way of re-issuance up to 6,000,000 preferred “A” shares, with an Oversubscription Option of up to an additional 4,000,000 preferred “A” shares with a par value of ₱100.00 per share in a separate and distinct series to be issued from an existing class of preferred “A” shares held in treasury by Ayala. The re-issuance of the Preferred Shares will not have any effect on the amount and percentage of present holdings of common holders, or any dilutive effect on the earnings per common share (“**EPS**”) of the Company, since the Preferred Shares are not convertible to common shares and the Preferred Shares do not participate in dividends of the common shares or vice versa. Therefore, the outstanding number of common shares that will be used in computing the EPS will not change.

The Preferred Shares may be owned or purchased by any person, partnership, association or corporation regardless of nationality, provided that at any time, at least 60% of the outstanding capital stock of Ayala shall be owned by citizens of the Philippines or by partnerships, associations or corporations at least 60% of whose outstanding capital stock and whose voting stock or voting power is owned and controlled by citizens of the Philippines. Accordingly, Ayala may reject an Application for the Preferred Shares or reduce the number of Preferred Shares applied for purchase by a foreign investor to maintain the 60% Philippine ownership requirement.

The Board approved on March 9, 2023 the re-issuance of up to 10,000,000 preferred “A” shares with a par value of ₱100.00 per share.

# DETERMINATION OF OFFER PRICE

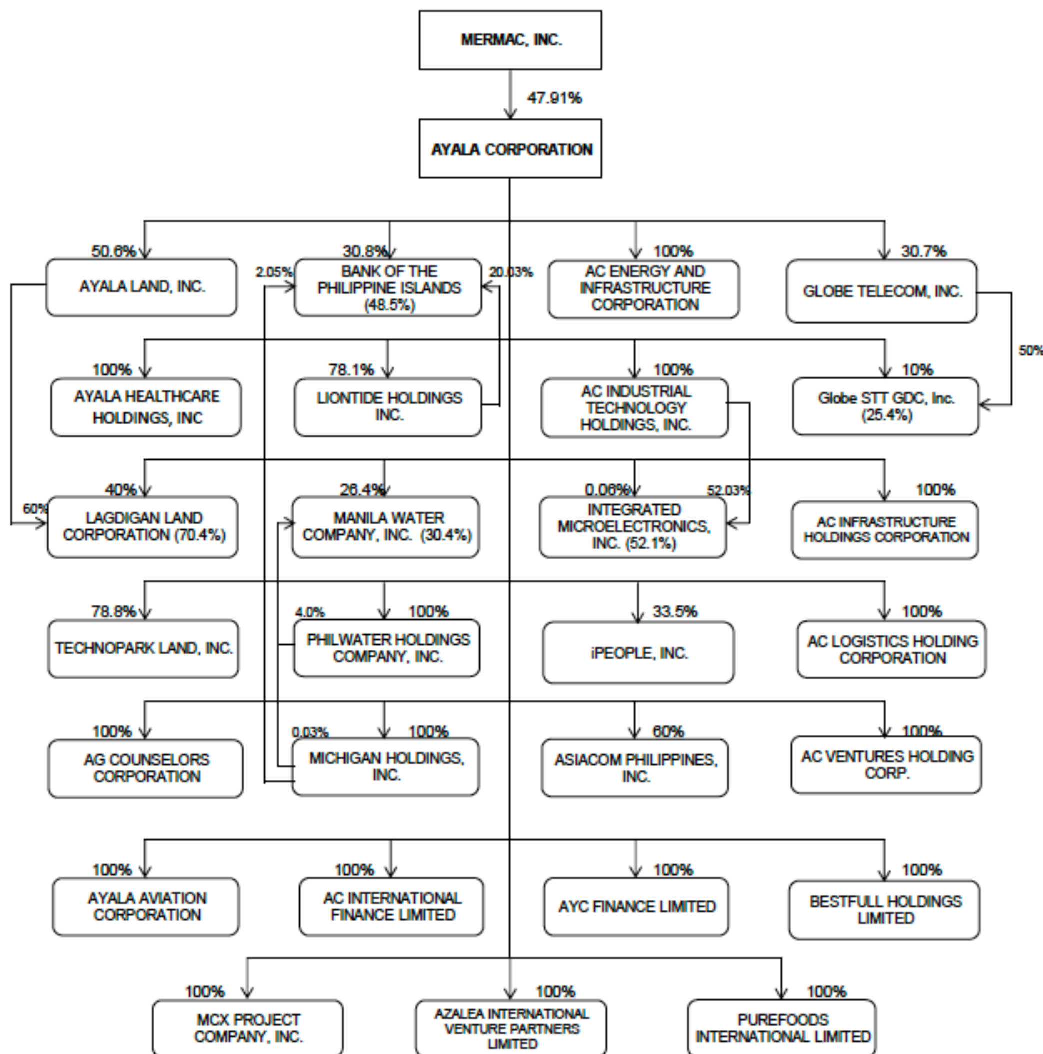
The Offer Price of ₱2,500.00 is at a premium to the Preferred Shares' par value per share of ₱100.00. The Offer Price was arrived at by dividing the desired gross proceeds of approximately ₱15,000,000,000.00 (or ₱25,000,000,000.00 in the event that the Oversubscription Option is exercised in full) by the target amount of Preferred Shares allocated for the Offer.

# THE COMPANY

*This section 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 audited financial statements and the related notes to those statements included in this Prospectus.*

## OVERVIEW

The Company, one of the largest conglomerates in the Philippines, is organized as a holding company with equity interests in the various Ayala Group companies. The Ayala Group companies engage in the following sectors: real estate, financial services, telecommunications, power, healthcare, logistics, water, industrial technologies, infrastructure education and technology ventures. Set forth below is a chart depicting the Company's portfolio of investments and its effective economic ownership interests in those businesses as of December 31, 2022:




**Legend:**
% of ownership appearing outside the box - direct % of economic ownership
% of ownership appearing inside the box - effective % of economic ownership

## The Company

The Company's activities across multiple industries provides a broad exposure to one of the fastest growing economies in South East Asia.

The Company's consolidated revenue for the years ended 2019, 2020, 2021 and 2022 was ₱295,264.8 million, ₱219,841.0 million, ₱255,777.6 million, and ₱306,644.3 respectively, while consolidated net income for the years ended 2019, 2020, 2021, and 2022 was ₱41,982.3 million, ₱29,270.3 million, ₱36,036.1 million, and ₱45,873.9 million respectively. The Company's consolidated net income for the three years ended December 31, 2022 was primarily derived from BPI and Globe, which directly and indirectly contributed ₱18.530 billion and ₱10.349 billion, respectively.

The Company is currently listed on the PSE. The market capitalization of the Company as of December 31, 2022, based on the closing price of ₱695 per share, was approximately ₱438 billion.

The following table sets forth the Company's principal operating Subsidiaries and its economic ownership interest in those companies as of December 31, 2022:

| | Percentage of Economic Ownership |
|---|---|
| Real Estate: | |
| Ayala Land and subsidiaries | 50.6 |
| Technopark Land, Inc. | 78.8 |
| Electronics Manufacturing: | |
| IMI and subsidiaries | 52.1 |
| Information Technology and Business Process Outsourcing Services: | |
| Azalea International (British Virgin Islands company) (with subsidiaries) | 100.0 |
| Industrial Technology and Vehicle Retail: | |
| AC Industrials and subsidiaries | 100.0 |
| Water: | |
| Philwater Holdings Company, Inc. | 100.0 |
| Power | |
| ACEIC (with subsidiaries) | 100.0 |
| International and Others: | |
| AC Infrastructure Holdings Corporation (with subsidiary) | 100.0 |
| ACIFL and subsidiary (Cayman Island company) | 100.0 |
| AG Counselors Corporation | 100.0 |
| Ayala Aviation Corporation | 100.0 |
| AYC Finance Limited (Cayman Island company) | 100.0 |
| AC Health (with subsidiaries) | 100.0 |
| AC Ventures | 100.0 |
| AC Logistics Holding Corporation | 100.0 |
| Bestfull Holdings Limited (incorporated in Hong Kong) and subsidiaries | 100.0 |
| Darong Agricultural and Development Corporation | 0.0 |
| Michigan Holdings, Inc. and subsidiary | 100.0 |
| Purefoods International Ltd | 100.0 |

The following table sets forth the Company's principal Associates and Joint Ventures and its economic ownership interest in those companies as of December 31, 2022:

| | Percentage of Economic Ownership |
|---|---|
| Domestic: | |
| BPI and subsidiaries** | 32.9 |
| Liontide Holdings, Inc.* | 78.1 |
| Globe* | 30.7 |
| Manila Water | 30.4 |
| Ortigas Land Corporation | 21.0 |
| AA Thermal | 40.0 |

| | |
|---|---|
| iPeople | 33.5 |
| Light Rail Manila Holdings, Inc. | 50.0 |
| ALI-ETON Property Development Corporation* | 50.0 |
| Philippine Wind Holdings Corporation* | 40.3 |
| Emerging City Holdings, Inc.* | 50.0 |
| AKL Properties, Inc.* | 50.0 |
| Berkshire Holdings, Inc. * | 50.0 |
| CDPEI* | 50.0 |
| Asiacom Philippines, Inc.* | 60.0 |
| Bonifacio Land Corporation | 10.0 |
| Alveo-Federal Land Communities Inc.* | - |
| Globe STT GDC Inc. (formerly KarmanEdge Inc.)* | 10.0 |
| Ingrid Power Holdings, Inc. (Ingrid) | 50.0 |
| North Luzon Renewable Energy Corp. | 33.3 |
| Global Fintech Innovations, Inc. | 5.2 |
| Globe STT GDC Inc. | 10.0 |
| MCX Project Company, Inc. | 100.0 |
| Foreign: | |
| Star Energy Geothermal B.V. (incorporated in the Netherlands) | 19.8 |
| BIM Renewable Energy Joint Stock Company (BIME) (incorporated in Vietnam)* | 30.0 |
| UPC-AC Energy Australia (HK) Ltd. (incorporated in Hong Kong)* | - |
| Others | Various |

* Joint Ventures

**HISTORY**

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

The Ayala Group’s business activities were, for some time, primarily focused on real estate, banking and insurance. In the 1970s and 1980s, the Ayala Group expanded its existing businesses through organic growth and acquisitions. During this period, the Group also materially diversified its activities and disposed of interests that it considered peripheral to its business strategy. Further discussion of the history of certain Ayala Group companies is included elsewhere in this section.

**THE COVID-19 PANDEMIC**

The COVID-19 pandemic which was at its peak from 2020 and 2021,had adversely affected Group’s businesses and results of operations due to its impact on peoples’ health, the pressure it placed on our healthcare system, and the stricture quarantine masures it caused that led to massive disruption.

In 2022, a majority of the world (>70%) and Philippine population (>60%) was successfully vaccinated against COVID-19, drastically reducing the infection rate worldwide. Coupled with operational and business protocols developed over the height of the pandemic, 2022 became a year of recovery as quarantine restrictions finally fully lifted. This resulted in mobility along with activity in many sectors of the economy fully recovering to pre-pandemic levels and, in some cases, even exceeding it.

**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 and incubate new businesses. 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.

The Group's strategic priority revolves around its 3-point agenda, which includes (a) supporting the continued expansion of its core businesses that are well-positioned to capture fundamental shifts triggered by the pandemic, (b) supporting its emerging units, AC Health and AC Logistics, to achieve scale and become new sources of growth and value for Ayala, and (c) sharpen its portfolio and strengthen its balance sheet through value realization initiatives from which it aims to raise $1 billion in proceeds by 2023.

Ayala maintains a healthy balance sheet with access to various financing options to meet debt and dividends 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.

### 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, total assets, investment properties and property, plant, and equipment additions:

| In Million Pesos | **Revenue** | | | | **Total Assets** | | | **Investment Properties and Property, Plant and Equipment Additions** | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2022** | 2021 | 2020 | 2019 | **2022** | 2021 | 2020 | **2022** | 2021 | 2020 |
| Philippines | **₱161, 384** | ₱188,684 | ₱159,039 | ₱225,705 | **₱1,322,608** | ₱1,169,411 | ₱1,123,684 | **₱48,712** | ₱37,161 | ₱16,136 |
| Europe | **51, 140** | 29,894 | 29,036 | 32,626 | **-** | 29,121 | 23,462 | **731** | 821 | 494 |
| Asia | **81,542** | 25,648 | 24,069 | 23,561 | **124,847** | 115,469 | 226,546 | **673** | 223 | 241 |
| USA | **12, 578** | 11,552 | 7,697 | 13,373 | **31,090** | 34,985 | 32,066 | **218** | 244 | 33 |
| | **₱306,644** | ₱255,778 | ₱219,841 | ₱295,265 | **₱1,478,545** | ₱1,348,986 | ₱1,405,758 | **₱50,334** | ₱38,449 | ₱16,904 |

### 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 in 2022 as a result of the exercise of the ESOP and the subscription to the ESOWN plans:

| | No. of shares | |
|---|---|---|
| **Year** | **ESOP** | **ESOWN*** |
| 2022 | 15,120 | 474,346 |
| 2021 | 253,806 | 558,849 |

**Net of cancelled subscriptions.*

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**").

### 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 entered into the following significant contract or agreement within the past two years immediately preceding this filing subject to the obtention of regulatory approval:

> In January 2022, Ayala, Mermac, and ALI signed a Deed of Exchange for the transfer of assets by Ayala and Mermac to ALI in exchange for the latter's primary common shares. Ayala has subscribed to 309,597,711 primary common shares of ALI in exchange for assets valued at ₱17,275,552,273.80 at a value of ₱55.80 per share, as validated by a third-party fairness opinion. The SEC approved the transaction on December 29, 2022.

## 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.

Ayala has an approval requirement such that material related party transactions (**"RPT"**) shall be reviewed by the Risk Management and Related Party Transactions 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 and Related Party Transactions 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 and Related Party Transactions Committee.

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.

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 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.

## GOVERNMENT REGULATIONS AND AUTHORIZATIONS

The Company possesses, and each of its principal Subsidiaries possesses, all government authorizations and approvals necessary to conduct their respective businesses and the Issuer is, and each of its principal Subsidiaries is, in material compliance with such authorizations and approvals.

## 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 188 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 July 14, 2022 (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. The Compliance Officer reports the results to the Board in the next meeting after the assessment. Every three years, the board assessment is conducted by an independent third party. In 2020, the assessment was conducted by Aon plc.

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.

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 Board Charter and Revised Manual were updated on July 14, 2022 to align with the Board's oversight responsibility on Sustainability and Climate-related matters.

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. To date, the Board has three female directors, surpassing its board diversity target three years ahead of schedule. Further, to ensure the protection of shareholder interests and the integrity of its related party transactions, the Company regularly reviews and updates 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 Unit, information requirements of the investing public and minority shareholders are fully disclosed to securities regulators on time.

In 2022, Ayala's Investor Relations Unit utilized both traditional and virtual channels to engage with its stakeholders as the pandemic dies down. Throughout the year, the group's senior management team proactively engaged investors and analysts to provide regular updates on how the company's performance and initiatives across strategic, financial, and operational aspects. The Company laid out a Three-Point Strategic Agenda for 2023 before the investor community and the capital market to demonstrate its efforts towards managing through the impact of the pandemic, adjusting to the

disruptions, and taking advantage of opportunities from the fundamental shifts that emerged from the global health crisis.

Regular events conducted by the Investor Relations Unit include virtual investors' and analysts' meetings, investor conferences, the Company's Annual Stockholders' Meeting, and quarterly earnings calls. Additionally, the Company conducted thematic sessions featuring key business units in Ayala's portfolio, tackling relevant topics such as reopening of the economy, digitalization, decarbonization, and ESG.

# BUSINESS

*The following section discusses updates to the Business after the date of the Prospectus and must be read in conjunction with the Prospectus. This section 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 audited financial statements and the related notes to those statements included in this Prospectus.*

## REAL ESTATE

The Ayala Group has been in the real estate business since 1947. It is responsible for transforming Makati into the premier central business district of the Philippines and the site of some of Metro Manila's most prestigious residential communities.

Ayala Land was the real estate division of the Company until 1988 when it was spun-off and incorporated to enhance management focus on, and to highlight the value of assets, management and capital structure of, the real estate business. The company's shares were offered to the public and listed on the Manila and Makati Stock Exchanges (the predecessors of the PSE) in 1991. This IPO diluted the Company's effective voting and economic interests in Ayala Land to 88%. The Company's effective voting and economic interests are 70.33% and 50.6%, respectively, as of December 31, 2022 through, among other things, the exercise of stock options by the employees of the Company and Ayala Land, disposals of company shares by the Company, conversions of the company's other securities into the company's common shares and top-up placements of the company's common shares.

Ayala Land is the largest and most diversified real estate conglomerate in the Philippines. It is engaged in land acquisition, planning, and development of large scale, integrated, mixed-use, and sustainable estates, industrial estates, development and sale of residential and office condominiums, house and lots, and commercial and industrial lots, development and lease of shopping centers and offices, co-working spaces, and standard factory buildings and warehouses, and the development, management, and operation of hotels and resorts and co-living spaces. The Company is also engaged in construction, property management, retail electricity supply and airline services. It also has investments in AyalaLand Logistics Holdings Corp., Ortigas Land Corp., MCT Bhd., and Merkado Supermarket. Ayala Land has forty nine (49) estates, is present in fifty-seven (57) growth centers nationwide and has a total land bank of 12,492 hectares as of December 31, 2022.

### New Projects

ALI launched ten residential developments in the fourth quarter, bringing the consolidated value to ₱91.42 Billion totaling 30 projects by yearend. These include ALP's Ciela Phase 2A Batch 1 at Carmona, Cavite, Miravera at Altaraza, Bulacan, and Arcilo at Nuvali, Laguna; and Alveo's Verdea at Silang, Cavite, and South Palm Grove at Areza in Lipa, Batangas.

### Businesses

Ayala Land's businesses are organized into several core and non-core supporting business units. Its core business units consist of property development, strategic landbank management, shopping center leasing, office leasing and hotels and resorts. Its non-core, supporting business units include construction and property management. The chart below sets out Ayala Land's revenues for the year ended December 31, 2022, broken down by business segment:

| | For the year ended December 31, 2022 |
|---|---|
| Residential | 63.5 |
| Shopping Centers | 16.1 |
| Offices | 11.1 |
| Hotels and Resorts | 6.2 |
| Construction | 4.2 |
| PM and Others | 4.2 |
| Total | 124.5 |

***Selected Key Performance Indicators***

| | As of December 31, 2022 |
|---|---|
| **Financial Performance Indicators** | |
| Current Ratio[1] | 1.78:1 |
| Debt-to-Equity Ratio[2] | 0.80:1 |
| Net Debt-to-Equity Ratio[3] | 0.76:1 |
| Return on Assets[4] | 2.95% |
| Assets-to-Equity Ratio[5] | 2.65:1 |
| Interest Rate Coverage Ratio[6] | 4.83:1 |
| | |
| **Operational Performance Indicators** | |
| Shopping center gross leasable area (million sq.m.) | 2.1 |
| Shopping center occupancy | 81% |
| Office gross leasable area (million sq.m.) | 1.4 |
| Office occupancy | 88% |
| Hotel and resort rooms | 4,058 |
| Hotel occupancy | 59% |
| Resort occupancy | 29% |

1 Current assets/current liabilities

2 Total debt/Total stockholders' equity. Total debt consists of short-term debt, long-term debt - net of current portion and current portion of long-term debt)
The calculation for Debt-to-Equity Ratio is as follows:

| | As of December 31, 2022 (Audited) |
|---|---|
| Short-term debt | 6,574 |
| Current portion of long-term debt | 19,258 |
| Long-term debt – net of current portion | 210,233 |
| Total debt | 236,066 |
| Total Stockholders' Equity | 293,665 |
| **Debt-to-Equity Ratio** | **0.80:1** |

3 Net debt/Total stockholders' equity. Net debt equals total debt less cash and cash equivalents, short-term investments and Financial Assets at Fair Value through Profit and Loss
The calculation for Net Debt-to-Equity Ratio is as follows:

| | As of December 31, 2022 (Audited) |
|---|---|
| Short-term debt | 6,574 |

| | As of December 31, 2022 (Audited) |
|---|---|
| Current portion of long-term debt | 19,258 |
| Long-term debt – net of current portion | 210,233 |
| Total debt | 236,066 |
| Less: | |
| Cash and cash equivalents | 11,885 |
| Short-term investments | 331 |
| Financial Assets at Fair Value through Profit and Loss | 292 |
| Net debt | 223,558 |
| Total Stockholders' Equity | 293,665 |
| **Net Debt-to-Equity Ratio** | **0.76:1** |

4 Total net income/average total assets
Average for December figures is based on the sum of the December figures of the prior year and the current year divided by two. Average for June figure is based on the sum of the June figures of the prior year and the current year divided by two.
5 Total assets/total stockholders' equity
6 EBITDA/Interest expense where EBITDA is calculated as income before income tax plus interest and other financing charges, other charges and depreciation and amortization, less interest and investment income.
The calculation for interest rate coverage ratio is as follows:

| | For the year ended December 31, 2022 (Audited) |
|---|---|
| Income before income tax | 28,220 |
| Interest and other financing charges | 11,447 |
| Other charges | 3,996 |
| Depreciation and amortization | 9,689 |
| Less: interest and investment income (including interest income from real estate sales) | 7,082 |
| EBITDA | **46,270** |
| Interest expense (excluding interest expense from lease liabilities) | **9,581** |
| **Interest Rate Coverage Ratio** | **4.83:1** |

### *Property Development*

Ayala Land's property development business comprises its Strategic Land Bank Management Group, Visayas-Mindanao Group, Residential Business Group and MCT Bhd, Ayala Land's listed subsidiary in Malaysia.

(a) *Strategic Landbank Management*

Ayala Land's strategic landbank management group is involved in the acquisition and development of large, mixed-use, masterplanned communities and serves as platform for all of Ayala Land's developments – residences, malls, offices, and all the services that make up a vibrant and sustainable community.

With a long-term horizon, the strategic landbank management group views its key landbank areas as platforms for growth. Its approach to landbanking is oriented towards value creation and realization. The strategic landbank management group applies financial discipline with a focus on yields, cash flows, and the judicious buying and selling of lots at the opportune time. The group develops, updates and refines masterplans, providing clear framework for decision making. It also engages community-based stakeholders such as local government units and other government entities to assure that vital infrastructure is in place to support the long-term development plans. Embedded in all these, and central to value creation and retention over time, is the concept of sustainability.

As of December 31, 2022, Ayala Land's land bank portfolio of 12,483 hectares is composed of 274 hectares in Metro Manila, 10,063 hectares in other areas in Luzon and 2,146 hectares in Visayas and Mindanao.

*Visayas-Mindanao Group*

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

(b) *Residential Business Group*

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

Ayala Land plans to continue to grow its residential development business line, which accounted for 64% of consolidated revenues for the year ended December 31, 2022 . A robust project pipeline is expected to enable Ayala Land to expand its product offerings in existing areas and accelerate geographic expansion, aided by strategic landbanking and mixed-use development and project management projects.

Ayala Land expects to strengthen and provide clear differentiation across its five residential brands, each targeting a distinct segment of the market: *ALP* for the luxury segment, *Alveo* for the upscale market; *Avida* for the middle-income housing segment; *Amaia* for the affordable housing segment; and *BellaVita* for the socialized housing segment.

To be more competitive, Ayala Land expects to continue to enhance margins by leveraging its brand and track record to maximize pricing power where possible, along with managing construction costs and streamlining the project delivery process.

Ayala Land's ongoing residential projects under the ALP brand include Park Central Towers North & South, Andacillo, One Vertis Plaza and Ayala Greenfield Estates. These projects are currently under construction and are in various stages of completion ranging from 65% to 81%. Under the Alveo brand, key ongoing projects include Broadfield, Corvia, Cerule in Solinea and Callisto Tower 2. These projects are currently under construction and are in various stages of completion ranging from 45% to 72%. Under the Avida brands, key ongoing projects include Averdeen Estates Phase 1, Avida Settings Alviera Phase 3, Cloverleaf Tower 2 and Verge Tower 1. These projects are currently under construction and are in various stages of completion ranging from 50% to 90%. Under the Amaia brand, key ongoing projects include Skies Shaw Tower 2, Scapes General Trias, Skies Avenida T2, and Series Vermosa S1. These projects are currently under construction and are in various stages of completion ranging from 48% to 98%. Under the Bellavita brand, key ongoing projects include BV Naga, BV Cabanatuan 2 and BV Alaminos 2. These projects are currently under construction and are in various stages of completion ranging from 25% to 98%.

International Sales accounted for 34% of total sales for the fiscal year ended December 31, 2022.

(c) MCT

MCT Berhad (Malaysia) contributed revenues of ₱2.76 Billion, 29% lower than ₱3.88 Billion, due to inventory sellout of nearly completed legacy projects and incremental POC of newly launched projects (Aetas and Casa Bayu).

***Commercial Leasing***

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

(a) *Shopping Centers*

The Ayala Malls group is involved in the development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; and management and operations of malls which are co-owned with partners. involved in the development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; and management and operations of malls which are co-owned with partners.

Ayala Land operates movie theater complexes with more than fifty (50) screens situated in its shopping centers. The movie theaters are operated primarily as a means of attracting customers to its shopping centers. The theaters are managed by Ayala Theaters Management, Inc. and Five Star Cinema, Inc., wholly-owned subsidiaries of Ayala Land.

Leases for retail space within the shopping centers are generally short-term, ranging from one to five years for the initial lease, renewable annually. Land leases, on the other hand, have longer terms, usually up to fifty (50) years in the case of hotel tenants. In general, rental rates for retail space equal the higher of (i) a basic rent plus a percentage of the tenant's gross sales, or (ii) a specified minimum amount. Rental rates for leases on hotel and department store sites are generally based on a percentage of gross sales.

Ayala Land's large-scale mixed-use developments that feature a retail component are greatly enhanced by the quality and distinctiveness of the retail concepts conceived and implemented by AMG. At the BGC, for instance, Serendra, BHS and BHS Central are priming the development in its City Center. Serendra's retail zone complements the suburban lifestyle of the residential development with authentic and unique restaurants and shops.

Recognizing the impact of COVID-19 on its merchants, Ayala Malls provided rent condonation and subsidy for the duration of the various community quarantines. In 2020, the total support extended amounted to ₱6.2 Billion and in 2021 and 2022, the total support extended amounted to ₱7.2 Billion and approximately ₱2.4 Billion, respectively. Health and safety measures were strictly implemented in accordance with government protocols to protect mall patrons.

Ayala Malls also focused on various digital initiatives in response to the new operating landscape. Z!ng, its digital concierge and loyalty app, was further enhanced to include a virtual mall with 61 merchants and an eGift Marketplace. It also rolled out the AyalaMalls Neighborhood Assistant ("**ANA**"), a personal shopper service for mall patrons. Other initiatives introduced were Live Online Shopping at Pasyal TV and DriveBuy, a curbside pick-up facility for callers and online shoppers.

(b) *Offices Group*

Ayala Land Offices Group is involved in the development and lease or sale of office buildings and fee-based management and operations of office buildings.

Ayala Land aims to be the leading provider of office space for BPOs and significantly built up its BPO portfolio from end-2007 levels of 35,803 sqm of GLA. The build-up involved a variety of offerings - in very choice locations - covering stand-alone, build-to-suit office buildings, integrated nodes within large-mixed used developments such as Glorietta 5, Glorietta 1 & 2, and Vertex One in San Lazaro, and entire self-contained BPO and IT campuses like the UP-Ayala Land TechnoHub, One and Two Evotech Buildings in NUVALI, and the AyalaLand Baguio TechnoHub, to name a few.

While Makati has been well established as the country's premier CBD for decades, the prospects are bright for BGC to mirror Makati's success in the future. Large corporates have purchased land and have chosen to build or relocate their offices in BGC.

The office leasing business remained resilient on the back of sustained BPO and headquarter-type operations. Despite restrictions on construction, Ayala Land Offices ("**ALO**") added two new office buildings to its portfolio, with BGC Corporate Center 2 with 27,000 sqm and Central Block Corporate Center 2 in Cebu with 39,000 sqm of GLA.

All office properties adhered to IATF health and safety guidelines. Service personnel were housed on-site at the height of the pandemic to protect their health and safety as well as assure the continued operations of all buildings. To support BPO tenants, accommodations at Seda Hotels were arranged for their employees.
The Ayala Land offices group is involved in the development and lease or sale of office buildings and fee-based management and operations of office buildings.

Average and stable occupancy rate registered at 86%, for the year ended December 31, 2021. Ayala Land owns and operates eight (8) traditional and sixty-four (64) BPO buildings with a combined total GLA of 1.32 million square meters as of December 31, 2021, with the delivery of approximately 63,000 sq. meters of GLA at Ayala Triangle Gardens Tower 2 and 31,000 sq. meters of GLA at One Ayala Tower 1.

(c) *Hotels and Resorts*

Ayala Land is also involved in the development, operation and management of branded and boutique/businessman's hotels and eco-resorts.

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.
The average occupancy for all hotels and stable hotels was at 53%. Meanwhile, the average occupancy for all resorts stood at 17% and 15% for stable resorts. The hotels and resorts segment ended 2021 with a total of 4,030 rooms.

(d) *Co-Living Spaces*

The Flats, launched its Safe Co-Living campaign showcasing its different safety measures, including frequent sanitation of common areas, UV disinfection, free sanitation kits, and monitored resident access. It offered flexible and affordable accommodation packages to help address the needs of the workforce seeking safe lodging during this time.

(e) *Co-Working Space (Clock In)*

Clock In provides flexible, co-working and serviced office facilities to start-ups, small, and mid-sized enterprises. With eight facilities located in the Makati CBD, BGC, Quezon City, Pasig City, Alabang, and Lio Palawan. Clock In offers a total of 1,411 seats as of end-2022.

(f) *Industrial Parks*

Standard Factory Buildings and Warehouses (ALogis) Listed subsidiary AyalaLand Logistics Holdings Corp. (ALLHC) established the ALogis brand for its industrial leasing business. It has standard factory buildings that cater to locators that need ready-built industrial facilities. As of December 31, 2022, total GLA of ALogis reached 309,000 sqm.

***Services***

Ayala Land's services businesses comprise construction of Ayala Land and third-party projects by Makati Development Corporation ("**MDC**"), property management through Ayala Property Management

Corporation ("**APMC**"), retail electricity supply through Direct Power Services, Inc. ("**DPSI**"), Ecozone Power Management, Inc. ("**EPMI**") and Philippine Integrated Energy Solutions, Inc. ("**PhilEnergy**"), and airline services through AirSWIFT for Ayala Land's tourism estates in Lio, Palawan and Sicogon Island resort, through AirSWIFT's fleet of four modern turbo-prop aircrafts.

(a) *Construction*

A wholly-owned subsidiary of Ayala Land, MDC is engaged in engineering, design and construction of vertical and horizontal developments including roads, bridges and utilities. MDC is responsible for horizontal construction works at Ayala Land's land developments and is likewise engaged in private industrial and government infrastructure projects. MDC also developed residential condominium buildings and mall projects. It continued to service site development requirements of Ayala-related projects while it provided services to third-parties in both private and public sectors. MDC collaborated with First Balfour, Inc. to build the state-of-the-art 600-bed St. Luke's Medical Center at BGC, which was completed in November 2009 and was opened to the public in January 2010.

MDC's outstanding workmanship was demonstrated by the Leadership in Energy and Environmental Design ("**LEED**") Gold Certification by the U.S. Green Building Council for the design and construction of the US Embassy expansion project in Manila – the first for a non-American contractor.

MDC Build Plus was likewise formed, a 100% subsidiary of MDC, which caters primarily to projects focusing on the lower end of the base of the pyramid, particularly the residential brands Amaia and BellaVita. MDC is engaged in engineering, design and construction of vertical and horizontal developments including roads, bridges and utilities. MDC is responsible for horizontal construction works at Ayala Land's land developments and is likewise engaged in private industrial and government infrastructure projects. MDC also developed residential condominium buildings and mall projects. It continued to service site development requirements of Ayala-related projects while it provided services to third-parties in both private and public sectors. MDC collaborated with First Balfour, Inc. to build the state-of-the-art 600-bed St. Luke's Medical Center at BGC, which was completed in November 2009 and was opened to the public in January 2010.

*As of December 31, 2022, MDC managed a total of 387 projects with a net order book value of ₱79.9 billion.*

(b) *Property Management*

APMC is engaged in property management, principally for Ayala Land and its subsidiaries. It also provided its services to third-party clients.

APMC guarantees worry-free ownership and helps property owners over the long haul in such areas as water, power and telecommunications, security, sustainable design and best practices aligned with green buildings, and assistance in managing the properties of owners living elsewhere. It offers a full suite of services not only to Ayala property owners and lessees but also to third party clients, including a centralized 24/7 concierge service as well as manages third party-carparks and is considered one of the largest third party carpark operators in the country today. Among its key third-party clients are the Makati Medical Center, Philippine Heart Center, Exim 2, Dusit Carpark and ABS-CBN.

As of December 31, 2022, APMC managed a total of 269 properties with a total contract value of ₱1.5 billion.

**Other Businesses**

***REIT***

AREIT, Inc. ("**AREIT**"), a subsidiary of Ayala Land, was listed as a real estate investment trust ("**REIT**") on the Philippine Stock Exchange on August 13, 2020. AREIT is a REIT formed primarily to own and invest in income-producing commercial portfolio of office, retail, and hotel properties in the Philippines, that meets its investment criteria. As of December 31, 2022, Ayala Land's effective ownership of AREIT was at 66.01% as a result of the public offering.

As of December 31, 2022, AREIT's properties were as follows:

- ***Solaris One***, a 24-story, Grade A, PEZA-accredited commercial building previously known as EServices 3 Dela Rosa Building, which was completed in 2008, contains 46,767.95 square meters of gross leasable area, and 73,322 square meters of gross floor area and is located at 130 Dela Rosa Street, Legaspi Village, Makati City, the Philippines.
- ***Ayala North Exchange***, a Grade A, mixed-use development, previously known as project City Gate, which consists of two towers situated on top of a 3-story retail podium as well as a collection of serviced apartments branded as Seda Residences Makati. The first tower is a 30-story building consisting of 12-story HQ Office, with the remaining 18-stories housing Seda Residences Makati composed of 293 serviced apartments, other amenities and the back-of-house area. The second tower is a 20-story, PEZA-accredited BPO Office designed for 24/7 operations. There are six levels of basement parking. Both office towers are PEZA-accredited. The HQ Office space was completed in late-2018, while the BPO Office and serviced apartments were completed in the first and third quarters of 2019, respectively. The gross leasable area of Ayala North Exchange is 95,300.35 square meters and its gross floor area is 120,154 square meters. It is located at 6796 Ayala Avenue corner Salcedo Street, Legaspi Village, Makati City, the Philippines.
- ***McKinley Exchange***, a 5-story Grade A, PEZA-accredited mixed-use development, which began operations in 2015, with gross leasable area of 10,687.50 square meters, 9,633.32 square meters of which is designated for commercial office leasing, and gross floor area of 14,598.40 square meters, on a plot of land with an area of 4,513 square meters, located along McKinley Road corner EDSA in Makati, Metro Manila's preeminent financial business district. The building also incorporates two basement levels for car parking, offering a total of 120 parking slots. On January 31, 2020, AREIT entered into a contract of lease with Ayala Land for the lease of the office and retail building.
- ***Teleperformance Cebu***, a Grade A, mixed-use development owned by APRC, a wholly-owned subsidiary of Ayala Land, which consists of two PEZA-accredited BPO offices, completed in 2011 with a combined gross leasable area of 18,092.66 square meters located at Inez Villa Street, Cebu I.T. Park, Brgy. Apas, Cebu City.
- ***Laguna Technopark Land***, located in Laguna Technopark, with the leased land composed of four (4) parcels occupied by IMI in two (2) sites currently under a long-term lease for its global manufacturing and technology solutions. The parcels have a gross leasable area of 98,179 square meters.
- ***The 30th***, a commercial building completed in 2017. It is composed of a 19-story office tower with a GLA of 47,781 square meters and a 4-story retail podium with a GLA of 26,833 square meters which is operated by North Easter Commercial Corp., a wholly-owned subsidiary of Ayala Land under the AyalaMalls brand. Located along Meralco Avenue in Pasig City, the building has a total GLA of 74,704 square meters.
- ***Vertis North Commercial Development,*** a mixed-use development located in North Avenue, North Triangle, Quezon City, which consists of three (3) office towers situated on top a four (4)- storey retail podium known as Vertis North Commercial Development. The three (3) office towers consist of 19, 20, and 20-storeys, respectively. All office towers are Philippine Economic Zone Authority ("**PEZA**")-accredited business process outsourcing offices designed for 24/7 operations, and LEED-certified. There are four (4) levels of basement parking. The retail podium was completed in 2017, while the office towers 1, 2, and 3 were completed in 2018, 2018, and 2019, respectively. The GLA of the retail podium is 39,305.76 square meters (sq. m.), while the office towers are composed of 125,507.39 sq. m. of GLA. The land on which Vertis North Corporate Center stands is being leased from Ayala Land, Inc.
- ***One Evotech,*** a four (4)-storey PEZA-accredited, LEED Silver Certified, campus type, BPO office designed for 24/7 operations, with a gross leasable area of 12,049 sq. m., located at the Lakeside Evozone, Nuvali, Sta. Rosa, Laguna. The land on which One Evotech stands is owned by the Ceci Realty, Inc., an affiliate of ALI, and is leased by AREIT with a remaining term of 37 years.
- ***Two Evotech,*** a 5-storey PEZA-accredited, BPO office designed for 24/7 operations, with a gross leasable area of 11,675 sq.m., located at the Lakeside Evozone, Nuvali, Sta. Rosa, Laguna. The land on which One Evotech stands is owned by the Ceci Realty, Inc., an affiliate of ALI, and is leased by AREIT for a remaining term of thirty-seven (37) years.

- ***Bacolod Capitol Corporate Center***, a seven (7)-storey PEZA-accredited BPO building designed for 24/7 operations, with a gross leasable area of 11,313 sq. m. The land on which Bacolod Capitol Corporate Center stands is owned by the Province of Negros Occidental, and is leased by AREIT from the Province of Negros Occidental with a remaining term of 40 years.
- ***Ayala Northpoint Technohub***, a two (2)-storey PEZA-accredited BPO office facility designed for 24/7 operations with a gross leasable area of 4,653 sq.m., The site is located at The District North Point, Barangay Zone 15, Talisay City, Negros Occidental. and is under a land lease agreement with ALI with a remaining term of thirty-seven (37) years.
- ***BPI-Philam Life Makati***, composed of three (3) office condominium units with a gross leasable area of 1,072 sq.m. located at the 19th floor, Ayala Life FGU Center, 6811 Ayala Avenue, Makati City. The land on which the building stands is owned by the Ayala Life FGU Center Condominium Corporation.

  ***BPI-Philam Life Alabang***, consists of six (6) office condominium units with total leasable area of 551 sq. m. located at the 7th floor of BPI-Philam Life Alabang, Alabang-Zapote Road corner Acacia Avenue, Madrigal Business Park, Muntinlupa City. The land on which the building stands is owned by the Ayala Life-FGU Center Alabang Condominium Corporation.
- ***eBloc 1,*** a twelve (12)-level, PEZA-accredited office development, located in Cebu IT Park with gross leasable area of 20,841.90 square meters ("**sq.m**")
- ***eBloc 2,*** a seventeen (17)-level, PEZA-accredited office development, located in Cebu IT Park with gross leasable area of 27,727.33 sq.m.

- ***eBloc 3***, a twelve (12)-level, PEZA-accredited office development, located in Cebu IT Park with gross leasable area of 15,233.00 sq.m.
- ***eBloc 4***, a twelve (12)-level, PEZA-accredited office development, located in Cebu IT Park with gross leasable area of 16,166.63 sq.m.
- ***ACC Tower***, a twenty (20)-level, PEZA-accredited office development, located in Ayala Center Cebu, Cebu Business Park with gross leasable area of 27,517.00 sq.m.
- ***Tech Tower***, a twelve (12)-level, PEZA-accredited office development, located along Sumilon corner Camiguin Roads, Cebu City with gross leasable area of 16,812.74 sq.m.

On March 7, 2023, the Board of Directors of AREIT, Inc. ("**AREIT**") approved the subscription of Ayala Land, Inc (ALI), and its subsidiaries, Ayalaland Malls, Inc. (ALMI), and Northbeacon Commercial Corporation (NBCC) to 607,559,380 AREIT primary common shares, in Exchange for flagship offices and malls with an aggregate value of P22,479,697,060, as validated by a third-party fairness opinion. The proposed property-for-share swap is for approval of AREIT shareholders at their annual meeting on April 26, 2023 and relevant regulatory bodies afterward. The transaction will be indicated in AREIT's Definitive Information Statement, which will be available to its shareholders by March 28, 2023. AREIT shall submit the required Comprehensive Corporate Disclosure on the transaction within the period set under the PSE Listing Rules.

On May 19, 2022, AREIT executed the Deed of Exchange with Ayala Land, Inc. ("**ALI**") on the property-for-share swap transaction involving the issuance of 252,136,383 primary common shares of AREIT to ALI, at an issue price of ₱44.65 per share in exchange for identified properties valued at Php11,257,889,535.91. On January 18, 2023, AREIT received the SEC approval of its property-for-share swap with Ayala Land, Inc. ("**ALI**") involving identified Cebu-properties in exchange for ALI's subscription to 252,136,383 primary common AREIT shares pursuant to the Deed of Exchange dated May 19, 2022. In line with this, the parties have executed an Amendment to Section 4.3 of the Deed of Exchange effecting the recognition of income from the new assets by AREIT for the fourth quarter of 2022.

On June 8, 2021, AREIT and Ayala Land and its subsidiaries, Westview Commercial Ventures Corp. and Glensworth Development, Inc., executed the Deed of Exchange on a property-for-share swap transaction for ₱15.5 billion worth of commercial assets. From a GLA of approximately 152,000 sq.m when it started, AREIT is slated to grow more than 70% to 549,000 square meters. The swap is expected to bring the value of AREIT's assets under management to ₱52 billion. On October 8, 2021, AREIT received the approval of the SEC of the Company's property-for-share swap. In line with this, the parties have executed an Amendment to Section 4.2 of the Deed of Exchange on October 7, 2021

so that the recognition of income from the new assets will accrue to AREIT beginning October 1, 2021, instead of November 1, 2021. This will enable shareholders to fully benefit from the contribution of the new assets starting in the fourth quarter of the year.

In 2021, recorded revenues of ₱3.32 billion and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) of ₱2.40 billion in 2021, 63% and 55% higher year-on-year, respectively, as a result of stable operations with a 98% occupancy and 98% rental collection rate. The company's full-year net income ended at ₱2.43 billion, inclusive of a net fair value change in investment properties of ₱165 million. Excluding the net fair value change in investment properties, net income registered at ₱2.27 billion, 56% higher than the net income before the net change in fair value, and a one-time deferred tax of ₱1.45 billion in 2020. The company's full-year dividends from its 2021 income totaled ₱1.77 per share, a 34% increase from 2020 and 12% higher than its REIT plan projection during the IPO due to asset acquisitions last year.

**Distribution 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 Ayala Land Premier ("**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.

The Overseas Filipino Workers ("**OFW**") market is being pursued through award-winning websites, permanent sales offices or broker networks, and regular roadshows with strong follow-through marketing support in key cities abroad. Ayala Land International Sales, Inc. ("**ALISI**"), created in March 2005, leads the marketing, sales and channel development activities and marketing initiatives abroad. ALISI has established marketing offices in northern California, specifically in Milpitas in 2012, its first branch, and in San Francisco in March 2014. Marketing offices were also set up in Singapore in September 2013, Hong Kong in February 2014, and a representative office in Dubai in 2013. ALISI also assumed the operations of AyalaLand International Marketing, Inc. in Italy and London. In addition, One Ayala program, which bundles the products and services of Ayala Land, BPI and Globe Telecom, gives access to potential Ayala Land clients overseas, i.e., through BPI's seventeen (17) overseas offices and eighty-one (81) tie-ups. In addition, the Ayala Land-BPI Dream Deals program aims to generate additional sales from local market.

Separate sales groups have also been formed for certain subsidiaries which cater to different market segments under Amaia (economic housing), Avida (affordable housing), Alveo (middle-income housing) and BellaVita (socialized housing). To complement these sales groups, Ayala Land and its subsidiaries also tap external brokers.

Effective second half of 2008, residential sales support transactions of ALP, Alveo, and Avida is being undertaken by the shared services company Amicassa Process Solutions, Inc. put up by the Company. In 2010, Aprisa Business Solutions, Inc. completed its full roll-out to handle transactional accounting processes across Ayala Land.

**Competition**

Ayala Land believes it 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 mall business, Ayala Land's main competitor is SM Prime Holdings, Inc. whose focus on mall operations gives SM Prime Holdings, Inc. some edge over the Company in this line of business. Nevertheless, Ayala Land is able to effectively compete for tenants primarily based on its ability to attract customers – which generally depends on the quality and location of its shopping centers, mix of tenants, reputation as a developer, rental rates and other charges.

For office rental properties, Ayala Land sees competition in smaller developers such as Kuok Properties (developer of Enterprise Building), Robinsons Land (developer of Robinsons Summit Center) and non-

traditional developers such as the AIG Group (developer of Philam Towers) and RCBC (developer of RCBC towers). For BPO office buildings, Ayala Land competes with the likes of Megaworld, SM Prime 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 quality of support services provided by its property manager, rental and other charges.

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

For the middle-income/affordable housing business, Ayala Land sees the likes of SM Development Corp, Megaworld, Robinsons 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. However, for horizontal residential development, key competitors include Century Properties and Vista Land.

For the economic housing segment, Amaia competes 8990 Holdings, Cebu Landmasters and Camella Homes.

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. Ayala Land does not have a customer accounting for more than 20% of its revenues.

**Research and Development**

While Ayala Land engages in research and development activities, the expenses incurred in connection with these activities are not material.

**Employees**
Ayala Land had a total workforce of 278 regular employees as of December 31, 2022.

**Intellectual Property**

Ayala Land has been licensed by the Company, as the owner of the brand and business name “**Ayala**”, to use the name “**Ayala**” in all of Ayala Land’s current projects which carries the “**Ayala**” brand. Ayala Land is required to obtain the consent and approval of the Company for future projects which will carry the brand.

Ayala Land (by itself or through its subsidiaries) has secured registrations for its major brands Ayala Land Premier, Alveo, Avida and Ayala Malls. As a matter of policy, Ayala Land and its subsidiaries also apply for, obtain and maintain trademark registrations for its various developments, projects and events.

In the Philippines, certificates of registration of a trademark filed with the Philippine Intellectual Property Office prior to the effective date of the Philippine Intellectual Property Code in 1998 are generally effective for a period of 20 years from the date of the certificate, while those filed after the Philippine Intellectual Property Code became effective are generally effective for a shorter period of 10 years, unless terminated earlier.

**Licenses**

*Phenix Building System.* A 50%-50% joint venture between Maison Individuelles, S.A. of France and Avida was organized in June 1998 and subsequently registered with the SEC as Laguna Phenix Structures Corporation ("**LPSC**") in July 1999.
LPSC is primarily engaged in the business of manufacturing, installation, erection and construction, marketing and promotion, and wholesaling of buildings, houses and other structures and accessories using the "**Phenix**" technology (for which a patent has been registered and issued in the Philippines under RP Patent No. 29862). Both Maison Individuelles, S.A. and Avida assigned their respective license rights to LPSC since the latter's incorporation.

**Dividend policy**

Dividends declared by the Company 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 the Company and other factors. The same applies to the declaration of dividends by the Company's subsidiaries and associates.

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

Cash dividends are subject to approval by the Company's Board 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 Company's Board of Directors and the Company's stockholders. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and PSE.

**Risks**

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

Government quarantine measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. In particular, the ECQ has adversely impacted (a) the completion of Ayala Land's projects as construction is not an activity given priority under the government guidelines, and (b) Ayala Land'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 Ayala Land's hotels have declined. With respect to Ayala Land'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 in 2020. Only such establishments were able to pay rent during such periods in 2020 when ECQ was implemented. With the reimposition of stricter quarantine restrictions from August 6 to 20, 2021, 75% of Ayala Land's malls gross leasable area will be under under the strictest ECQ classification wherein only essential tenants are allowed to operate. Furthermore, hotels occupancy as of December 31, 2021 was 45%. During the strictest ECQ, these accommodated BPO employees working nearby as well as healthcare professionals. They are also catering to returning overseas Filipinos for quarantine requirements.

As a consequence of COVID-19, sales velocity in 2020 and in first half of 2021 slowed down resulting in the increased inventory. Ayala Land is already prepared to launch ₱100.0 billion worth of projects this year as velocity improves. However, Ayala Land may decide to reduce the launches if there will be slowdown in demand given the reimposition of stricter quarantine levels. Further, Ayala Land made several adjustments in 2020 to boost productivity in its construction business despite manpower restrictions. Ayala Land started enhancing and intensifying its strategies which improved productivity on several scopes of work from then 60 to 65 % to the current 82 to 85%.

With the continuing threat of the omicron variant of COVID-19, Ayala Land believes that the impact of COVID-19 situation remains fluid and evolving and the pace of recovery remains uncertain. The possible reimposition of stricter forms of quarantine measures due to rising COVID-19 cases may have an adverse effect on economic activity in the Philippines, and could materially and adversely affect Ayala Land's business, financial condition and results of operations.

Ayala Land has taken measures to manage the risks and uncertainties brought about by the outbreak, including adequate support to safeguard the well-being of its employees, ensuring effective work from home set-up such that the organization is able to function through the quarantine period, working alongside other Ayala Group companies towards the rollout of the Ayala Vaccine and Immunization Program for its employees, continued assessment, monitoring and safeguarding of its overall cash and credit position, and close coordination with the vendors for its projects under construction to manage impact of lockdown procedures. Ayala Land allocated ₱6.2 billion, ₱7.2 billion and ₱2.9 billion in rent condonation for mall merchants in 2020, 2021 and in 2022, respectively.

Ayala Land has acknowledged the effects of COVID-19 as a prominent source of risk which affected its business in 2020 with spillover effects to 2021. The Company, as early as January 2020, has monitored the situation in Wuhan, China and flagged the virus as a potential emerging risk. With the escalation of the COVID-19 pandemic, the Company mobilized the business units to revisit their respective business continuity plans ("BCP") to mitigate the risk impact to operations. Ayala Land observes national and local government advisories and directives as well as the best practices conveyed by the World Health Organization ("WHO") and the Philippine Department of Health ("DOH"). The Company strictly follows the guidelines set by the national and local government agencies to support its endeavor to stem the spread of the COVID-19 virus. Pandemic events usually have a long gestation and pose a greater risk of exposing personnel and negatively impacting business operations. Each business unit reviewed loss scenarios under their business continuity plans such as: (1) loss of premises or day-to-day workplace; (2) loss of critical people; and (3) loss of critical third-party service providers for an extended period of time.

***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, 2022, AyalaLand Premier (ALP) recorded revenues of ₱[21.4] Billion, [4]% higher than ₱[20.9] Billion in the previous year, attributed to the incremental percentage-of-completion (POC) of Andacillo in Nuvali, Lanewood Hills in Silang, Cavite and Parklinks North Tower in Quezon City.

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 posted revenues of ₱[15.5] Billion, an [18]% growth from ₱[13.1] Billion, owing to the higher POC of Corvia at Alviera and Ametrine at Portico and higher bookings from Parkford Suites in Makati.

(c) Middle-income residential

Avida totaled ₱[12.2] Billion in revenues, [10]% less than ₱[13.5] Billion, due to lower bookings owing to Avida Towers Sola in Vertis North Quezon City, Riala in Cebu IT Park, Cebu City, Avida Towers Vireo in Arca South, and almost sold-out inventory at Avida Towers Turf in BGC

(d) Socialized and Economic Housing

Ayala Land entered the socialized housing segment in 2012 with the launch of Amaia Scapes in Laguna under Ayala Land’s Subsidiary, Amaia Land Corp., carrying the brand Amaia. For the fiscal year ended December 31, 2022, Amaia meanwhile posted ₱[6.90] Billion in revenues, a [52]% jump from ₱[4.55] Billion due to higher bookings attributed to Scapes General Trias Sectors 3 and 4 in Cavite, Skies Avenida Tower 2 in Sta. Cruz, Manila and Skies Shaw Tower 2 in Mandaluyong City.

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. Ayala Land, through BellaVita, partnered with the Department of Human Settlements and Urban Development (DHSUD) and various local government units to build housing and community-building projects. In partnership with the Department of Agrarian Reform, BellaVita provided 184 houses for the department’s BALAI Farmers Housing program. The repair and reconstruction of three mosques in Marawi City, destroyed by Daesh-inspired terrorism in 2017, was undertaken with DHSUD. BellaVita recognized revenues of ₱[317] Million, a [72]% decline from ₱[1.2] Billion due to inventory sellout of projects at Tayabas, Quezon Province, and Lipa, Batangas, and lower bookings from the project in Cabanatuan.

MCT Bhd contributed revenues of ₱2.8 Billion, 29% lower than ₱3.9 Billion, due to inventory sellout of nearly completed legacy projects and incremental POC of newly launched projects (Aetas and Casa Bayu).

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

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

*Office for Sale*

With respect to its office rental properties, Ayala Land competes for tenants primarily based on 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 sales of office units declined by [28]% to ₱[2.79] Billion from ₱[3.85] Billion due to the full completion of Alveo's Park Triangle Tower at BGC and moderate take-up on remaining inventory.

*Commercial and Industrial Lots*

Revenues from commercial and industrial lot sales surged [54]% to ₱[12.65] Billion from ₱[8.24] Billion due to strong investor demand at Arca South, Nuvali, and Broadfield estates.

*Sales Reservations*

With resilient demand amid the higher interest-rate environment, the Company registered ₱[104.89] Billion in reservation sales, [14]% better than last year. Fourth-quarter sales jumped by [24]% to ₱[27.57] Billion. Sales from local Filipinos totaled ₱69.19 Billion, comprising 66% of the total, 1% higher than last year, complemented by sales from overseas Filipinos of ₱[23.03] Billion and other nationalities at ₱[12.67] Billion, with a [22]% and [13]% share, respectively. Sales from overseas Filipinos and other nationalities surged by [59]% and [39]%, respectively.

*Commercial Leasing*

This segment involves the operation of shopping centers, office buildings, hotels and resorts, standard factory buildings and warehouses, and co-working spaces. Commercial leasing revenues accelerated by [62]% to ₱[33.39] Billion with normalized mall rents and foot traffic, the contribution of new office spaces, and higher hotel room rates.

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. Some competing shopping centers are located within relatively close proximity of each of Ayala Land's commercial centers.

*Shopping centers*

With foot traffic and mobility resurgence, shopping centers revenues more than doubled to ₱[16.08] Billion. The average occupancy rate for all malls is 81%. The total mall gross leasable area (GLA) is 2.1 Million square meters.

*Offices*

Revenues from office leasing grew by 13% to ₱11.12 Billion, primarily from the revenue contribution of One Ayala East and West Towers. The average occupancy rate for all offices is 88%. The total office GLA is 1.4 Million square meters.

*Hotels and Resorts*

Revenues from hotels and resorts also doubled to ₱6.19 Billion, boosted by higher room rates. The average occupancy of hotels was 59%, and 29% in resorts. This segment has a total of 4,058 rooms.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.

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There are 11 Seda Hotels, operating 2,804 rooms—Atria, Iloilo (152 rooms); BGC, Taguig (521); Centrio, Cagayan de Oro (150); Abreeza, Davao (186); Nuvali, Santa Rosa, Laguna (242); 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); and Circuit Corporate Residences (255).

El Nido Resorts operates 193 rooms from its four island resorts—Pangulasian, Lagen, Miniloc, and Apulit. The Lio Tourism Estate currently has 70 rooms under its Bed and Breakfast (B&B) and Dormitel offerings, while the Sicogon Tourism Estate in Iloilo currently has 76 B&B rooms.

*Services*

This segment is composed of the Company's construction business through Makati Development Corporation (MDC), property management through Ayala Property Management Corporation (APMC), and other companies engaged in power services such as Direct Power Services, Inc. (DPSI), Ecozone Power Management, Inc. (EPMI), and Philippine Integrated Energy Solutions, Inc. (PhilEnergy) and airline for the hotels and resorts business, AirSWIFT. Total revenues amounted to ₱8.42 Billion, 32% higher than the previous period.

*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 Ayala Land 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 ₱4.24 Billion, 8% higher, owing to the contribution of external projects.

*Property Management and Others*

APMC, AirSWIFT, power services companies, and combined revenues accelerated by 70% to ₱4.18 Billion on higher AirSWIFT patronage, parking usage, and retail energy demand.

*Industrial Property Business*

The prospects are bright for industrial and real estate logistics. Ayala Land through its Subsidiary AyalaLand Logistics Holdings Corp. (ALLHC) will aggressively grow this space, expanding warehouses and industrial and logistic hubs in the short term to maintain its leadership in this segment.

Laguna Technopark, a development of Ayala Land's indirect ubsidiary, 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.

Alviera Industrial Park is an economic zone with first-class facilities that aims to spur economic growth in Central Luzon. Expansion plans for the said industrial park were announced in January 2018 due to strong sales take-up of the industrial lots during the initial phase, growing from 32 to 64 hectares. The industrial park will also now cater to both non-PEZA and PEZA-registered industries. It will feature 16 lots ranging from 1 to 1.4 hectares and 3 clusters of ready-built standard factory buildings. The second phase has 22 one-hectare lots (for a total of 38 locators) that may generate up to 1,500 new jobs, contributing to the ever-growing economy of Pampanga as well as that of Central Luzon.

Both Laguindingan and Pampanga Technoparks were launched in 2019. Laguindingan Technopark in Habini Bay, Misamis Oriental is envisioned to be a new logistics hub in Northern Mindanao while the 192-hectare Pampanga Technopark paves the way in making Mabalacat City a new growth center in Central Luzon.

In May 2022, ALLHC acquired a 55-hectare land parcel in Padre Garcia, Batangas for the development of the future Batangas Technopark, making it ALLHC's fifth industrial estate.

ALLHC continued to expand its ALogis brand of standard factory buildings and warehouses to address the growing demand for industrial ready-built facilities. It added a total 17,000 square meters of GLA in ALogis Biñan at the Laguna Technopark and ALogis Calamba at the Lepanto Industrial Complex, growing its portfolio to 224,000 square meters as of end-2021.ALLHC ended the year with a total warehouse GLA of 309,000 sqm, a 38% growth since last year, with deliveries from ALogis Sto. Tomas and ALogis Naic.

ALLHC broadened its warehouse offering with its entry into cold storage through the ALogis Artico brand. In 2021 it acquired two (2) existing facilities within Laguna Technopark, with a combined pallet position of 7,300 in April and December. In December 2022, ALLHC secured 3,000 pallet positions, increasing its pallet position count by 42% to 10,300. With both cold and dry storage capabilities, ALogis aims to be the full-range brand of choice for real estate logistics.

***Ayala Land's business may be affected by the risk posed by an asset price bubble***

Inherent to any property market is the risk posed by an asset price bubble. This situation arises when a gross imbalance between demand and supply causes an unusual increase in asset prices and as supply begins to outstrip demand, a drastic drop in prices ensues causing the proverbial bubble to burst.

In the domestic market, the current property boom has been fueled by both business and public confidence which in turn is driven by a number of factors including the robust domestic economy, low interest rates that support both business expansion and domestic consumption underpinned by a young demographic profile, moderate but consistently growing remittances from OFWs, and the Philippines' success as a choice Business Process Outsourcing destination.

These factors alongside the prudential measures put in place by the BSP to safeguard the health of the local financial system point to the Philippine property market being adequately protected against a domestic asset price bubble. For its part, the Company has embarked to achieve a balanced portfolio of (i) residential businesses, which thrive on robust economic periods, and (ii) leasing businesses, which have proven to be more resilient across economic cycles thus providing some cushion between periods

of economic trough. The Company's expansion of its residential businesses has likewise allowed it to cater to both the economic and socialized housing segments where the country's housing backlog primarily occurs thus tapping into another source of demand for its residential products.

***The prospects of Ayala Land may be influenced by major political and economic developments abroad.***

The growth and profitability of Ayala Land may be influenced by major political and economic developments, which may have a negative effect on the operations and financial results of Ayala Land and the level of dividends paid and distributions made by Ayala Land's Subsidiaries.

On February 21, 2022, Russian president Vladimir Putin announced that Russia recognizes the independence of two (2) pro-Russian breakaway regions in eastern Ukraine. On February 22, 2022, the Russian Federation Council unanimously authorized the use of military force, and the entry of Russian soldiers into both territories. On February 24, 2022, places across Ukraine, including Kyiv, the national capital, were struck with missiles. The Ukrainian Border Guard reported attacks on posts bordering Russia and Belarus. Shortly afterwards, Russian Ground Forces entered Ukraine prompting Ukrainian President Volodymyr Zelenskyy to enact martial law and general mobilization (the "**Russo-Ukrainian War**"). While the Company does not expect any material impact from the ongoing Russo-Ukrainian War on its current and future businesses, the war may affect oil and commodity prices in the near to medium term.

Any political or economic developments of a local to a global scale could impact prices in general and disrupt supply chains, which could in turn increase the Company's costs for the construction of its future projects. The Company continuously monitors such developments abroad and will assess any direct and indirect impact that the Russo-Ukrainian War may have on its current and future businesses.

Any disruptions of the credit and equity markets may impede or prevent access to the capital markets for additional funding to expand the Company's business and may affect the availability or cost of borrowing. While the Company also seeks to obtain funding from counterparty banks through credit facilities other than capital markets, if the Company is unable to obtain the required funding, the Company will have to adjust its business plans and strategies, which may adversely affect the Company's future prospects, market value and results of operations.

***Ayala Land is subject to certain debt covenants***

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

- incur additional long-term debt to the extent that such additional indebtedness results in a breach of a required debt-to-equity ratio;
- materially change its nature of business;
- merge, consolidate, or dispose of substantially all its assets; and
- 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 the Securities and reduce the value of the Securities.

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.

As will be further discussed herein, in view of the usual volume of the Issuer's transactions, mergers or acquisitions, it would be highly likely that the Issuer will meet the notification threshold under the PCA and the Merger Rules.

***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 waste water 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 series of 2015, or the "**Revised Implementing Rules and Regulations to Govern the Time of Completion of Subdivision and Condominium Projects under P.D. No. 957**" ("Resolution 926"), was 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, now Department of Human Settlements and Urban Development ("**DHSUD**") in the Licenses to Sell of the projects.

DHSUD issued Department Order (DO) No. 10-2020, which grants a one-time one-year extension for all projects, which have been delayed or affected by the COVID-19 pandemic, with original completion date of March 2020 onwards. Further, DHSUD issued DO No. 2021-009, providing for an additional period of one (1) year for projection completion, reckoned from the end of the time of completion of the project as indicated in the license to sell or availed under DO No. 10-2020.

Ayala Land, through its construction and property management arms, aims to keep 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 forty-three (43) 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.

***Ayala Land may be affected by the Comprehensive Tax Reform Program and other tax regulations***

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. The relevant changes of the TRAIN Law are incorporated in the section titled "**Philippine Taxation**" of this Prospectus.

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 TRABAHO bill) ("**CREATE Act"**). The CREATE Act intends to incentivize businesses by reducing corporate income tax, among others. The CREATE Act was signed by the President on March 26, 2021 and became effective on April 11, 2021.

Upon the effectivity of the CREATE Act, the following amendments introduced by the CREATE Act to the Tax Code that will have a material impact on Ayala Land 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 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; and

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.

Under package 4 of the CTRP, the Department of Finance reportedly proposes to lower the rate of transaction taxes on land, including DST, transfer tax and registration fees, centralize and rationalize valuation of properties, increase valuation of properties closer to market prices, review property valuations every three (3) years and adjust accordingly. While package 4 aims to lower the rate of transaction taxes on land, the increase in valuation could lead to an increase in the taxes to be paid by Ayala Land.

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 Ayala Land, could have an effect on the Ayala Land's business, financial condition and results of operations.

***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 the Company's risk management program, the 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 2020, MDC and three of its subsidiaries successfully passed their respective surveillance audits for ISO 9001:2015 (Quality Management), ISO 14001:2015 (Environmental Management), and ISO 45001:2018 (Occupational Health and Safety). Meanwhile, APMC was recertified for ISO 9001:2015 (Quality) and ISO 14001:2015 (Environmental) and successfully migrated its OHS management system from OHSAS 18001:2007 to ISO 45001:2018, without any exception during the external certification audit. APMC implemented an eight-point program to effectively manage its properties and communities. Called APMC SAFE 8, the program focuses on protecting the property, preparing the workforce, protecting frontliners, contactless access control, social distancing, reduction of touch points, communication, and working with partners and customers.

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 2020, the Company achieved a 0.1 Total Disabling Injury Rate ("**TDIR**") covering 77 Million total man-hours worked through continuing emphasis on safety. For 2021, MDC is targeting to achieve a TDIR of 2 for every 1 Million man hours, better than the US Bureau of Labor Statistics rate of 3. 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. By year-end, 73 projects had achieved at least 1 Million safe man-hours each. Property management and operations achieved zero disabling injuries and an additional 1 Million safe man-hours. 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 the Company'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 the Bonifacio Global City 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 Department of Justice.

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 the Company'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. Climate change and geohazards also remain as threats as evidenced by the heavy floods brought about by three major typhoons and the eruption of Taal Volcano in 2020. Ayala Land continues to take climate adaptation practices, such as environmental hazards screening, due diligence, management of carbon sinks and site resilient features, into high consideration. Climate mitigation actions such as shifting to renewable energy and investing in resource efficiency programs, are continually undertaken to hasten the company's transition to low-carbon operations.

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 the Company 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. The Company 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 the company assets and to ensure cost recovery for property damages other losses during these disasters, the Company 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 earthquake in 2013, there have been no significant impact to the Company'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 the Company'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 the Company determine the timeframes within which critical business activities must be resumed following a disruption, as well as the resources required for business continuity.

***Ayala Land'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 addition, 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 Company's disadvantage, or result in inconsistent or sudden changes in regulations and policies that

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

***Any economic slowdown or deterioration in economic conditions in the Philippines may adversely affect Ayala Land'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.

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. In 2019, the Philippines' long-term foreign currency-denominated debt was upgraded by S&P Global ("**S&P**"), to BBB+ with stable outlook, while Fitch Ratings ("**Fitch**"), and Moody's Investors Service ("**Moody's**"), affirmed the Philippines' long-term foreign currency-denominated debt to the investment-grade rating of BBB and Baa2, respectively, with a stable outlook. On February 28, 2020, Fitch revised its rating of Philippines long-term foreign currency-denominated debt to BBB, with a positive outlook, following its expectation that sound macroeconomic management will continue to support high growth rates with stable inflation while ongoing tax reforms were expected to improve fiscal finances. In May 2020, S&P and Moody's affirmed its rating of BBB+ and Baa2, with stable outlook, respectively, for the Philippines' long-term foreign currency-denominated debt. On May 7, 2020, Fitch affirmed its rating of Philippines long-term foreign currency-denominated debt to BBB, but revised the outlook to stable, to reflect the deterioration in the Philippines' near term macroeconomic and fiscal outlook as a result of the impact of the COVID-19 pandemic and domestic lockdown to contain the spread of the virus. On July 12, 2021, Fitch affirmed its rating of Philippines' long-term foreign currency-denominated debt to BBB, but revised the outlook to negative, to reflect the increasing risks to the credit profile from the impact of the COVID-19 pandemic and its aftermath on policy-making. In January 2023, Moody's affirmed the country's long-term credit rating at Baa2 with a stable outlook for both the local and foreign currency-denominated debt. While the prolonged lockdowns and effects of the pandemic eroded the assessment of the country's economic strength, Moody's expects that economic rebound will remain strong with a faster growth relative to its peers. S&P upheld the country's BBB+ rating with a stable outlook in November 2022, also citing the country's above-average economic growth potential kept afloat by the resiliency of consumer spending amid high inflation. Meanwhile, Fitch kept its BBB rating with a negative outlook in October 2022, keeping a close eye on the BSP's aggressive interest rate hikes.

However, there is no assurance that Fitch, S&P, Moody's or any other international credit rating agency will not in the future, downgrade the credit ratings of the Philippines, which will affect Philippine companies including our Company. Additionally, there can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Unforeseen economic shifts could lead to economic downturns, which may have an adverse effect on our business or our results of operations.

To mitigate the abovementioned risks, Ayala Land 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.

**Regulations**

***Development and Sale of Real Property***

Presidential Decree No. 957, otherwise known as the Subdivision and Condominium Buyers' Protective Decree, as amended, is the principal statute which regulates 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 primarily residential purposes. The Department of Human Settlements and Urban Development ("**DHSUD**"), which reconstituted the Housing and Land Use Regulatory Board ("**HLURB**") and the Housing and Urban Development Coordinating Council ("**HUDCC**") under R.A. 11201, which was signed on February 14, 2019, is the administrative agency of the Government which enforces this decree and has jurisdiction to regulate the real estate trade and business. The HLURB's adjudication mandate, on the other hand, was transferred to the Human Settlements Adjudication Commission ("**HSAC**").

In this regard, all subdivision plans and condominium project plans of Ayala Land are required to be filed with and approved by the DHSUD and the relevant local government unit of the area where the project is situated. Approval of such plans is conditional on, among other things, Ayala Land'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. Ayala Land, as owner of and dealer in real estate projects, is required to obtain licenses to sell 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 a license to sell has been issued by the DHSUD. As a requisite for the issuance of a license to sell by the DHSUD, developers are required to file with the DHSUD 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 Ayala Land are also required to register with the Professional Regulatory Commission. Project permits and licenses to sell may be suspended, cancelled or revoked by the DHSUD 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 DHSUD's rules of procedure and other applicable laws. Ayala Land has been able to maintain these permits and licenses.

***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, 2022, Ayala Land's foreign ownership is at 14.3%.

***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 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.

*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 DHSUD. 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.

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.

***Environmental Laws***

Please refer "**Regulatory Framework – Environmental Laws**" on page 307 of this Prospectus.

**FINANCIAL SERVICES**

**Overview and History**

The Company conducts its financial services business through BPI. BPI is a Philippine-based universal bank with an expanded banking license. Founded in 1851, BPI is the country's oldest bank. In the post-World War II era, BPI evolved, largely through a series of mergers and acquisitions during the 1980s and 1990s, from a purely commercial bank to a fully diversified universal bank with activities encompassing traditional commercial banking as well as investment and consumer banking.

Together with its subsidiaries, BPI offers a wide range of financial services that include corporate banking, consumer banking, consumer lending, investment banking, asset management, securities distribution, insurance services and leasing. Such services are offered to a wide range of customers, including multinationals, government entities, large corporations, SMEs and individuals.

According to data available from BSP, BPI is the third largest universal bank in the country in terms of total assets. BPI also holds significant market share in the deposit, lending and asset management markets. BPI Family Savings Bank, BPI's primary subsidiary in retail lending, is the Philippines largest savings bank in terms of total assets. BPI also enjoys a significant presence in the finance and operating lease business, government securities dealership, securities distribution and foreign exchange business. BPI's overseas network includes three banking locations in Hong Kong and the United Kingdom. In addition, BPI owns three foreign remittance centers and maintains correspondent relationships with several banks and financial institutions worldwide. BPI has 18,204 employees as of December 31, 2022.

During its special meeting held on September 30, 2022, the Board of Directors of the Bank approved the proposed merger between BPI and Robinsons Bank Corporation ("**RCB**") with BPI as the surviving bank, and the amendments to the Bank's Articles of Incorporation, both matters being subject to shareholders' and regulatory approvals, and, in connection thereto, the Board of Directors of the Bank likewise approved the following:

a. The execution of a merger agreement of BPI and RBC, among BPI, RBC and JG Summit Capital Services Corp. and Robinsons Retail Holdings, Inc. as the RBC Shareholders (the Merger Agreement);
b. The execution of the Plan of Merger and Articles of Merger by and between BPI and RBC, with BPI as the surviving bank;
c. Designation of certain authorized signatories and representatives to give effect to the aforementioned resolutions; and
d. Calling for a special stockholders' meeting.

The proposed merger is a statutory merger pursuant to Title IX of the Revised Corporation Code and Section 40(C)(2) of the National Internal Revenue Code, i.e. merger with the issuance of primary shares. Upon the effectivity of the proposed merger after receipt of all necessary corporate and regulatory approvals, BPI shall issue to the shareholders of RBC such number of primary BPI common shares equivalent to approximately 6% of the resulting outstanding capital stock of BPI and in exchange, BPI will absorb the net assets of RBC. The merger is subject to conditions precedent including obtaining the approvals of the shareholders' and regulatory approvals.

The following tables set out selected financial information and key performance indicators of BPI as of and for the periods indicated:

***Selected Financial Information***

*For the years ended December 31, 2022, 2021, and 2020 (Amounts in ₱ Millions)*

| STATEMENT OF INCOME | 2022 | 2021 | 2020 |
|---|---|---|---|
| Interest Income......................... | ₱103,268 | ₱84,617 | ₱96,308 |

| | | | |
|---|---|---|---|
| Interest Expense........................ | ₱18,202 | ₱15,034 | ₱24,044 |
| Net Interest Income ................... | ₱85,066 | ₱69,583 | ₱72,264 |
| Provision for Credit and Impairment Losses .................... | ₱9,167 | ₱13,135 | ₱28,000 |
| Net Interest Income after Provision for Credit and Impairment Losses .................... | ₱75,899 | ₱56,448 | ₱44,264 |
| Other Income ............................ | ₱33,459 | ₱27,822 | ₱29,659 |
| Other Expenses ......................... | ₱57,990 | ₱50,733 | ₱48,154 |
| Profit before Income Tax ........... | ₱51,368 | ₱33,537 | ₱25,769 |
| Income Tax Expenses ............... | ₱11,532 | 9,427 | ₱3,906 |
| Net Loss from discontinued operations ................................. | ₱- | ₱- | ₱211 |
| Total Net Income (inclusive of noncontrolling interests)............ | ₱39,836 | ₱24,110 | ₱21,652 |
| Net Income attributable to equity holders of BPI ........................... | ₱39,605 | ₱23,880 | ₱21,409 |

***Selected Key Performance Indicators***

*For the years ended December 31, 2022, 2021 and 2020*

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Return on Average Equity ........................................................ | 13.14% | 8.40% | 7.70% |
| Return on Average Assets ........................................................ | 1.59% | 1.08% | 0.98% |
| Net Interest Margin ........................................................ | 3.59% | 3.30% | 3.49% |
| Total Capital Adequacy Ratio ........................................................ | 16.01% | 16.67% | 17.06% |
| Non-Performing Loan (NPL) Ratio[1] ........................................................ | 1.76% | 2.49% | 2.68% |
| Non-Performing Loan (NPL) Cover ........................................................ | 180.1% | 136.1% | 115.2% |

1 Total gross non-performing loans (90-day NPLs) divided by total receivable from customers' net of unearned interest and discount. Data is based on BSP Circular No. 941

BPI declared ₱9,568 million of dividends to its shareholders in the year ended December 31, 2022. As of December 31, 2022, BPI's CAR was 16.01% under Basel III guidelines. BPI is currently listed on the PSE.

**Main Business Segments of BPI**

Client Management Groups of the Bank

The Bank's primary client management groups are composed of the (i) retail banking group, (ii) corporate banking group, and (iii) SMEs business banking group. These client management groups work with the other groups in the Bank to provide each of these client segments a focused set of products and services tailored to their needs.

(i) Retail Banking Group

The retail banking group manages the Bank's relationships with its retail clients and it is responsible for the Bank's physical branch network. The group also develops optimal deposit origination and product distribution strategies for the Bank's retail operations.

The Bank classifies individual retail clients into various retail client segments based on the amount of funds deposited and invested with the Bank and their specific need for financial solutions. The retail client segments are: (i) private banking for its high net-worth customers, (ii) preferred banking for its mass affluent customers, (iii) personal banking for its regular customers, (iv) overseas Filipinos for its overseas Filipino customers, and (v) self-employed micro entrepreneurs (SEMEs). This system of classification allows the Bank to help its customers achieve their financial goals through specific financial advice, access to appropriate products and solutions, and other services. The Bank's retail clients accounted for 67% of the Bank's total deposit base as of December 31, 2022.

BPI Direct BanKo, the Bank's microfinance subsidiary, provides the financing for productive and business purposes of SEMEs. BPI Direct BanKo offers quick access to credit facilities through its 317 branches and branch-lite units across the Philippines as of December 31, 2022. The Bank intends to open additional 33 BPI Direct BanKo branches in 2023. The bank also recently made application easier through its mobile banking app.

(ii) Corporate Banking Group

The Corporate Banking Segment of BPI is a diversified unit that covers specific client segments as well as manages certain products and services of the Unibank. The Relationship Management (RM) Groups include (1) the Top Corporates/Multi-national Corporations (MNCs)/Sectors RM Group (which will be renamed Corporate Banking RM Group), and (2) the Large Corporates RM Group (which will be renamed Commercial Banking RM Group). The Products that fall under this Segment of the bank include (1) Corporate and Commercial Credit, (2) Transaction Banking, (3) Remittance & Fund Transfer, and (4) Investment Banking (which includes Cash Equity Brokerage).

(iii) Business Banking Group The business banking group focuses on the needs of the small-and-medium-sized enterprises (SME) segment. The group provides comprehensive coverage to SMEs through convenient business loans that can help finance and actualize their plans, versatile digital banking tools that make cash management more accessible for small businesses, and programs that provide continuous learning, capacity building and customer support. The Bank has implemented a tailored set of credit processes and credit-scoring models in order to offer quick and efficient access to capital to SME clients. Beyond business financing solutions, products and services offered to SME clients include digital banking platforms "**BizLink**" and "**BizKo**" with convenient and affordable availment options. SME clients are primarily depositors accounting for 8% of total deposits as of December 31, 2022, of which 10% are borrowing from the Bank.

**Principal Products and Services**

The Bank offers a wide range of corporate, commercial and retail banking products. The Bank has two major categories for its products and services. The first category covers its deposit taking, lending and investment activities. Revenue from this category is reflected as net interest income in the Bank's financial statements and it accounts for a majority of the Bank's revenues. The second category covers services other than those related to its core deposit taking, lending, and investing business and from which the Bank derives commissions, service charges and other fees. These include investment banking and corporate finance fees, asset management and trust fees, foreign exchange, securities distribution fees, securities trading gains, credit card membership fees, rental on bank assets, income from insurance subsidiaries and service charges/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 the Bank's fixed income and foreign exchange operations, constitute non-interest income. As of December 31, 2022, net interest income accounted for 72% of net revenues while other income accounted for the remaining 28% of net revenues.

The Bank's principal products and services consist of corporate lending, consumer lending, unsecured lending and cards, deposits, remittance, corporate finance and investment banking, asset management

and trust, insurance, and foreign exchange services. Throughout its products and services offering, the Bank aims to create a unique customer experience while focusing on cost optimisation, process control, innovation and excellent after-sales engagement with the Bank's clients.

The following is a description of the Bank's principal products and services.

**Corporate Lending**

The two RM Groups of this segment are responsible for delivering all of the relevant services of the Unibank to their clients. For this purpose, these Groups are the main touch points of the Unibank's corporate client relationships. While the RM Groups rely on other product teams such as transaction banking (cash management and trade), investment banking, remittance, asset management, and credit card services among others, the Corporate Banking RM Groups are the main originating and structuring units for corporate lending.

(a) Other Lending Products

(i) Specialized Lending

Corporate Banking's Corporate Credit Products Group carries the following specialized products:

The **Structured Finance** product team is primarily responsible for the credit assessment, underwriting, and monitoring of the Bank's large energy and infrastructure project financing loans, cross-border credit exposures (investments and tradeable loans), and other structured credits.

BPI **Agribusiness** supports the sustainable growth of the agribusiness sector through programs that aid in the modernization of farm facilities, improving both production and cost efficiencies. Notable offers include poultry enterprise packages for broiler house construction, financing of piggery and other livestock farms with controlled climate systems, and sugar crop loans to provide working capital to agrarian reform beneficiaries under a cooperative setup.

Lastly, **Sustainable Development Finance** is an expansion of the long-running Sustainable Energy Finance program that focuses on energy efficiency, renewable energy and climate resilience projects.

(b) Transaction Banking

**Cash Management** services are handled by BPI Corporate Banking. BPI's main digital cash management platform, **BizLink**, enables corporate clients to conveniently pay BPI and other bank accounts, pay bills, fulfill government payments, manage employees' payroll, collect payments from clients via Automatic Debit Arrangement and Bills Collection, and more. And, BPI's new digital banking platform **BizKo, a mobile and web application** helps micro, small and medium enterprises manage their day-to-day business needs and finances.

**Trade and Supply Chain** products include letters of credit, documents against payment or acceptance, trust receipt financing, shipping and bank guarantees, export bills purchase, outward bills for collection, and telegraphic transfers. Receivables financing is also offered to support the supply chains of top corporates and MNCs.

BPI was awarded as Best Trade Finance Bank in the Philippines in the Alpha Southeast Asia 16th Annual Best Financial Institution Awards 2022. The Corporate QR product was also recognized as an Outstanding Innovation in Payments by The Innovators – Global Finance.

(c) Remittance and Fund Transfers ("**RFT**")

RFT develops, manages, and marketsthe following products and services: **Inward, Outward,** and **Domestic Remittance** including InstaPay and PESONet.

International remittances are made possible by strong tie-ups with global remittance players and correspondent banks. Meanwhile, local remittances and transfers are delivered not only through the Bank's wide branch network and digital channels, but also through local pay-out partners such as

pawnshops, extending the availability of services beyond banking hours and on holidays. RFT also offers customized solutions such as door-to-door services, direct credit to debit card account, and gift remittances.

BPI was the Best Remittances Service Provider in the Philippines in the 16th Annual Best Financial Institutions Awards 2022 – Alpha Southeast Asia.

(d) SME Lending

Small Business Loans

To address the financing needs of the SME segment, the Bank provides term loans and credit lines under its Ka-Negosyo brand. Small business loans range on average from a principal amount of ₱300,000.00 to ₱15 million and may be collateralised by real estate mortgages, deposits or investments. The Bank's Ka-Negosyo loans are simple, relevant and convenient solutions that address the SME's needs in every stage of their business.

(a) Home Mortgage Loans

The Bank offers loans to property buyers in the Philippines who intend to use the premises as their primary residence. The Bank’s home mortgage loans have funded horizontal developments by reputable developers. The Bank also lends primarily in the middle to high-end market segment, and has started to offer a housing loan product, MyBahay¸ for the C-market. Home mortgage loans are secured by a first mortgage on the property being purchased. In addition, the Bank generally requires residential mortgage borrowers to have an equity interest of at least 20% of the value of the property. Home mortgage loans are typically payable in monthly amortising payments based on market-linked interest rates with terms of one to five years. The Bank may lend up to 80.0% of the developer selling price or the Bank’s appraised value of houses and lots. The Bank requires home mortgage borrowers to obtain both fire insurance and mortgage redemption insurance.

As of December 31, 2022, home mortgage loans to individuals on average amount to ₱4.0 million. Interest rates on the Bank’s home mortgage loans range from 6.75% to 10.25% over the same period. In accordance with industry practice in the Philippines, interest rates on the Bank’s home mortgage loan portfolio are set at a fixed rate applicable for an initial period of between one and 15 years, depending on the maturity of the loan, which ranges from one to 30 years. Following the expiry of this initial period, the interest rate is reset at a fixed rate applicable for succeeding periods.

**Auto Loans**

The Bank offers loans primarily for the acquisition of new cars and only for accredited brands for which a consistent track record of after-sales service has been established. The Bank focuses its lending efforts on those brands that it believes will be able to best retain their resale value. The Bank also works with local dealers to supply financing solutions and easier access to auto loans to their customers. As of December 31, 2022, the Bank’s auto loans on average amount to ₱1.0 million in principal amount and have average terms of between 12 and 60 months. The applicable interest rate is generally fixed with an amortising repayment schedule over the term of the loan. The Bank also typically lends up to 80% of the value of a new car. The maximum amount varies depending on the model and year of the car and is based on the Bank’s internal assessments of the resale value.

All of the Bank’s auto loans are secured by a first mortgage or legal charge over the cars being purchased. As of December 31, 2022, the prevailing effective interest rates of the Bank’s auto loans range from 9.0% to 11.0%, depending on the loan tenor.

**Unsecured Lending and Cards**

The Bank offers access to unsecured loans for individuals in the form of personal loans and credit cards. BPI Personal Loans is a multi-purpose cash loan with low interest rates, flexible terms, easy payment schemes and no required collateral. Clients can avail of a loan up to three times their monthly income, quickly and safely, available through a client's BPI account. The Bank’s credit cards offer a line of credit

to cardholders to purchase goods and services with a promise to repay the Bank on the due date or via deferred and instalment plans. BPI gives its customers wise spending options and the best value for money via low foreign exchange conversion, exclusive retail promos and Special Installment Plan (SIP) deals with the BPI Credit Card.

The Bank also issues other card-based products, such as debit cards and prepaid cards. As the companion card to BPI deposit accounts, the BPI Debit Mastercard gives clients a secure and convenient way to withdraw at the ATM, pay for goods and services at point-of-sale terminals, and do online purchases at e-commerce websites and apps. BPI Prepaid Card is an easy-to-get product for BPI's clients used by majority for online spending and as a substitute product for getting a deposit account. In 2021, BPI launched the Virtual BPI ePay Mastercard as a companion card to BPI #SaveUp accounts and is offered as part of the fully digital account opening process.

As of December 31, 2022, the Bank had approximately 1.97 million credit cards issued, 453 thousand named prepaid cards, about 7.6 million active debit cards and 127 thousand Personal Loans customers. The total value of transactions executed with the Bank's credit, debit and prepaid cards was approximately ₱352 billion in billings.

**Deposits**

The Bank's deposit products include current accounts (non-interest and interest bearing demand deposits) and savings and passbook accounts, collectively referred to as CASA, which represent the Bank's low-cost funding base. The Bank also offers time deposits with the longest tenor at five years. The Bank's CASA and time deposit products are offered primarily in Peso and U.S. dollars. In some cases, these products are also offered in other foreign currencies, depending on client requirements.

**Remittance**

The Bank's remittance services involve fueling both corporate funds management and household income and consumption especially OFWs and their families. With the evolving remittance market, BPI is an industry leader in providing service beyond traditional remittance.

**(a) Inward Cross-Border Remittance ("ICBR")**

Allows transfer of funds from anywhere in the world to BPI. BPI has been catering to the needs of Overseas Filipinos and corporate organizations through remittance products and solutions so funds can be sent to beneficiaries in the Philippines. Settlement modes include credit to account, cash pick-up, gift remittance (e.g. Jollibee Padala), bills payment, door-to-door delivery, and credit to other bank's account. BPI's remittance network has locations in key areas worldwide so OFs can remit to the Philippines, in almost realtime. Overseas, there are remittance centers in Hong Kong, representative offices in Tokyo, Japan and Dubai, United Arab Emirates; and around 140 remittance Tie-Ups and Global Partners.

**(b) Outward Cross-Border Remittance ("OCBR")**

Allows transfer of funds from BPI to anywhere in the world. It enables retail and corporate customers to make payments and send money from their BPI accounts in the Philippines to the receiver's bank account overseas. Payment instructions are directed into SWIFT network, a secured platform used by international institutions worldwide to transfer funds between individual accounts across banks in different countries. Multiple currencies are accepted including USD and various major third currencies.

**(c) Domestic Remittance**

Allows local transfer of funds to and from BPI, with a major initiative called Interbank Funds Transfer ("**IBFT**"). National Retail Payment System ("**NRPS**") is an initiative of BSP that allows customers to send & receive funds to/from other local banks/ financial institutions (via Instapay and Pesonet) through the various bank channels (ie. online & mobile banking, BizLink and branch network). Other products being offered under Domestic Remittance are manning allotment system and distribution, Philippine Domestic Dollar Transfer ("**PDDTS**") and Real-Time Gross Settlement ("**RTGS**").

BPI's key initiatives and programs, especially the focus on digital, has enabled our growth to outpace the industry and meet the important needs of our clients in the Philippines and abroad. BPI earned the award for the Best Remittances Service Provider in the Philippines at the 16th Annual Best Financial Institution Awards by the Alpha Southeast Asia.

**Corporate Finance & Investment Banking**

The Bank's investment banking activities are undertaken by BPI Capital, a wholly-owned subsidiary of the Bank. The Bank's investment banking team is responsible for generating fee-based financial advisory and capital markets transactions. BPI Capital generates financial advisory fees from mergers and acquisitions, restructurings, and balance sheet advisory assignments and generates capital markets fees from debt and equity underwriting, loan syndication, and project finance. Investment banking activities also encompass distribution and market-making of securities to institutional and retail customers. BPI Capital also offers stock brokering services through its wholly-owned subsidiary, BPI Securities Corporation.

BPI Capital's underwriting and distribution activities cover debt, equity, and hybrid securities. BPI Capital has been involved in major fund-raising exercises for the Government (through Philippine Retail Treasury Bond Issues) and on behalf of major corporations in the Philippines. In 2021, BPI Capital received numerous awards including Best Investment Bank in the Philippines by leading award giving bodies such as FinanceAsia, Alpha Southeast Asia, and Finance Derivative, and also recognized as Best Equity House by IHAP and Best Bond House in the Philippines by Global Banking & Finance. In 2022, BPI Capital was recognized as a Top Ranked Market Leader in Investment Banking by Euromoney Benchmark Research, as well as Best Investment Bank (Philippines), Best DCM House and Best ECM House by FinanceAsia, and Best Investment Bank in the Philippines by Alpha Southeast Asia and Finance Derivative.

Through collaboration with the Bank, BPI Capital harnesses the placement power of the Bank's institutional, corporate, high net worth, and retail customers and create value for its clients by tailoring and executing financial solutions to meet their increasingly complex needs.

**Asset Management & Trust**

The Bank operates its asset management and trust business through BPI Asset Management and Trust Corporation, a wholly owned subsidiary of the Bank.

The Bank's asset management and trust business is one of the largest in the Philippine investment management community. As of December 31, 2022, the total trust and fund assets managed by the Bank through BPI Asset Management and Trust Corporation amounts to ₱875 billion.

The Bank has a long track record of managing assets for institutional and individual investors through innovative investment products and solutions. It also distributes the products of BPI-accredited global investment funds to its clients. With both equity and fixed income-oriented fund products, a comprehensive array of institutional fund management solutions and the ability to deal in different currencies, including Pesos, U.S. dollar or Euro, the Bank's product offering is among the most complete in the Philippine banking industry.

BPI Asset Management is a multi-awarded fund house consistently recognized by numerous prestigious institutions in the local and global investment management community. In 2022, it won Best Overall Asset & Fund Manager by the Alpha Southeast Asia's Fund Management Awards 2022 and Best Asset Manager - Philippines in the International Finance Awards for the 6th straight year since becoming a standalone trust corporation in 2017.

**Insurance**

The Bank offers new and innovative insurance products through BPLAC and BPI/MS to meet the varied life and non-life insurance needs of the Bank's customers.

BPI AIA is the Bank's life insurance joint venture with AIA Philippines Life and General Insurance Company, Inc. ("**AIA Philippines**") formed in 2009. The Bank holds a 48% equity stake of the company.

Listed as a separate business entity, BPI AIA follows a bancassurance model catering to the clients of the Bank. It offers pure protection and investment-linked insurance products sold through the Bancassurance Sales Executives assigned inside the Bank's branches and other distribution channels (e.g. Telemarketing, Corporate/Business Banking BSEs)

BPI AIA continuously grow alongside BPI's aspirations. From an Annualised New Premium ("**ANP**") of ₱659 million in 2010, it grew to ₱5.7 billion in 2019. Based on Philippine Insurance Commission's 2021 data, BPI AIA recorded a 4.8% market share in the overall insurance industry. As of Oct 2022, the company has generated ₱2.9 billion ANP and is continuously working on plans and initiatives to go back to pre-pandemic level of production.

BPI AIA's strategy remain to be aligned with BPI to becoming PhyGital in delivering personalized and meaningful Customer Experience.

**Treasury**

Treasury manages the Bank's liquidity position and investment portfolio, trades foreign exchange, fixed income securities, and derivatives, and provides treasury products to the Bank's clients, particularly foreign exchange and hedging products. As the Bank's asset and liability manager, treasury takes advantage of opportunities to generate interest differential by managing liquidity and interest rate gaps; and maximises returns by tapping efficient funding sources. Treasury also generates income for the Bank through its trading and market-making activities.

**Suppliers**

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

**Customers**

BPI has a broad market base including local and foreign individual and institutional clients.

**Competition**

With forty-five (45) universal and commercial banks operating in the Philippines as of December 31, 2022, the banking industry in the Philippines is characterized by high levels of regulation and highly competitive pricing and service offerings. BPI competes against domestic and foreign banks that offer similar products and services as BPI. Since the further liberalization of the Philippine banking industry in 2014, foreign banks have expanded from their traditional focus on Metro Manila and large-scale corporations to building their own networks to increase market share, primarily through acquisitions of small domestic savings banks. Foreign banks tend to benefit from the support of their parent companies or established regional operations but they are limited by local regulations to a maximum of six Philippine branches in order to protect the growth and participation of local banks.

According to preliminary industry data on Philippine banks, BPI is second largest in terms of customer loans among private universal banks, with market share of 15.0% and third largest in terms of deposits at 11.8%, as of December 31, 2022, and second largest in terms of trust asset management with market share of 24.9% as of December 31, 2022. BPI believes its principal competitors are BDO Unibank, Inc. and Metropolitan Bank & Trust Company.

**Properties**

As of December 31, 2022, BPI had 1,130 branch licenses (which include full-service branches, express banking centres ("**EBCs**"), and branch-lite units ("**BLUs**"). As part of BPI's branch optimization strategy, BPI has physically co-located 110 branches and consolidated seven (7).

**Intellectual Property**

BPI has registered a number of trademarks and trade names, including the logo of BPI and the trademark “Bank of the Philippine Islands”. BPI has not been subject to any disputes relating to its intellectual property rights.

**Dividend declaration**

In the past, 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. The revised risk-based capital adequacy framework places a restriction on earnings distribution in case the regulatory minimum on CET1 ratio is breached. There are, however, no known impediments to BPI’s ability to pay dividends on common equity, whether current or future.

Dividends declared by BPI for the year ended December 31, 2022 amounted to ₱9.568 billion representing a dividend payout ratio (being dividends paid divided by net income attributable to BPI’s equity holders) of 24.2%.

**Risks**

***Geopolitical tensions affecting the global economy may pose risks to the domestic economy and likewise to BPI’s business and results of operations***

On 24 February 2022, Russia launched a full-scale invasion of Ukraine that is resulting in massive humanitarian casualties from both sides especially in Ukraine and in destruction of infrastructure, roads, and physical properties in Ukrainian cities and in the Crimean region which was annexed by Russia since 2014. Russia’s initiation of a full-blown war prompted European nations, the US, Australia and some Asian countries to impose major and significant economic and financial sanctions against Russia within two weeks after Kyiv, the capital of Ukraine, came under heavy shelling. These sanctions were aimed at disrupting inflow of funds to Russia and prevent further financing of the war. However, trade and supply chain disruptions are now causing political and economic tensions amongst member nations of the European Union, in the US and, to some extent, in some Asian and African countries. As Russia is a major oil and gas exporter to Europe, many European countries, being mainly dependent on Russian oil and gas, are now facing foreseeable economic consequences should gas and oil trade with Russia get halted either partially or completely. Presently, the war has already contributed to rising oil and gas prices globally. In addition, since Ukraine is a major exporter of wheat (along with Russia) and sunflower oil, disruption in global trade with Ukraine is causing hunger and famine amongst populations of some African and Middle Eastern nations and further exacerbates inflation concerns. Apart from trade disruptions, the banning of some Russian banks from the Society for Worldwide Interbank Financial Telecommunication (or “**SWIFT**”) system, a global network for transferring payments, in March 2022 also had adverse impacts on the business of international companies who are owed money by Russian entities, as such companies had to find alternative and possibly costlier channels to receive payments. Another significant development was the exit of big multi-national companies – such as McDonald’s, PepsiCo, the top four audit firms, H&M, Ikea, top global banks, and Starbucks, to name a few - from Russia’s domestic economy, which in turn caused such companies to incur significant losses. As of November 2022, over 1,000 companies have either closed shops in Russia permanently, stopped importing from / exporting to Russia, or stopped providing or availing of services to/from Russian entities.

As the war continues, the long-term effects on the global economy remain uncertain. These uncertainties and other future events related to this conflict could continue to adversely impact the political and monetary policies of major economies, which in turn could have a negative impact in the Philippine market. As of October 2022[7], headline inflation in the Philippines hit its highest rate since December 2008 at 7.7%, higher than 6.9% from September 2022. The increase was mainly attributable

[7] As of November 2022, inflation rate was at 8.0%.

to supply disruptions- in particular, in global crude oil- which was exacerbated by weather disturbances that occurred in the month. This prompted the BSP, in its monetary policy meeting on November 17, 2022, to raise the overnight reverse repurchase ("**RRP**") facility, overnight deposit facility ("**ODF**"), and overnight lending facility ("**OLF**") rates by 75 basis points to 5.00%, 4.50%, and 5.50%, respectively. According to the BSP, inflation outlook globally and domestically is still skewed to the upside, particularly for 2023, due to potential impact of trade restrictions and higher international food prices, elevated oil prices, and weaker-than-expected global output recovery, which was worsened by China's total lockdowns until the last quarter of 2022 as part of the strict implementation of its "**Zero-Covid**" policy.

In addition, the uneven and divergent conditions across major economies and the resulting divergent policy environment continue to persist, with the US continuing to show firmer signs of economic growth and possible monetary tightening in the horizon, while Japan and the Eurozone require more economic stimulus and unconventional monetary measures (e.g., negative interest rates) to revive their economies. Likewise putting a downside risk to the global outlook are the other ongoing geopolitical crises that include, among others, Turkish invasion of Syria; fears of escalations of geopolitical conflicts between (i) Greece and Turkey and (ii) Taiwan and China; and the ongoing civil protests throughout Chile, Iran and Pakistan.

While BPI's operations have not been negatively affected by the war in Ukraine and by other geopolitical tensions in other parts of the world, there can be no assurance that the uncertainties affecting global markets will not negatively impact the credit markets in the Philippines in the coming months or quarters. The success of BPI's banking business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect BPI's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services.

***BPI's business and results of operations have been and could continuously be adversely affected by public health epidemics or outbreaks of diseases such as the COVID-19 pandemic.***

As a result of the shrinking of the economy due to the government-imposed lockdowns and business disruptions to contain the pandemic, BPI's results of operations were adversely affected. For the years ended December 31, 2022 and 2021, the return on average assets were 1.59% and 1.08%, and the return on average equity were 13.1% and 8.4%, respectively, lower than 1.4% and 11.0% for the year ended December 31, 2019, respectively.

As health protocols and mobility restrictions have relaxed to usher in the reopening of the Philippine economy, the BPI Group's business model continues to evolve in the new normal. Certain business continuity plans enacted during the pandemic have now formed part of BPI's current operating environment. These include, but are not limited to, changes in the workforce arrangements and set-up of corporate offices, allowing for hybrid schedules, split operations, and alternative work sites, all duly supported by the use of mobility tools and virtual communications. The BPI Group's accelerated shift to digitalization has also ensured continuous client service through its various distribution platforms while maintaining back-office efficiency. BPI's robust risk management continues to guard against increasing cybersecurity risks heightened by remote and virtual work arrangements.

To mitigate risks arising from the pandemic to the BPI Group's core businesses, BPI has taken a pro-active stance by constantly monitoring vulnerable industries and sectors that have been affected by COVID-19, identifying new opportunities in other industries and sectors, and having regular conversations with its clients. Asset quality is constantly monitored and BPI continues to uphold its stringent credit process while also enhancing aspects of its underwriting, monitoring, and collections, in consideration of the changes in regulatory, economic, and customer behaviors post-crisis. BPI's asset quality has remained resilient and more favorable than industry averages. Since June 2021, asset quality has been showing improvement across all metrics. BPI's robust capital and liquidity levels also serve as sufficient buffers for any adverse scenario during the ongoing pandemic.

***BPI may not be successful in implementing new business strategies or penetrating new markets.***

As part of its strategy, BPI intends to:

- maintain its leading position in the corporate segment;

- diversify its asset base and improve risk-adjusted returns by prudently accelerating growth in higher margin small-and-medium-sized enterprise ("**SME**") and consumer lending;
- enhance deposit franchise and delivery infrastructure;
- elevate its digital infrastructure to deliver superior customer experience and cost efficiencies; and
- maintain prudent balance sheet management.

While this strategy is expected to diversify BPI's revenue sources, it may likewise expose BPI to a number of risks and challenges including, among others, the following:

- new and expanded business activities may have less growth or profit potential than BPI anticipates, and there can be no assurance that new business activities will become profitable at the level BPI desires or at all;
- BPI's competitors may have substantially greater experience and resources for the new and expanded business activities; and
- economic conditions, such as rising interest rates or inflation and regulatory changes, such as changes in banking and tax regulations, could hinder BPI's expansion.

In addition, new business endeavours may require knowledge and expertise which differ from those used in the current business operations of BPI, including different management skills, risk management procedures, guidelines and systems, credit risk evaluation, monitoring and recovery procedures. BPI may not be successful in developing such knowledge and expertise. Furthermore, managing such growth and expansion requires significant managerial and operational resources, which BPI may not be able to procure on a timely basis or at all. BPI's inability to implement its business strategy and adequately managing the related risks could have a material adverse effect on the business, financial condition and results of operations of BPI.

***Inability to adapt to technology shifts and address changing consumer demand may negatively impact BPI's competitiveness and customer experience.***

The prevalence of smartphones and other connectivity devices and mobile data applications has increased the number of platforms providing online payment solutions, electronic money and wallets, and other similar services and products. The emergence of such web- and app-based products and services has significantly increased competition with those traditionally provided by banks, such as BPI. The quarantine and other movement restrictions imposed in connection with the COVID-19 pandemic also serve to increase demand for such digital and online solutions.

Banks compete with expanding financial technology ("**fintech**") solutions covering (i) mobile payment or e-wallet applications such as but not limited to GCash and PayMaya and (ii) peer-to-peer lending platforms, among others.

Moreover, to date, the BSP has granted six (6) digital bank licenses: (i) Overseas Filipino Bank, (ii) Tonik Digital Bank, Inc., (iii) UNObank, (iv) UnionDigital Bank, (v) GoTyme Bank, and (vi) Maya Bank. These are in addition to banks, notably CIMB Bank Philippines, offering no-branch banking services through their respective mobile apps which provide all-online retail banking services despite having existing commercial and universal banking licenses.

Any inability on the part of BPI to recognize and quickly respond to changes in customer preferences by upgrading its existing infrastructure and systems may impact its competitiveness in the marketplace, which would in turn negatively impact its business, results of operations and financial condition. While BPI invests substantially in technological upgrades and aims to remain up to date with banking technology in the Philippines, there are no significant barriers that prevent its competitors from adopting more advanced technology for their products and services. Accordingly, there can be no assurance that it will be able to maintain its technological competitiveness with its competitors. Furthermore, BPI may need to incur a significant amount of research and development and/or capital expenditures to maintain its technological competitiveness. Failure to maintain its technological competitiveness or its brand image may have a material adverse impact on its fee-based revenue and its ability to attract new deposits from affluent retail and corporate customers, which in turn may lead to an increase in costs of funding and loss of business and result in a material adverse effect on its business, financial condition and results of operations.

As a way of addressing consumer demand for more channels or platforms providing e-wallet services or cashless payments and transactions, in October 2022, BPI launched the mobile app VYBE, a one-stop lifestyle app providing secure, cashless, and quick day-to-day payment transactions with additional features such as rewards points, vouchers, and discounts from partner brands. The app is currently available to existing BPI Online and BPI Mobile app users. The app is still being developed to make it available to non-BPI clients and for more in-app features to be introduced to continue keeping up with the trends and evolving consumer needs and preferences for such digital services.

***BPI has some concentration of loans to certain customer segments or borrower-groups and to certain industries within acceptable credit and risk thresholds, 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, 2022, BPI's total exposure to borrowers was ₱1.8 trillion. BPI extends loans to several sectors in the Philippines. As of December 31, 2022, BPI's loan exposure to the following industries: real estate, manufacturing, wholesale and retail trade, financial institutions,consumer, and agriculture account for 23%, 16%, 11%, 9%, 9%, and 2%, respectively, of BPI's total loan portfolio. 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.

***BPI may face increasing levels of NPLs, provisions for impairment losses and delinquencies in its loan portfolio, which may adversely affect its 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 non-performing loans ("**NPLs**"). BPI's total gross NPLs were equal to ₱38.75 billion, ₱37.96 billion, and ₱30.88 billion as of December 31, 2020, 2021 and 2022, respectively. For the years ended December 31, 2020, 2021 and 2022, BPI's provisions for credit losses were ₱27.29 billion, ₱13.14 billion, and ₱8.99 billion respectively, representing approximately 38%, 19%, and 11% of BPI's net interest income for these periods, respectively. BPI plans to continue to expand its microfinance, SME and consumer loan operations, including credit card services. Such expansion plans will increase BPI's exposure to microfinance, SME and consumer debt and volatile economic conditions in the Philippines may adversely affect the future ability of BPI's borrowers, including microfinance and SME borrowers and credit card holders, to meet their obligations under their indebtedness and, as a result, BPI may continue to experience increasing levels of non-performing loans and provisions for impairment losses in the future.

Volatile economic conditions and inflation risks in the Philippines and overseas, including volatile exchange and interest rates, may adversely affect many of BPI's customers, causing uncertainty regarding their ability to fulfil obligations under BPI's loans and significantly increasing BPI's exposure to credit risk. These and other factors could result in an increased number of NPLs and delinquencies in BPI's credit card portfolio in the future. Any significant increase in BPI's NPLs or delinquencies in BPI's credit card portfolio would have a material adverse effect on its business, financial condition, results of operations and capital adequacy.

As a result of the COVID-19 pandemic, BPI has seen an increase in the level of NPL attributable to the temporary and/or permanent closure of certain businesses, suspended business operations and limited travel and exchange of goods. The actual delinquency status or effect on the NPL levels across different segments and products became evident this year and may be on a steady increase up to early to mid-2022.

***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, 2022, BPI's secured loans represented 30.0% of BPI's total loans, and 53.7% of the collateral on these secured loans consisted of real properties.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 realised 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 realise 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 such realisation. There can be no assurance that BPI will be able to realise the full value, or any value, of any collateral on its loans.

***BPI's provisioning policies with respect to NPLs require significant subjective determinations which may increase the variation of application of such policies.***

BSP regulations require that Philippine banks classify NPLs 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 the number of months, payment is in arrear, the type of loan, the terms of the loan and the level of collateral coverage, and the extent of collectability or recoverability (if still any). These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by BPI to such classifications and to the factors relevant thereto.

For financial reporting purposes, BPI assesses at each reporting date whether there is a significant increase in credit risk on the loan or group of loans. 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. If BPI's evaluations or determinations are inaccurate, the level of BPI's provisions may not be adequate to cover actual losses resulting from its NPL portfolio. BPI may also have to increase its level of provisions if there is any deterioration in the overall credit quality of BPI's existing loan portfolio, including the value of the underlying collateral.

In addition, the level of loan loss provisions which BPI recognises may increase significantly in the future due to the introduction of new accounting standards or a turn in the credit cycle and implementation of tighter regulations on credit risk. In January 2017, the BSP issued Circular No. 941, which amended the regulatory definitions of past due accounts, restructured loans and non-performing loans. Among others, the said Circular cites the conditions under which an account will be classified as NPL. To comply with the new standards, banks were required to revise their management reporting systems to align them with the circular's definition of NPLs, past due accounts and restructured loans.

Certain accounting standards based on International Accounting Standards have been adopted in the

Philippines. Effective January 1, 2018, banks adopted PFRS 9 estimates provisioning based on Expected Credit Loss ("**ECL**") model. This model poses a risk of variability of provisioning across banks due to the subjective assumptions, complex data, and unforeseen changes in macroeconomic conditions.

While the new model affirmed BPI's prudent stance in its historical provisioning, there is no guarantee that such new accounting standards may result in BPI recognizing significantly higher provisions for loan loss in the future. Moreover, while BPI believes its current level of provisions and collateral position are more than adequate to cover its non-performing loan exposure, an unexpected or significant increase in non-performing loan levels may result in the need for higher levels of loan loss provisions in the future.

***BPI relies on certain key personnel and the loss of any such key personnel or the inability to attract and retain them may negatively affect the 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 BPI's key management, and senior executives, or an inability to attract or retain other key individuals could materially and adversely affect BPI's business, financial condition and results of operations.

***Increased enforcement by the BSP related to priority lending for the agrarian reform and agricultural sectors, could adversely affect BPI's business, financial condition and results of operations.***

In support of government initiatives to strengthen rural development, Philippine banks, under Republic Act No. 10000 or the Agri-Agra Credit Act of 2009, are required to extend certain loan amounts, equivalent to a certain percentage of its total loan portfolio to agrarian beneficiaries and the agricultural sectors 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 loan amount shortfall. Because BPI is unable to generate sufficient exposure to the Agri-Agra sectors that meet its credit and risk management standards, 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 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's heavy use and reliance on information and technology systems could expose it to related risks that could adversely affect its business.***

BPI is subject to risks relating to its extensive reliance on information and technology systems and processes. Hardware and software used by BPI are inherently vulnerable to damage or disruptions caused by human error or misconduct, malfunction, natural disasters, power loss, external attacks, or loss of support services from third parties such as internet service providers and telecom companies. Work-from-home / remote working arrangements necessitated by quarantine measures imposed by the government in response to the COVID pandemic heightened the cybersecurity risks faced by BPI.
There can be no assurance that future similar incidents will not result in material impact to BPI. Any disruption, outage, delay or other difficulties in any of these information and technology systems may lead to customer suits, income losses, regulatory investigations, penalties and fines and weakened consumer confidence in BPI. These may, in turn, adversely affect BPI's operations and financial condition.

BPI seeks to protect its computer systems and network infrastructure from security breaches and disruptions as it progresses through its digitalization journey. To mitigate against cyberattacks, BPI maintains a robust defense-in-depth designed to arrest the progress of determined threat actors and protect information assets and systems. Anchoring the various security systems employed by BPI is a 24/7 Cyber Security Operations Center. BPI also maintains an information security program ("**ISP"**) which aims to ensure comprehensive and sustainable compliance with applicable legal and regulatory requirements which include DPA and BSP's Manual of Regulations for Banks ("**MORB**"). A critical component of the ISP is an infosec awareness program that seeks to build and maintain an organization

equipped to properly protect personal data and other proprietary information assets. Finally, BPI has a cyber insurance policy as part of its risk treatment strategy.

Nevertheless, the threat of cyberattacks will persist and there can be no assurance that in-place security measures will prove adequate in preventing breaches. The costs of maintaining such security measures may also increase substantially. Failure in security measures could have a material adverse effect on BPI's operations, business, reputation, and financial condition.

***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 originate, underwrite, securitise, sell, purchase and/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 risks is an important consideration in managing its liquidity risk because it affects the 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, 2022, BPI has a local long-term bank deposit rating of [Baa2 with a stable outlook from Moody's; long-term rating and A-2 short-term issuer credit rating of BBB+ with a "stable" outlook from S&P Global Ratings; and a long-term issuer default rating of BBB- with a "negative" outlook – consistent with the sovereign outlook - from Fitch]. In the event of a downgrade of BPI's rating by one or more credit rating agencies, BPI may have to accept terms that are not as favourable 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'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 exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Such incidents may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through their systems. Any occurrence of such fraudulent events may damage the reputation of BPI and may adversely affect its business, financial condition, results of operations and prospects. In addition, failure on the part of BPI to prevent such fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other government agencies, which may be in the form of suspension or other limitations placed on BPI's banking and other business activities. Although BPI has in place certain internal procedures to prevent and detect fraudulent activities, these may be insufficient to prevent such occurrences from transpiring. There can be no assurance that BPI will be able to avoid incidents of fraud in the course of its business.

***BPI may be involved in litigation, which could result in financial losses or harm its business.***

BPI is and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, BPI and/or subject BPI to significant liabilities to third parties. There can be no assurance that the results of such legal proceedings will not materially harm BPI's business, reputation or standing in the market place or that BPI will be able to recover any losses incurred from third parties, regardless of whether BPI is at fault. Furthermore, there can be no assurance that (i) 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, or (ii) provisions made for litigation related losses will be sufficient to cover BPI's ultimate loss or expenditure.

***New tax and other revenue raising measures, including those contemplated by the fourth package (Package 4) of the Comprehensive Tax Reform Program (CTRP) may have a material adverse impact on the results of operation of BPI.***

On 09 September 2019, the House of Representatives approved House Bill (**HB**) No. 304, or Package 4 of the CTRP or otherwise known as the Passive Income and Financial Intermediary Taxation Act (**PIFITA**), on its third and final reading. However, HB No. 304 has not become a law. Nevertheless, on November 14, 2022, HB No. 4339 was approved by the House of Representatives on its third and final reading. However, before HB No. 4339 can become effective, it must be considered and approved by the Senate.

HB No. 4339 proposes certain changes to the taxation of passive income, financial intermediaries, and financial transactions. Among the changes proposed by HB No. 4339 is the removal of the preferential tax treatment of the expanded foreign currency deposit system.
Any increase in taxes will reduce the net income of BPI, which may have a material and adverse effect on BPI's business, results of operations and financial condition.

***BPI may not realize the anticipated synergies from the merger with Robinsons Bank Corporation ("RBC").***

The Board of Directors of BPI in its meeting on September 30, 2022 approved the proposed merger between RBC and BPI, with BPI as the surviving bank, subject to shareholders' and regulatory approvals. The proposed merger is a statutory merger pursuant to Title IX of the Revised Corporation Code and Section 40(C)(2) of the National Internal Revenue Code, i.e. merger with the issuance of primary shares. Upon the effectivity of the proposed merger after receipt of all necessary corporate and regulatory approvals, the shareholders of RBC will collectively hold approximately 6% of the resulting outstanding capital stock of BPI.

Upon the effectivity of the merger, BPI hopes to be able to unlock various synergies across several products and service platforms, expand the customer and deposit base of both banks through the merged entity, and, at the same time, by capitalizing on BPI's expertise and network, enhance the overall banking experience of RBC customers. BPI seeks to be able to expand its client base, accelerate growth, and ultimately increase shareholder value through partnerships with the Gokongwei Group. However, these expected synergies may not materialize due to difficulties, delays or unexpected costs in implementing the integration of BPI and RBC.

Furthermore, the proposed merger is subject to regulatory approval of the SEC, PCC, BSP, and PDIC. There is no assurance that these approvals will be received and, if received, it will be in accordance with the planned schedule of the merger.

***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 BPI's revenue, gross margin and profitability:

- managing business combination and investment transactions often requires significant management resources, which may divert BPI's attention from other business operations;
- 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;
- 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;
- 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;
- 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
- 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 liberalisation, including liberalisation 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 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 45 domestic and foreign universal and commercial banks operating in the Philippines as of February 27, 2023.

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:

- other large Philippine banking and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- 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;
- 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;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
- 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 liberalisation 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 industry 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 (including interbank loans) in the Philippine banking system from 3.6% in end-2010 to 2.0% as of December 2019. BPI has realised 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 may face significant financial and operating challenges. 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-capitalisation 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. As an example, the adverse effects of the pandemic in the general economy drove up the monthly gross NPL ratios to 3.5% to 4.5% levels from September 2020 to August 2021. With the reopening and improvement of the economy, these figures gradually moved back down to the 3.5% level as of August 2022.

***BPI may have to comply with strict rules and guidelines issued by regulatory authorities in the Philippines, including the BSP, the SEC, 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, SEC, PSE, NPC, AMLC and BSP. BPI is also subject to recommendations and pronouncements of international bodies such as the Financial Action Task Force ("**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 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's MORB. Institutions that are subject to the Anti-Money Laundering Act, as amended ("**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 Real Estate Stress Test Limit ("**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, BPI 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 ODF with a current rate of 4.50% (as of November 17, 2022), and forms the lower bound of the IRC. Meanwhile, the rate for the OLF, which replaced the previous repurchase facility, and forms the upper bound of the IRC, is currently at 5.50% (as of November 17, 2022). The BSP likewise introduced the "term deposit facility" ("**TDF")** 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.

On March 31, 2020, BSP Circular No. 1082 was issued, which lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, with effect from reserve week of April 3, 2020 (and reiterated in Circular No. 1092 for reserve week of July 31, 2020) for universal and commercial banks, to (a) 12% against demand deposits, negotiable order of withdrawal ("**NOW**") accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable certificates of time deposits ("**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 of banks (Philippine branch of a foreign bank); (b) 0% against deposit substitutes evidenced by repurchase agreements; (c) 4% against long-term negotiable certificates of time deposits ("**LTNCDs**"); (d) 3% against bonds; and (e) 0% against basic deposit accounts as defined under Section X222 of the MORB and for interbank call loan transactions ("**IBCL**").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, however, issued a temporary restraining order against the said BIR rule on 9 September 2014 insofar as they prohibit the naming of an entity called the Philippine Central Depository ("**PCD**") 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.

***The implementation of Basel III in the Philippines may impose certain restrictions and stricter capital requirements affecting BPI.***

On August 4, 2006, the BSP issued Circular No. 538, which contained the implementing guidelines on the revised risk-based capital adequacy framework for the Philippine banking system, in conformity with the recommendations of the International Convergence of Capital Measurement and Capital Standards ("**Basel II**") set by the Basel Committee on Banking Supervision ("**Basel Committee**"). The circular, which took effect on 01 July 2007, maintained the minimum CAR at 10.0% and provided the approaches that may be used in computing the regulatory capital requirements for credit, market, and operational risks.

In December 2010, the Basel Committee issued an update to the Basel Accords, known as Basel III that modified the structure of regulatory capital. The Basel III regulations included tighter definitions of qualifying capital, and introduced frameworks for capital conservation buffer, countercyclical buffer, systemically important financial institutions, leverage ratio, and short-term and medium-term quantitative liquidity ratios.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which took effect in January 2014. Its highlights include:

- Adopting a new categorization of the capital base;
- Keeping minimum Capital Adequacy Ratio ("CAR") at 10.0% and prescribing:
    - A minimum Common Equity Tier 1 ("**CET1"**) ratio of 6.0%;
    - A minimum Tier 1 ratio of 7.5%; and
    - A capital conservation buffer of 2.5%
- Rendering ineligible existing capital instruments that do not meet eligibility criteria for capital instruments under the revised capital framework; and
- Subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital

On October 29, 2014, the BSP issued Circular No. 856, *Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks ("**D-SIBs**") under Basel III*, with an amendment issued via Circular No. 1051 on September 27, 2019, 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 2.5% of common equity Tier 1 capital, depending on their classification.

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, requiring covered institutions to maintain a leverage ratio not lower than 5.0%. The leverage ratio, expressed as the proportion of Tier 1 capital against exposure measure, serves as a backstop to the CAR.

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio ("**LCR**") and Disclosure Standards*, requiring banks to hold a sufficient level of high-quality liquid assets ("**HQLA**") to enable them to withstand a 30-day liquidity stress scenario. On June 6, 2018, the BSP issued Circular No. 1007, *Implementation of Basel III Framework on Liquidity Standards – Net Stable Funding Ratio ("**NSFR**")*, requiring that banks' assets and activities be structurally funded with long-term and more stable funding sources. 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 competition among banks for deposits as well as high quality liquid assets.

On December 6, 2018, the BSP issued Circular No. 1024, *Philippine Adoption of the Basel III Countercyclical Buffer*, imposing a countercyclical buffer ("**CCyB**") of 0% subject to upward 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.

On May 4, 2020, BSP issued Memorandum No. M-2020-039 allowing universal and commercial banks, and their subsidiary banks and quasi-banks which have built their capital conservation buffer and LCR buffer to utilize such during the state of health emergency. A covered bank which draws down its 2.5% minimum capital conservation buffer will not be considered in breach of the capital adequacy framework. A covered bank which utilizes its capital conservation buffer is restricted from making distributions in the form of dividends, share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff. A covered bank may draw on its stock of liquid assets to meet liquidity demand even if may cause to maintain an LCR that is below the 100% minimum requirement. However, a covered bank that has recorded a shortfall in the stock of its HQLA for three banking days within any two-week rolling calendar period, causing it to fall below the 100% must notify the BSP on The banking day immediately following the occurrence of the third liquidity shortfall.
They will be given a reasonable time to restore their Basel III capital conservation and liquidity buffers after the COVID-19 pandemic.

As of December 31, 2022, BPI had CAR of 16.01%, CET1 ratio of 15.12% and capital conservation buffer of 9.12%. Compliance with these ratios may further increase competition among banks for deposits as well as high quality liquid assets.

Although intended to strengthen banks' capital positions and avoid potential asset bubbles, the foregoing BSP and Monetary Board regulations will add pressure to local banks to meet the additional capital requirements, which may effectively create greater competition among local banks for deposits

and temper bank lending. Stricter lending and prudential regulations may reduce the lending appetite of BPI or cause BPI to alter its credit risk management systems, which may adversely affect BPI's business, financial condition, and results of operations.

Compliance with regulatory requirements 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. 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 Basel III may result in BSP-imposed monetary and non-monetary sanctions, including prohibition on the declaration of dividends. While BPI has in place measures to ensure compliance to the requirements of Basel III as implemented by the BSP, 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.

***If BPI fails to maintain expected levels of customer deposits, its business operations may be materially and adversely affected.***

Customer deposits are BPI's primary source of funding and BPI intends to continue to expand its deposit base, particularly low-cost sources such as demand and savings deposits ("**CASA deposits**") to help fund its future loan growth. However, many factors affect the growth of deposits, some of which are beyond BPI's control, such as economic and political conditions, availability of investment alternatives and retail customers' changing perceptions toward savings. For example, retail customers may reduce their deposits and increase their investment in securities for a higher return or increase their deposits in trust accounts, while small, mid-market and large corporate customers may reduce their deposits in order to fund increased working capital requirements in a favourable economic environment or BPI may need to increase the rates it offers to its customers to minimise deposit outflows, which would have an adverse impact on its cost of funding. If BPI fails to maintain its desired level of deposits, BPI's liquidity position, financial condition and results of operations may be materially and adversely affected. In such an event, BPI may need to seek more expensive sources of funding (including external sources). BPI's ability to raise additional funds may be impaired by factors over which it has little or no control, such as deteriorating market conditions or severe disruptions in the financial markets, and it is uncertain whether BPI will be able to obtain additional funding on commercially reasonable terms as and when required, or at all.

***BPI is subject to interest rate risk.***

BPI realises income from the margin between interest-earning assets (due from BSP on balances above the minimum reserve requirement, due from other banks, interbank loans receivable and securities purchased under resale agreement with BSP, investment securities and loans and receivables), and interest paid on interest-bearing liabilities (deposit liabilities, bills payable and senior/subordinated, and other forms of borrowings). Fluctuations in domestic market interest rates, which are neither predictable nor controllable, can have a significant impact on BPI by affecting its interest income, cost of funding and general performance of its existing loan portfolio and other assets. In a period of rising domestic interest rates, BPI may be required to compete aggressively to attract deposits by offering higher rates to depositors in order to increase BPI's loanable funds, which may result in a decrease in BPI's profitability. As interest rates increase, BPI's profitability may decrease as a result. Increased interest rates on BPI's customers' floating rate loans can also potentially negatively affect BPI's business by increasing default rates among BPI's borrowers, which could in turn lead to increases in BPI's NPL portfolio and its real and other properties acquired ("ROPA"). Likewise, rising interest rates may impact the value of BPI's investment securities resulting in unrealised marked to market losses in its trading and fair value through other comprehensive income ("FVOCI") investment portfolios. Furthermore, BPI may suffer trading losses as a result of the decline in value of these securities. Finally, continued increases in market interest rates could adversely affect the liquidity levels of BPI and the Philippine banking industry in general, which have in recent years been supported by the relatively low interest rate environment in the Philippines. As a result, fluctuations in interest rates could have an adverse effect on BPI's margins and volumes and in turn adversely affect BPI's business, financial condition and results of operations.

***Increased exposure to consumer debt could result in increased delinquencies in BPI's loan and credit card portfolios.***

BPI plans to continue to expand its consumer loan operations. Such expansion plans will increase BPI's exposure to consumer debt and vulnerability with respect to changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of BPI's consumer loan and credit card portfolios. A rise in unemployment or substantial increase in interest rates could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults, NPLs and reduce demand for consumer loans.

***The Philippine banking industry is generally exposed to higher credit risks and greater market volatility than those 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:

- the greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- 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
- the large foreign debt of the Government and the corporate sector, relative to the gross domestic product ("**GDP**") of the Philippines; and
- 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 universal and commercial banking industry were 2.01%, 2.01%, and 1.76% as at December 31, 2020, 2021 and 2022, respectively.

***The ability of Philippine banks to assess, monitor and manage risks inherent in their business differs from the standards of their counterparts in more developed countries.***

Philippine banks are exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of their risk management is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different groups within each bank, including BPI, may be incomplete or obsolete. BPI may have developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, BPI's ability to assess, monitor and manage risks inherent in its business would not meet the standards of its counterparts in more developed countries. If BPI is unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on BPI's ability to manage these risks and on BPI's financial condition, liquidity and results of operations.

***If BPI were not to comply with FATCA, this may cause material and adverse impact on BPI's business, financial conditions and results of operations.***

The Foreign Account Tax Compliance Act ("**FATCA"**) was enacted into law in the U.S. on March 18, 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay $780 million in fines for their role in assisting U.S. citizens in evading income taxes.

FATCA impacts a number of organisations and individuals. It first affects U.S. persons with income abroad. Secondly, foreign financial institutions ("**FFIs**") that invest in U.S. markets will be impacted as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens.

An FFI will have to set up a process to identify U.S. accounts as part of its on boarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status.

After the identification of impacted accounts, an FFI will have to collect documentation on each of these accounts to prove whether or not they are a U.S. person. If they are not a U.S. person and the FFI has the appropriate documentation, the FFI's obligations have been fulfilled. If they are a U.S. person, the FFI's next move will depend on the country that has jurisdiction over the FFI. By default, the Participating Foreign Financial Institutions ("**PFFIs**") in countries without an intergovernmental agreement will directly report to the US Internal Revenue Service ("**IRS**").

There is a requirement for PFFIs to withhold 30% of income from recalcitrant account holders in order to comply with FATCA. A recalcitrant account holder is one who fails to comply with reasonable requests pursuant to IRS mandated verification and due diligence procedures to identify U.S. accounts, to provide a name, address and TIN or fails to provide a bank secrecy waiver upon request.

Specific to BPI's compliance with FATCA, BPI and its subsidiaries registered on June 30, 2014 as an Expanded Affiliate Group i.e., Bank of the Philippine Islands (lead financial institution) and subsidiaries. BPI subsequently updated its FATCA status and registered as a Reporting Financial Institution under a Model 1 Intergovernmental Agreement ("**IGA**"). BPI's FATCA ID and Global Intermediary Identification Number is CUC041.00000.LE.608.

Under the IGA, the Secretary of Finance or Commissioner of Internal Revenue is the competent authority to receive FATCA information for reporting to the U.S. Internal Revenue Service. FATCA reporting will not take place until the PH-US FATCA IGA has been concurred by the Philippine Senate and has entered into force.

***Uncertainties and instability in global market conditions could adversely affect BPI'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.

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 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 by the referendum on membership of the European Union, held in the UK on June 23, 2016, where the UK public voted by a majority in favor of the British government taking the necessary action for the UK to leave the European Union. In November 2016, the British High Court ruled that the British government needed the Parliament's approval to trigger Article 50 of the Lisbon Treaty and begin the two-year process of withdrawing the UK from the European Union, which took effect on January 31, 2020. UK's decision to withdraw from the EU has also given rise to calls for the governments of other European Union member states to consider withdrawal. 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 and restrict the ability of key market participants to operate in certain financial markets, which could in turn depress

economic activity and have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world. Until the terms and timing of the UK's exit from the EU are clearer, it is not possible to determine the impact that the UK's departure from the EU and/or any related matters may have on the stability of the Eurozone or the European Union. The broad ramifications of "Brexit" to the UK, the EU and the global economy have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets.

**Regulations**

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 Manual of Regulations for Banks ("**MORB**") 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 MORB), 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 MORB), 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 MORB.

The MORB is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The MORB 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 MORB 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 authorised 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 MORB, 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). These minimum levels of capitalisation may be changed by the Monetary Board from time to time.

For purposes of these requirements, the MORB 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.

Section 121 of the MORB states that deposits for stock subscription recognized as equity pursuant to 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 though 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 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 as defined in Appendix 59, Part III, and Appendix 62, Part II.C of the MORB;
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 Section 128 of the MORB; 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***

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 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 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.

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 January 1, 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 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 January 1, 2022.

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 LCR and the NSFR. The LCR requires banks to hold a sufficient level of 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 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.

BSP Circular No. 1051, issued on 27 September 2019, amended the framework for dealing with D-SIBs. For the lower bucket, a minimum HLA requirement of 1.5% of risk-weighted assets at all times was imposed. For the higher populated bucket, the HLA requirement ranges from above 1.5% to 2% of risk-weighted assets. An empty top bucket with HLA requirement of 2.5% of risk-weighted assets shall also be maintained. The differentiated HLA requirement for D-SIBs slotted under the higher-populated bucket is to be based on the ranking of a bank's overall systemic importance through the use of the indicator-based measurement approach. An equation is provided in BSP Circular No. 1051 for computing the additional loss absorbency requirement for D-SIBs slotted under the higher-populated bucket.

The HLA requirement shall also be on top of the combined requirement for CCB and CCyB, as determined under BSP Circular No. 1051. Restrictions on distributions are provided under BSP Circular No. 1051, depending on the CCyB rate of the bank. However, payments which do not result in the depletion of CET1 capital are not considered capital distributions. The total CET1 capital requirement for D-SIBs will be as follows:

(A) CCyB rate is at 0%:

| Bucket | Minimum CET1 Requirement (a) | CCB (b) | CCyB (c) | D-SIB HLA Requirement (d) | Total Additional CET1 Requirement (b+c+d) | Total Required CET1 (a+b+c+d) |
|---|---|---|---|---|---|---|
| 3 (empty) | 6.0% | 2.5% | 0% | 2.5% | 5% | 11.0% |
| 2* | 6.0% | 2.5% | 0% | 2% | 4.5% | 10.5% |
| 1 | 6.0% | 2.5% | 0% | 1.5% | 4.0% | 10.0% |

- *assuming an HLA requirement of 2.0%

(B) CCyB rate is at 2.5%:

| Bucket | Minimum CET1 Requirement (a) | CCB (b) | CCyB (c) | D-SIB HLA Requirement (d) | Total Additional CET1 Requirement (b+c+d) | Total Required CET1 (a+b+c+d) |
|---|---|---|---|---|---|---|
| 3 (empty) | 6.0% | 2.5% | 2.5% | 2.5% | 7.5% | 13.5% |
| 2* | 6.0% | 2.5% | 2.5% | 2.0% | 7.0% | 13.0% |
| 1 | 6.0% | 2.5% | 2.5% | 1.5% | 6.5% | 12.5% |

*assuming an HLA requirement of 2.0%

BSP Circular No. 1051 likewise imposes capital distribution constraints should a D-SIB's capital fall within a specified range (subject to phased-in implementation and other provisions of the circular):

(A) CCyB rate is at 0%

| Restrictions on Distributions | Level of CET1 Capital | |
|---|---|---|
| | **Bucket 1** | **Bucket 2*** |
| No distribution (until the minimum CET1, the combined requirement for CCB and CCyB, and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with) | <=9.25% | <=9.50% |
| 50% of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB, and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with. | >9.25%. – 10.0% | >9.50%. – 10.5% |

- *assuming an HLA requirement of 2.0%

(B) CCyB rate is at 2.5%

| Restrictions on Distributions | Level of CET1 Capital | |
|---|---|---|
| | **Bucket 1** | **Bucket 2*** |
| No distribution (until the minimum CET1, the combined requirement for CCB and CCyB, and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with) | <=11.75% | <=12.00% |
| 50% of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB, and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with. | >11.75%. - 12.50% | >12.00%. - 13.00% |

- *assuming an HLA requirement of 2.0%

A D-SIB will not be subject to any restriction on distribution if the following conditions are met:

- Positive retained earnings as of the preceding quarter and compliance with the regulatory requirements for the declaration of dividends;
- Has CET1 capital of more than the total required before the distribution; and
- Compliance with total required CET1 and D-SIBS HLA requirement (under the circular) before distribution; and
- Compliance with minimum capital ratios after distribution.

D-SIBs are also subjected to greater supervisory requirements such as additional disclosures and reports in its ICAAP. These requirements may lead to such banks to hold even higher minimum levels of capital compared with the levels above.

On March 29, 2022, BSP Circular No. 1142 amended the Guidelines on the Computation of Minimum Required Capital and Risk-Based Capital Adequacy Ratio. 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. The Circular also amended the guidelines on Qualifying Capital and Credit Risk Weighted Assets.

**Credit Risk Management**

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 August 20, 2020, the BSP issued Circular No. 1093, expanding the real estate loan limit for UKBs from 20% to 25% The REST Limit has also been amended to apply to the following real estate exposures: commercial real estate loans; investment in debt securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors, and property management companies, for purposes of financing real estate activities; and investments in equity securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors and property management companies, for purposes of financing real estate activities. Notably, under this circular, the manner of computing the REST Limit was revised to remove residential real estate under the occupancy of the bank as well as under land developers and construction companies for the development of socialized and low-cost housing which was included in previous regulations of the BSP. The real estate exposures shall not include loans and investments in debt and equity securities the proceeds of which are used to finance infrastructure projects for public use.

**Reserve Requirements**

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 requirement during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency. On March 31, 2020, BSP Circular No. 1082 was issued, which lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, with effect from reserve week of April 3, 2020 (and reiterated in Circular No. 1092 for reserve week of July 31, 2020) for universal and commercial banks, to (a) 12% against demand deposits, NOW) accounts, savings deposits (excluding basic deposit accounts), 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 of banks (Philippine branch of a foreign bank); (b) 0% against deposit substitutes evidenced by repurchase agreements; (c) 4% against LTNCDs; (d) 3% against bonds; and (e) 0% against basic deposit accounts as defined under Section X222 of the MORB and for IBCL.

On 22 April 2020, the BSP issued BSP Circular No. 1083 to recognize loans granted to MSMEs after March 15, 2020 as allowable alternative compliance with the required reserves against deposit and deposit substitute from April 24, 2020 to December 30, 2021. To be considered as compliant, the MSME loan should be granted after March 15, 2020 and should not be hypothecated or encumbered in any way, rediscounted with the BSP, or earmarked for any other purpose. The willful making of a false or misleading statement in relation to the reporting of MSME loans for compliance shall subject the bank and the directors/officers responsible for violation of Sections 35 and 37 of Republic Act No. 7653 or the New Central Bank Act, as amended by Republic Act No. 11211.

Pursuant to BSP Memorandum No. M 2020-029, issued on 23 April 2020, MSME loans that are utilized as alternative compliance with reserve requirements shall be temporarily reported by Universal Banks under Investments in bonds and Other Debt Instruments.

On May 27, 2020, the BSP, pursuant to BSP Circular No. 1087, provided more alternative modes of compliance with the reserve requirement such as: (a) Peso-denominated loans that are granted to MSMEs, and (b) Peso-denominated loans that are granted to large enterprises, subject to conditions set out in the circular.

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%.

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 MORB.

BSP Circular No. 779 issued on January 9, 2013, amended the MORB 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.

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 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 ("**AMLA**") 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, as amended, 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;
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 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 ("**AMLC**"), 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. On February 2023, R.A. No. 11521 took effect, further strengthening the AMLA and the AMLC's powers.

***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 emphasized 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.

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 I the development of complaint resolution procedure for unauthorized 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 MORB.

On February 22, 2019, the BSP issued Circular No. 1033, which amended the MORB 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 315 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 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 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 issue 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.

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 MORNFBI. 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 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-2020-0–6** - 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-2020-0–0** - 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-2020-0–2** - 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 'SP's risk-based capital adequacy frameworks.
- **M-2020-0–9** - 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.

**TELECOMMUNICATIONS**

**Overview**

The Company conducts its telecommunications business through Globe. Globe's origin can be traced back to the Robert Dollar Company, a corporation organized and existing under the laws of the State of California which provided wireless long distance message services. After subsequent mergers and renamings, the company in 1992 was again renamed Globe Telecom, Inc. In 1993, Ayala and Singapore Telecom formalized their partnership as the principal shareholders of Globe. Since then, Globe has been recognized as the first company to offer short message service ("**SMS**") in the Philippines and as the first Philippine internet service provider in the Philippines.

Globe Telecom, Inc. is a leading digital platform in the Philippines, with major interests in financial technology, digital marketing solutions, venture capital funding for startups, entertainment, and virtual healthcare. The company 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. Globe currently has 86.7 million mobile subscribers (including fully mobile broadband), 2.6 million Home Broadband customers, and close to [1.3 million] landline subscribers.

On August 11, 2022, Globe obtained Board approval to sell over 7,000 towers (the "**Tower Assets**") which are grouped into three unique, distinct portfolios. Globe received bid proposals for the Tower Assets from a number of tower companies, each backed by local and international groups. These tower companies have extensive experience and expertise in telecommunications tower infrastructure, including engineering and construction. Globe has signed two sale and leaseback agreements for ₱71 billion over two of these portfolios, collectively consisting of 5,709 telecom towers and related passive telecommunications infrastructure.

The first portfolio, consisting of 2,180 telecommunications towers in Luzon, will be acquired by MIESCOR Infrastructure Development Corporation for a total consideration of approximately ₱26 billion, and will be leased back to Globe for an initial period of 15 years.

The second portfolio, consisting of 3,529 towers nationwide, will be acquired by Frontier Tower Associates Philippines Inc. for a total consideration of approximately ₱45 billion, and will also be leased back to Globe for an initial period of 15 years.

Globe estimates the pre-transaction gain for the foregoing transactions, net of friction costs to be at ₱18.0 billion, reporting and recognition of which will be according to the timing of the above transactions' closings.

Globe expects the first closing of the above transactions to occur in the third to fourth quarter of 2022, with subsequent closings to occur as and when the applicable closing conditions are met. Globe expects to use approximately 75% of the total proceeds of these transactions to fund its capital expenditures, support its ongoing network expansion and sustain its industry-leading network consistency and reliability scores, and the remaining 25% for its 2023 debt servicing requirements. On September 23, 2022, Globe achieved the first closing in respect of 800 towers out of the 3,529 to be acquired by Frontier Tower Associates Philippines Inc. for approximately ₱10.2 billion. Globe expects the first closing of towers to be acquired by MIESCOR Infrastructure Development Corporation to occur by the fourth quarter of 2022.

On September 23, 2022, Globe signed a sale and leaseback agreement with Phil-Tower Consortium, Inc. ("**Phil-Tower**") over the third portfolio of Tower Assets, consisting of 1,350 telecommunications towers and related passive infrastructure for approximately ₱20 billion, which will also be leased back to Globe for an initial period of 15 years. On February 11, 2023, Globe closed 578 towers to be acquired by PhilTower for approximately ₱8.6 billion. Cumulatively, Globe has closed 578 out of 1,350 towers to be acquired by PhilTower. Subsequent closings will occur as and when the applicable closing conditions are met. The following tables set out selected financial information and key performance indicators of Globe as of and for the periods indicated:

***Selected Financial Information***

***For the year ended December 31, 2020, 2021, and 2022***

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| ***Return on Equity*** | ***25.9%*** | ***24.1%*** | ***22.7%*** |

1 Trailing 12-month net income divided by average equity

***For the year ended December 31, 2020, 2021, and 2022***

| ***Average Revenue Per Subscriber (ARPU)[2] (₱)*** | ***2022*** | ***2021*** | ***2020*** |
|---|---|---|---|
| Globe Postpaid | 839 | 821 | 850 |
| Average Monthly Churn Rate (%) | 1.6% | 1.6% | 1.8% |
| Cash Capital Expenditures3 / Services Revenues (%) | 64% | 61% | 31% |

2 ARPU is computed by dividing recurring gross service revenues (gross of interconnect expenses) segment by the average number of the segment's subscribers and then dividing the quotient by the number of months in the period
3 Cash capital expenditures-property & equipment and intangibles

As of December 31, 2022, approximately 68.1% of Globe's service revenue was derived from its mobile segment and 31.9% from its fixed line, corporate data, home broadband segments and others.

For 2023, Globe has earmarked US$ 1.3 billion for capital expenditures, to continue its aggressive network expansion that includes new cell site builds, upgrade more existing sites to 4G/LTE, accelerate rollout of 5G connectivity, and further boost the internet quality and coverage in the Philippines. Globe has a policy of distributing 60%-75% of its prior year's core net income in dividends. Globe distributed ₱14.4 billion of dividends to its common shareholders in 2022. Return on equity for the year 2022 was at 25.9%.

Globe is currently listed on the PSE.

**Business of Globe**

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. Globe highlights its portfolio of postpaid plans featuring the all-new "GPlan". Mobile and life essentials are combined in any GPlan type - GPlan with Device, new GPlan SIM-Only, GPlan Sim-Only All-Data, GPlan with GCash and GPlan Plus. Aside from generous data allocations, customers receive unlimited all-network calls & texts, and free 3GB GoWiFi. GPlan with GCash offers maximum flexibility for customers by giving them GCash (one-time credit only), which they can spend for home essentials, gaming consoles, shopping vouchers, and more. GPlan with Device offers discounted or free mobile phones with the chosen Globe Postpaid plan (from GPlan 599 to GPlan 2499). The new GPlan SIM-Only offers higher data allocation from 6GB to 100GB. GPlan with GCash, GPlan with Device, and the new GPlan SIM-Only are subject to a 24-month contract period. Meanwhile, GPlan SIM-Only All-Data is packed with big data allocation which ranges from 10GB to 80GB, available for a 6-month contract period. See https://www.globe.com.ph/postpaid.html for more details.

Experience a different Globe Postpaid with ONEPlan, Globe's newest plan that comes with GFiber to complement your mobile data use, and always be connected wherever you are: OnePlan1,799/month (13GB data; Globe at home 25Mbps -300 GB Gfiber flex; Unlike call, text, landline to all network ; with free 3GB GoWifi every month; Free KonsultaMD ; contract period of 24months); OnePlan1,999/month (15GB data; Globe at home 150Mbps - GFiber Unlimited; Unlike call, text, landline to all network ; with free 3GB GoWifi every month; Free KonsultaMD ; Free 3-months access to HBO GO, discovery+, Prime Video and Viu, contract period of 24months).

In addition, Platinum OnePlan also come with a Globe plan with unlimited Fiber connection at home and priority network experience on mobile, so you can continue creating a life made greater: Platinum One Plan 3,799 (cash out 7,200 or 300 per month; Globe at home 150Mbps - GFiber Unlimited; all-month mobile data surfing, Unlimited call, text, Unlimited to DUO and landline (nationwide); with free 3GB GoWifi every month; Free KonsultaMD ; Free 3-months access to HBO GO, discovery+, Prime Video and Viu, Free one service visit from the Platinum Home Squad, contract period of 24months); Platinum One Plan 4,999 (cash out 1,200 or ₱50/mo.; Globe at home 150Mbps - GFiber Unlimited; all-

month mobile data surfing, Unlimited call, text, Unlimited to DUO and landline (nationwide); 2 days data roaming; consumable allowance 1,500; with free 3GB GoWifi every month; Free KonsultaMD; Free 3-months access to HBO GO, discovery+, Prime Video and Viu, Free one service visit from the Platinum Home Squad, contract period of 24 months).

Moreover, Globe simplified the renewal of mobile postpaid plans (once the subscriber gets past their contract period of 24 months or 6 months) via online. Subscriber can simply go to www.globe.com.ph/shop/plan-renewal and follow these simple 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 (including GOMO*) 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.*

**GOMO is a fully digital service brand of Globe created to address the needs of the underserved digitally savvy yuppie segment. Simply buy the sim from gomo.ph or through the GOMO PH mobile app.*
Globe Prepaid's *GoSAKTO* is a self-service menu that provides its subscribers easy access to avail of the latest promotions and services of Globe. This menu also allows the subscribers to customize their own promotions (such as call, text and surf promotions) that are best suited for their needs and lifestyle. Globe Prepaid customers can also personalize their call, text and surfing needs for various durations, and also select the type and number of call minutes and texts they need and adjust data allocation (in MBs) of mobile surfing.

Globe Prepaid and TM subscribers can reload airtime value or credits using various reloading channels including prepaid call and text cards, *GCASH*, bank channels such as ATMs, credit cards, and through internet banking. Subscribers can also top-up via AutoLoad Max retailers nationwide, all at affordable denominations and increments. A consumer-to-consumer top-up facility, Share-A-Load, is also available to enable subscribers to share prepaid load credits via SMS.

*Loyalty & Rewards Program*

The Globe Rewards Program - "MyRewards MyGlobe" is the Company's way of granting special treats to its active customers for their continued loyal use of Globe's products and services. Awesome rewards await its loyal customers in exchange for the points earned -- more rewards points mean more wonderful perks. All customers with active Globe/TM SIMs are automatically members of the program. No registration required. Subscribers can:

- Earn Points from Prepaid reloads or monthly Postpaid usage
- Redeem Rewards in the form of Mobile promos, bill rebates, gadgets and gift certificates, and more or use the earned points as cash at partner stores. Subscribers have the option to redeem rewards instantly, or accumulate points to avail of higher value rewards. Redeemed points in the form of telecom services are 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 expenses. At the end of each period, Globe estimates and records the amount of probable future liability for unredeemed points.
- Enjoy Perks through special discounts, exclusive treats, and more wonderful surprises

Globe Rewards is also a service that supports customers and extends their buying power even beyond telco services such as food, medicine, and retail products. Customers can use their earned Rewards points to buy the products they need.

In 2021, Globe unveiled its first-in-market innovation, GBs (gigabytes) to Points, during the first Globe Innovation Fest. This feature is available to Globe mobile and broadband customers, allowing unused gigabytes of customers' data to be converted into Globe Rewards points. Prepaid customers can get 1

point for every GB converted; Postpaid customers will be able to convert 1GB to 10 Globe Rewards points. Likewise, Globe At Home Prepaid WiFi customers can convert 3GBs to 3 Rewards points. The Globe Rewards points can be used at over [13,000] stores for shopping, dining, entertainment, travel, and Globe products nationwide. Customers can also use Globe Rewards points to shop in Lazada, order meals from GrabFood, watch Korean movies using Viu, or even play games through Razer Gold pins.

***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 [781] 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.

***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 or laptops with USB modems. 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 ensuring the most appropriate pricing of data. Globe and TM subscribers can choose from a variety of *GoSurf* consumable data plans.

Globe's Value-Added Services, or VAS, 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 3G 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, 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 VAS 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, 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 allows 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 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 its products and solutions are as follows:

***Mobility*** - mobility solutions that increase productivity within and beyond the workplace. The Group's enterprise mobility solutions include: (1) Postpaid – leveraging on flexible postpaid plans that suit companies of every scale; (2) Enterprise Mobile Management – allows customers to gain more control over enterprise mobile devices while simultaneously maximizing workforce productivity; and (3) IsatPhone Pro – a satellite phone that lets users call, text, and avail of other services from remote places around the globe.

***Voice*** - The Group's wide range of cost-efficient voice solutions simplifies communications infrastructure and tailors services to fit business needs. Globe's voice products for business include Globelines; ISDN-PRI; Toll-Free Services; Enhanced Managed Voice Solution ("EMVS"); Managed IP-PBX; SIP Trunk; Hosted PBX System & Services; and Collaboration Solutions.

***Connectivity*** - Globe Business offers a fast and resilient connection powered by dedicated and reliable technologies (comprising Domestic Data; International Data; Internet Services; Managed Services).

***Cloud*** - Improve efficiency and agility in the face of evolving business environments while keeping costs low with Globe's range of cloud services: Infrastructure-as-a-Service (IaaS); Backup-as-a-Service (BaaS); Disaster-Recovery-as-a-Service ("DRaaS"); Amazon Web Services; AWS Direct Connect.

***Data Center*** - Globe Data Center provides a superior experience that goes beyond technology. Allows customers to outsource data center hosting and management. The services offered include the following:

- Co-location - managed space for customer's servers and IT equipment that run mission critical systems and applications;
- Cross Connect - provides direct connection from customer racks to its service provider;
- LAN-Based Internet - provides a redundant, stable, secure and high-speed connection to hosted environments within the Globe Data Center;
- Media Storage - physical off-site data storage in a clean, controlled, safe and secure environment within the Data Center; and

- Disaster Recovery ("DR") Seats - Provides a DR facility and workstations for customers in the event of a disaster or a business interruption

***Cybersecurity*** - Globe Business' Cybersecurity allows customers to handle security threats and IT infrastructure cost-effectively, and allows management of tasks and functions efficiently. The platform allows access to the best-in-class tool sets, hardware, software, and even niche technology experts.

***Business Applications*** - a diverse range of solutions to streamline and enhance business operations, and raise efficiency, productivity, and customer satisfaction (G Suite; Go Canvas, Office 365; Learning Management Solutions, HR Solutions, M2M)

***Business Continuity*** - Enable enterprises with the right digital solutions for uninterrupted business operations for their customers. Ensure seamless connectivity (Prepaid Mobile Wifi and Corporate Managed Broadband), Empower remote workforce (Amazon Chime, Amazon Workdocs, Office 365 and Zoom), and Safeguard business operations (Amazon WorkSpaces, Amazon Appstream 2.0).

***Virtualized Solutions*** - Network Function Virtualization ("NFV") virtualizes entire network functions using vendor-neutral hardware and IT infrastructure, facilitating improved communications services. It promotes business agility by replacing a single physical network appliance with flexible, virtualized network functions.

*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. For fixed wireless, the Globe offers LTE @Home and Globe At Home Prepaid WiFi, backed by Globe's 4G network. Globe also offers Globe At Home AirFiber 5G postpaid plans, a fixed wireless home broadband service making use of Globe's 5G network to provide fiber-like speeds.

Globe At Home Broadband Plans provides the best connectivity to your home with fast & affordable Unli Plans which ensures smooth connection to online classes, meetings, and experience better viewing of movies in high-definition. Globe At Home Broadband's new GFiber plans range from ₱1699 per month for up to 150 Mbps to as high as 1 Gbps for ₱7,499 per month. The GFiber 1699 plan includes up to 150Mbps speed and unlimited GB of internet. Meanwhile, Plans GFiber 2499 and up includes free landline with unli call to Globe/TM; 3-month access to Viu Premium, HBO GO, Prime Video, Discovery+ and 3-months access to KonsultaMD. In addition to these existing plans, an online-exclusive GFiber Flex Plan 899 with speeds of up to 25Mbps and 300GB data limit was recently added, giving its customers a faster speed internet at a lower price. See also New GFiber broadband-plans for more details

Moreover, Globe At Home Prepaid WiFi offers reliable prepaid internet for the entire family that is not just easy to install but also easy on the budget. Customers may choose from FamSurf and HomeSurf promo that is suitable for their needs while staying safe at home with 25 GB of data that can be used for online schooling, working from home, or watching and playing their favorite movies and games. See also broadband/prepaid-wifi for the latest Home Prepaid WiFi offers; broadband/help/home-prepaid-wifi-set-up on how to get started with Home Prepaid Wifi.

Globe continues to respond to the unfilled need for fiber connection in communities and to make fiber internet affordable and accessible to the masses, with the launch of TMBayan Fiber WiFi. It's a service especially designed for the prepaid market looking for better connectivity at a more affordable cost. The unlimited prepaid fiber (TMBayan Fiber WiFi) was launched in August 2022 for as low as ₱5 for a minimum of one hour of internet access, ₱20 for 12 hours and ₱50 for unlimited high-speed internet connection for three days. TMBayan Fiber WiFi taps sari-sari stores and similar "tambayans" as community WiFi hubs. TMBayan Fiber WiFi is now available in well over 600 hubs in the National Capital Region; Luzon, including Bulacan, Pampanga, Cavite, and Laguna; Visayas, specifically in Cebu and Tacloban; and Mindanao, including Davao del Norte, Davao del Sur, and Zamboanga.

Non-Telco Products and Services

## Business

Globe is doubling down on its shift to become a digital solutions platform using the core telco business and spurred by rapid consumer digital adoption. The company currently offers several diverse high-growth enterprises in fintech, healthtech, adtech, and e-commerce, among others.

917Ventures is Globe's corporate venture builder that ideates, launches, accelerates, and scales new business ideas that have the potential to grow. 917Ventures act like a startup factory and have teams, frameworks, infrastructures, and strategies already in place, proven, tested, and backed by Globe, Ayala, and other partner networks, to accelerate the growth of ventures.

GCash

In February 2017, Ayala Corporation and Ant Financial Services Group ("Ant Financial"), one of the world's leading digital financial services providers and parent company of AliPay of the Alibaba Group, entered into a strategic partnership with Globe Fintech Innovations, Inc. ("Mynt"), to accelerate financial inclusion and upgrade payment services in the Philippines. Mynt's subsidiaries consist of G-Xchange, Inc. ("GXI") which provides the Group's GCash mobile wallet and e-payment platform, Fuse Lending, Inc., which is engaged in direct lending, and BlockG Virtual Assets, Inc. which is intended to hold the cryptocurrency business of GCash, including any NFT-related business that the group intends to get into.

Financial Services

- Bank Transfer - experience easy, convenient, and secure fund transfers to over [40] banks instantly anytime, anywhere.
- GCash Padala - Affordable, fast and easy way to send money even to non-GCash users.
- GGives - Buy now, pay later in affordable installments with GGives. Shop up to ₱ 30,000 in our partnered merchants and enjoy flexible payments with low interest rates.
- GInsure - Stay protected and be financially covered with GInsure. Get affordable insurance in a few taps inside the GCash App.
- GCash Pera Outlet - Be a GCash Partner Outlet
- GCredit - Extend your budget with GCredit! Gain access to your own credit line.
- GLoan - GCash Loan gives you pre-approved access to up to ₱ 25,000 cash loans instantly. No collateral needed and get the freedom to choose your payment terms.
- Invest Money (GInvest) - Grow your money for as low as ₱50. Invest in funds managed by our partner providers.
- Save Money (GSave) - Save for your future wisely. Make your #IponGoals possible with GSave conveniently in your mobile phone. Open your account, deposit and withdraw all inside the GCash App.

Lifestyle Services

- Book Movies – No more lining up at the cinema. Choose your seats and buy tickets in real-time for movies showing at major cinemas.
- Buy Load - Purchase regular airtime load or load combos anytime, anywhere.
- Game Credits - Whether it's for powering up or getting an extra life. Purchase Game Credits on GCash with no extra charges.
- GForest - Collect green energy in GCash Forest by switching to green activities and reducing your carbon footprint.
- GLife - Shop for everything you want and need from your favorite brands in one super life app, GLife.
- KKB - Split any bill with friends whether they have GCash or not. Request, track, and send payments with ease.
- Pay Bills - Skip the lines and pay your bills to over [400] billers even on-the-go.
- Pay QR - Shop and dine at over [70,000] stores nationwide with just your phone.
- Request Money - Whether you're short on cash or need payment from someone, collect any amount by requesting money from anyone on GCash.
- Send Gift - Send "aguinaldo" to multiple people in one go. Give set or randomized amounts of money as your "pamasko" to your friends and family using GCash.
- Send Money - Transfer money securely to GCash users for free.
- Send with a Clip - Send money and attach photos, videos, voice recordings, and themes for that personalized touch.
- Shop Online - Experience the convenience of online shopping even without a credit card.

GCash, the Philippines' #1 Finance App and the only Philippine duacorn valued at over $2 billion, has sustained its market leadership, growing to 76 million registered users, 5.8 million merchants and social sellers, and 855 GLife merchant partners. Amidst its dominance as an e-wallet with over 5x more active users than the nearest e-wallet based on statistics from reputable third-party provider data.ai, GCash has likewise pioneered and scaled digital financial services, across credit, savings, wealth and insurance products. GCash has disbursed over ₱57 billion of loans life-to-date across two million unique borrowers. These milestones were achieved with a suite of products spanning revolving credit lines, cash loans and buy-now-pay-later (BNPL), providing loans to more Filipinos who need it the most, backed by its proprietary credit score.

KonsultaMD is the largest telehealth company in the Philippines providing affordable healthcare services to Filipinos for the last five years. KonsultaMD helps democratize health for all Filipinos everywhere. As a response to the pandemic, KonsultaMD partnered with DOH to provide free telemedicine consultation to Metro Manila residents and collaborated with LGUs to bring free healthcare services to affected barangays and OFWs. Key features of KonsultaMD are as follows:

- 24/7 Telemedicine Consults. Talk to a licensed general physician anytime via voice or video call, no appointment needed.
- Primary Medical Advice. Get primary medical advice on basic healthcare, primary conditions such as cough, fever, cold, allergies, and permissible medication over the phone.
- General Health Information and/or Diagnostics Interpretation. KonsultaMD doctors provide information on any health-related inquiry, which includes the interpretation of laboratory results and diagnostic examinations.
- Access to e-Medical Documents. KonsultaMD doctors may provide important medical documents such as e-prescription, e-laboratory request, and e-medical certificate upon the doctor's discretion. These are accessible through SMS or the KonsultaMD app.
- Immediate Access to Doctors. You have an option to consult a doctor with a guaranteed wait time of 5 minutes or get your money back.
- Mental Health Support. Receive mental health first-aid support through KonsultaMD's licensed psychologists, trained to take care of your mental well-being.

HealthNow is poised to be the largest primary care provider in the Philippines, HealthNow is a collaboration between 917Ventures and ACHealth. It enables a simplified way for Filipinos to have seamless access to the most relevant healthcare services, including online consultations, medicine delivery, clinic appointments, and laboratory services.

On August 18, 2022, Globe Telecom through GCVHI, entered into an agreement with Vigos Ventures Inc. and Salud Interactiva to consolidate Konsulta, HealthNow and Aide. The consolidation will integrate the three applications into one superapp, bringing together Konsulta's expertise in on-demand consultations, HealthNow's strength in medicine delivery, storage of medical records, and implementation of vaccination and other health programs, and Aide's mastery of providing health services in the home.

AdSpark, the award-winning and largest locally-based digital ad agency. It is a full-service, data-driven agency accelerating digital and mobile advertising in the Philippines. AdSpark helps brands create human connections through digital and more intuitive advertising solutions driven by the company's in-depth understanding of the Filipino consumer.

RUSH, is one of the Philippines' leading SaaS providers and offers solutions that ensure acquisition, customer engagement, and retention for businesses. It powers the loyalty programs of some of the nation's biggest brands, including the Globe Rewards app, The Bistro Group's BFF Card, Shakey's SuperCard+, and Unilever brands. RUSH made it to the Top 10 ecommerce solutions companies

for 2022 of APAC CIO[8] Outlook– the only Philippine firm on the index. The companies were selected based on the innovative and user-friendly technological services they render to global enterprises and public sector entities.

Rappit (previously known as PureGo), a collaboration between the Puregold Group and Globe's 917Ventures is now Rappit, the Filipinos' new grocery shopping sidekick that promises more efficient deliveries and a better shopping experience. With its rebrand, Rappit is embracing a bigger sense of purpose: to continue offering premium quality groceries at affordable prices, provide stellar user experience customization, and reward app users with exclusive perks and freebies. This is how Rappit aims to take delivery service to a whole new level. Rappit closed its operations on February 28, 2023.

M360, empowers businesses to scale up in the global digital economy with multi-channel communication services to support rapid growth with advanced customer campaign solutions and messaging enablement. M360 connects businesses with their customers, drives more people to their business, and boosts brand awareness through innovative business messaging solutions leveraging various communication channels for a frictionless experience.

Inquiro - every enterprise's success partner in making smarter use of technology, Inquiro's suite of business intelligence-powered products are designed to create exciting value for enterprises and their customers. Inquiro enriches customer data with online and offline data attributes from over 80M anonymized consumer profiles, giving businesses the power to activate their data and make better business decisions.

KodeGo, is a study now, pay later tech school offering bootcamps on different IT courses to equip beginners and career shifters with critical and highly sought-after skills. KodeGo provides career guidance and company matching support to jumpstart and progress the students' IT career.

EdVenture, is an online learning platform that provides support to parents, teachers, and other school stakeholders. It offers online tutorials for students, online consultation for parents, and professional opportunities for Filipino teachers.

DeepSea, is an adtech company focused on enabling programmatic advertising capabilities that power agencies, advertisers, and publishers.

Globe, together with Ayala Corporation and Gogoro announced their entry into the climatetech space with the pilot launch of a strategic partnership which will bring global two-wheel electric vehicle and battery-swapping technology leader Gogoro to the Philippines (see article on Gogoro for more details).

**Sales and Distribution**

Globe has various sales and distribution channels.

***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 phone kits. Additionally, Globe

[8] APAC CIO is a print and digital enterprise technology magazine that helps organizations and business leaders learn about the latest IT trends and companies in the Asia-Pacific region.

also relies on its distribution network of nearly [1.0 million] AutoloadMax retailers nationwide who offer prepaid reloading services to Globe and TM subscribers.

***Globe Stores***

As of December 31, 2021, Globe has a total of [179] Globe Stores across the Philippines 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 October 2021 Globe launched Globe EasyHub, an interactive one-stop shop for all essential needs. Through its digital displays, customers can shop, pay, explore, and even access information on how to request for customer service support in Globe's mobile platforms. Globe EasyHub combines the comfort of brick-and-mortar stores with the power of digital for a more convenient, fast, and secure experience for everyone regardless of age or digital savviness. As of December 31, 2021, there are a total of [10] EasyHub booths placed in selected malls nationwide.

***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 large 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 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.

**Competition**

***Mobile Market***

The Philippine mobile market has a total industry SIM base of more than 169 million with an industry penetration rate of 146% as of September 30, 2022. 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 grow.

Today, with the high level of mobile penetration, driven by the prevalence of multi-SIMming (i.e., individuals having two SIMs), and the emergence of a third player, DITO Telecommunity, the competition in the mobile market remains intense, albeit in a more rational environment. Since its commercial launch in March 2021, DITO has gained over [13.1 million subscribers as of September 2022].

| | **Mobile Subscribers (Mn)** | **Penetration Rates (%)** | **Growth Rate** |
|---|---|---|---|
| 1998 | **1.62** | **2.5** | **43%** |
| 1999 | **2.68** | **3.8** | **65%** |
| 2000 | **5.26** | **8.6** | **96%** |
| 2001 | **10.53** | **14.2** | **100%** |
| 2002 | **15.17** | **19.0** | **44%** |
| 2003 | **22.31** | **27.3** | **47%** |
| 2004 | **32.87** | **39.4** | **47%** |

| | | | |
|---|---|---|---|
| 2005 | **34.61** | **40.6** | **5%** |
| 2006 | **42.04** | **48.3** | **21%** |
| 2007 | **54.86** | **61.2** | **30%** |
| 2008 | **68.03** | **74.6** | **24%** |
| 2009 | **75.43*** | **82.3** | **11%** |
| 2010 | **86.15*** | **93.0** | **14%** |
| 2011 | **93.74*** | **98.7** | **9%** |
| 2012 | **102.99*** | **106.4** | **10%** |
| 2013 | **108.52*** | **110.0** | **5%** |
| 2014 | **113.89*** | **116.0** | **5%** |
| 2015 | **124.79** | **115.2** | **10%** |
| 2016 | **125.56** | **120.4** | **1%** |
| 2017 | **118.98** | **111.9** | **-5%** |
| 2018 | **134.59** | **124.3** | **13%** |
| 2019 | **167.32** | **151.8** | **24%** |
| 2020 | **149.58** | **133.3** | **-11%** |
| 2021 | **162.48** | **137.9** | **5%** |
| 2022 | **[168.98]**** | **[146.1]** | **[4%]** |

* Estimated end of year figures.
** Industry data as of September 2022
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
*Source: National Telecommunications Commission (Statistical Data 2007), publicly available information and Company estimates*

Despite periodic consolidation in the market, Globe believes that at present only PLDT, Inc. ("**PLDT**") and its subsidiaries and the Globe Group have built significant bases of mobile subscribers.

***Fixed Line Market***

The number of lines in service in the fixed line voice market is estimated at [4.9 million] lines as of December 31, 2021 with PLDT's subscriber market share at [74]% and Globe subscriber market share at [26%].

The fixed line voice market is currently in decline as the country continues to shift towards alternative communication solutions like VoIP and chat messaging applications.

***Corporate Data***

The fixed line data business is a growing segment of the fixed line industry. As the Philippine economy grows, businesses are increasingly utilizing new networking technologies and the internet for critical business needs such as sales and marketing, intercompany communications, database management and data storage. The expansion of the local IT Enabled Service ("**ITES**") industry which includes call centers and BPO companies have 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.

***Home Broadband Market***

Home broadband continues to be a major growth area for the local telecom industry. In a 3-player market, industry home broadband subscribers are now at [8.7 million], down [7%] versus 2021 with Globe's subscriber market share at [31.13%] as of September 30, 2022. PLDT's subscriber market share is at 42.2% while Converge's market share is 18.4% as of December 31, 2021. 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 rate remains low, competition continues to intensify as telecom operators aim to capture the market by accelerating the rollout of broadband networks to provide subscribers with faster internet connection and introducing more affordable and bundled offerings.

***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, Globe has partnered with Huawei Technologies Co., Ltd, (China), Nokia Corporation (Finland), Aviat Networks (US) and Coriant (US). For providing cell site backhaul via Very Small Aperture Terminal ("VSAT"), Globe partnered with Gilat Satellite Networks, Inc. (Israel). For small cell access solutions for residential and enterprise, Globe partnered with IP Access Inc, (UK).

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), and Tellabs (US/Singapore).

For WiFi service, Company partnered with Aruba Networks (US) and Ruckus Networks (US).
For network management and operational support systems, Globe's primary solution provider includes IBM (US), Mycom OSI (United Kingdom), Incognito (Canada), Netcracker (US) and Radcom (Israel), among others.

For Globe's IT modernization program, Globe 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 and systems in support of Globe's modernization program.

**Customers**

As of December 31, 2022, Globe had 86.7 million mobile subscribers, comprising of over 2.5 million postpaid and 84.2 million prepaid subscribers. Globe also has over 2.6 million home broadband customers, while it had around 1.3 million fixed line voice subscribers in 2021.s.

**Intellectual Property and Licenses**

Globe is a grantee of various authorizations and licenses from NTC. Globe also registered its material brand names with the Intellectual Property Office.

**Research and Development**

Globe incurred market research costs amounting to ₱146 million in 2021.

**Dividend Policy**

Globe has a policy of distributing 60%-75% of its prior year's core net income in dividends. Globe distributed ₱14.4 billion of dividends to its common shareholders in 2021. Return on equity for the year 2021 was at 24.1.

Dividends paid to common shareholders by Globe for the year ended December 31, 2022 amounted ₱14.4 billion**.**

**Risks**

***The outbreak, or threatened outbreak, of any severe communicable disease, such as the ongoing COVID-19 pandemic, could have a material adverse effect on the Globe Group's business, financial condition and results of operations. Further, the continuing impacts of the COVID-19 pandemic are highly unpredictable and uncertain and have caused and will continue to cause disruptions in the Philippine and global economy and financial markets.***

Due to numerous uncertainties and factors beyond its control, the Globe Group is unable to predict the impact that the COVID-19 pandemic 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 COVID-19 pandemic or other additional periods of increases or spikes in the number of COVID-19 cases in future periods in the areas in which the Globe Group operates, the mutation of the COVID-19 virus, and the deployment and effectiveness of vaccines for COVID-19;
- 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, stores, 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 Globe Group's personnel and the Globe Group's ability to maintain staffing needs to effectively operate its businesses;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates and recessionary pressures;
- 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 Globe Group's supply chain, including manufacturers or suppliers of products and logistics or transportation providers, and on the Globe Group'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 Globe Group's actions in response thereto;
- the pace of recovery when the pandemic subsides; and
- the long-term impact of the pandemic on the Globe Group's businesses.

The COVID-19 pandemic has also affected the liquidity of the Globe Group's customers, in turn reducing demand for the Globe Group's products, which could materially and adversely affect the Globe Group's business, financial condition and results of operations. Furthermore, any further outbreak in the jurisdictions or areas where the Globe Group operates would likely restrict the level of economic activity in affected areas, which would in turn adversely affect the Globe Group's business and operating results. Moreover, if any of the Globe Group's employees, contractors, partners, visitors or employees of other institutions or entities working in the same building or vicinity as members of the Globe Group contract or are suspected of contracting an epidemic disease, this could require the affected member of the Globe Group to quarantine some or all of these employees and disinfect or temporarily shut down the facilities used for its operations, which could in turn result in service disruption or additional costs.

On September 11, 2020, President Rodrigo Duterte signed into law Republic Act No. 11494, otherwise known as "Bayanihan to Recover as One Act" ("**Bayanihan II**"), which extended the emergency powers of the President granted by its predecessor law, Republic Act No. 11469, otherwise known as the "Bayanihan to Heal as One Act" which ceased to be effective on June 25, 2020. Section 4 of the Bayanihan II authorizes the President to exercise powers necessary and proper to undertake and implement COVID-19 response and recovery measures such as directing institutions providing electric, water, telecommunications, and other similar utilities to implement a minimum 30-day grace period for the payment of utilities falling due within the period of ECQ or MECQ, without incurring interests, penalties, and other charges; provided that after the grace period, unpaid residential; micro-

, small and medium-sized enterprises; and cooperative utility bills may be settled on a staggered basis payable in not less than three monthly installments, subject to the procedural requirements of the concerned regulatory agencies in the imposition of such installment plan without interests, penalties and other charges. The Bayanihan II expired on June 30, 2021. The Globe Group has not experienced any material difficulties in collecting receivables in respect of deferrals granted during the implementation of the Bayanihan II regulations.

Given the imposition of ECQ and other community quarantine measures for the duration of 2020, the Globe Group's performance in 2020 and 2021 reflect the impact of the different forms of lockdown on the customer's habits and demand for the Globe Group's services. While the quarantine measures have significantly eased since March 1, 2022, COVID-19 cases in the country are expected to continue to impact the Globe Group's performance.

Last October 2022, President Ferdinand Marcos Jr. signed Executive Order 7 (EO 7), whereby the wearing of face masks in indoor and outdoor settings shall be voluntary except in healthcare facilities, medical transport, and public transportation by land, air, or sea. The liberalization of the face mask mandate has been recommended by the Inter-Agency Task Force for the Management of Emerging Infectious Diseases ("**IATF**") through its Resolution 3 (s. 2022).

While the Globe Group believes it currently has sufficient liquidity, the continuation or worsening of current conditions in the markets in which the Globe Group operates or the effects on its ability to provide its services may adversely affect its liquidity. The Globe Group maintains its credit facilities to bolster liquidity and provide additional financial flexibility in light of current uncertainties in the global economy resulting from the COVID-19 pandemic.

The outbreak, or continued or threatened outbreak, of any other severe communicable disease, such as Middle East Respiratory Syndrome-Coronavirus, avian influenza (commonly known as bird flu), H1N1 or another similar disease (such as the Zika Virus) could also materially and adversely affect overall business sentiment and environment, particularly if such outbreak is inadequately controlled. In addition, the Globe Group's revenue and profitability could be materially reduced to the extent that a health pandemic, epidemic or other outbreak harms the Philippine and global economy in general. To manage these risks, the Globe Group has taken various measures to address critical aspects of its operations such as workforce health and safety, supply chain disruption and the continuous need of its customers for seamless connectivity. Such measures have included, among others, mobilization of a COVID-19 taskforce to plan and execute Globe's initiatives in ensuring continuity of operations and securing employee's and third-party partners' physical and mental health, development of risk mitigation strategies that to enable the Globe Group to adapt to the changing conditions brought about by the pandemic, construction of a dedicated reverse transcription polymerase chain reaction laboratory to enable periodic COVID-19 testing and screening for all employees and critical third-party partners, and development of mobile applications that enable Globe to perform automated contact tracing activities, monitoring of work-from-home and critical-skeleton-force employee health, and health screening for employees returning to Globe's offices. While the Globe Group believes that these measures have provided some mitigation, these measures may become limited, unsatisfactory or ineffectual in the future, as the COVID-19 pandemic continues to evolve, causing greater disruption to the world and Philippine economy.

The extent to which the COVID-19 pandemic will continue to impact the Globe Group 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 Globe Group, it may also have the effect of heightening many of the other risks described in this Prospectus.

***The telecommunications industry in the Philippines is highly competitive.***

Competition remains intense but rational in the Philippine telecommunications industry amidst a maturing mobile market and high growth data business, as current operators seek to increase market share with aggressive offerings while potential new entrants continue to further heighten the competitive dynamics. The Philippine telecommunications industry can be split into two major lines of business,

Mobile Telephony and Fixed Line Services. The Mobile Industry is a three-player market with the third telecommunications company, Dito Telecommunity Corporation ("**Dito**") (owned by Dito CME Holdings Corporation, Chelsea Logistics Holdings and China Telecommunications Corporation), commencing commercial operations in March 2021. The PLDT Group (composed of PLDT Inc ("**PLDT**"), Smart Communications, Inc. ("**Smart**") and Digitel Telecommunications Philippines, Inc. ("**Digitel**")) continues to be the Globe Group's principal competitor in this space. The Fixed Line Industry, comprising the Broadband and Corporate Data businesses, is predominantly a three-player market with PLDT and Converge Information and Communications Technology Solutions, Inc. ("**Converge**") as the Globe Group's major competitors.

In November 2018, the Department of Information and Communications Technology ("**DICT**") and the National Telecommunications Commission ("**NTC**") approved the entry of Dito as a new major telecommunications player. In July 2019, Dito was given its permit to operate in the Philippines. Dito's commercial operations commenced in March 2021. Based on news reports as of December 31, 2021, Dito has a total of approximately 5.3 million subscribers. To date, Dito has claimed, behind the continued expansion of its network and distribution footprint and coverage, it is seeking to double its subscriber base in 2022.

In October 2020, Converge, a joint venture between Comclark Network and Technology Corp. and Coherent Cloud Investments B.V. (the funds of which are ultimately managed by affiliates of Warburg Pincus LLC), listed its shares in the PSE. Converge's entry into the public space coincided with the significant increase in demand for fiber connectivity as the country continues adjusting to working, learning and entertaining from home. As a result, Converge posted a 69% increase in its topline and 111% increase in its bottom-line for the year ended December 31, 2021.

Last February, it was reported in local and social media that satellite internet service Starlink is now available in the Philippines. While Starlink is not expected to compete in terms of pricing with existing telecommunications providers in the Philippines, and instead focus on underserved areas, there is no assurance that such technology would not be more widely adapted in the Philippines, or that Starlink be allowed to offer products that compete with existing offerings of telecommunication providers. The entry of Starlink may also disincentivize the potential geographical expansion of existing telecommunication providers into more remote areas of the Philippines.

R.A. No. 11659 explicitly provides that its provisions restricting foreign government or state-owned enterprise from owning capital in companies such as Globe that provide critical infrastructure in the Philippines will be implemented prospectively and will not affect investments made prior to its effectivity, consistent with the non-impairment clause of the Philippine Constitution. R.A. No. 11659 also provides that sovereign wealth funds and independent pension funds may collectively own up to 30% of the capital of a public service company, such as Globe. In addition, R.A. No. 11659 prohibits foreign nationals from owning more than 50% of capital in the operation and management of critical infrastructure (including Globe) unless the foreign nationals' home countries accord reciprocity to Philippine nationals. In addition, the President of the Philippines may, in the interest of national security, suspend or prohibit any proposed merger or acquisition or any investment in a public service company such as Globe, that effectively grants control to a foreign person.

The competitiveness of the industry is further underlined 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 Globe Group's ability to adequately address competition may impact its business, revenues, and net income.

The continued expansion and development of the Globe Group's business portfolio is critical to maintaining its market competitiveness. On August 17, 2018, the Globe Group incorporated GTowers, Inc. ("**GTower**s") as a fully owned subsidiary. GTowers 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. As of June 30, 2022, GTowers is still in the pre-operating stage.

Further, it is essential for the Globe Group to maintain a favorable reputation among its customers in order to compete in the highly competitive telecommunications industry. Any inability of the Globe Group to predict and respond to the changing needs and demands of its customers will affect its competitive

position relative to other telecommunications companies, and its ability to capture value from the digital transformation process. In addition, any failure by the Globe Group to maintain a favorable perception among its customers could have an adverse effect on its business, financial condition, results of operations or cash flows.

To manage these risks, the Globe Group intends to implement strategies in the near-term including accelerating its network rollout, increasing household penetration and improving customer experience, developing new information and communications technology capabilities.

***The Globe Group's business is regulated by Government agencies that continuously evolve and whose directives are subject to interpretation and inconsistent application.***

Globe is regulated by the NTC, an attached agency of the DICT, for its telecommunications business, and the Globe Group is regulated by the Philippine SEC for other aspects of its business. In addition, the PCC has oversight of the Globe Group's potential 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 outgoing administration has implemented major changes to the telecommunications industry that have had an impact on Globe Group's business, including pressuring operators to improve network performance, requiring the sharing of networks and facilities across operators, providing portability of mobile numbers, zero interconnection rate, and permitting the entry of foreign telecommunications players. For example, in 2020, in light of the COVID-19 pandemic, the Government enacted Bayanihan II, which authorized the President to exercise powers necessary and proper to undertake and implement COVID-19 response and recovery measures such as directing institutions providing electric, water, telecommunications and other similar utilities to implement a minimum 30-day grace period for the payment of utilities falling due within the period of ECQ or MECQ, without incurring interests, penalties, and other charges; provided that after the grace period, unpaid residential, micro-, small and medium-sized enterprises and cooperative utility bills may be settled on a staggered basis payable in not less than three monthly installments, subject to the procedural requirements of the concerned regulatory agencies in the imposition of such installment plan, without interest, penalties and other charges. Although there is an impending change in administration in June 2022, there is no assurance that the incoming Government will implement a policy shift.

Changes in regulations or Government policies or differing interpretations of such regulations or policies have affected, and will continue to affect the Globe Group's business, financial condition and results of operation. While the Globe Group closely monitors such changes and legal developments, no assurance can be given that the regulatory environment in the Philippines will remain consistent or open. Current or future policies may affect the business and operations of the Globe Group.

***The Globe Group may be unable to attract new talents and retain skilled personnel in a competitive job market, which may negatively affect the Globe Group's business.***

The Globe Group is exposed to risks in relation to staffing its critical functions with competent management and technical expertise. The Globe Group believes its greatest asset is its people and its success is largely dependent on its ability to attract highly skilled personnel and to retain and motivate its best employees. Any loss of key personnel or any inability of the Globe Group to attract and retain skilled and talent personnel may adversely impact the Globe Group's ability to provide products and services to its customers. Losses of trained personnel could also result in the Globe 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 Globe Group's business, financial condition and results of operations. In addition, the Globe 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 Globe 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 Globe 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.

Although the Globe Group has implemented programs and provided access to health professionals

focused on the mental well-being of its employees, the COVID-19 pandemic has also placed the Globe Group's current talent bench at risk, as it not only places employees' physical health at risk, thereby potentially leaving talent and leadership gaps that can hamper the achievement of the Globe Group's business objectives, but also places employee mental health at risk as the protracted community quarantines, working-from-home, and general anxiety and fear of the virus places strain on employee mental health.

To manage these risks, the Globe Group aims to build an agile organization with a deep understanding of, and ability to be responsive to, its customers' needs. The Globe Group intends to create a high-performance organization with a purpose-driven workforce and a culture of empowerment, collaboration and innovation.

***Inability to adapt to technology shifts and address changing consumer demand may negatively impact the Globe Group's competitiveness and customer experience.***

The telecommunications industry is subject to rapid and significant changes in technology and requires the introduction of new products and services. In order to remain competitive, the Globe Group must anticipate and adapt, in a timely manner, to constant technological changes, changes in customer preferences in the industry, as well as economic, political and social circumstances. Like other operators, Globe cannot predict the effect of technological changes on its business. New services and technological advances may offer additional opportunities for competitors to compete against the Globe Group on the basis of cost, quality and/or functionality.

Mobile data applications and the rising popularity of smartphones and mobile and connected devices are key contributors to the exponential growth of data traffic in recent years. This phenomenon may strain the Globe Group's network capacity as well as the supporting back-end systems, negatively impacting customer experience. Although Globe launched its 5G service in June 2019, there is no assurance that future technological innovations will not create further requirements for infrastructure upgrade in communications technologies.

In addition, the Globe Group offers mobile payment and remittance services under the "GCash" brand using its network as the communications backbone. The emergence of website- and application-based fintech companies providing similar services has significantly increased competition in this respect.

Any inability on the part of the Globe Group to recognize and quickly respond to changes in customer preferences by upgrading its existing infrastructure and systems may impact its competitiveness in the marketplace. Further, if the Globe Group chooses technology or equipment that is not as effective or attractive to consumers as that employed by its competitors, if it fails to employ technologies desired by consumers before its competitors do, or if it fails to execute its technology initiatives effectively, its businesses and results of operations could be adversely affected.

To manage these risks, the Globe Group intends to accelerate its network rollout, increase household penetration and improve customer experience, and develop new information and communications technology capabilities.

***The Globe Group operates in a capital intensive business and it may not be able to obtain future financing to fund its capital expenditure, on favorable terms or at all.***

The telecommunications industry is capital intensive. The pace at which new technologies are developed is rapid, and companies operating in the telecommunications industry need to keep up with these changes in order to remain competitive. This requires constant investment in updating technologies and corresponding funding needs. The Globe Group has made, and intends to continue to make, capital investments to develop, launch and enhance its service offerings. For the years ended December 31, 2019, 2020, 2021, and 2022, the Globe Group incurred cash capital expenditures of ₱51,023.8 million, ₱60,301.5 million ₱92,808.3 million, ₱101,366.9 million, respectively. [Additionally, Globe incurred liabilities related to the acquisition of property and equipment amounting to ₱13,494.5 million, ₱9,601.2 million, ₱39,938.8 million, and ₱35,105.7 million for the years ended December 31, 2019, 2020, 2021, and 2022, respectively.] For the year ending December 31, 2023, the Globe Group anticipates that it will incur approximately US$1.3 billion of capital expenditures.

The Globe Group has in the past and will continue to source funding from various sources, including cash flow from operations and debt and equity financings. The Globe Group's continued access to debt and equity financing as a source of funding its capital expenditure is subject to a number of factors, including: (i) Philippine regulations limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers; (ii) the Globe Group's compliance with existing debt covenants; (iii) the ability of the Globe Group to service new debt; (iv) the macroeconomic fundamentals driving credit ratings of the Philippines; and (v) perceptions in the capital markets regarding Globe and the telecommunications industry and other factors, some of which may be outside of the Globe Group's 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 the telecommunications industry. Any of these factors could increase the Globe Group's borrowing costs or restrict its ability to obtain debt or equity financing to fund its capital expenditure requirements, on favorable terms or at all.

Furthermore, any debt financing, if available, may involve restrictive covenants being imposed on the Globe Group and would also increase the Globe Group's leverage, which would have a negative impact on the Globe Group's ability to meet its obligations. If the Globe Group is unable to borrow the amounts required on favorable terms or at all, it may be unable to pursue its planned strategies, which would, in turn, have a material adverse impact on the Globe Group's results of operations. There can be no assurance that future conditions in the financial markets will not adversely affect the Globe Group's ability to finance its operations, particularly if it and other telecommunications companies seek increasingly large amounts of capital financing.

To manage these risks, tshe Globe Group 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.

***The Globe Group's digital transformation initiatives may not achieve their expected results.***

The Globe Group is in the process of transforming its businesses through changes in its network, IT systems and supporting processes. The Globe Group is pursuing changes in its network infrastructure to improve network quality, anticipate the surge in data traffic, decrease total cost of ownership, reduce $CO_2$ emissions, noise pollution and enhance network resilience to meet future needs. IT transformation programs are intended to reengineer IT systems and key processes to enhance the Globe Group's ability to deliver superior customer experience and understand customers' needs, while preserving capacity to roll out products to the market in a more efficient, effective and sustainable manner. Further, There is no assurance that the Globe Group's network infrastructure expenditures and complex transformation programs will yield expected returns and outcome. Ultimately, the Globe Group may lose market share and experience liquidity concerns should this risk materialize.

***Inability to manage subscriber churn may generally decrease the Globe Group's profitability.***

Subscriber churn arises as a result of personal economic factors, and to a lesser extent, changes in consumers' media consumption preference and competitive influences. In addition, churn tends to be cyclical as certain quarters of a year have a higher rate of subscriber disconnections. The Globe Group's ability to manage churn in the future will likely be dependent on its ability to execute targeted retention programs, procure and create relevant content or provide differentiated customer service. Trends with respect to increase in subscriber churn have corresponded to increase in subscriber acquisitions costs. The intense competition may also make it more difficult for the Globe Group to gain new or win back past subscribers. Any increase in subscriber churn may lead to an increase in costs in retaining or acquiring subscribers, and a reduction in revenue, which could have a material and adverse effect on The Globe Group's results of operations and financial position.

To manage these risks, the Globe Group aims to capitalize on the increasing demand for data and connectivity and rapid digitalization and to create and enhance business and shareholder value, through, among others, accelerating network rollouts to provide best-in-class internet productivity, increase household penetration and relentlessly improve customer experience.

***The Globe Group may be unable to fulfill the terms and conditions of licenses, permits and other authorizations.***

The Globe Group is required to obtain and maintain licenses, permits and other authorizations, including local business permits, and permits necessary for the roll out of telecommunications infrastructure from several government agencies such as the NTC, DICT, Department of Interior and Local Government ("**DILG**"), Department of Trade and Industry ("**DTI**"), Department of Public Works and Highways ("**DPWH**"), DHUSD, and the Civil Aviation Authority of the Philippines ("**CAAP**"). The Globe Group's licenses, permits and other authorizations contain various requirements that must be complied with to keep such licenses, permits and other authorizations valid. If the Globe Group fails to meet the terms and conditions of any of the Globe Group's licenses, permits or other authorizations necessary for its operations, these may be suspended or terminated, leading to suspension of activities or other adverse consequences. In addition, as a public telecommunications entity, Globe may not operate without a legislative franchise, which can only be granted through the passage of law duly passed by the Philippine Congress and approved by the Philippine President. The Globe Group currently has three valid and subsisting legislative franchises: (i) Globe's franchise under R.A. 7229, (ii) Innove Communications, Inc.'s franchise under R.A. 11151, and (iii) Bayantel's (previously named International Communications Corporation) franchise under R.A. 11503, these franchises will expire in 2030, 2045 and 2046, respectively, unless renewed by Congress.

Further, in a report released in early July 2020, Fitch Solutions warned of heightened investment risks in the Philippine media and telecommunications industries, citing the "politicization" of such industries amid the Government's orders to shut down Sky Direct and ABS-CBN Corporation and the non-renewal of the legislative franchise of ABS-CBN Corporation. Fitch Solutions cited the NTC's apparent ability to be influenced by the Government as a key impediment to foreign investor sentiment, and has also made the telecommunications landscape difficult for both new entrants and existing players. On July 10, 2020, an overwhelming majority of a committee of the House of Representatives voted to deny the renewal of the legislative franchise of ABS-CBN Corporation. While several bills in support of the renewal of the legislative franchise of ABS-CBN Corporation have been filed in both houses of Congress, its franchise has yet to be renewed.

While the Globe Group endeavors to comply with the terms and conditions of its licenses, permits and authorizations, and devotes resources to closely monitor such compliance, there can be no assurance that the Globe Group will continue to be able to secure or renew, as the case may be, its franchise or the necessary licenses, permits and other authorizations for the Globe Group's operations as necessary or that such licenses, permits and other authorizations will not be revoked. If the Globe Group is unable to obtain or renew them or are only able to do so on unfavorable terms, the Globe Group may lose its spectrum and authority to offer services, which would materially and adversely affect the Globe Group's business, financial condition and results of operations.

***A part of the Globe Group's debt, revenues and operating expenditures are in U.S. dollars which may pose some foreign exchange risk.***

The Globe Group's revenues are predominantly denominated in Philippine Pesos, while some investment initiatives and certain expenses, including debt obligations, are denominated in other currencies (principally U.S. dollars). Foreign exchange risks are managed by the Globe Group such that U.S. dollar flows from operations (transaction exposures) are balanced or offset by the net U.S. dollar liability position of the Globe Group (translation exposures). Transactional exposures are comprised of foreign currency linked revenues and expenses. The Globe Group's foreign exchange translation exposures result primarily from movements of the Philippine Peso against the U.S. dollar with respect to U.S. dollar-denominated financial liabilities and certain U.S. dollar-denominated revenues.

In addition, as of December 31, 2022, 24% of the Globe Group's total debt (excluding the effect of any swap or hedges) are denominated in U.S. dollars. Although the Globe Group enters into currency swaps and hedges to limit its exposure to currency fluctuations, there can be no assurance that declines in the value of the Philippine Peso will not occur in the future or that the availability of foreign exchange will not be limited. The occurrence of these conditions may adversely affect the Globe Group's financial condition and results of operations.

To manage these risks, the Globe Group 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.s

***The Globe Group is exposed to financial risks related to fluctuations in interest rates.***

The Globe Group is exposed to financial risk related to fluctuations in interest rates and variations in purchasing power. Interest rates are highly sensitive to many factors beyond the Globe Group's control, including monetary policies and domestic and international economic and political conditions. An increase in interest rates may increase the Globe Group's financial expenses. The Globe Group seeks to manage its interest rate risk by using a mix of fixed and variable rate debt that is meant to achieve a balance between cost and volatility.

Where appropriate, the Globe Group seeks to minimize its interest rate risk exposure by entering into interest rate swap contracts to exchange the floating interest rate to a fixed interest rate over the duration of its borrowings. There can be no assurance that any of the strategies implemented by the Globe Group to manage its debt profile will be successful and any failure by the Globe Group to manage interest rate risk could have a material adverse effect on its results of operations and financial condition. The Globe Group also 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.

***Inability to manage increasing credit exposures from the Globe Group's subscribers.***

The Globe Group is exposed to credit risks particular to its subscribers and the environment within which it operates. With the conditions brought by the COVID-19 pandemic, reduced consumer spending and unemployment hindered consumer account settlements. Restrictions of economic activities in affected areas had obstructed the capacity of enterprise clients to meet its obligations to the Globe Group. The Globe Group analyzes its subscriber receivables and contract assets based on an internal credit risk rating. In response to the COVID-19-related credit default risk, the Globe Group seeks to mitigate this risk by implementing an installment payment program that will enable customers to fully settle their outstanding bills over a period of time while enabling them to manage their resources, thus reducing the risk of default. The Globe Group is also implementing stringent standard credit evaluation and verification upon account application. The Globe Group continuously reviews credit policies and processes and implements various credit actions to minimize credit exposure. The Globe Group monitors its accounts on a regular basis and applies credit treatments at various stages of delinquency. There can be no assurance that these mitigation strategies implemented by the Globe Group to manage its credit risks will be successful. Any failure by the Globe Group to manage its credit risk could have a material adverse effect on its cash flows and financial health.

***Cybersecurity threats or other breaches of network or IT security may have an adverse effect on the Globe Group's business if not identified immediately.***

The cybersecurity landscape is rapidly evolving, and users are heavily relying on digitized information and sharing vast amounts of data across complex and inherently vulnerable networks. New technologies and systems being installed in the name of advanced capabilities and processing efficiencies may introduce new risks which could potentially challenge the Globe Group's ability to properly identify, assess and address such risks if not assessed effectively. Furthermore, new business models that rely heavily on global digitization, use of cloud, big data, mobile and social media may expose the Globe Group to even more cyber-attacks.

These new technologies and systems increase the Globe Group's exposure to various forms of cybersecurity threats, which could result in disruption of business operations, damage to reputation, legal and regulatory fines and customer claims. Cybersecurity threats may include gaining unauthorized access to the Globe Group's systems or inserting computer viruses or malicious software in its systems to misappropriate consumer data and other sensitive information, corrupt the Globe Group's data or disrupt its operations. Unauthorized access may also occur through traditional means such as the theft of laptop computers, data devices and mobile phones and intelligence gathering on employees with access. Further, the Globe Group's employees or other persons may have unauthorized or authorized access to the Globe Group's systems and/or take actions that affect the Globe Group's networks in a manner which is inconsistent with its policies or otherwise adversely affects the Globe Group's ability to adequately process internal information.

As of the date of this Prospectus, the Globe Group has not been the subject of any cybersecurity breaches or threats that have resulted in major losses, business disruption or damage to the Globe Group's reputation. However, any significant cyber-attack or data leakage from either known or unknown threat vectors that could not be mitigated by existing tools and capabilities may result in a material adverse effect on the Globe Group's results of operations, reputation and financial condition. Although the Globe Group telecommunication's business has insurance policies that may cover these types of incidents, there can be no assurance that these policies will be sufficient to cover all possible monetary losses in the event of any material and unaddressed cybersecurity breach or threat.

To manage these risks, the Globe Group intends to continuously adopt new technologies to improve customer experience, including implementing proactive care programs that anticipate potential gaps in the Globe Group's ability to provide a wonderful end-to-end customer experience for consumer and business customers. The Globe Group also intends to develop new information and communications technology capabilities, including in the areas of cyber security.

***The Globe Group may be exposed to data privacy breaches.***

In the course of regular business, the Globe Group acquires the personal information of its customers and retains the same either electronically or via hard copies. In addition, the Globe Group's networks carry and store large volumes of confidential, personal, and business data, through both voice and data traffic. Existing laws require that such 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. The Globe Group may be found liable for any loss, transfer, or inappropriate modification of the customer data or general public data stored on its servers or transmitted through its networks, any of which could have an adverse impact on the Globe Group's reputation, or lead to legal claims and liabilities that are difficult to measure in advance. As of the date of this Prospectus, the Globe Group has not experienced any data privacy breaches that have resulted in major losses, business disruption, or damage to the Globe Group's reputation. However, if any such breaches occur, the Globe Group may be subject to fines and penalties under the Data Privacy Law Act, which could result in a material adverse effect on the Globe Group's results of operations and financial condition. Globe has, in the past, experienced two data privacy breaches resulting from a system error and incorrect portal settings, respectively. These did not result in any major losses, business disruption, or damage to the Globe Group's reputation.

The Globe Group intends to continue to develop new information and communications technology capabilities, including in the areas of cyber security.

***The Globe Group may be exposed to business disruptions arising from natural and man-made disasters, including severe weather conditions, or due to terrorist or rebel activities.***

The quality and continued delivery of the Globe Group's services are highly dependent on the quality, stability, resilience and robustness of the network and IT infrastructure, which are vulnerable to damage caused by extreme weather disturbances, natural calamities, fire, acts of terrorism, intentional damage, malicious acts and other similar events, which could negatively impact the Globe Group's revenue targets and reputation. Power and technology disruptions and severe weather events, such as typhoons and flooding, have impacted the Globe Group's services, products and properties from time to time in the past and will continue to have an impact in the future. For example, due to the significant property and infrastructure damage in the southern and central parts of the Philippines caused by typhoon Rai, locally known as typhoon Odette, in December 2021, several telecommunications service providers in the Philippines, including Globe, experienced a disruption of services in heavily affected areas. Accordingly, in the fourth quarter of 2021, Globe's revenue was negatively impacted by the rebates given to affected customers in the Visayas and Mindanao regions and lower customer spending on telecommunications products in these areas. In 2021, Globe recognized an impairment loss of ₱1,014.2 million on telecommunications equipment damaged by typhoon Odette. In April 2022, Globe completed its network restoration efforts, which included deploying over 220 teams since December 17, 2021 to repair and restore over 80 cell sites and primary and secondary backup lines that were compromised by typhoon Odette.

Certain of Globe's cell sites, towers and other telecommunication equipment are also located in areas where clashes or skirmishes between the Philippine military or police on the one hand, and terrorist or rebel groups, on the other hand, have occurred, or in areas generally known for the presence of such terrorist or rebel groups. Any damage to Globe's cell sites, towers or other telecommunication equipment as a result of such skirmishes, clashes or other terrorist or rebel activities may cause disruptions in Globe's network, result in additional impairment losses for Globe, and require Globe to incur additional expenditure to repair and restore such cell sites, towers or other telecommunications equipment.

The occurrence of these events and other natural catastrophes or man-made events may cause damage to the terminals and result in a material disruption of service, a reduction in the Globe Group's customer base and in large expenditures to repair or replace the damaged properties, products, services, networks or information systems to protect them from similar events in the future. Sustained or significant disruption to the Globe Group's services may also significantly impact its reputation with its customers. Any such events could materially disrupt and adversely affect the business, operations, and financial condition of the Globe Group or lead to litigation and disaster recovery plans put in place and/or insurance policies taken out by the Globe Group with respect to some or all of these risks may not be sufficient to mitigate the potential losses and damages.

To manage these risks, the Globe Group intends to accelerate construction of its cell sites to keep pace with demand and increase its wired footprint in order to address serviceability. Furthermore, the Globe Group has leveraged the tower sharing industry to expand its network and increase the rate at which it rolls out its network. The Globe Group also intends to develop new information and communications technology capabilities.

***The Globe Group's complex IT systems and network infrastructure could lead to revenue leakage.***

The telecommunications industry is inherently vulnerable to revenue leakage, with the dynamic changes in networks and IT systems and the multitude of service/bundle/plan offerings. Given the pace at which new offers are launched in the market and the speed of technological innovations being adopted by the Globe Group to support such offers, the need to identify and plug revenue leakages has become an even more important capability in maximizing revenues and returns. Any inability to identify and plug revenue leakages may adversely impact the Globe Group's results of operations and financial condition.

To manage these risks, the Globe Group intends to identify and embed appropriate revenue assurance controls into new products and services, ensure solid internal controls on existing revenue-impacting processes through periodic controls review exercises, controls discovery and review of critical processes, and implement revenue assurance tools that are expected to increase efficiency in its operations through automated execution of controls.

***The Globe Group is vulnerable to fraudulent schemes due to the popularity of its products and services.***

The Globe Group is at 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 to defraud the Globe Group's customers. With the increased complexity of technologies, network elements and IT infrastructure, new types of fraud that are more difficult to detect or combat may also arise. Employees may also execute irregular transactions or activities for personal gain. Failure to detect or prevent fraud may result in losses or have an adverse effect on the Globe Group's reputation.

To manage these risks, the Globe Group intends to institutionalize processes and build 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, and increase organizational awareness of fraud policies and its consequences through the regular communication channels of the Globe Group. Globe promotes a positive work environment through clear organizational structure, written policies and fair employment practices, which are designed to effectively prevent employee fraud and theft, strengthen internal controls on processes with high vulnerability on fraud risks, and implement various programs to equip its customers with the appropriate information so that

they do not fall victim to perpetrators of fraud, and closely coordinates with law enforcement agencies to help protect its customers from activities intended to defraud them.

***The Globe Group depends on its suppliers in the provision of its services, and any failure of a key supplier to provide services to The Globe Group could have an adverse effect on its business.***

The Globe Group relies on third party suppliers with respect to many aspects of its business, such as network infrastructure, fiber, switch and network equipment, smartphones, cable communications licenses, wireless devices information systems or handsets. Accordingly, the Globe Group's operations and reputation could be affected by such third party suppliers or their supply chain failing to perform their obligations, or failing to operate in line with increased expectations of key stakeholders such as the regulators and/or customers on a broadening set of environmental, social and governance issues. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own stock shortfalls and business requirements. If these suppliers fail to deliver products and services to the Globe Group on a timely basis, it could jeopardize the Globe Group's network deployment and expansion plans, which in some cases could adversely affect the Globe Group's ability to satisfy its license terms and requirements.

Some countries, including the U.S., and telecommunications service providers have banned or limited the use of information and communications technologies of Huawei Technologies, Co ("**HTC**") and 114 of its affiliates for different reasons. While HTC is a major supplier and technology partner of the Globe Group, management has assessed, considering various scenarios, the impact of the U.S. ban on the Globe Group's business and operations is manageable. In response to this risk, the Globe Group has also implemented contingency plans and is closely monitoring the developments relating to HTC.

There can be no assurance that the Globe Group will be able to continue to obtain the necessary equipment from one or more of its suppliers. Any discontinuation or interruption in the availability of equipment from its suppliers for any reason or any inability of the Globe Group to obtain the equipment needed for its networks in a timely manner or at all may have an adverse effect on its business, financial condition, results of operations and cash flows.

To further manage these risks, the Globe Group is not dependent on any one supplier, and the Globe Group works with both local and foreign suppliers and contractors. As of December 31, 2022, Globe had 839 local and 143 international active accredited suppliers.

***Damage to reputation or brand erosion arising from internal or external factors may negatively affect the Globe Group's business.***

The Globe Group is exposed to various reputational risks, from those which may result directly from The Globe Group's actions or those of its competitors, indirectly from actions of the Globe Group's employees or consequently through actions of outsourced partners, suppliers or joint venture partners. Damage to the Globe Group's reputation and erosion of brand equity may also be triggered by any inability to swiftly and adequately address negative social media sentiments on the Globe Group's products and services, which may in turn be triggered by various factors such as unfavorable customer experience, among others. Any inability to preserve brand equity and reputation may adversely impact The Globe Group's results of operations and financial condition.

To manage these risks, the Globe Group aims to conduct frequent reviews of existing processes influenced by customers to identify and address existing gaps, minimizing exposure from risk areas, training front line staff to enhance customer handling and dispute resolution, implement comprehensive programs that process customer feedback effectively and analyze customer feedback to create customer centric strategies, and closely monitor customer online sentiment to address customer issues before such issues may escalate to mainstream online platforms.

***Transactions conducted by the Globe Group may be subject to review under the Philippine Competition Act.***

The PCA became effective on August 8, 2015. The PCA prohibits and penalizes anti-competitive agreements and abuse of dominance. Under the PCA, there is a rebuttable presumption of dominance

when an entity has a market share of 50% or more. To the extent the Globe Group possesses a market share of 50% or more, it is proscribed under the PCA from committing any of the acts listed as abuse of dominance. The Globe Group has evaluated its contracts and practices in light of the PCA and believes that it is compliant with the provisions of the PCA. There can be no assurance that the Globe Group'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 the Globe Group, may have a material adverse effect on its business and strategies. Criminal penalties for entities that enter into anti-competitive agreements, as defined, include: (a) a fine of not less than ₱110 million but not more than ₱275 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 ₱110 million to ₱275 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.

In addition, the PCA authorizes the PCC to review mergers and acquisitions to ensure compliance with the PCA. The PCA, its Implementing Rules and Regulations (**"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 ₱2.9 billion, where the size of the ultimate parent entity of either party exceeds ₱7 billion and other prescribed thresholds are met. 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 to a fine equivalent to five percent (5.00%) of one percent (1.00%) of the value of the transaction for the first thirty (30) days of delay or fraction thereof. The fine shall be increased by 1% of 1% of the value of the transaction for every additional 30 days of delay or fraction thereof, provided that the total amount of fine to be imposed shall not exceed ₱2.2 million. As The Globe Group continues its strategy of acquisitions and joint ventures and given the usual volume of the Globe Group's transactions, mergers or acquisitions undertaken by the Globe Group would likely meet the notification threshold under the PCA and its IRR.

To manage these risks, the Globe Group adheres to corporate best practices as it continually evaluates and explores opportunities to create and enhance business and shareholder value, including considering both potential investment as well as divestment opportunities.

***The Globe Group may be subject to adverse rulings by regulatory agencies, including the PCC, or be subject to legal proceedings.***

Under the PCA, the PCC has original and primary jurisdiction over the enforcement and implementation of the provisions of the PCA and its implementing rules and regulations. The PCC has the following powers and functions, among others:

- conduct inquiry, investigate, and hear and decide on cases involving any violation of the PCA and other existing competition laws or upon receipt of a verified complaint from an interested party or upon referral by the concerned regulatory agency, and institute the appropriate civil or criminal proceedings;
- review proposed mergers and acquisitions, determine thresholds for notification, determine the requirements and procedures for notification, and upon exercise of its powers to review, prohibit mergers and acquisitions that will substantially prevent, restrict, or lessen competition in the relevant market;
- monitor and undertake consultation with stakeholders and affected agencies for the purpose of understanding market behavior;
- upon finding, based on substantial evidence, that an entity has entered into an anticompetitive agreement or has abused its dominant position after due notice and hearing, stop or redress the same, by applying remedies, such as, but not limited to, issuance of injunctions, requirement of divestment, and disgorgement of excess profits under such reasonable parameters that shall be prescribed by the rules and regulations implementing the PCA;

- conduct administrative proceedings, impose sanctions, fines or penalties for any noncompliance with or breach of the PCA and its implementing rules and regulations and punish for contempt;
- issue subpoena to require the production of books, records, or other documents or data which relate to any matter relevant to the investigation and personal appearance before the PCC, summon witnesses, administer oaths, and issue interim orders such as show cause orders and cease and desist orders after due notice and hearing in accordance with the rules and regulations implementing the PCA;
- upon order of the court, undertake inspections of business premises and other offices, land and vehicles, as used by the entity, where it reasonably suspects that relevant books, tax records, or other documents which relate to any matter relevant to the investigation are kept, in order to prevent the removal, concealment, tampering with, or destruction of the books, records, or other documents; and
- issue adjustment or divestiture orders including orders for corporate reorganization or divestment in the manner and under such terms and conditions as may be prescribed in the rules and regulations implementing the PCA.

In May 2016, the Globe Group, along with PLDT, acquired Vega Telecom, Inc. ("**VTI**") and all of its frequencies, licenses and assets from San Miguel Corporation. The acquisition was notified to the PCC under Memorandum Circular No. 16-002 ("**MC 16-002**"), which provides that transactions notified as prescribed in the MC 16-002 are "deemed approved" and may not be challenged, except on the basis of fraud or false material information. The PCC sought the issuance of a Temporary Restraining Order and/or preliminary injunction from the CA to enjoin the Globe Group and PLDT from consummating the acquisition. The CA denied the PCC's prayer for a Temporary Restraining Order and/or preliminary injunction, however, it has yet to decide on the "deemed approved" status of the acquisition. Consequently, the Globe Group has not been prohibited from making use of the frequencies of the acquired companies. The PCC has appealed the decision of the CA to the Supreme Court, which has yet to issue a decision. Pursuant to MC 16-002, the acquisition would be "deemed approved" upon notification. The Globe Group believes that the PCC's own rule precludes further review of the acquisition and that the notification was validly submitted, as it contained no false or fraudulent information. The dispute as to whether the PCC can validly review the transaction is now before the courts of the Philippines at various stages.

In the event that current legal proceedings currently pending before various courts in the Philippines are finally resolved against the Globe Group, the effect of such judgments may grant PCC the ability to review the acquisition and determine its effect on competition. Although it is unclear what such judgments may include, the Globe Group may, in such a case be subject to fines ranging between 1% to 5% of the transaction value; changes imposed by the PCC to the acquisition's terms; relinquishment or curtailment of the use of certain frequencies; or a declaration that the acquisition be considered void. In a scenario where the acquisition is declared null and void, the Globe Group may be required to cease and desist from implementing its acquisition of the SMC telecommunications assets; undo all acts consummated pursuant to said acquisition; and pay the appropriate administrative penalties that may be imposed by the PCC for the illegal consummation of said acquisition. No assurance can be provided either as regards how the courts may rule or specific steps the PCC may take. However, if the acquisition is deemed void, the Globe Group should be entitled to the return of the purchase price from the seller. Furthermore, the PCC's decision would be subject to appeal by further court proceedings by any of the parties.

To manage these risks, the Globe Group adheres to corporate best practices as it continually evaluates and explores opportunities to create and enhance business and shareholder value, including considering both potential investment as well as divestment opportunities.

***The Globe Group is subject to risks related to litigation and administrative proceedings that could adversely affect its business and financial performance in the event of an unfavorable ruling.***

The nature of the Globe Group's business exposes it to litigation relating to product liability claims, labor, health and safety matters, regulatory, tax and administrative proceedings, governmental investigations, tort claims and contract disputes. Litigation is inherently costly and unpredictable, making it difficult to accurately estimate the outcome among other matters. Currently, as in the past,

the Globe Group is subject to proceedings or investigations of actual or potential litigation. Although the Globe Group establishes provisions as it deems necessary, the amounts that the Globe Group reserves could vary significantly from any amounts the Globe Group actually pays due to the inherent uncertainties in the estimation process. There can be no assurance that these or other legal proceedings will not materially affect the Globe Group's business or otherwise affect its reputation.
To further manage these risks, the Globe Group adheres to corporate best practices including appropriate risk management in its operations.

***The Globe Group is controlled by the Principal Shareholders, whose interests may not be the same as those of other shareholders.***

The Ayala Group, through direct or indirect control of Asiacom Philippines, Inc. ("**Asiacom**") and AC, is a significant shareholder in Globe, along with Singtel, a subsidiary of Singapore Telecommunications Limited (together with the Ayala Group, the "**Principal Shareholders**"). [As of June 30, 2022, the Principal Shareholders had effective control over Globe; in aggregate they held 54.2% of the outstanding voting shares of Globe through preferred shares held via Asiacom, and 35.5% of the outstanding voting shares of Globe through respective holdings of Common Shares of Globe.] Accordingly, as of June 30, 2022 and in accordance with Globe's By-Laws, the Principal Shareholders are effectively able to elect members of the Board of Directors of Globe (the "**Board**") and pass shareholder resolutions at shareholders' meetings provided that over one-half of the stock is present or represented for such meeting to be constituted (except in cases where the applicable law requires a greater number) and, for the election of directors, a majority of the outstanding capital stock is required to be present or represented. If the interests of the Principal Shareholders conflict with the interests of other shareholders of Globe, there can be no assurance that the Principal Shareholders would not cause Globe to take action in a manner which might differ from the interests of other shareholders. To ensure equitable treatment of shareholders, including minority shareholders, Globe adopts principles of good corporate governance through its Manual of Corporate Governance, Code of Conduct alongside other Company policies, which are suppletory to Globe's Articles of Incorporation and By-Laws.

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

In the ordinary course of business, the Globe Group transacts with its related parties, such as its subsidiaries and affiliates, and members of the Globe Group enter into transactions with each other. These transactions have principally consisted of consultancy, advisory and management services, roaming service contracts, loans and sharing of value-added services. Although the Globe Group has instituted internal policies with respect to related party transactions, including establishing an Audit and Related Party Transactions 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 Globe Group.

***The Globe Group may not be able to obtain appropriate insurance coverage on reasonable commercial terms or at all.***

The Globe Group obtains insurance policies to insure its properties, assets and projects in accordance with industry practices. Certain assets and some types of losses, such as losses resulting from wars, acts of terrorism or natural disasters, generally are not insured because they are either uninsurable or it is not economically practical to obtain insurance. There can be no assurance that the Globe Group will be able to obtain appropriate insurance on commercially reasonable terms, or at all. Failure to obtain insurance could reduce the Globe Group's ability to access funding from banks and other financing for future construction projects and other commercial activities and may cause the Globe Group to potentially incur significant financial loss upon the occurrence of a major uninsurable event. The inability of the Globe Group to obtain or renew insurance coverage at a reasonable cost, or at all, may cause the Globe Group's operating costs to increase significantly and may have an adverse effect on its financial condition and results of operations.

***The Globe Group depends on its trademarks and proprietary rights and any failure to protect such intellectual property rights could have a material adverse effect on the Globe Group's ability to market its services and its results of operations.***

The Globe Group owns, or has pending applications for the registration of, intellectual property rights for various trademarks associated with its products and corporate names and logos to operate its business. Protection of these intellectual property rights is important to maintaining the Globe Group's distinctive corporate and market identities. If third parties use counterfeit versions or otherwise look confusingly similar to the Globe Group's brands, consumers may mistake its products with those that they consider to be inferior. This could negatively affect the brand image, operations and profitability of the Globe Group. In addition, Globe has been granted numerous trademark registrations covering its brands and products, and has filed, and expects to continue to file, trademark applications seeking to protect newly developed brands and products.

There is no assurance that third parties will not challenge, invalidate or circumvent any existing or future trademarks issued to, or licensed by, Globe and its subsidiaries. There is no assurance that it will be able to successfully protect its proprietary rights and any failure to protect such proprietary rights could harm its competitive position, which could materially and adversely affect the business, financial condition, results of operations, prospects and reputation of Globe.

The Globe Group has registered several trademarks and brand names in the Philippines, and other countries, including, but not limited to, 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, the Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Korea, Canada, China, Saudi Arabia, United Arab Emirates, Bahrain and Qatar. Globe has also filed an application for a patent in the Philippines.

***The Globe Group may be adversely affected by the imposition and enforcement of more stringent environmental regulations.***

The Globe Group is subject to environmental laws, regulations and ordinances in the Philippines. There can be no assurance that environmental laws, regulations and ordinances will not change in the future in a manner that could materially and adversely affect the Globe Group. Environmental laws, regulations and ordinances may impose upon the Globe Group obligations to investigate and remedy or pay for the investigation and remediation of environmental conditions, and to compensate public and private parties for related damages. Any such liability in connection with facilities or properties currently owned or operated by the Globe Group could materially and adversely affect the Globe Group. It is also possible that existing environmental laws, regulations and ordinances could become more stringent in the future. Non-compliance with or changes in these environmental laws, regulations and ordinances could adversely affect the Globe Group and may have a material adverse effect on the Globe Group's results or operations.

The Globe Group has a strong commitment to ESG initiatives, in line with The Globe Purpose, "*In everything we do, we treat people right to do a Globe of Good*." These include a commitment to implement universal sustainability principles including through 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 the Globe Group's key stakeholders.

***Any failure by the Globe Group to pay rental amounts due in respect of towers or cell sites may result in eviction from such sites.***

The Globe Group leases most of the land or property where its towers or cell sites are located. Although the Globe Group endeavors to pay its leases on time, in the event of any delayed rental payment or dispute with the landlord, the Globe Group faces the risk of eviction and may be forced to incur additional costs to find suitable replacement sites. In the event that the Globe Group is forced to cease operating a particular cell site, or is evicted by the landlord, or is unable to find suitable replacement land or sites on time (or at all), the Globe Group's business, quality of service and reputation will be materially and adversely affected.

***Labor disputes, including failure to maintain satisfactory labor relations, or changes in employment laws may disrupt Globe's operations and could adversely affect its business, prospects, financial condition and results of operations.***

The Globe Group generally considers its labor relations to be good and harmonious. However, there can be no assurance that it will not experience future disruptions to its operations due to labor disputes or other issues with employees, which could materially and adversely affect its business, financial condition and results of operations.

Various labor laws govern the Globe Group's relationship with its employees and affect operating costs. These laws include minimum wage requirements, mandatory health benefits, overtime compensation, and other terms and conditions of employment. These and significant changes in labor regulations, for example, in respect of outsourcing services to independent third-party contractors, could materially affect the Globe Group's business, financial condition, operating results or cash flow. Engagement of third party service providers carries with it certain inherent risks including potential actions from employees of its third-party service providers who may claim an employee-employer relationship with it and the risk that third party contracting arrangements in place may be found by the DOLE to be "labor-only contracting," which could have a significant impact on its labor costs. In addition, a labor dispute involving a substantial number or all of Globe's employees may harm its reputation, disrupt its operations and reduce its revenues, and resolution of disputes may increase its costs.

The Globe Group is also exposed to litigation risk from employees of its various third-party contractors, who may implead it as party to their labor cases and labor disputes against these third-party contractors. Globe has a long-standing, healthy, and constructive relationship with the Globe Telecom Employees' Union-Federation of Free Workers 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.

***The Globe Group is exposed to perceived risks associated with electromagnetic energy.***

Concerns have been expressed relating to possible adverse health consequences associated with the operation of mobile communications devices or mobile transmission equipment due to exposure to electromagnetic energy. While the Globe Group is not aware of any substantiated evidence of public health risks from exposure to the levels of electromagnetic energy typically emitted from mobile communications devices or exposures from mobile base station equipment, there is a risk that an actual or perceived health risk could result in litigation against the Globe Group, restrictions on the ability of the Globe Group to deploy its mobile communications networks as a result of, or increased costs to comply with, government environmental controls which exist or may be introduced to address these perceived risks, which could, in turn, have a material adverse effect on the Globe Group's financial performance and results of operations.

The Globe Group has a strong commitment to ESG initiatives, in line with The Globe Purpose, "*In everything we do, we treat people right to do a Globe of Good*." These include a commitment to implement universal sustainability principles including through 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 the Globe Group's key stakeholders.

## Regulation

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.
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) 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 Globe as a player in the ICT sector mainly due to its software licenses and services business section.

DICT is also implements the government's 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. 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 315 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.

*Public Service Act*

R.A. 11650, enacted in 2022, amended CA 146 is the law regulating public services. The salient change in the Public Service Act is the rationalization of foreign equity restrictions by providing a clear definition of "public utilities". The law provides an exhaustive list of public utilities, which includes:

(1) Distribution of Electricity;
(2) Transmission of Electricity;
(3) Petroleum and Petroleum Products Pipeline Transmission Systems;
(4) Water Pipeline Distribution Systems and Wastewater Pipeline Systems, including sewerage pipeline systems;
(5) Seaports; and
(6) Public Utility Vehicles.

Apart from the above-mentioned public services, no other person shall be deemed a public utility unless otherwise subsequently provided by law.

R.A. No. 11659, which took effect on April 9, 2022, classified telecommunications as "critical infrastructure" but not a public utility. As critical infrastructure, the 40% foreign ownership limitation on public utilities does not apply to Globe, subject to reciprocity of investment of the country of origin of Globe's foreign investors, to Philippine nationals. In the absence of reciprocity, foreign nationals of such country are only allowed to hold up to fifty percent (50%) of the capital of critical infrastructure. Further, foreign state-owned enterprises may not make any new or additional investments in the capital of critical infrastructure. An entity controlled by or acting on behalf of the foreign government or foreign state-owned enterprises shall be prohibited from owning capital in telecommunications, as such is classified as critical infrastructure. Notwithstanding this restriction, the sovereign wealth funds and independent pension funds of each state may collectively own up to thirty percent (30%) of the capital of such public services.

## POWER GENERATION

### Overview

The Company operates its power generation business through AC Energy and Infrastructure Corporation ("**ACEIC**" and "**AC Energy**"). AC Energy was incorporated in 2011 as AC Energy Holdings, Inc. ("**ACEHI**") to pursue greenfield/brownfield, as well as currently operating, power-related projects for both renewable and conventional technologies. In 2016, AC Energy 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, ACEHI completed the acquisition of PHINMA Energy Corporation ("**PHEN**"), 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 AC Energy Philippines, Inc. to AC Energy Corporation ("**ACEN**") , which the Board later voted on 11 Nov 2021 to rename to ACEN Corporation ("**ACEN**") to recognize ACEN's offshore expansion through the ACEIC International Transaction and other future strategic initiatives. . On 26 April 2021, ACEIC transferred 100% of its shares of stock in AC Energy International (ACEIC's 100%-owned subsidiary holding ACEIC's international business and investments) to the Company in exchange for the issuance to ACEIC of additional Common Shares (the "**ACEIC International Transaction**").

In April 2020, the Company 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, AC Energy's board of directors approved the change of name to "AC Energy and Infrastructure Corporation", subject to regulatory approvals. On October 1, 2020, ACEIC's board of directors approved the consolidation of the Group's water and logistics businesses under ACEIC. With certain developments in the logistics business landscape, this plan was not pursued.

In 2020 and 2021, the AC Energy group embarked on a process of transforming its listed subsidiary ACEN to become the group's main energy platform. This included several investments for expansion, ACEIC's transfer of certain assets into ACEN, and ACEN's various capital raising activities all listed as follows. These transactions resulted to ACEIC's effective ownership share in ACEN at 57.74% as of December 31, 2022.

**ACEIC - ACEN Corporate Re-organization and Capital Raising Activities**

| *(in million ₱)* | | Impact to AC Conso and ACEIC Conso FS | | | | Impact to ACEIC Parent Co FS | | |
|---|---|---|---|---|---|---|---|---|
| Transactions | Timing | Proceeds (Cash) [a] | Equity Reserve | SHE OCI accounts | Non-controlling interests | Proceeds (Cash) | Investments | Gain (Loss) on Sale |
| ACEN Stock rights offering (SRO) [b] | Jan 2021 | 5,374 | 1,446 | (5) | 3,933 | | | |
| GIC investment in ACEN | March 2021 | 11,880 | 3,101 | (8) | 8,787 | | | |
| ACEN Follow-on offering (FOO) – Primary and Secondary Offering | May 2021 | 12,870 | 5,413 | (3) | 7,653 | 2,600 | (764) | 1,836 |
| Transfer of ACEIC's offshore subsidiaries to ACEN [c] | June 2021 | | (562) | 863 | (301) | | 68,905 | 68,905 |
| ACEIC sale of ACEN secondary shares to GIC and NCI additional capital infusion [d] | Dec 2021 | 10,346 | 3,937 | 80 | 6,329 | 9,327 | (10,429) | (1,102) |
| | | **40,470** | **13,335** | **927** | **26,401** | **11,927** | **57,712** | **69,639** |

*[a] May be slightly different from ACEIC Consolidated FS because figures exclude transactions with other ACEIC subsidiaries and non-controlling interests which do not fall under capital raising activities.*
*[b] for purposes of calculation of impact in Equity reserves, SHE OCI accounts and NCI, the Company excluded the amount of subscription of subsidiary of ACEN amounting to P55 million from the net proceeds of the transaction amounting to P5, 319 million.*

*[c] ACEIC - ACEN share swap for ownership over certain offshore business units which was approved by BIR as tax-free exchange transaction.*
*[d] For purposes of calculation of impact in Equity reserves, SHE OCI accounts and NCI, the Company included the amount of additional subscription of NCI in ACEN amounting to P1,019 million from the total proceeds of P10,346 million*

ACEN has since been designated as the Ayala group's listed energy platform, with parent ACEIC infusing its Philippines and International assets into the listed platform. ACEN has transitioned from being a Philippine-focused power generation company, into a global energy player with investment, development, and operations capabilities. Today it is actively scaling up its renewable energy platform with investments in the Philippines and across the region in Australia, India, Vietnam and Indonesia ACEN targets to achieve 20 GW in attributable renewable capacity by 2030 and aims to become the largest listed renewables platform in Southeast Asia.

In addition to its power generation businesses, ACEN is also engaged in commercial operations, which includes wholesale and retail electricity supply in the Philippines. ACEN's wholesale business includes its power supply agreements ("PSAs") with Meralco in a 10-year 200MW baseload supply contract up to 26 December 2029 and a 5-year 110MW mid-merit supply contract up to 26 December 2024 . ACEN and ACEIC both 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, ACEN has around 240MWof retail/contestable customer contracts as of December 31, 2022.

ACEN'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 Group's commitment to the UN Sustainable Development Goals, AC Energy is additionally focused on protecting the wider environment and creating value for the communities it serves. AC Energy's Environmental and Social Policy has the following objectives: (i) achieve a low carbon portfolio by 2030; (ii) aspire for excellence in environmental management; and (iii) fulfill its commitment to the community.

Together with other listed companies in the Ayala group, ACEN has committed to Net Zero emissions by 2050. Towards this goal, ACEN is working towards a 100% renewable energy generation portfolio by 2025. In line with this, ACEN plans to spin-off or divest all its thermal capacity by 2025.

Demonstrating the company's commitment to the global clean energy transition, in November 2022, ACEN took a substantial step toward Net Zero by divesting the 246-MW coal-fired South Luzon Thermal Energy Corporation (SLTEC) plant through the world's first market-based energy transition mechanism (ETM). The coal plant's operating life of up to 50 years will be cut in half, as ACEN commits to retire and transition the plant to a cleaner technology by 2040. This will help avoid or reduce up to 50 million metric tons of $CO_2$ emissions. This landmark deal raised ₱7.2 billion, which ACEN can use to fund further renewables expansion.

ACEN'S Board of Directors approved the subscriptions to a total of 1,410,745,833 common shares (consisting of 90,000,000 common shares subscribed by the minority shareholders of NorthWind Power Development Corporation and 1,320,745,833 common shares subscribed by UPC Renewables Asia Pacific Holdings Pte Limited, Anton Johannes Rohner and UPC Philippines Subscribers for a total transaction value of Php11,577,376,996.00. The shares were issued on November 29, 2021 and April 18, 2022, respectively.

**Projects**

ACEN holds investments in and operates its portfolio of power projects through its subsidiaries, associates and joint ventures. The following tables set forth selected data on the Company's power generation portfolio in operation and under construction as of December 31, 2022. This includes only owned assets and does not include leased units.

| Plant | Class | Technology | Country / Region | Status | Net Dependable Capacity (MW) | Approx. Economic Interest | Attributable Capacity (MW) |
|---|---|---|---|---|---|---|---|
| North Luzon Renewables | Renewable | Wind | Philippines | Operating | **81** | 81% | 66 |
| Guimaras Wind | Renewable | Wind | Philippines | Operating | **54** | 100% | 54 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Northwind Power | Renewable | Wind | Philippines | Operating | **52** | 100% | 52 |
| Islasol | Renewable | Solar | Philippines | Operating | **80** | 60% | 48 |
| Sacasol | Renewable | Solar | Philippines | Operating | **45** | 100% | 45 |
| Montesol | Renewable | Solar | Philippines | Operating | **18** | 100% | 18 |
| Maibarara Geothermal | Renewable | Geothermal | Philippines | Operating | **32** | 25% | 8 |
| Bulacan Power | Thermal | Diesel | Philippines | Operating | **48** | 100% | 48 |
| CIP | Thermal | Diesel | Philippines | Operating | **20** | 100% | 20 |
| Sidrap Wind | Renewable | Wind | Indonesia | Operating | **75** | 75% | 56 |
| Salak & Darajat Geothermal | Renewable | Geothermal | Indonesia | Operating | **648** | 20% | 130 |
| Salak Binary Plant | Renewable | Geothermal | Indonesia | Under Construction | **15** | 20% | 3 |
| Ninh Thuan Solar (BIM) | Renewable | Solar | Vietnam | Operating | **330** | 50% | 165 |
| Ninh Thuan Solar Expansion (18Nx) (BIM Solar) | Renewable | Solar | Vietnam | Operating | **75** | 50% | 38 |
| Khanh Hoa Solar (AMI Solar) | Renewable | Solar | Vietnam | Operating | **50** | 80% | 40 |
| Dak Lak Solar (AMI Solar) | Renewable | Solar | Vietnam | Operating | **30** | 80% | 24 |
| Alaminos Solar | Renewable | Solar | Philippines | Operating | **120** | 100% | 120 |
| Palauig Solar | Renewable | Solar | Philippines | Operating | **63** | 100% | 63 |
| Palauig Solar Phase 2 | Renewable | Solar | Philippines | Under Construction | **300** | 100% | 300 |
| Mui Ne Wind Ph1 (Dai Phong) | Renewable | Wind | Vietnam | Operating | **40** | 80% | 32 |
| Mui Ne Wind Ph2 (Hong Phong 1) | Renewable | Wind | Vietnam | Operating | **40** | 80% | 32 |
| Lac Hoa (UPC Soc Trang) | Renewable | Wind | Vietnam | Under Construction | **30** | 80% | 24 |
| Hoa Dong (UPC Soc Trang) | Renewable | Wind | Vietnam | Under Construction | **30** | 80% | 24 |
| Quang Binh Wind (AMI Wind) | Renewable | Wind | Vietnam | Operating | **252** | 80% | 202 |
| Sitara Solar (Rajasthan) | Renewable | Solar | India | Operating | **140** | 80% | 112 |
| Ninh Thuan Wind (BIM Wind) | Renewable | Wind | Vietnam | Operating | **88** | 65% | 57 |
| Paryapt Solar (Gujarat) | Renewable | Solar | India | Operating | **70** | 80% | 56 |
| New England Solar Farm (NESF) Phase 1 | Renewable | Solar | Australia | Under Construction | **521** | 100% | 521 |
| Alaminos Battery Storage | Renewable | Battery | Philippines | Under Construction | **40** | 100% | 40 |
| Bataan RE Tech Hub | Renewable | Solar | Philippines | Operating | **4** | 100% | 4 |
| Arayat-Mexico Solar (Greencore) Phase 1 | Renewable | Solar | Philippines | Operating | **72** | 50% | 36 |
| Arayat-Mexico Solar (Greencore) Phase 2 | Renewable | Solar | Philippines | Under Construction | **44** | 50% | 22 |
| Pagudpud Wind (Bayog/Balaoi) | Renewable | Wind | Philippines | Under Construction | **160** | 100% | 160 |
| San Marcelino Solar | Renewable | Solar | Philippines | Under Construction | **284** | 100% | 284 |
| Masaya Solar (Madhya Pradesh) | Renewable | Solar | India | Under Construction | **420** | 80% | 336 |
| Cagayan North Solar (CleanTech/NAREDCO) | Renewable | Solar | Philippines | Under Construction | **133** | 80% | 106 |
| Capa Wind (Amihan) | Renewable | Wind | Philippines | Under Construction | **70** | 81% | 57 |
| Stubbo Solar | Renewable | Solar | Australia | Under Construction | **520** | 100% | 520 |
| NEFIN | Renewable | Rooftop Solar | Various** | Under Construction | **30** | 80% | 24 |
| NEFIN | Renewable | Rooftop Solar | Various** | Operating | **37** | 42% | 16 |

| Grand Total | 3,961 |
|---|---|

As of December 31, 2022, the Company's portfolio of projects under its renewable energy ("**RE**") platform had a total net attributable capacity of approximately 3,961 MW of renewable energy in operation and under construction,. ACEN's RE platform is divided into 2,937 MW of solar energy, rooftop solar, and battery energy storage, 815 MW of wind power, and 141 MW of geothermal resources.

**ACEN Generation Portfolio**

Total Net Attributable Capacity[1]

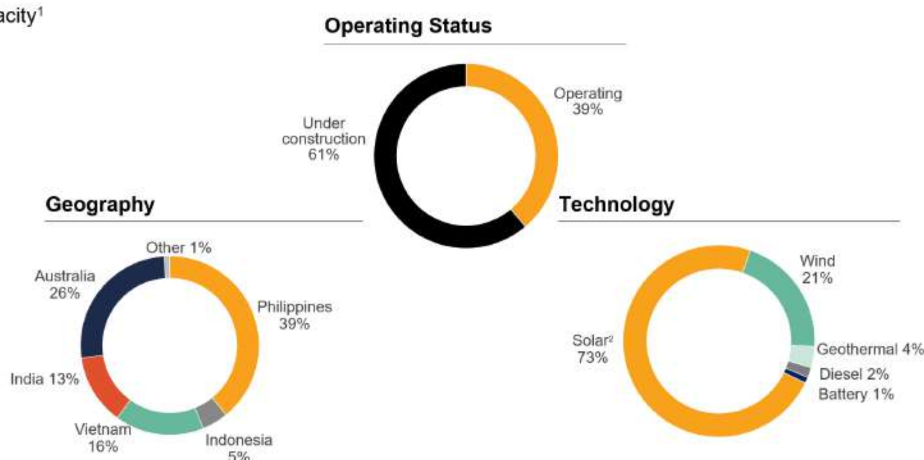
**3,961 MW**

Renewable Capacity

**3,893 MW**

Share of Renewables to Total Capacity

**98%**




1. Refers to gross capacity of owned assets, multiplied by ACEN's effective economic ownership. Does not include leased units.
2. Includes rooftop solar

5

The table below presents the Net Attributable Capacity as of December 31, 2022, broken down by geography and technology. This includes only owned assets and does not include leased units.

| | Net Attributable Capacity (MW) | | |
|---|---|---|---|
| **By Geography** | **Operating** | **Under Construction** | **Total** |
| Philippines | 582 | 969 | 1,550 |
| International Assets: | | | |
| Vietnam | 589 | 48 | 637 |
| Australia | 0 | 1,041 | 1,041 |
| India | 168 | 336 | 504 |
| Indonesia | 186 | 3 | 189 |
| Various[1] | 16 | 24 | 40 |
| Total International Assets | 959 | 1,452 | 2,411 |
| **Total** | **1,541** | **2,420** | **3,961** |

Note:
1. Various is comprised of Mainland China, Hong Kong, Malaysia, Thailand, and Taiwan

| | Net Attributable Capacity (MW) | | |
|---|---|---|---|
| **By Technology** | **Operating** | **Under Construction** | **Total** |
| Renewable Assets: | | | |
| Solar | 768 | 2,089 | 2,857 |

| | | | |
|---|---|---|---|
| Wind | 551 | 265 | 815 |
| Geothermal | 138 | 3 | 141 |
| Battery | 0 | 40 | 40 |
| Rooftop Solar | 16 | 24 | 40 |
| Total Renewable Assets | 1,473 | 2,420 | 3,893 |
| Thermal Assets: | | | |
| Diesel | 68 | 0 | 68 |
| Coal | 0 | 0 | 0 |
| Total Thermal Assets | 68 | 0 | 497 |
| **Total** | **1,541** | **2,420** | **3,961** |

**Other Businesses**

**Retail Electricity Supply Business**

The Company began its active participation in the WESM when it obtained membership as a Wholesale Aggregator on September 2, 2007. The WESM serves as a platform where electricity generated by power producers are centrally coordinated and traded like any other commodity in a market of goods. On November 19, 2012, the Company secured its RES license from the ERC under RES License No. SL-2012- 11-009 to supply electricity to the Contestable Market. On 18 November 2022, the ERC renewed the Company's RES License and issued RES License No. 01-2023-00991RS valid until November 19, 2027.

As of December 31, 2022, the Company holds ~142 MW of retail/contestable customer contracts and 310 MW of wholesale customer contracts.

**Bulk Water Supply Business**

ACE Endevor, Inc. ("**ACE Endevor**") owns 100% ownership interests in bulk water supply companies SCC Bulk Water, HDP Bulk Water, LCC Bulk Water, and MCV Bulk Water. The companies entered into water supply contracts for the provision of water to the biopower generation plants in Negros Occidental.

Land Lease and Development

ACEN, through its subsidiaries, owns 100% ownership interests in Solienda and SJLD and approximately 66.2% of MSPDC. These companies enter into various contracts with ACEN's projects to assist in the management and maintenance, among others, of select renewable projects.

Solienda

Solienda was incorporated and registered with the SEC on 29 November 2016 to deal and engage in land lease and real estate business. On December 5, 2016, San Julio Realty, Inc. assigned to Solienda the absolute and irrevocable title, rights and interest in the contract of lease, and the subsequent amendment agreements, with San Carlos Sun Power, Inc., SacaSol and SCBP.

San Julio Land Development Corporation

SJLD was incorporated on 20 June 2014 with a primary purpose to deal and engage in land and real estate business, to hold, own, develop, manage, administer, purchase, lease, encumber, construct, alter in whole or in part, or otherwise deal in and dispose of, for itself or for others, for profit, all kinds of real estate projects, including, but not limited to, residential, commercial, industrial, as well as utilities, with or for persons and entities an under such terms and conditions as may be permitted by law; to enter into joint ventures and other similar arrangements in the furtherance of such land and real estate business. SJLD has ownership interest in MSPDC.

Manapla Sun Power Development Corporation

MSPDC was incorporated and registered with the SEC on 16 December 2014 with a primary purpose to engage in the business or renewable energy such as, but not limited to biomass, mini-hydro or solar power and ancillary business, and to own, lease, operate, manage or develop public or private lands. In March 2017, ACEIC, acquired 66.2% of MSPDC. MSDPC is the landowner of and the lessor for IslaSol's solar farm in Manapla, Negros Occidental.

Petroleum Exploration

ACEN, through its subsidiary, ENEX Energy Corp. (formerly ACE Enexor, Inc.; "**ENEX**") is an investor in various consortia engaged in petroleum exploration, development and production.

Petroleum exploration involves the search for commercially exploitable subsurface deposits of oil and gas through geological, geophysical and drilling techniques. A petroleum discovery is made when significant amounts of oil and/or gas are encountered in a well and are flowed to the surface. Following a discovery, additional wells (appraisal or delineation wells) are drilled to determine whether the petroleum accumulation could be economically extracted or not. If the results are positive, the oil or gas field is developed by drilling production wells, and installing the necessary production facilities such as wellheads, platforms, separators, storage tanks, pipelines and others.

As projects are in the exploratory stage, ACEN derives no revenues from petroleum production. At this time, ACEN believes it has sufficient petroleum projects on hand given its resources and risk tolerance.

Product and Distribution

The principal products of petroleum production are crude oil and natural gas. Crude oil is usually sold at market price in its natural state at the wellhead after removal of water and sediments, if any. Depending on the location of the oil field, the oil produced may be transported via offshore tankers and/or pipeline to the refinery. Natural gas may be flared, reinjected to the reservoir for pressure maintenance, or sold, depending on the volume of reserves and other considerations. Natural gas is commonly transported by pipeline. However, if the deposit is very large and the market is overseas, the gas may be liquefied into liquefied natural gas ("**LNG**") and transported using specialized tankers.

Petroleum Service Contracts and Agreements

Under a service contract, a private enterprise that seeks to develop domestic oil and gas resources is deemed as a contractor that must provide all required services, technology and financing, and assume all exploration risks. In the event of commercial production, the service contractor is paid a stipulated service fee, in addition to reimbursement of validated investments.

Oil and gas exploration and production is a high-risk business. The worldwide commercial success rate is three percent, *i.e.,* only one out of 30 exploratory wells results in a commercial discovery. It is also capital-intensive. Pre-drill geological and geophysical studies may run up to a few millions of dollars. The cost of a single offshore exploratory well could exceed U.S.$30 million, whereas field development costs could reach hundreds of millions of dollars. To manage exploration risks, oil exploration firms usually form consortia or joint ventures.

ACEN is at present a co-contractor in one service contract with the Philippine government. A service contract grants the contractor the exclusive right to explore, develop and produce petroleum resources within the contract area. In the event of commercial production, the Government and the contractor share in the profit. Service contracts grant the contractor an exploration period of seven years, with an option to extend for a limited number of years. If the reserves found are deemed commercial, the service contract allows a production period of 25 years, to extendible for a maximum of 15 years.

ACEN's oil and gas operations are in the exploratory stage.

A summary of the existing projects and the Service Contract where ENEX has participating interests in as of December 31, 2022 is as follows:

| Contract | Location | Interest | Issue Date | Commercial Terms | Partners | Work Program |
|---|---|---|---|---|---|---|
| | | | | | | |
| **SC55 (through subsidiary Palawan 55)** | Offshore West Palawan | 75% (upon approval by the DOE of the Deed of Assignment and transfer of participating interest from Century Red to Palawan55 as of 13 February 2020) | 5 August 2005 | A, B | Pryce Gases, Inc.<br><br>Operator: Palawan55 | The DOE confirmed the entry of SC 55 into the Appraisal Period effective 26 April 2020.<br><br>The Consortium completed 3D Seismic Data Reprocessing, Quantitative Interpretation Studies and Resource Assessment of the block.<br><br>In 2022, Palawan55 completed the specialized pre- drill geological, geophysical studies and well planning in SC 55.<br><br>The Department of Energy approved the Consortium's CINCO-1 Drilling Proposal, Oil Spill Contingency Plan, and Health, Safety and Environmental Management |

| Contract | Location | Interest | Issue Date | Commercial Terms | Partners | Work Program |
|---|---|---|---|---|---|---|
| | | | | | | Plan on 04 March 2022.<br><br>On 05 December 2022, the SC 55 Consortium requested from the DOE a declaration of Force Majeure on the commitment to drill one (1) deepwater well by April 2023 due to the geopolitical issues in the West Philippine Sea and recent regulatory developments in the upstream industry. |

Notes: For Commercial Terms, it pertains to the following:
A = Contractor provides all required services and technology funding. Contractor is entitled to a service fee out of production equivalent to 40% of net proceeds. Net proceeds would refer to the balance of gross income after deducting Filipino participation incentive allowance and operating expenses.
B = The 75.00% interest in SC 55 is owned by Palawan55, a 69.35% owned subsidiary of ENEX.

*SC 6: Cadlao, Block A and B (Northwest Palawan)*

SC 6 covers three blocks located in Offshore Northwest Palawan, namely: Block A with 108,000 hectares, and Block B with 53,300 hectares and the Cadlao production area.

On January 22, 2021, the Executive Committee of the Company approved its withdrawal from the SC 6 Consortium.

On January 26, 2021, ACEN notified its partners of its withdrawal from the consortium effective 1 January 2021. The withdrawal was on account of SC6’s expiration in 2024 and the remaining prospects appear to have limited resource potential.

On March 31, 2021, the SC6 Consortium filed for the relinquishment of SC 6 Block A. SC6A has been fully impaired in the amount of ₱23.96 million. Exploration costs incurred for the exploration activities were initially capitalized as deferred exploration costs. Given full impairment, the approval by the DOE of the relinquishment no longer has any financial nor operational impact to ACEN.

On 05 September 2022, the Department of Energy (DOE) approved the relinquishment of SC 6A following the Consortium's compliance with all its technical and financial obligations with the Department.

SC 55 (West Palawan)

SC 55 was awarded by the DOE on 5 August 2005. The exploration period is valid for seven years, extendible for three years, and the production period is valid for 25 years. The original members of the consortium and their corresponding interests were Otto Energy (Operator) with 85% and ACEN with 15%.

ACEN has a Participation Agreement with the predecessor's interest of Otto Energy which provides that the latter will shoulder ACEN's share of costs up to the drilling of the first exploratory well. In addition, ACEN has the option to acquire 5% interest from Otto Energy after the drilling of the first well under the SC.

SC 55 covers 988,000 hectares in offshore West Palawan. It is a deep-water block in the middle of a proven regional oil and gas fairway that extends from the productive Borneo offshore region in the southwest, to the offshore Philippine production assets northwest of Palawan. At that time, the block was deemed to have one giant prospect (with at least 500 million barrels mean resource potential) and a number of leads. The consortium committed to undertake a work program consisting of a new 400 km 2D seismic survey, processing and interpretation of 200 km of vintage 2D seismic data and 358 km of gravity and magnetic data, within the first 18 months of the contract term. The partners have successive options to drill up to four wells during the balance of the seven-year exploration period.

The DOE approved the consortium's entry into the second Sub Phase of the exploration period, which entails a commitment to drill one ultra-deep water well. Processing and interpretation of 954 km of 2D seismic date acquired in June 2007 were already completed, but due to no availability of a suitable rig, the DOE approved the consortium's request to swap work commitments for the second and third Sub Phases of the exploration period to allow the drilling of the first commitment well by August 4, 2010 instead of August 4, 2009.

The consortium requested and the DOE agreed to the substitution of a 2D 3D seismic program for one ultra-deep water well commitment under the third Sub Phase of the exploration period (from August 5, 2009 to August 5. 2010), and deferment of the mandatory partial relinquishment of the contract area until completion of the proposed substitute 2D 3D seismic program. The consortium further requested and the DOE approved a one-year extension of the third Sub Phase to 5 August 2011 following execution by Otto Energy of a Farm-In Option Agreement with BHP Billiton Petroleum (Philippines) Corporation of Canada (BHP Billiton) which provided for BHP Billiton's funding of a new 3D seismic survey over the area.

On 3 June 2010, PHEN signed an Option Agreement with Frontier Gasfields Pty. Ltd. of Australia which granted the latter the option to acquire the 5% interest from Otto Energy after the drilling of the first well in the area.

On 3 February 2011, PHEN signed an Agreement with Otto Energy assigning ACEN's 8.18% participating interest to the latter in exchange for a carry in the costs of a second well in the block, should Otto Energy elect to participate in said well. Estimated budget for drilling the second well is US$ 65 Million or ₱2.86 Billion at an exchange rate of US$1 = ₱44.

In December 2011, BHP Billiton acquired 60% participating interest in SC 55 from Otto Energy and committed to drill one deep water well at its sole cost within the fourth Sub Phase.

The consortium elected to enter the 4th Sub Phase which entails a commitment to drill one deep water well by August 5, 2012.

The revised work schedule is shown below:

| Sub Phase | Date | Work program |
|---|---|---|

| 4 | August 2011 – August 2013 | One deepwater well |
| --- | --- | --- |
| 5 | August 2013 – August 2014 | One deepwater well |

The DOE granted a one- year extension of the fourth Sub Phase until August 5, 2013 to enable BHP Billiton to procure a suitable drilling rig that could drill an identified deepwater prospect. On May 3, 2013, BHP Billiton filed a Force Majeure notice with the DOE due to significant delays in obtaining a clearance from the Palawan Council for Sustainable Development for the drilling of the Cinco1 well.

On June 4, 2013, the Sangguniang Panlalawigan of Palawan voted to favorably endorse the proposed Cinco1 drilling to the Palawan Council for Sustainable Development ("**PCSD**"). The PCSD approved the issuance of the Strategic Environmental Plan ("**SEP**") clearance for the drilling of Cinco1 well but BHP Billiton sought amendment and clarification on certain conditions set by PCSD. As at October 30, 2013, BHP Billiton received the amended SEP clearance and requested the DOE a 14-month extension of the current Sub Phase considering the length of the Force Majeure period.

In the first week of November 2013, BHP Billiton verbally informed the partners that it has decided not to participate in the drilling of the Cinco1 well. In March 2014, the DOE approved the transfer of BHP Billiton's interest to Otto Energy Philippines, Inc. Otto Energy submitted a revised work program focusing on the drilling of the Hawkeye prospect. The DOE approved the new work program in April 2014 and revised the schedule of the remaining Sub Phases as follows:

| Sub Phase | Work Program and Budget | Revised Work Schedule |
| --- | --- | --- |
| 4 | Drill 1 deepwater well @ US$3 MM | August 6, 2011 – December 23, 2014 |
| 5 | Drill 1 deepwater well @ US$3 MM | December 23, 2014 – December 23, 2016 |

In January 2014, BHP Billiton and Otto Energy signed definitive agreements for the reassignment of the former's participating interest to the latter. The DOE approved the transfer of the 60% participating interest of BHP Billiton to Otto Energy Philippines, Inc. and the transfer of Operatorship to Otto Energy. The approval formalized the exit of BHP Billiton in SC 55.

On October 15, 2014, Otto Energy requested the DOE a one-year extension of Sub-Phase 4 to December 23, 2015. The requested extension was approved by the DOE on November 7, 2014.
On July 31, 2015, Otto Energy commenced drilling of the Hawkeye-1exploratory well and on August 17, 2015 completed the drilling to a total depth of 2,920 meters. The well discovered gas which is deemed to be non-commercial. Otto Energy informed its partners of its decision to withdraw from the service contract.

On December 22, 2015, the consortium requested the DOE for a two-year contract moratorium and proposed technical studies that would assess the impact of the results of Hawkeye-1 on the remaining prospects of the area. On June 14, 2016, the DOE extended the term of SC 55 until December 23, 2017.

On November 21, 2016, Otto Energy and Otto Energy Philippines notified the DOE of their withdrawal from SC 55. As at March 3, 2017, the transfer of interest from Otto Energy to the continuing parties was under processing by the DOE.

On November 22, 2017, Palawan55 notified the DOE of its willingness to assume its pro-rated, post-adjustment share (37.50%) of Otto Energy's outstanding training fund obligation in conjunction with the DOE's approval of the assignment of interests and favorable consideration for a reasonable extension of the moratorium period that would allow execution of the committed technical studies.

ENEX's stake in SC 55 is held through Palawan55, an upstream oil and gas company. [As of December 31, 2021, ENEX owned 69.35% of Palawan55, while the remaining 30.65% was owned by ACEN.]

On March 26, 2018, the DOE approved the transfer of participating interests from Otto Energy to the continuing partners, Palawan55, Century Red Pte. Ltd. and Pryce Gases, Inc. As a result of the transfer, the Company's 6.82% participating interest in SC 55 has been adjusted to 37.50%. The timeline of the

Moratorium Period, with a commitment to conduct Quantitative Inversion Study, was also revised to reflect the transfer of interest. Further, the DOE formally confirmed Palawan55 as Operator of the block. On August 23, 2018, Palawan55 awarded the 3D Marine PreSTM and PreSDM Reprocessing and Quantitative Inversion Services Contract to Down Under Geosolutions (Asia) Sdn Bhd. The project commenced on September 10, 2018. Seismic reprocessing of 1,000 sq. km. of 3D seismic data was completed.

Quantitative Interpretation Study aimed at identifying the gas-bearing zones in the service contract is ongoing.

On July 24, 2019, the SC 55 Consortium notified the DOE of its decision to enter Sub-phase 5 (SP5) effective August 26, 2019, without prejudice to the Consortium's option to enter the Appraisal Period no later than the said date. SP5 carries a commitment of drilling one ultra-deepwater well.

On August 9 2019, the SC 55 Consortium notified the DOE of its entry into the Appraisal Period of SC 55 effective August 26, 2019. The SC 55 consortium committed to drill one deep-water well within the first two years of the Appraisal Period and, following reinterpretation of certain seismic data outside of the current study area, may undertake a new 3D seismic program to mature other prospects within SC 55 to drillable status. The SC 55 consortium submitted an indicative Appraisal Work Program to the DOE to support this commitment.

On February 13, 2020, after careful review and evaluation, DOE found Palawan55 to be technically, financially and legally qualified and approved the transfer of Century Red, Pte. Ltd's entire 37.5% participating interests in SC 55 to Palawan55.
As a result thereof, the partners in SC 55 and their respective participating interests are as follows:

| | | |
|---|---|---|
| Palawan 55 | 75.00% | Operator |
| Pryce Gases, Inc. | 25.00% | |

On April 15, 2020, Palawan55 received a letter from the DOE confirming the entry of SC 55 into the Appraisal Period effective April 26, 2020. In the said letter, the DOE stated that after the review and evaluation of the Hawkeye discovery report, "we hereby confirm that the 'Hawkeye-1 well' did encounter a significant volume of movable natural gas and is deemed to be a Non-Associated Gas Discovery under Section 13.02 of SC 55."

On July 2, 2020, SC 55 Consortium submitted to the DOE its 5-year Work Program and Budget for the Appraisal Period. Said program is divided into firm (CY 1 & 2) and contingent (CY 3-5). The firm commitment consists of Geological and Geophysical studies and drilling of a well within two years.

On August 18, 2020, Palawan55 received a letter from the DOE approving SC 55's Appraisal Period Work Program and Budget with the firm amount of US$1,702,020.00. Further, the DOE stated that it expects the submission of the proposed budget for the drilling of one well after the drilling proposal has been approved by the DOE.

On September 18, 2020, the Consortium requested for the declaration of a one-year Force Majeure in view of the far-reaching adverse effects of the COVID-19 pandemic and the induced low oil price, on the global upstream petroleum industry.

On May 14, 2021, Palawan55 received a letter from the DOE dated May 11, 2021, approving its request to place SC 55 under Force Majeure for a period of one year. The letter also states that the timeline of the SC 55 Appraisal Period will be adjusted accordingly, and the end of the period will be adjusted by the same amount of time that SC 55 was on Force Majeure.
Palawan55 interpreted reprocessed seismic data to mature two prospects to drillable status. Resource Assessment of these prospects has been completed. Well Planning and Drilling preparations are ongoing.

As at December 31, 2021, Palawan 55 holds 75% participating interests in SC 55, and has no pending violation with the DOE.

On March 18, 2022, Palawan55 received a letter from the DOE dated March 4, 2022, approving Palawan55's updated Cinco-1 Drilling Proposal, oil spill contingency plan, and health, safety and environment plan. Further, Palawan55 was instructed to submit to the DOE a digital copy of the geological model of the Cinco Prospect and a drilling montage prior to the commencement of the drilling activity. The drilling of the appraisal well is estimated to be in April 2023, before the expiration of the DOE-declared 1-year Force Majeure period on SC 55.

In October 2022, the Palawan Council for Sustainable Development (PCSD) has approved the transfer of SC 55 Strategic Environment Plan (SEP) Clearance from the former SC 55 Operator, BHP Billiton to the current Operator, Palawan55 Exploration and Production Corporation.

On 05 December 2022, the SC 55 Consortium requested from the DOE a declaration of Force Majeure on the commitment to drill one (1) deepwater well by April 2023 due to the geopolitical issues in the West Philippine Sea and recent regulatory developments in the upstream industry.

The Consortium is awaiting DOE's unequivocal assurance that the government would protect and defend the planned drilling operations in SC 55 in light of the ongoing maritime disputes in the West Philippine Sea.

**Competition**

ACEN believes that it will face competition in both the development of new power generation facilities, the acquisition of existing power plants, competition for financing for these activities, as well as in the electricity supply business. Given the amendment of the Renewable Energy Act of 2008 to remove nationality requirements previously imposed on the exploration, development and utilization of solar, wind, hydro and ocean or tidal energy resources, ACEN believes that it will face additional competition through foreign investors in renewable energy.

The performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of various electric power generation projects within the Philippines. Accordingly, competition for and from new power projects, and in retail electricity supply may increase in line with the long-term economic growth in the Philippines. Key competitors for market share in the Philippines include the following power companies and their affiliated retail electricity suppliers:

- Aboitiz Power Corporation ("**Aboitiz Power**"), with PSE ticker symbol "AP," is a leading player in the Philippine power industry with interests in privately-owned power generation companies, RES services, and distribution utilities. On its corporate website, AP indicates that it is the second largest power generation company and the second largest power distribution and retail company in the Philippines.[9] In addition, AP mentions its veteran management experience and expertise in the power industry since 1918, and its strong financial position on stable cash generation, low leverage interests, and attractive dividend policies as its strengths.[10] Aboitiz Power's portfolio of power generating plants consist of a mix of renewable and thermal power plants. The Company estimates that AP has an attributable net sellable capacity of 3,962 MW as of 31 December 2022. Aboitiz Power is a subsidiary of Aboitiz Equity Ventures, Inc. According to Bloomberg, AP's market capitalization is at ₱250.6 billion as of 31 December 2022. Listed on the PSE, Aboitiz Power is a subsidiary of Aboitiz Equity Ventures, Inc.
- First Gen Corporation ("**First Gen**") with PSE ticker symbol "FGEN," is engaged in the business of power generation through its gas and renewable energy plants. On its corporate website, First Gen indicates that it is the largest producer of natural gas-fired power in the Philippines.[11] The Company estimates that First Gen has an attributable net sellable capacity of 2,687 MW as of 31 December 2022. According to Bloomberg, First Gen's market capitalization is at ₱60.9

[9] https://aboitizpower.com/investors/investment-highlights
[10] https://aboitizpower.com/investors/investment-highlights
[11] https://www.firstgen.com.ph/our-company/corporate-profile

billion as of 31 December 2022. Listed on the PSE, First Gen is a subsidiary of First Philippine Holdings, which is part of the Lopez Holdings group of companies.

- Energy Development Corporation ("**EDC**") is a renewable energy company and a subsidiary of First Gen. EDC, on its corporate website, indicates that it has over 40 years of pioneering sustainable practices, with an installed capacity that accounts for almost 20% of the country's total installed RE capacity.[12] With geothermal as its primary source of power, EDC provides 61.30% of the country's total installed geothermal capacity. EDC has an installed capacity of XXX MW that accounts for almost 20% of the Philippines' total installed RE capacity as of 31 December 202X. EDC's total installed capacity includes 1,186 MW in geothermal, which represents a sizeable portion of the country's total installed geothermal capacity for the same period. EDC is an unlisted affiliate of First Gen through Red Vulcan Holdings Corporation, a subsidiary of Prime Terracotta Holdings Corporation.
- SMC Global Power Holdings ("**SMC Global Power**") is one of the largest power companies in the Philippines with a diversified portfolio utilizing a mix of coal, natural gas, and hydroelectric power plants. It controlled a combined capacity of 4,714 MW as of 31 December 2021, which it believes represented approximately 20% of the national grid, 27% of the Luzon grid, and 8% of the Mindanao grid as of the same period. These power assets are under Independent Power Producer Administrators ("**IPPA**") Agreements with PSALM, or are owned or under joint venture agreements classified as Independent Power Producers. SMC Global Power believes that its mix of renewable and high-efficiency low-emission power plants enables it to power the national grid with a reliable power supply.[13] SMC Global Power is a fully-owned subsidiary of San Miguel Corporation.
- MERALCO PowerGen Corporation ("**MGen**") was incorporated to engage in the power generation business. It is a wholly-owned subsidiary of MERALCO, the Philippines' largest electricity distribution utility. According to its corporate website, although MGen was only established in 2010, the industry is hardly new ground to MERALCO, which was the country's oldest and largest power generator until it relinquished and transferred its power plants in favor of the NPC in the 1970's.[14] MGen aims to build a diversified power generation portfolio with 3,000 MW total combined capacity, including 1,000 MW in renewable energy.

In Vietnam, EVN controls the generation, transmission, and distribution of energy but it also encourages independent power producers ("**IPP**") to supplement its own generation capacity. In the renewable energy space, local and international developers are actively competing to secure allocation for the FIT. The government's support and initiatives on renewable energy to grow its supply portfolio mix will continue to bring in more market players. [See "Risk Factors—Risks Relating to ACEN and its Businesses—Risks and delays relating to the development of greenfield power projects could have a material adverse effect on the Company's operations and financial performance"].

Australia has a fully open energy market that is dominated by a few large generator-retailers ("**gentailers**"). Several international and smaller domestic players are also very active in the market.

In Indonesia, similar to Vietnam, the generation, transmission, and distribution is controlled by PLN, but the Indonesian government also encourages IPP. Indonesia is a highly competitive market with major domestic and international developers. Given the continuing growth of the Indonesian economy, the Company sees competition to continue to intensify moving forward.

In India, coal continues to fuel India's economy, accounting for more than 50% of the country's installed generation capacity. However, India has added to the current target of 175 GW of renewable energy capacity by 2022 with a 450GW of renewable energy capacity target by 2030. This higher RE target

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[12] https://www.energy.com.ph/who-we-are/
[13] https://smcglobalpower.com.ph/our-business-power-generation?p=4
[14] https://www.meralcopowergen.com.ph/about/

and the decreasing cost of RE power prices discovered through competitive tenders will likely result in the displacement of coal-based power production in India.

For the petroleum exploration business, ACEN believes that competition for market of petroleum does not have a materially adverse effect on its current operations.

**Environmental**

AC Energy aspires to become the largest listed renewables platform in Southeast Asia through its listed platform, ACEN. ACEN targets to reach 20 GW of attributable renewable energy capacity by 2030.

In November 2021, ACEN announced its commitment to Net Zero emissions by 2050, similar to the commitment of Ayala Corp. and the other listed entities in the Ayala group. Toward this end, ACEN has committed to a 100% renewable generation portfolio by 2025.

As ACEN builds its renewable energy portfolio, it recognizes the importance of working with communities to create development programs that benefit its stakeholders, including in relation to the environment. ACEN targets to “close the loop” in its project locations and help communities live in a pollution-free environment, a critical component of its sustainability strategy. The company has protected 2,055 hectares of forests and planted approximately 730,709 treesas of December 31, 2022. It has also upcycled 41,762 kg of plastic, much of which has been used to create eco-bricks for its renewable energy power projects.

ACEN conducts biodiversity assessments periodically to determine the types of species on these project sites and their vulnerability status, and invests on habitat protection and restoration. For the year ended December 31, 2022, ACEN has spent over ₱87 million towards initiatives that aim to deliver a positive impact on biodiversity. These initiatives include the Conservation Estate in Ilocos Norte, Alaminos Sustainability Hub, and turtle conservation and marine life support programs.

***The Conservation Estate in Ilocos Norte***

Since reforestation initiatives began in the 700-hectare Conservation Estate, close to 400,000 seedlings have been planted as of December 31, 2021, including endemic and fruit-bearing trees. The area has become an important wildlife habitat in the Northern Luzon region, and the forests witness an increase in biodiversity as ACEN, with the help of the locals, creates an ecologically diverse landscape through analogue forestry. The forest is now home to 117 species of birds, 33 of which are endemic, and four a reclassified as vulnerable. Additionally, studies identified the presence of near-threatened monkey species, bats, and other animals. ACEN is constantly working with local communities, creating awareness on coastal environment protection, turtle conservation, and biodiversity, to help them understand how their livelihood is directly linked to natural resources and wildlife.

***Alaminos Sustainability Hub***

In Alaminos, Laguna, ACEN’s 120 MWdc solar plant is surrounded by Ayala Land’s Carbon Forest, a woodland reserve that acts as a carbon trap and home to biodiversity. Within the solar farm compound, ACEN has integrated a plastic recycling facility wherein plastic waste collected from the construction site is being upcycled into eco-bricks, which will then be used in building the solar plant facilities.

As ACEN aims to engage with its host communities, from the early stages of the project and throughout the plant operations, it develops programs that will benefit neighboring communities such as livelihood programs through a Tree Nursery with a target of producing 120,000 seedlings, and an Eco-Hub facility for a plastic waste management program. Plans to build an Eco Learning Facility are also underway, where students and other visitors will gain an understanding of renewable energy and forest protection. This pilot Sustainability Hub will be a living example of how sustainable development can thrive with the help of partners including our host communities. It will be the first of many that ACEN envisions to create within its developments.

***Turtle Conservation***

In its Bangui wind farm operated by NorthWind, ACEN works closely with the community to develop its turtle sanctuary in the area. Ongoing awareness and training programs for environmental preservation and biodiversity being conducted by ACEN's wind farms, North Luzon Renewables and North Wind, empower the locals to become stewards of the Conservation Estate in Ilocos Norte. As of December 31, 2022, over 13 turtles were rescued and released into the sea, while 18 turtle nests have been recorded and monitored.

***Marine Life Support***

In March 2021, ACEN's Guimaras Wind signed an agreement with the Dumangas local government to develop a fish sanctuary through the placement of artificial reefs to supplement the habitat of marine life in the area.

ACEN has also entered into partnerships with host communities on a solid waste management program which includes a materials recovery facility in the NorthWind Project and the Montesol Project.

**Risks**

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

ACEN's success depends on its ability to identify, invest in and develop new power projects, and ACEN faces competition to acquire future rights to develop power projects and to generate and sell power. No assurance can be given that ACEN will be able to acquire or invest in new power projects successfully. In recent years, the Philippine government has sought to implement measures designed to establish a competitive power market. These measures include the planned privatization of at least 70% of the NPC-owned-and-controlled power generation facilities and the grant of a concession to operate transmission facilities. 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 ACEN, giving them the ability to respond to operational, technological, financial and other challenges more quickly than ACEN. These competitors may therefore be more successful than ACEN 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. ACEN may therefore be unable to meet the competitive challenges it will face.

The impact of the ongoing restructuring of the Philippine power industry will change the competitive landscape of the industry and such changes are expected to affect ACEN's financial position, results of operations and cash flows in various ways.

Any decision to develop and construct power projects in various jurisdictions, including, but not limited to, the Philippines, Indonesia, Vietnam, India and Australia, will be 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 ACEN will need to compete for projects based on pricing, technical and engineering qualifications, the financial condition of ACEN, 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 ACEN's control, such as market conditions or government incentive programs. In such cases, ACEN may not acquire the rights to develop new power projects in the event that ACEN misjudges its competitiveness when submitting its bids or proposals or, where bidding includes price competition, if ACEN's competitors have more competitive pricing. The ability of ACEN's competitors to access resources that it does not have access to, including labor and capital, may prevent ACEN from acquiring additional power projects in strategic locations or from increasing its generating capacity, and ACEN may not be able to expand its business as a result.

To be able to adapt with the potential changes, ACEN continues to develop a pipeline of projects particularly in securing potential sites, continuously looking into technology that will allow the projects to be economically viable while being competitive in terms of offer and negotiating with adequate coverage in terms of unexpected changes on the regulations. ACEN monitors developments in the industry, competition and regulatory environment to ensure that it can adapt as necessary to any change.

***Heightened competition in the renewable energy sector may adversely affect ACEN's business performance.***

As mentioned in the section on ***Business—Competition*** on page of this 202 of this Prospectus, ACEN views itself as playing within its niche among its competitors both in the Philippines and regionally. Locally, ACEN has a significant international portfolio, reaching ~60% of total attributable capacity. [In addition, among peers with over 1,500MW in capacity, only ACEN has attained close to 98% of its portfolio of owned assets in RE. ACEN is expected to reach 100% renewable output by 2025, spinning off all current thermal capacity, as part of the Ayala Group's commitment to achieve Net Zero greenhouse gas emissions by 2050. Net Zero is a global movement to achieve zero net greenhouse gas emissions to limit global warming to 1.5 degrees Celsius by 2050. ACEN is also unique among major Southeast Asian peer generation companies; most other publicly-listed regional players with capacities over 2,000 MW have less than 50% of their portfolio from RE sources, according to ACEN's internal estimates and competitive scanning.

According to the Department of Energy (**"DOE**"), the Philippine renewable energy sector only accounts for 29% of the country's total net dependable capacity as of December 31, 2021. With the recent significant increases in coal prices, currently thermal-dominant power generation companies are now becoming increasingly opening up their platforms to greater RE capacity to balance the potential margin downside risks from even higher thermal input costs.

After ACEN seized the opportunity to become a dominant player in the Philippine renewable energy ("**RE**") sector, several of ACEN's peers announced RE capacity targets of their own. In March 2021, Aboitiz Power Corporation (PSE: AP) disclosed their 50:50 target ratio between its RE and thermal portfolios by 2030. To achieve this, AP targets an additional 3,700 MW of attributable renewable capacity, bringing their projected total RE capacity to 4,600 MW in 2030. Then, in May 2021, Meralco subsidiary Meralco PowerGen Corporation ("**MGEN**"), through MGen Renewable Energy, Inc. ("**MGreen**"), reiterated its 1,500-MW target in approximately five to seven years from 2021. Later, in October that year, First Gen Corporation (PSE: FGEN) set the phaseout of its natural gas plants to make a pathway to net zero greenhouse gas emissions by 2030.

Because of the sizeable sector-wide requirement demanded by the Philippine economy, alongside the supply-demand profiles of the other markets ACEN is in, ACEN welcomes the entry of large peer energy companies into the renewables space. ACEN believes that fulfilling the country's power demand will be an industry-wide effort that will require generation companies to expand capacity to prevent unexpected outages and to deliver consistent, reliable service. As a result, while opportunities in the RE space remain broad and underpenetrated, ACEN is already one of the dominant players in the Philippine and regional renewables sector.

***Inability to adapt to technological changes may negatively impact ACEN's competitiveness.***

Among ACEN's growth strategies is the adoption of new technologies such as battery energy storage, floating solar, offshore wind, and distributed generation technology focusing on scaling up its renewable energy portfolio.

Any inability of ACEN to adopt such new technologies may impact its competitiveness, which would in turn negatively impact its business, results of operations and financial condition. Further, ACEN's future growth may be adversely affected if it is unable adapt to such changes.

To be able to adapt with the potential changes, ACEN monitors developments in the industry to ensure that it can adapt as necessary to any change. In addition, ACEN has the Bataan Solar Renewable

Energy Laboratory which is being used to study state-of-the-art PV modules and other emerging technologies that may be incorporated by ACEN in its upcoming projects.

***ACEN will have to meet more stringent public float requirements proposed by the Philippine Securities and Exchange Commission and the Philippine Stock Exchange.***

Effective August 16, 2021, PSE Memorandum Circular 2021-0046, or the Revised Policy on Index Management and Results of the Review of PSE Indices noted the following:

> "Increase in free float level requirement for index membership to 20% from the current 15% to qualify for inclusion in the PSE indices;
>
> "Early inclusion provision for issuances that can comply with specific size and liquidity criteria; and "Adjustments to the rules for insertions and removals wherein a listed company shall be included in the PSEI if it ranks 25th or higher and shall be excluded from the PSEI if it ranks 36th or lower in terms of full market capitalization."

"The new float requirement will be implemented for the December 2022 index review to give listed companies ample time to satisfy this criterion. Meanwhile, the early inclusion provision and the rules for insertions and removals were applied in this June 2021 index review," said the memorandum.

This builds upon a previous memorandum circular of the Philippine SEC, MC No. 13 s.2017 – Rules and Regulations on Minimum Public Ownership ("**MPO**") on Initial Public Offerings, posted 29 November 2017, citing that "any company applying for the registration of its shares for the purpose of conducting an initial public offering," must "at all times, maintain an MPO of at least 20%," subject to "administrative sanctions provided under Section 54 of the Securities Regulation Code."

A previous draft released by the SEC for the comments of capital markets participants, in a Notice dated May 31, 2017,[15] had intended that "Companies with existing registration statements filed with the Commission and whose shares are listed and traded in an exchange shall increase their public float to at least twenty percent (20%) on or before the end of 2020," and "this requirement of minimum public ownership shall form part of the requirement for the registration of securities." No prohibition exists to prevent incumbent and future officials of the SEC to promulgate a similar ruling.

For ACEN, this means that its public float of ACEN's outstanding common shares, must reach at least 20% of the aforementioned outstanding shares by the December 2022 index review. Based on the latest Public Ownership Report submitted by ACEN to the PSE on January 16, 2023, 7,946,554,736 shares, accounting for 20.03% were held by the public as of December 31, 2022.

On April 29, 2022, Ayala Corporation declared a property dividend consisting of ACEN shares acquired from ACEIC to Ayala's common shareholders at a ratio of 3 ACEN shares per 1 Ayala common share, subject to: (a) completion of the acquisition of ACEN shares by Ayala, and (b) applicable regulatory approvals. Record date was on May 27, 2022, with payment date to be determined by Ayala Management after applicable regulatory approvals have been obtained. The property dividend declaration enables ACEN to meet the 20% minimum public ownership requirement for companies included in the Philippine Stock Exchange Index. Post-transaction, ACEIC's ownership level in ACEN will be at 57.79% from 62.48%. To date, regulatory approvals are still pending for the completion of the property dividend.

Should ACEN be unable to reach or maintain the minimum public float requirement to retain its position within the PSE Index, and therefore be removed from the aforementioned index, market valuations of ACEN's shares and its market capitalization may decrease, possibly affecting ACEN's reputation in the capital markets and affecting its ability to secure credit and the value of the Notes that are the subject of this Issuance.

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[15] https://www.sec.gov.ph/wp-content/uploads/2020/02/MPO-Rules-and-Notice-for-public-comments-for-posting.pdf

Furthermore, in the extreme case, if, as a result of prospective new rules from the SEC, ACEN is unable to meet the MPO and is delisted altogether from the PSE, ACEN's access to credit and reputation in the market may be affected. ACEN closely monitors legal developments and endeavors to comply with relevant regulations.

***Volatility in commodity prices may increase project costs and, in turn, affect ACEN's ability to execute on projects.***

With the global inflation rate expected by Euromonitor to reach 7.9% by the end of 2022,[16] there has been significant volatility in costs over the last year resulting from multiple factors such as the sudden surge in "new normal" consumer demand, the rise of thermal fuel prices due to the Russo-Ukrainian War, and the supply chain challenges in the shipping industry, among others.

The price of photovoltaic cell-grade polysilicon, which is used to form the cells that make up solar panels, has gone up 112% to U.S.$32.28 per kilogram as of the week of May 25, 2022 on the Chinese polysilicon market, according to Bloomberg. The China Silicon Industry Association quotes an average price as high as U.S.$40.62 per kg on June 22, 2022. The global demand for solar panels was intensified by China's thrust to convert arid desert lands into solar farms and, for other countries, the volatile rise of coal, oil, and gas resulting from the war in Ukraine.

Although the costs of projects already under construction are mostly fixed in the relevant EPC contracts, ACEN anticipates an increase in the costs of its projects, which may result in the contractors renegotiating the EPC cost in the contract. As a result of the rise in the prices of key materials, especially those used for solar panels, development costs for ACEN's EPC contract negotiations for future projects, *i.e.*, pre-construction, are anticipated to rise further. ACEN allots a portion of the project cost for contingencies to account for possible price increases, or cost overruns, among others.

With regard to ACEN's coal plant, fuel costs have elevated significantly over the last year, driven by the post-pandemic peak recovery. According to Bloomberg, Newcastle Coal (ICE: NEWC) prices for July 2022 forward contracts have risen to a closing price of U.S.$410.10 on May 31, 2022, up 345% from a year ago at U.S.$92.15 on May 31, 2021. The SLTEC coal plant has a long-term coal supply contract for the majority of its requirement that is indexed to Newcastle prices, but has a price collar that protects SLTEC from extreme spikes in coal prices. ACEN also has a RES contract that allows for pass-through of fuel costs. Also, to the extent that ACEN has excess capacity for sale to the spot market, it can also mitigate the impact of rising fuel costs, since historically, rising fuel costs also tend to drive spot market prices higher.

Any further increases in costs could have a material adverse effect on ACEN's business, financial condition, and results of operations.

***Fluctuations in the capacity factor of renewable sources can impact the ability of ACEN to match power supply with RES customers' demand. Hence, in the long-term, for renewable energy to be more reliable, it must be complemented with battery storage, whose costs remain elevated.***

The generation of various sources of electricity can be ascertained using either capacity factor for intermittent energy sources such as renewables, or availability for thermal sources. Capacity factor refers to "the ratio of the electrical energy produced by a generating unit for the period of time considered to the electrical energy that could have been produced at continuous full power operation during the

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[16] Euromonitor International. https://www.euromonitor.com/article/global-inflation-tracker-q2-2022-energy-dependent-countries-under-pressure#:~:text=Under%20the%20baseline%20scenario%2C%20global,higher%20inflationary%20effects%20in%202022.

same period,"[17] while availability refers to the "amount of time that it is able to produce electricity over a certain period, divided by the amount of the time in the period."[18] Capacity factors for renewable sources have remained significantly lower than the availability of baseload coal. The following are the plant availability and capacity factors of ACEN's portfolio, separated by technology, for the years ending December 31, 2020, 2021, and 2022:

**Plant Availability (in %)**

| Technology | 2022 | 2021 | 2020 |
|---|---|---|---|
| Solar | 99 | 98 | 99 |
| Wind | 94 | 96 | 96 |
| Geothermal | 93 | 96 | 99 |
| Diesel | 89 | 96 | 93 |
| Coal | 74 | 83 | 84 |

**Capacity Factor (in %)**

| Technology | 2022 | 2021 | 2020 |
|---|---|---|---|
| Solar | 15 | 15 | 17 |
| Wind | 26 | 29 | 27 |
| Geothermal | 87 | 95 | 97 |
| Diesel | 18 | 16 | 3 |
| Coal | 70 | 77 | 74 |

To complement the relatively low capacity factors of solar and wind, which make up most of ACEN's attributable renewable energy portfolio, ACEN maintains a diversified portfolio of technologies, including quick response peaking plants. ACEN matches its customer load profile with the generation profile of its portfolio, as much as possible.

Additionally, ACEN will begin to utilize battery energy storage solutions (BESS) to increase the reliability of RE plants. An example of this is ACEN's first BESS project, the 40-MW Alaminos Battery Storage in Laguna, which will store power produced by the 120-MW Alaminos Solar farm once completed. In addition, ACEN is in pre-development stages for the 15-MW Khanh Hoa Battery Storage project in Vietnam, a joint venture with AMI Renewables, which is connected to the 80-MW Khanh Hoa and Dak Lak Solar complex, and the 50-MW battery facility connected to the planned 720-MW New England

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[17] U.S. Energy Information Administration (EIA). "Glossary."
https://www.eia.gov/tools/glossary/index.php?id=Capacity_factor#:~:text=Capacity%20factor%3A%20The%20ratio%20of,operation%20during%20the%20same%20period

[18] WÄRTSILÄ Encyclopedia of Marine and Energy Technology.

Solar Farm. Lithium-ion batteries, such as the ones used for Alaminos Storage, have decreased in terms of levelized cost of electricity (LCOE). From a high of around U.S.$800 per MWh, BESS costs have fallen to just U.S.$187 per MWh as of December 31 2021, or a noteworthy 77% decrease, according to Bloomberg NEF. In 2021, coal was a relatively low ~U.S.$108 per MWh, making battery storage still more expensive. However, in 2022, Newcastle Coal prices soared to U.S.$410 per metric ton as of May 31, 2022, which will have consequences on coal LCOE.

***ACEN may be unable to maintain relationships and obligations with its existing clients.***

ACEN partly relies on income from the off-take contracts signed with its existing clients. In the Philippines, these agreements include ones with Meralco, with whom ACEN has 310 MW in baseload and mid-merit contracts, as well as with contestable customers of ACEN's RES business. As for the international business, ACEN maintains long-term power purchase agreements ("PPAs") with major distribution utilities, namely, EVN in Vietnam, PLN in Indonesia, and GUVNL and SECI in India. In Australia, ACEN may sell its capacity to a merchant power market that caters to most consumer segments, from commercial/industrial to individual households. ACEN relies on power generated by its power plants to service these customers. Unexpected outages may result in inability to deliver sufficient power to customers and may pose a reputational risk to ACEN.

To mitigate these risks, ACEN maintains a diversified portfolio of plants of varying technologies, in various locations, and with various load profiles to address the various customers' needs. Preventive maintenance activities are also performed to ensure optimal plant availability and to minimize the risk of unexpected outages. Scheduled maintenance outages are factored into the forecast of available power for supply to customers.

In addition, ACEN's experienced Commercial Operations team maintains close contact with its customers to provide solutions to any energy challenges that may arise. ACEN targets customers that match the generation profile of its power portfolio.

In case of outages, ACEN also has the option to source replacement power from third party sources, including the spot market.

Some contracts, including those under the Philippine Government's Green Energy Auction Program, require that new power plants are built by a certain time in order to supply the needed capacity. Failure to do so may result in penalties of financial losses and a negative reputational impact to ACEN. To address this risk, ACEN ensures that it bids for projects with a reasonable lead time for completion. ACEN has a good track record of timely execution of projects. Nonetheless, there is no assurance that all such projects will be completed in a timely manner.

***Regulatory price caps in the Philippine and Australian electricity spot markets may adversely impact ACEN's ability to earn gains on power traded.***

A significant portion of ACEN's business relies on the sale and trading of power on the spot market, specifically in its two merchant markets, the Philippinesand Australia (future). This is unlike in geographies wherein offtakers are characterized by dominant electricity distribution utilities, such as Vietnam (EVN), Indonesia (PLN), and India (state-specific electricity utilities).

In the Philippines, the WESM Tripartite Committee, composed of the DOE, ERC, and PEMC, agreed on an offer price cap of ₱32,000 per MWh (₱32.00 per KWh) in 2014, which was amended in 2017 with the imposition of a Secondary Price Cap of ₱6,245 per MWh (₱6.245 per KWh) upon breach of a ₱9,000/MWh (₱9.00 16 per KWh) rolling average price over a 3-day period aims to protect the public and prevent the repetition of excessive and unreasonable high market prices.

In Australia, the Australian Energy Market Operator ("**AEMO**"), in accordance with the country's National Electricity Rules, has set a nationwide AU$300 per MWh (AU$3.00 per KWh) price cap. According the AEMO, "for NEM wholesale electricity prices, the cumulative price threshold is AU$1,359,100 over a 7-

day period (2016 trading intervals). This triggers an administered price cap of AU$300/MWh under the National Electricity Rules."[19]

Both price caps significantly drive down the price at which ACEN can sell its power on the WESM and the NEM, should it need to engage in significant trading activities. Although advantageous when in a net buying position, this is disadvantageous in a net seller's position, which should be ideal for a power generation company. In a market wherein there is significant demand and undersupply, ACEN should be able to recoup the costs of power generated and purchased. However, the price caps may disincentivize producers such as ACEN to sell power if the caps make ACEN unable to recoup its costs.

***ACEN may not successfully implement its growth and other strategic objectives and the impact of acquisitions and investments could be less favorable than anticipated.***

As part of its business strategy, ACEN continues to carry out acquisitions and investments of varying sizes, some of which are significant, as well as develop additional power projects. This strategy may require entering into strategic alliances and partnerships and will involve substantial investments. In addition, ACEN may from time to time divest its interests in certain of its assets in order to realise value or to structure its portfolio to align with ACEN's long-term objectives. ACEN's success in implementing its strategic priorities will depend on, among other things, its ability to identify and assess potential partners, investments and acquisitions, successfully finance, close and integrate such investments and acquisitions, control costs, identify value realization initiatives and potential purchasers, and maintain sufficient operational and financial controls.

ACEN's strategic initiatives could place significant demands on ACEN's management and other resources. ACEN's future growth may be adversely affected if it is unable to make these investments, form these partnerships, engage in value realization and portfolio restructuring initiatives, or if these investments and partnerships prove unsuccessful. Further, ACEN's strategic goals, including acquisitions and investments involve numerous risks, including, without limitation, the following: (i) the assumptions used in the underlying business plans may not prove to be accurate, in particular with respect to synergies and expected demand; (ii) ACEN may not integrate acquired businesses, technologies, products, personnel, and operations effectively; (iii) ACEN may fail to retain key employees, customers and suppliers of the companies acquired; (iv) ACEN may be required or wish to terminate pre-existing contractual relationships, which could be costly and/or on unfavourable terms; and (v) ACEN may increase its indebtedness to finance these acquisitions. As a result, it is possible that the expected benefits of completed or future acquisitions, investments, or value realization or portfolio restructuring initiatives may not materialize within the time periods or to the extent anticipated and may affect ACEN's financial condition.

ACEN may not be able to identify suitable acquisition and investment, value realization and portfolio restructuring opportunities or make acquisitions and investment, investments, value realizations or portfolio restructuring, on beneficial terms, or obtain financing necessary to complete and support such acquisitions and investments. Regulation of merger and acquisition activity by relevant authorities or other national regulators may also limit ACEN's ability to engage in future acquisitions or mergers. The impact on ACEN of any future acquisitions or investments cannot be fully predicted and any of the risks outlined above, should they materialize, could have a material adverse effect on ACEN's business, financial condition, results of operations and prospects. ACEN nonetheless has shown capability to develop meaningful partnerships, has been agile and fast in decision making and adept in structuring deals with potential partners. While ACEN embarks on acquisitions to grow its portfolio, ACEN also ensures it has its own portfolio of assets under development to secure its growth strategy.

***The operations of ACEN's power projects are subject to significant government regulation, including regulated tariffs such as Feed-In-Tariff ("FIT"), and ACEN's profit margins and results of operations could be adversely affected by changes in the law or regulatory schemes.***

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[19] https://aemo.com.au/newsroom/media-release/price-caps-administered-across-multiple-states

ACEN's inability 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 ACEN's results of operations and cash flow. Furthermore, changes in laws or regulations or changes in the application or interpretation of laws or regulations in jurisdictions where power projects are located, particularly utilities where electricity tariffs are subject to regulatory review or approval, could adversely affect ACEN's business, including, but not limited to:

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

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

For renewable energy assets, pricing is fixed by regulatory arrangements which operate instead of, or in addition to, contractual arrangements. To the extent that operating costs rise above the level approved in the tariff, ACEN's businesses 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, and related payments, subject to the regulatory frameworks applicable in each jurisdiction. For example, in April 2021, the ERC released a public advisory that there will be a moratorium on the imposition of interest on delayed FIT payments due to the COVID-19 pandemic. This moratorium will be imposed for six billing periods from the relevant billing period wherein the interest had first been incurred. While the moratorium is not expected to have a significant impact on ACEN cash flows, future tariffs or changes to existing tariffs and the collection of payments in the future may not permit the project to maintain current operating margins, which could have a material adverse effect on ACEN's business, financial condition, results of operations and prospects.

As potential regulatory changes are an inherent risk on the industry where ACEN is operating, ACEN keeps track and remains up to speed on such potential changes, analyzes impact and conducts risk assessment as necessary, and develops means to be able to cover such potential risks.

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

ACEN's expansion and growth plans are expected to require significant fund raising. As part of ACEN's current strategy to reach 20,000 MW of renewable energy capacity by 2030, ACEN estimates that it will require around U.S.$2 billion. ACEN's continued access to debt and equity financing as a source of funding for new projects, acquisitions and investments, and for refinancing maturing debt is subject to many factors, including: (i) laws, regulations, and internal bank policies limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers; (ii) ACEN's compliance with existing debt covenants; (iii) the ability of ACEN to service new debt; (iv) the macroeconomic fundamentals driving credit ratings of the Philippines and other jurisdictions; and (v) perceptions in the capital markets regarding ACEN 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 ACEN, any of which could increase borrowing costs or restrict ACEN's ability to obtain debt or equity financing. There is no assurance that ACEN will be able to arrange financing on acceptable terms, if at all. Any inability of ACEN to obtain financing from banks and other financial institutions or from capital markets would adversely affect ACEN's ability to execute its expansion and growth strategies.

ACEN nonetheless is on track on enhancing its balance sheet: (i) it has low debt and debt servicing levels built on assets with proven track record of generating reliable cash returns; (ii) it invests into projects that are economically viable; and (iii) it anticipates potential impacts to future performance of the projects caused by changes on the regulatory environment that can have impact on the future performance of the projects and strives to be a partner of choice for potential investors to secure financing for its projects. It is well-managed by reputable finance professionals overseen by the Board of Directors, which enhances the credit profile of ACEN as a borrower. ACEN also maintains regular communication with its relationship banks to ensure continued availability of credit facilities.

***The Group may face risks associated with debt financing and refinancing activities.***

ACEN, as well as certain Group companies, is party to several loan agreements. Consequently, the Group may be subject to risks normally associated with debt financing, including the risk that it may not be able to meet required payments of principal and interest under such financing. If there is a failure or delay in the payment of any Group company, such Group company could be declared in default resulting in all amounts becoming immediately due and demandable. Pursuant to the terms of certain agreements, a payment default by a Group companies could trigger a cross-default on such Group company's other obligations, or those of other Group companies. The Group may also be subject to the risk that it may not be able to refinance its indebtedness or that the terms of such refinancing will not be as favorable as the terms of existing indebtedness. In addition, the Group may be subject to certain covenants in connection with any future borrowings that may limit or otherwise adversely affect its operations. Such covenants may restrict the ability to acquire properties or require it to set aside funds for maintenance or the paying back of security deposits.

Further, certain Group companies have constituted securities over their respective properties to cover debt financing. In the event that such Group company is unable to meet interest or principal payments in respect of such indebtedness, the properties or any of them could be foreclosed by or otherwise transferred to the creditor, or the creditor could require a forced sale of such property with a consequent loss of income and asset value to the relevant Group company.

To mitigate this risk, ACEN takes a prudent approach to financial management and cost control, closely monitoring the capital and cash positions and maintaining discipline in the capital commitments. As ACEN secures financing to further support its investment strategy in the future, it will continue to employ a healthy mix of debt and equity to fund its operations.

ACEN's international businesses and results of operations are subject to the macroeconomic, social and political developments and conditions of the countries where ACEN's portfolio of projects are located.

ACEN's portfolio of power projects in operation and under construction will include those located in Australia, Indonesia, Vietnam, and India, with plans for further international expansion in other countries such as South Korea and Taiwan through its joint ventures. 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. There is no guarantee that ACEN's operations as well as expansion plans will be successful in those countries and ACEN cannot provide assurance of effective mitigation to systemic risks in those countries. ACEN's financial condition, prospects and results of operations could be adversely affected if it is not successful internationally or if these international markets are affected by changes in political, regulatory, economic and other factors, over which ACEN has no control.

For example, in October 2019, the Group disclosed plans to form a joint venture with the Yoma Group, to invest in Yoma Micro Power and jointly explore developing renewable energy projects within Myanmar. Pursuant to this undertaking, AC Renewables International ("**ACRI**") provided development loans to the Yoma Group amounting to U.S. $24.0 million. Due to the current situation in the country, plans in Myanmar have currently been put on hold. The Group takes a long-term view on its investment in Myanmar and continues to monitor the situation closely.

***Changes in tax policies, affecting tax exemptions and tax incentives could also adversely affect ACEN's results of operations.***

Certain Associates of ACEN are registered with the Board of Investments ("**BOI**") and the Philippine Economic Zone Authority ("**PEZA**") as new operators with pioneer status and non-pioneer status for greenfield projects and benefit from certain capital tax exemptions and tax incentives, deductions from taxable income subject to certain capital requirements and duty-free importation of capital equipment, spare parts and accessories.

If these tax exemptions or tax incentives expire, are revoked, or are repealed, the income from these sources will be subject to the corporate income tax rate, which is 25% of taxable income. As a result, ACEN's income tax expense would increase, and its profitability would decrease. The expiration, non-renewal, revocation or repeal of these tax exemptions and tax incentives, and any associated impact on ACEN, could have a material adverse effect on ACEN's business, financial condition and results of operations.

Similar to continuously monitoring potential changes on the regulatory environment, ACEN anticipates the impact of potential changes on its projects' tax incentives. Whenever possible, contracts are negotiated to include provisions protecting ACEN for any potential increases in tax due owing to the revocation or repeal of the tax incentives currently available to its projects.

***COVID-19, future pandemics, epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect ACEN's business, financial condition and results of operations.***

Other countries where ACEN operates such as Vietnam, Australia, Indonesia, and India were also affected by COVID-19 and their respective governments have reacted in varying degrees of social and economic controls to mitigate the spread. To support their economies and local businesses, the various national governments have initiated various fiscal and monetary programs.

Vietnam, one of the few countries that initially managed to effectively contain the spread of COVID-19, began its response to the pandemic with a ban on all flights coming from China beginning 1 February 2020. On March 3, 2020, Prime Minister Nguyen Xuan Phuc announced a U.S.$1.16 billion fiscal stimulus package from the government's contingency budget. The package included tax breaks, delayed tax payments, and government spending on infrastructure. The government has delayed collecting an estimated U.S.$7.6 billion in value-added tax, corporate income tax, and land rent from various businesses and households for five months starting April. As the pandemic progressed, the country went into a national lockdown on 1 April 2020. Shortly thereafter, the government announced plans for a U.S.$2.6 billion fiscal package to support those most affected by the pandemic. Under the new package, those displaced from their jobs received about U.S.$76 per month through June 2020, low-income households collected about U.S.$42 per month, and those who "rendered services to the state during the revolution" were sent about U.S.$22 a month. By 25 April 2020, the government began releasing guidelines that allowed certain areas of Vietnam to lift quarantine measures once virus containment has been proven. Throughout May to July 2020, Vietnam attempted to reopen its economy, gradually allowing in-land travel as well as the resumption of flights to and from China. As Vietnam began to revive its tourism industry, a number of cases were detected, and the government immediately imposed lockdowns in select localities. Vietnam has since witnessed multiple waves of COVID-19 cases. Following the emergence of the Delta variant of the virus, the number of cases detected in the country has seen a sharp increase from just about 10,000 total cases in June 2021 to about 190,000 in early August 2021, this has caused the government to impose several lockdowns for its biggest cities. The current project construction in Vietnam has been impacted by the recent COVID-19 outbreak in the country, wherein stricter restrictions of travel and movement of both people and equipment are imposed. This can potentially lead to restricted access of foreign consultants to the site and construction delays, resulting in portions of the projects to miss the FIT deadline if not extended by the Vietnam government. During the pandemic, Australia's various states has varying degrees of restrictions, with some declaring state of emergencies, social restrictions, closing of schools, suspending flights, and closing interstate borders as needed. Generally, while most other countries faced prolonged strict restrictions, Australians enjoyed fairly open societies given its geographic isolation and its strict limits on international arrivals, however, following the emergence of the Delta variant, the National Cabinet also decided to halve the number of airline passengers allowed into Australia per week from over 6,000 to just about 3,000. In early March 2020, an initial AUD23 billion stimulus package was unveiled by the Prime Minister to protect Australians' health, secure jobs and set the economy to bounce back from the crisis. On March

22, 2020, the government announced a second stimulus package of AUD66 billion, increasing the amount of total financial package offered to AUD89 billion. This included several new measures; most notably a coronavirus supplement of an extra AUD550 per fortnight of income support, and relaxed eligibility criteria for individuals on Jobseeker Payment (formerly Newstart), and grants of up to AUD100,000 for small and medium-sized businesses. Australia's federal budget document in May 2021 also revealed that about AUD311 billion has been spent for direct economic and health support in the country since the onset of the pandemic.

While the pandemic has had no significant impacts to the construction of the solar farm located in Uralla, New South Wales ("**New England Solar Farm**"), ACEN did opt to delay the commencement of construction to 2021, after the initial wave of the pandemic in 2020. Travel restrictions have also posed some difficulties in the conduct of physical site visits, impacting the conduct of predevelopment works in the country.

Prior to any official social restrictions in Indonesia, in support of its economy, Indonesian President Joko Widodo issued the country's first stimulus package worth U.S.$725 million on 25 February 2020, providing fiscal incentives to support the country's tourism, aviation, and property industries as well as allocating U.S.$324 million to low-income households. In March 2020, the government announced two stimulus packages totaling to U.S.$33.1 billion covering tax reliefs, healthcare spending, and social protection. On March 31, 2020, by virtue of Presidential Decree No. 11 of 2020, the President of Indonesia declared COVID-19 a "Public Health Emergency" ("Darurat Kesehatan Masyarakat") and on 13 April 2020 through Presidential Decree No. 12 of 2020, a "National Disaster" ("Bencana Nasional"). The government of Indonesia implemented various protective measures, including large-scale social restrictions ("Pembatasan Sosial Berskala Besar"), imposing temporary travel restrictions on inbound travellers, closing of certain schools and workplaces, the cancellation of hajj pilgrimage which about 200,000 Indonesians were preparing to make, and bans on activities in public places. On May 18 2020, the government announced another U.S.$43 billion in economic stimulus supporting state-owned enterprises and subsidizing loan repayments. In September 2020, Jakarta again went into large-scale social restrictions as cases in the capital city continued to rise. By October 2020, Indonesia began a wider reopening of the economy; however, following the emergence of coronavirus variants, the country has again been placed in varying degrees of lockdowns which are still in place as of August 2021.

In India, a nationwide lockdown was first announced on March 24, 2020 putting the country into a lockdown for 21 days. The lockdown was subsequently extended until May 3 then May 17 then May 31, with relaxations for regions where the diseases is thought to be contained. On May 30, restrictions were lifted for some areas, while extensions were implemented only for containment zones with businesses and services resuming in phases ("**Unlock 1.0**"). Subsequent easings named Unlock 2.0, 3.0, 4.0, 5.0, 6.0, and 7.0 followed thereafter for the months of July to October. In aiding its people and its economy, India first announced a relief package worth U.S.$22.6 billion to assist its poor population during the pandemic. On May 12, 2020, Narendra Modi announced another relief package worth U.S.$266 billion in fiscal and monetary measures to support the economy. On November 12, 2020, the country's finance minister also announced another U.S.$35.7 billion stimulus package which is aimed to incentivize job creation and boost real estate investments. Due to a second wave of infections in the county and the onset of the Delta variant infections, several localized lockdowns were again introduced beginning April of 2021.

ACEN's two solar projects in India were completed despite the pandemic, and both started operations in the second quarter of 2021. However, ACEN has experienced some delays in predevelopment work for other projects in its pipeline, given the implementation of lockdowns in India.

Due to numerous uncertainties and factors beyond its control, ACEN 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, including whether there is a "second wave" or "third wave" or other additional periods of increases or spikes in the number of COVID-19 cases in future periods in areas in which ACEN 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 as well as measures taken by ACEN's regulators;

- restrictions on operations up to and including complete or partial closure of offices, plants and other facilities;
- restrictions on travel or mobilization, which may result in supply chain disruptions and delays in construction;
- economic measures, fiscal policy changes, or additional measures that have not yet been effected;
- the health of, and effect of the pandemic on, ACEN's personnel and ACEN's ability to maintain staffing needs to effectively operate its power generation portfolio;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;
- dampened demand due to lower consumption, shutdown of businesses, and restrictions on operations of various industries;
- impacts — financial, operational or otherwise — on ACEN's supply chain, including manufacturers, suppliers and third party contractors, particularly for ongoing maintenance and construction of certain plants and facilities;
- 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 ACEN's actions in response thereto;
- the pace of recovery when the pandemic subsides; and
- the long-term impact of the pandemic on ACEN's businesses.

These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. In particular, the enhance community quarantine and various degrees of community quarantine imposed across the Philippines have affected and could adversely impact (a) the completion of ACEN's projects as construction is not an activity given priority under the government guidelines, (b) demand for ACEN's product, as industries, offices, and shopping malls account for bulk of energy consumption, (c) WESM prices as demand for electricity is lower, and (d) ability to collect from its customers, which could negatively impact its cash flows. The outbreak of COVID-19 and the measures to contain this increase in severity, have had an adverse effect on economic activity in the Philippines and could materially and adversely affect ACEN's business, financial condition and results of operations. To the extent the COVID-19 pandemic adversely affects the business and financial results of ACEN, it may also have the effect of heightening many of the other risks described in this Prospectus.

Even as quarantine measures continue at the current time, with various levels of restrictions applicable to certain areas, DOE recognized that energy utilization is a basic necessity and is vital to the society. To this end, DOE allows the movement of energy related goods and the movement of energy related personnel subject to adherence to necessary public health precautions prescribed by the DOH. As such, ACEN's operating plants continues to produce power.

***Cybersecurity threats or other breaches of network or IT security may have an adverse effect on ACEN's business if not identified immediately.***

The cybersecurity landscape is rapidly evolving. New technologies and systems being installed in the name of advanced capabilities and processing efficiencies may introduce new risks which could potentially challenge ACEN's ability to properly identify, assess and address such risks if not assessed effectively. These risks are heightened by work from home protocols necessitated by the various quarantine measures in response to the COVID-19 pandemic.

These new technologies and systems increase ACEN's exposure to various forms of cybersecurity threats, which could result in disruption of business operations, damage to reputation, legal and regulatory fines and customer claims. Cybersecurity threats may include gaining unauthorized access to ACEN's systems or inserting computer viruses or malicious software in its systems to misappropriate data and other sensitive information, corrupt ACEN's data or disrupt its operations. Unauthorized access may also occur through traditional means such as the theft of laptop computers, data devices and mobile phones and intelligence gathering on employees with access. Further, ACEN's employees or other persons may have unauthorized or authorized access to ACEN's systems and/or take actions that affect ACEN's networks in a manner which is inconsistent with its policies or otherwise adversely affects ACEN's ability to adequately process internal information.

As of the date of this Prospectus, ACEN has not been the subject of any cybersecurity breaches or threats that have resulted in major losses, business disruption or damage to ACEN's reputation. However, any significant cyber-attack or data leakage from either known or unknown threat vectors that could not be mitigated by existing tools and capabilities may result in a material adverse effect on ACEN's results of operations, reputation and financial condition. To manage these risks, ACEN continuously adopts new technologies, including in the areas of cyber security, and provides periodic cybersecurity training to all its employees.

***ACEN's long-term success is dependent upon its ability to attract and retain key personnel and in sufficient numbers.***

ACEN depends on its senior executives and key management members to implement ACEN'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 ACEN'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 ACEN'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. Although ACEN is circumspect in its selection of technical partners and third-party operators, 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 ACEN's business, financial condition and results of operations.

In addition, ACEN's growth to date has placed, and the anticipated further expansion of ACEN's operations will continue to place, a significant strain on ACEN's management, systems and resources. In addition to training, managing and integrating ACEN's workforce, ACEN will need to continue to develop ACEN's financial and management controls. ACEN can provide no assurance that ACEN will be able to efficiently or effectively manage the growth and integration of ACEN's operations dispersed businesses and any failure to do so may materially and adversely affect ACEN'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, ACEN may decide to delay, modify or forego some aspects of its growth strategies, and its future growth prospects could be adversely affected.

To mitigate such risks, ACEN structures the organization in such a way that there is development and advancement opportunities for each individual within the organization, maintains competitive benefits and compensation structure and ensures provision of training to its employees.

***ACEN's business depends on various government policy commitments to the promotion of renewable energy.***

The countries in which ACEN has investments have demonstrated a commitment to renewable energy. As a result, these countries have created favorable regulatory and tax regimes and financial incentives, as well as renewable portfolio standards that require distributors to source a certain percentage of their power requirements from renewable energy sources.

For 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 program 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 energy facilities. The RPS Rules established a minimum annual RPS requirement. This pertains to the RE share of electricity coming from RE resources in the energy mix 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 Vietnam, its FIT programme provides for a FIT rate of U.S.$0.0935/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.$0.0850/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.$0.0769/kWh for floating solar, U.S.$0.0709/kWh for ground mounted solar, and U.S.$0.0838/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.

Further, the FIT commitments are generally matters of domestic public policy and are subject to the execution of the relevant power purchase agreement ("**PPA**"). Should these commitments to renewable energy be reduced for any reason, it could affect the project company's ability to operate or renew the project company's permits and licenses and reduce the financial incentives available to the project companies, which could, in turn, have a material adverse effect on ACEN's business, financial condition, results of operations and prospects.

Similar to continuously monitoring potential changes on the regulatory environment, ACEN anticipates the impact of potential changes on its projects' financial incentives. Whenever possible, contracts are negotiated to include provisions protecting the project companies for any potential increases in tax due owing to the revocation or repeal of the tax incentives currently available to its projects.

***ACEN 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 impact its business, financial condition, results of operations and prospects.***

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

- may have economic interests or business goals that are not aligned with ACEN's;
- may be unable or unwilling to fulfill their obligations under relevant agreements, including shareholder agreements under which ACEN has certain voting rights in respect of key strategic, operating and financial matters;
- may take actions or omit to take any actions contrary to, or inconsistent with, ACEN's policies or objectives or prevailing laws;
- may have disputes with ACEN as to the scope of their responsibilities and obligations; and/or
- may have difficulties in respect of seeking funds for the development or construction of projects.

The success of these partnerships depends significantly on the satisfactory performance by the partners and the fulfilment of their obligations. If ACEN 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. ACEN's business, financial condition, results of operations and prospects may be materially adversely affected if disagreements develop between ACEN and its strategic partners, and such disagreements are not resolved in a timely manner.

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

In entering into partnerships, ACEN ensures that there are adequate protection clauses on the shareholder agreements to protect the interest of Company. The criteria for the selection of potential partners also ensures that ACEN is only working with those that are aligned with its core values.

***Risks and delays relating to the development of greenfield power projects could have a material adverse effect on ACEN'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, unavailability of suitable land for acquisition, 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 ACEN.

For ACEN'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.

ACEN is expanding its power generation operations and there are 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 ACEN's business, financial condition, results of operations and cash flows.
ACEN's expected Net Attributable Capacity from its pipeline to be undertaken together with various partners and through various subsidiaries, associates and joint ventures have not yet been determined. The target pipeline reflects its current strategy and may change as proposed projects are reviewed or contracts are entered into, and subject to various factors, including market conditions, the general state of the economy and investment environment where the projects will be located and the ability to obtain financing, among others.

Given its growth target and considering the challenges on development, ACEN ensures that it has adequate pipeline of projects to manage potential delays, and has a team specifically focused on development up to bringing a plant into construction and eventually commercial operations in the Philippines and international operations. In addition to green field developments, ACEN keeps an open eye on potential mergers and acquisitions as well as partnership with other development companies to be on track with its growth targets.

Any restriction or prohibition on ACEN's 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 obligations under the Green Bonds.

***ACEN is a holding company that conducts its operations through its Associates and joint ventures. As a holding company, ACEN's income is derived primarily from dividends paid to ACEN by its Associates and joint ventures.***

ACEN is reliant on these sources of funds with respect to its obligations and in order to finance its Associates. The ability of ACEN's Associates and joint ventures to pay dividends to ACEN (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 Associates 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. Under Philippine law, dividends may be declared by a corporation's board of directors, however, any stock dividend declaration requires the approval of shareholders holding at least two-thirds (2/3) of such corporation's total outstanding capital stock. Additionally, SEC approval is required if the issuance of stock dividends requires an increase in such corporation's authorized capital stock.

In addition, certain Associates are subject to debt covenants for their respective existing debt. Failure to comply with these covenants may result in a potential event of default, which if not cured or waived, could result in an actual event of default and the 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 ACEN's Associates and/or joint ventures to distribute dividends or make other distributions to ACEN, either due to regulatory restrictions, debt covenants, operating or financial difficulties or other limitations, could have a negative effect on ACEN's cash flow and therefore, its financial condition.

Overall, ACEN monitors potential regulatory impacts on its projects and anticipates means to manage the impact of any regulatory changes. ACEN also regularly tracks the performance of its projects to ensure delivery of budgeted results including distribution of the dividends to ACEN.

***The administration and operation of power generation projects by project companies involve significant risks.***

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

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

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 ACEN, its joint ventures and affiliates from their power projects.

As above risks are inherent in the industry where ACEN's projects operate, ACEN ensures that contracts with suppliers cover portion of the risks, there are proper insurance coverages in case of the occurrence of events hampering the projects' operations and develops an operations team that focuses on monitoring plants' performance and ensures proper repairs and maintenance procedures or capital expenditures are conducted at the right time.

Permits and approvals are regularly monitored by a team to ensure that all are properly renewed and maintained. Regular dialogues are conducted and Corporate Social Responsibility activities are implemented in the community where the projects are located.

***Climate change-related policies may adversely affect ACEN's business and prospects.***

ACEN is currently involved in the operation ofdiesel-powered thermal plants. Policy and regulatory changes, technological developments and market and economic responses relating to climate change may affect ACEN'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 diesel. 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 diesel as an energy source.

In addition, technological developments may increase the competitiveness of alternative energy sources, such as renewable energy, which may decrease demand for coal generated power. Other efforts to reduce emissions of greenhouse gases and initiatives in various countries to encourage the use of natural gas or renewable energy may also discourage the use of diesel as an energy source. Similarly, recent trends in investment mandates and strategies favoring renewable over conventional energy sources may make it more difficult for ACEN to obtain financing or refinance existing financing in respect of its thermal projects. 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 ACEN’s operations. As a result of the above, ACEN’s business, financial condition, results of operations and prospects may be materially and adversely affected.

ACEN keeps track of potential changes in the climate and regulations that may affect its business and prospects. To prepare for such changes, ACEN develops a diverse portfolio of assets that is aligned with the country’s vision of an optimum mix of energy sources. ACEN has been focusing on the development of renewables in its portfolio which is aligned with the country’s vision on optimum mix of energy sources. ACEN further looks into advancements in technology as it develops its projects to be able to create a stable supply of power due to intermittent availability of power generated from renewable sources. ACEN also complies with the requirements of the Task Force on Climate-Related Financial Disclosures. Climate related risks and corresponding mitigants are also discussed as part of ACEN's risk assessment process Climate related risks are discussed in the Sustainability Committee and the Board Risk Management and Related Party Transaction Committee.

***Environmental regulations may cause the relevant project companies to incur significant costs and liabilities.***

The operations of the project companies are subject to environmental laws and regulations by central and local authorities 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 or that there will be no complaints filed or issues raised by environmental groups and local communities against ACEN, its subsidiaries, or its affiliates for its operations. Any failure to comply with such laws and regulations or to address such complaints or issues could subject the relevant project company to significant fines, penalties and other liabilities, which could have a material adverse effect on ACEN’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 ACEN’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 ACEN cannot pass along future costs to customers, any increases could have a material adverse effect on ACEN’s business, financial condition, results of operations and prospects.

The cost and effects of compliance with environmental laws, particularly on violations thereof are specified in the relevant regulations of the DENR. To this effect, ACEN exerts best efforts to comply with regulations as it develops its projects.

***ACEN'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, ACEN 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, labour disturbances, natural disasters, environmental hazards and industrial accidents. For example, on 3 July 2020, Power Barge 102, a diesel barge located in Iloilo, Philippines discharged fuel oil in in the coast of Iloilo City resulting in the temporary displacement of over 60 households. Initial findings revealing that the discharge was attributable to the ignition of fuel oil in storage, which ruptured the barge's fuel tank. The leakage was contained with the aid of the Philippine Coast Guard, Petron Corporation, and Global Business Power Corp. and skimming of the remaining floating residue was done with the aid of Shell Philippines. ACEN engaged Harbor Star Shipping Services, Inc. to finish the clean-up of both the waters and the coastline. Households within the neighbouring area were temporarily relocated in coordination with local government officials while their surroundings underwent clean-up. 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 ACEN or any of the project companies to incur substantial costs and damage its reputation and may have a material adverse effect on ACEN's business, financial condition and results of operations.

Given above risks, ACEN procures proper insurance coverages, complies with various health and security measures, implements a culture of safety in the working environment, conducts proper and timely repairs and maintenance of the plants, and regularly trains employees on safety and security.

***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 for matching demand with supply and for technical maintenance reasons, including as a result of grid infrastructure that is not up to international standards. For example, in the first half of 2021, ACEN experienced a 5.8% curtailment in respect of the power generation of its solar assets in Vietnam as a result of lower demand due to the COVID-19 pandemic and the Tết holidays in the country, and it is possible that ACEN will be subject to further curtailments in the future as electricity generation and supply is adjusted in line with demand and other market factors. In such circumstances, a power project's access to the grid and thus its generation capacity can be reduced. Such reductions result in a corresponding decrease in revenue, which if prolonged or occur frequently could have a material adverse effect on ACEN's business, financial condition, results of operations and prospects.
To manage such risk, ACEN works closely with the grid operator to ensure that there is adequate capacity on the grid covering for the sites and projects it undertakes. Grid capacity availability is a key criterion on assessing the viability of a project in addition to consideration of the transmission development plan of NGCP and other grid operators in its international operations.

***ACEN enters into transactions with related parties.***

In the ordinary course of business, ACEN transacts with its related parties, such as its Associates and certain of its Associates and joint ventures 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, construction contracts and development, management, marketing and administrative service agreements.

While ACEN 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 be detrimental to ACEN.

ACEN has instituted internal policies with respect to related party transactions and ACEN ensures that it is compliant with the policies instituted on transactions involving related parties. Relevant related party transactions are also discussed at the Related Party Committee or Audit and Risk Committees of the

companies who oversee such matters. Further, ACEN will be complying with BIR Revenue Regulation No. 19-2020 on the disclosure of related party transactions.

***ACEN is exposed to credit and collection risks.***

As in other businesses, the power business is exposed to credit and collection risks related to its customers. These include the TransCo, rated corporations as well as cooperatives that have varying credit ratings and private distribution utilities. Further, the government may impose moratorium on collections. For example, the Bayanihan 2 Act imposed a minimum 30-day grace period for the payment of electricity and other utilities falling due within the period of ECQ or modified ECQ without penalty and further provides that such payments may be settled on a staggered basis in no fewer than three monthly instalments. In April 2021, the ERC released a public advisory implemented a moratorium on the imposition of interest on delayed FIT payments due to the COVID-19 pandemic. This moratorium was imposed for six billing periods from the relevant billing period wherein the interest had first been incurred. In addition, the power projects in Indonesia and in Vietnam are exposed to collection risks from the Perusahaan Listrik Negara ("**PLN**") as the sole electricity business authority in Indonesia and Vietnam Electricity ("**EVN**"), which has total control of the national power transmission and distribution market in Vietnam, respectively. The power projects in India, once operational, may also be exposed to collection risk from government related entities such as Solar Energy Corporation of India ("**SECI**") and Gujarat Urja Vikas Nigam Ltd. ("**GUVNL**"), which are its off-takers. There can, however, be no assurance that all customers will pay ACEN in a timely manner or at all. In such circumstances, ACEN's working capital needs would increase, which could, in turn, divert resources away from ACEN's other projects. If a large amount of its customers were unable or unwilling to pay ACEN, its financial condition could be negatively affected.

Given potential collection risk, ACEN conducts review of the capability of its potential wholesale and retail clients as part of the accreditation process. Clients are also requested to put in security deposits equivalent to a certain period of their consumption.

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

ACEN's functional currency is the Philippine Peso, and ACEN has and may have assets, income streams and liabilities denominated in a number of currencies, including U.S. Dollars, Indonesian Rupiah, Vietnamese Dong, Indian Rupee, and Australian Dollars. Changes in foreign currency exchange rates could have an adverse impact on ACEN's business, financial condition, results of operations and prospects. Currency fluctuations affect ACEN because of mismatches between the currencies in which operating costs, capital expenditures, and debt obligations are incurred and those in which revenues are received.

Currently, the PPA and FIT contracts of the existing offshore assets in Vietnam have foreign currency adjustments and the PPA and FIT contracts of the existing offshore assets in Indonesia have foreign currency and inflation adjustments to mitigate the impact of market fluctuations.

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

The power projects maintain levels of insurance, which ACEN 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 honoured 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 ACEN's business, financial condition, results of operations and prospects.

ACEN regularly reviews its insurance coverages and benchmarks it with the industry trends and keeps track of the insurance claims conducted in the past. ACEN also continues to explore further means to strengthen its insurance coverages including participating in the Ayala Group's insurance optimization initiative to augment its existing insurance policies, which include optimizing coverages within a bigger pool to achieve scale and generate diversification for new types and approaches to loss mitigation to address plant-specific risks.

***ACEN may be adversely affected by WESM price fluctuations.***

Market prices for electric power fluctuate substantially. As electric power can only be stored on a very limited basis and generally must be produced concurrently with its use, frequent supply and demand imbalances result in power prices that are subject to significant volatility. Electricity prices may also fluctuate substantially due to other factors outside of ACEN's control, including, but not limited to:

- changes in the generation capacity in the markets, including additional new supply of power from development or expansion of power plants, and decreased supply from closure of existing power plants;
- additional transmission capacity;
- electric supply disruptions, such as power plant outages and transmission disruptions;
- changes in power demand or in patterns of power usage, including the potential development of demand-side management tools and practices;
- the authority of the ERC to review and adjust the prices on the WESM;
- climate, weather conditions, natural disasters, wars, embargoes, terrorist attacks and other catastrophic events;
- availability of competitively priced alternative power sources; and
- changes in the power market and environmental regulations and legislation.

These factors may have a material adverse effect on the business, financial condition and operations of ACEN.

As it has been trading in the spot market since 2006, ACEN has gained valuable experience in trading at the WESM. This experience will allow ACEN to continue to take advantage of further opportunities in the WESM that will allow it to supplement the power generation business.

ACEN's ability to produce and source electricity from various sources allows it to take advantage of trading opportunities in the WESM by purchasing power for its customers and/or selling excess supply if costs are less than the prevailing prices in the WESM.

ACEN has a portfolio of operating projects and projects under construction in Indonesia, Vietnam, India, and Australia. For projects in Indonesia and India, all projects currently have long term off-take contracts with respective distribution utilities in their locations. For Vietnam, operating projects are currently under long-term contracts with FIT, while projects under construction are also intended to qualify for applicable FIT.

***Damage to reputation or brand erosion arising from internal or external factors may negatively affect the Group's business.***

The Group is exposed to various reputational risks, from those which may result directly from the Group's actions or those of its competitors, indirectly from actions of the Group's directors, officers or employees, or consequently through actions of outsourced partners, suppliers or joint venture partners. To manage such risks, the Group endeavors to adhere to sound corporate governance practices in the appointment of its directors and officers, and in hiring of its employees. Further, ACEN carefully scrutinizes potential partners and suppliers to ensure that such partners and suppliers are aligned with its core values.

Damage to the Group's reputation and erosion of brand equity may also be triggered by any inability to promptly and adequately address negative sentiments relating to the Group, which may in turn be triggered by various factors such as environmental concerns, among others. Any inability to preserve brand equity and reputation may adversely impact the Group's results of operations and financial condition. While the Group has dedicated investors relations and corporate communications teams, there can be no assurance that the Group will be able to adequately address such negative sentiments. Any inability to preserve brand equity and reputation may adversely impact the Group's results of operations and financial condition.

***The prospects of ACEN may be influenced by major political and economic developments abroad.***

The growth and profitability of ACEN may be influenced by major political and economic developments, which may have a negative effect on the operations and financial results of ACEN.

On 21 February 2022, Russian president Vladimir Putin announced that Russia recognizes the independence of two pro-Russian breakaway regions in eastern Ukraine. On 22 February 2022, the Russian Federation Council unanimously authorized the use of military force, and the entry of Russian soldiers into both territories. On 24 February 2022, places across Ukraine, including Kyiv, the national capital, were struck with missiles. The Ukrainian Border Guard reported attacks on posts bordering Russia and Belarus. Shortly afterwards, Russian Ground Forces entered Ukraine prompting Ukrainian President Volodymyr Zelenskyy to enact martial law and general mobilization (the "Russo-Ukrainian War"). Since the outbreak of the Russo-Ukrainian War the cost of fuel has increased dramatically around the world causing an increase in WESM prices. Global commodity prices have likewise increased as a result of the Russo-Ukrainian War.

The increase in WESM prices negatively impacted ACEN in the first quarter of 2022, as it purchased more power than it produced, due in part to the extended maintenance outage of SLTEC during the same period. While ACEN benefitted from elevated WESM prices in the second quarter of 2022, as it sold more power than it purchased from the WESM, and although it aims to balance its supply and demand for power, there is no guarantee that it will be able to maintain a net selling position or that no unanticipated outages will occur which will require it to purchase power. As a result, any further increase in the cost of fuel and in WESM prices may increase ACEN's costs, which could negatively impact its results of operation. ACEN has also experienced an increase in panel prices which increase total project costs.

The Russo-Ukrainian War has also increased volatility in the capital markets. To curb inflationary pressure due in part to the Russo-Ukrainian War, the BSP has raised key policy interest rates by 25 basis points, and has disclosed that it may further increase such rates. Any disruption of the credit and equity markets may impede or prevent access to the capital markets for additional funding to expand ACEN's business and may affect the availability or cost of borrowing. While ACEN may seek funding through credit facilities outside of the capital markets, if ACEN is unable to obtain such alternative funding, it may have to adjust its business plans and strategies, which may adversely affect its prospects, market value and results of operations.

While ACEN does not expect any material impact from the ongoing Russo-Ukrainian War to its current and future businesses, ongoing tensions may continue to affect oil and commodity prices in the near to medium term.

Any political or economic developments of a global scale could impact prices in general and disrupt supply chains, which could in turn increase ACEN's costs. ACEN continuously monitors such developments abroad and will assess any direct and indirect impact that the Russo-Ukrainian War may have on its current and future businesses.

***Labor disputes, including failure to maintain satisfactory labor relations, or changes in employment laws may disrupt ACEN's operations and could adversely affect its business.***

The Group generally considers its labor relations to be good and harmonious. However, there can be no assurance that it will not experience future disruptions to its operations due to labor disputes or other issues with employees, which could materially and adversely affect its business.

Various labor laws govern the Group's relationship with its employees and affect operating costs. These laws include minimum wage requirements, mandatory health benefits, overtime compensation, and other terms and conditions of employment. These and significant changes in labor regulations, for example, in respect of outsourcing services to independent third-party contractors, could materially affect the Group's business. Engagement of third party service providers carries with it certain inherent risks including potential actions from employees of its third-party service providers who may claim an employee-employer relationship with it and the risk that third party contracting arrangements in place may be found by the Department of Labor and Employment ("**DOLE**") to be "labor-only contracting," which could have a significant impact on its labor costs. In addition, a labor dispute involving a substantial number or all of ACEN's employees may harm its reputation, disrupt its operations and reduce its revenues, and resolution of disputes may increase its costs.

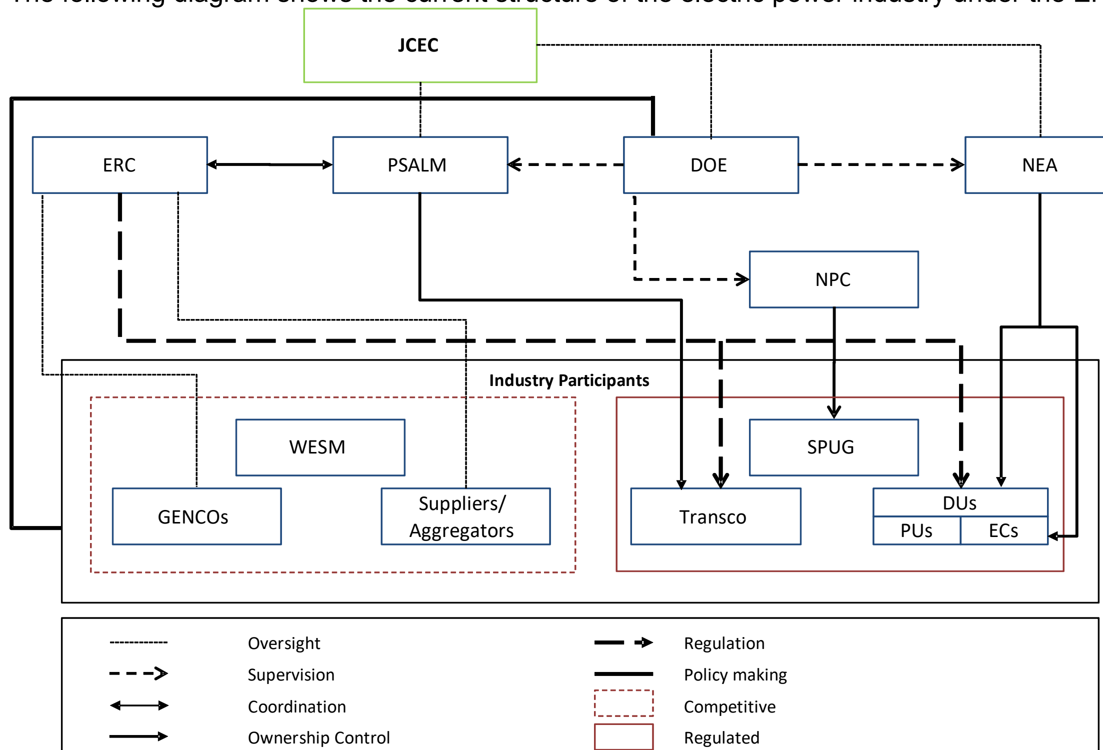
The Group is also exposed to litigation risk from employees of its various third-party contractors, who may implead it as party to their labor cases and labor disputes against these third-party contractors. The Group ensures compliance with various laws and rules and regulations promulgated by the DOLE on labor standards and labor relations to mitigate labor-related risks.

**Regulatory**

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:

- Promote competition and encourage market development;
- Determine the pricing in the energy market;
- Review and approve any plan for expansion or improvement of transmission facilities submitted by TransCo; and
- 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:

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all government activities pertaining to energy projects;
- encouragement of private investment in the power industry sector and promotion of the development of indigenous and renewable energy sources for power generation;
- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- promotion of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- 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

- 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. The JCEC has the authority to conduct hearings and receive testimony, reports, and technical advice; invite or summon any public official or private citizen to testify before it; and require any person to produce records or documents that JCEC may require. The JCEC will also now be assisted by a secretariat who may be seconded from the Senate and the House of Representatives and may retain consultants. The secretariat shall be headed by an executive director who has sufficient background and competence on the policies and issues relating to electricity industry reforms as provided in the EPIRA. On 12 April 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 JCEC. On 7 July 2021, Republic Act No. 11571 or the JCEC Enhancement Act was signed into law making the JCEC as the permanent oversight body tasked of ensuring the full implementation of landmark energy laws.

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 biddings 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. 2015-06-0010, 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 26 February 2021.

In March 2021, the Philippine Supreme Court declared void DOE Circular No. DC2015-06-001 and the ERC RES Rules and directed the ERC to promulgate the supporting guidelines to DOE Circular Nos. DC2017-12-0013 and DC2017-12-0014.

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 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:

- Listing on the PSE;
- In accordance with the 2015 IRR of the SRC:
    - Publication in any printed material distributed in the Philippines;
    - Public presentations;
    - Advertisements or announcements on radio, television, electronic communications, information communication technology, or any other forms of communications; and
    - 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.

- 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. The Grid Code is a subset of EPIRA. It establishes the basic rules, requirements, procedures and technical performance 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.

Similar to the Grid Code, the Rules, Terms and Conditions for the Provision of Open Access Transmission Service (OATS Rules) is based on the provisions of the EPIRA and its Implementing Rules and Regulations. The OATS Rules complements the Grid Code. It defines the services that NGCP, as the concessionaire of TransCo, must provide as the Transmission Network Provider, System Operator and Metering Services Provider in accordance with its responsibilities provided in the Grid Code and the WESM Rules. More so, the OATS Rules provide the charges, rates and methodology that NGCP may apply and bill to the Transmission Customers for receiving its services, namely: (i) the Power Delivery Charges, (ii) System Operation Charges; and (iii) Metering Services Provider Charges. The latest OATS Rules was promulgated on May 18, 2022.

In order to ensure the safe, reliable and efficient operation of the Philippine Grid, the Grid Code provides for, among others, the following regulations:

- the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operation of the grid;
- 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;
- 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
- 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.

DUs are required to supply electricity in the least cost manner to its captive market. To ensure this, the DOE promulgated DOE Circular Nos. 2015-06-008 and 2018-02-0003, as amended by DOE Circular No. 2021-09-0030, to provide for the Policy for the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreement for the Captive Market ("**CSP Rules**").

Under the CSP Rules, all PSAs shall be procured through CSP, consistent with the latest and duly reviewed Distribution Development Plan, Power Supply Procurement Plant, and the CSP Rules. CSP refers to the process wherein a Power Supplier or, in the case of off-grid areas, a New Power Producer, is chosen to supply electric power requirements of a DU through transparent and competitive bidding or alternative mode of procurement undertaking by a DU or by aggregated DUs to secure supply of electricity based on the evaluation criteria adopted by DUs. The following are the exceptions to the CSP requirement:

- Any generation projects funded by grants or donations, and will become fully-owned, operated, and controlled by the DU within its franchise area, subject to ownership and market-share limitations as provided under relevant laws and issuance.
- Negotiated procurement or emergency power supply wherein the cooperation period of the corresponding Emergency Power Supply Agreement ("**EPSA**") shall not exceed one (1) year, and such EPSA shall be filed immediately before the ERC upon the issuance and within the effectivity of the Certificate of Exemption from the conduct of CSP.
- Any generating plant to be embedded in the DU, utilizing indigenous resources in the franchise area of the DU, subject to ownership and market-share limitations as provided under relevant laws and issuances, unless it intends to sell generated power outside of the embedded area, in which case, it shall undergo CSP with respect to its excess power.
- The provision for power supply by the NPC in off-grid areas prior to and until the entry of New Power Providers and in emergency circumstances.
- The provision for power supply by the PSALM Corporation through bilateral contracts for the power produced from the undisposed generating assets and IPP contracts.

Alternative methods of procurement may be resorted to exclusively for New Technology, *i.e.*, a technology that is novel or a novel use or arrangement of existing technology that has not yet been commercially operating or applied in the country upon effectivity of the CSP Rules, as amended. At any given year, the capacity to be procured through unsolicited proposal shall not exceed 25% of the DU's peak demand for the year of the unsolicited proposal's required commercial operations minus any capacity previously procured through unsolicited proposals for commercial operations in the same year. Direct negotiation may be made by the DUs after at least two (2) failed CSPs and there is no outstanding dispute on the conducted CSP. A CSP is considered failed when: (a) no proposal was received by the DU; (b) only one generation company submitted an offer; (c) and competitive offers of prospective generation companies failed to meet the requirements prescribed in the bid documents. In case of alternative methods of procurement, direct negotiation may be made by the DU to the original proponent after two (2) failed comparative biddings, or when (a) no comparative bid was received by the TPBAC/TPA or (b) comparative bids failed to meet the requirements prescribed in the bid documents. In all cases, the DU and the generation company shall jointly submit the PSA to the ERC for the latter's approval.

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.

To expand the base of end-users having the ability to choose their suppliers of electricity, the ERC promulgated ERC Resolution No. 04, Series of 2022 or the Rules for the Electric Retail Aggregation Program ("Retail Aggregation Rules"). Under the Retail Aggregation Rules, two or more end-users or all end-users within a contiguous area may join together and be treated as a single Contestable Customer, based on the current demand threshold demand prescribed under the rules, as may be reduced from time to time, wherein such Contestable Customer shall be part of the Contestable Market. No limit shall be imposed on the number of end-users whose demand shall be consolidated, provided, that the total aggregated demand of such single group has complied with the applicable level of contestability for individual contestable customers. Thus, the electricity requirements of end-users whose total monthly average peak demand is at least 500kW for the past three months and are located within a contiguous area may be aggregated. Such aggregation shall be effective beginning December 26, 2022.

For this purpose, contiguous areas are those within the same boundaries such as subdivisions, villages, Special Economic Zones, business districts and other similarly situated end-users in which supply of electricity can be measured through metering devices. Aggregation of end-users may thus be allowed within the geographical boundaries of any of the following: (1) subdivisions; (2) villages; (3) business districts; (4) Special Economic Zones; (5) condominium buildings; (6) commercial establishments such as malls; (7) mixed-use development complexes; and (8) such other geographical areas where similarly situated end-users are located in which supply of electricity can be measured through metering devices. The geographical areas other than the above shall be approved by the ERC upon request made.

End-users located within villages, subdivision or condominium buildings duly registered with the Department of Human and Urban Development or with the Philippine Guarantee Corporation; Special Economic Zones defined under Republic Act No. 7916; and business districts identified by the local government units where they are located, can join retail aggregation and be members of an aggregated group, provided the said end-users are located within the franchise area of the DU.

Should one of the customers in an aggregated group opt out or a default happens which results in the demand of the aggregated group falling below the required threshold level, the status of contestability shall not be affected unless it is discovered that the formation of the aggregated group and/or the corresponding changes in the membership are attended by fraud or deceit. The status of contestability shall remain only during the term of the original contract.

Under the Retail Aggregation Rules, a Retail Aggregator who is duly licensed by the ERC may engage in consolidating electric power demand of end-users for the purpose of purchasing and reselling electricity on a group basis. Persons or entities intending to act as Retail Aggregators are required to secure a RES License pursuant to the requirements and procedures provided under Resolution No. 01, Series of 2011 or the Revised Rules for the Issuance of RES Licenses. However, holders of a currently valid RES license may apply to act as a Retail Aggregator through the submission of a Letter of Intent to operate as a Retail Aggregator.

**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. 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.

Through the DOE Department Circular 2021-06-0015, the DOE declared the commercial operation of the Enhanced WESM Spot Market effective June 26, 2021 which shortened the dispatch, settlement and trading interval at the WESM from the current one-hour interval to five-minute interval. Also, the ERC, through ERC Resolution 7, Series of 2021, adopted a shorter rolling average period of seventy-two (72) hours from the one hundred twenty (120) hours.

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:

- establishment of the WESM;
- approval of unbundled transmission and distribution wheeling charges;
- initial implementation of the cross-subsidy removal scheme;
- privatization of at least 70.0% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- 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.

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:

- **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;*
- **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;*
- **ERC Resolution No. 10, Series of 2016** - *A Resolution Adopting the Revised Rules for Contestability;*
- **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;*
- **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

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 ("**Contested Issuances**").

On February 21, 2017, the Supreme Court issued a temporary restraining order ("**TRO**") above Contested Issuances. 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.

On March 2, 2021, the Supreme Court promulgated its decision in *PCCI v. DOE* (G.R. No. 228588) in relation to the validity of the above Contested Issuances. The Supreme Court held that migration to the competitive retail electricity market should not be mandatory and should remain as the customer's choice. Hence, the above Contested Issuances were declared void by the Supreme Court.

The voiding of these Contested Issuances necessarily includes the voiding of the following restrictions provided in the Contested Issuances: (1) a RES cannot transact more than 50% of the total energy transactions with its affiliate contestable customer; and (2) no RES shall be allowed to supply 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market.

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.

The EPIRA likewise provides for a socialized pricing mechanism, one of which is the Missionary Electrification under Section 70 of the EPIRA which provides that NPC shall perform the electrification function in the off-grid areas. Thus, the Universal Charge on Missionary Electrification. The electricity end users in off-grid areas are only obligated to pay the Subsidised-Approved Generation Rate ("**SAGR**") plus any ERC-approved Cost Adjustments notwithstanding the higher True Cost of Generation Rate ("**TCGR**") of these areas. The difference between TCGR and SAGR, New Power Providers ("**NPPs**") and Qualified Third Parties ("**QTPs**") is claimed from the UCME Subsidy, recovery of which is approved by ERC to be collected from all electricity end-users. Section 3(b), Rule 13 EPIRA IRR provides that NPC-SPUG shall periodically assess the requirements and prospects of bringing its functions to commercial viability on an area-by-area basis at the earliest possible time. The latest DOE issuance on graduation of the UCME is the Department Circular No. DC2022-05-0016 which prepares the DUs and ECs in off-grid areas for the elimination of the subsidy through: (i) interconnection to the grid of the distribution system; (ii) promotion of energy efficiency program; and (iii) incorporation of least-cost generation supply, such us Renewable Energy sources.

Another subsidy provided in the EPIRA is found in Section 73, as amended by RA No. 11552, provides for the assistance to electricity consumers, especially those living below the poverty line, and to achieve a more equitable distribution of the lifeline subsidy, a socialized pricing mechanism called a lifeline rate for qualified marginalized end-users shall be set by the ERC which shall be exempted from the cross subsidy phase-out under this Act for a period of fifty (50) years. The threshold to qualify as a marginalized end-user and the level of consumption shall be determined by the ERC.

Another mandate in the EPIRA of the ERC is the establishment of a methodology for the setting of the transmission and the distribution wheeling rates, which must allow the recovery of just a reasonable costs and reasonable return on the rate base to enable the transmission operator or the distribution utility ("**Regulated Entity**") to operate viably. In compliance with the above-mentioned mandate, on May 29, 2003, the ERC adopted the "Guidelines on the Methodology for Setting Transmission Wheeling Rates for 2003 to around 2027" ("**RTWR**"). The latest version currently implemented is that approved on September 22, 2009. However, an amendment thereof is ongoing. On the other hand, for the

distribution wheeling rates, the ERC on December 10, 2004 published the first edition of the Methodology for Setting Distribution Wheeling Rates ("**RDWR**"). The latest edition of the RDWR is the Revised RDWR approved in March 2021. These Rules set out: (i) the methodology to be used in setting the maximum wheeling rates that may be charged by the Regulated Entity to its customers; (ii) the guiding pricing principles that the ERC must follow to regulate the maximum wheeling rates; (iii) the rules on the annual rate verification and adjustment process; (iv) the regulatory processes and timelines to which both the Regulated Entity and the ERC must adhere in order for the methodology established by these Rules to be administered and applied in a timely manner; and (v) the performance indicators, performance targets and reporting arrangements with which the Regulated Entity must comply

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, being a business vested with public interest, no person or entity engaged in generation of electricity prior to its commercial operation must secure a COC from the ERC. An applicant must demonstrate compliance with the technical qualifications, financial capability ownership and control, none of the disqualifications in order to operate facilities used in the generation of electricity. A COC is valid for a period of five years from the date of issuance and the process to secure COC is provided in the 2020 Revised COC Rules.

For the technical requirements, an applicant must submit among others: general plant description, plant overview, location map, compliance with the PGC, PDC and WESM requirements, management and lease contract in force, and approved dedicated point to point limited transmission facility.

For the financial requirement, an applicant is required to present: its audited financial statement covering the 2 most recent 12-month period, detailed project cost and source of funds; schedule of liabilities, etc. Also, a generation company must also comply with the minimum financial capability benchmark of 1.25x annual Debt Service Capability Ratio though the period covered by its COC as provided in the "Guidelines for the Financial Standards of Generation Companies. Once the application has been approved, the COC shall remain valid for a period of five years from the date of issuance.

The ERC also governs the approval process for PSAs between distribution utilities and power suppliers. Under the Rules Governing the Execution, Review and Evaluation of Power Supply Agreements Entered into by Distribution Utilities for the Supply of Electricity to their Captive Market issued in ERC Case No. 2018-002RM provides that the DU shall undertake a transparent and competitive selection process ("**CSP**") of its Power Supply Agreement ("**PSA**") within 6 months from the publication of the invitation to bid. Direct Negotiation may only be made after 2 failed bidding while for Unsolicited Proposal, the DU must publish and invite third parties to match or exceed it. The CSP shall be spearheaded by an independent Bids and Awards Committee ("**BAC**"). The designation of BAC members is provided in the same rules. After a successful conduct of the CSP, the DU and the winning bidder shall enter into a PSA and jointly submit the same for the approval of the ERC.

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:

- Failing to comply with energy labelling;
- 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;
- Failing to provide accurate information or provision of false or misleading energy information as required to be submitted under the EECA;
- Selling, leasing, or importing energy-consuming products that do not comply with the minimum energy performance;
- Failing or willfully refusing to appoint or designate a Certified Energy Conservation Officer or Certified Energy Manager;
- Willfully refusing to submit to an on-site inspection by the DOE;
- Failing or willfully refusing to submit any of the reports required;
- Failing to comply with issued orders of the DOE in the discharge of its enforcement powers; and
- 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:

- 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.
- 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.
- Special realty tax rates on equipment and machinery.
- 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.
- RE developers shall enjoy a 10% corporate income tax rate after the expiration of its ITH.
- Accelerated depreciation if the RE project fails to receive an ITH before full operation.
- 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.

- Cash incentive for RE developers for missionary electrification.
- Tax exemption of carbon credits.
- 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.

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.

On February 7, 2002, DOE issued Department Circular 2022-02-0002 prescribing policies to promote development of Biomass Waste-To-Energy ("**WTE**") Facilities. This circular considered Biomass WTE Resources a renewable energy resource as defined in the RE Law.

On June 22, 2022, the BIR issued Revenue Regulations No. 7-2022 to implement the tax-incentive provisions of the RE Law and to provide policies and guidelines.

On November 15, 2022, the DOE issued Department Circular No. 2022-11-0034 to amending the RE Law's IRR, removing Filipino ownership requirements imposed on the exploration, development and utilization of solar, wind, hydro and ocean or tidal energy resources.

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:

- Such FITs are indispensable for their continued operations;
- 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,
- 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.

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.

**Green Energy Auction Program**

Upon the full subscription of the existing FIT installation targets, the succeeding rounds for the installation targets for FIT-eligible resources shall be made through an auction system to be adopted by the DOE. On November 3, 2021, the DOE promulgated DOE Circular No. DC2021-11-0036 providing the Revised Guidelines for the Green Energy Auction Program in the Philippines ("**GEAP Guidelines**") which utilizes aspects of the FIT system.

The GEAP consists of the (1) Green Energy Tariff ("**GET**"), to provide price signals on the commercial value of electricity generated from RE facilities resulting from a competitive process, and to set the benchmark price for DUs under the opt-in mechanism; and (2) Green Energy Auction, to facilitate the determination of RE facilities that are eligible under the GEAP.

Under the GEAP Guidelines, the GET shall reflect the value of electricity, resulting from a competitive process that qualified bidders are capable of supplying the prescribed capacity volume and delivery periods. The winning bidder/s shall have the most competitive bid price offered based on the terms of reference for a particular auction round procedure. The GET shall be expressed in ₱/kWh-bases to reflect the value of actual energy generated by the winning bidder and to be consistent with the compliance requirements of the RPS On-Grid Rules and the relevant provisions of the FIT Rules. The price offered by the winning bidder shall be the GET and the ERC shall include the GET in its computation of the FIT-All for the GEA.

For the Green Energy Auction ("**GEA**"), each auction round consists of the publication of the notice of auction; issuance of GEAR price; issuance of the terms of reference and auction round procedures for each auction round; registration of qualified suppliers, which must be RPS eligible facilities, intending to participate; evaluation of qualified suppliers; issuance of user-specific IDs to qualified bidders; pre-bid conference; submission of bid bond and affidavit of undertaking to deliver the committed capacities on delivery date; the auction proper; issuance of certificate of award; submission of post-auction documents; issuance of Certificate of Endorsement-GET; and the post-auction procedures. The Green Energy Auction is administered by the DOE through the Green Energy Auction Committee.

On June 17, 2022, the DOE conducted the first GEA round through an electronic bidding program. On June 24, 2022, the DOE released the results of the first GEAP round, and announced that the first round generated 1,966.93 MW of renewable energy capacities that have been committed to deliver energy from 2023 to 2025 at a competitive price.

**Renewable Portfolio Standards**

The Renewable Portfolio Standards ("**RPS**") under DOE Circular No. DC2017-12-0015 is a market-based policy that requires electricity suppliers to source an agreed portion of their energy supply from eligible RE resources. Entities mandated to comply with the RPS On-Grid Rules include: (a) all DUs for their captive customers; (b) all suppliers of electricity for the contestable market; (c) generating companies only to the extent of their actual supply to their directly connected customers; and (d) other entities as may be recommended by NREB and approved by the DOE. The RPS On-Grid Rules likewise require that in complying with the RPS requirement, mandated participants undertake CSP in sourcing RE generation supply for its customers.

The RPS On-Grid Rules shall be implemented in the Luzon, Visayas, and Mindanao Grids. Under these Rules, the RE share of electricity coming from RE resources in the energy mix shall be based on the aspirational target of 35% in the generation mix expressed in MWh by 2030, subject to regular review and assessment by the DOE. The minimum annual requirement per mandated participant shall be computed in accordance with the formula provided in the RPS On-Grid Rules. The minimum annual increment required under the RPS On-Grid Rules shall be initially set at one percent (1%) to be applied to the net electricity sales of a mandated participant for the previous year, and thereafter adjusted by the DOE as may be necessary to ensure that the aspirational target of RE share will be achieved.

In complying with the RPS On-Grid Rules, Mandated Participants shall use RE Certificates ("**RECs**"). RECs are certificates issued by the RE Registrar to electric power industry participants showing energy sourced, produced, and sold or used. RECs may be traded in the RE Market in complying with the RPS.

The REC shall represent all renewable and environmental attributes from one (1) MWh of electricity sourced from duly registered RE facilities. RECs may be obtained from any one, a combination or all of the following:

- Allocation from the RE Registrar pursuant to the relevant rules issued by the DOE. RE generation under the FIT System allocated by the RE Registrar;
- Generation from an Eligible RE Facility that has a PSA with the Mandated Participant;
- Purchase or acquisition of RECs from the RE Market;
- Any generation from Net Metering arrangements which have been properly measured; and
- Any generation from an RE Facility installed in the end-user's premises for own-use and synchronized to the DU's system, which have been properly measured.

For purposes of compliance with the RPS On-Grid Rules, the following technologies and resources shall be eligible RE facilities: biomass, waste to energy technology, wind energy, solar energy, run-of-river hydroelectric power systems, impounding hydroelectric power systems, ocean energy, hybrid systems as defined in the RE Act with respect to the RE component, geothermal energy, and other RE technologies that may be later identified by the DOE. For RE facilities utilizing these technologies to be eligible under the RPS compliance and attribution of RECs, they shall have been in commercial operations after the effectivity of the RE Act.

In addition to the technologies enumerated above, the following additional generation from RE Facilities after the effectivity of RE Act shall be considered for compliance as determined by DOE: (a) Existing and New Generation Facilities under the FIT System; (b) Incremental capacity resulting from expansion of an existing RE Generation Facility; (c) Incremental capacity resulting from the upgrading of an existing RE Generation Facility that includes retrofitting, refurbishing or re-powering; (d) New capacities resulting from a change in the technology (from a non-RE to RE Generation Facility); Provided, that co-firing of coal plants that is modified to use agricultural wastes as fuel shall not be allowed unless the DOE provides for a clear mechanism that measures with certainty the use of RE resources as fuel in such Generation Facility; (e) RE Generation Facilities installed in end-user's premises participating under the Net Metering Program; (f) RE Generation Facilities installed in the end-user's premises for own-use and synchronized to the DU's system; and (g) Mothballed RE Generation Facilities that are restored into operation.

**Green Energy Option Program**

The Green Energy Option Program ("**GEOP**") provides end-users the option to choose RE as their source of energy. With GEOP, consumers can choose RE as its supply of energy at competitive costs; contribute to the growth of the RE industry in the country; contribute to a cleaner and sustainable environment; and support national and global decarbonization goals.

Under this program, end-users with a monthly average peak demand of 100kW and above, for the past twelve (12) months, may participate in the GEOP. All end-users with average peak demand below 100kW may participate in the GEOP, after the DOE, in consultation with the National Renewable Energy Board and industry stakeholders, determines that the technical requirements and standards are already met.

In instances where the GEOP end-user's average peak demand drops below 75% of 100kW for the immediately preceding six (6) consecutive months and the same is not attributable to seasonal demand, such end-user shall be reverted to the captive market.

Entities who wish to supply electricity to end-users under the GEOP must secure (1) a RES license from the ERC subject to the provisions of ERC Resolution No. 1, Series of 2011, and (b) a GEOP Operating Permit from the DOE subject to the provisions of DOE Circular No. DC2020-04-0009. Existing retail electricity suppliers may be automatically issued an operating permit as RE supplier under the GEOP, subject to the submission of certain documents.

**Energy Virtual One Stop Shop Law**

Republic Act No. 11234 or the Energy Virtual One Stop Shop ("**EVOSS**") Law which became effective on March 30, 2019 established an online process of completing the requirements of energy related projects to ensure the timely completion of power generation, transmission and distribution projects by eliminating duplication in documentary submissions and processes through an online platform for

government agencies to coordinate and share information. It provides for the paperless and electronic application and processing system which proponents can access all information necessary in the application of new projects, submit all requirements and monitor the approval.

The EVOSS Law provided specific timeframe within which the government agencies involved to issue the required permits and licenses upon receipt of the complete documents. The failure of a particular agency to act upon the application or release the permits and licenses within the prescribed period shall deem the application approved and warrants corresponding penalty. It also created the EVOSS Steering Committee which had a limited life of two (2) years from the effectivity of the law or until March 29, 2021. To maintain the momentum and continuity of the initiatives of the law, Executive Order No. 143 was signed last July 2, 2021, which created the EVOSS Task Group, which has the same composition and has the same powers and functions as the EVOSS Steering Committee.

**The Philippine Energy Research and Policy Institute Act**
Republic Act No. 11572 created the Philippine Energy Research and Policy Institute tasked to enhance and promote the acquisition of knowledge in recent developments and scientific breakthroughs in the field of energy. It is an independent agency attached to the University of the Philippines ("**UP**").

The Institute will be headed by an executive director to be appointed by the UP President upon recommendation of the Executive Board. The Executive Board shall be composed of seven members comprised of the UP President as the ex-officio chairperson, and at least one representative from the fields of engineering, law, science, statistics, economics, social science, and public health, either from the academe or the private sector. Four members shall come from the academe, two members shall come from the private sector, while each representative shall come from different fields.

The Institute shall support the education and training for its officers and employees to include advanced degree studies, short-term programs, online courses, and participation in conferences. Research papers, data, and other resources shall be made available to the public through its website. However, proprietary or confidential data and other resources cannot be posted or disclosed unless prior consent of the source or owner of such data and resources has been obtained by the requesting party.

Petroleum

The Company'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 years.

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 (2/3) 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. 2009-04-0004, a circular that establishes the procedures for the Philippine Contracting Rounds; DOE Circular No. 2003-05-006, 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 2002-08-005, a circular setting the interim rules and regulations governing the transmission, distribution and supply of natural gas; and DOE Department Circular No DC2017-12-007, adopting the Philippine Conventional Energy Contracting Program ("**PCECP**") of Awarding Petroleum Services Contracts, providing for two modes of awarding of Petroleum Service Contracts: (1) via applicant's nomination and publication with a mechanism for a Swiss challenge by any interested party; (2) and DOE's offering of pre-determined areas through the Review and Evaluation Committee, awarded via competitive bidding.

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:

- increasing oil and gas exploration;
- strengthening of the PNOC to spearhead the development of indigenous energy resources and building global partnerships and collaborative undertakings;
- 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;
- expanding the use of natural gas; and
- 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:

- Characteristics of the project or undertaking
  - size of the project;
  - cumulative nature of impacts compared to other projects;
  - use of natural resources;
  - generation of wastes and environment related nuisance; and
  - environment related hazards and risk of accidents.
- Location of the project
  - vulnerability of the project area to disturbances due to its ecological importance endangered or protected status;
  - conformity of the proposed project to existing land use, based on approved zoning or on national laws and regulations; and
  - relative abundance, quality and regenerative capacity of natural resources in the area, including the impact absorptive capacity of the environment.
- Nature of the potential impact
  - geographic extent of the impact and size of affected population;
  - magnitude and complexity of the impact; and
  - 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. The Company 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, the Company could be subject to claims for personal injury or property damages, including damages to natural resources, which may result from the Company's operations. Failure to comply with these laws may also result in the suspension or termination of the Company's operations and subject it to administrative, civil and criminal penalties. Moreover, these laws could be modified or reinterpreted in ways that substantially increase the Company's costs of compliance. Any such liabilities, penalties, suspensions, terminations or regulatory changes could have a material adverse effect on the Company's financial condition and results of operations.

Environmental Compliance

The Company'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 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 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 the Company'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 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 zones 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.

**Laguna Lake Development Authority Act of 1966**

Republic Act No. 4850 entitled: An Act Creating the Laguna Lake Development Authority Prescribing its Powers, Functions and Duties, Providing Funds Thereof, and for other Purposes, as amended by PD No. 813 and EO No. 927, provides the promotion and acceleration of the development and balanced growth of the Laguna Lake and its surrounding areas with due regard and adequate provisions for environmental management and control, preservation of the quality of human life and ecological systems, and the preservation of undue ecological disturbances, deterioration and pollution. Also, it created the Laguna Lake Development Authority tasked among others to make a comprehensive survey of the physical and natural resources and potentialities of the Laguna Lake region particularly its socio and economic conditions, hydrologic characteristics, power potential scenic and tourist spots. Further, the Authority has exclusive jurisdiction to issue permits for the use of the lake waters for any projects or activities in or affecting the said lake including navigation, construction, and its operation and to impose necessary safeguards for lake quality control and management and to collect necessary fees for said activities and projects.

**INDUSTRIAL TECHNOLOGIES**

**Overview**

The Company engages in the industrial technology business through AC Industrials. AC Industrials continues to invest in its portfolio of subsidiaries and investments in global manufacturing emerging technologies and components, and the assembly, distribution and retail of vehicles in the Philippines. AC Industrials' global manufacturing subsidiaries consist of a 52.03% interest in IMI, a Philippine publicly listed company, and a 92.45% stake in the privately held, German-domiciled MT-C-CON group. The group was formed when MT Misslbeck Techologies, acquired by AC Industrials in July 2017, purchased a 75.1% stake in C-CON in 2019. MT-C-CON provides modeling, cubing, tooling, and parts design and manufacturing services directly to global automotive brands.

AC Industrials also holds the country's largest multi-brand vehicle dealership group and is a leading Philippine vehicle distributor carrying the *Honda*, *Isuzu*, *Volkswagen, Kia,* and *Maxus* brands automobiles, and the *KTM and Husqvarna* brands for motorcycles.

AC Industrials also entered the smart energy value chain after acquiring a 99.20% stake in Merlin Solar Technologies in February 2018.

**IMI**

Established in 1980, IMI has grown into a global company offering core manufacturing capabilities as well as higher value competencies in design and development, advanced manufacturing engineering analytical testing and calibration, test and systems development and automation. IMI is registered with the Philippine Economic Zone Authority as an exporter of printed circuit board assemblies ("**PCBA**"), flip chip assemblies, electronic sub-assemblies, box build products and enclosure systems, among others. It serves diversified markets that include those in the computing, automotive, industrial, medic telecommunications, consumer electronics and renewable energy sectors across multiple markets. IMI also provides power semiconductor and test services.

In 2016, IMI, through its indirect subsidiary, acquired a 76.01% stake in 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 optical bonding, a key technology to lower reflections thus enabling sunlight readability and increasing robustness, which is mandatory to allow thinner and lighter portable display solutions. The acquisition is expected to allow IMI to strengthen its partnerships with customers by offering complementary automotive camera and display monitor solutions for advanced driver assistance systems.

In 2017, IMI, through its subsidiary IMI UK, acquired an 80% stake in STI, an EMS company based in the United Kingdom, with factories in Hook and Poynton in the United Kingdom and Cebu, Philippines. The acquisition of STI strengthened IMI's industrial and automotive manufacturing competencies, broadened its customer base, and also provided access to the UK market through two acquired factories. Furthermore, the partnership allows IMI's entry into the aerospace, security and defense sectors. STI has factories in the United Kingdom and in Cebu.

In 2018, VIA entered into a joint venture with Toppan Printing Co., Ltd. through the acquisition of a 65% interest in VTS-Touchsensor Co., Ltd., ("**VTS**"). VTS develops and manufactures metal mesh touch sensors in Japan at Toppan's manufacturing facilities, and contributes to VIA's portfolio of sensor technology for touch panels, touch-display modules, display head assemblies, and interactive display systems across multiple markets and segments.

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

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

In 2020, VIA raised some proceeds through an initial public offering and was listed on the New York Stock Exchange under the ticker symbol "VIAO". As a result of the initial public offering, IMI's ownership in VIA was diluted from 76.01% to 50.32%.

For the year ended December 31, 2021 IMI generated revenue of [US$ 1.3] billion and net loss attributable to equity holders of IMI of [US$10.6 million].

***Location***

IMI has production facilities in the Philippines (Laguna and Cebu), China (Shenzhen, Jiaxing, Chengdu and Suzhou), Bulgaria, the Czech Republic, the Republic of Serbia, Germany, Mexico and the United Kingdom. It also has a prototyping and NPI facility located in Tustin, California. Engineering and design centers are located in the Philippines, Singapore, China, the United States, Bulgaria, the Czech Republic and Germany. IMI also has a global network of sales and logistics offices in Asia, North America and Europe.

The head office and main plant of IMI are located at North Science Avenue, Laguna Technopark, Biñan, Laguna, 4024 Philippines, which are leased from Technopark Land, Inc., a subsidiary of the Company.

***Principal Products and Services***

*Mobility*
Advanced driver-assistance systems, or ADAS, are systems to help vehicle drivers. Autonomous driving is supported by cloud data, car-to-car communication, and car-to-infrastructure communication. ADAS systems must link to a vehicle's communication module directly to enable fully autonomous driving. Major vehicle original equipment manufacturers and Tier 1 suppliers, as well as disruptive newcomers, are accelerating autonomous vehicles and ADAS development efforts.

IMI works with leading automotive Tier 1 suppliers in providing vision systems supporting progression into the new era of mobility. Within its mobility segment, IMI continues to supply key product solutions for safety critical and environmentally focused systems including pump 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 U.S.-based teams deliver 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.

*Connectivity*

IMI offers 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 supports 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.

*Smart energy*

IMI continues to invest in having the capabilities and technology to support new energy systems that will consume less power and 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. With the growth in vehicle electrification and power needs across multiple segments, our power module business, continued to provide high reliability modules and solutions.

*VIA AG*

VIA AG 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, VIA AG's technologies enable high-performing touch functionality, delivering excellent sunlight viewability and robustness against the most challenging requirements, while minimizing power consumption. VIA AG's enabling technologies include its proprietary silicon-based bonding material, or VIA bond plus, our patented optical bonding processes and its metal mesh touch sensor technology.

In 2020, VIA AG 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 AG 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 AG is able to offer large cold form glass and display assemblies for the cutting-edge automotive market.

*STI*

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 provides highly complex RF and communications solutions and its customer relationships continue to flourish with existing and new opportunities.
STI 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 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*

<u>Design and Development ("D&D") Group</u>

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

Test and Systems Development

Major tester projects are being awarded to IMI Test and Systems Development Global Team and executed in different IMI factories every year. New projects include customized testers for new power module technologies, automotive camera and electronics systems as well as internet of things ("**IOT**") products.

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. IMI's laboratory instruments and equipment are designed to provide highly reliable analysis results, mindful that critical decisions are made based on results of laboratory analyses.

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. IMI offers cutting-edge technologies in flip chip, interconnect, and substrate. IMI's 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.

Camera Vision Technology

IMI is currently manufacturing several different camera applications from at least 19 different various imaging products to support the autonomous driving technology trend.

***Sales and Distribution***

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

IMI'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.

***Suppliers***

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

***Customers***

IMI has a broad market base of EMS customers across Europe, the Americas and Asia. The current top customer accounts for 10.73%, 8.97%, and 8.34% of the IMI group's total revenue in 2022, 2021, and 2020, respectively.

***Intellectual Property***

IMI has several patents registered with the Patent and Trademark Offices in the United States, Europe and Asia.

***Competition***

IMI competes for customers worldwide, with a key focus on Asia (including Japan and China), North America and Europe. IMI competes with EMS companies and original design manufacturers all over the world. Some of its EMS competitors include Flextronics, Plexus and Kimball.

***Environmental Compliance***

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

IMI is subject to various national and local environmental laws and regulations in the areas where it operates, including those governing the use, storage, discharge, and disposal of hazardous substances in the ordinary course of its manufacturing processes.

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.

***Dividend policy***

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 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 IMI's 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 the PSE.

**AC Motors**

AC Motors is a group of companies directly owned by AC Industrials which is active across the Philippine motor vehicle value chain. It is one of the largest automotive groups in the country, with investments and operations in vehicle assembly and manufacturing, distribution and 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 began operations in 1990 when Ayala invested in the national manufacturer and distributor of Honda automobiles, Honda Cars Philippines, Inc ("**HCPI**"), of which it owns 12.88% in a joint venture with Honda Motors Co. Ltd. of Japan and Rizal Commercial Banking Corporation (**"RCBC**"). Ayala subsequently established the dealer group Honda Cars Makati, Inc ("**HCMI**"), which now operates the largest Honda dealership network in the Philippines, with eleven outlets. Ayala later expanded its automotive holdings with Isuzu Automotive Dealership, Inc ("**IADI**"), which is also the largest Isuzu dealer group in the country, with eleven dealerships. In addition, AC Industrials has a 15% share in Isuzu Philippines Corporation ("**IPC**"), the brand's distributor in the country. IPC is a joint venture with Isuzu Motors, Ltd., Mitsubishi Corporation and RCBC.

In 2013, AC Motors marked its entry into automotive distribution when it was appointed as the Philippine distributor of Volkswagen vehicles. In 2018, AC Motors further expanded its brand portfolio 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 Philippines distributor. As of December 31, 2022, Volkswagen and Maxus have eight (8) and nine (9) dealerships across the country respectively, while KP Motors manages a network of forty-two (42) dealerships and sales outlets nationwide.

AC Motors invested in its first motorcycle brand in 2016 when it formed a strategic partnership with Austrian motorcycle group KTM AG, establishing Adventure Cycle Philippines ("**ACPI**") to distribute KTM motorcycles in the Philippines. In addition, ACPI holds a 60% 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 appointed as the Philippine distributor of Swedish motorcycle brand Husqvarna, with KAMMI manufacturing selected models at its assembly line in Laguna. ACPI serves thirty-two (32) KTM dedicated dealerships throughout the Philippines, and through KAMMI, supplies motorcycles for both the local and export markets.

AC Motors also actively retails its automobile and motorcycle distributor brands through Iconic Dealership, Inc., which as of December 31, 2022, owns and operates three (3) Volkswagen, four (4) Kia, four (4) Maxus, and one (1) KTM/Husqvarna dealerships and sales outlets.

The Philippine automotive industry grew significantly in 2022 with over 370,000 vehicles sold – a 26% year-on-year increase driven by improved supply, better bank approvals, and overall economic recovery. At its current pace, vehicle sales may return to pre-pandemic levels within 2023.

This year will also mark the start of a shift in the Philippine automotive landscape. The passing of the Electric Vehicle Industry Development Act in 2022 and the signing in January 2023 of Executive Order 12 lifting import duties on EVs five years earlier opened a path towards accelerated adoption of electric mobility solutions, a trend which AC Motors is primed to capitalize on. As of December 31, 2022, AC Motors' holds seven automotive and motorcycle brands in its portfolio, with its three (3) automotive distributor brands and its Honda and Isuzu dealer groups making up 4.5% of the automotive market. AC Motors directly owns and operates a total of thirty-four (34) automobile and one (1) motorcycle dealerships.

**Enabling Technologies Group**

In 2017, AC Industrials started assembling its portfolio of enabling technologies when it acquired a 94.9% stake in Germany-based Misslbeck Technologies, which was subsequently renamed MT Technologies. 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 the C-CON entities, a group of four 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% stake (which has since been increased to 99.2%) 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.

**INFRASTRUCTURE**

**Overview**

The Company selectively pursues infrastructure projects in regulated and non-regulated sectors in the Philippines through AC Infra, its 100% owned vehicle for investments in the infrastructure sector.

Euronet Technology Services, Inc. (“**ETSI**”)

Joint venture between the Ayala Group and the Nasdaq-listed company, Euronet Worldwide. It plays a strategic role in promoting financial inclusion by providing the physical and digital channels that facilitate transactions of banks and fin techs with its customers and consumers. ETSI provides the ATM outsourcing services to financial institutions and has launched a network of white-label ATMs to serve the cash dispensing and cash-in requirements of banks and e-wallets. ETSI also supports technologies that enable digital payments and other value-added services on its white label ATM network.

***MCX***

MCX is AC Infra’s first toll road project, which was awarded in 2011, under the Philippine 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.

***Light Rail Manila Corporation***

Light Rail Manila Corporation (“**LRMC**”) is a joint venture company of AC Infra, Metro Pacific Rail Corporation, and Philippine Investment Alliance for Infrastructure fund. LRMC operates and maintains the existing LRT Line 1 and has started construction of 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.

***AF Payments Inc.***

AF Payments Inc. (“**AFPI**”) is a consortium (the “**AF Consortium**”) between two of the Philippines’ largest conglomerates, the Ayala Group and the First Pacific Group. 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.

AFPI provides the beep card, a contactless and electronic payment systems used in various mass transportation systems. The cashless payment system is used to make payments on the LRT lines 1 and 2, the MRT 3, and on partner public utility buses and jeepneys.

***Entrego Fulfillment Solutions, Inc.***

In 2018, AC Infra entered the logistics space with its investment in Entrego Fulfillment Solutions, Inc. (“**Entrego**”) through a joint venture between the Group (60%) and the Global Fashion Group (40%), an affiliate of Zalora. Entrego provides 3rd party logistics services such as Courier Express Parcel, Freight Forwarding and Contract Logistics to clients in various industries. Entrego was initially set-up as Zalora Philippines’ in-house fulfillment solutions division to ensure delivery lead times and service expectations and was spun off as an independent company in 2017.

**Risks**

***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 61 " – *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.

**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 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 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.

**LOGISTICS**

Established in Sept 2021, AC Logistics serves as Ayala Corporation's dedicated vehicle for investments in the logistics sector. AC Logistics provides a wide array of products as a result of the robust growth in delivery and hub locations across the Philippine islands. The company has synergistic business units with a proven track record of successfully providing end-to-end supply chain logistics services from upstream logistics, storage and warehousing, B2B, and E commerce (B2C) businesses in the most cost-efficient way. With Philippines lagging behind its ASEAN peers, AC Logistics has assembled a platform strategically positioned and well poised to capture the growing domestic and regional supply chain market in Philippines.

AC Logistics ended 2022 with a net loss of ₱122.7 million net loss primarily due to the non-renewal of the service contracts of two major e-commerce platform clients as they changed their delivery operating models. AC Logistics continues to focus on growing its businesses beyond serving last mile e-commerce with Entrego pivoting towards more B2B services. Though still small, this has resulted in freight forwarding and contract logistics revenues expanding by 10x and 22%, respectively.

**Entrego**

Entrego is a technology driven business solutions provider for the fulfillment and logistics needs of enterprises in Philippines, providing courier and express parcel management services focusing on e-commerce and including freight. Entrego provides corporate services via parcel management, freight forwarding, warehousing and fulfillment, and express courier services via MyEntrego. MyEntrego is a digital logistics platform that provides logistics and fulfillment solutions worldwide.

**AIR21**

Established in 1979, AIR21 Holdings ("**AIR21**") is an integrated logistics company considered among the top 5 players in the domestic express delivery market in Philippines providing a number of logistics services ranging from B2B express delivery, door-to-door delivery, air and sea freight, crating, warehousing, and trucking. In August 2022, AC Logistics has reached a close for its acquisition of a 60% controlling stake in AIR21 for ₱6.06 billion (US$106m), providing AC Logistics an immediate presence in the end-to-end logistics value chain. Apart from managing and operating its own logistics services, AIR21 also owns and manages other business entities in the logistics sector.

**HEALTHCARE**

AC Health is the Ayala group's portfolio company for its healthcare investments. It aims to address gaps in accessibility and affordability of quality healthcare by integrating a seamless ecosystem across the continuum of care. It is present across three pillars of healthcare: Pharma, Clinics and Hospitals, and Digital Health.

AC Health's pharma pillar aims to establish a supply chain and drug retail network with a wider medicine cabinet. This includes Generika, which has grown into a nationwide drugstore chain. Its importer and distributor, IE Medica and MedEthix, have established their presence in various therapeutic areas.
AC Health supplies access to primary, specialty, and multi-specialty care through its clinics and hospitals pillar. This includes the Healthway clinic network, the QualiMed Health Network, and its Healthway Cancer Care Hospital opening in 2023.

AC Health also continues to cultivate its digital health pillar. In the consolidation of KonsultaMD, HealthNow, and AIDE into one superapp, AC Health aims to launch a comprehensive platform for consultations, medicine delivery, and diagnostics.

The pandemic has further reaffirmed AC Health's ecosystem approach and has strengthened its commitment to continue investing in this system. As the sector moves forward, AC Health is keen on scaling up organically and inorganically to get closer to touching the lives of 1 in 5 Filipinos by 2030. AC Health will also continue to leverage synergies and collaborate with both public and private sectors to innovate, explore new models, and find better solutions towards improving healthcare for all Filipinos. For 2022, AC Health set forth four priority areas – (1) establish leadership in the pharma space, (2) strengthen the AC Health integrated care delivery network in the country across primary, specialty and multi-specialty platforms, (3) invest in health technology solutions that enable synergies across AC Health, and (4) build the AC Health portfolio.

**Establish leadership in the pharma space**

In 2022, the pharma group grew revenues by [11]% to ₱[5.5] billion. In its distribution business, IE Medica/MedEthix added 18 new molecules to its cabinet, stocking Generika stores with its molecules. In its drugstore arm Generika, store count was increased to 758 branches. It also supplied KonsultaMD a majority of its molecules, making up 92% of its pharma cabinet.

**Strengthen the AC Health integrated care delivery network in the country across primary, specialty and multi-specialty platforms**

In 2022, AC Health managed to pivot and grow its hospitals and clinics businesses. It opened 3 new Healthway clinics to serve more patients in the Greater Manila Area, bringing the total clinic network to 10 clinics. It likewise successfully converted select COVIDShield clients into corporate clients and improved its competitive advantage by offering tailored packages and crafting premium services. Through the hospitals, AC Health also introduced its Integrated Practice Units.

Other major activities in the year include hosting the first annual Doctors' Symposium, which featured local and international experts in the healthcare field who discussed ongoing trends, including value-based healthcare delivery, and hosting a nationwide Libreng Konsulta with partner doctors in celebration of Generika's 19th anniversary.

[Lastly, the group transitioned its COVIDShield vaccination program into its clinics.]

**Invest in health technology solutions that enable synergies across AC Health**

AC Health consolidated its digital assets into KonsultaMD, resulting in combined revenues of ₱[430] million for 2022. The KonsultaMD app is one of the country's leading health tech apps, with 2.3 million cumulative downloads and 89% growth in average revenue per user. AC Health is able to maximize the value of online-to-offline integration through KMD as it currently accounts for 20% of the platform's provider network.

**Build the AC Health portfolio**

AC Health continues to execute on its targets, creating value through pharma synergies, integrated clinical programs, digital integration, and centralized diagnostics. Alongside these efforts, it also positions itself for organic expansion through setting up more clinics and drugstores nationwide. On inorganic expansion, the group continues to explore other opportunistic investments in pharma, hospitals, and financing, and has established a long-term deal pipeline for the portfolio.

**Risks**

***The Group is emerging player 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 severely challenged the country's healthcare system, the sector is primed for disruption.

With such a dynamic environment, however, comes AC Health's challenges across key areas:

- On managing customer/patient demand: While demand recovers post-COVID, there is a need for health facilities to innovate and adapt to the change in health-seeking behavior for patients with primary, chronic, and preventive care concerns, across its clinics and hospitals.
- On the availability of healthcare professionals: The network remains challenged in attracting and retaining human resources for health, including doctors, nurses, pharmacists and other allied medical professionals. The country's nurse shortage in particular is a massive pain point, as brain drain persists given better working conditions overseas, and as local companies (such

as BPOs) promise higher compensation versus that in a health facility.

- On the overall market landscape: AC Health remains steadfast in pursuing its vision for healthcare, despite competing alongside well-established players that have built trusted brands, have a longer operating history, have cost advantages and/or have greater expertise and financial resources. New entrants also pose a risk as they further recognize the opportunities and upside of the Philippine healthcare market.
- Given a favorable regulatory environment, it has been opportune for the business to actively push its advocacies on generic medicines, primary care, specialty care, and health tech. However, scaling operations and realizing profitability will require more time and substantial expenditures. While its vision to build an integrated healthcare ecosystem sets it apart from other players in the industry, the Group will need to consistently deliver excellence in the near-term, with limited available resources for investment.

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**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 Fiipino 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 retailed 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 childhoold 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.

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.

**EDUCATION**

Following the merger between AC Education and iPeople in May 2019, iPeople became the listed holding company for Ayala's investments in education. The merger, in partnership with the Yuchengco Group of Companies, brought together seven (7) schools with 54,000 students in diverse socio-economic and geographic market segments across the nation, including the National Capital Region, the CALABARZON region, the Bicol region, and Mindanao.

iPeople aims to empower Filipino families by delivering accessible, quality education that enables significantly improved employability for our high school and college graduates. iPeople's mission is to transform lives and society by innovating Philippine education and research. We seek to achieve this through proprietary student value-add programs, continuous upskilling of our teachers, strong industry partnerships, and new technology – enabled delivery methods.

***Affordable Private Education Centers Schools***

APEC Schools was established in 2013 with the vision of providing quality private education affordable for Filipino high school students, and has scaled up to become the largest chain of private stand-alone high schools in the country. It emphasizes developing graduates who have strong critical thinking skills, are tech savvy and self-confident, have a good command of the English language, and can use their problem solving strengths to help their communities. APEC offers innovative learning at very accessible prices across 17 campuses in the NCR, Rizal, Cavite and Batangas. It achieved 67% growth in new enrollees in SY 2022-23 versus the prior year.

APEC was one of the first high schools to offer a technology enabled educational curriculum and delivery. In 2021, Google recognized APEC Schools as a Google Reference School - the first and only one in the Philippines. This recognition is for schools who utilize Google's educational tools in creative, innovative, and exemplary ways, to create a positive impact on the educational development of students.

***University of Nueva Caceres***

AC Education acquired the 74-year-old UNC in 2015. Providing basic and higher education, it is the oldest and largest private university which offers a nurturing education and serves as a key factor of progress in Naga and the Bicol region. As of 2022, a total of 40 programs are accredited by the Philippine Association of Colleges and Universities Commission on Accreditation (PACUCOA). During the last seventy-five years, the University of Nueva Caceres has produced 163 top-notchers in government Bar and Board examinations. Aside from this, UNC has also produced many student leaders awarded by national and regional recognition bodies. This hefty collection of "golds" speaks well of the quality of instruction in UNC.

UNC offers programs in the Arts and Sciences, Business and Accountancy, Computer Studies, Criminal Justice Education, Education, Engineering and Architecture, Nursing, Law, Graduate Studies and Basic

Education. In 2022, the Legal Education Board recognized UNC School of Law as the top Law School in Region V.

***National Teachers College***

In 2018, AC Education acquired NTC. Founded ninety-three (93) years ago, NTC is the pioneering private institution for teacher education in the country. It serves students from Kinder up to the Doctorate Level. Despite continuously upgrading its services and facilities, NTC maintains its affordability, bringing accessible quality education to transform the lives of Filipinos. With a student population of more than [15,744], NTC continues to perform its share in educating and training teachers, administrators, supervisors, and other professionals who will serve the interest of the Republic of the Philippines and the world at large.

NTC was founded in 1928 and was the Philippines' first Higher Education Institution to offer collegiate programs dedicated to teacher education. It is a leader in the field of teacher education and its performance in the Licensure Examination for Teachers has consistently been above the national passing rate.

Given its goal of developing professionals for national productivity and global competitiveness, NTC has expanded its collegiate programs to include accountancy, business, hospitality and tourism management, IT, library science, and psychology. NTC has always endeavored to make its learning system and student activities relevant and modernized to ensure that its students learn more, excel in their chosen fields, and become holistically mature individuals. NTC has partnered with industry leaders such as Google for Education and LinkedIn to help ensure the career readiness of its graduates. Its new enrollment in SY 2022-23 is up 24% since SY 2019-20, prior to the onset of the pandemic, and its current student population is over 16,000.

***Mapúa University***

Mapúa University is ranked in the top 6% of the world's higher educational institutions, and one of only four Philippine universities in the Times Higher Education ("**THE**") World University Rankings ("**WUR**") 2023, together with UP, Ateneo and LaSalle. It is also ranked #2 in research in the Philippines by THE. It is a Quacquarelli Symonds-rated 4 Star institution and among the top 100 universities in Southeast Asia. It also won the Gold Award for Digital Readiness from the prestigious Wharton-QS Reimagine Education Awards 2022.

Mapúa is a comprehensive university, with almost a century of cutting-edge education, offering academically excellent programs in Engineering and Sciences, Architecture and Design, Information Technology, Business and Management, Communication and Media Studies, Liberal Arts, and Health Sciences.

Mapúa University is a premier engineering and technological university in the Philippines. It is one of 7 Philippine Universities included in the QS (Quacquarelli Symonds) Asia University Rankings, has a QS 4-Stars Ranking, and has received ranks in all of the UN's 17 Sustainable Development Goals in the 2022 THE Impact Ranking. QS and THE are the two most prestigious world university ranking systems today. Mapua has the most number of engineering programs in the Philippines declared as Centers of Excellence by the Commission on Higher Education. Founded in 1925, Mapua is one of the country's leading engineering and technical universities. It is a world ranked QS-4 Star university, was granted Autonomous status by the Commission of Higher Education in 2019, and is the school with the most CHED Centers of Excellence in engineering. Mapúa serves students in senior high school, college, and graduate school levels. Mapúa is the first school in Southeast Asia to obtain accreditation from ABET, a US-based non-profit, non-governmental agency that accredits college and university programs in applied and natural science, computing, engineering, and engineering technology. To date, Mapúa has the most number of ABET-accredited programs for a single campus in the country.

A recognized leader in digital education and online learning in the Philippines, Mapúa continuously provides enriching and engaging learning experiences to its students using the latest in educational technology, enhancing its capability for effective teaching and learning in a digital environment. In November 2022, the QS Asia University Rankings 2023 rankings named Mapúa as a top 100 university in Southeast Asia (#88).

Placing #551-600 overall, Mapúa continues to be among the Philippines' leaders in the highly anticipated rankings.

***Mapúa Malayan Colleges Laguna***

Mapúa MCL is located in Cabuyao, Laguna, and offered its first programs in 2007. One of the best board exam performing private schools in Calabarzon, Mapúa MCL is the youngest ever school to attain CHED Autonomous Status in the country. It has also earned a 3-star overall rating from the UK-based Quacquarelli Symonds ("**QS**") Star Rating System, one of the world's leading higher education rating systems. It is also the first ISO 21001:2018 - EOMS Certified School in Calabarzon.

With over 6,000 students, it offers programs in engineering, computer science, IT, multimedia arts, business, accountancy, hotel & restaurant management, health sciences, as well as senior high school. In late 2021, MMCL launched Mapua Malayan Digital College, a new college focused on technology and business. It is an affordable digital-first offering that delivers cutting-edge online classes and mall-based learning hubs designed for the modern Filipino student. It also harnesses the academic excellence and heritage of Mapúa University and MCL. In 2022, MMCL also began offering its first post-graduate degree, the Master of Science in Shipping Business in partnership with the Business College of Athens.

***Mapúa Malayan Colleges Mindanao***

MMCM is located in Davao City and commenced operations in 2018. With over 5,000 students, it offers programs in business, arts and science, health sciences, computer and information science, engineering and architecture, senior high school and junior high school.

In 2022, MMCM won the prestigious global Catalyst Award for Teaching and Learning for its innovative HyFlex (hybrid flexible) approach to blended learning. The award honors institutions that use learning management systems in innovative ways to advance learning, and was given by Anthology, one of the world's leading EdTech companies. Its other differentiators include learner-centered outcomes-based education, extensive industry partnerships, Mindanao-centric curricula and advanced learning facilities.

***Malayan High School of Science***

MHSS is a private junior high school focused on preparing its students for STEM programs and is well-known for winning interscholastic science competitions in the country. Malayan Science implements innovative curricula, offering advanced subjects and courses in STEM, Robotics and Technology, Internet of Things ("**IOT**"), Microsoft Office Productivity Tools, and Coding. It houses state-of-the-art classrooms, laboratories, and facilities and utilizes digital resources and technologies for teaching and learning.

**Risks**

***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 ESC, Senior High School Voucher and Tertiary Education Subsidy programs.

Frequently changing government regulations on face to face, hybrid and distance learning.

In addition, iPeople may incur substantial expenditures in developing and scaling its operations in the face of rapidly evolving competitors, both here and abroad.

iPeople is constantly monitoring the regulatory and competitive landscape for any changes that may have an impact on its existing and potential markets.

**AC VENTURES HOLDING CORP. ("AC VENTURES")**

AC Ventures is Ayala's platform for investing in new businesses and technologies that either enable Ayala's existing business units, or open pathways for scale and growth in new verticals, emerging trends, disruptive business models, and strategic partnerships. With the inherent dynamism of these fields of play, AC Ventures regularly calibrates its portfolio, rationalizes existing assets as needed, and refocuses capital into opportunities that show an emerging track record of strategic advantage and scalability. AC Ventures also intends to allocate capital to promising digital enabler plays at all stages of development, whether through new opportunities outside the group or co-investments with other Ayala business units. Its digital portfolio encompasses bets in e-commerce, fintech, and digital infrastructure. AC Ventures holds a ~44.6% stake in Zalora Philippines, the largest fashion and lifestyle ecommerce platform in the country, as well as a ~10% stake in Etaily, an e-commerce enabler that provides brands and merchants (including Ayala Malls) with solutions to help them pursue omnichannel distribution ambitions. AC Ventures is also invested in a ~5.2% stake in Mynt, a fintech joint venture with Globe, Ant Financial, and other private equity investors that operates the GCash, the country's largest e-wallet platform. Lastly, as part of the AC Ventures portfolio, AC directly invested in a 10% stake in Globe STT GDC, Inc., a joint venture with Globe and Singapore-based STTelemedia that offers data center services to enterprise and hyperscale clients..

AC Ventures has also set up two parallel capital deployment platforms with mandates to invest in promising opportunities at different stages of growth. As its corporate venture capital arm, AC Ventures is committed to contribute $100 million to the $180 million-Ayala Corporation Technology Innovation Venture ("**ACTIVE**") Fund, managed by Globe's Kickstart Ventures and mandated to invest in early- up to late-series stage promising startups across the region in tech and traditional areas such as data and analytics, artificial intelligence, cloud computing, real estate, retail, and water. More recently, AC Ventures has also entered into a co-investment arrangement with 917Ventures, Globe's corporate incubator platform, aiming to capitalize corporate seed investments that show high potential for scale and growth.

Finally, AC Ventures oversees Ayala's offshore investments through AG Holdings. Over the past several years, AG Holdings has served as Ayala's vehicle for its investments in private equity and real estate funds, property co-investments, and technology business ventures across Asia and the United States. These assets are primarily passively managed and represent minority stakes. Ayala's $237.5 million strategic investment in the Yoma Group is held under AG Holdings.

AC Ventures has also been open to opportunities for value-optimizing portfolio moves on its offshore investments and, on a case-to-case basis, its digital assets. In this regard, AC Ventures has received $43.8 million in 2021 from its sale of its stakes in the technology investee Milestone Group, fintech funds Arbor Ventures Funds I and II, and property investments Arch Capital Fund IV and Victoria Arbors in the US, and $6.4 million in 2022 from property investments Arch Capital Fund I and Sares Regis Fund III. In February 2023, AC Ventures has also sold its 25.5% stake in Cartera Interchange Corporation, a payments and loyalty points platform service provider, to its joint venture partners BPI Capital and Indonesian tech group Indivara. AC Ventures' exit from Cartera served to consolidate governance in the joint venture, enabling more agile operations to support BPI's customer programs.

**WATER**

**Overview**

Manila Water is principally engaged in the business of providing water, sewerage and sanitation services to more than seven (7) million people in the East Zone of Metro Manila in the Philippines,

covering twenty-three (23) cities and municipalities, including Makati, Mandaluyong, San Juan, Taguig, Pateros, Marikina, Pasig, most of Quezon City, certain towns Rizal Province, as well as some parts of Manila. Manila Water was established and incorporated on January 6, 1997. On February 21, 1997, under a 25-year Concession Agreement Metropolitan Waterworks and Sewerage System (MWSS), Manila Water was given the exclusive right to provide services to the East Zone of Metro Manila, as an agent and contractor of the MWSS (the "**East Zone Concession**"). The Company's concession was extended for 15 years by MWSS and the Philippine Government in 2009, from May 7, 2022 to May 6, 2037.

On February 1, 2020, Manila Water and Prime Metroline Holdings, Inc. ("**Prime Metroline**"), on behalf of its subsidiary Trident Water Company Holdings, Inc. ("**Trident Water**"), signed a subscription agreement for the acquisition by Prime Metroline of 820.0 million common shares (equivalent to 24.96% economic rights) of Manila Water at ₱13.0 per share. On February 7, 2020, Prime Metroline announced its intention to make a mandatory offer for Manila Water's shares at an offer price of ₱13.0 per share. In addition, on February 6, 2020, as part of the shareholder agreement to be executed among the Company, its wholly-owned subsidiary Philwater Holdings Company, Inc. ("**Philwater**") and Trident Water, the executive committee of the Company approved the grant of proxy rights by Philwater to Trident Water over its 4 billion preferred shares to enable the latter to achieve 51.0% voting interest in Manila Water, subject to the conditions set out in the subscription agreement. Upon the grant of the proxy rights to Trident Water, the Company's voting interest in Manila Water will be 31.6%. On February 15, 2021, Manila Water and Prime Strategic Holdings, Inc. (previously known as Prime Metroline Holdings, Inc.) signed an Amendment to the Subscription Agreement which was originally executed by both parties 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 incorporation of updated payment terms which is 50% upon closing and 50% upon call of Manila Water's Board of Directors. Furthermore, Philwater and Trident Water signed a share purchase agreement wherein the former agreed to sell 2,691,268,205 of its preferred shares in Manila Water to the latter. The purchase of the preferred shares reflects a 39.09% voting stake and 8.19% economic stake in Manila Water. The purchase price for the preferred shares was set at ₱1.80 per share, resulting in a total purchase price of over ₱4.8 billion. The aforementioned transactions closed on June 3, 2021, as a result of which Trident Water gained control over Manila Water from the Group.

Manila Water is currently listed on the PSE.

**Business of Manila Water**

Manila Water provides services under the Concession Agreement entered into with MWSS on February 21, 1997. It started operations on August 1, 1997. The Concession Agreement granted Manila Water the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets required to provide water delivery and sewerage services in the East Zone for a period of twenty-five (25) years. On April 16, 2009, Manila Water's application for the 15-year extension of the Concession Agreement was acknowledged and approved by the MWSS Board of Trustees through resolution No. 2009-072. The resolution was confirmed by the Department of Finance following the special authority granted by the Office of the President, effectively extending the term of the concession from 2022 to 2037.

On March 31, 2021, MWSS and the Company executed a Revised Concession Agreement ("**Revised CA**") following the directive of government to review the provisions of the original Concession Agreement. The resulting Revised CA retains important aspects of the original Concession Agreement such as the Rate Rebasing mechanism, as well as the confirmation of the concession period duration to be until July 31, 2037.

On December 10, 2021, the franchise of Manila Water (Republic Act 11601) was signed into law and became effective on January 25, 2022. Said law grants Manila Water the franchise to establish, operate and maintain a waterworks and sewerage system in the East Zone Service Area of Metro Manila and the Province of Rizal. It confirms the status of Manila Water as a public utility, consistent with the provisions of the Revised CA.

Aside from the East Zone, Manila Water holds all its domestic operating subsidiaries through Manila Water Philippine Ventures, Inc. ("**MWPV**"). Currently under MWPV are (1) bulk water supply

businesses; (2) water distribution and used water services businesses; and (3) business-to-business water and used water service businesses.

Outside of the Philippines, Manila Water operates through its holding company for international ventures, Manila Water Asia Pacific Pte. Ltd. ("**MWAP**"). Through MWAP, Manila Water has (1) 49% ownership in Thu Duc Water B.O.O. Corporation, the largest private bulk water operator in Ho Chi Minh City, (2) a 47.35% stake in Kenh Dong Water Supply Joint Stock Company, a bulk water supplier in Ho Chi Minh City supplying bulk water to Saigon Water Corporation, (3) holdings in Saigon Water Infrastructure Corporation ("**Saigon Water**"), a holding company listed in the Ho Chi Minh City Stock Exchange, and (4) holdings in Cu Chi Water Supply Sewerage Company, Ltd. ("**Cu Chi Water**").

Apart from its operations in Vietnam, MWAP has associates in Thailand, Indonesia and Kingdom of Saudi Arabia ("**KSA**") by way of the following companies: (1) 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; (2) PT Sarana Tirta Ungaran ("**PT STU**"), an industrial water supply operation in Indonesia; and (3) International Water Partners Company ("IWP"), a consortium between Saur SAS, Miahona Company and Manila Water for the execution of the management, operation and maintenance contract with KSA's National Water Company's North West Cluster.

Lastly, Manila Water Infratec Solutions. ("**MWIS**"), a wholly-owned subsidiary of Manila Water, handles after-the-meter products and services including pipe-laying, integrated wastewater services and the incubation of new sector businesses.

**The East Zone Concession**

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.

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.

On March 31, 2021, Manila Water and the MWSS executed a Revised Concession Agreement ("**Revised CA**") amending the Concession Agreement for the operation and maintenance of the waterworks and sewerage system within the Service Area East of the MWSS.

The Revised Concession Agreement confirms the continuation of the concession until July 31, 2037 and maintains the rate rebasing mechanism under the Concession Agreement. Thus, rates for water and sewerage services shall still be set at a level that will permit Manila Water to recover over the term of the concession expenditures efficiently and prudently incurred and to earn a reasonable rate of return. The Revised CA largely adopts the provisions of the New Clark City – Joint Venture Agreement ("**NCC-JVA**") for the development of water and wastewater infrastructure in New Clark City. Consistent with the NCC-JVA, the Revised CA removes corporate income taxes from recoverable expenditures as well

as the quarterly adjustments for foreign currency differential. To mitigate the impact of tariff increases on customers, the Revised CA lowers the inflation factor to 2/3 of the consumer price index adjustment and imposes caps on increases in standard rates for water (1.3x the previous standard rate) and wastewater (1.5x the previous standard rate). Finally, instead of a market-driven appropriate discount rate, Manila Water shall be entitled to a fixed 12% nominal discount rate.

Recovery of the economy post-COVID 19, the CA Agreement includes a tariff freeze until December 31, 2022. Service obligations will be adjusted in line with the new standards under the Revised Concession Agreement with corresponding realignments to the 2018 Service Improvement Plan to be finalized with the MWSS.

The Revised CA will be covered by an undertaking letter from the Republic of the Philippines applicable to contracts and obligations existing at the time of execution of the agreement.

The Revised CA shall be effective upon compliance with all conditions precedent but not later than six (6) months from the date of signing or until September 30, 2021.

On February 16, 2022, the Parent Company and MWSS signed a Fourth Amendment to the RCA to further extend the effective start date of the RCA up to March 18, 2022 to allow more time for the completion of remaining conditions precedent to the effectivity of the RCA.

On December 10, 2021, the franchise of Manila Water (Republic Act 11601) was signed into law. This grants Manila Water the franchise to establish, operate and maintain a waterworks and sewerage system in the East Zone Service Area of Metro Manila and the Province of Rizal. It confirms the status of Manila Water as a public utility, consistent with the provisions of the Revised Concession Agreement executed between Metropolitan Waterworks and Sewerage System ("**MWSS**") and Manila Water on March 31, 2021.

The franchise shall coexist alongside the RCA, wherein the RCA shall serve as the certificate of public convenience and necessity ("**CPCN**") of Manila Water. Specifically, the RCA contains the terms and conditions of Manila Water's concession for the provision of water and wastewater services to the East Zone Service Area, Rizal, and Cavite. The RCA will remain valid unless terminated after due notice and hearing.

The term of the RCA is currently until 2037. However, the franchise authorizes MWSS to extend the term of the RCA up to the term of the franchise, when public interest for affordable water security requires and upon application by Manila Water, subject to notice and hearing.

**Water Operations**

The supply of water by Manila Water to its customers generally involves abstraction from water sources and the subsequent treatment and distribution to customers' premises. In 2020, the East Zone Business Operations supplied a billed volume of 506 million cubic meters ("**MCM**") of water compared to 494 MCM billed in 2019 and 503 MCM billed in 2018, reflecting 1,033,211 water services connections as of December 31, 2021 as compared to 1,017,639 water services connections as of December 31, 2020 and 1,002,380 water service connections as of December 31, 2019. In 2021, the East Zone Business Operations posted a billed volume of 489 MCM of water compared to 506 MCM billed in 2020, with the decrease primarily due to lower consumption across all segments, largely coming from the Commercial and Industrial segments, amid the prevailing COVID-19 pandemic. Water service connections for 2021 was at 1,033,211, representing a 2% increase from the same period last year.

***Water Resources***

Under the Concession Agreement, MWSS is responsible for the supply of raw water to Manila Water's distribution system to enable the latter to service its current and future demand. Manila Water has a current allocation from its existing water source, Angat Dam, of a maximum of 1,600 MLD. In case MWSS fail to supply the required quantity, Manila Water is required to distribute available water equitably to its customers. *See also "– Suppliers" for further information on the water sources of Manila Water.*

***Water Treatment***
Raw water is stored at the La Mesa reservoir located immediately downstream of the Novaliches portal interconnection prior to treatment in three filter plants, two of which are located 7 km away in Balara and one near the La Mesa dam. Aqueducts enable either intake from three towers at La Mesa reservoir or by-pass flow direct from the portal interconnection to Balara.

The Balara treatment plants have a total design capacity of 1,600 MLD and consist of two separate treatment systems: Balara Treatment Plant 1 which was commissioned in 1935 with a design capacity of 470 MLD and Balara Treatment Plant 2 which was commissioned in 1958 with capacity of 1,130 MLD. The East La Mesa Treatment Plant is located in Payatas, Quezon City and was commissioned in June 2012. It has the capacity to treat 150 MLD of water. It supplies water to developing areas in the Rizal province. The treatment process in these plants involves coagulation, flocculation, sedimentation, filtration and chlorination. The facilities consume higher quantities of chemicals during the rainy season when the turbidity of raw water increases, which consequentially leads to increased costs of treatment operations.

In March 2019, Manila Water's treatment plant in Cardona became operational. The Cardona plant uses advanced technical processes to treat the raw water from Laguna Lake. 'Raw' water has highly variable qualities like salinity, organic matter and turbidity, making its treatment much more complex than typical surface water. These techniques include pre-ozonation, Actiflo® settlers and Actiflo® CARB, dual media filters, reverse osmosis and post-chlorination. The Cardona plant has raw water intake structures, a raw water pump station, a waste treatment facility, a process optimization research facility, as well as a storage reservoir and distribution pipelines.

The Luzon treatment plant was commissioned in June 2019 to supply the parts of Quezon City affected by the water shortage earlier in 2019. This plant draws 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 systems found at the Balara and East La Mesa plants. Ultrafiltration is a type of membrane filtration process wherein pressure-driven raw water passes through a semi-permeable membrane, of very small pore size, enough to separate suspended solids, endotoxins, bacteria, viruses, and other pathogens. The filtered water has most turbidity removed; thus, it has high purity and low silt density.

**Water Distribution**

After treatment, water is distributed through Manila Water's network of pipelines, pumping stations and mini-boosters to bring potable water to its customers at set pressure standards. As of December 31, 2022, 99.15% of currently served areas have water supply with pressure of at least 7 psi. 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, 2022, Manila Water's network consisted of approximately more than 5,366 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. As of December 31, 2022, approximately 60% of the treated water supplied by Manila Water was pumped to ensure pressure compliance especially for the highly elevated areas. Manila Water operates twenty-one (21) pumping stations with a combined maximum pumping capacity of 3,100 MLD and an average plant output of around 1,000 MLD. Most of the major pumping stations have reservoirs with a combined capacity of almost 570 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 Manila Water. Line boosters are small facilities aimed at augmenting water supply in areas which are not sufficiently supplied by the regular operations of the pump stations.

**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 maintenance of household septic tanks in the East Zone. Areas with sewer access are principally located in Quezon City and Makati; however, parts of Manila, Taguig, Cainta, Pasig and Mandaluyong are also connected to sewer networks.

Customers who are not connected to the sewer network are provided with septic tank maintenance services through the "Sanitasyon Para Sa Barangay" program. Through cooperation with the barangays, the "Sanitasyon Para Sa Barangay" program aims to de-sludge all septic tanks in a barangay without charge over a specified, set schedule. In 2020, the Company provided the service to 622,511 people, equivalent to emptying 77,438 septic tanks.

As of December 31, 2021, the Company was operating forty-one (41) wastewater facilities and sewage treatment plants, with a total capacity of 310 MLD.

**New Business Initiatives**

Although the bulk of Manila Water's business is focused on its core East Zone operations, Manila Water operates water utility projects outside of the East Zone through joint venture agreements and brings its expertise in water and wastewater services outside of the East Zone 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 and other key regions.

Manila Water executes several contracts related to the water business such as performance-based contracts for nonrevenue water reduction, bulk water supply arrangements, property management and operation models, lease agreements, and operations and maintenance contracts. Manila Water has also signed joint venture agreements and investment agreements with local and international partners in recent years.

**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. All projects are assessed for their environmental impact and where applicable, must obtain an ECC from the DENR prior to construction or expansion. Subsequent to construction, air emissions and effluents from 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.

Manila Water continues to undertake improvements in the way it manages both treated water and used water as well as treatment of by-products such as backwash water, sludge and biosolids. Manila Water has contingency plans in the event of unforeseen failures in the water and used water treatment or chemical leakage and accidental discharge.

Manila Water also adopted a policy on climate change. While Manila Water undertakes 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, Manila Water is also focused on climate change adaptation such as intensifying watershed rehabilitation work, resiliency and adaptation 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.

**Competition**

Manila Water does not face direct competition within its principal areas of operation as it operates in a highly regulated industry.

**Suppliers**

Manila Water substantially relies on surface waters coming from the Angat River System as its primary source of raw water. The surface waters from the sources are collected and impounded through the Angat Dam, conveyed subsequently through the Ipo Dam where water is diverted through tunnels to Bicti and aqueducts to La Mesa. Only a very small amount of Manila Water's water supply is ground-sourced through deep wells.

In March 2019, the La Mesa Reserve breached the critical level of 69 meters which prevented Manila Water from getting its 150MLD per day from the said dam. This additional 150MLD is important to augment the 1,600MLD contractual allocation Manila Water gets from the Angat Dam. Without the additional 150MLD of raw water from the La Mesa Reserve, Manila Water was unable to fully serve peak demand at sufficient pressure. Consequently, from 100% service, Manila Water's service degraded to almost 70% at its lowest point during this period.

In April 2019, the MWSS imposed a financial penalty to Manila Water amounting to ₱534 million for its inability to meet its service obligations to provide around the clock water supply to its consumers in accordance with the Concession Agreement. This inability to provide continuous water supply to was primarily because Manila Water's allocated water supply from Angat Dam was no longer sufficient for the total demand of the East Zone consumers. Manila Water's raw water allocation has remained unchanged at 1,600MLD since the Manila Concession began in 1997 and the East Zone had a population of only three million. Today, Manila Water serves a population of approximately seven million people. For many years, Manila Water has strongly advocated for the development of new water sources beyond Angat Dam, both to ensure sufficiency of water supply as well as for resiliency in the face of calamities. However, the development of new water sources is, under the Concession Agreement, ultimately the responsibility of MWSS.

Manila Water undertook its own initiatives to address prevailing challenges and restore water service to customers. First, Manila Water voluntarily implemented a one-time Bill Waiver Program in March 2019 to help alleviate the inconvenience of all customers and assist severely affected areas. Second, Manila Water energized the Cardona Plant which is producing well over its original committed capacity of 50MLD, currently with a total production capacity of 100MLD. Third, Manila Water undertook the recommissioning and development of new deep wells with a total current yield of over 50MLD. These initiatives, along with a more deliberate and proactive network management and optimization program, have restored water availability to regulatory levels for 99% of Manila Water customers.

**Customers**

Due to the nature of it business, Manila Water has a fixed customer base for its principal areas of operation which is in the eastern side of Metro Manila, comprising a broad range of residential, commercial and industrial customers. The East Zone Concession encompasses twenty-three (23) cities and municipalities spanning a 1,400-square kilometer area that includes Makati, Mandaluyong, Pasig, Pateros, San Juan, Taguig, Marikina, most parts of Quezon City, portions of Manila, as well as the towns of Rizal: Angono, Antipolo, Baras, Binangonan, Cainta, Cardona, Jala-Jala, Morong, Pililia, Rodriguez, San Mateo, Tanay, Taytay and Teresa. From a customer base of 310,682 water service connections in 1997, the East Zone Concession maintains over 1,000,000 water service connections, serving approximately seven million people.

**Regulations**

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. 15, Series of 2017 (Guidelines on Public Participation under the Philippine Environmental Impact Statement (EIS) System)
- DENR Administrative Order No. 28, Series of 2021 (Creation of the Environmental Law Enforcement and Protection Service)
- DENR Administrative Order No. 31, Series of 2021 (Creation of the Metropolitan Environmental Offices in NCR)
- DENR Administrative Order No. 12, Series of 2022 (Guidelines on Public Participation under the Philippine Environmental Impact Statement (EIS) System)
- EMB MC 2014-005 (Revised Guidelines for Coverage Screening and Standard Requirements under PEISS)

*Water*

- Republic Act No. 9275 or the Philippine Clean Water Act of 2004
- DENR Administrative Order No. 10, Series of 2005 (Implementing Rules and Regulations of R.A. No. 9275)
- DENR Administrative Order No. 35, Series of 1990 (General Effluent Standards)
- DENR Administrative Order No. 39, Series of 2003 (Environmental Users Fees)
- DENR Administrative Order 08, Series of 2016 (Water Quality Guidelines & General Effluent Standards)
- DENR Administrative Order 19, Series of 2021 (Updated Water Quality Guidelines (WQG) and General Effluent Standards (GES) for Selected Parameters)
- DOH Operations Manual on the Rules and Regulations Governing Domestic Sludge and Septage

*Air*

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

*Solid Waste*

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

*Hazardous Wastes and Chemicals*

- Republic Act No. 6969 or the Toxic Substances, and Hazardous and Nuclear Waste Control Act of 1990

- Philippine Drug Enforcement Agency – Republic Act 9165- Regulatory Controls in Licit Trade of Controlled Precursors and Essential Chemicals

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

*LLDA*

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

*Others*

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

*Social*

Republic Act 8371 - The Indigenous Peoples Rights Act of 1997. Please refer to page 245 of this Prospectus.

*Bayanihan Laws*

Please refer to "Regulatory Framework – Bayanihan Laws" on page 315 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.

**Dividend practice**

Under Manila Water's cash dividend practice, common shares are entitled to annual cash dividends equivalent to 35% of the prior year's net income, payable semiannually in May and October. Manila Water's board of directors may change its cash dividend policy at any time.

On November 20, 2018, Manila Water's board of directors approved a 10% cash dividend payment to its participating preferred shares, which was paid on December 20, 2018.

Manila Water's board of directors is authorized to declare cash dividends. A cash dividend declaration does not require any further approval from the stockholders, while a stock dividend declaration requires the further approval of stockholders representing not less than two-thirds (2/3) of Manila Water's outstanding capital stock.

Some of Manila Water'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 Manila Water to be applied toward certain expenses prior to the payment of dividends, and other circumstances.

Dividends paid by Manila Water for the years ended December 31, 2020, 2021, and 2022 amounted to nil, ₱1,863.8 million, and ₱1,284.3 million representing dividend payout ratios (being dividends paid divided by net income attributable to Manila Water's equity holders) of nil, 50.7%, and 21.7%, respectively.

# EMPLOYEES AND LABOR RELATIONS

*This section is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this Prospectus. Prospective investors should read the entire Prospectus carefully, including the section entitled "**Employees and Labor Relations**" and the audited financial statements and the related notes to those statements included in this Prospectus.*

As December 31, 2022, Ayala had 157 employees classified as follows:

| | |
|---|---|
| Staff | 59 |
| Managers and Executives | 75 |
| Consultants | 23 |
| **Total** | **157** |

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.

The Company is committed to safeguarding and promoting the physical and mental safety and welfare of its employees. It has transitioned to a flexible hybrid (hyflex) work arrangement, where departments create their work norms to ensure seamless collaboration and productivity, whether working in the office or from home. Amid the COVID-19 pandemic, safety protocols in the office premises continue to stay in place. Further, a mental health program was established to support employees and ensure their mental wellbeing. Employees are given access to consultations with mental health professionals for their mental well-being.

The Company believes in inspiring the employees, developing their talents, and recognizing their needs as business partners. The Learning and Organizational Development team provides several programs available even while employees are on a remote set-up, where classroom training and on-the-job immersion is limited.

# DESCRIPTION OF PROPERTY

## Ayala Corporation

Ayala Corporation signed a lease agreement with Ayala Land Inc. for three (3) floors of the Ayala Triangle Garden Tower Two Building located at the corner of Paseo de Roxas and Makati Avenue used as corporate headquarters of the Company. Other properties of the Parent Company include various provincial lots relating to its business operations totaling about 698.94 hectares and Metro Manila lots totaling 2.75 hectares The Honda Cars Makati, Honda Cars Alabang, and Isuzu Alabang dealership buildings are all located on the Parent Company's Metro Manila lots which are leased to these dealerships. Certain properties are subject to certain conditions, restrictions and covenants which the Parent Company is compliant with.

## ALI

The following table provides summary information on [ALI's landbank as of December 31, 2022.]

Properties included are either wholly owned or part of a joint venture and free of lien unless noted.

| In Estates | Location | Ha. | Outside Estates | Ha. |
|---|---|---|---|---|
| **Metro Manila** | | **168** | **Metro Manila** | **106** |
| Makati CBD | Makati City | 46 | Las Piñas | 86 |
| BGC | Taguig City | 27 | QC | 11 |
| Arca South | Taguig City | 21 | Pasig | 4 |
| Parklinks | Quezon City - Pasig City | 18 | Paranaque | 3 |
| Ayala Alabang | Muntinlupa City | 18 | Makati | 2 |
| Circuit Makati | Makati City | 17 | Mandaluyong | 0.6 |
| Cloverleaf | Quezon City | 9 | Manila | 0.3 |
| Vertis North | Quezon City | 7 | Pasay | 0.3 |
| The Junction Place | Quezon City | 4 | | |
| Southpark District | Muntinlupa City | 2 | | |
| **Luzon** | | **5,041** | **Luzon** | **5,022** |
| Nuvali | Sta. Rosa, Laguna | 1,429 | Cavite | 2,526 |
| Alviera | Porac, Pampanga | 1,173 | Batangas | 988 |
| Altaraza | San Jose Del Monte, Bulacan | 864 | Laguna | 755 |
| Lio | El Nido, Palawan | 767 | Bulacan | 236 |
| Vermosa | Imus, Cavite | 340 | Bataan | 220 |
| Cresendo | Tarlac City, Tarlac | 276 | Pampanga | 197 |
| Evo City | Kawit, Cavite | 160 | Quezon | 46 |
| Broadfield | Binan, Laguna | 32 | Camarines Sur | 26 |
| | | | Rizal | 15 |
| | | | Nueva Ecija | 6 |
| | | | Tarlac | 6 |
| | | | Cagayan - Tuguegarao | 2 |
| **Visayas** | | **899** | **Visayas** | **316** |
| Sicogon Island Resort | Iloilo | 810 | Cebu | 172 |
| North Point | Talisay, Negros Occidental | 23 | Negros Occidental | 87 |
| Cebu Park District | Cebu City, Cebu | 22 | Iloilo | 58 |
| Gatewalk Central | Mandaue, Cebu | 13 | | |
| Seagrove | Mactan Island, Cebu | 11 | | |
| Southcoast City | Cebu City, Cebu | 11 | | |
| Atria Park District | Mandurriao, Iloilo | 8 | | |
| Capitol Central | Talisay, Negros Occidental | 0.4 | | |
| **Mindanao** | | **274** | **Mindanao** | **657** |
| Habini Bay | Laguindingan, Misamis Oriental | 242 | Davao del Sur | 430 |
| Azuela Cove | Davao City, Davao del Sur | 22 | Misamis Oriental | 227 |
| Abreeza | Davao City, Davao del Sur | 6 | | |

| | | | |
|---|---|---|---|
| Centrio | Cagayan de Oro, Misamis Oriental | 3 | |
| **December 31, 2021 Land Bank: 12,483** | | **6,381** | **6,102** |

***Leased Properties***

The Company 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 ₱106.5 Million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, the Company transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity.

On January 28, 2011, a notice was given to the Company, that as the bidder with the highest responsive bid, it has been awarded 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. The Company signed a 25-year lease contract for the property on June 22, 2011, with an option to renew for another 25 years by mutual agreement of the parties. Subsequently, in 2015, the Company assigned the lease to Ayalaland Metro North, Inc. (AMNI). As of end 2022, the retail establishment has a gross leasable area of approximately 63,000 sqm of available gross leasable area and a combination of headquarter-and-BPO-type buildings with an estimated 8,000 sqm of GLA have been constructed. Monthly rent is equal to the higher of either: (i) ₱215.65/sqm of the Gross Useable Area, subject to annual escalation at the rate of five percent (5%) (Minimum Guaranteed Rent); or (ii) seventeen percent (17%) of the gross rental income.

***Rental Properties***

The Company's properties for lease are largely shopping centers, office buildings and hotels and resorts. As of December 31, 2022, rental revenues from these properties amounted to ₱33.4 Billion equivalent to 26% of consolidated revenues. This is 62% higher than ₱20.6 Billion recorded in 2021. Lease terms vary depending on the type of property and tenant.

***Property Acquisitions***

With 12,492 hectares in its land bank as of December 31, 2022, ALI believes that it has sufficient properties for development in the next twenty-five (25) years.

While ALI is not currently engaged in any negotiations involving property acquisition, it continues to seek new opportunities for additional, large-scale, mixed-used and sustainable estates which serve as platforms for ALI's property development and commercial leasing projects, 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 in Luzon, Visayas and Mindanao with progressive economies that offer attractive potential and where projected value appreciation will be fastest. ALI estimates the aggregate costs of acquisition per year to be between ₱10.0 to ₱15.0 billion, depending on the opportunities that may arise and negotiations with third parties. This will be funded by combination of internally generated funds and/or other credit facilities available to the group which may include bank borrowings, as the Issuer may consider commercially favorable at the relevant time.

***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.

**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, 2022 are shown as follows:

| LOCATION | FLOOR AREA (square meters) | CAPABILITIES |
|---|---|---|
| **Manufacturing Sites** | | |
| Philippines - Laguna<br>(2 sites) | 107,942 | - 31 smt lines 2 FC lines<br>- 5 COB / COF lines<br>Box build to Complex Equipment Manufacturing<br>- LVHM, HVLM<br>- Solder Wave, Potting. AI & AG W/B<br>- Protective Coating<br>- ICT, FCT, AOI, RF Testing<br>- Design & Development<br>- Test & System Development<br>- Cleanroom to class 100<br>- Low Pressure Molding (Overmold)<br>- Precision Metals / Machining<br>- Power Component Discrete Packaging e.g. 2L,3L,4L TO-247, 3L TO252 2L 3L TO-220<br>- Silicon Carbide and Gallium Nitrade Packaging<br>- Ag Sintering Process<br>- Diversified Packaging - from Low to High Power and Small to Large Outline<br>- R & D line / Captive Lines for Power QFN and Modules<br>-Customized Power Packaging Requirements<br>-Low / Med Power Discrete Packaging and Processes including Au Wire Bonding<br>- Al Ribbon, CU Clip interconnect<br>- 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<br>- Box Build<br>- PTH, POP, Auto Pin Insertion, Solder Wave, SMT, Backend line, Final Assembly<br>- POP, Auto Pin insertion<br>- Potting, Conformal coating and Burn-in<br>- ICT, FCT, 3D AOI, RF Testing, 3D X-ray<br>- Test & System Development<br>- Design & Development<br>- LVHM, HVLM<br>- Sourcing, Procurement and Material Purchasing<br>- Logistics<br>- Regional support |

Description of Property

| LOCATION | FLOOR AREA (square meters) | CAPABILITIES |
|---|---|---|
| China - Kuichiong | 23,524 | -17 SMT lines<br>- Box Build<br>- PTH, Auto Pin insertion, Solder Wave<br>- ICT, FCT, AOI, RF Testing<br>- Test & System Development<br>- LVHM, HVLM<br>- X-RAY 3D testing RoHS screening instrument, BGA rework<br>- Burn-in test for high- end power supply. Thermal cycle test, Vibration test<br>- Conformal Coating Potting, PCB router, underfill<br>- Bar-code tracking system |
| China - Jiaxing | 18,452 | -12 SMT lines<br>- Vapor Phase Vacuum Reflow, SMD Odd shape Component Auto Mount<br>- Box Build (w/ Automated Customized Assembly Line)<br>- PTH, Auto Pin insertion, Solder Wave, Selective Solder Wave<br>-Full Auto Selective Conformal Coating Line and CC AOI<br>- Ultrasonic welding and lamination<br>- Plastic injection (180T/300T press)<br>- SPI, 2D & 3D AOI, ICT, FCT, 3D X-Ray, Run-in<br>- Test & System Development<br>HVLM |
| China - Chengdu | 7,500 | - 3 SMT lines<br>- Box Build<br>- PTH, Auto Pin insertion, BGA, X - Ray<br>- Solder Wave<br>- Automated Conformal Coating<br>- ICT, FCT, AOI<br>- HVLM / LVHM<br>- Test Development |
| USA-Tustin, CA* | 1,184 | - Global AME (Advance Manufacturing Engineering)<br>- Engineering and Process Development<br>- Prototype Manufacturing Center<br>- NPI (New Product Introduction)<br>- Precision Assembly<br>- 2 SMT Prototyping Lines<br>- SMT, DCA (COB, Flip Chip), THT<br>- Box Build<br>- Low Volume Production |

Description of Property

| LOCATION | FLOOR AREA (square meters) | CAPABILITIES |
|---|---|---|
| Botevgrad, Bulgaria (1 site)<br>Sofia, Bulgaria (1 site)<br><br>Nis, Serbia (1 site) | 115,416<br><br><br>50,213 | - Bulgaria - 25 SMT lines<br>- Serbia - 5 SMT lines<br>- Box Build<br>- PCB Assembly and Testing<br>- Design and Development<br>- Box Build (Manual/Semi/Automatic)<br>- Metrology and Laboratory<br>- 3D X-ray (CT)<br>- 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)<br>- Solder Wave, Selective Soldering, Manual Soldering<br>- Potting, Coating, Glue Dispensing<br>- 3D AOI, 3D SPI, ICT; FCT; RF Testing<br>- Full traceability including interlocking |
| El Salto, Guadalajara Mexico (2 sites) | 25,600 | - 9 SMT lines<br>- 43 Plastic Injection Machines (50-1,600T) including overmolding<br>- Box Build (w/ Automated Customized Assembly Line)<br>- PTH, Solder Wave, Selective Solder Wave<br>-Full Auto Selective Conformal Coating Line and CC AOI, Automated potting<br>- SPI, 2D & 3D AOI, ICT, FCT, 3D X-Ray<br>-Embedded Toolshop<br>- Test & System Development |
| Tremosna, Pizenska Czech Republic | 7,470 | - 6 SMT lines<br>- 2 Pin insertion<br>- 3 Wave soldering<br>- 2 Selective soldering<br>- 3 Selective coating<br>- ICT, FCT, AOI (SMT, CC)<br>- Mechanical Assembly<br>- 4 Automated line<br>- Further customized assembly line |
| Nuremberg, Germany (VIA)<br>VIA optronics GmbH | 4,268 | - VIA bond plus qualification<br>- Bonding material development<br>- Manual line, mainly lower quantity projects<br>- Prototype 84 inch<br>- 2 clear rooms (ISO class 6 & ISO class 7)<br>- ESD control<br>- Engineering, prototyping and production process improvement<br>- Test & System development (electrical)<br>- Optical test labor (mainly for display evaluation) |
| Suzhou, China (VIA)<br>VIA optronics Suzhou | 9,750 | - Semi autoline and full autoline<br>- Large size bonding in MaxVu II<br>- Touch capabilities, ACF process<br>-Curved bonding & bonding to plastic cover |

Description of Property

| LOCATION | FLOOR AREA (square meters) | CAPABILITIES |
|---|---|---|
| Shiga, Japan (VIA)<br>VTS - Touchsensor Co., Ltd. | 10,000 | - Metal Mesh Sensor on roll<br>- Customized design<br>- 100um.50um Film thickness<br>- Up to 55" VTS internal<br>- Up to 85" through external partners |
| UK-Hook (STI) | 5,770 | -3 high-speed ASM Siplace SMT Lines (2.4m components/day)<br>- High Reliability PCB Assembly & Box Build<br>- Full Test Facilities<br>- Dedicated prototype facility with 2 flexible Mydata lines<br>- Special processes & full repair and rework facility<br>- Clean Room, NPI, RF Screened Room |
| UK- Poynton (STI) | 6,187 | - Manufacturer of highly secure satellite communications equipment (under long term Airbuss DS contract)<br>- Manufacturer of specialist amplifiers<br>- Specialist spares and repairs<br>- Full rack wiring and integration<br>- Specialist test facility - RF Testing, Anechoic Chamber, EMC Chamber & Moog 6 Degree of Freedom Motion Bed<br>- Complex Wiring & Heavy Metalwork<br>- Advanced Box Build<br>- AS9100-D |
| Cebu, Philippines (STI) | 2,601 | - 3 high-speed placements (6m components/day capacity)<br>- High volume PCB Assembly and Box Build<br>- Equipment and operational standards fully compatible with Hook manufacturing site<br>- IP protection and full traceability guaranteed |
| Total Manufacturing Space | 425,217 | |
| | | |
| Sales and Marketing Support | | |
| Hong Kong* | 300 | Procurement, marketing and supply chain support |
| Japan | 110 | Sales Support |
| Total Support Space | 410 | |
| | | |
| Total | 425,627 | |

**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 [813] local branches (excluding BanKo), [813] operate as BPI branches: 458 in Metro Manila/Greater Metro Manila Area and 411 in the provincial area. BPI owns 29% of these branches, and leases the 71%. On January 1, 2019, the Bank adopted PFRS 16: Leases which requires recognition of both right-of-use assets and lease liability arising from long-term leases. As of December 31, 2022, right-of-use assets and lease liabilities amounted to ₱9,011 million and ₱10,095 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, the Company also owns host exchanges in the following areas: Bacoor, Batangas, Ermita, Iligan, Makati, Mandaluyong, Marikina, Cubao-Aurora, among others.

The Company leases office spaces in W City Center, located at 7th Avenue corner 30th Street, Bonifacio Global City, Taguig, for its Network Technical Group and its affiliates, AdSpark Inc. and Globe Fintech Innovations Inc. It also leases office spaces in Limketkai Gateway Tower located in Cagayan de Oro City and in Abreeza Technohub located in Davao City. It also leases the space for most of its Globe Stores, as well as the Company's base stations and cell sites scattered throughout the Philippines.

Globe's existing business centers and cell sites located in strategic locations all over the country are generally in good condition and are covered by specific lease agreements with various lease payments, expiration periods and renewal options. As the Company continues to expand its network, Globe intends to lease more spaces for additional cell sites, stores, and support facilities with lease agreements, payments, expiration periods and renewal options that are undeterminable at this time.

*Telecommunications Equipment*

As of end December 2022, 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 Telecommuications 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 supports both traditional international long distance calls and international Voice Over IP Service. For Fixed Broadband service, Globe leverages 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 geo-redundant 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.

*Investments in Cable Systems*

To provide resiliency and geographic diversity, Globe Group has also invested in several submarine cable systems, which the Company 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)

The Company opened its first international cable landing station located in Nasugbu, Batangas that directly accessed the C2C cable network, a 17,000-kilometer-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 the Company is not a consortium member or a private cable partner. These include capacities in East Asia Crossing ("**EAC**").

On March 17, 2009, Globe formally opened its second international cable landing station in Ballesteros, Cagayan with the Company 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 kilometer 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 September 30, 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 the Company'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 Unified National Networks Sdn Bhd. (UNN, formerly Brunei International Gateway Sendirian Berhad) of Brunei, Google Singapore, 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 National Telecom Public Company Limited (NT, formerly TOT) of Thailand, in this consortium.

In August 2014, Globe Group joined a consortium of international telecommunications companies to build a $250 million cable system directly connecting Southeast Asia and the United States, the SEA-US. Completed in August 2017, the SEA-US undersea cable system provides superior latency, delivering an additional 20 terabits 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.

The $150-million Philippine Domestic Submarine Cable Network ("**PDSCN**"), the longest of its kind in the country, is on track for completion in April 2023 to further boost digitalization in the countryside. Globe partnered with Eastern Communications and InfiniVAN Inc. for the project to provide equitable and reliable connectivity across the country, including previously unserved and underserved areas across the Philippines. The project kicked off in Subic Bay, Zambales in July 2022 and has already completed 20 segments across the country, including key cities and tourism destinations.

Furthermore, Globe, together with Eastern Communications and Japan-affiliated telco InfiniVAN Inc, has commissioned NTT World Engineering Marine Corp. ("**NTT WE Marine**") of Japan for the last leg of the $150-million Philippine Domestic Submarine Cable Network ("**PDSCN**") project. NTT WE Marine will land and lay cables in the project's nine remaining segments covering 13 sites until April this year through cable ship Subaru. In 2021, PDSCN tapped state-of-the-art ship Cable Infinity from Japanese vendor Kokusai Cable Ship Co. Ltd. to connect 15 segments across the country via fiber

Meanwhile, Globe also partnered with 5 of the biggest Asian carriers to invest about $300 million for a new international submarine cable system, named Asia Link Cable System ("**ALC**"). Once completed by the Q4 of 2025, the 6,000-km ALC system will add at least 18Tbps of capacity to Globe's existing network for its internal and customer requirements through Singapore and Hong Kong, the two main

Asian hubs for internet traffic. Connecting to these nodes will boost Globe's capacity to service the growing connectivity needs of its customers. ALC will also help prepare the Philippines as a new major information and communications technology hub in the region, as the country's strategic location is already attracting the interest of hyperscalers, such as companies offering big data or cloud computing on a massive scale.

*Capital Expenditures*

Globe spent a total of ₱101.4 billion for capital expenditures as at December 31, 2022, which were funded by borrowings and cash flow from operations.

## ACEIC

***Properties***

ACEIC and its subsidiaries own the following fixed assets as of [December 31, 2022]:

| Properties | Location | Amount (in thousand Pesos) |
|---|---|---|
| **Land and land improvements** | Bacnotan, La Union/ Norzagaray, Bulacan/ San Lorenzo, Guimaras/ Manapla/ Calaca, Batangas/ Bangui, Ilocos Norte/ Palauig, Zambales/ Negros Occidental/ Botolan, Zambales | **1,815,249** |
| **Buildings and improvements** | Makati City/ Guimaras/ Norzagaray, Bulacan/ Subic/ Calaca, Batangas/ San Carlos, Negros Occidental | **785,609** |
| **Machinery and equipment** | Guimaras/ Norzagaray, Bulacan/ Bacnotan, La Union/ Calaca, Batangas/ San Carlos, Negros Occidental/ Ilocos Norte/ Lanao Del Norte/ Olongapo City/ Iloilo/ Bais City, Negros Oriental/ Alaminos, Pangasinan/ Alaminos, Laguna/ Palauig, Zambales/ Mariveles, Bataan | **16,951,738** |
| **Transportation equipment** | Makati City/ Guimaras/ Norzagaray, Bulacan/ Subic/ Bacnotan, La Union/ Pililia, Rizal/ San Carlos, Negros Occidental | **267,228** |
| **Tools and other miscellaneous assets** | Makati City/ Guimaras/ Bacnotan, La Union/ Calaca, Batangas/ San Carlos, Negros Occidental | **1,673,787** |
| **Office furniture, equipment and others** | Makati City/ Guimaras/ Bacnotan, La Union/ Norzagaray, Bulacan/ Calaca, Batangas/ San Carlos, Negros Occidental | **239,424** |
| **Construction in progress** | Calaca, Batangas/ Alaminos, Laguna/ Pililia, Rizal/ Palauig, Zambales | **45,566,578** |
| **Total** | | **67,299,613** |
| **Less: Accumulated depreciation,** | | **5,413,776** |

| **amortization and impairment** | | |
|---|---|---|
| **Net** | | **61,855,837** |

*Source: Audited consolidated financial statements as of 31 December 2022*

In 2021, the Group invested significant capital expenditures related to the following projects:

- ₱1,186.19 million for its 160 MW Balaoi and Caunayan wind power project in Pagudpud, Ilocos Norte through its subsidiary, Bayog Wind Power Corp.;
- ₱963.49 million for its 40-MW battery energy storage system ("**BESS**") project in Alaminos, Pangasinan through its subsidiary, Giga Ace 4;
- ₱572.02 million for its 120 MW solar farm project in Alaminos, Laguna through its subsidiary, SolarAce1 Energy Corp. (SolarAce1);
- ₱408.61 million for its 60 MW solar power project in Palauig, Zambales through its subsidiary, Gigasol 3, Inc.;
- ₱158.10 million for its 4.375 MWdc Renewable Energy Laboratory Facility with Energy Storage System Project in Mariveles Bataan through its subsidiary, Bataan Solar Energy, Inc. ("**BSEI**");
- ₱109.91 million for its purchase of parcels of land located at Barrio Poonbato, Botolan, Zambales through its subsidiary, Buendia Christina Holdings Cor. ("**BCHC**"); and,
- ₱68.84 million for its purchase of generator rotor for its Unit 2 122 MW thermal plant in Calaca, Batangas through its subsidiary, South Luzon Therma Energy Corporation ("**SLTEC**").

Land and land improvements include lots in Norzagaray, Bulacan, and Bacnotan, La Union where the power plants are located. In the Guimaras Wind Farm, most parcels of land acquired in 2019 approximate to 605,800 sqm. but some lots were entered as finance lease. Also included in land and land improvements are the 33.7-hectare land in Barangay Puting Bato and Sinisian, Calaca, Batangas owned by SLTEC, the 63.8-hectare land in Barangay Sta. Teresa, Municipality of Manapla, Negros Occidental owned by Manapla Sun Power Development Corporation, the 25.3-hectare land located in Barangay Baruyen, Bangui and Laoag City owned by NorthWind, and the 64.217-hectare land in Barangay Salaza, Palauig, Zambales as part of the ACEIC Philippine Transaction.

In 2020, ACEN Corporation (ACEN) purchased 100% of PINAI fund's ownership interest through step acquisition in Negros Island Solar Power, Inc. ("**ISLASO**L") and San Carlos Solar Energy, Inc. (SACASOL). SACASOL and ISLASOL own and operate the 45MW and 80MW solar farms in San Carlos, Negros Occidental, respectively. The Group acquired ownership to an approximate area of 673,422 sqm. in San Carlos, Negros Occidental from the step acquisition but some of these lots are subject of lease agreements.

In 2021, investment properties amounting to ₱438.38 million were reclassified to property, plant and equipment as the properties were being used by the ACEN's subsidiaries, Sta Cruz Solar Energy, Inc., Giga Ace 9, Inc., and SolarAce2 Energy Corp. in the ongoing construction of power plant facilities. [As at December 31, 2021, the remaining balance in investment properties pertains to BCHC's land amounting to ₱13.08 million.]

In 2021 and 2020, BCHC purchased a 1.92-hectare land located in Botolan, Zambales and a 1.79-hectare land located in Binugao, Toril, Davao City. These are classified as investment properties as these will be held for the potential use of Joint Venture-Special Purpose Vehicle projects in building and operating power plants.

Buildings and improvements are located in the respective power plants and its offices.

Lease Commitments

*One Subic Power Generation Corporation's (One Subic Power) Facilities Lease Agreement ("FLA") with SBMA*

One Subic Power has a lease contract with SBMA for a parcel of land and electric generating plant and facilities. The lease was originally entered on July 20, 2010 and was valid for five years. The agreement was amended on October 24, 2012 to extend the term of the lease to July 19, 2020 with an option to renew for another five years. On December 21, 2017, SBMA informed One Subic Power that its BOD has approved the amendments of the FLA extending the lease term until July 19, 2030. On April 3, 2018, the third amendments were signed and approved.

*Guimaras Wind Corporation's (Guimaras Wind) Lease Agreement with Various Land Owners*
Guimaras Wind has entered into various lease agreements with individual land owners where the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased assets, which indicates that the risks and rewards relates to the asset are retained with the land-owners. These leases are classified as operating leases and have terms of twenty (20) to twenty-five (25) years. Guimaras Wind has also entered into various easements and right of way agreements for the Guimaras Wind Farm that will connect to the grid. These agreements convey to Guimaras Wind the right to control the use of the utility of the asset.

*Easements and Right of Way Agreements*

In 2014, Guimaras Wind also entered into various easements and right of way agreements with landowners in Guimaras for the erection of transmission lines that will connect the SLWP to the grid. One-off payments made by Guimaras Wind to various landowners to cover the 25-year easement and right of way agreements were recognized as prepaid rent in the consolidated statements of financial position and amortized over the term of the lease. The amortization of the lease during the construction period was capitalized as part of the cost of the wind farm.

*ACEN's Agreement on Assignment of Contract of Lease*

On November 20, 2019, ACEIC, ACEN, ALI and AyalaLand Offices, Inc. entered an agreement on assignment of contract of lease. ACEIC assigned a portion of its office unit and parking slots effective September 1, 2019 to ACEN. The lease is until May 31, 2022. The lease is at a fixed monthly rate of ₱0.83 million and ₱0.01 million for the office unit and parking slots, respectively, with an escalation rate of 5% every year, beginning on the second year.

*SLTEC's Contract of Lease for Office Space*

On December 19, 2019, SLTEC notified the lessor of their intent to pre-terminate their office lease contract effective March 31, 2020. Due to government restrictions in relation to COVID-19, on March 27, 2020, SLTEC notified the lessor of its inability and impossibility to vacate by March 31, 2020, and the parties agreed to terminate the lease effective May 31, 2020. SLTEC remeasured the lease liability and right-of-use asset as a result of the termination of the contract.

*SACASOL's Contract of Lease for Land Phases 1A & 1B*

On March 7, 2014, SACASOL entered into a lease agreement with San Julio Realty, Inc. (SJRI) for the lease of thirty-five (35) hectares of land located in Barangay Punao, San Carlos City, Negros Occidental as site for the construction and operations of the Phase 1A and Phase 1B solar power plant projects. Upon execution of the agreement, SACASOL shall hold the land area delineated for Phase 1A for a period of twenty-five (25) years. The area delineated for Phase 1B shall be held for the remaining term of the agreement upon the receipt of notice by SACASOL.

On June 18, 2020, SACASOL had its lease modified with SJRI. The modification amends the timing of payment and the basis of the annual escalation rate, which is now every 10th day of January, and is based on the average of the available and published inflation rates of the CPI for the immediately preceding twelve-month period, respectively. The lease modification did not result in a separate lease.

*SACASOL's Contract of Lease for Land - Phases 1C and 1D*

On October 21, 2014, SACASOL entered into a lease agreement with SJRI for the lease of 32.4214 hectares of land located in Barangay Punao, San Carlos City, Negros Occidental as site for the construction and operations of Phases 1C and 1D solar power plant projects. Upon execution of the agreement, SACASOL shall hold the land area for a period of twenty-five (25) years.

On June 18, 2020, SACASOL had its lease modified with SJRI. The modification amends the timing of payment and the basis of the annual escalation rate, which is now every 10th day of January, and is based on the average of the available and published inflation rates of the CPI for the immediately preceding twelve-month period. The lease modification did not result in a separate lease.

*ISLASOL's Contract of Lease for Land - Phases 2A & 2B*

Part of ISLASOL's acquisition of certain solar power plant projects from SACASOL is the lease agreement between SACASOL and Roberto J. Cuenca, Sr. (the Lessor) for the La Carlota A Project. The lease of 24.4258 hectares of land located at La Carlota City, Negros Occidental was executed on June 5, 2014 as site for the construction and operations of Phases 2A and 2B solar power plant projects of ISLASOL. Upon issuance of the NTP to the contractor, ISLASOL shall hold the land area delineated for a period of twenty-five (25) years therefrom.

*ISLASOL's Contract of Lease for Land - Phase 3*

On September 1, 2015, ISLASOL entered into a lease agreement with MSPDC (the Lessor) for the lease of approximately 638,193 sq.m. of land located in Barangay Sta. Teresa, Municipality of Manapla, Negros Occidental. The term of the lease shall be for a period of twenty-five (25) years upon written notice served upon the Lessor by ISLASOL not earlier than one (1) year but not later than 3 months before the expiration of the original period of lease. Lease extension shall be in writing executed by both parties 3 months before the expiration of the original period of lease. ISLASOL has the sole option to extend the term of the lease.

*Monte Solar Energy, Inc.'s ("**MONTESOL**") Contract of Lease for Land*

On September 2, 2015, MONTESOL entered into a lease agreement with Montenegro Brothers Agricultural Corporation for 21.45 hectares of land located in Barrio Alanginlanan, Bais, Negros Oriental as site for the construction and operation of its solar power facility. The term of the lease shall be for a period of twenty-five (25) years, with a monthly rental payment of ₱7.00 per square meter, exclusive of VAT, and subject to annual adjustment based on actual inflation rate covering subject period as published/ pronounced by the National Economic Development Authority or an equivalent agency. The period of lease may be extended, under the same terms and conditions, at the sole discretion of MONTESOL for up to another twenty-five (25) years.

*SolarAce1's Contract of Lease for Land*

On September 30, 2019, SolarAce1 Energy Corp. ("**SolarAce1**") entered into a lease agreement with ALI, Crimson Field Enterprises Inc., and Red Creek Properties Inc., for 106.59 hectares of land located in Barangay San Andres, Alaminos, Laguna as site for the construction and operation of its solar power facility. The term of the lease shall be for a period of twenty-one (21) years, with a monthly rental payment of ₱15.45 per square meter, exclusive of VAT. The rental fee shall be subject to annual adjustment of whichever is higher between 3% per annum and the rate of increase of real property tax where the property is located. The period of lease may be extended, under the same terms and conditions, at the sole discretion of SolarAce1 for up to another twenty-one (21) years.

*NorthWind Power Development Corporation's (NorthWind) Contract of Lease for Rental of Office Space*

In August 2017, NorthWind's Metro Manila Administrative Office transferred to Makati. A new contract of lease was signed on September 18, 2017 with 6750 Ayala Avenue Joint Venture (AAJV) for a period of 5 years by North Luzon Renewable Energy Corp. (NLR), an affiliate of NorthWind.

An Agreement on the Assignment of Lease was signed between NLR and NorthWind on November 20, 2017. NLR assigned half of the lease premises of 123.8 sq. meters to NorthWind, with a monthly rental of ₱0.12 million subject to 5% annual escalation rate.

In January 2020, NorthWind assigned the contract of lease with 6750 AAJV to ACEN.

*Ingrid's Contract of Lease for Land*

In July 23, 2020 a Sublease Agreement was signed between Ingrid Power Holdings, Inc. and ACEIC. to sublease a land with Tabangao Realty Inc (TRI) for an approximately 41,781.86 square meters of land located in in Brgy. Malaya, Pililla, Rizal as a site to develop, operate and maintain a 150MW modular diesel engine power plant primarily intended for the provision of ancillary services to the National Grid Corporation of the Philippines. The term of the sublease shall be for a period of 6 years, with a monthly rental payment of ₱25.00 per square meter, exclusive of VAT, subject to 3% annual escalation rate. The period of lease may be extended, under the same terms and conditions to another 5 years.

*BCHC's Contract of Lease for Land*

In April 22, 2020 BCHC entered into a lease agreement with ACD Incorporated Inc. for 13.95 hectares of land located in Batangas II, Mariveles, Bataan as a site for the construction and operation of the Power Generating Facilities and its allied purposes. The term of the sublease shall be for a period of 25 years, with a monthly rental payment of ₱2.00 per square meter, exclusive of VAT. The period of lease may be extended, under the same terms and conditions at the sole discretion of BCHC for up to another 25 years.

On September 2, 2020, the property was subleased by BCHC to BSEI to develop, operate and maintain a 5MW RE Laboratory facility. The term of the sublease shall be for a period of 7 years, with a monthly rental payment of ₱2.10 per square meter, exclusive of VAT. The period of lease may be extended, under the same terms and conditions at the sole discretion of BSEI for up to another 25 years.

On November 20, 2020, an Agreement on the Deed of Assignment of Lease was signed between BCHC and ACEIC. ACEIC agreed to assign its rights and obligations for the land leased with Tabangao Realty Inc ("TRI") entered in March 23, 2018 for an approximately 177,774 square meters situated in Brgy. Malaya, Pililla, Rizal.

*Tower 2 lease agreement with Ayala Land, Inc.*

ACEIC and ACEN entered into an agreement with Ayala Land, Inc. (the Lessor) for lease of office units at 34th, 35th, and 36th floors of Ayala Triangle Gardens Two Building and 69 Appurtenant parking slots starting January 18, 2021 for a period of ten (10) years. The lease agreement provides for a 5% annual escalation rate for the rental payments.

**AC ENERGY AND INFRASTRUCTURE CORPORATION**

As of December 31, 2022, 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.

As used in this section, the term "ACEIC Group" shall refer to ACEIC and its subsidiaries, associates and joint ventures.

2022 vs. 2021
2022 vs 2021 Highlights

Ayala core net income grew by 18 percent year-on-year to ₱27.4 billion in 2022. This was mainly due to higher contributions from BPI and Ayala Land, both of which benefitted from the re-opening of the economy.

Including significant one-off items such as gains from BPI's sale of a property, Globe's partial sale of its data center business and a portion of its towers, ACEN's accelerated acquisition of UPC Australia, AC Energy's write-off from the sale of SLTEC, and AC Venture's impairment provisions on the investment in Yoma, Ayala's reported net income attributable to the owners of the Parent Company was flat at ₱27.4 billion.

ACEN's net income income attributable to the owners of the Parent Company more than doubled year-on-year to ₱13.1 billion mainly due to a revaluation gain from its accelerated acquisition of UPC Australia, supported by contributions from new domestic and international plants.

ACEN's parent company, AC Energy, saw its net income decline 50 percent to ₱4.6 billion mainly due to one-offs from the divestment of two coal assets: a write-down from the divestment of SLTEC in 2022 and a gain from the divestment of GN Power Kauswagan in 2021. Isolating the effect of these significant one-offs, AC Energy's core net income was down 4 percent year-on-year.

4Q22 vs 4Q21 Highlights
Power

ACEN's net income attributable to the owners of the Parent Company reached ₱13.1 billion in 2022 as strong international operations and a revaluation gain offset softness in its Philippine business.

The company recorded ₱8.6 billion in net gains from the revaluation of UPC Australia which outweighed provisions taken for a Supreme Court decision on Administered/Regulated Pricing in the Philippines and the Lac Hoa and Hoa Dong wind farms in Vietnam.

Attributable EBITDA reached ₱[14.3] billion, lower 5 percent year-on-year, slowed down by Philippine operations, which was challenged by high cost of power due to net merchant buying at elevated WESM prices, typhoon-related curtailment, and a one-time customer buyout fee.

Total attributable output was up seven percent year-on-year to 4,950 gigawatt-hours.

Output from international plants rose 30 percent year-on-year to 2,552 gigawatt-hours due to full year contributions from new plants in Vietnam and India.

Output from renewables increased 27 percent year-on-year to 3,395 gigawatt-hours because of new operating capacity.

Capital expenditures were up [53] percent year-on-year to ₱[50.6] billion, driven by aggressive growth in the Philippines and Australia, ACEN's largest international market, where more than 1,000 MW of new capacity is under construction.

ACEN currently has 4 GW of attributable capacity from owned facilities across APAC: 40 percent in the Philippines, 26 in Australia, 16 percent in Vietnam, 13 percent in India, and the rest in Indonesia and other markets. ACEN's aspiration is to be one of the largest listed renewables platforms in Southeast Asia, with a goal of reaching 20 GW of renewables capacity by 2030. ACEN is committed to transition the company's generation portfolio to 100 percent renewable energy by 2025 and to become a Net Zero greenhouse gas emissions company by 2050. At present, 98 percent of ACEN's portfolio is accounted for by renewable sources.

Intangible assets increased 97 percent to ₱43.5 billion mainly from the ₱21.5 billion goodwill from ACEN's step up acquisition of UPC.
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.

| AC Energy and Infrastructure Corporation*<br>(In million pesos, except ratios) | 2022 | 2021 | 2020 |
|---|---|---|---|
| Revenue | 40,373 | 38,095 | 31,018 |
| Net Income Attributable to Equity Holders | 4,639 | 9,338 | 5,790 |
| Total Assets | 281,565 | 219,660 | 215,964 |
| Total Debt | 117,753 | 89,354 | 82,656 |
| Total Stockholders' Equity | 142,625 | 116,416 | 90,847 |
| Current Ratio1 | 4.49 | 8.75 | 2.78 |
| Debt to Equity Ratio2 | 0.83 | 0.77 | 0.91 |

* (formerly AC Energy, Inc.) (AC Energy/ ACEI)

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).

The summarized impact of the aforementioned business units (BUs) in the consolidated balance sheet and income statement are shown below.

| | Newly consolidated BUs * | | | Deconsolidated * |
|---|---|---|---|---|
| *(Amounts in millions)* | **UPC Australia** | **IE Medica** | **Air21** | **SLTEC** |
| **ASSETS** | | | | |
| Cash | 690 | 174 | 2,224 | (1,671) |
| Receivables | 192 | 622 | 3,875 | (999) |
| Investment properties | - | - | - | - |
| Other assets | 17,537 | 195 | 3,940 | (16,336) |
| Goodwill from acquisition | 21,544 | 1,199 | 200 | - |
| | 39,964 | 2,190 | 10,240 | (19,007) |
| **LIABILITIES** | | | | |
| Accounts payable | - | 529 | 2,751 | (1,788) |
| Long-term debt | 5,500 | 23 | 1,962 | (13,380) |
| Other liabilities | 3,853 | 39 | 1,383 | (57) |
| | 9,353 | 592 | 6,096 | (15,225) |
| Non-controlling interests | 1,946 | - | 547 | - |
| **INCOME STATEMENT** | | | | |
| Net income (loss) attributable to parent company | - | 50 | (120) | (93) |
| Remeasurement/step-up acquisition gain ** | 10,921 | - | - | - |
| *ACEIC/ AC share in remeasurement gain* | *6,306* | | | |
| Loss on sale of investments ** | - | - | - | (6,188) |

**refer to Audited 2022 Consolidated Financial Statement Notes 2, 22 and 23*
***refer to Audited 2022 Consolidated Financial Statement Note 22*

Balance Sheet Items

As at December 31, 2022 and 2021
Accounts and notes receivable:

| (in Millions) | December 2022 | December 2021 | % Inc. (Dec.) | % of Total Assets December 2022 | % of Total Assets December 2021 |
|---|---|---|---|---|---|
| Current | ₱161,602 | ₱145,075 | 11% | 11% | 11% |
| Noncurrent | 96,029 | 83,301 | 15% | 6% | 6% |
| Total | ₱257,631 | ₱228,376 | 13% | 17% | 17% |

Combined movements came from the increase in ALI's receivable from residential business; ACEIC's loans and interest receivables plus higher trading revenues; IMI's higher sales; in addition to the consolidation of new BUs. These accounts are 17% of total assets as of December 31, 2022 and 2021.
Other current assets – 10% increase from ₱81,942 million to ₱89,793 million

Increase came from higher CWT and input VAT of ACEIC, ALI, IMI; ALI's net additions to materials/ supplies plus reclassification of noncurrent investment in bonds; IMI's higher contract assets; in addition to inclusion of assets from newly consolidated entities. These were offset by ALI's lower advances from its contractors. This account is 6% of total assets as of December 31, 2022 and 2021.

Assets under PFRS 5 – 5% decrease from ₱12,434 million to ₱11,821 million
Decrease due to ACEIC's reclassification of land held for sale to investment property. This account is 1% of total assets as of December 31, 2022 and 2021.

Investments in associates and joint ventures – 12% increase from ₱294,063 million to ₱328,120 million
Increase attributable to higher equity earnings less dividends from BPI and Globe. Similarly, this account was impacted by AC's, ALI's and ACEIC's additional investments to and higher equity earnings from other investees; AC's additional investment in Globe stock rights; partly offset by the impairment provision for the investment in the Yoma group and the consolidation of UPC (refer to 2022 Audited Consolidated Financial Statements Note 10). This account is 22% of total assets as of December 31, 2022 and 2021.

Property, plant and equipment – 18% increase from ₱96,683 million to ₱114,114 million
Increase attributable to ACEIC group's capitalization for construction of solar plant and transmission lines and wind farms as well as capitalized borrowing costs; plus balances from newly consolidated entities; offset by ALI's reclassification of accounts to investment properties. This account is 8% and 7% of total assets as of December 31, 2022 and 2021, respectively.

Deferred tax assets (DTA) - net – 13% increase from ₱16,294 million to ₱18,371 million
Increase attributable to ACEIC's and ALI's DTA set-up coming from tax and book difference on accounting for real estate transactions plus other subsidiaries' NOLCO, MCIT, lease liabilities, and accrued expenses. This account is 1% of total assets as of December 31, 2022 and 2021.

Other noncurrent assets – 6% decrease from ₱69,959 million to ₱65,576 million
Decrease due to ACEIC's convertible loans from newly consolidated UPC. This account also includes the Group's net pension assets[20] amounting to ₱141 million and ₱68 million as of December 31, 2022

20 The Parent Company's pension fund is known as the AC Employees Retirement Fund (ACERF). ACERF is a legal entity separate and distinct from the Parent Company, governed by a board of trustees appointed pursuant

and 2021, respectively. This account is 4% and 5% of total assets as of December 31, 2022 and 2021, respectively.

Short-term debt – 5% increase from ₱34,712 million to ₱36,527 million
Increase due to borrowings of AC, ACEIC, IMI, AC Industrial, and AC Logistics; the consolidation of new BUs; partly offset by net loan settlements by ALI. This account is 4% of total liabilities as of December 31, 2022 and 2021.

Accounts payable and accrued expenses – 20% increase from ₱168,751 million to ₱203,115 million
Increase mainly due to AC's higher dividends payable (property dividends); ACEIC's higher trade and accrued expenses, output VAT; ALI's higher contractors' payable arising from the launch of new projects; and from consolidation of new BUs. This account is 23% and 22% of the total liabilities as of December 31, 2022 and 2021, respectively.

Income tax payable – 58% increase from ₱803 million to ₱1,272 million
Increase attributable to ALI's higher taxable income. This account is below 1% of the total liabilities as of December 31, 2022 and 2021.

Lease liabilities:

| | | | | % of Total Liabilities | |
|---|---|---|---|---|---|
| (in Millions) | December 2022 | December 2021 | % Inc. (Dec.) | Decembe r 2022 | Decembe r 2021 |
| Current | ₱2,365 | ₱2,110 | 12% | 0% | 0% |
| Noncurrent | 27,979 | 25,504 | 10% | 3% | 3% |
| Total | ₱30,344 | ₱27,614 | 10% | 3% | 4% |

Combined movements due to the additional leases and accretion of interest during the year offset by repayments. This account is 3% and 4% of total liabilities as of December 31, 2022 and 2021, respectively.

Other noncurrent liabilities – 24% decrease from ₱64,502 million to ₱49,043 million
Decrease attributable to ALI's lower deferred credits and reclassification of deposits to current; in addition to ACEIC's lower payables to JVAs due to the consolidation of UPC and reclassification of a long-term third-party payable to current. This account is 6% and 8% of total liabilities as of December 31, 2022 and 2021, respectively.

Equity reserve – 15% decrease from ₱34,263 million to ₱29,092 million
Decrease pertains to AC's purchase of ALI shares and re-attribution of reserves for ACEIC's new issuance of common shares. These were offset by ACEIC's sale of shares to AC for property dividends, property-for-share swap between AC and ALI, also ALI's gain on the sale of block sale of AREIT shares (refer to 2022 Audited Consolidated Financial Statements Note 3). This account is 5% and 6% of total equity as of December 31, 2022 and 2021, respectively.

Non-controlling interests – 13% increase from ₱202,581 million to ₱228,237 million
Increase came from ACEIC's sale of ACEN shares to AC; newly consolidated investments of ACEIC, AC Health, and AC Logistics; and AC's purchase of ALI shares (refer to 2022 Audited Consolidated Financial Statements Note 23). This account is 38% and 36% of total equity as of December 31, 2022 and 2021, respectively.

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to 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. ACERF's portfolio is managed by an Executive Committee appointed by the fund's trustees for that purpose. The members of the committee include the Parent Company's Treasurer, Comptroller, and Total Rewards Head. ACERF has not exercised voting rights over any shares of the Parent Company that it owns.

Income Statement Items
For the Years Ended December 31, 2022 and 2021
Interest income:

| (in Millions) | December 2022 | December 2021 | % Inc. (Dec.) |
|---|---|---|---|
| Interest income from real estate | ₱6,695 | ₱6,801 | (2%) |
| Interest income from non-real estate | 8,858 | 5,078 | 74% |
| Total | ₱5,553 | ₱11,879 | 31% |

Increase in non-real estate interest income was attributed to ACEIC's interest from certain receivables, while decrease in interest income from real estate was due to ALI's sale of trade receivables.

Cost of goods sold and rendering services – 20% increase from ₱175,895 million to ₱₱210,569 million
Increase resulting from improvements in sales; impact of generally higher prices for direct costs, overhead of various BUs; in addition to escalating trading costs and high-priced purchases of electricity coupled with plant downtimes of the ACEIC group. As a percentage of total costs and expenses, this account is at 86% and 85% for the years ended December 31, 2022 and 2021, respectively.

General and administrative expenses (GAE) – 14% increase from ₱30,301 million to ₱34,627 million
Increase from ALI's depreciation, professional fees; IMI's higher manpower cost, additional inventory provisions; and provision for impairment for the investment in the Yoma group. These were partly offset by ACEIC's lower taxes and licenses, professional fees, other operating expenses due to deconsolidation of GNPK. Excluding provisions for risk of impairment for both years, GAE increased by 8%. As a percentage of total costs and expenses, this account is at 14% and 15% for the years ended December 31, 2022 and 2021, respectively.

Other income – 28% decrease from ₱15,193 million to ₱10,883 million
Decrease mainly due to impact of one-time gains last year from ACEIC's partial divestment of GNPK, AC's negative goodwill from sale of MWCI shares, and step-up gain on the acquisition of Qualimed; this year's loss on ACEIC's disposal of SLTEC, plus the decline in the fair value of investments in FVTPL by BHL. These were partially offset by current year upsides from ACEIC's remeasurement gain from UPC, and gains from sale of other investments (refer to 2022 Audited Consolidated Financial Statements Note 22).

Provision for income tax (current and deferred) – 27% increase from ₱4,912 million to ₱6,214 million
Increase came from higher taxable income of ALI, AC Industrial's DTA reversals, and impact of newly consolidated BUs; offset by ACEIC's DTA set-up.
Income attributable to non-controlling interests – 124% increase from ₱8,262 million to ₱18,476 million

Increase came from the improvement in current year performance of its non-wholly owned subsidiaries, particularly ALI, as well as the increase in % ownership of non-controlling interest in ACEIC/ACEN. As a percentage of total net income, this account is at 40% and 23% for the years ended December 31, 2022 and 2021, respectively.

# LEGAL PROCEEDINGS

*This section 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 audited consolidated financial statements and the related notes to those statements included in this Prospectus.*

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, 2022 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, 2022, the Company is not involved in any litigation it considers material.

**AYALA LAND, INC.**

As of December 31, 2022, 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 ALI's properties located in Las Piñas, Metro Manila.

Prior to purchasing the aforesaid properties, ALI conducted an investigation of titles to the properties and had no notice of any title or claim that was superior to the titles purchased by ALI. ALI traced its titles to their original certificates of title and ALI believes that it has established its superior ownership position over said parcels of land. ALI has assessed these adverse claims and believes that its titles are in general superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning October 1993, ALI filed petitions in the Regional Trial Court ("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 some of these properties dated July 26, 2017, and denied ALI's motions for reconsideration.

ALI has made no allowance in respect of such actual or threatened litigation expenses.

*Tomas R. Osmena vs. City of Cebu*

ALI is a respondent to a case for Declaratory Relief with Prayer for Temporary Restraining Order and Writ of Preliminary Injunction before the RTC of Cebu City, which was filed by the petitioner, former Cebu City Mayor Tomas R. Osmena, seeking among others, to nullify ALI, Cebu Holdings, Inc., SM Prime Holdings, Inc., Filinvest Land, Inc., Filinvest Alabang Inc., Cyberzone Properties, Inc., Anesy Holdings Corporation, Igold Holdings Corporation, and Betterfiled Phils. Corp.'s purchase of the 26-hectare property located in South Road Properties 2, Cebu City, from the Local Government Unit of Cebu City. In an Order dated January 13, 2021, the RTC of Cebu City ordered the dismissal of the case and, on June 10, 2021, denied the motion for reconsideration of petitioner. Petitioner appealed to the CA where the case is pending.

**GLOBE TELECOM, INC.**

As of December 31, 2022, 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 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 P1.00 to not more than ₱0.80;
- Refund/reimburse its subscribers the excess charge of ₱0.20; and
- Pay a fine of ₱200.00 per day from December 1, 2011 until date of compliance.

On May 7, 2014, NTC denied the Motion for Reconsideration ("**MR**") filed by Globe 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 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 SC (on the appeal 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, 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 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 elevated to the SC the questioned portions of the Decision and Resolution of the CA dated December 28, 2010 and its Resolution dated January 19, 2012. The other service providers, as well as the NTC, filed their own petitions for review. The adverse parties have filed their comments on each other's petitions, as well as their replies to each other's comments. Parties were required to file their respective Memoranda and Globe filed its Memorandum on May 25, 2018. The case is now submitted for resolution.

*Right of Innove to Render Services and Build Telecommunications Infrastructure in BGC*

PLDT and its affiliate, Bonifacio Communications Corporation ("**BCC**") and Innove and Globe 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 SC. Innove and Globe filed their comment on said petition on January 14, 2013, to which said petitioners filed their reply on May 21, 2013. On December 22, 2021, Innove filed its Memorandum with the SC in compliance with Court's Resolution dated October 06, 2021. The SC subsequently issued Resolution dated September 14, 2022, directing the Clerk of Court of the CA, Manila to elevate the complete records of CA G.R. SP No. 117535 to SC within ten (10) days from receipt of said Resolution.

## Legal Proceedings

*Acquisition by Globe and PLDT of the Entire Issued and Outstanding Shares of VTI*

In a letter dated June 7, 2016 issued by the PCC to Globe, PLDT, San Miguel Corporation ("**SMC**") and Vega Telecom 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 CA also reminded the other parties, PLDT and Globe, to likewise observe the sub judice rule. For this purpose, the CA issued its gag order admonishing all the parties "to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to Intervene, and Admit the Petition-in Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.

On April 18, 2017, PCC filed a petition before the SC docketed as G.R. No. 230798, to lift the CA's order that has prevented the review of the sale of San Miguel Corp.'s telecommunications unit to PLDT Inc. and Globe. 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 SC 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 SC, against the NTC, PCC, Liberty Broadcasting Network, Inc., Bell Telecommunications Inc., 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 it 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, 2022, 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 Preferred Shares.

**AC ENERGY AND INFRASTRUCTURE CORPORATION**

As of December 31, 2022, 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.

As used in this section, the term "ACEIC Group" shall refer to ACEIC and its subsidiaries, associates and joint ventures.

**INTEGRATED MICRO-ELECTRONICS, INC.**

As of December 31, 2022, IMI is a party to legal proceedings arising in the ordinary course of its operations. 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.

## Legal Proceedings

IMI's action for specific performance against Standard Insurance ("**Standard**") wherein it sought to collect Standard's share in the loss incurred by IMI from the May 24, 2009 fire at IMI's Cebu facility was decided against IMI. On October 20, 2022, IMI received SC's Resolution dated March 16, 2022 denying its motion for reconsideration with finality.

## REGULATORY FRAMEWORK

*The information detailed in this chapter has been obtained from publications available in the public domain. 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.

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.

*Infrastructure*

As provided in the Twelfth Regular Foreign Investment Negative List promulgated on June 27, 2022 (in relation Section 23.4.2.1(b), (c), (e) of the Implementing Rules and Regulations of the Government Procurement Reform Act ("**GPRA IRR**"), persons or entities participating in the procurement of infrastructure projects shall be owned by at least 60% by citizens of the Philippines. The GPRA IRR 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 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.

**Public Service Act**

On March 28, 2022, R.A. No. 11659 took effect, amending Commonwealth Act No. 146 otherwise known as the Public Service Act, liberalizing foreign ownership rules in various sectors in public service. Sec. 11, Article XII of the 1987 Philippine Constitution states that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least sixty percent (60%) of whose capital is owned by such citizens; nor shall such franchise, certificate, or authorization be exclusive in character or for a longer period than fifty years. R.A. No. 11659 clearly defines public utility as a public service that operates, manages or controls for public use any of the following: (1) distribution of electricity (2) transmission of electricity (3) petroleum and petroleum products pipeline transmission systems; (4) water pipeline distribution systems and wastewater pipeline systems, including sewerage pipeline systems (5) seaports; and (6) public utility vehicles.

**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, as amended by R.A. 11595*

R.A. 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.

Effective January 21, 2022, R.A. 11595 amended the Retail Trade Liberalization Act to lower the minimum paid-up capital requirement for foreign retail enterprises. Under the law, foreign-owned participants, associations, and corporations, upon registration with the SEC or the Department of Trade and Industry ("DTI"), may engage or invest in the retail trade business, under the following conditions:

1. A foreign retailer shall have a minimum paid-up capital of ₱25,000,000;

2. The foreign retailer's country of origin does not prohibit the entry of Filipino retailers; and

3. In the case of foreign retailers engaged in retail trade through more than one (1) physical store, the minimum investment per store must be at least ₱10,000,000: Provided, That this requirement shall not apply to foreign investors and foreign retailers who are legitimately engaged in retail trade and were not required to comply with the minimum investment per store at the time of the effectivity of the law: Provided, further, That proof of qualification to engage in retail trade under Republic Act No. 8762 and its implementing rules and regulations is submitted to the DTI.

The implementing rules of R.A. 8762, as amended by R.A. 11595, define a foreign retailer as a foreign national, partnership, association, or corporation of which more than forty percent (40%) of the capital stock outstanding and entitled to vote is owned and held by such foreign national, 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, 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 specialized 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.

*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 tastes.

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 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.

**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 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 ₱10,000 nor more than ₱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.

**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 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 ₱2.9 billion; and where the size of the ultimate parent entity of either party exceeds ₱7 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 equivalent to 5% of 1% of the value of the transaction for the first thirty (30) days of delay or a fraction thereof. The fine shall be increased by 1% of 1% of the value of the transaction for every additional thirty (30) days of delay or a fraction thereof, provided that the total amount of the fine to be imposed shall not exceed ₱2.2 million Anti-competitive agreements, as defined under the law, are subject to penalties that include: (a) a fine of not less than ₱110 million but not more than ₱275 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 ₱110 million to ₱275 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.

Beginning March 1, 2023, mergers and acquisitions which breach the ₱7 billion size of party threshold, and ₱2.9 billion size of transaction threshold shall require mandatory review from the PCC. However, these thresholds do not apply to mergers and acquisitions pending review by the PCC, notifiable transactions consummated before March 1, 2023, and transactions already subject of a decision by the PCC.

**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.

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-, 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

Mermac, Inc.("**Mermac**"), the principal and Controlling Shareholder of the Company, is a private holding company incorpoarated in the Philippines. It held 47.91% of the outstanding Common Shares, and 86.39% of the outstanding voting preferred shares, or 57.30% of the total voting shares of the Company, as of January 31, 2023.Members of the Zobel de Ayala family have been involved in Ayala's business since its establishment in 1834.

As of January 31, 2023, 51.18%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 January 31, 2023:

*Common Shares*

| | Stockholder name | Nationality | No. of common shares | Percentage (of common shares) |
|---|---|---|---|---|
| 1. | Mermac, Inc. | Filipino | 296,625,706 | 47.9087% |
| 2. | PCD Nominee Corporation (Non-Filipino) | Various | 144,469,334 | 23.3336% |
| 3. | PCD Nominee Corporation (Filipino) | Filipino | 115,896,783 | 18.7187% |
| 4. | Mitsubishi Corporation | Japanese | 37,771,896 | 6.1006% |
| 5. | Shoemart, Inc. | Filipino | 7,529,203 | 1.2161% |
| 6. | Sysmart Corporation | Filipino | 1,500,912 | 0.2424% |
| 7. | ESOWN Administrator 2020 | Filipino | 1,455,430 | 0.2351% |
| 8. | SM Investment Corporation | Filipino | 1,488,502 | 0.2340% |
| 9. | Phil. Remnants Co., Inc. | American | 823,046 | 0.1329% |
| 10. | Social Security System | Filipino | 749,700 | 0.1211% |
| 11. | ESOWN Administrator 2021 | Filipino | 558,849 | 0.0903% |
| 12. | ESOWN Administrator 2019 | Filipino | 512,962 | 0.0828% |
| 13. | ESOWN Administrator 2018 | Filipino | 479,557 | 0.0775% |
| 14. | ESOWN Administrator 2022 | Filipino | 474,346 | 0.0766% |
| 15. | ESOWN Administrator 2016 | Filipino | 471,061 | 0.0761% |
| 16. | ESOWN Administrator 2017 | Filipino | 421,609 | 0.0681% |
| 17. | ESOWN Administrator 2015 | Filipino | 361,777 | 0.0584% |
| 18. | Mitsubishi Logistics Corporation | Filipino | 360,512 | 0.0582% |
| 19. | Social Security System Assigned To Mandatory Provident Fund | Filipino | 282,000 | 0.0455% |
| 20. | ESOWN Administrator 2014 | Filipino | 219,644 | 0.0355% |

*Preferred "B" Series 1 Shares*

| | Stockholder name | Nationality | No. of Preferred "B" shares | Percentage of Preferred "B" shares |
|---|---|---|---|---|
| 1. | PCD Nominee Corp – Filipino | Filipino | 19,778,250 | 98.8913% |
| 2. | PCD Nominee Corp – Non Filipino | Various | 82,690 | 0.4135% |
| 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. | Santos, Leonel A. and/or Santos, Alicia | Filipino | 7,000 | 0.0350% |
| 9. | Tan, Ben Cuevo and/or Tan, Imelda Toralba | Filipino | 6,000 | 0.0300% |
| 7. | Chavez, Felix B. or Aida T. Chavez or irene T. Chavez | Filipino | 5,000 | 0.0250% |
| 8. | Chan, Raymond O. or Chan Lynette | Filipino | 5,000 | 0.0250% |
| 11. | Philippine British Assurance Company, Inc. | Filipino | 4,000 | 0.0200% |

## Market Price of and Dividends on the Issuer's Common Equity and Related Stockholder Matters

| | | | | |
|---|---|---|---|---|
| 12. | Zalamea, Enriquez M. Jr. | Filipino | 4,000 | 0.0200% |
| 13. | Jose Maximillan F. Lumawig or Grace T. Lumawig | Filipino | 4,000 | 0.0200% |
| 14. | Tan Sherley Gargantos or Tan Brian Gargantos | Filipino | 3,400 | 0.0170% |
| 15. | Macabuhay, Melchor T. | Filipino | 1,540 | 0.0077% |
| 16. | Bautista, Feliciano M. and or Bautista, Elisa D. | Filipino | 1,000 | 0.0050% |
| 17. | Lim, Iris Veronica Go | Filipino | 600 | 0.0030% |
| 18. | 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 | 29,786,908 | 99.2897% |
| 2. | PCD Nominee Corp – Non Filipino | Various | 179,502 | 0.5983% |
| 3. | Knights of Columbus Fraternal Association of the Phils. Inc. | Filipino | 19,960 | 0.0665% |
| 4. | Zwain, Adam Michael | | 7,630 | 0.0254% |
| 5. | 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. | Mercedita S. Nolledo | Filipino | 84,996 | 0.0425% |
| 14. | Ariston Dela Rosa Estrada, Jr. | Filipino | 84,396 | 0.0422% |
| 15. | SCB OBO SSBTC Fund GJAE | Filipino | 81,794 | 0.0409% |
| 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 | 0.0330% |

As of January 31, 2023, 65.12% of the total outstanding shares of the Company are owned by the public. The Company is 20.39% foreign-owned and 79.61% Filipino-owned.

*Dividends and Dividend Policy*

As a holding company, Ayala's policy is to provide a semi-annual cash dividend on common shares at rates approved by the Board. For voting preferred shares, the rate is 5.7730% per annum. For non-voting Preferred B Series 1 and 2 shares, the rates are 5.25% and 5.575% per annum, respectively.

*Dividend Declarations and Payments*

On Common Shares since the date of this Prospectus:

| Cash Dividends | | | |
|---|---|---|---|
| Year | Record Date | Payment Date | Rate (₱) |
| 2021 | July 29, 2021<br><br>December 24, 2021 | August 13, 2021<br><br>January 7, 2022 | 3.46/share |
| 2022 | July 28, 2022<br>December 27, 2022 | August 13, 2022<br>January 12, 2023 | 3.46/share<br>3.46/share |

On Preferred B Series 1 Shares since the date of this Prospectus

| Cash Dividends | | | |
|---|---|---|---|
| Year | Record Date | Payment Date | Rate (₱) |
| 2021 | February 11, 2021<br>April 22, 2021<br>August 3, 2021<br>November 2, 2021 | February 15, 2021<br>May 15, 2021<br>August 15, 2021<br>November 15, 2021 | ¼ of 5.2500% per annum, or 6.56250/per share |
| 2022 | January 31, 2022<br>May 2, 2022<br>August 1, 2022<br>October 31, 2022 | February 15, 2022<br>May 15, 2022<br>August 15, 2022<br>November 15, 2022 | ¼ of 5.2500% per annum, or 6.56250 per share |

On Preferred B Series 2 Shares since the date of this Prospectus

| Cash Dividends | | | |
|---|---|---|---|
| Year | Record Date | Payment Date | Rate (₱) |
| 2021** | February 19, 2021<br>May 7, 2021<br>August 13, 2021<br>November 16, 2021 | February 28, 2021<br>May 29, 2021<br>August 29, 2021<br>November 29, 2021 | ¼ of 4.8214 % per annum, or 6.02675/per share |
| 2022** | February 15, 2022<br>May 13, 2022<br>August 15, 2022<br>November 16, 2022 | February 28, 2022<br>May 29, 2022<br>August 29, 2022<br>November 29, 2022 | ¼ of 4.8214% per annum, or ₱6.02675 per share |

** ACPB1*
***APB2R*

On Voting Preferred Shares since the date of thisProspectus

| Cash Dividends | | | |
|---|---|---|---|
| Year | Record Date | Payment Date | Rate (₱) |
| 2021 | April 26, 2021 | May 20, 2021 | 0.05773/share |
| 2022 | May 4, 2022 | May 20, 2022 | 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 77 of this Prospectus.

## Market Price of and Dividends on the Issuer's Common Equity and Related Stockholder Matters

*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 years 2022, 2021, and 2020:

| | 2022 | | 2021 | | 2020 | |
|---|---|---|---|---|---|---|
| | High | Low | High | Low | High | Low |
| 1st qtr | 915.00 | 735.00 | 840.00 | 725.00 | 808.00 | 360.00 |
| 2nd qtr | 827.50 | 600.00 | 835.00 | 700.00 | 810.00 | 446.00 |
| 3rd qtr | 776.00 | 575.00 | 818.00 | 710.00 | 797.00 | 685.00 |
| 4th qtr | 740.00 | 581.00 | 903.00 | 801.00 | 870.00 | 688.00 |

*Source: Nasdaq IR Insight, Bloomberg*

The market capitalization of the Company's common shares as of end-2022, based on the closing price of ₱695.00/share, was approximately ₱438 billion.

The price information of Ayala common shares and preferred B series 1 shares as of the close of the latest practicable trading date, March 16, 2023 are ₱624.00. and ₱490.00, respectively. The price information of Ayala preferred B series 2 shares as of the close of the latest practicable trading date, March 15, 2023 is ₱475.00.

*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 since the date of the Prospectus:

| | **No. of shares** | |
|---|---|---|
| **Year** | **ESOP** | **ESOWN*** |
| 2021 | 253,086 | 558,849 |
| 2022 | 15,120 | 474,346 |

**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

*The following section discusses updates to the Group's results of operations and financial condition after the date of the Prospectus and must be read in conjunction with the Prospectus. This section is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in Prospectus. This section should be read in conjunction with the Company's consolidated financial statements related notes, and the Prospectus. 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, IMI, and AC Energy or ACEIC (with key subsidiary ACEN), associates (BPI and Manila Water) and joint venture (Globe). This section should be read in conjunction with the financial highlights of these subsidiaries, Associates and Joint Ventures which can be accessed 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, 2022.*

*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.*

**2022 vs. 2021**

**2022 vs 2021 Highlights**

- Ayala core net income attributable to the owners of the Parent Company grew by 18 percent year-on-year to ₱27.7 billion in 2022. This was mainly due to higher contributions from BPI and Ayala Land, both of which benefitted from the re-opening of the economy.
- Including significant one-off items such as gains from BPI's sale of a property, Globe's partial sale of its data center business and a portion of its towers, ACEN's accelerated acquisition of UPC Australia, AC Energy's write-off from the sale of SLTEC, and AC Venture's impairment provisions on the investment in Yoma, Ayala's reported net income attributable to the owners of the Parent Company was flat at ₱27.7 billion.
- BPI's net income rose 66 percent year-on-year to ₱39.6 billion on the back of higher interest and non-interest income, lower provisions, and the gain from a property sale.
- Ayala Land's net income income attributable to the owners of the Parent Company jumped 52 percent year-on-year to ₱18.6 billion due to stronger commercial lot sales and the doubling of its revenues from commercial leasing and hotels and resorts.
- Globe's net income grew 46 percent year-on-year to ₱34.6 billion mainly from higher data service revenues and gains from the partial sale of its data center business and a portion of its tower assets.
- ACEN's net income attributable to the owners of the Parent Company more than doubled year-on-year to ₱13.1 billion mainly due to a revaluation gain from its accelerated acquisition of UPC Australia, supported by contributions from new domestic and international plants.
- [ACEN's parent company, AC Energy, saw its net income decline 50 percent to ₱4.6 billion mainly due to one-offs from the divestment of two coal assets: a write-down from the divestment of SLTEC in 2022 and a gain from the divestment of GN Power Kauswagan in 2021. Isolating the effect of these significant one-offs, AC Energy's core net income was down 4 percent year-on-year.]
- As for Ayala's emerging businesses, AC Health achieved profitability, booking ₱229 million in net income mainly due to the improving results of its pharma and clinic arms, boosted by a remeasurement gain related to its stake in IE Medica. AC Logistics, on the other hand, continued to focus on growing its businesses beyond last mile and integrating the assets of Entrego and AHI to improve efficiencies and customer experience.

- Meanwhile, Ayala's group CAPEX reached ₱[280.3] billion in 2022, a [24] percent increase from the year before mainly due to investments made by Ayala Land, Globe, and ACEN.
- For 2023, Ayala has allocated ₱264 billion in group CAPEX of which ₱19.4 billion is budgeted to come from Ayala Corporation to fund investment opportunities.

**Consolidated Sales of Goods and Rendering of Services**

Sale of goods and rendering services increased 17 percent to ₱263.8 billion mainly due to higher residential bookings, incremental project completion, and improved malls and hotels operations in Ayala Land, increase in customer demand from all sites in IMI, and higher revenues from automobiles on the back of new models and supply availability in AC Industrials. As a percentage of total revenues, this account was 86 percent and 88 percent for periods ending December 31, 2022 and 2021, respectively.

**4Q22 vs 4Q21 Highlights**

- Ayala's core net income in the fourth quarter of 2022 expanded 41 percent year-on-year to ₱6 billion because of better results from its core value drivers which benefitted from increased economic activity during the holiday season.

Accounting for one-off items which include a ₱2.5 billion impairment provision on Yoma, Ayala's quarterly net income decreased 58 percent year-on-year to ₱3.5 billion.

**Real Estate**

- Ayala Land's revenues and net income attributable to the owners of the Parent Company grew by 19 percent to ₱126.6 billion and 52 percent to ₱18.6 billion, respectively, as most of its business segments gained strong momentum from the economic reopening.
- Property development revenues increased [seven] percent year-on-year to ₱[81.2] billion, buoyed by growth in commercial lot sales.
    - Revenues from commercial lots surged [75] percent to ₱[14.5] billion due to strong demand at the Arca South, Nuvali, and Broadfield estates.
    - Residential revenues reached ₱79.9 billion, down slightly due to stretched downpayments.
    - Office-for-sale revenues declined [16] percent to ₱[3.2] billion because of subdued take-up on remaining inventory.
- Reservation sales grew [14] percent year-on-year to ₱[104.9] billion as demand for Ayala Land's residential products remained resilient despite the higher interest-rate environment.
    - Fourth quarter sales totaled ₱[27.6] billion, [24] percent higher than the same quarter in 2021.
- In the fourth quarter, Ayala Land launched [10] residential developments worth ₱[31.8] billion, bringing full year total to [30] projects with a consolidated value of ₱[91.4] billion.
- Commercial leasing revenues accelerated 62 percent year-on-year to ₱33.4 billion as mall rents and foot traffic normalized, contributions from new office spaces commenced, and hotel room rates improved.
    - Shopping center leasing revenues doubled to ₱16.1 billion.
    - Hotels and resorts rental revenues likewise grew two-fold to ₱6.2 billion.
    - Office leasing income increased 13 percent to ₱11.1 billion.
- Capital expenditures in 2022 reached ₱[72.4] billion, half of which was spent on residential projects.
- Ayala Land launched two new estates in 2022: Areza at Lipa City, Batangas and Crossroads at Plaridel, Bulacan. The 92-hectare Areza is the Company's first mixed-use estate in Batangas while Crossroads is an 83-hectare integrated mixed-use estate in the rising enterprise zone on

the eastern side of Bulacan. The addition of the two estates brought Ayala Land's total number of estates to 49.

**Power**

- ACEN's net income attributable to the owners of the Parent Company reached ₱13.1 billion in 2022 as strong international operations and a revaluation gain offset softness in its Philippine business.
    - The company recorded ₱8.6 billion in net gains from the revaluation of UPC Australia which outweighed provisions taken for a Supreme Court decision on Administered/Regulated Pricing in the Philippines and the Lac Hoa and Hoa Dong wind farms in Vietnam.
- Attributable EBITDA reached ₱14.3 billion, lower 5 percent year-on-year, slowed down by Philippine operations, which was challenged by high cost of power due to net merchant buying at elevated WESM prices, typhoon-related curtailment, and a one-time customer buyout fee.
- Total attributable output was up seven percent year-on-year to 4,950 gigawatt-hours.
    - Output from international plants rose 30 percent year-on-year to 2,552 gigawatt-hours due to full year contributions from new plants in Vietnam and India.
    - Output from renewables increased 27 percent year-on-year to 3,395 gigawatt-hours because of new operating capacity.
- Capital expenditures were up 53 percent year-on-year to ₱50.6 billion, driven by aggressive growth in the Philippines and Australia, ACEN's largest international market, where more than 1,000 MW of new capacity is under construction.
- ACEN currently has 4 GW of attributable capacity from owned facilities across APAC: 40 percent in the Philippines, 26 in Australia, 16 percent in Vietnam, 13 percent in India, and the rest in Indonesia and other markets. ACEN's aspiration is to be one of the largest listed renewables platforms in Southeast Asia, with a goal of reaching 20 GW of renewables capacity by 2030. ACEN is committed to transition the company's generation portfolio to 100 percent renewable energy by 2025 and to become a Net Zero greenhouse gas emissions company by 2050. At present, 98 percent of ACEN's portfolio is accounted for by renewable sources.

**Share in Net Profits of Associates and JV**

Share in net profits of associates and joint ventures increased 54 percent to ₱36.1 billion due to Globe's higher revenues including gains from the partial sale of its data center business as well as a portion of its tower assets and BPI's increased revenues including a gain from a sale of a property. As a percentage of total revenues, this account was 12 percent and nine percent for periods ending December 31, 2022 and 2021, respectively.

**Banking**

- BPI's net income jumped 66 percent year-on-year to ₱39.6 billion in 2022 on the back of higher revenues, lower provisions, and the gain from a property sale. Provisions decreased 30 percent year-on-year to ₱9.2 billion.
    - Excluding the gain from the property sale, net income grew 50 percent to [₱34.62] billion.
- Total revenues were up 22 percent year-on-year to ₱118.5 billion, driven by higher net interest and non-interest income.
    - Loan growth was at 15 percent while net interest margin expanded by 29 basis points to 3.59 percent as a result of sizable increases in policy rates.
    - Fee Income was up [29.21] percent year-on-year due to the one-off gain from the property sale and higher credit card and transaction banking fees.
- Total deposits increased seven percent year-on-year to ₱2.1 trillion as CASA and time deposits grew 3.47 percent and 20 percent, respectively.
- Asset quality continued to improve and credit costs normalized.
    - NPL ratio improved by 73 basis points year-on-year to 1.76 percent.

    - NPL cover increased by 4,396 basis points year-on-year to 180.1 percent.
- Total assets grew eight percent year-on-year to ₱2.6 trillion while total equity increased eight percent year-on-year to ₱317.7 billion.
    - Return on equity expanded to 13.1 percent from 8.4 percent in the previous year. Excluding the impact of the property sale, ROE was [11.48] percent.
    - BPI's digitalization initiatives has enabled it to serve more customers despite a smaller footprint. In 2022, BPI's branch count was down 13 percent to 752 branches despite a nine percent increase in customer count. Notably, BPI is the first Philippine bank to have five branches certified as International Finance Corporation - Excellence in Design for Greater Efficiencies. IFC-EDGE certified branches generate 20 percent savings in energy, water and embodied energy in materials.

**Telco**

- Globe's net income grew 46 percent year-on-year to ₱34.6 billion in 2022 due to higher data service revenues and improving contributions from its digital solutions platform. Net income was boosted by gains from the partial sale of its data center business and a portion of its tower assets.
    - Excluding the impact of the non-recurring items, including foreign exchange, and mark-to-market charges, core net income declined 10 percent to ₱19.2 billion mainly due to higher depreciation expenses.
- Gross service revenues grew four percent year-on-year to ₱158 billion. This was on the back of the strong performance of its mobile and corporate data businesses. These were further supported by the company's growing digital services.
- Digital service revenues more than doubled year-on-year, ending at ₱4.2 billion, accounting for around three percent of Globe's GSR. The uplift was due to increase in revenues from its digital companies led by ECPay, Yondu, and Asticom.
- Globe's mobile and corporate data revenues reached record-highs in 2022, offsetting the softness in home broadband as fixed wireless customers continue to migrate to fixed wire, particularly fiber.
    - Mobile data revenues increased eight percent year-on-year to ₱83.8 billion.
    - Corporate data revenues rose 21 percent year-on-year to ₱17.2 billion.
    - Fiber revenues jumped 84 percent year-on-year, driving a 27 percent growth in fixed wire revenues. This partially supported home broadband revenues, which dipped eight percent year-on-year to ₱27.1 billion.
- EBITDA grew six percent year-on-year to ₱79.1 billion as topline outgrew operating expenses.
    - OPEX including subsidies increased three percent to ₱78.9 billion.
    - EBITDA margin expanded by a percentage point to 50 percent.
- Capital expenditures in 2022 roughly totaled US$1.9 billion, 86 percent of which went to data network builds to support mobile and internet services.
- In November 2022, Ayala, Globe through 917Ventures, and Gogoro formed a strategic partnership to bring Gogoro's 2-wheel electric vehicle business, successful in Taiwan, to Manila. The consortium will pilot Gogoro's Smartscooter and battery swapping technology, which will serve as an eco-friendly alternative to fossil fuel-powered vehicles currently used by the logistics and last-mile delivery industries.

**Cost and Expenses**

Cost of goods sold and rendering services increased 20 percent to ₱210.6 billion as a result of an improvements in sales as explained above plus impact of generally higher direct costs and overhead of various BUs and higher trading costs and high-priced purchases of electricity coupled with plant downtimes in ACEIC. As a percentage to total costs and expenses, this account was 86 percent and 85 percent for periods ending December 31, 2022 and 2021, respectively.

**Balance Sheet Highlights**

- Total assets increased ten percent to ₱1.48 trillion from end-2021 levels mainly due to increases in investments in associates and joint ventures, inventories, the combined current and noncurrent accounts and notes receivables, intangible assets, and property, plant, and equipment.
    - Investments in associates and joint ventures increased 12 percent to ₱328.1 billion attributed to BPI's equity earnings including a gain on the sale of property, Globe's equity earnings including gains on the partial sale of its data center business and the sale of a portion of its tower assets, and MWCI's gain from forex accounts. These were partly offset by dividends, AC's and ACEIC's additional investments to and higher equity earnings from their investees, the provisions for impairment for AC's investment in the Yoma group, AC's additional investment in Globe through its stocks rights offering, and the consolidation of AC's new business units. This account was 22 percent of the total assets as of December 31, 2022 and December 31, 2021.
    - Inventories were up 21 percent to ₱202 billion due to new land acquisitions and transfers from investment properties in Ayala Land and higher inventory costs of the Philippine and European Union units of IMI. This account was 14 percent and 12 percent of total assets as of December 31, 2022 and December 31, 2021, respectively
    - Intangible assets increased 97 percent to ₱43.5 billion mainly from the ₱21.5 billion goodwill from ACEN's step up acquisition of UPC.
- Consolidated cash and short term investments stood at ₱77.0 billion.
- Consolidated net debt stood at ₱475.4 billion.
- Consolidated net debt-to-equity ratio inched up 12 basis points to 0.80, well within the company's covenant of 3.0x.
- Parent level cash ended at ₱3.1 billion, a deliberate reduction of cash levels to reduce the company's negative carry on cash.
- Total available credit lines in 2022 reached ₱[80] billion, with ₱42 billion in committed facilities.
- Parent net debt increased to ₱100 million.
- 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, increased to 11.1 percent due to higher loans and the lower market value of assets, a result of the market volatility experienced throughout the year.
- Parent net debt-to-equity ratio increased to 70% in 2022 from 57% in 2021 mainly due to borrowings to finance the purchase of ₱12.5 billion of Ayala Land shares and capital expenditures.
- Parent average cost of debt increased 20 basis points to 4.5 percent. The increase in average cost of debt was considerably less than the 222 basis points increase in benchmark rates. The percentage of Ayala's fixed rate debt to total debt remained high at 82 percent.

**Key performance indicators of the Company and its significant subsidiaries**

The table sets forth the comparative key performance indicators of the Company and its significant subsidiaries.

***Ayala Corporation (Consolidated)***

| (In million pesos, except ratios) | 2022 | 2021 | 2020 |
|---|---|---|---|
| Revenue* | 306,644 | 255,778 | 219,841 |
| Net Income Attributable to Equity Holders | 27,398 | 27,774 | 17,142 |
| Total Assets | 1,478,545 | 1,348,986 | 1,405,758 |
| Total Debt | 552,488 | 478,517 | 441,754 |

| | | | |
|---|---|---|---|
| Total Stockholders' Equity | 595,299 | 565,313 | 542,422 |
| Current Ratio[1] | 1.75 | 1.85 | 1.64 |
| Debt to Equity Ratio[2] | 0.93 | 0.85 | 0.81 |

** In 2020, excludes MWCI accounts which are shown as Operations of the segment under PFRS 5*

*( see Note 24 of the Group's consolidated financial statement )*

***Ayala Land, Inc.***

| (In million pesos, except ratios) | 2022 | 2021 | 2020 |
|---|---|---|---|
| Revenue | 124,481 | 103,788 | 95,155 |
| Net Income Attributable to Equity Holders | 18,617 | 12,228 | 8,727 |
| Total Assets | 779,655 | 745,464 | 721,494 |
| Total Debt | 236,039 | 223,097 | 211,951 |
| Total Stockholders' Equity | 293,665 | 270,502 | 260,179 |
| Current Ratio[1] | 1.78 | 1.58 | 1.62 |
| Debt to Equity Ratio[2] | 0.80 | 0.82 | 0.81 |

***Integrated Micro-Electronics, Inc.***

| (In thousand US dollars, except ratios) | 2022 | 2021 | 2020 |
|---|---|---|---|
| Revenue | [1,401,730] | 1,300,590] | [1,135,841] |
| Net loss Attributable to Equity Holders | [(8,308)] | [(10,565)] | [(3,455)] |
| Total Assets | [1,102,994] | [1,123,175] | [1,133,675] |
| Total Debt | [343,074] | [317,256] | [240,810] |
| Total Stockholders' Equity | [414,958] | [461,713] | [580,863] |
| Current Ratio[1] | [1.51] | [1.59] | [1.54] |
| Debt to Equity Ratio[2] | [0.83] | [0.69] | [0.41] |

***AC Energy and Infrastructure Corporation****

| (In million pesos, except ratios) | 2022 | 2021 | 2020 |
|---|---|---|---|
| Revenue | [40,373] | [38,095] | [31,018] |
| Net Income Attributable to Equity Holders | [4,639] | [9,338] | [5,790] |
| Total Assets | [281,565] | [219,660] | [215,964] |
| Total Debt | [117,753] | [89,354] | [82,656] |
| Total Stockholders' Equity | [142,625] | [116,416] | [90,847] |

| | | | |
|---|---|---|---|
| Current Ratio[1] | [4.49] | [8.75] | [2.78] |
| Debt to Equity Ratio[2] | [0.83] | [0.77] | [0.91] |

** (formerly AC Energy, Inc.) (AC Energy/ ACEI)*

*[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 of Any Material Variances**
**(Increase or decrease of 5% or more in the financial statements)**

The Group's consolidated balance sheet and income statement include ACEIC, AC Health, and AC Logistics Groups' consolidation of UPC Australia, IE Medica, and Air21, respectively; as well as ACEIC's divestment in SLTEC (refer to 2022 Audited Consolidated Financial Statements Notes 2, 10, and 23). This resulted in net higher balances for certain assets and liabilities accounts, revenues and costs and expenses.

The summarized impact of the aforementioned business units ("**BUs**") in the consolidated balance sheet and income statement are shown below.

| | Newly consolidated BUs * | | | Deconsolidated * |
|---|---|---|---|---|
| *(Amounts in millions)* | **UPC Australia** | **IE Medica** | **Air21** | **SLTEC** |
| **ASSETS** | | | | |
| Cash | 690 | 174 | 2,224 | (1,671) |
| Receivables | 192 | 622 | 3,875 | (999) |
| Investment properties | - | - | - | - |
| Other assets | 17,537 | 195 | 3,940 | (16,336) |
| Goodwill from acquisition | 21,544 | 1,199 | 200 | - |
| | 39,964 | 2,190 | 10,240 | (19,007) |
| **LIABILITIES** | | | | |
| Accounts payable | - | 529 | 2,751 | (1,788) |
| Long-term debt | 5,500 | 23 | 1,962 | (13,380) |
| Other liabilities | 3,853 | 39 | 1,383 | (57) |
| | 9,353 | 592 | 6,096 | (15,225) |
| Non-controlling interests | 1,946 | - | 547 | - |
| **INCOME STATEMENT** | | | | |
| Net income (loss) attributable to parent company | - | 50 | (120) | (93) |
| Remeasurement/step-up acquisition gain ** | 10,921 | - | - | - |
| *ACEIC/ AC share in remeasurement gain* | *6,306* | | | |
| Loss on sale of investments ** | - | - | - | (6,188) |

**refer to Audited 2022 Consolidated Financial Statement Notes 2, 22 and 23*
***refer to Audited 2022 Consolidated Financial Statement Note 22*

**Balance Sheet Items**
**As at December 31, 2022 and 2021**

*Cash and cash equivalents and Short-term investments – 16% decrease from combined balance of ₱91,415 million to ₱77,049 million*
Decrease came from AC's and ALI's buy-back of shares; AC's purchase of ALI shares; AC's subscription to Globe stock rights; plus outflows for capital infusions, cash dividends, loan principal, interest, CAPEX. These were offset by bond issuances and short-term and long-term borrowings; ACEIC's issuance of shares to the UPC group via ACEN (refer to 2022 Audited Consolidated Financial Statements Note 23); AC's cash dividend collection; also consolidation of new BUs. These accounts comprise 5% and 7% of total assets as of December 31, 2022 and 2021, respectively.

*Accounts and notes receivable:*

| (in Millions) | **December 2022** | December 2021 | % Inc. (Dec.) | % of Total Assets<br>December 2022 | % of Total Assets<br>December 2021 |
|---|---|---|---|---|---|
| Current | **₱161,602** | ₱145,075 | 11% | 11% | 11% |
| Noncurrent | **96,029** | 83,301 | 15% | 6% | 6% |
| Total | **₱257,631** | ₱228,376 | 13% | 17% | 17% |

Combined movements came from the increase in ALI's receivable from residential business; ACEIC's loans and interest receivables plus higher trading revenues; IMI's higher sales; in addition to the consolidation of new BUs. These accounts are 17% of total assets as of December 31, 2022 and 2021.

*Inventories – 21% increase from ₱166,407 million to ₱201,517 million*
Increase is attributable to ALI's new land acquisitions and transfers from investment properties as well as IMI's higher inventory costs of its Philippines and European Union units. This account is 14% and 12% of total assets as of December 31, 2022 and 2021, respectively.

*Other current assets – 10% increase from ₱81,942 million to ₱89,793 million*
Increase came from higher CWT and input VAT of ACEIC, ALI, IMI; ALI's net additions to materials/ supplies plus reclassification of noncurrent investment in bonds; IMI's higher contract assets; in addition to inclusion of assets from newly consolidated entities. These were offset by ALI's lower advances from its contractors. This account is 6% of total assets as of December 31, 2022 and 2021.

*Assets under PFRS 5 – 5% decrease from ₱12,434 million to ₱11,821 million*
Decrease due to ACEIC's reclassification of land held for sale to investment property. This account is 1% of total assets as of December 31, 2022 and 2021.

*Investments in associates and joint ventures – 12% increase from ₱294,063 million to ₱328,120 million*
Increase attributable to higher equity earnings less dividends from BPI and Globe. Similarly, this account was impacted by AC's, ALI's and ACEIC's additional investments to and higher equity earnings from other investees; AC's additional investment in Globe stock rights; partly offset by the impairment provision for the investment in the Yoma group and the consolidation of UPC (refer to 2022 Audited Consolidated Financial Statements Note 10). This account is 22% of total assets as of December 31, 2022 and 2021.

*Property, plant and equipment – 18% increase from ₱96,683 million to ₱114,114 million*

Increase attributable to ACEIC group's capitalization for construction of solar plant and transmission lines and wind farms as well as capitalized borrowing costs; plus balances from newly consolidated entities; offset by ALI's reclassification of accounts to investment properties. This account is 8% and 7% of total assets as of December 31, 2022 and 2021, respectively.

*Right-of-use assets – 9% increase from ₱20,997 million to ₱22,862 million*
Increase was due to the AC Group's additional leases offset by amortization during the period. This account is 2% of the total assets as of December 31, 2022 and 2021.

*Intangible assets – 97% increase from ₱22,128 million to ₱43,536 million*
Increase came from the goodwill arising from consolidation of new BUs (refer to 2022 Audited Consolidated Financial Statements Notes 14 and 23); offset by amortizations. This account is 3% and 2% of total assets as of December 31, 2022 and 2021, respectively.

*Deferred tax assets (DTA) - net – 13% increase from ₱16,294 million to ₱18,371 million*
Increase attributable to ACEIC's and ALI's DTA set-up coming from tax and book difference on accounting for real estate transactions plus other subsidiaries' NOLCO, MCIT, lease liabilities, and accrued expenses. This account is 1% of total assets as of December 31, 2022 and 2021.

*Other noncurrent assets – 6% decrease from ₱69,959 million to ₱65,576 million*
Decrease due to ACEIC's convertible loans from newly consolidated UPC. This account also includes the Group's net pension assets[21] amounting to ₱141 million and ₱68 million as of December 31, 2022 and 2021, respectively. This account is 4% and 5% of total assets as of December 31, 2022 and 2021, respectively.

*Short-term debt – 5% increase from ₱34,712 million to ₱36,527 million*
Increase due to borrowings of AC, ACEIC, IMI, AC Industrial, and AC Logistics; the consolidation of new BUs; partly offset by net loan settlements by ALI. This account is 4% of total liabilities as of December 31, 2022 and 2021.
*Accounts payable and accrued expenses – 20% increase from ₱168,751 million to ₱203,115 million*

Increase mainly due to AC's higher dividends payable (property dividends); ACEIC's higher trade and accrued expenses, output VAT; ALI's higher contractors' payable arising from the launch of new projects; and from consolidation of new BUs. This account is 23% and 22% of the total liabilities as of December 31, 2022 and 2021, respectively.

*Income tax payable – 58% increase from ₱803 million to ₱1,272 million*

Increase attributable to ALI's higher taxable income. This account is below 1% of the total liabilities as of December 31, 2022 and 2021.

*Long-term debt:*

[21] The Parent Company's pension fund is known as the AC Employees Retirement Fund (ACERF). ACERF is a legal entity separate and distinct from the Parent Company, governed by a board of trustees appointed pursuant to 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. ACERF's portfolio is managed by an Executive Committee appointed by the fund's trustees for that purpose. The members of the committee include the Parent Company's Treasurer, Comptroller, and Total Rewards Head. ACERF has not exercised voting rights over any shares of the Parent Company that it owns.

| (in Millions) | **December 2022** | December 2021 | % Inc. (Dec.) | % of Total Liabilities | |
|---|---|---|---|---|---|
| | | | | December 2022 | December 2021 |
| Current | **₱31,497** | ₱31,494 | 0% | 4% | 4% |
| Noncurrent | **484,464** | 412,311 | 17% | 55% | 53% |
| Total | **₱515,961** | ₱443,805 | 16% | 58% | 57% |

Combined movements due to increase from AC's, ACEIC's, ALI's, AYCFL's, IMI's, and AC Industrial's loan availments and bond issuances; the consolidation of new BUs; partly offset by bonds and other long-term debt settlements. This account is 58% and 57% of total liabilities as of December 31, 2022 and 2021, respectively.

*Lease liabilities:*

| (in Millions) | **December 2022** | December 2021 | % Inc. (Dec.) | % of Total Liabilities | |
|---|---|---|---|---|---|
| | | | | December 2022 | December 2021 |
| Current | **₱2,365** | ₱2,110 | 12% | 0% | 0% |
| Noncurrent | **27,979** | 25,504 | 10% | 3% | 3% |
| Total | **₱30,344** | ₱27,614 | 10% | 3% | 4% |

Combined movements due to the additional leases and accretion of interest during the year offset by repayments. This account is 3% and 4% of total liabilities as of December 31, 2022 and 2021, respectively.

*Service concession obligation:*

| (in Millions) | **December 2022** | December 2021 | % Inc. (Dec.) | % of Total Liabilities | |
|---|---|---|---|---|---|
| | | | | December 2022 | December 2021 |
| Current | **₱60** | ₱40 | 50% | 0% | 0% |
| Noncurrent | **52** | 61 | (15%) | 0% | 0% |
| Total | **₱12** | ₱101 | 11% | 0% | 0% |

Combined movement primarily due to AC's concession obligation. This account is below 1% of total liabilities as of December 31, 2022 and 2021.

*Other current liabilities – 13% increase from ₱30,184 million to ₱34,178 million*
Mainly due to ALI's higher deposits, reservation fees, advance rental payments; and from balances of newly consolidated BUs. This account is 4% of total liabilities as of December 31, 2022 and 2021.

*Pension liabilities – 13% decrease from ₱4,021 million to ₱3,500 million*
Decrease attributable to the AC' retirement fund contribution[1] and the Group's benefit payments and actuarial changes. These were countered by the consolidation of new BUs; plus retirement expense

and interest during the year. This account is below 1% of total liabilities as of December 31, 2022 and 2021.

*Other noncurrent liabilities – 24% decrease from ₱64,502 million to ₱49,043 million*
Decrease attributable to ALI's lower deferred credits and reclassification of deposits to current; in addition to ACEIC's lower payables to JVAs due to the consolidation of UPC and reclassification of a long-term third-party payable to current. This account is 6% and 8% of total liabilities as of December 31, 2022 and 2021, respectively.

*Share-based payments – 13% decrease from ₱45 million to ₱39 million*
Decrease came from issuance on the exercise of stock ownership plans of AC. This account is below 1% of total equity as of December 31, 2022 and 2021.

*Remeasurement losses on defined benefit plans – 6% decrease from negative (-)₱4,798 million to negative (-)₱4,516 million*
Decrease attributable to net actuarial gains on pension liabilities as result of changes in actuarial assumptions during the year. This account is below 1% of total equity as of December 31, 2022 and 2021.

*Fair value reserve of financial assets at FVOCI – 77% increase from negative (-)₱1,721 million to negative (-)₱3,042 million*
Increase due to BPI's lower marked-to-market valuation of its financial assets at FVOCI. This account is below 1% of total equity as of December 31, 2022 and 2021.

*Cumulative translation adjustments (CTA) – 282% increase from ₱1,138 million to ₱4,344 million*
Increase due to forex translation (movement in forex) of the Ayala group's business units with Dollar functional currencies. Forex of PhP vs USD amounted to ₱55.755 vs. ₱50.999 as of December 31, 2022 and 2021, respectively. This account is below 1% of total equity as of December 31, 2022 and 2021.

*Equity reserve – 15% decrease from ₱34,263 million to ₱29,092 million*
Decrease pertains to AC's purchase of ALI shares and re-attribution of reserves for ACEIC's new issuance of common shares. These were offset by ACEIC's sale of shares to AC for property dividends, property-for-share swap between AC and ALI, also ALI's gain on the sale of block sale of AREIT shares (refer to 2022 Audited Consolidated Financial Statements Note 3). This account is 5% and 6% of total equity as of December 31, 2022 and 2021, respectively.

*Treasury stock – 6% increase from negative (-)₱12,383 million to negative (-)₱13,071 million*
Increase due to AC's buyback program of its common shares. This account is 2% of total equity as of December 31, 2022 and 2021.

*Non-controlling interests – 13% increase from ₱202,581 million to ₱228,237 million*
Increase came from ACEIC's sale of ACEN shares to AC; newly consolidated investments of ACEIC, AC Health, and AC Logistics; and AC's purchase of ALI shares (refer to 2022 Audited Consolidated Financial Statements Note 23). This account is 38% and 36% of total equity as of December 31, 2022 and 2021, respectively.

**Income Statement Items**

**For the Years Ended December 31, 2022 and 2021**

*Sale of goods and rendering of services – 17% increase from ₱225,592 million to ₱263,820 million*

Increase due to ALI's higher bookings from residential business, incremental projects' completion, improved mall and hotel operations plus leasing businesses; IMI's increase in customer demand from

all sites; in addition to AC Industrials' higher revenues from automotive due to new models and availability of supplies. As a percentage of total revenue, this account is at 86% and 88% for the years ended December 31, 2022 and 2021, respectively.

*Share in net profits of associates and joint ventures (AJVs) – 54% increase from ₱23,385 million to ₱36,129 million*

Increase due to BPI's higher net interest and non-interest income plus gain on sale of property; and Globe's higher revenues including gain on sale of data center business as well as partial sale of tower assets (refer to 2022 Audited Consolidated Financial Statements Note 10). As a percentage of total revenue, this account is at 12% and 9% for the years ended December 31, 2022 and 2021, respectively.

*Interest income:*

| (in Millions) | **December 2022** | December 2021 | % Inc. (Dec.) |
|---|---|---|---|
| Interest income from real estate | **₱6,695** | ₱6,801 | (2%) |
| Interest income from non-real estate | **8,858** | 5,078 | 74% |
| Total | **₱15,553** | ₱11,879 | 31% |

Increase in non-real estate interest income was attributed to ACEIC's interest from certain receivables, while decrease in interest income from real estate was due to ALI's sale of trade receivables.

*Cost of goods sold and rendering services – 20% increase from ₱175,895 million to ₱210,569 million*

Increase resulting from improvements in sales; impact of generally higher prices for direct costs, overhead of various BUs; in addition to escalating trading costs and high-priced purchases of electricity coupled with plant downtimes of the ACEIC group. As a percentage of total costs and expenses, this account is at 86% and 85% for the years ended December 31, 2022 and 2021, respectively.

*General and administrative expenses (GAE) – 14% increase from ₱30,301 million to ₱34,627 million*
Increase from ALI's depreciation, professional fees; IMI's higher manpower cost, additional inventory provisions; and provision for impairment for the investment in the Yoma group. These were partly offset by ACEIC's lower taxes and licenses, professional fees, other operating expenses due to deconsolidation of GNPK. Excluding provisions for risk of impairment for both years, GAE increased by 8%. As a percentage of total costs and expenses, this account is at 14% and 15% for the years ended December 31, 2022 and 2021, respectively.

*Other income – 28% decrease from ₱15,193 million to ₱10,883 million*
Decrease mainly due to impact of one-time gains last year from ACEIC's partial divestment of GNPK, AC's negative goodwill from sale of MWCI shares, and step-up gain on the acquisition of Qualimed; this year's loss on ACEIC's disposal of SLTEC, plus the decline in the fair value of investments in FVTPL by BHL. These were partially offset by current year upsides from ACEIC's remeasurement gain from UPC, and gains from sale of other investments (refer to 2022 Audited Consolidated Financial Statements Note 22).

*Interest and other financing charges – 7% increase from ₱27,090 million to ₱29,102 million*
Increase came from ALI's higher interest on debt mitigated by lower discounting cost of receivable sales; also from AC's and AYCFL's new borrowings and bond issuances during the year.

*Provision for income tax (current and deferred) – 27% increase from ₱4,912 million to ₱6,214 million*

Increase came from higher taxable income of ALI, AC Industrial's DTA reversals, and impact of newly consolidated BUs; offset by ACEIC's DTA set-up.

*Operations of the segment under PFRS 5 – 100% decrease from net loss of ₱1,184 million to nil*
Decrease due to deconsolidation of MWC in June 2021 (refer to 2022 Audited Consolidated Financial Statements Note 24).

*Income attributable to non-controlling interests – 124% increase from ₱8,262 million to ₱18,476 million*

Increase came from the improvement in current year performance of its non-wholly owned subsidiaries, particularly ALI, as well as the increase in % ownership of non-controlling interest in ACEIC/ACEN. As a percentage of total net income, this account is at 40% and 23% for the years ended December 31, 2022 and 2021, respectively.

**Outlook for 2023**

2022 was a year of recovery for the country as the COVID-19 pandemic subsided and strict quarantine measures were lifted. This resulted in a surge of mobility and consumer activity which surpassed pre-pandemic levels by year-end. As a result, Philippine GDP ("**Gross Domestic Product**") grew by 7.6% in 2022, exceeding the National Economic and Development Authority's target of 6.5-7.5%. This was achieved in spite of high inflation, which averaged at 5.8% for the year, and the 350 basis point increase in policy rates from 2% to 5.5%.

For 2023, Ayala expects consumer demand to continue driving growth in the country, though at a more tempered level as elevated inflation discretionary spending and the full impact of rate hikes is felt. Ayala expects inflation to decline gradually, averaging at 4.5% for 2023. On interest rates, we anticipate this to further increase to 4.75%, however rate cuts are possible by the second half if a global recession comes into play. Meanwhile, the Peso may continue to weaken in the near term as imports grow with strengthening demand. Moreover, the country's widening current account deficit may temper any appreciation of the Peso.

There continues to be growth drivers, however, in the form of strong remittances boosted by the still expensive dollar and the recent wage hikes. As such, we expect the Philippines' GDP to still reach 5.6% for the year. Ayala believes stronger exports and investment spending will also help support growth in 2023 as the macroeconomic environment stabilizes.

Ayala's optimism is reflected in Ayala's capital expenditures ("**CAPEX**") level for the year. For 2023, we are allocating ₱264 billion across the Group as Ayala continues to invest for the future.

At the same time, Ayala continues to fortify our balance sheet, ensuring access to various funding options to meet requirements. A robust risk management system allows Ayala to maximize opportunities for reinvention, and navigate the challenges faced by its business units. This has allowed Ayala to keep our average cost of debt low at 4.5% and average duration long at 18.5 years, a competitive advantage in a rising interest rate environment.

**2021 vs 2020 Highlights**

- Ayala Corporation's net profits grew 62 percent to ₱27.8 billion in 2021, primarily driven by realized income from the execution of strategic initiatives in the group, boosted by the improved performance of Ayala Land and BPI.
- Ayala posted gains from executed transactions during the year, including the remeasurement of its stake in Manila Water following the sale of secondary shares to Trident Water, the sale of the Ayala group's stake in GNPower Kauswagan, and the entry of a new investor in Mynt.
- Ayala's businesses recorded higher net profits during the year:

- Ayala Land's net income attributable to the owners of the Parent Company grew 40 percent to ₱12.2 billion on the account of resilient operations, supported by relaxed quarantine restrictions in the fourth quarter of 2021.
- BPI's net income increased 12 percent to ₱23.9 billion because of lower loan loss provisions and record-high fee income.
- Globe's net income rose 27 percent to ₱23.7 billion from higher results from all data-related revenues, gain from the deemed sale of investment in Mynt, and the impact of the CREATE law. These offset the impairment costs from the network related damages caused by Typhoon Odette.
- ACEN's net income attributable to the owners of the Parent Company increased 22 percent to ₱5.3 billion as robust earnings from its international assets supported softness in Philippine operations.

- Excluding gains and other one-offs, Ayala's core net income decreased 10 percent to ₱23.5 billion, mainly driven by weaker net interest income in BPI, higher depreciation expense in Globe, and reduced stake in ACEN following the completion of its capital market issuances and sale of secondary shares to GIC combined with higher financing cost taken up at the AC Energy parent level.

**4Q21 vs 4Q20 Highlights**

Ayala's net income grew 46 percent to ₱8.4 billion in the fourth quarter compared to the same period in the previous year, also driven by the abovementioned realized gains.

**Consolidated Sales of Goods and Services**

Sale of goods and rendering services increased 17 percent to ₱225.6 billion mainly due to higher residential bookings, incremental project completion, and construction services in Ayala Land, better operation across all sites in IMI, higher vehicle sales in AC Motors on the back of looser quarantine restrictions, and higher revenues in AC Energy from the consolidation of Islasol and Sacasol, and the consolidation of Qualimed into AC Health.

**Real Estate**

- Ayala Land's total revenues increased 10 percent to ₱106.1 billion and its net income attributable to the owners of the Parent Company grew 40 percent to ₱12.2 billion on the account of resilient operations, supported by relaxed quarantine restrictions in the fourth quarter of 2021.
- Property development revenues were up 14 percent to ₱75.9 billion on continuing construction progress and higher bookings.
- Residential sales reservations in 2021 grew 13 percent to ₱92.2 billion largely from the strong demand for horizontal projects in Southern Luzon by Ayala Land Premier and ALVEO. Sales reservations from lot sales alone jumped 36 percent to ₱41.5 billion during the year.
    - Fourth quarter sales take-up posted a five percent growth to ₱22.1 billion compared to the same quarter in 2020.
    - Ayala Land launched a total of 22 projects worth ₱75.3 billion, seven times more in 2020.
- Commercial leasing revenues declined six percent to ₱20.6 billion given limited operations most of the year.
    - Shopping center leasing revenues went down 12 percent to ₱7.9 billion. With improved mobility in the fourth quarter, revenues reached ₱3 billion, double the level generated in the same quarter a year ago.
    - Office leasing income grew five percent to ₱9.9 billion as BPO and HQ operations remained stable throughout the period.
    - Hotels and resorts revenues decreased 17 percent to ₱2.8 billion, improving from the first nine months as resort operations were able to host 35 travel bubbles in the fourth quarter, partially cushioning travel restrictions and lower hotel occupancy earlier in the year.
- Ayala Land's capital expenditures reached ₱64 billion in 2021, more than half of which went to the completion of its residential projects.

- Ayala Land has earmarked ₱90 billion in capital expenditures and is prepared to launch ₱100 billion-worth of residential projects in 2022.
- In January 2022, the Boards of Ayala Corporation and Ayala Land approved the property-for-share swap with each other and Mermac, Inc. Under the transaction, AC and Mermac will transfer five assets to ALI in exchange for 311,580,000 primary common shares at a value of ₱55.80 per share, as validated by a third- party fairness opinion. The acquisition further expands Ayala Land's land bank and commercial assets, which will create value for stakeholders.

**Power**

- ACEN's net income increased 22 percent to ₱5.3 billion as robust earnings from its international assets supported softness in Philippine operations.
- Equity earnings from international plants soared 51 percent to ₱4.9 billion, driven by operating capacity with the commencement of operations of new wind farms in Vietnam and solar farms in India.
- Earnings contribution from its Philippine plants decreased 20 percent to ₱3.1 billion as the start of operations of the Palauig and Alaminos solar farms was outweighed by increased cost of purchased power due to higher spot market prices. Without one-off retroactive feed-in tariff adjustment booked in 2020, earnings from the Philippine assets would have been flat.
- ACEN's attributable output increased 21 percent to 4.6 gigawatt hours, driven by higher operating capacity and increased dispatch of thermal plants.
- Generation from international plants grew 24 percent because of additional capacity from new wind farms in Vietnams and solar farms in India.
- Output from Philippine plants was up 20 percent to 2.7 gigawatt hours due to improved utilization of peaking thermal plants, in addition to the start of operations of the Alaminos and Palauig solar farms.
- ACEN has 3,751 MW of attributable capacity in its portfolio (pro forma), of which 87 percent is renewable. 63 percent of the portfolio is already operating.
- In line with its aggressive portfolio expansion in the Philippines, Vietnam, India, and Australia, ACEN invested a total of ₱33.1 billion in capital expenditures in 2021.
- With various projects and announced acquisitions slated in 2022, ACEN has earmarked a CAPEX budget of ₱55 billion this year.
- In February, ACEN, through its wholly owned subsidiary, AC Energy Vietnam, signed an agreement to acquire a 49 percent stake in Solar NT, which is owned by Thailand's Super Energy Corporation.
    - Upon completion of internal restructuring, Solar NT will fully own and operated 837 MW of solar projects in Vietnam.
    - The investment brings ACEN's attributable international capacity to more than 2,200 MW, of which more than 1,000 MW are in Vietnam.

**Share in Net Profits of Associates and JV**

Share in net profits of associates and joint ventures increased 33 percent to ₱23.4 billion due to higher revenues from home broadband and the lower tax expense from the impact of the CREATE law in Globe, lower loan loss provisions in BPI, higher equity in net earnings resulting from GNPD's liquidating damages in AC Energy, and better performance from associates and joint ventures of Ayala Land. This also includes share in net earnings of Manila Water from June to December 2021. As a percentage of total revenues, this account was nine percent and eight percent on December 31, 2021 and December 31, 2020, respectively.

**Banking**

- BPI's net income increased 12 percent to ₱23.9 billion because of lower loan loss provisions and record-high fee income.
- Total revenues decreased four percent to ₱97.4 billion because of softer net interest income and non-interest income.

    - Net interest income was down four percent to ₱69.6 billion as net interest margin contracted by 19 basis points to 3.3 percent, driven by lower yields across most loan portfolios and treasury assets.
    - Non-interest income went down six percent to ₱27.8 billion on the back of lower trading income that was tempered by a 23 percent growth in fee income.
- Total loans rose five percent to ₱1.5 trillion primarily from higher mortgage, credit card, and microfinance loans.
- Total deposits grew 14 percent to ₱2 trillion with CASA and time deposits expanding 10 percent and 28 percent, respectively.
    - CASA ratio stood at 77 percent.
    - Loan-to-deposit ratio ended at 75.5 percent.
- NPL ratio stood at 2.49 percent and NPL coverage ratio settled at 136.1 percent. These improved by 19 basis points and 21 percentage points, respectively.
- Operating expenses increased five percent to ₱50.7 billion because of higher technology cost.
    - Cost-to-income ratio stood at 52.1 percent.
- Total assets grew eight percent to ₱2.4 trillion. Total equity amounted to ₱293.1 billion.
    - Indicative common equity tier 1 ratio stood at 15.8 percent.
    - Indicative capital adequacy ratio stood at 16.7 percent.
    - Return on assets was 1.1 percent.
    - Return on equity was 8.4 percent.
- In line with the increased demand for banking services in the digital space, BPI created its digital governance framework and launched its 7 Client Engagement Platforms in 2021 to better serve its clients across different segments.
    - On top of its four existing platforms Express Online, BPI Trade, BizLink, and BanKo app, BPI is on track to launch BizKo for its SME partners. BizKo is tailored to the needs of SME clients providing them solutions for payments, payroll, invoicing, billing, and collection.
    - BPI is also working on the sixth and seventh installments of the framework, which are both slated to be launched in the second half of 2022. BPI will also launch its BPI Trade app within the year.

**Telecommunications**

- Globe's net income rose 27 percent to ₱23.7 billion from higher results from all data-related revenues, gain from the deemed sale of investment in Mynt, and the impact of the CREATE law. These offset the impairment costs stemming from Typhoon Odette.
    - Lower non-operating expenses were mainly due to the gain of ₱4.3 billion from the deemed sale of investment in Mynt, partially offset by the impairment cost of ₱1.0 billion from the network related damages caused by Typhoon Odette. These also include the upside impact of the CREATE law and higher equity share in affiliates.
- Globe's core net income, which excludes the impact of non-recurring charges and foreign exchange and mark-to-market changes, increased nine percent to ₱21.2 billion.
- Total service revenues grew four percent to ₱152.3 billion due to home broadband and corporate data from increased data consumption. Total data revenues accounted for 61 percent of Globe's service revenues compared to the year-ago level of 76 percent.
- Growth in demand for data was evident in the upward momentum of all data-related segments of Globe.
    - Mobile data revenues increased seven percent to ₱77.8 billion.
    - Mobile data traffic jumped 48 percent to 3,733 petabytes.
    - Home broadband revenues grew 10 percent to a record-high ₱29.4 billion.
    - Home broadband subscriber base stood at 3.7 million subscribers as fixed wired subscribers grew by 31 percent, leading to a 26 percent improvement in fixed wired revenues. Fixed wireless subscribers declined 11 percent as users shift out of the fixed wireless service to the more consistent and reliable wired service.
    - Corporate data revenues grew 12 percent to ₱14.2 billion mostly from growth from domestic services and information and communication technology.

- Operating expenses including subsidies increased five percent to ₱76.6 billion due to higher spending to support its aggressive upgrades and expenses related to restoration, repair, and services costs resulting from Typhoon Odette.
- EBITDA increased two percent to ₱74.9 billion due to topline improvement while EBITDA margin slightly contracted to 49 percent because of the impact of Typhoon Odette.
- Aligned with its thrust to expand its data businesses, Globe's CAPEX increased by 54 percent to an all-time high of ₱92.8 billion, representing 61 percent of gross service revenues and 124 percent of EBITDA. About 86 percent went to data-related requirements:
  - Built 1,407 new cell sites nationwide for both 4G LTE and 5G
  - Upgraded over 22,300 mobile sites
  - Expanded 5G coverage to over 2,000 sites
  - Rolled out 1.4 million FTTH lines on the home broadband front
- For 2022, Globe is earmarking ₱89 billion in CAPEX to continue its aggressive network expansion to boost internet quality and coverage in the country.
- Globe is moving towards becoming a digital solutions company, leveraging its core telco business to tap the shifting consumer landscape, which is being heavily influenced by digital adoption. Within its portfolio are high-growth enterprises in fintech, healthtech, adtech, and e-commerce among others.
  - GCash reached positive full year EBITDA and profitability three years ahead of its target. It has 55 million registered users, which drove gross transaction value to increase three times to ₱3.8 trillion in 2021.
  - In healthtech, HealthNow has 800,000 customers, processing 15,000 to 20,000 medicine delivery orders daily. KonsultaMD exhibited strong growth with more than a doubling of revenue, reaching over 1 million members across 50,000 retail outlets nationwide.
  - AdSpark, the largest locally-based ad agency, grew its revenues 32 percent to ₱1.2 billion.
  - RUSH, the leading loyalty solutions provider in the Philippines, doubled its revenue in 2021 and has 3.8 million registered users.

**Cost and Expenses**

- Cost of sales and services increased 22 percent to ₱175.9 billion, in line with higher sale of goods and rendering services. As a percentage of total costs and expenses, this account was 85 percent and 82 percent on December 31, 2021 and December 31, 2020, respectively.
- General and administrative expenses decreased six percent to ₱30.3 billion due to cost-saving measures across business units, lower overhead costs in Ayala Land and AC Industrials offset by higher taxes and licenses in AC Energy. As a percentage of total cost and expenses, this account was 15 percent and 18 percent on December 31, 2021 and December 31, 2020, respectively.

**Balance Sheet Highlights**

- Total assets declined four percent to ₱1.35 trillion from end-2020 level mainly due to the 94 percent decrease of Assets under PFRS 5 to ₱12.4 billion because of the deconsolidation of Manila Water.
  - Cash & cash equivalents and Short-term investments jointly increased two percent to ₱91.4 billion resulting from dividend collection, proceeds from the SRO, FOO, and issuance of shares to GIC in ACEN, inflows from bond issuances in AC Energy, AYCFL, and AC, net borrowings of AC and certain BUs, and sale of receivables by ALI. These were partially offset by capital infusions, purchase of Ayala Land shares, redemption of treasury shares by AC and ALI, dividend payout, and payment of trade payables and lower cash collections in certain business units.
  - Noncurrent accounts and notes receivables increased 45 percent to ₱83.3 billion from higher accounts of AC Energy group.
- Investments in associates and joint ventures increased 15 percent to ₱294.1 billion due to retained investments in Manila Water, equity earnings partially offset by dividends from BPI and Globe, additional investments of Ayala Land and AC Energy, higher equity earnings from their investees, and restructuring of receivable to investment in BHL.

- Parent level cash stood at ₱20.2 billion (including AYCFL and ACIFL).
- Parent net debt stood at ₱115 billion (including AYCFL and ACIFL).
- Parent net debt-to-equity ratio stood at 90 percent.
- Consolidated net debt-to-equity stood at 68 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 6.7 percent.
- Parent blended cost of debt at 4.3 percent ending December 2021, with average remaining life of 19.5 years.
- In 2021, the Ayala group's combined capital expenditure reached ₱228 billion and ₱18 billion at the parent level. Ayala parent CAPEX was channeled mostly to the purchases of shares in Ayala Land.
- For 2022, Ayala has allocated ₱285 billion in group CAPEX, with ₱24 billion earmarked for Ayala parent to fund investment opportunities.

**Key performance indicators of the Company and its significant subsidiaries**

The table sets forth the comparative key performance indicators of the Company and its significant subsidiaries.

***Ayala Corporation (Consolidated)***

| (In million Pesos, except ratios) | 2021 | 2020 | 2019 |
|---|---|---|---|
| Revenue* | 255,849 | 219,925 | 295,265 |
| Net Income Attributable to Equity Holders | 27,774 | 17,142 | 35,279 |
| Total Assets | 1,348,986 | 1,405,758 | 1,345,286 |
| Total Debt | 478,517 | 441,754 | 405,338 |
| Total Stockholders' Equity | 565,313 | 542,422 | 509,314 |
| Current Ratio[1] | 1.85 | 1.64 | 1.51 |
| Debt to Equity Ratio[2] | 0.85 | 0.81 | 0.80 |

**In 2021, 2020 and 2019, excludes MWCI accounts which are shown as Operations of the segment under PFRS 5 (see Note 24 of the Group's consolidated financial statement)*

***Ayala Land, Inc.***

| (In million Pesos, except ratios) | 2021 |
|---|---|
| Revenue | 103,788 |
| Net Income Attributable to Equity Holders | 12,228 |
| Total Assets | 745,464 |
| Total Debt | 223,097 |
| Total Stockholders' Equity | 270,502 |
| Current Ratio[1] | 1.58 |
| Debt to Equity Ratio[2] | 0.82 |

***Integrated Micro-Electronics, Inc.***

| (In thousand US dollars, except ratios) | 2021 |
|---|---|
| Revenue | 1,300,590 |
| Net loss Attributable to Equity Holders | (10,565) |
| Total Assets | 1,123,175 |
| Total Debt | 317,256 |
| Total Stockholders' Equity | 461,713 |
| Current Ratio[1] | 1.59 |
| Debt to Equity Ratio[2] | 0.69 |

***AC Energy, Inc.***

| (In million Pesos, except ratios) | 2021 |
|---|---|
| Revenue | 38,095 |
| Net Income Attributable to Equity Holders | 9,338 |
| Total Assets | 219,660 |
| Total Debt | 89,354 |
| Total Stockholders' Equity | 116,416 |
| Current Ratio[1] | 8.75 |
| Debt to Equity Ratio[2] | 0.77 |

*[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).*

Please refer to pages 348-349 of the Prospectus for 2019 and 2020 Key Performance Indicators of the Company's significant subsidiaries.

**Causes for any material variances**
**(Increase or decrease of 5% or more in the financial statements)**

A. The June 3, 2021 execution of Shareholders' Agreement among, Ayala, its wholly-owned subsidiaries, Philwater and ACEIC, and Trident Water Company Holdings Inc. as part of the closing actions for the latter's subscription to common shares in MWC (see Notes 2 and 24). This resulted in the deconsolidation of MWC as of mentioned date.

   Prior to the above, the related subscription agreement between MWC and Prime Strategic Holdings, Inc. (previously Prime Metroline Holdings, Inc.) was originally signed in February 2020 which then resulted in the following classification of MWC accounts in the Ayala consolidated financial statements: assets/ liabilities under PFRS/ IFRS 5 in the Balance Sheet as of December 31, 2020; and operations under PFRS/ IFRS 5 in the Income Statement for period ending June 3, 2021 and December 31, 2020.

B. The balance sheet accounts of GNPK from AC Energy group were similarly classified as assets and liabilities under PFRS/ IFRS 5 in 2020. Significant developments on this account are discussed in Notes 2 and 24 of the Group's December 31, 2021 consolidated financial statements.

C. Another key transaction that affected the Group's consolidated balance sheet and income statement is AC Health Group's consolidation of Qualimed/MGHI (see Notes 2 and 23). This resulted in higher balances for certain assets and liabilities accounts. In the income statement, revenues costs and expenses similarly increased due to this consolidation.

D. The Covid-19 impacted the health and economy globally. Consequently, this affected the operations of the Group in year 2020 and ensued to year 2021 with continued restricted mobility and community quarantines.

**Balance Sheet Items**
**As at December 31, 2021 vs. 2020**

*Cash & cash equivalents and Short-term investment – 2% increase from combined balance of ₱89,476 million to ₱91,415 million*

Increase coming from: AC Energy's subsidiary, ACEN, as proceeds from SRO, FOO and issuance of shares to Arran/GIC; ACEIC's sale of ACEN shares to GIC; inflows from bond issuance of AC Energy, AYCFL and AC; net borrowings of AC and certain BUs; sale of receivable by ALI, dividend collection of AC. These were partly offset by: AC's capital infusions to investees, bonds and loan payments, purchase of additional ALI shares; dividend payout and redemption of treasury shares by AC and ALI; partially offset by declines in AC Industrials and AC Infra due to payment of trade and loans payables; and IMI's decrease due to CAPEX and higher inventory purchases. These accounts comprise 7% and 6% of the total assets as of December 31, 2021 and 2020, respectively.

*Accounts and notes receivable:*

| | | | | % of Total Assets | |
|---|---|---|---|---|---|
| (in Millions) | **December 2021** | December 2020 | % Inc (Dec) | December 2021 | December 2020 |
| Current | **145,075** | 137,094 | 6% | 11% | 10% |
| Noncurrent | **83,301** | 57,382 | 45% | 6% | 4% |
| Total | **228,376** | 194,476 | 17% | 17% | 14% |

Combined movements affected by increase of AC Energy's development loans to international investment and receivable from sale of GNPK, ALI's and IMI's higher revenues, consolidation of AC

Health's Qualimed accounts and Philwater's receivable from sale of investment in preferred shares of MWC (see Note 2); partially offset by ALI's collections and sale of receivables and BHL's restructuring of receivable to investment in AJV account. These accounts are at 17% and 14% of the total assets as of December 31, 2021 and 2020, respectively.

*Other current assets – 10% increase from ₱74,315 million to ₱81,942 million*
Increase coming from ALI's higher advances and prepayments for unlaunched projects. This account is at 6% and 5% of the total assets as of December 31, 2021 and 2020, respectively.

*Assets under PFRS 5 – 94% decrease from ₱196,137 million to ₱12,434 million*
Decrease due to deconsolidation of MWC and partial sale of GNPK (see Notes 2 and 24). This account is at 1% and 14% of the total assets as of December 31, 2021 and 2020, respectively.

*Investments in associates and joint ventures – 15% increase from ₱255,008 million to ₱294,063 million*
Increase due to retained investments in MWCI (see Notes 2 and 24); equity earnings partly offset by dividends of Globe and BPI; AC Energy's and ALI's additional investments to and higher equity earnings from their investees; BHL's restructuring of receivable to investment account. This account is at 22% and 18% of the total assets as of December 31, 2021 and 2020, respectively.

*Investment Properties – 9% increase from ₱226,457 million to ₱246,806 million*
Increase attributable to ALI group's project construction completion of shopping center, offices, land acquisitions and capitalized borrowing cost. This account is at 18% and 16% of the total assets as of December 31, 2021 and 2020, respectively.

*Right-of-use (ROU) assets – 6% increase from ₱19,813 million to ₱20,997 million*
Increase attributable to AC's ROU assets. This account is at below 2% of the total assets as of December 31, 2021 and 2020.

*Service concession assets – 5% decrease from ₱1,556 million to ₱1,482 million*
Decrease attributable to depreciation of service concession assets. This account is at below 1% of the total assets as of December 31, 2021 and 2020.

*Intangible assets – 13% increase from ₱19,625 million to ₱22,128 million*
Increase due to consolidation of AC Health's Qualimed. This account is at below 2% of the total assets as of December 31, 2021 and 2020.

*Deferred tax assets-net – 11% increase from ₱14,634 million to ₱16,294 million*
Increase attributable to ALI group. This account is at 1% of the total assets as of December 31, 2021 and 2020.

*Other noncurrent assets – 19% increase from ₱58,852 million to ₱69,959 million*
Increase pertains to AC Energy's additional investments in financial assets at amortized cost; partly offset by AYC's maturity of placements. The account also includes the Group's pension asset amounting to ₱68 million and ₱22 million in December 31, 2021 and 2020, respectively. This account is at 5% and 4% of the total assets as of December 31, 2021 and 2020, respectively.

*Short-term debt – 7% increase from ₱32,440 million to ₱34,712 million*
Increase due to borrowings of ALI and AC for payment of long-term debt and operational expansion; partially offset by AC Energy's, IMI's and AC Industrial's loan settlement. This account is at 4% of the total liabilities as of December 31, 2021 and 2020.

*Accounts payable and accrued expenses – 5% decrease from ₱177,315 million to ₱168,751 million*
Decrease mainly due to ALI's payment to suppliers and contractors; AC Industrial's and AC Energy's payment of accounts payable; partially offset by IMI's higher trade payables. This account is at 22% and 21% of the total liabilities as of December 31, 2021 and 2020, respectively.

*Income tax payable – 58% decrease from ₱1,907 million to ₱803 million*

Decrease attributable to ALI coming from lower tax rate due to CREATE law and AC Energy's payment of tax due. This account is at below 1% of the total liabilities as of December 31, 2021 and 2020.

*Long-term debt:*

| | | | | % of Total Liabilities | |
|---|---|---|---|---|---|
| (in Millions) | **December 2021** | December 2020 | % Inc (Dec) | December 2021 | December 2020 |
| Current | **31,494** | 36,514 | -14% | 4% | 4% |
| Noncurrent | **412,311** | 372,800 | 11% | 53% | 43% |
| Total | **443,805** | 409,314 | 8% | 57% | 47% |

Combined movements due to increase from AYCFL's additional loan drawdowns and FFL bond issuance partly used to settle maturing loans and maturing bonds; AC Energy's FFL bond issuance; AC's bond issuance and loan availments offset by settlement of maturing loans and bonds; AC Health's Qualimed accounts; and ALI's, IMI's and AC Industrials' loan availments. This account is at 57% and 47% of the total liabilities as of December 31, 2021 and 2020, respectively.

*Lease liabilities:*

| | | | | % of Total Liabilities | |
|---|---|---|---|---|---|
| (in Millions) | **December 2021** | December 2020 | % Inc (Dec) | December 2021 | December 2020 |
| Current | **2,110** | 1,445 | 46% | 0% | 0% |
| Noncurrent | **25,504** | 22,672 | 12% | 3% | 3% |
| Total | **27,614** | 24,117 | 15% | 4% | 3% |

Increase coming from AC, AC Energy group and AC Health's Qualimed accounts. This account is at 4% and 3% of the total liabilities as of December 31, 2021 and 2020, respectively.

*Service concession obligation (current and noncurrent) – 17% increase from ₱86 million to ₱101 million*

Increase from AC's concession obligation. This account is at below 1% of the total liabilities as of December 31, 2021 and 2020.

*Other current liabilities – 13% increase from ₱26,596 million to ₱30,184 million*

Mainly due to ALI's higher deposits, reservation fees and advance rental payments. This account is at 4% and 3% of the total liabilities as of December 31, 2021 and 2020, respectively.

*Liabilities under PFRS 5 – 100% decrease from ₱124,291 million to nil*

Decrease due to deconsolidation of MWC and GNPK (see Notes 2 and 24). This account is at nil and 14% of the total liabilities as of December 31, 2021 and 2020, respectively.

Pension liabilities[22]*– 21% decrease from ₱5,093 million to ₱4,021 million*

Decrease attributable to ALI 's change in actuarial assumptions. This account is below 1% of the total liabilities as of December 31, 2021 and 2020.

*Other noncurrent liabilities – 22% increase from ₱52,776 million to ₱64,502 million*

Increase attributable to ALI's acquisition of parcel of land on installment and higher deferred revenues from property development. This account is at 8% and 6% of the total liabilities as of December 31, 2021 and 2020, respectively.

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[22] 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.

*Share-based payments – 56% decrease from ₱103 million to ₱45 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, 2021 and 2020.

*Remeasurement losses on defined benefit plan – 24% decrease from negative ₱6,351 million to negative ₱4,798 million*
Decrease due to remeasurement gain as result of adjustments on actuarial assumptions and factors. This account is at 1% of the total equity as of December 31, 2021 and 2020.

*Fair value reserve of financial assets at FVOCI – 43x decrease from positive ₱41 million to negative (-) ₱1,721 million*
Decrease due to BPI's lower marked to market valuation of its financial assets at FVOCI. This account is at below 1% of the total equity as of December 31, 2021 and 2020.

*Cumulative translation adjustments (CTA) – 170% increase from negative (-) ₱1,636 million to positive (+) ₱1,138 million*

Increase due to forex translation (movement in forex for PhP vs. USD) of the Ayala Group's business units with dollar functional currencies. Forex of PhP vs USD amounted to ₱50.999 in December 2021 vs. ₱48.023 in December 2020. This account is at below 1% of the total equity as of December 31, 2021 and 2020.

*Equity reserve – 11% increase from ₱30,741 million to ₱34,263 million*
Increase coming from AC Energy's change in ownership interest in ACEN as results of SRO, FOO, issuance of shares to GIC; and AC Energy's sale of secondary ACEN shares to Arran (see Note 2). This is partly offset by AC's purchase of ALI shares from stock market. This account is at 6% of the total equity as of December 31, 2021 and 2020.

*Retained Earnings – 9% increase from ₱238,073 million to ₱260,112 million*
Increase due to overall growth in net income of the group. This account is at 46% and 44% of the total equity as of December 31, 2021 and 2020, respectively.

*Treasury stock – 87% increase from ₱6,605 million to ₱12,383 million*
Increase due to AC parent's buy-back of common shares (see Note 20). This account is 2% and 1% of the total equity as of December 31, 2021 and 2020, respectively.

*Reserves under PFRS 5 – 100% increase from negative (-) ₱800 million to nil*
Increase due to deconsolidation of MWC and GNPK (see Notes 2 and 24). This account is at below 1% of the total equity as of December 31, 2021 and 2020.

**Income Statement items**

**For the Years Ended December 31, 2021 and 2020**

*Sale of goods and rendering of services – 17% increase from ₱193,622 million to ₱225,592 million*
Increase due to ALI's higher bookings from residential business, incremental projects completion and construction service; IMI's better operation across all sites and ACI's higher vehicle sales as community quarantine ease-up; and higher revenues due to consolidation of AC Energy's Islasol & Sacasol and AC Health's Qualimed. As a percentage to total revenue, this account is at 88% in December 31, 2021 and 2020.

GNPK revenues from electricity sales of ₱4,409.0 million, other income of ₱15.3 million and administrative expenses of ₱2,849.1 million for the period ended September 30, 2021 were recognized in the consolidated income statement (see Note 24).

*Share in net profits of associates and joint ventures (AJVs) – 33% increase from ₱17,616 million to ₱23,385 million*

Increase due to AC Energy's higher equity in net earnings resulting from GNPD's liquidating damages; Globe's higher revenues from home broadband and lower income tax as impact of the CREATE law (see Note 25); BPI's lower provision for losses for the year; and better performance from ALI's AJVs. Also, includes share in net earnings of MWC from June to December 2021. As a percentage to total revenue, this account is at 9% and 8% in December 31, 2021 and 2020, respectively.

*Interest income:*

| (in Millions) | **December 2021** | December 2020 | % Inc. (Dec) |
|---|---|---|---|
| Interest income from real estate | **6,801** | 8,603 | -21% |
| Interest income from non-real estate | **5,078** | 3,184 | 59% |
| Total | **11,879** | 11,787 | 1% |

Combined movements of interest income from real estate and others resulted to slight increase of 1% only.

*Cost of goods sold and rendering services – 22% increase from ₱144,181 million to ₱175,895 million*
Increase resulting from improvements in sales as explained above plus impact of generally higher prices for direct costs and overhead of various BUs, higher trading costs and high-priced purchases of electricity coupled with plant downtimes. As a percentage to total costs and expenses, this account is at 85% and 82% in December 31, 2021 and 2020, respectively.

*General and administrative expenses – 6% decrease from ₱32,326 million to ₱30,301 million*
Decrease due to ALI's and ACI's lower overhead cost; and cost savings measures across BUs; partly offset by increase in AC Energy due to higher taxes and licenses. As a percentage to total costs and expenses, this account is at 15% and 18% in December 31, 2021 and 2020, respectively.

*Dividend and other income – 145% increase from ₱6,209 million to ₱15,193 million*
Increase coming from AC Energy's gain on disposal of partial interest in GNPK as well as remeasurement gain on the fair value adjustment of its remaining interest (see Note 24); negative goodwill or gain from computed notional purchase price allocation (i.e., AC's share in the fair value of net identifiable assets vs. the book value of retained interest in MWC); and step-up gain on the acquisition of Qualimed; partly offset by the impact of last year's higher other income of AC Energy arising from liquidated damages on delayed completion of GNPK plant and marked to market gains on financial assets at FVTPL.

*Provision for income tax (current and deferred) – 6% decrease from ₱5,239 million to ₱4,912 million*
Decrease mainly due to impact of CREATE law (see Note 25).

*Operations of the segment under PFRS 5 – 119% decrease from net income of ₱9,797 million to net loss of ₱1,814 million*
Includes the net income after tax of MWC less consolidation adjustments. Decrease mainly due to lower billed volume and remeasurement loss. In addition to the remeasurement loss taken up in years 2019 and 2020, an amount of ₱3.1 billion was recognized for the period ending June 3, 2021, which formed part of the GAE of operations of the segment under PFRS 5 (Note 24).

*Income attributable to owners of the parent – 62% increase from ₱17,142 million to ₱27,774 million*
Increase coming from better results of most of the investees plus the AC Energy's gain on disposal and remeasurement gain in GNPK and AC's gain on retained interest of MWCI, as mentioned above. As a percentage to total net income, this account is at 77% and 59% in December 31, 2021 and 2020, respectively.

*Income attributable to non-controlling interests – 32% decrease from ₱12,129 million to ₱8,262 million*
Decrease coming from share in the remeasurement loss in MWC partly offset by share in net income results of non-wholly owned subsidiaries. As a percentage to total net income, this account is at 23% and 41% in December 31, 2021 and 2020, respectively.

**2020 vs 2019 Highlights**

**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.

| | 2020 | | | |
|---|---|---|---|---|
| (inMn pesos) | Pre - MWCI Reclass | PFRS 5 Reclass | Audited | **2019** |
| **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%.*

- 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 it 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 it 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.

- 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.

- 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.

- 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 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 in 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.

- 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 |
| Debt to Equity Ratio[2] | 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 t | 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% |

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:

*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 (Sacasol 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.

*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; party 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 liabilities[23] – 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*

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[23] The Parent Company's pension fund is known as the AC Employees Welfare and Retirement Fund ("ACEWRF"). ACEWRF is a legal entity separate and distinct from the Parent Company, governed by a board of trustees appointed under a Trust Agreement between the Parent Company and the initial trustees. It holds common and preferred shares of the Parent Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee include the Parent Company's Chief Finance Officer, Group Head of Corporate Governance, General Counsel, Corporate Secretary and Compliance Officer, Head for Strategic Human Resources, Treasurer and Comptroller. ACEWRF has not exercised voting rights over any shares of the Parent Company that it owns.

Increase due to overall growth in net income of the group. This account is 44% of the total equity as of December 31, 2020 and 2019, respectively.
*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 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 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. 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 ALI, Globe and BPI drove the bottom-line.
- Results tempered by the recognition of a remeasurement loss of ₱18.1 billion for Manila Water.
- Slowdown in AC Industrials resulted in a net loss of ₱2.4 billion.

In December 2019, Ayala recognized a remeasurement loss of ₱18.1 billion as a result of the reclassification of its investment in Manila Water (MWC) as asset held under PFRS 5 (the accounting standard for assets held for sale). This accounting standard requires applying a fair market value accounting for Ayala's investment in MWC, if the completion of the divestment and or subsequent loss of voting control is expected to occur within one year from the date of the financial statement. It also requires the assets and liabilities of MWC to be presented as one line item in the consolidated balance sheet and P&L in 2019 as opposed to line by line consolidation in prior years.

Please see as summary table below showing the effect of accounting for MWC investment under PFRS 5.

| | 2019 | | | | |
|---|---|---|---|---|---|
| (in million pesos) | Pre - MWCI Reclass | PFRS 5 Reclass | | Audited | 2018 |
| **Continuing Operations** | | | | | |
| Revenues | 284,704 | (19,797) | | **264,907** | **256,891** |
| Share of profit of associates & joint ventures | 22,998 | (654) | | **22,344** | **19,761** |
| Interest & other income | 55,994 | (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.
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 SEC 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 ("**Trident Water**"), with the acquisition of a 25% 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.

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 SEC on 18 November 2019.

**Industrial Technologies**

AC Industrials recorded a net loss of ₱2.4 billion as headwinds in both the electronics manufacturing services industry and the global auto industry hampered earnings across its several business lines.

The company's EMS platform, Integrated Micro-Electronics Inc., continued to weather challenges in its main market segments, particularly the industrial and consumer spaces. As the automotive sector

contracted globally, most notably in China, IMI's revenues, dropped 17 percent year-on-year. Additionally, investments in capacity and technical capabilities for future growth increased the company's overhead expenditures, which partly affected gross profit margins. Overall, these factors hindered IMI growth in 2019, with the company posting a net loss of US$7.8 million for the year.

Revenues from IMI's wholly owned operations tallied at US$1 billion, down 7 percent from the previous year. The company's Asian operating units dropped a total of 11 percent, as a function of the aforementioned slowdown in China's automotive market for the year. This was offset by the performance of IMI Europe, also largely automotive based, which grew three percent year-on-year as the company's newest production facility in Serbia continued its ramp-up in its first full year of operations. In parallel, IMI's Mexico operations, which serve the North American markets, continued their robust trajectories with a 50 percent revenue growth in 2019.

IMI's core subsidiaries, Via Optronics and STI, Ltd., posted combined revenues of $248 million, a decline of 21 percent from the previous year. VIA's drop was mainly driven by the slump in the overall computing consumer segment and the delay in the release of a new generation component from one of its major customers. Meanwhile, the uncertainty over Brexit, which persisted at least through 2019, caused some delays in the awarding of several contracts where STI is a key competitor.

AC Industrials' Philippine vehicle distribution and retail arm, AC Motors, recorded a net loss of ₱337 million on lower sales volumes across its Honda, Isuzu, Kia, and Volkswagen brands. The domestic automotive market grew moderately in 2019 by four percent to over 416,000 vehicles sold. As the industry recovers from the previous year's sizable, policy-driven decline, competition continues to be highly competitive, with over 50 players vying for slowly recovering customer demand.

Meanwhile, AC Industrials' startup investments, Merlin Solar, MT Technologies, and C-CON, recorded higher net losses during the period as they continue to grow their revenue pipelines, invest in capacity and infrastructure, and manage underutilization of capacity resulting from the global downturn in automotive and manufacturing.

**Share in Net Profits of Associates and Joint Ventures**

Share in net profits of associates and joint ventures expanded 13 percent to ₱22.3 billion on Globe's higher revenues and lower non-operating expenses and BPI's higher interest and non-interest income. This was, however, partly offset by lower earnings from AC Energy's investee companies.

**Banking**

BPI's net earnings, which was supported by solid core income, higher securities trading gains, and steadily growing fee-based businesses, jumped 25 percent to ₱28.8 billion in 2019.

Total revenues grew 20 percent to ₱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 LTNCDs have a tenor of 5.5 years and an interest rate of 4% p.a. In December 2019, BPI Family Savings Bank ("**BFSB**"), the Bank's wholly-owned thrift bank and consumer lending unit, issued ₱9.6 billion of 2.5-year bonds with an interest rate of with 4.3% p.a.

**Telco**

Globe's net income ended at ₱22.3 billion, up 20 percent, boosted by the company's data-related products and services.

Overall, Globe's total service revenues were up 12 percent to ₱149 billion, lifted by data-related Services, which accounted for 71 percent of the total.

The company's strategy is aligned to the evident growth in data driven customers across all segments.Mobile data users rose 7 percent to 39.6 million subscribers, which consequently pushed mobile data traffic up substantially by 78 percent to 1.7 petabytes. Likewise, the company's home broadband subscriber base increased 25 percent to over 2 million customers as Globe Home Pre-paid Wifi gained more traction in its segment. In order to further solidify its foothold in the home broadband space through an expanded portfolio of data offerings, Globe also launched At Home Air Fiber 5G on July 2019.

Globe's EBITDA ended at ₱76 billion, up 17 percent due to robust service revenues as well as subdued operating expenses. Operating expenses grew a modest eight percent despite higher costs related to marketing, subsidies, and staff as interconnect charges dropped significantly during the period. The company's EBITDA margin was steady at 51 percent for 2019.

Capital expenditure reached a record-high of ₱51 billion, 18 percent higher year-on-year. This was allocated to fast-tracking network rollout. During the year, Globe put up more sites and added more 3G and 4G base stations.

**Costs and Expenses**

General and administrative expenses rose 24 percent to ₱32.1 billion, mainly driven by AC Energy's higher manpower costs, professional fees, and restructuring costs related to the partial divestment of its thermal assets drove the increase. AC Industrials' manpower and advertising costs as well as AC Health's clinic network expansion and the consolidation of Generika and Entrego into AC Health and AC Infra, respectively, likewise drove the higher GAE.

**Balance Sheet Highlights**

The company's balance sheet remains strong with enough capacity to support its future investments and cover dividend and debt obligations.

At the end of 2019, Ayala's total assets stood at ₱1.3 trillion. Investment properties expanded 8 percent to ₱246.7 billion on the back of ALI's malls and office expansion. Investments in associates and joint ventures, meanwhile, ended at ₱246.7 billion on account of higher equity in net earnings contribution of BPI and Globe as well as additional investments made by Ayala Land, AC Health, AC Infra, and AC Ventures.

At the end of 2019, total debt at the consolidated level stood at ₱405.3 billion, two percent lower from its end-2018 level, despite additional borrowings of Ayala Land and AC Energy as MWCI's total debt of ₱56.4 billion was reclassified to liabilities under PFRS 5.

Ayala's parent level cash stood at ₱22.6 billion, with net debt at ₱83.2 billion. Ayala's parent net debt-to-equity ratio stood at 63 percent. The conglomerate's loan-to-value ratio, the ratio of its parent net debt to the total value of its assets, was at 6.4 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.

***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).*

**Causes for any material variances**
**(Increase or decrease of 5% or more in the financial statements)**

The December 31, 2019 and 2018 consolidated financial statements show several significant increases in Balance Sheet and Income Statement accounts relating to five (5) key factors:

1. Adoption of new accounting standard PFRS 16 (Leases) which give rise to new accounts in the balance sheet namely Right-of-use Assets and Lease Liabilities. The impact to income statement is shown in the depreciation (classified under cost of sales and general & administrative expenses) and interest expenses of the Group (Note 3 of notes to financial statements).

2. Significant acquisitions and divestments as follows (see Notes 2 and 10):
   1. Merger of AC Education and IPeople with IPeople as the surviving entity and now an AJV entity of AC from previously consolidated subsidiary.
   2. AC Energy's increase of ownership share in SLTEC (previously classified as AJV entity) from 35% in December 2018 to 80% (now a subsidiary).
   3. Acquisition of additional 2.5% stake in each of the Generika companies, which resulted to 52.5% ownership of AC Health as of December 31, 2019.

3. Reclassification of the investment in MWCI as assets under PFRS/ IFRS 5.
   With MWCI and Prime Metroline Holdings signing of a subscription agreement in February 2020, MWC qualified as a group held for deemed disposal. Since the operations of MWC represents the Group's water infrastructure business segment, it qualifies as a discontinued operation of segment under PFRS 5 in the Group's consolidated financial statements (see Notes 2 and 25).

4. Reclassification of the investment in GNPK as assets under PFRS/ IFRS 5.
   With AC Energy and Power Partners transaction in July 2019 which resulted in indirect control of AC Energy over GNPKauswagan (GNPK), the assets and liabilities of GNPK, a subsidiary, were reclassified into assets held for sale and liabilities of unit for disposal as of December 31, 2019 (see Notes 2 and 25).

5. Reclassification of accounts arising from PFRS 15:

Reclassification of contract assets and liabilities as permitted under PIC’s September 2019 letter response to real estate industry which ALI adopted to comply with PFRS 15. As a result, ALI’s contract assets and liabilities are classified as receivable and other current liabilities for year end 2019 and 2018, respectively (see Note 3).

The summarized impact of these transactions and reclassifications in the balance sheet are shown below. The impact to income statement is shown in the discussion of income statement variances.

| (Amounts in Millions) | December 31, 2019 | | | | | December 31, 2018 | Inc (Dec) | |
|---|---|---|---|---|---|---|---|---|
| | Pre-PFRS | PFRS 16 | PFRS 5 GNPK | PFRS 5 MWC | Audited | Restated | 2019 Audited vs. 2018 Restated | |
| | | (Item 1) | (Item 4) | (Item 3) | | | | |
| **ASSETS** | | | | | | | | |
| Cash and cash equivalents | ₱ 107,353 | ₱ - | ₱ (4,990) | ₱ (8,958) | ₱ 93,405 | ₱ 60,624 | ₱ 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 | ₱ 1,324,087 | ₱ 21,199 | ₱ - | ₱ - | ₱ 1,345,286 | ₱ 1,197,926 | ₱ 147,362 | 12% |
| **LIABILITIES AND EQUITY** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Short-term debt | ₱ 29,789 | ₱ - | ₱ - | ₱ - | ₱ 29,789 | ₱ 39,518 | ₱ (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 | ₱ 1,324,087 | ₱ 21,199 | ₱ - | ₱ - | ₱ 1,345,286 | ₱ 1,197,926 | ₱ 147,362 | 12% |

# MANAGEMENT

## Board of Directors

Ayala's Board has seven (7) 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 (1) year and until their successors are elected and qualified in accordance with Ayala's By-Laws.

The Board regularly meets at least six (6) 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 December 31, 2022, the composition of the Board and the list of Executive Officers are as follows:

| Board of Directors | |
|---|---|
| Jaime Augusto Zobel de Ayala | Chairman of the Board |
| Cezar P. Consing | President and Chief Executive Officer |
| Delfin L. Lazaro | Non-Executive Director |
| Mercedita S. Nolledo | Non-Executive Director |
| Chua Sock Koong | Independent Director |
| Rizalina G. Mantaring | Lead Independent Director |
| Cesar V. Purisima | Independent Director |

The write-ups below include positions held as of December 31, 2022 and in the past five years, and personal data as of December 31, 2022 (unless otherwise stated), of the directors and executive officers.

***Jaime Augusto Zobel de Ayala,*** Filipino, 63, Director of Ayala Corporation since May 1987. He is the Chairman of Ayala Corporation since April 2006. He was the Chief Executive Officer from 2006 to April 2021. He is also the Chairman of the other publicly listed companies of the Ayala Group, namely Globe Telecom, Inc., Ayala Land, Inc. and Bank of the Philippine Islands. He is the Chairman of AC Industrial Technology Holdings, Inc., AC Infrastructure Holdings Corporation, AC Energy and Infrastructure Corporation (formerly AC Energy, Inc.), Ayala Healthcare Holdings, Inc., and Asiacom Philippines, Inc.; Co-Chairman of Ayala Foundation, Inc.; Director of AC Ventures Holding Corp., Alabang Commercial Corporation,Light Rail Manila Holdings, Inc. and AG Holdings Ltd. Outside the Ayala Group, he is a Director of Temasek Holdings (Private) Limited and 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 is a member of the Board of Governors of the Asian Institute of Management, the Advisory Board of Asia Global Institute

(University of Hong Kong) and of various advisory boards of Harvard University, including the Global Advisory Council, Asia Center Advisory Committee, HBS Board of Dean's Advisors, and HBS Asia-Advisory Committee. He sits on the Board of Singapore Management University (SMU) and is a Chairman of SMU International Advisory Council in the Philippines. He is a member of the Asia Business Council, Asean Business Club Advisory Council, Leapfrog Investment Global Leadership Council, The Council for Inclusive Capitalism, and Word Wildlife Philippines National Advisory Council. He is Co-Vice Chairman of the Makati Business Club, Chairman of Endeavor Philippines, and Trustee Emeritus 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.

***Cezar P. Consing***, Filipino, 62, has been a Director of Ayala Corporation since December 3, 2020. He has been a member of the Ayala Group Management Committee since April 2013. He also holds the following positions in other publicly listed companies of the Ayala Group: Co-Vice Chairman of Globe Telecom, Inc.; and Vice Chairman of Bank of the Philippine Islands (BPI), and ACEN CORPORATION. He is the Chairman of Philippine Dealing System Holdings and its three operating subsidiaries. He is also a Director of the Singapore-listed Yoma Strategic Holdings Ltd., and the Myanmar-listed First Myanmar Investment Public Company Limited. Mr. Consing was a Senior Managing Director of Ayala Corporation and President and CEO of BPI from 2013 to 2021. In the latter capacity, he served as the chairman of BPI's thrift bank, investment bank, UK-registered bank, microfinance bank, property and casualty insurance joint venture and leasing and rental joint venture and board director of its asset management company and its life insurance joint venture. He is currently a member of BPI's executive committee of the board and is a board director of its investment bank, microfinance bank and asset management company. He served as the Chairman and President of the Bankers Association of the Philippines and was the President of Bancnet, Inc. He was a Partner at the Rohatyn Group from 2004 to 2013 and 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 worked for J. P. Morgan & Co. in Hong Kong and Singapore from 1985 to 2004 and headed the firm's investment banking business in Asia Pacific from 1997 to 2004 and served as President of J. P. Morgan Securities (Asia Pacific) Ltd. As a senior Managing Director. Mr. Consing was a member of the firm's Global Investment Banking Management Committee, its Asia Pacific Management Committee, and its Global Managing Director Selection Committee. He worked for BPI from 1981 to 1985, as a Management Trainee and eventually as Assistant Vice President. He has served as an independent board director of four publicly listed companies in Asia: Jollibee Foods Corporation (2010 to 2021), CIMB Group Holdings (2006 to 2013), First Gen Corporation (2005 to 2013), and National Reinsurance Corporation (2014 to 2019), where he also served as Chairman (2018 to 2019). He currently serves on the board of FILGIFTS.com. He has also served on the boards of SQREEM Technologies, Endeavor Philippines and the Hongkong based Asian Youth Orchestra. He is a board director of the US-Philippines Society and the Philippine-American Educational Foundation, and a board trustee of the Manila Golf Club Foundation. He is a member of the National Mission Council of De La Salle Philippines and a board trustee of College of St. Benilde and La Salle Greenhills. Mr. Consing has been a member of the Trilateral Commission since 2014. Mr. Consing received an A.B. Economics degree (Accelerated Program), magna cum laude, from De La Salle University in 1979. He obtained an M.A. in Applied Economics from the University of Michigan in 1980.

***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., and Globe Telecom, Inc.; and Independent Director of Monde Nissin Corporation. His other significant positions include: Chairman of Atlas Fertilizer & Chemicals Inc., Chairman and President of A.C.S.T. Business Holdings, Inc. and AYC Holdings, Inc.; Vice Chairman and President of Asiacom Philippines, Inc.; Director of AC Industrial Technology Holdings, Inc., 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. and a member of the BPI Advisory Council. 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.

***Mercedita S. Nolledo***, Filipino, 81, has served as a Director of Ayala Corporation since September 27, 2022. She is a member of the Board of Trustees of Ayala Foundation, Inc., BPI Foundation, Inc., and the BPI Advisory Council. She is an independent advisor to the Board of Directors of Ayala Land, Inc. She likewise served as the Chairman of the BPI's Retirement & Pension Committee and a member of the Corporate Governance Committee. Mrs. Nolledo is a Non-Executive Director of Xurpas, Inc. and an Independent Director of D&L Industries, Inc., both PSE-listed companies. She serves as Chairman and President of Michigan Holdings, Inc., Director of Anvaya Cove Beach and Nature Club, Inc. and Vice-President of Sonoma Properties, Inc. Ms. Nolledo graduated with the degree of Bachelor of Science in Business Administration major in Accounting (magna cum laude) from the University of the Philippines in 1960 and placed second at the Certified Public Accountant Licensure Board Examination administered in the same year. In 1965, she obtained her Bachelor of Laws degree (cum laude) also from the University of the Philippines where she also placed second at the Bar Examination held in the same year.

***Rizalina G. Mantaring,*** Filipino, 62, 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. She is also a member of the Boards of Trustees of the Makati Business Club, and Philippine Business for Education. She was Chief Executive Officer and Country Head of Sun Life Financial Philippines, the country's leading insurer, prior to which she was Chief Operations Officer, Sun Life Asia, responsible for IT & Operations across Asia. She was 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, cum laude, from the University of the Philippines and an MS Computer Science from the State University of New York at Albany.

**Cesar V. Purisima**, Filipino, 62, has been an Independent Director of Ayala Corporation since April 28, 2023. He is also an Independent Director of other publicly listed companies such as Ayala Land, Inc. Universal Robina Corporation, Jollibee Foods Corporation, Bank of the Philippine Islands. He is an Asia Fellow of Milken Institute, a global non-profit, non-partisan think tank. He is a founding partner at IKHLAS Capital, a pan-ASEAN private equity platform. He currently serves on the boards of the AIA Group, World Wildlife Fund-Philippines, De La Salle University, BPI Capital Corporation, International School of Manila and member of the board of advisors of ABS-CBN. He is a member of Sumitomo Mitsui Banking Corporation's Global Advisory Council and Singapore Management University's International Advisory Council in the Philippines. From 2010 to 2016, Purisima was the Secretary of Finance of the Philippines and the Chair of Economic Development Cluster of the President's Cabinet. He briefly served as Finance Secretary in 2005 and Trade and Industry Secretary from 2004 to 2005. Additionally, he was a member of the Monetary Board of the Philippines Central Bank, and the Governor for the Philippines at the Asian Development Bank and the World Bank. He served as Alternate Governor for the Philippines at the International Monetary Fund. Under his leadership, the Philippines received its first investment-grade ratings. He was named Finance Minister of the Year seven times in six consecutive years by a number of publications, a first for the Philippines. Prior to his stints in the government service, he was the Chairman & Country Managing Partner of the Philippines' largest professional services firm SGV & Co., and was a member of the Global Executive Board and Global Practice Council of Ernst & Young. Purisima obtained his Bachelor of Science degree in Commerce Major in Accounting and Financial Institutions from De La Salle University in 1979. He earned his Master of Business Administration degree from Kellogg School of Management, Northwestern University, Illinois in 1983. He was conferred a Knight in the National Order of the Legion of Honour by the French Republic (Chevalier dans l'Ordre National de la Legion d'Honneur) in 2017. In 2016, Purisima was awarded the Order of Lakandula with the rank of Grand Cross (Bayani) for his contributions to the Philippine economy. The Order of Lakandula is one of the highest civilian honors conferred by the President of the Republic of the Philippines and the Chevalier de l'Ordre national du Merite (Knight of the National Order of Merit) by the President of the French Republic in 2001.

***Chua Sock Koong**,* Singaporean, 65*,* has been an Independent Director of the Company since April 28, 2023. She is a Senior Advisor at Singapore Telecommunications Limited, Asia's leading communications technology group, having served as its Group Chief Executive Officer for thirteen (13) years until December 31, 2020. She sits on the boards of Bharti Airtel Limited, Bharti Telecom Limited, the Defence Science and Technology Agency and Cap Vista Pte Ltd. She is also a Director of Prudential plc and Member of the Supervisory Board of Royal Philips. She is Deputy Chairman of the Public Service Commission and a member of the Council of Presidential Advisers. She was conferred the Medal of Commendation (Gold) at NTUC May Day Awards 2016 and the Public Service Star (BBM) at Singapore's 2019 National Day Awards. She holds a Bachelor of Accountancy (First Class Honours) from the University of Singapore. She is a Fellow Member of the Institute of Singapore Chartered Accountants and a CFA charter holder.

**Executive Officers**

| Name | Position |
|---|---|
| Cezar P. Consing* | President and Chief Executive Officer |
| Jose Rene Gregory D. Almendras | Senior Managing Director, Public Affairs Group Head, President and CEO of AC Infrastructure Holdings Corporation |
| John Eric T. Francia | Senior Managing Director, President and CEO of AC Energy and Infrastructure Corporation (formerly AC Energy, Inc.) |
| Solomon M. Hermosura | Senior Managing Director, Chief Legal Officer, Corporate Secretary, Chief Compliance Officer, Data Protection Officer, and Corporate Governance Group Head |
| Alberto M. de Larrazabal | Senior Managing Director, Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer and Finance Group Head |
| Arthur R. Tan | Senior Managing Director, Vice Chairman and CEO of Integrated Micro-Electronics, Inc. and President and CEO of AC Industrial Technology Holdings, Inc. |
| Alfredo I. Ayala | Managing Director, Chief Operating Officer of iPeople, Inc. |
| Paolo Maximo F. Borromeo | Managing Director, President and CEO of Ayala Healthcare Holdings, Inc. |
| Francisco Romero Milán** | Managing Director, Corporate Resources Group Head and Chief Human Resource Officer |
| Ruel T. Maranan | Managing Director, President of Ayala Foundation, Inc. |
| 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 |

** Members of the Board of Directors.*
*** Elected as officer effective March 1, 2023.*

***Jose Rene Gregory D. Almendras**,* Filipino, 62, concurrently serves as Senior Managing Director of Ayala Corporation (AC), Director of Manila Water Company, Inc. (MWCI) and President & Chief Executive Officer of AC Infrastructure Holdings Corporation (AC Infra). He is also a member of the Ayala Group Management Committee since August 2016. He is a member of the Executive Committee of MWCI and a member of the Board of Directors of the following companies within the Ayala Group: AF Payments Inc.; Light Rail Manila Holdings, Inc.; and MCX Tollway Inc. He is the Chairman and President of AC Logistics Holdings Corporation and MCX Project Company, Inc. He served as President and Chief Executive Officer of MWCI from September 1, 2019 to June 4, 2021. 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.

***John Eric T. Francia***, Filipino, 51, has been a Senior Managing Director and a member of the Ayala Group Management Committee since January 2009. He is the President of and Chief Executive Officer of ACEN CORPORATION and Chairman of ENEX Energy Corp., publicly listed energy companies of the Ayala Group. Under his leadership as President and CEO of AC Energy and Infrastructure Holdings, Inc., Ayala established its energy platform from a standing start in 2011, to become one of the largest renewable energy platforms, with ~4,000 MW of attributable capacity from owned facilities in the Philippines, Vietnam, Indonesia, India, and Australia. He was a member of the Management Committee of Ayala Corporation from 2009 to 2021. He was appointed as chairman of Ayala's Investment Committee in 2021. He is also a director of various Ayala Group companies including AC Infrastructure, AC Health, AC Logistics, Air 21 Holdings, Inc., AC Ventures, Philwater Holdings, Inc., Michigan Holdings, Inc. Ayala Aviation and Purefoods International Limited. He earned a Master's Degree in Management Studies at the University of Cambridge in the United Kingdom, graduating with First Class Honors. He received his undergraduate degree in Humanities and Political Economy from the University of Asia & the Pacific, graduating magna cum laude

***Solomon M. Hermosura***, Filipino, 60, serves as Senior Managing Director and the Group Head of Corporate Governance, Chief Legal Officer, Corporate Secretary, Compliance Officer and Data Protection Officer of Ayala Corporation. He has served as a member of the Ayala Corporation Management Committee since 2009 and the Ayala Group Management Committee since 2010. He is the Corporate Secretary and Group General Counsel of Ayala Land, Inc.; Corporate Secretary of Integrated Micro-Electronics, Inc., Globe Telecom, Inc., ACEN CORPORATION, AREIT, Inc. and Ayala Foundation, Inc., and Corporate Secretary and member of the Boards of Directors of a number of companies in the Ayala Group. He served as Managing Director of Ayala Corporation from 1999 to June 2022. 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.

***Alberto M. de Larrazabal***, Filipino, 66, is a Senior Managing Director, Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer, and Finance Group Head of Ayala Corporation since 23 April 2021. He is a member of the Ayala Corporation Management Committee and the Ayala Group Management Committee. He is also a Director of Integrated Micro-Electronics, Inc. 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, LiveIt Investments Limited, Azalaea International Venture Partners Limited, AC International Finance Limited, PFIL North America, Inc. (PFIL NA), and Bestfull Holdings Limited; Vice Chairman of Lagdigan Land Corporation; President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc.; Director of Ayala Hotels, Inc., AC Infrastructure Holdings Corporation, Ayala Healthcare Holdings, Inc., AC Energy International, Inc., AC Industrial Technology Holdings, Inc., AC Logistics Holdings Corporation, Affinity Express Holdings Limited, Ayala Aviation Corporation, Asiacom Philippines, Inc., Ayala Group Legal, HealthNow, Inc., Michigan Holdings, Inc., A.C.S.T Business Holdings, 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., Purefoods International Limited ("**PFIL NA**") and AI North America, Inc. Prior to joining Ayala, 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 Globe's Chief Finance Officer in April 2010 then Chief Commercial Officer in November 2015. 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.

***Arthur R. Tan***, Filipino, 62, has been a Senior Managing Director of Ayala Corporation since January 2007 and has been a member of the Ayala Group Management Committee since 2002. He has been the Chief Executive Officer of IMI, a publicly listed company, since April 2002. He was re-elected as President of IMI effective January 1, 2020 and served as such until June 28, 2021. He was elected as Vice Chairman of IMI on June 28, 2021. Concurrently, he is also the Chairman of the Board and Chief Executive Officer of Merlin Solar Technologies (Phils.), Inc. He is the Chairman of the Board of PSi Technologies Inc. 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 Skyeye Analytics, Inc.; and an Independent Board Member of SSI Group, Inc., Lyceum of the Philippines University, and East Asia Computer Center/FEU Institute of Technology. Prior to IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts, USA), from 1994 to 1998, of which he became the Managing Director for Asia Pacific Region/Japan from 1998 to 2001. He graduated with B.S. in Electronics Communications Engineering degree from Mapua Institute of Technology in 1982 and attended post-graduate programs at the University of Idaho, Singapore Institute of Management, IMD and Harvard Business School.

***Alfredo I. Ayala***, Filipino, 61, has been a Managing Director of Ayala Corporation and a member of the Ayala Group Management Committee since June 2006. He is the President and Chief Operating Officer of iPeople, Inc., Ayala Corporation's investment in the education sector, in partnership with House of Investments, Inc. He is also the President, Director of LiveIt Investments Limited, Ayala Corporation's holding company for its business processing outsourcing. Currently, he also holds the following positions: Director of Affinity Express Holdings, Ltd., Azalea International Venture Partners Limited, Malayan Education System Inc. (operating under the name Mapua University), Malayan Colleges Laguna, Malayan Colleges Mindanao and Malayan High School of Science; Chairman and President of AC College of Enterprise and Technology, Inc., National Teachers College, and LINC Institute; Chairman of Affordable Private Education Center, Inc. and Newbridge International Investments Limited; Chairman of University of Nueva Caceres; Vice Chairman and Vice President of Affinity Express Philippines, Inc.; Trustee of Ayala Foundation, Inc. and Director of Nationwide Development Corp and Hybrid Social Solutions. He is also a Trustee of Philippine Business for Education (PBEd) and a member of PBEd's National Industry Academe Council and Brown University's Center for Human Rights and Humanitarian Studies' Global Advisory Board, and a former Chairman of the IT and Business Process of the Philippines. 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, 44, 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 group corporate planning process, portfolio strategy, innovation projects, data and analytics, new business development and special projects. In addition, he is the President and CEO of Ayala Healthcare Holdings Inc. (ACHealth). He is Chairman of Healthway Philippines, Inc., Qualimed Hospital Group I.E. Medica, Inc., and Medethix, Inc. He is a Vice Chairman of the Generika Group of Companies. He also sits on the board of AC Ventures Holding Corp., AC Industrial Technology Holdings Inc., Ayala International Holdings Limited, AG Holdings, and AC Logistics Holdings Corporation. He is also a director at Yoma Strategic Holdings, the Singapore-listed holding company of the Yoma Group of Myanmar. Prior to joining Ayala, he was a Principal at Booz & Company, a global strategy consulting firm, based in San Francisco, California, USA. He obtained his Bachelors of Science degree in Management Engineering from the Ateneo de Manila University and his Master's in Business Administration with honors from the Wharton School at the University of Pennsylvania.

***Ruel T. Maranan***, Filipino, 59, 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 Vice Chairman of the

Board of Trustees of Ayala Multi-Purpose Cooperative. He is also a member of the board of directors of Asticom Technology, Inc., Asti Business Services, Inc., and, People's Management of the Philippines Foundation and is also part of the board of advisers of the Natasha Goulbourn Foundation. He serves as the Chairman of the Board of Trustees of Fiber Infrastructure Networking Services, Inc. and member of the board of representatives of CIFAL Philippines. From 2004 to 2014, he was the Group Director of Manila Water Company's Corporate Human Resources Group. In Manila Water, 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, Manila Water was named the 2006 Outstanding Employer of the Year by the People Management Association of the Philippines. Before joining Manila Water, he was with Globe Telecom, Inc., Vitarich Corporation, and Integrated Farm Management, among others. Mr. Maranan earned his AB Social Sciences degree from the Ateneo de Manila University and his law degree from the University of Santo Tomas. He has also completed the Harvard Leadership Management Program. In 2016, he received a UST Outstanding Alumni Award (Private Sector).

***Francisco Romero Milán***, Filipino[24], 40, has been a Managing Director, Corporate Resources Group Head and Chief Human Resource Officer of the Corporation since March 1, 2023. Prior to this, he served as Strategic Human Resources Adviser at the Corporation and Head of HR Council and the HR Executive Committee of the Ayala Group. He joined the Group in 2019 as Vice President, member of Management Committee and Human Resources Officer of Integrated Micro-Electronics, Inc., a leading global manufacturing solutions expert in the work of manufacturing portfolio of AC Industrial, a wholly owned subsidiary of the Corporation. He was also the Group Head of Human Resources and Sustainability of AC Industrial. Prior to this, he held increasingly responsible role with A.P. Moller-Maerks, a global shipping and energy conglomerate located in Copenhagen, Denmark, with operations in over 130 countries and around 90,000 employees worldwide. In his last position he was responsible for HR Operations in 15 countries across Asia and the Pacific. He is a Partner, member of the Board and Strategic Advisor of Penbrothers International, a Philippine-based talent management partner for startups and SMEs from all over the world. He is also member of the Board of Trustees of Teach for the Philippines, where he has served for over seven years as a Thought Partner.

***Catherine H. Ang,*** Filipino, 51, 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 for Risk Management and Sustainability. Currently, she also holds the following positions: Director of Technopark Land, Inc., Audit and Risk Committee Chairman of Entrego Fulfillment Solutions, Inc. and Entrego Express Corporation, Audit and Risk Committee Member of Ayala Healthcare Holdings, Inc., AC Energy and Infrastructure Corporation, AC Infrastructure Holdings Corporation, Ayala Multi-Purpose Cooperative, Light Rail Manila Corporation and AF Payments, Inc. She is also a member of the Good Governance Committee and YFO Committee of Financial Executives Institute of the Philippines (FINEX), a member of the Corporate Governance Scorecard Committee of the Institute of Corporate Directors (ICD), and a Teaching Fellow at the ICD. She was the FINEX 2017 - 2019 Audit Committee Chair and 2017 – 2018 Good Governance Committee Vice Chairperson, FINEX Foundation 2016 Finance Committee Chair, ICD 2015-2016 Scorecard Circle Chair, and Institute of Internal Auditors – Philippines (IIAP) 2014 Chair of the Board of Trustees and 2009 - 2014 member of the Board of Trustees. 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.

[24] By naturalization, subject to probationary period of two-years from promulgation of RTC Decision.

***Estelito C. Biacora***, Filipino, 51, is the Executive Director and Treasurer of Ayala Corporation since November 2018. Currently, he also holds the following positions: Director and Treasurer of Liontide Holdings, Inc., Michigan Holdings, Inc., Pameka Holdings, Inc., Technopark Land, Inc., and Ayala Retirement Fund Holdings, Inc.; Director of AYC Finance, Limited and AYC Holdings Limited; Director, Treasurer and Chief Finance Officer of Philwater Holdings Company, Inc.; Chairman of Ayala Group Club, 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., PPI Prime Venture, Inc., and; Chief Finance Officer of Cartera Interchange; and member of Ayala Foundation Endowment Committee, Ayala Corporation Retirement Committee, and Audit and Risk Committee of AC Energy and Infrastructure Corporation (ACEIC) and AC Infrastructure Holdings Corporation. Prior to joining Ayala, he served as Senior Vice President for Global Markets Group at the Bank of the Philippine Islands (BPI). His other previous senior assignments include Chief Investment Officer (CIO) for BPI Asset Management and Trust Group, and Senior Vice President and Head of BPI Private Banking. He also served as member of BPI Management Committee, and member of the board of BPI Forex Corporation and BPI International Finance Limited, Hong Kong. He served as the President and board member of ACI Philippines, the Financial Markets Association affiliated with Paris-based organization of global markets professionals. He also served as member of BAP-Capital Markets Development Committee. He has held prior positions with Far East Bank and Trust Company, and Banco Santander, Philippines. Mr. Biacora earned a Bachelor of Science degree in Commerce, major in Finance in 1990 and Masters in Business Administration in 1994, both from De La Salle University.

***Josephine G. De Asis,*** Filipino, 51, has been the Controller of Ayala Corporation since August 2012. Currently, she also holds the following positions: Chairwoman of PPI Prime Venture, Inc.; Director and Chief Finance Officer of Pameka Holdings, Inc.; Director of Azalea International Venture Partner Ltd., Darong Agricultural & Development Corporation, and Technopark Land, Inc.; Chief Finance Officer of Michigan Holdings, Inc.; and, Treasurer and Chief Finance Officer of Ayala Group Legal. Prior to joining Ayala Corporation, she served as the Head of Financial Control Division of Globe Telecom, Inc. from 2010 to 2012 and Controller of the Wireless Business of Globe Telecom, Inc. from 2005-2010. She is a Certified Public Accountant. She graduated with a degree in BS Accountancy (summa cum laude) from Polytechnic University of the Philippines in 1991 and attended an Executive Management Program from the University of California Los Angeles in 2004-2005.

***Rosario Carmela G. Austria***, Filipino, 39, 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 and in Ayala Corporation from May 2020 to March 2021. Prior to joining Ayala Group, she worked in the SEC 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**

There are no known family relationships between the current members of the Board and key officers.

Jaime Augusto Zobel de Ayala, Chairman, and Fernando Zobel de Ayala, the Special Adviser to the Board, are brothers

**Involvement in Certain Legal Proceedings**

Except as disclosed herein or in the Information Statements of the Company's subsidiaries or associates 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, 2021 to which the Company or any of its subsidiaries or associates 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.

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.

On April 5, 2022, 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:

| Fee Structure | Retainer Fee | For Board | For Committees |
|---|---|---|---|
| Non-Executive and Independent Directors | ₱3,000,000 per annum | ₱200,000 per meeting attended<br><br>₱100,000 per written resolution and per non-independent directors meeting | ₱100,000 per meeting attended<br><br>₱50,000 per written resolution |
| Chairman of the Board | ₱3,000,000 per annum (additional) | | |
| Chairman of the Audit Committee | ₱1,500,000 per annum (additional) | | |

Non-Executive Directors traveling out of their country of residence is entitled to ₱100,000.00 allowance per day of travel required to attend meeting, business class roundtrip airfare, and accommodations on a 5-star hotel covering the day prior to the meeting until day after meeting

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 |
|---|---|---|---|---|
| Fernando Zobel de Ayala*<br><br>Cezar P. Consing** President and Chief Executive Officer | | | | |

| | | | | |
|---|---|---|---|---|
| Paolo Maximo F. Borromeo*** Managing Director, Corporate Strategy and Development Group Head<br><br>Jose Rene Gregory D. Almendras**** Senior Managing Director<br><br>Alberto M. de Larrazabal Senior Managing Director, Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer, and Finance Group Head<br><br>Josephine G. De Asis**** Executive Director and Controller<br><br>Solomon M. Hermosura Managing Director, Chief Legal Officer, Corporate Secretary, Chief Compliance Officer, Data Protection Officer, and Corporate Governance Group Head | | | | |
| CEO and Most Highly Compensated Executive Officers | Actual 2021 | ₱300.72M | ₱162.49M | ₱ 0 |
| | Actual 2022 | ₱257.27M | ₱190.02M | ₱ 0 |
| | Projected 2023 | ₱250.55M | ₱175.57M | ₱ 0 |
| All other officers***** as a group unnamed | Actual 2021 | ₱641.56M | ₱270.92M | ₱ 0 |
| | Actaul 2022 | ₱551.60M | ₱303.88M | ₱ 0 |
| | Projected 2023 | ₱602.79M | ₱344.22M | ₱ 0 |

**Up to August 2022*
***Starting from Augsut 2022*
****Up to September 2022*
*****Starting from January 2022*
******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).

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**"). In 2022, stock options covering 15,120 shares were exercised by Mr. Solomon M. Hermosura for an exercise price of ₱500.00. The market price per share on April 26, 2013, the date of grant, was ₱640.00.

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 as of January 31, 2023*

| 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 | 805,997 | (indirect) | Filipino | 0.0927% |
| Preferred B Series 1 | | 20,000 | (indirect) | | 0.0023% |
| Voting Preferred | | 543,802 | (direct) | | 0.0625% |
| Common | Cezar P. Consing | 204,386 | (direct & indirect) | Filipino | 0.0235% |
| Common | Delfin L. Lazaro | 97,554 | (direct & indirect) | Filipino | 0.0112% |
| Voting Preferred | | 258,297 | (direct) | | 0.0297% |
| Common | Mercedita S. Nolledo | 170,007 | (direct) | Filipino | 0.0195% |
| Common | Chua Sock Koong | 1 | (direct) | Singaporean | 0.0000% |
| Common | Rizalina G. Mantaring | 57,840 | (direct & indirect) | Filipino | 0.0067% |
| Voting Preferred | | 3,604 | (direct) | | 0.0004% |
| Common | Cesar V. Purisima | 1 | (direct) | Filipino | 0.0000% |
| *CEO and most highly compensated officers** | | | | | |
| Common | Cezar P. Consing | 204,386 | (direct & indirect) | Filipino | 0.0235% |
| Common | Paolo Maximo F. Borromeo | 146,154 | (indirect) | Filipino | 0.0168% |
| Common | Alberto M. de Larrazabal | 86,575 | (indirect) | Filipino | 0.0100% |
| Common | Josephine G. De Asis | 51,287 | (indirect) | Filipino | 0.0059% |
| Common | Solomon M. Hermosura | 227,484 | (indirect) | Filipino | 0.0262% |
| Voting Preferred | | 53,583 | (direct) | | 0.0062% |

| Other executive officers (Ayala group ManCom members/Senior Leadership Team) | | | | | |
|---|---|---|---|---|---|
| Common | Arthur R. Tan | 446,098 | (indirect) | Filipino | 0.0513% |
| Common | Jose Rene Gregory D. Almendras | 350,203 | (direct & indirect) | Filipino | 0.0403% |
| Common | Alfredo I. Ayala | 235,776 | (direct & indirect) | Filipino | 0.0271% |
| Common | John Eric T. Francia | 150,169 | (indirect) | Filipino | 0.0173% |
| Common | Ruel T. Maranan | 35,094 | (indirect) | Filipino | 0.0040% |
| Common | Francico Romero Milán* | 8,965 | (indirect) | Filipino[25] | 0.0010% |
| Common | Estelito C. Biacora | 21,763 | (indirect) | Filipino | 0.0025% |
| Common | Catherine H. Ang | 48,790 | (indirect) | Filipino | 0.0056% |
| Preferred B Series 2 | | 2,000 | (indirect) | | 0.0002% |
| Voting Preferred | | 5,290 | (direct) | | 0.0006% |
| Common | Rosario Carmela G. Austria | 1,098 | (indirect) | Filipino | 0.0001% |
| **All Directors and Officers as a group** | | **4,031,818** | | | **0.4639%** |

**Officer effective March 1, 2023.*

*Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of January 31, 2023:*

| 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.[26]<br>3/F Makati Stock Exchange Building, Ayala Triangle, Ayala Avenue, Makati City | Mermac, Inc.[27] | Filipino | 296,625,706 | 57.3040% |
| Voting Preferred | | | | 172,778,760 | |
| Common | PCD Nominee Corporation (Filipino)[28]<br>G/F MSE Bldg.<br>Ayala Ave., Makati City | PCD participants acting for themselves or for their customers[29] | Various Non-Filipino | 144,469,334 | 17.63650% |
| Common | PCD Nominee Corporation (Non-Filipino)<br>G/F MSE Bldg.<br>Ayala Ave., Makati City | PCD participants acting for themselves or for their customers[11] | Filipino | 115,896,783 | 14.1484% |

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[25] By naturalization, subject to probationary period of two-years from promulgation of RTC Decision.

[26] The Co-Vice Chairmen of Mermac, Inc. (“Mermac”), Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala, are the Chairman (formerly Chairman and Chief Executive Officer), and former Chief Executive Officer and President of the Company, respectively. The Chairman of the meeting of the Corporation is usually named and appointed to exercise the voting power of Mermac.

[27] The Board of Directors of Mermac has the power to decide how Ayala shares held by Mermac are to be voted.

[28] PCD Nominee Corporation (“PCD”) is not related to the Company.

[29] 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. None of the member of PCD Nominee Corporation owns at least 5% or the Company’s voting capital stock. The Company has no record relating to the power to decide how the shares held by PCD are to be voted.

| Common | Mitsubishi Corporation[30]<br>3-1, Marunouchi 2- Chome, Chiyoda-ku, Tokyo 100-8086 | Mitsubishi Corporation[31] | Japanese | 37,771,896 | 6.9972% |
|---|---|---|---|---|---|
| Voting Preferred | | | | 19,545,678 | |

*Security ownership of directors and management as of January 31, 2023.*

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.

*Foreign Ownership as of January 31, 2023*

| Security | Issued & Outstanding Shares | Shares Owned by Foreigners | Percentage |
|---|---|---|---|
| Common | 619,148,362 | 155,174,845 | 25.06% |
| Preferred "B" Series 1 | 20,000,000 | 82,690 | 0.41% |
| Preferred "B" Series 2 | 30,000,000 | 179,592 | 0.60% |
| Voting Preferred | 200,000,000 | 21,807,496 | 10.90% |
| **Total** | **869,148,362** | **177,244,623** | **20.3929%** |

[30] Mitsubishi Corporation ("Mitsubishi") is not related to the Company.

[31] 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. Certain matters relating to the legality of the Offer and tax matters were passed upon by Co Ferrer Ang-Co & Gonzales Law Offices ("**CFA Law**") for the limited purpose of issuing an opinion required by the SEC. Neither Romulo nor CFA Law have any direct or indirect interest in the Company.

**Independent Auditors**

SyCip Gorres Velayo & Co. ("**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, 2022, 2021, and 2020 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 |
|---|---|---|---|---|
| 2022 | ₱6.56M | ₱8.68M | - | ₱0.32M |
| 2021 | ₱6.36M | ₱10.19M | - | ₱0.13M |
| 2020 | ₱6.06M | ₱5.71M | - | ₱2.25M |

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 2020 and 2021. 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.

*a. Tax Fees*

In 2022, SGV & Co. rendered tax advisory services to the Company for a fee of ₱0.225M, inclusive of value-added tax.

Total non-audit fees billed by SGV & Co. in 2022 and 2021 are P0.32M and P0.13M, respectively. The non-audit fees include services rendered by the external auditors in relation to the Company's Annual Stockholders' Meeting and other one-time, non-recurring special 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 2023 based on its performance and qualifications, and fixed its remuneration amounting to ₱12,096,000.00, inclusive of value-added tax. The significant increase of 84% versus last year's audit fee of ₱6,559,140.00 is primarily attributable to the additional audit procedures to be performed by SGV for the audit of the consolidated financial statement of the Company arising from the change of Ayala Land, Inc. external auditor.

The re-appointment of SGV & Co., and the fixing of its remuneration will be approved by the Ayala stockholders at the Annual Stockholders' Meeting to held on April 28, 2023. Under Section E, Oversight on External Audit, No. 5.1 of the Ayala Audit Committee Charter, Ayala's Audit Committee, which is composed of Ms. Rizalina G. Mantaring (Chairman, Lead ID), Mr. Cesar V. Purisima (Member, ID), and Ms. Chua Sock Koong (Member, ID), 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.

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.

*b. 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 general description of certain Philippine tax aspects of the investment in the Preferred Shares. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Preferred Shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Preferred Shares 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 Preferred Shares 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 prospective investor may vary depending on such investor's particular situation and certain investors may be subject to special rules not discussed below. This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to invest in the Preferred Shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special taxes.*

***EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE PREFERRED SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF LOCAL AND NATIONAL OR FOREIGN TAX LAWS.***

The following is a general description of certain Philippine tax aspects of the investment in the Preferred Shares. It is based on the present provisions of the Tax Code, as amended by the Corporate Recovery and Tax Incentives for Enterprises Act ("**CREATE**"), and 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 herein, the term "**resident alien**" 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 thereof. A non-resident alien who is actually in the Philippines for an aggregate period of more than 180 days during any calendar year is considered a non-resident alien engaged in trade or 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. A "**resident foreign corporation**" is a non-Philippine corporation engaged in trade or business in the Philippines. A "**non-resident foreign corporation**" is a non-Philippine corporation not engaged in trade or business in the Philippines.

The Preferred Shares are intended to be listed with the PSE on Issue Date.

*Corporate Income Tax*

A domestic corporation is subject to a tax of 25% of its taxable income (gross income less allowable deductions) from all sources within and outside the Philippines except, among other things, (a) interest income from Philippine currency bank deposits and yield or any other monetary benefit from deposit substitutes, trust funds, and similar arrangements as well as royalties from sources within the Philippines are subject to final withholding tax rate of 20%; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 15%.

A minimum corporate income tax of 2% of the gross income as of the end of the taxable year is imposed on a domestic corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the 2 % minimum corporate income tax is greater than the corporate tax rate of 30% on taxable income.

Nevertheless, any excess of the minimum corporate income tax over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Furthermore, subject to certain conditions, the minimum corporate income tax may be

suspended with respect to a corporation which suffers losses on account of a prolonged labor dispute, force majeure, or legitimate business reverses.

In addition, under the RE Law, a corporation engaged in the exploration, development, and utilization of RE resources and actual operation of RE systems or facilities is, after seven years of income tax holiday, entitled to pay a corporate tax of 10% of its net taxable income (as defined in the Tax Code), provided that the said corporation shall pass on the savings to the end-users in the form of lower power rates. However, under current rules implementing the RE Law, it is not clear on how the corporation can pass on the savings to end-users in order to avail of this preferential 10% tax rate.

*Tax on Dividends on the Preferred Shares*

Cash and property dividends actually or constructively received from a domestic corporation by individual shareholders who are either Philippine citizens or resident aliens are subject to a final withholding tax at the rate of 10%. Cash and property dividends actually or constructively received by non-resident alien individuals engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from Philippine sources at the rate of 20% of the gross amount, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident alien individual. Non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from Philippine sources at the rate of 25% of the gross amount, subject, however, to the applicable preferential tax rates under tax treaties executed between the Philippines and the country of residence or domicile of such non-resident foreign individuals.

Cash and property dividends received from a domestic corporation by another domestic corporation or by resident foreign corporations are not subject to tax. On the other hand, cash and property dividends received by a non-resident foreign corporation from a domestic corporation are subject to a 25% final withholding tax, which dividend tax rate may be reduced to 15% if the country in which the non-resident foreign corporation is domiciled allows a credit against the tax due from the non- resident foreign corporation, for taxes deemed to have been paid in the Philippines equivalent to 15%, which represents the difference between the regular income tax - and the 15% tax rate on dividends. The reduced dividend tax rate may be further minimized if tax treaty relief is available to the non-resident foreign corporation. Depending on the country of residence of the non-resident foreign corporation, with which the Philippines has an existing tax treaty, the tax rate may go as low as 10%.

Stock dividends distributed pro rata to any holder of the Preferred Shares are not subject to Philippine income tax. However, the subsequent sale, exchange or disposition of the Preferred Shares received as stock dividends by the holder is subject to either the capital gains or stock transaction tax.

Philippine tax authorities have prescribed certain procedures, through an administrative issuance, for availment of tax treaty relief. Subject to approval by Philippine tax authorities of the recipient's application for tax treaty relief, the Company shall withhold taxes at a reduced rate on dividends to be paid to a non-resident holder, if such non-resident holder provides the Company with the duly accomplished BIR Certificate of Residence for Tax Treaty Relief ("**CORTT Form**"), with the Certification by the Competent Authority or Authorized Tax Office of Country of Residence, with the corresponding apostille certificate issued by the pertinent office in such foreign state, or if the state or country is not a member of the Apostille Convention, legalized by the Philippine Consulate General in such country.

If the regular tax rate is withheld by the Company instead of the reduced rates applicable under a treaty, the non-resident holder of the Preferred Shares may file a claim for refund from the BIR within the prescribed period. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting documents and information and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

**Sale, Exchange or Disposition of the Preferred Shares**

*Capital Gains Tax*

Net capital gains realized from the sale, exchange, or disposition of the Preferred Shares effected outside of the facilities of the PSE by a Filipino citizen, a resident alien, a non-resident alien doing business in the Philippines, a non-resident alien not engaged in trade or business in the Philippines, a resident foreign corporation or a non-resident corporation other than a dealer in securities during each taxable year are subject to final withholding tax of 15% on net capital gains realized.

Foreign individuals and corporations may avail of preferential tax rates or exemptions provided under the applicable tax treaty. An application for tax treaty relief must be filed (and approved) by the Philippine BIR in order to obtain such exemption under a tax treaty. A prospective investor should consult its own tax advisor with respect to the applicable rates under the relevant tax treaty.

The transfer of Preferred Shares shall not be recorded in the books of the Company unless the BIR certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR in respect of the capital gains tax or other conditions have been met.

*Taxes on Transfer of Shares Listed and Traded at the PSE*

A sale, barter, exchange, or other disposition of Preferred Shares effected through the facilities of the PSE by a resident or a non-resident individual or by a domestic or foreign corporation, other than a dealer in securities, is subject to a stock transaction tax at the rate of 0.6% of the gross selling price or gross value in cash of Preferred Shares sold, bartered, exchanged, or otherwise disposed, unless an applicable treaty exempts such sale from the said tax. Said tax shall be paid by the seller or transferor. The stock transaction tax is classified as a percentage tax and is paid in lieu of capital gains tax. Gains on any such sale or disposition are not subject to income tax. In addition, a value added tax of 12% is imposed on the commission earned by the PSE-registered broker who facilitated the sale, barter, exchange, or disposition through the PSE, which is generally passed on to the client.

*Documentary Stamp Tax on the Preferred Shares*

[The original issuance of the Preferred Shares is subject to a documentary stamp tax of ₱2.00 for each ₱200.00 par value, or a fraction thereof, of the shares of stock issued].

The transfer of shares is subject to a documentary stamp tax of ₱1.50 for each ₱200.00, or a fractional part thereof of the par value of the shares transferred. However, the sale, barter, or exchange of Preferred Shares listed the PSE, if made through the facilities of the PSE, shall be exempt from documentary stamp tax.[32]

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[32] The exemption from documentary stamp tax of the sale, barter or exchange of shares of stock listed and traded through the local stock exchange was previously for a period of five (5) years from the effectivity of Republic Act No. 9243 dated February 17, 2004, or until March 20, 2009. However, on June 30, 2009, then President Gloria Macapagal-Arroyo signed Republic Act No. 9648, which permanently exempts the sale, barter or exchange of shares of stock listed and traded through the local stock exchange from the documentary stamp tax and was made retroactive to March 20, 2009.

The tax treatment of a non-resident holder of the Preferred Shares in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such shareholder's particular situation. This Prospectus does not discuss the tax consideration on non-resident holders of the Preferred Shares under laws other than those of the Philippines.

The documentary stamp tax must be paid by the transferor of preferred “A” shares. However, if such transferor enjoys exemption from the documentary stamp tax, the transferee who is not exempt shall be directly liable for the documentary stamp tax.

*Estate and Gift Taxes*

The transfer of Preferred Shares 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 estate taxes at 6% of the net estate. Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer Preferred Shares by way of gift or donation are liable to pay Philippine donor’s tax on such transfer at the rate of 6% of the of the total gifts in excess of ₱250,000.00 during the year.

Estate and donor’s taxes, however, shall not be collected in respect of intangible personal property, such as the Preferred Shares: (a) if the deceased at the time of his death or the donor at the time of his donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

**Taxation Outside the Philippines**

The Preferred Shares are considered under Philippine law as situated in the Philippines and the gain derived from their sale is entirely from Philippine sources; hence such gain is subject to Philippine capital gains tax and the transfer of such shares by gift (donation) or succession is subject to the donor’s or estate taxes, each as described above. Sales or other dispositions of the Preferred Shares through the facilities of the PSE by a resident or a non-resident holder, other than a dealer in securities, are, however, subject to a stock transaction tax at the rate of 0.6% of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed, unless an applicable treaty exempts such sale from said tax.

# THE PHILIPPINE STOCK MARKET

*The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Joint Lead Underwriters and Bookrunners or any of their respective subsidiaries, affiliates or advisors in connection with re-issuance of the subject shares.*

**Brief History**

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self- regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintained two trading floors, one in Makati City and the other in Pasig City, these floors were linked by an automated trading system, which integrated all bid and ask quotations from the bourses. In February 2018, the PSE transferred to its new office located at the PSE Tower, Bonifacio Global City, Taguig City. The PSE Tower houses the PSE corporate offices and a single, unified trading floor.

In June 1998, the Philippine SEC granted the "**Self-Regulatory Organization**" status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the Philippine SRC. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President of the PSE.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry. Recently, the PSE issued Rules on Exchange Traded Funds ("**ETF**") which provides for the listing of ETFs on an ETF Board separate from the PSE's existing boards.

The PSE has a benchmark index, referred to as the PSEi, which reflects the price movements of the 30 largest and most active stocks at the PSE. The PSEi is a free float market capitalization-weighted index.

With the increasing calls for good corporate governance and the need to consistently provide full, fair, accurate and timely information, the PSE has adopted a new online disclosure system to support the provision of material information coming from listed companies and enhance access to such reports by the investing public. In December 2013, the PSE Electronic Disclosure Generation Technology ("**EDGe**"), a new disclosure system co-developed with the Korea Exchange, went live. The EDGe system provided a dedicated portal for listed company disclosures and also offered a free-to-download mobile application for easy access by investors.

In June 2015, the PSE shifted to a new trading system, the PSEtrade XTS, which utilizes NASDAQ's X-stream Technology. The PSEtrade XTS, which replaced the NSC trading platform provided by NYSE Euronext Technologies SAS, is equipped to handle large trading volumes. It is also capable of supporting the future requirements of the PSE should more products and services be introduced.

In November 2016, the Exchange received regulatory approvals to introduce new products in the stock market – the Dollar Denominated Securities and the Listing of PPP Companies.

In June 2018, the PSE received approval from the Philippine SEC to introduce short selling in the equities market.

The PSE launched its Corporate Governance Guidebook in November 2010 as another initiative of the PSE to promote good governance among listed companies. It is composed of 10 guidelines embodying principles of good business practice and based on internationally recognized corporate governance codes and best practices.

The table below sets out movements in the composite index as of the last business day of each calendar year from 2008 to 2022, and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

| Year | PSEi Level at Closing | Number of Listed Companies | Aggregate Market Capitalization (in ₱ billions) | Combined Value of Turnover (in ₱ billions) |
|---|---|---|---|---|
| 2008 | 1,872.85 | 246 | 4,072.16 | 763.90 |
| 2009 | 3,052.68 | 248 | 6,032.22 | 994.15 |
| 2010 | 4,201.14 | 253 | 8,866.11 | 1,207.38 |
| 2011 | 4,371.96 | 253 | 8,696.96 | 1,422.59 |
| 2012 | 5,812.73 | 254 | 10,930.09 | 1,771.71 |
| 2013 | 5,889.83 | 257 | 11,931.29 | 2,546.18 |
| 2014 | 7,230.57 | 263 | 14,251.72 | 2,130.12 |
| 2015 | 6,952.08 | 265 | 13,465.57 | 2,151.41 |
| 2016 | 6,840.64 | 265 | 14,438.77 | 1,929.50 |
| 2017 | 8,558.42 | 267 | 17,583.12 | 1,958.36 |
| 2018 | 7,466.02 | 267 | 16,146.69 | 1,736.82 |
| 2019 | 7,999.71 | 266 | 17,260.00] | 932.94 |
| 2020 | 7,815.3 | 271 | 16,710.0 | 1,770.0 |
| 2021 | 7,139.7 | 271 | 15,890.0 | 1,770.0 |
| 2022 | 7,122.6 | 276 | 18,081.1 | 2,233.1 |

*Source: PSE*

*Trading*

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Equities trading on the PSE starts at 9:30 a.m. and ends at 12:00 p.m. for the morning session, and resumes at 1:30 p.m. and ends at 3:30 p.m. for the afternoon session. Trading days are Monday to Friday, except legal and special holidays and days when the BSP clearing house is closed. With the implementation of the community quarantine measures in Metro Manila, the PSE implemented shortened trading hours to end at 1:00 p.m. beginning March 16, 2020. On December 6, 2021, the PSE resumed full-day trading sessions, with trading running from 9 a.m. to 3 p.m., with a one-hour break from 12 noon to 1 p.m. However, on January 11, 2022, it was announced that the PSE would be reverting to shortened trading hours starting January 14, 2022 due to the spike in COVID-19 infections. From January 14, 2022 to January 31, 2022, trading lasted for four hours, from 9 a.m. to 1 p.m. Beginning March 1, 2022, the PSE has reverted to its full trading schedule, which starts at 9:30 a.m. and ends at 12:00 noon for the morning session, and resumes at 1:00 p.m. and ends at 3:00 p.m. for the afternoon session.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, whenever an order will result in a breach of the trading threshold of a security within a trading day, the trading of that security will be frozen. Orders cannot be posted, modified or cancelled for a security that is frozen. In cases where an order has been partially matched, only the portion of the

order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:

- In case the static threshold is breached, the PSE will accept the order, provided the price is within the allowable percentage price difference under the implementing guidelines of the revised trading rules (i.e., 50% of the previous day's reference or closing price, or the last adjusted closing price);
  otherwise, such order will be rejected. In cases where the order is accepted, the PSE will adjust the static threshold to 60%. All orders breaching the 60% static threshold will be rejected by the PSE.

- In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20% for security cluster A and newly-listed securities, 15% for security cluster B and 10% for security cluster C); otherwise, such order will be rejected by the PSE.

*Non-Resident Transactions*

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

*Settlement*

The Securities Clearing Corporation of the Philippines ("**SCCP**") is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

- synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the PSE;

- guaranteeing the settlement of trades in the event of a Trading Participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund; and

- performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three days after transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book entry system of the PDTC. Each PSE Trading Participant maintains a Cash Settlement Account with one of the nine existing Settlement Banks of SCCP which are BDO Unibank, Inc., RCBC, Metropolitan Bank & Trust Company, Deutsche Bank, Union Bank of the Philippines, The Hongkong and Shanghai Banking Corporation Limited, Maybank Philippines, Inc., Asia United Bankxs. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement ("**CCCS**") system on May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets "**buy**" and "**sell**" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each clearing member. All cash debits and credits are also netted into a single net cash position for each clearing member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

*Scripless Trading*

In 1995, the PDTC (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares in favor of the PCD Nominee Corporation ("**PCD Nominee**"), a corporation wholly-owned by the PDTC, whose sole purpose is to act as nominee and legal title holder of all shares lodged in the PDTC. "**Immobilization**" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of the PCD Nominee through the PDTC participant will be recorded in the issuing corporation's registry. This trust arrangement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to the PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g., brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant- brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP CCCS system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his shareholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized,

wherein customers' certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of the PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the PCD Nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "**de facto**" custodianship role.

*Amended Rule on Lodgment of Securities*

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the Philippine SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

For listing applications, the amended rule on lodgment of securities is applicable to:

- The offer shares/securities of the applicant company in the case of an initial public offering;
- The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the Philippine SEC in the case of a listing by way of introduction;
- New securities to be offered and applied for listing by an existing listed company; and
- Additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

- For a new company to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the transfer agent of the company shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on the listing date.
- On the other hand, for an existing listed company, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the transfer agent for cancellation. The transfer agent shall issue a Registry Confirmation Advice to PDTC evidencing the total number of shares registered in the name of PCD Nominee in the listed company's registry as of confirmation date.

Further, the PSE apprised all listed companies and market participants on May 21, 2010 through Memorandum No. 2010-0246 that the Amended Rule on Lodgement of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the PSE shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the PSE.

*Issuance of Stock Certificates for Certificated Shares*

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of

the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

*Amended Rule on Minimum Public Ownership*

Under the PSE Amended Rule on Minimum Public Ownership ("**MPO**"), listed companies are required, at all times, to maintain a minimum percentage of listed securities held by the public of 10% of the listed companies' total issued and outstanding shares (i.e., exclusive of treasury shares), or at such percentage that may be prescribed by the PSE. For purposes of determining compliance with the MPO, shares held by the following are generally considered "**held by the public**": (i) individuals (for as long as the shares held are not of a significant size (i.e., less than 10%) and are non-strategic in nature; (ii) trading participants (for as long as the shares held are non-strategic in nature); (iii) investment and mutual funds; (iv) pension funds; (v) PCD nominees if this account constitutes a number of shareholders, none of which has significant holdings (provided that if an owner of shares under the PCD Nominee has a shareholding that is 10% or more of the total issued and outstanding shares, then this shareholder is considered a principal stockholder); and (vi) social security funds.

Listed companies which become non-compliant with the MPO on or after January 1, 2013 will be suspended from trading for a period of not more than six (6) months and will automatically be delisted if it remains non- compliant with the MPO after the lapse of the suspension period. Suspended or delisted shares will not be traded on the exchange. In addition, sale of shares of listed companies that do not maintain the MPO are not considered publicly listed for taxation purposes and should, therefore, be subjected to capital gains tax and documentary stamp tax.

On August 4, 2020, the PSE issued Guidelines on MPO Requirement for Initial and Backdoor Listings, effective immediately. Under the guidelines, companies applying for initial listing through an initial public offering are required to have a minimum public offer size of 20% to 33% of its outstanding capital stock, as follows:

| Market Capitalization | Minimum Public Offer |
|---|---|
| Not exceeding ₱500 million | 33% or ₱50 million, whichever is higher |
| Over ₱500 million to ₱1 billion | 25% or ₱100 million, whichever is higher |
| Over ₱1 billion | 20% or ₱250 million, whichever is higher |

A company listing through an initial public offering is required to maintain at least 20% public ownership level at all times, whether the listing is initial or through backdoor listing. For companies doing a backdoor listing, the 20% MPO requirement shall be reckoned from the actual issuance or transfer (as may be applicable) of the securities which triggered the application of the Backdoor Listing Rules or from actual transfer of the business in cases where the Backdoor Listing Rules are triggered by a substantial change in business.

In accordance with the SEC Memorandum Circular No. 13 Series of 2017 issued on December 1, 2017, the MPO requirement on initial public offerings is increased from 10% to 20%. For existing publicly listed companies, the existing rules and/or guidelines of an exchange on minimum public float duly approved by the SEC still apply. The PSE rule on MPO requires that listed companies shall, at all times, maintain a minimum percentage of listed securities held by the public of 10.0% or 20.0%, as applicable, of the listed companies' issued and outstanding shares, exclusive of any treasury shares. Pursuant to PSE Circular No. 2020-0076, the 20% MPO requirement will also apply to companies applying for listing by way of introduction and companies undertaking a backdoor listing. Notwithstanding such rules, however, real estate investment trusts must comply with the minimum of public ownership requirements prescribed by the REIT Act of 2009.

**ISSUER**

**Ayala Corporation**
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**ISSUE MANAGER**

**BPI Capital Corporation**
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Legaspi Village, Makati City 1229

**JOINT LEAD UNDERWRITERS AND BOOKRUNNERS**

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Salcedo Village, Makati City 1226

**BPI Capital Corporation**
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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

**RCBC Capital Corporation**
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Makati City

**SB Capital Investment Corporation**
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**LEGAL COUNSEL**

*To the Issuer*
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*To the Joint Lead Underwriters and Bookrunners*
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**INDEPENDENT AUDITOR**
**SyCip Gorres Velayo & Co.**
SGV & Co.
6760 Ayala Avenue
1226 Makati City

[33] For the limited purpose of issuing an opinion required by the SEC

# FINANCIAL INFORMATION

The following pages set forth Ayala Corporation's audited consolidated financial statements as at December 31, 2022, 2021, and 2020 and for each of the three (3) years in the period ended December 31, 2022.