Metro Pacific Investments Corporation

Parent Company Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

A member firm of Ernst & Young Global Limited

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Metro Pacific Investments Corporation

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Metro Pacific Investments Corporation (the Company), which comprise the parent company statements of financial position as at December 31, 2018 and 2017, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-5 (Group A),
January 10, 2019, valid until January 9, 2022
Tax Identification No. 102-092-270
BIR Accreditation No. 08-001998-55-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332586, January 3, 2019, Makati City

March 5, 2019

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents and short-term deposits (Notes 5, 19 and 20)	**₱9,048,353**	₱14,545,347
Restricted cash (Notes 5, 19 and 20)	**478,492**	181,345
Receivables (Notes 6, 19 and 20)	**1,479,649**	101,991
Due from related parties (Notes 10, 19 and 20)	**5,948**	11,825
Input taxes	**197,772**	146,728
Other current assets (Note 13)	**579,885**	37,720
Total Current Assets	**11,790,099**	15,024,956
Noncurrent Assets		
Investments and advances (Note 6)	**193,193,108**	173,582,141
Other noncurrent assets (Notes 6, 7, 13, 19 and 20)	**535,660**	714,790
Total Noncurrent Assets	**193,728,768**	174,296,931
	₱205,518,867	₱189,321,887
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses and other current liabilities (Notes 8, 19 and 20)	**₱2,250,853**	₱1,241,742
Income tax payable	**27**	53
Due to related parties (Notes 10, 19 and 20)	**4,385,495**	4,164,594
Current portion of long-term debt (Notes 9, 19 and 20)	**1,707,262**	971,243
Total Current Liabilities	**8,343,637**	6,377,632
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 9, 19 and 20)	**65,294,203**	45,850,048
Due to related parties (Notes 10, 19 and 20)	**7,391,763**	11,767,118
Deferred tax liabilities (Note 15)	**732,779**	733,615
Other noncurrent liabilities (Notes 13, 19 and 20)	**–**	458,985
Total Noncurrent Liabilities	**73,418,745**	58,809,766
Total Liabilities	**81,762,382**	65,187,398
Equity (Note 11)		
Capital stock	**31,632,830**	31,625,830
Additional paid-in capital	**68,494,364**	68,464,820
Treasury shares	**(177,603)**	(167,363)
Equity reserves	**279,117**	193,303
Other comprehensive income reserve	**9,894**	55,712
Retained earnings	**23,517,883**	23,962,187
Total Equity	**123,756,485**	124,134,489
	₱205,518,867	₱189,321,887

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands Except Earnings Per Share Figures)

	Years Ended December 31	
	2018	2017
REVENUES		
Dividend income (Notes 6 and 10)	**₱9,290,068**	₱8,445,023
Interest income (Note 14)	**366,656**	178,117
	9,656,724	8,623,140
OPERATING EXPENSES (Note 12)	**(1,614,688)**	(1,352,696)
INTEREST EXPENSE (Notes 9, 10 and 14)	**(4,250,067)**	(2,998,106)
OTHER EXPENSES - Net (Note 14)	**(674,533)**	(19,226)
INCOME BEFORE INCOME TAX	**3,117,436**	4,253,112
PROVISION FOR TAX (Note 15)		
Final tax on interest income	**70,296**	33,662
Current	**142**	334
Deferred	**–**	241,674
	70,438	275,670
NET INCOME	**3,046,998**	3,977,442
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may be reclassified subsequently to profit or loss -		
Change in fair value of available-for-sale (AFS) financial assets (Notes 20 and 23)	**–**	25,368
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain (loss) on defined benefit plans (Note 13)	**(2,786)**	13,742
Change in fair value of equity securities at fair value through other comprehensive income (FVOCI) (Notes 20 and 23)	**(43,868)**	–
Income tax effect (Notes 13 and 15)	**836**	(4,123)
	(45,818)	9,619
	(45,818)	34,987
TOTAL COMPREHENSIVE INCOME	**₱3,001,180**	₱4,012,429
EARNINGS PER SHARE (Note 17)		
Basic Earnings Per Common Share	**₱0.096**	₱0.126
Diluted Earnings Per Common Share	**₱0.096**	₱0.126

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Amounts in Thousands)

	Capital Stock (Note 11)	Additional Paid-in Capital (Note 11)	Treasury Shares (Note 11)	Equity Reserves (Note 11)	Other Comprehensive Income Reserve	Retained Earnings (Note 11)	Total
At January 1, 2018	**₱31,625,830**	**₱68,464,820**	**(₱167,363)**	**₱193,303**	**₱55,712**	**₱23,962,187**	**₱124,134,489**
Total comprehensive income for the year:							
Net income	**–**	**–**	**–**	**–**	**–**	**3,046,998**	**3,046,998**
Other comprehensive loss	**–**	**–**	**–**	**–**	**(45,818)**	**–**	**(45,818)**
Executive Stock Option Plan (ESOP) (Note 16)	**7,000**	**29,614**	**–**	**19,142**	**–**	**–**	**55,756**
Restricted Stock Unit Plan (RSUP) (Note 16)	**–**	**–**	**–**	**66,672**	**–**	**–**	**66,672**
Transaction costs on issuance of shares	**–**	**(70)**	**–**	**–**	**–**	**–**	**(70)**
Treasury shares	**–**	**–**	**(10,240)**	**–**	**–**	**–**	**(10,240)**
Cash dividends declared (Note 11)	**–**	**–**	**–**	**–**	**–**	**(3,491,302)**	**(3,491,302)**
At December 31, 2018	**₱31,632,830**	**₱68,494,364**	**(₱177,603)**	**₱279,117**	**₱9,894**	**₱23,517,883**	**₱123,756,485**
At January 1, 2017	₱31,619,130	₱68,438,048	(₱167,363)	₱130,856	₱20,725	₱23,223,254	₱123,264,650
Total comprehensive income for the year:							
Net income	–	–	–	–	–	3,977,442	3,977,442
Other comprehensive income	–	–	–	–	34,987	–	34,987
ESOP (Note 16)	6,700	28,345	–	(4,225)	–	–	30,820
RSUP (Note 16)	–	–	–	66,672	–	–	66,672
Transaction costs on issuance of shares	–	(1,573)	–	–	–	–	(1,573)
Cash dividends declared (Note 11)	–	–	–	–	–	(3,238,509)	(3,238,509)
At December 31, 2017	₱31,625,830	₱68,464,820	(₱167,363)	₱193,303	₱55,712	₱23,962,187	₱124,134,489

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,117,436**	₱4,253,112
Adjustments for:		
Dividend income (Note 6)	**(9,290,068)**	(8,445,023)
Interest expense (Note 14)	**4,250,067**	2,998,106
Provision for impairment of investments and advances (Notes 6 and 14)	**755,187**	690,000
Interest income (Note 14)	**(366,656)**	(178,117)
Long Term Incentive Plan (LTIP) expense (Notes 12 and 13)	**190,434**	182,417
RSUP expense (Notes 12 and 16)	**66,672**	66,672
Provision for expected credit losses (ECL) (Note 12)	**52,772**	–
Depreciation and amortization (Notes 7 and 12)	**25,480**	24,324
ESOP expense (Notes 12 and 16)	**23,556**	–
Foreign exchange loss - net	**1,256**	235
Retirement costs (Note 13)	**19,538**	20,317
Gain on sale of shares (Notes 6 and 14)	**–**	(654,224)
Others	**(74,033)**	–
Operating loss before working capital changes	**(1,228,359)**	(1,042,181)
Decrease (increase) in:		
Restricted cash	**(297,147)**	1,673
Receivables	**(5,501)**	(12,870)
Due from related parties	**3,105**	50,669
Other current assets	**(365,442)**	(212,100)
Increase (decrease) in:		
Due to related parties	**(10,449)**	1,315
Accrued expenses and other current liabilities	**138,464**	203,871
Net cash used in operations	**(1,765,329)**	(1,009,623)
Dividends received (Note 6)	**7,884,378**	8,445,023
Interest paid	**(3,270,393)**	(2,334,944)
Interest received	**350,189**	165,407
Retirement contributions paid (Note 13)	**(20,595)**	(9,025)
Income tax paid	**(70,296)**	(33,662)
Net cash from operating activities	**3,107,954**	5,223,176

(Forward)

	Years Ended December 31	
	2018	2017
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisitions of/additions to:		
Investments and advances (Note 6)	**(₱20,366,154)**	(₱16,290,673)
Property and equipment (Note 7)	**(35,105)**	(25,004)
Software costs (Note 7)	**(3,733)**	–
Financial assets at fair value through profit or loss (FVPL)/AFS financial assets (Note 5)	**–**	(5,451,000)
Other noncurrent assets	**(333)**	(6,853)
Payments to related parties (Notes 10 and 21)	**(4,809,713)**	(2,001,341)
Collections/proceeds from sale of:		
Financial assets at FVPL/AFS financial assets (Note 5)	**5,450,000**	3,500,000
Property and equipment and others (Note 7)	**5,233**	2,826
Investments and advances (Note 6)	**–**	13,106,161
Net cash used in investing activities	**(19,759,805)**	(7,165,884)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Loan availment (Notes 9 and 21)	**21,400,000**	10,500,000
Subscription arising from exercise of stock option (Notes 11 and 16)	**32,200**	30,820
Payments of/for:		
Long-term debt (Notes 9 and 21)	**(1,033,900)**	(384,800)
Debt issue costs (Notes 9 and 21)	**(203,707)**	(52,500)
Treasury shares (Note 11)	**(10,240)**	–
Transaction costs related to issuance of shares (Note 11)	**(70)**	(1,574)
Dividends paid (Note 11)	**(3,491,302)**	(3,238,509)
Increase in other noncurrent assets	**(65,000)**	–
Net cash from financing activities	**16,627,981**	6,853,437
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,256)**	(235)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(25,126)**	4,910,494
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 5)	**9,072,479**	4,161,985
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱9,047,353**	₱9,072,479

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. **Corporate Information**

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

   Metro Pacific Holdings, Inc. (MPHI) owns 41.9% of the total issued common shares (or 42.0% of the total outstanding common shares) of MPIC as at December 31, 2018 and 2017. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2018 and 2017.

   MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0% interest), Intalink B.V. (26.7% interest) and First Pacific International Limited (FPIL) (13.3% interest). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40% equity interest in EIH and investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group companies in Hong Kong.

   The registered office address of the Company is 10th Floor, MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village, Makati City.

   The accompanying parent company financial statements as at and for the years ended December 31, 2018 and 2017 were approved and authorized for issuance by the Board of Directors (BOD) on March 5, 2019.

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

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

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

   - *Water,* which relates to the provision of water and sewerage services by Maynilad Water Holding Company, Inc. (MWHC) and its subsidiaries Maynilad Water Services, Inc. (Maynilad) and Philippine Hydro, Inc. (PHI), and other water-related services by MetroPac Water Investments Corporation (MPW).

- *Healthcare*, which primarily relates to operations and management of hospitals and nursing colleges and such other enterprises that have similar undertakings by Metro Pacific Hospital Holdings, Inc. (MPHHI) and subsidiaries.

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

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

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

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

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

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

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

Statement of Compliance

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

3. Management's Use of Judgment and Estimates

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

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

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

Issuance of Exchangeable Bond as Equity Transaction. On July 2, 2014, GIC Private Limited (GIC), through Arran Investment Private Limited (Arran), invested ₱3.7 billion for a 14.4% stake in MPIC's subsidiary, MPHHI, and paid ₱6.5 billion as consideration for an Exchangeable Bond issued by MPIC which can be exchanged into a 25.5% stake in MPHHI in the future. The Exchangeable Bond is an instrument that, at a certain time in the future, converts into a fixed number of shares of MPHHI. Moreover, the principal of the Exchangeable Bond is denominated in Philippine Peso, the same currency as the functional currency of MPIC as the issuing entity. The Exchangeable Bond qualified as an equity instrument such that the proceeds from the Exchangeable Bond together with the share subscription of GIC in MPHHI were considered as equity transactions that reduced MPIC's cost of investment in MPHHI (see Note 6).

Definition of Default and Credit-impaired Financial Assets upon Adoption of PFRS 9. The Company defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when the borrower is more than 180 days past due on its contractual payments (i.e. principal and/or interest) or the borrower is experiencing financial difficulty.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. A financial instrument is no longer in default (i.e. to have cured) when it has exhibited a satisfactory track record.

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

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

Fair values of financial instruments are presented in Note 20.

Impairment of Loans and Receivables prior to Adoption of PFRS 9, Financial Instruments. The Company estimates the allowance for doubtful accounts related to receivables using a combination of specific and collective assessment. The amounts calculated in each level of impairment assessment are combined to determine the total amount of allowance for doubtful accounts. First, the Company evaluates specific accounts that are considered individually significant for any objective evidence that certain counterparties are unable to meet their financial obligations. In these cases, the Company uses judgment, based on the best available facts and circumstances, including but not limited to, the length of its relationship with the counterparty and the counterparty's current credit status based on third party credit reports and known market factors. The allowance provided is based on the difference between the present value of the receivable that the Company expects to collect, discounted at the receivables' original effective interest rate and the carrying amount of the receivable. These specific allowances are re-evaluated and adjusted as additional information received affects the amounts estimated. If no impairment loss is determined for an individually assessed receivable, the receivable is included in a group of receivables with similar credit risk characteristics and is collectively assessed for impairment. The provision under collective assessment is based on historical collection and write-off experience and change in counterparty payment terms. Impairment assessment is performed on a continuous basis throughout the year.

The carrying value of receivables, net of allowance for doubtful accounts, amounted to ₱102.0 million as at December 31, 2017. Allowance for doubtful accounts amounted to ₱21.4 million as at December 31, 2017 (see Note 19).

Provision for ECL of Receivables upon Adoption of PFRS 9. The Company has the following financial assets that are subject to the expected credit loss model: (i) cash and cash equivalents and short-term deposits; (ii) restricted cash; (iii) receivables; and (iv) due from related parties. While cash and cash equivalents and short-term deposits are also subject to the impairment requirements of PFRS 9, the identified impairment loss was immaterial.

Carrying value of financial assets as at December 31, 2018 and 2017 are as follows:

	2018	2017
	(In Thousands)	
Cash in banks (see Note 5)	**₱9,047,353**	₱9,072,479
Short-term deposits (see Note 5)	**1,000**	5,472,868
Restricted cash (see Note 5)	**478,492**	181,345
Receivables	**1,479,649**	101,991
Due from related parties (see Note 10)	**5,948**	11,825

The Company assessed that the provision for impairment losses of receivables and due from related parties amounted to ₱50.0 million and ₱2.8 million, respectively, for the year ended December 31, 2018.

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

Incorporation of Forward-looking Information upon Adoption of PFRS 9. To capture the effect of changes to the economic environment in the future, the computation of Probability of Default (PD), Loss Given Default (LGD) and ECL, incorporates forward-looking information; assumptions on the path of economic variables that are likely to have an effect on the repayment ability of the Company's counterparties. The starting point for the projections of economic variables is based on management's view, which underlies the plan to deliver the Company's strategy and ensures it has sufficient capital over the medium term. Management's view covers a core set of economic variables required to set the strategic plan, namely inflation, unemployment rate, gross domestic product and peso-dollar exchange rate.

Impairment of Investments in Subsidiaries and Associates and Interests in Joint Ventures. Impairment review is performed when certain impairment indicators are present. For investments in subsidiaries and associates and interests in joint ventures, receipt of dividend that meets the following conditions may be an internal indicator that the investment is impaired. Impairment testing is required when a dividend is received and:

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

The carrying value of the investments and advances amounted to ₱193,193.1 million and ₱173,582.1 million as at December 31, 2018 and 2017, respectively (see Note 6). Accumulated impairment amounted to ₱2,219.1 million and ₱1,463.9 million as at December 31, 2018 and 2017, respectively. Impairment losses on investments and advances recognized for the years ended December 31, 2018 and 2017 amounted to ₱755.2 million and ₱690.0 million, respectively (see Note 6).

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

Deferred income tax assets have not been recognized as at December 31, 2018 and 2017 because management believes that the Company may not have sufficient future taxable profits available to allow all or part of the deferred income tax assets to be utilized in the near future.

The Company has deductible temporary differences, unused tax credits from minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO), aggregating to ₱12,981.0 million and ₱9,842.9 million as at December 31, 2018 and 2017, respectively, for which no deferred tax assets have been recognized (see Note 15).

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

Retirement cost for the years ended December 31, 2018 and 2017 amounted to ₱19.5 million and ₱20.3 million, respectively (see Note 13).

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

Total equity-based compensation expense recognized in 2018 and 2017 under "Equity reserve" from ESOP and RSUP amounted to ₱90.2 million and ₱66.7 million, respectively (see Notes 12 and 16).

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

LTIP expense for the years ended December 31, 2018 and 2017 amounted to ₱190.4 million and ₱182.4 million, respectively. LTIP payable presented under "Accrued expenses and other current liabilities" and "Other noncurrent liabilities" as at December 31, 2018 and 2017 amounted to ₱570.7 million and ₱380.2 million, respectively (see Notes 8, 12 and 13).

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4. **Operating Segment Information**

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

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

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

Core EBITDA is measured as net income excluding depreciation and amortization of property and equipment and intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity in net earnings (losses) of associates and joint ventures, net foreign exchange gains

(losses), net gains (losses) on derivative financial instruments, provision for (benefit from) income tax and other non-recurring gains (losses). Core EBITDA margin pertains to Core EBITDA divided by service revenues.

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

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

There are no revenue transactions with a single customer that accounted for 10% or more of the Group's consolidated revenues and no material inter-segment revenue transactions for the years ended December 31, 2018and 2017. The Group's revenue substantially comprises of services which revenue recognition is over time.

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

The segment revenues, core income, assets, liabilities, and other segment information of MPIC Group's reportable operating segments as at and for the years ended December 31, 2018 and 2017 are detailed in the following tables:

The following table presents consolidated information on core income and certain assets and liabilities regarding business segments:

	Year Ended December 31, 2018 (In Millions)							
	Power	Toll Operations	Water	Healthcare	Rail	Other Businesses	Adjustments/ Eliminations	Consolidated
Total revenue from external sales	₱27,026	₱15,486	₱22,894	₱12,950	₱3,310	₱1,363	₱–	₱83,029
Cost of sales and services	(18,968)	(5,345)	(7,527)	(7,512)	(1,900)	(1,455)	–	(42,707)
Gross Margin	8,058	10,141	15,367	5,438	1,410	(92)	–	40,322
General and administrative expenses	(2,622)	(2,103)	(3,409)	(3,818)	(669)	(1,752)	–	(14,373)
Other income (charges) – net	614	602	(102)	328	154	1	–	1,597
Profit before Financing Charges	6,050	8,640	11,856	1,948	895	(1,843)	–	27,546
Interest expense – net	(2,394)	(1,667)	(1,602)	(113)	(10)	(3,108)	–	(8,894)
Profit before NCI and Income Tax	3,656	6,973	10,254	1,835	885	(4,951)	–	18,652
Non-controlling interest	(2,068)	(1,572)	(3,478)	(735)	(322)	5	–	(8,170)
Provision for income tax	(1,068)	(1,823)	(2,933)	(611)	(169)	(329)	–	(6,933)
Contribution from Subsidiaries	520	3,578	3,843	489	394	(5,275)	–	3,549
Share in net earnings (losses) of equity method investees	10,382	816	(20)	282	–	51	–	11,511
Contribution from Operations - Core Income (Loss)	10,902	4,394	3,823	771	394	(5,224)	–	15,060
Non-recurring charges	292	(184)	(301)	138	(63)	(812)	–	(930)
Segment Income (Loss)	₱11,194	₱4,210	₱3,522	₱909	₱331	(₱6,036)	₱–	₱14,130
Core EBITDA	₱9,652	₱10,072	₱15,518	₱3,028	₱987	(₱1,592)	₱–	₱37,665
Core EBITDA Margin	36%	65%	68%	23%	30%	–%	–%	45%
Non-recurring Charges	₱301	(₱109)	(₱472)	₱233	(₱121)	(₱810)	₱–	(₱978)
Benefit from income tax	(6)	(76)	(1)	(2)	11	(1)	–	(75)
Non-controlling interest	(3)	1	172	(93)	47	(1)	–	123
Net Non-recurring Charges	₱292	(₱184)	(₱301)	₱138	(₱63)	(₱812)	₱–	(₱930)
Assets and Liabilities								
Segment assets	₱83,428	₱107,777	₱126,789	₱19,686	₱21,372	₱16,775	₱29,126	₱404,953
Investments and advances	131,444	14,125	3,110	2,734	–	1,580	–	152,993
Consolidated Total Assets	₱214,872	₱121,902	₱129,899	₱22,420	₱21,372	₱18,355	₱29,126	₱557,946
Segment Liabilities	₱67,167	₱77,877	₱61,608	₱7,099	₱12,125	₱83,137	₱9,930	₱318,943
Other Segment Information								
Capital expenditures -								
Service concession assets and property, plant and equipment	₱1,115	₱8,347	₱12,747	₱2,692	₱6,233	₱1,562	₱–	₱32,696
Depreciation and amortization	3,602	1,433	3,665	1,077	92	250	–	10,119

	Year Ended December 31, 2017 *(In Millions)*							
	Power	Toll Operations	Water	Healthcare	Rail	Other Businesses	Eliminations	Consolidated
Total revenue from external sales	₱13,042	₱13,107	₱21,327	₱10,737	₱3,155	₱1,144	₱–	₱62,512
Cost of sales and services	(8,645)	(4,858)	(6,968)	(6,185)	(1,773)	(699)	–	(29,128)
Gross Margin	4,397	8,249	14,359	4,552	1,382	445	–	33,384
General and administrative expenses	(1,440)	(1,417)	(3,110)	(3,129)	(583)	(1,708)	–	(11,387)
Other income (charges) – net	2,723	422	(251)	282	97	12	–	3,285
Profit before Financing Charges	5,680	7,254	10,998	1,705	896	(1,251)	–	25,282
Interest expense – net	(1,791)	(1,399)	(1,616)	(94)	(5)	(2,470)	–	(7,375)
Profit before Non-controlling Interest and Income Tax	3,889	5,855	9,382	1,611	891	(3,721)	–	17,907
Non-controlling interest	(820)	(1,175)	(3,366)	(641)	(231)	12	–	(6,221)
Provision for income tax	(702)	(1,422)	(2,308)	(534)	(377)	(144)	–	(5,487)
Contribution from Subsidiaries	2,367	3,258	3,708	436	283	(3,853)	–	6,199
Share in net earnings (losses) of equity method investees	7,011	643	25	249	–	(23)	–	7,905
Contribution from Operations - Core Income (Loss)	9,378	3,901	3,733	685	283	(3,876)	–	14,104
Non-recurring (charges)	260	1,118	(428)	4	(3)	(1,904)	–	(953)
Segment Income (Loss)	₱9,638	₱5,019	₱3,305	₱689	₱280	(₱5,780)	₱–	₱13,151
Core EBITDA	₱7,417	₱8,408	₱14,290	₱2,634	₱962	(₱1,141)	₱–	₱32,570
Core EBITDA Margin	57%	64%	67%	25%	30%	–%	–%	52%
Non-recurring Charges	₱271	₱1,050	(₱486)	₱10	(₱9)	(₱1,971)	₱–	(₱1,135)
Provision for income tax	(8)	41	(189)	(2)	3	(7)	–	(162)
Non-controlling interest	(3)	27	247	(4)	3	74	–	344
Net nonrecurring charges	₱260	₱1,118	(₱428)	₱4	(₱3)	(₱1,904)	₱–	(₱953)
Assets and Liabilities								
Segment assets	₱88,066	₱80,251	₱109,110	₱15,229	₱13,988	₱19,707	₱26,429	₱352,780
Investment and advances	127,458	17,948	399	3,381	–	1,785	–	150,971
Consolidated Total Assets	₱215,524	₱98,199	₱109,509	₱18,610	₱13,988	₱21,492	₱26,429	₱503,751
Segment Liabilities	₱96,495	₱69,871	₱50,461	₱5,580	₱8,564	₱50,265	₱6,836	₱288,072
Other Segment Information								
Capital expenditures -								
Service concession asset and property, plant and equipment	₱97	₱4,788	₱12,133	₱1,530	₱2,784	₱1,064	₱–	₱22,396
Depreciation and amortization	1,736	1,155	3,293	929	64	111	–	7,288

The following table shows the reconciliation of MPIC Group's consolidated Core EBITDA to consolidated net income for the years ended December 31, 2018 and 2017.

	2018	2017
	(In Thousands)	
Consolidated Core EBITDA	**₱37,665,374**	₱32,569,568
Depreciation and amortization	**(10,119,089)**	(7,287,736)
Consolidated operating profit for the year	**27,546,285**	25,281,832
Adjustments to reconcile with consolidated net income:		
Interest income	**1,493,799**	619,236
Share in net earnings of equity method investees	**11,511,293**	7,905,219
Interest expense	**(10,387,641)**	(7,994,821)
Nonrecurring expenses – net	**(1,054,123)**	(1,297,012)
Provision for income tax	**(6,932,998)**	(5,487,324)
Consolidated net income for the year	**₱22,176,615**	₱19,027,130

The following table shows the reconciliation of MPIC Group's consolidated core income to consolidated net income for the years ended December 31, 2018 and 2017.

	2018	2017
	(In Thousands)	
Consolidated core income for the year	**₱15,059,690**	₱14,104,064
Non-recurring expenses – net	**(929,708)**	(953,328)
Net income for the year attributable to owners of the Parent Company	**14,129,982**	13,150,736
Net income for the year attributable to non-controlling interest	**8,046,633**	5,876,394
Consolidated net income for the year	**₱22,176,615**	₱19,027,130

The following table shows the analysis and allocation of the consolidated results of operations of MPIC Group to core and NRI, the manner by which MPIC Group reports and assesses their performance, makes decision and allocates resources, for the years ended December 31, 2018 and 2017 and is provided to reconcile the preceding consolidated segment information, amounts and balances with MPIC Group's consolidated statements of income:

	2018				2017			
	Core	**NRI**	**Reclassification**	**Consolidated**	Core	NRI	Reclassification	Consolidated
				(In Millions)				
OPERATING REVENUES								
Power and coal sales	**₱27,026**	**₱–**	**₱–**	**₱27,026**	₱13,042	₱–	₱–	₱13,042
Water and sewerage services revenue	**22,894**	**–**	**(319)**	**22,575**	20,926	–	–	20,926
Toll fees	**15,486**	**–**	**–**	**15,486**	13,107	–	–	13,107
Hospital revenue	**12,950**	**–**	**–**	**12,950**	10,737	–	–	10,737
Rail revenue	**3,310**	**–**	**–**	**3,310**	3,155	–	–	3,155
Logistics and other revenues	**1,363**	**–**	**319**	**1,682**	1,545	–	–	1,545
	83,029	**–**	**–**	**83,029**	62,512	–	–	62,512
COST OF SALES AND SERVICES	**(42,707)**	**(7)**	**–**	**(42,714)**	(29,128)	(246)	–	(29,374)
GROSS PROFIT (LOSS)	**40,322**	**(7)**	**–**	**40,315**	33,384	(246)	–	33,138
General and administrative expenses	**(14,373)**	**(599)**	**–**	**(14,972)**	(11,386)	(740)	–	(12,126)
Interest expense	**(10,388)**	**–**	**–**	**(10,388)**	(7,995)	–	–	(7,995)
Share in net earnings (losses) of equity method investees	**11,511**	**(438)**	**–**	**11,073**	10,446	140	(2,541)	8,045
Dividend income	**172**	**–**	**–**	**172**	90	–	2,541	2,631
Interest income	**1,494**	**2**	**–**	**1,496**	619	4	–	623
Construction revenue	**27,363**	**–**	**–**	**27,363**	19,344	–	–	19,344
Construction costs	**(27,362)**	**–**	**–**	**(27,362)**	(19,344)	–	–	(19,344)
Others	**1,424**	**64**	**–**	**1,488**	653	(293)	–	360
INCOME (LOSS) BEFORE INCOME TAX	**30,163**	**(978)**	**–**	**29,185**	25,811	(1,135)	–	24,676
PROVISION FOR (BENEFIT FROM) INCOME TAX								
Current	**6,415**	**(17)**	**–**	**6,398**	5,375	15	–	5,390
Deferred	**518**	**92**	**–**	**610**	112	147	–	259
	6,933	**75**	**–**	**7,008**	5,487	162	–	5,649
NET INCOME (LOSS)	**₱23,230**	**(₱1,053)**	**₱–**	**₱22,177**	₱20,324	(₱1,297)	₱–	₱19,027
Net Income Attributable to:								
Owners of the Parent Company	**₱15,060**	**(₱930)**	**₱–**	**₱14,130**	₱14,104	(₱953)	₱–	₱13,151
Non-controlling interest	**8,170**	**(123)**	**–**	**8,047**	6,220	(344)	–	5,876
	₱23,230	**(₱1,053)**	**₱–**	**₱22,177**	₱20,324	(₱1,297)	₱–	₱19,027

By Geographical Market

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

	2018	2017
	(In Millions)	
Operating revenue:		
Philippines	**₱81,921**	₱62,512
Indonesia	**1,108**	–
	₱83,029	₱62,512
Share in net earnings of equity method investees:		
Philippines	**11,007**	7,551
Indonesia	**(479)**	7
Thailand	**592**	537
Vietnam	**(47)**	(50)
	₱11,073	₱8,045
Noncurrent assets [(a)]:		
Philippines	**₱440,608**	₱406,333
Indonesia	**21,172**	7,777
Thailand	**6,852**	7,038
Vietnam	**5,542**	3,133
	₱474,174	₱424,281

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

The following table shows the reconciliation of consolidated amounts and the amounts reflected in the parent company financial statements as at and for the years ended December 31, 2018 and 2017.

	2018		
	Consolidated	**Subsidiaries, Associates and Joint Ventures**	**Parent Company**
		(In Millions)	
Operating revenues	**₱83,029**	**₱83,029**	**₱–**
Net income for the year attributable to owners of the parent company	**14,130**	**11,083**	**3,047**
Total assets	**557,946**	**352,427**	**205,519**
Total liabilities	**318,943**	**237,181**	**81,762**
Capital expenditures	**32,696**	**32,662**	**34**

	2017		
	Consolidated	Subsidiaries, Associates and Joint Ventures	Parent Company
		(In Millions)	
Operating revenues	₱62,512	₱62,512	₱–
Net income for the year attributable to owners of the parent company	13,151	9,174	3,977
Total assets	503,751	314,429	189,322
Total liabilities	288,072	222,885	65,187
Capital expenditures	22,396	22,371	25

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

As at December 31, this account consists of:

	2018	2017
	(In Thousands)	
Cash and cash equivalents	**₱9,047,353**	₱9,072,479
Short-term deposits	**1,000**	5,472,868
	₱9,048,353	₱14,545,347

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

Short-term Deposits. Short-term deposits are deposits with original maturities of more than three months to one year from dates of acquisition and earn interest at the prevailing short-term deposits rates. Short-term deposits account also included investments in Unit Investment Trust Fund (UITF). While the UITF was classified as financial asset at FVPL as at December 31, 2018 and AFS financial assets as at December 31, 2017, the entire investment in UITF is presented under the short-term deposits account as the fund comprises of short-term money market securities, time and special deposit accounts with average maturity of less than 30 days. Management views these as temporary investments and part of its overall cash management policy (see Note 19).

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

	2018	2017
	(In Thousands)	
Cash on hand and in banks	**₱53,164**	₱49,470
Short-term deposits that qualify as cash equivalents	**8,994,189**	9,023,009
	₱9,047,353	₱9,072,479

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

Interest earned from cash and cash equivalents, short-term deposits and restricted cash amounted to ₱354.1 million and ₱175.3 million for the years ended December 31, 2018 and 2017, respectively (see Note 14).

6. Investments and Advances

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

Investee	Principal Activity	Direct MPIC Ownership Interest	
		2018	2017
Subsidiaries:			
Beacon Electric	Investment holding	**100.0**	100.0
MPTC	Investment holding	**99.9**	99.9
MWHC	Investment holding	**51.3**	51.3
Maynilad	Utilities	**5.2**	5.2
MPW	Investment holding	**100.0**	100.0
MPLRC	Investment holding	**100.0**	100.0
MPHHI[(a)]	Investment holding	**85.6**	85.6
Porrovia Corporation (Porrovia)	Investment holding	**50.0**	50.0
MPIC-JGS Airport Holdings, Inc. (MPIC-JGS)	Under liquidation	**58.8**	58.8
MPIC Infrastructure Holdings Limited (MIHL)	Investment holding	**100.0**	100.0
Fragrant Cedar Holdings, Inc. (FCHI)	Property lessor	**100.0**	100.0
Neo Oracle Holdings, Inc. (NOHI)	Under liquidation	**96.6**	96.6
Metro Global Green Waste, Inc. (MGGW)	Under liquidation	**70.0**	70.0
MetroPac Logistics Company, Inc. (MPLC)	Investment holding	**100.0**	100.0
MetroPac Clean Energy Holdings Corporation (MPCEH)	Investment holding	**100.0**	100.0
MetPower Venture Partners Holdings, Inc. (MVPHI)	Investment holding	**100.0**	100.0
Metro Vantage Properties, Inc. (Metro Vantage) [(b)]	Investment holding/real estate	**100.0**	–
Joint venture:			
Landco Pacific Corporation (Landco)	Real estate	**38.1**	38.1
Associates:			
MERALCO	Power distribution	**10.5**	10.5
Indra Philippines, Inc. (Indra Phils.)	Management and IT consultancy	**25.0**	25.0
AF Payments, Inc. (AFPI)	Operator of contactless payment system	**20.0**	20.0
First Gen Northern Electric Corp. (FGNEC)	Under liquidation	**33.3**	33.3

(a) The non-controlling shareholder of MPHHI also holds an Exchangeable Bond issued by MPIC which can be exchanged into a 25.51% stake in MPHHI in the future, subject to certain conditions. With the Exchangeable Bond, the non-controlling shareholder is entitled to 39.89% effective ownership interest in MPHHI.
(b) Incorporated in 2018.

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

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

	2018	2017
	(In Thousands)	
Investments in subsidiaries:		
Beacon Electric	**₱88,068,143**	₱83,168,143
MPTC	**39,979,051**	32,300,315
MWHC	**12,276,767**	12,276,767
MPW	**8,514,050**	5,335,150
MPHHI	**4,007,533**	4,007,533
MPLRC	**4,015,710**	2,354,700
MPLC	**2,448,001**	2,226,320
Maynilad	**2,071,042**	2,071,042
MGGW	**264,624**	264,624
NOHI	**230,132**	230,132
FCHI	**199,437**	147,837
MVPHI	**293,813**	62,500
MPCEH	**40,000**	40,000
Metro Vantage	**31,250**	–
Porrovia	**10,000**	10,000
MPIC-JGS	**953**	969
	162,450,506	144,496,032
Investments in associates:		
MERALCO	**27,427,458**	27,427,458
Indra Phils.	**326,525**	326,525
AFPI	**95,735**	35,735
FGNEC	**250**	250
	27,849,968	27,789,968
Advances to investees	**2,892,634**	1,296,141
	₱193,193,108	₱173,582,141

Movements of investments and advances are as follows:

	December 31, 2018			
	Subsidiaries	**Associates**	**Joint Venture**	**Total**
		(In Thousands)		
Investments:				
Balance at beginning of year	**₱144,496,032**	**₱27,789,968**	**₱–**	**₱172,286,000**
Additions:				
Equity funding into existing or newly incorporated entities	**17,904,374**	**60,000**	**–**	**17,964,374**
Application of advances	**50,100**	–	–	**50,100**
	162,450,506	**27,849,968**	**–**	**190,300,474**
Advances:				
Balance at beginning of year	**468,041**	**–**	**828,100**	**1,296,141**
Additional advances during the year	**1,983,326**	**–**	**418,454**	**2,401,780**
Less:				
Application of advances	**(50,100)**	**–**	**–**	**(50,100)**
Impairment (see Note 14)	**–**	**–**	**(755,187)**	**(755,187)**
	2,401,267	**–**	**491,367**	**2,892,634**
	₱164,851,773	**₱27,849,968**	**₱491,367**	**₱193,193,108**

	December 31, 2017			
	Subsidiaries	Associates	Joint Ventures	Total
	(In Thousands)			
Investments:				
Balance at beginning of year	₱56,367,295	₱40,128,157	₱66,034,414	₱162,529,866
Additions:				
Acquisitions	–	–	20,633,596	20,633,596
Transfer	86,668,010	–	(86,668,010)	–
Equity funding into existing or newly incorporated entities	2,678,132	100,000	–	2,778,132
Application of advances	2,282,595	–	–	2,282,595
Less:				
Sale/disposal/redemption of shares	(3,500,000)	(11,748,189)	–	(15,248,189)
Impairment (see Note 14)	–	(690,000)	–	(690,000)
	144,496,032	27,789,968	–	172,286,000
Advances:				
Balance at beginning of year	1,661,595	–	1,119,989	2,781,584
Additional advances during the year	1,090,900	–	410,000	1,500,900
Less:				
Application of advances	(2,282,595)	–	–	(2,282,595)
Settlement	–	–	(701,889)	(701,889)
Transfers	(1,859)	–	–	(1,859)
	468,041	–	828,100	1,296,141
	₱144,964,073	₱27,789,968	₱828,100	₱173,582,141

Dividends
Dividend income are as follows:

	2018	2017
	(In Thousands)	
Subsidiaries:		
Beacon Electric	**₱4,317,690**	₱–
MPTC	**1,791,866**	1,595,898
MWHC	**1,430,571**	1,430,571
Maynilad	**155,730**	155,888
MPHHI	**10,963**	82,996
Associates:		
MERALCO	**1,583,248**	2,628,709
Indra Phils.	**–**	10,042
Joint Venture - Beacon Electric (see Note 10)		
Preferred shares	**–**	2,540,919
	₱9,290,068	₱8,445,023

Dividend income amounting to ₱1,405.7 million from investment in Beacon Electric remains outstanding as at year end. This is included as “Receivables” in the parent company statements of financial position. These receivables were subsequently collected in January 2019.

MERALCO and Beacon Electric

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

The outstanding loans of Beacon Electric are secured by a pledge on MERALCO shares owned by Beacon Electric and shall, from the date of the pledge over the MERALCO shares, maintain the loan to value ratio at 50%, subject to call/top up (in case the Loan to Value Ratio of the Pledge Shares is in excess of 60%) or a withdrawal (in case the Loan to Value Ratio of the Pledge Shares is below 40%). The loan agreements also contain provisions for the maintenance of a Debt Service Account to be used by the Company to service interest payments and principal repayments, maintenance of debt to equity ratio, debt service coverage ratio (DSCR) and loan to value ratio, continuity of or change in business, distribution of quarterly unaudited and annual audited financial statements to noteholders, payment of indebtedness as they fall due, sale of assets, maintenance of ownership in MERALCO, issuance of preferred shares, declaration and payment of dividends, additional indebtedness and guarantees, negative pledge, prepayments, additional investments, arm's length transactions, change in ownership, redemption of preferred shares, and loans or advances to directors, officers and stockholders.

As at December 31, 2018 and 2017, Beacon Electric is in compliance with the required financial ratios and other loan covenants.

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

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

MPIC's effective interest in MERALCO held indirectly through Beacon Electric is at 34.96% as at December 31, 2018 and 2017. MPIC also has direct interest in MERALCO at 10.5% as at December 31, 2018 and 2017. Thus, the Company's combined effective interest in MERALCO is at 45.5%. The fair value of the Company's effective investment in MERALCO at 45.5% as at December 31, 2018 and 2017 based on quoted prices of ₱385.00 and ₱327.10 per share amounted to ₱197.3 billion and ₱167.6 billion, respectively.

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

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

BPHI's loan facility is secured by a pledge on GBPC shares owned by BPHI. Other covenants include maintenance of reserve account and achievement of certain financial ratios such as (i) DSCR at a minimum of 1.1x, to be first calculated in 2018; and (ii) DSCR before any restricted payments at 1.3x.

As at December 31, 2018 and 2017, BPHI is in compliance with the required financial ratios and other loan covenants.

MPTC

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

NLEX Corp holds the concession rights for the North Luzon Expressway (NLEX) up to 2037; the Subic-Clark-Tarlac Expressway (SCTEX) up to 2043; and NLEX-South Luzon Expressway (SLEX) Connector Road Project (Connector Road).

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

MPCALA holds the concession for the Cavite Laguna Expressway (CALAEX) with a 35-year concession period. The CALAEX, which is on-going construction as at December 31, 2018, is a closed-system tolled expressway connecting the CAVITEX and the SLEX. CCLEC holds the concession agreement for the Cebu Cordova Link Expressway (CCLEX) with a 35-year concession period. The CCLEC construction contract award was made in November 2017 and completion is targeted by 2021.

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

In 2018, MPTC increased its investment in PT Nusantara resulting in PT Nusantara being accounted for by MPTC as investment in subsidiary from being an associate. PT Nusantara is a publicly listed limited liability company duly established and existing under the laws of the Republic of Indonesia. Its infrastructure portfolio in Indonesia includes toll roads (which is 80% of its core income), ports, energy and water. PT Nusantara's concession assets comprise of toll roads and water concession rights. Toll road concession rights cover the following toll road sections: (a) Tallo-Hasudin Airport; (b) Soekarno Hatta Port – Pettarani; (c) Pondok Ranji and Pondok Aren. The water concession rights pertain to right to treat and distribute clean water in the Serang District, Banten in Indonesia.

DMT, a major toll road operator in Bangkok, Thailand holds a toll concession that runs until 2034 for the operation of a 21.9-km six-lane elevated toll road from central Bangkok to Don Muang International Airport and further to the National Monument, north of Bangkok.

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

MWHC and Maynilad
MWHC owns 92.9% in Maynilad as at December 31, 2018 and 2017.

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

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

MPW's subsidiaries include: (i) Metro Iloilo Bulk Water Supply Corporation (MIBWSC) which holds the concession for the 170 Million Liters per Day (MLD) Bulk Water Supply Project with the Metro Iloilo Water District (MIWD); (ii) Eco-System Technologies International, Inc. (ESTII), engaged in the business of designing, supplying, constructing, installing, and operating and maintaining wastewater and sewage treatment plant facilities; (iii) Cagayan De Oro Bulk Water, Inc. (COBI), the legal vehicle to carry out the 100 MLD Bulk Water Supply Project with Cagayan De Oro Water District; and (iv) Metro Iloilo Concession Holdings Corp., the holding company for the joint venture corporation that shall implement the rehabilitation, operation, maintenance, and expansion of MIWD's existing water distribution system and provision of sanitation services. MPW also has subsidiaries domiciled outside of the Philippines, namely Metro Pacific Water International Limited (MPWIL) and Metro Pacific TL Water International Limited. These foreign subsidiaries hold the investments in water companies outside of the Philippines.

MPW also has interests in the following associates: (i) 39.0% in Manila Water Consortium Inc. which has 70.6% economic interest in Cebu Manila Water Development, Inc., concessionaire for the 20-year Water Purchase Agreement with the Metropolitan Cebu Water District; (ii) 30% in EquiPacific HoldCo Inc., which has 90% stake in Laguna Water District Aquatech Resources Corp., the joint venture company responsible for the financing, rehabilitation, improvement, expansion, operation and maintenance of the Laguna Water District's water supply system; and (iii) 49% ownership in Watergy Business Solutions, Inc., a party to the Contractual Joint Venture Agreement which purpose was to develop a bulk water supply project to be sourced from the Maragondon River.

MPW also has investments in associates domiciled and operating outside the Philippines, namely BOO Phu Ninh Water Treatment Plant Joint Stock Company (PNW) and Tuan Loc Water Resources Investment Joint Stock Company (TLW) which were both acquired in 2018. PNW holds the license to develop a water supply system that will meet clean water demand in the Chu Lai Open Economic Zone, and urban areas, industrial zones and adjacent rural areas in Quang Nam province pursuant to a 50-year Build-Own-Operate contract with the Chu Lai Open Economic Zone Authority. TLW is one of the largest water companies in Vietnam, with 310 MLD of installed capacity and a billed volume of approximately 102 MLD.

<u>MPLRC</u>
MPLRC's subsidiary, LRMC (effective ownership interest at 55% as at December 31, 2018 and 2017) signed together with the Department of Transportation and Communications (DOTC now Department of Transportation – DOTr) and the Light Rail Transit Authority (LRTA) the 32-year Concession Agreement for the Light Rail Transit Line 1 Cavite Extension and Operations & Maintenance Project (LRT-1 Project). On September 12, 2015, LRMC took over the operations and maintenance of LRT-1 from DOTC and LRTA. As at March 5, 2019, the LRT-1 existing system is under going rehabilitation while the Cavite Extension is on its mobilization and planning phase.

In 2016, LRMC signed a 15-year Omnibus Loan and Security Agreement (OLSA) with various financial institutions (collectively, as "Lenders") amounting to ₱24.0 billion, ₱15.3 billion of which is allocated for the Cavite Extension and ₱8.7 billion for the rehabilitation of the existing LRT-1 system. Cumulative drawn amount from this facility as at December 31, 2018 and 2017 amounted to ₱8,072.9 million and ₱4,650.9 million, respectively. The loan has a sponsors' funding commitment wherein for each drawdown until end of the construction period, the sponsors/shareholders shall infuse additional equity or extend debt to LRMC in an amount necessary to meet the debt-to-equity ratio. Total equity investment of the sponsors per OLSA ₱15,346.0 million, of which ₱8,440.0 million is effectively allocated to MPLRC. As at December 31, 2018, total equity from the sponsors is ₱7,050.0 million of which ₱3,877.5 million is from MPLRC.

<u>MPHHI</u>
MPHHI is MPIC's holding company for its investment in the healthcare segment. As at December 31, 2018 and 2017, MPIC holds 85.62% interest in MPHHI. GIC, through Arran, holds the 14.4% non-controlling interest through its subscription of the primary shares of MPHHI worth ₱3.7 billion on July 2, 2014. GIC also invested ₱6.5 billion in Exchangeable Bond issued by MPIC, which can be exchanged, in the future, into 158,137,590 shares of ₱10.0 par value Class A common shares of MPHHI representing 25.51% ownership interest, subject to certain conditions. The Exchangeable Bond is subject to a fixed interest rate applicable per annum which, for the first year shall be equivalent to 0.27% and shall be repriced annually thereafter at a rate to be mutually agreed by MPIC and GIC. Final maturity date of the Exchangeable Bond is on December 31, 2019. With the Exchangeable Bond, GIC is entitled to 39.89% effective ownership interest in MPHHI.

While the gain on dilution of interest in a subsidiary was recognized for accounting purposes for the year ended December 31, 2014, the taxable gain shall be recognized upon actual conversion of the Exchangeable Bond. The deferred tax liability recognized on this transaction amounted to ₱725.0 million as at December 31, 2018 and 2017 (see Note 15).

As at December 31, 2018, the Company, through MPHHI and its subsidiaries, operates the following full service hospitals:

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

- In other parts of the Philippines: Riverside Medical Center in Bacolod, Central Luzon Doctors Hospital in Tarlac, West Metro Medical Center in Zamboanga, Sacred Heart Hospital of Malolos Inc. in Bulacan, Saint Elizabeth Hospital Inc. in General Santos City and Davao Doctors Hospital in Davao (increased its ownership from 35.16% as at December 31, 2017 to 49.91% as at December 31, 2018).

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

MPLC

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

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

MVPHI

MVPHI was incorporated in the Philippines and registered with the Philippine SEC on March 10, 2017. On November 19, 2018, MVPHI, through its subsidiary, Surallah Biogas Ventures Corp., finalized and signed the Substrate Conversion Agreements (SCA) with Dole Philippines, Inc. (DPI) to design, construct, and operate biogas facilities specifically for DPI (the "Project"). MPIC has earmarked about ₱1.0 billion for this Project.

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

MPCEH

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

With no comparable proposals, the MPIC-led consortium expects to receive the Notice of Award by first half of 2019. MPIC intends for MPCEH to be the holding company for its investment in the ISWM Project and similar undertakings.

FCHI

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

NOHI

NOHI became a subsidiary of the Company in 2006 as a result of shares swap between MPHI, Metro Pacific Resources, Inc. (MPRI), Intalink B.V. and FPIL. NOHI was engaged in the business of real estate investments and property development, investment holding and management services.

On July 18, 2012, the BOD of NOHI approved the shortening of the corporate life of NOHI to until December 31, 2013. After expiration of NOHI's corporate life on December 31, 2013, NOHI proceeded immediately to the liquidation phase, which shall take place over the succeeding three years or until the liquidation process is complete and all the Company's remaining assets have been disposed of and the proceeds divided accordingly among all those with remaining interest in the company, under the management and supervision of an appointed liquidator.

NOHI holds investments in properties that have high market values based on latest appraisal and valuation report.

As at March 5, 2019, NOHI is currently in the process of liquidation.

AFPI

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

In 2017, due to the lower than expected penetration rate into the micropayments business, the Company recognized allowance for decline in value of investment amounting to ₱690.0 million. The recoverable amount of the investment in AFPI was measured using the estimate of the value in use of the investment. The valuation analysis involved discounting estimates of free cash flows by the discount rate of 11.9%. The estimates of cash flows were based on most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers the remaining concession term. The decline in value was recognized as "Other expense" in the statement of comprehensive income for the year ended December 31, 2017 (see Note 14).

Indra Phils.

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

FGNEC

FGNEC participated in the bidding for the proposed sale of the 246 MW Angat Hydroelectric Power Plant but was only declared as the second ranking bidder. On July 22, 2015, the BOD of FGNEC approved the shortening of the corporate life of FGNEC to until December 31, 2016. FGNEC proceeded immediately to the liquidation phase. Once the liquidation process is complete and the entity secures BIR clearance, the remaining net assets shall be distributed to the shareholders.

As at March 5, 2019, FGNEC is awaiting tax clearance for closure of business.

Landco

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

The investment in Landco's common shares was fully provided for an allowance in decline in value amounting to ₱773.9 million in 2016. Additional allowance in decline in value covering advances to Landco of ₱755.2 million was recognized in 2018 (see Note 14). The decline in the value of the

Company's interest in Landco was due to changes in cash flow forecast attributable to Landco's legacy projects. The recoverable amount of the investment in Landco was measured using the estimate of the value in use of the investment in joint venture. The valuation analysis involved discounting estimates of free cash flows by the appropriate discount rate that reflects the risk and return profile of Landco as of testing date. The estimates of cash flows comprise revenue projections, related costs and expenses, net working capital requirements and capital expenditures expected to be incurred from Landco's projects. These cash flows were discounted using weighted average cost of capital of 10.14% as the discount rate as of testing date. Carrying value of advances to Landco, after the valuation loss amounted to ₱491.4 million as of December 31, 2018. The Company also has receivable from ABHC amounting to ₱359.8 million included under the "Other noncurrent assets" account as at December 31, 2018 and 2017.

7. Property and Equipment and Software Costs

Property and Equipment. The account consists of:

	January 1, 2018	**Additions/ Depreciation**	**Disposals**	**December 31, 2018**
		(In Thousands)		
Cost:				
Transportation equipment	**₱79,484**	**₱22,714**	**(₱20,676)**	**₱81,522**
Leasehold improvements	**46,847**	**3,221**	**–**	**50,068**
Office equipment	**12,111**	**408**	**–**	**12,519**
Computer equipment	**24,835**	**8,698**	**(769)**	**32,764**
Furniture and fixtures	**9,384**	**64**	**–**	**9,448**
	172,661	**35,105**	**(21,445)**	**186,321**
Less accumulated depreciation:				
Transportation equipment	**35,339**	**15,154**	**(15,451)**	**35,042**
Leasehold improvements	**38,299**	**3,731**	**–**	**42,030**
Office equipment	**6,643**	**432**	**–**	**7,075**
Computer equipment	**20,792**	**3,492**	**(736)**	**23,548**
Furniture and fixtures	**6,798**	**691**	**–**	**7,489**
	107,871	**23,500**	**(16,187)**	**115,184**
	₱64,790	**₱11,605**	**(₱5,258)**	**₱71,137**

	January 1, 2017	Additions/ Depreciation	Disposals	December 31, 2017
		(In Thousands)		
Cost:				
Transportation equipment	₱79,009	₱12,691	(₱12,216)	₱79,484
Leasehold improvements	41,569	5,278	–	46,847
Office equipment	11,402	709	–	12,111
Computer equipment	20,243	5,235	(643)	24,835
Furniture and fixtures	8,293	1,091	–	9,384
	160,516	25,004	(12,859)	172,661
Less accumulated depreciation:				
Transportation equipment	30,821	14,057	(9,539)	35,339
Leasehold improvements	34,374	3,925	–	38,299
Office equipment	6,259	384	–	6,643
Computer equipment	18,172	3,228	(608)	20,792
Furniture and fixtures	6,233	565	–	6,798
	95,859	22,159	(10,147)	107,871
	₱64,657	₱2,845	(₱2,712)	₱64,790

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

The cost of fully depreciated property and equipment still in use as at December 31, 2018 and 2017 amounted to ₱64.4 million and ₱53.4 million, respectively.

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

	January 1, 2017	Additions/ Amortization	Disposal	**December 31, 2017**	**Additions/ Amortization**	**Disposal**	**December 31, 2018**
				(In Thousands)			
Cost	₱97,373	₱–	₱–	**₱97,373**	**₱3,733**	**₱–**	**₱101,106**
Less accumulated amortization	90,487	2,165	–	**92,652**	**1,980**	**–**	**94,632**
	₱6,886	₱2,165	₱–	**₱4,721**	**₱1,753**	**₱–**	**₱6,474**

The cost of fully amortized software still in use as at December 31, 2018 and 2017 amounted to ₱89.7 million and ₱87.6 million, respectively.

Property and equipment and software costs are reported under "Other noncurrent assets" of the Company's statements of financial position.

8. Accrued Expenses and Other Current Liabilities

This account consists of:

	2018	2017
	(In Thousands)	
Accrued expenses and other payables (see Note 12):		
Personnel costs	**₱349,300**	₱278,032
Fringe benefit tax	**193,049**	215,372
Professional fees	**38,621**	68,712
Others	**97,100**	68,192
Interest payable (see Note 9)	**821,833**	456,628
LTIP payable (see Note 13)	**570,669**	–
Statutory payables	**63,874**	68,667
Subscription payable (see Note 6)	**35,735**	35,735
Accounts payable	**55,177**	21,308
Others	**25,495**	29,096
	₱2,250,853	₱1,241,742

Subscription payable included the amount due to AFPI which shall be settled upon equity call from the investee (see Note 6).

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

9. Long-term Debt

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

	2018	2017
	(In Thousands)	
Peso-denominated bank loans	**₱67,359,500**	₱46,993,400
Less unamortized debt issue costs	**358,035**	172,109
	67,001,465	46,821,291
Less current portion of long-term debt (net of unamortized debt issue costs of ₱38.1 million and ₱24.7 million as at December 2018 and 2017, respectively)	**1,707,262**	971,243
Noncurrent portion of long-term debt	**₱65,294,203**	₱45,850,048

The unamortized debt issue costs incurred in connection with the availment of long-term debt were deducted against the long-term debt. The movement in debt issue costs in 2018 and 2017 is as follows:

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱172,109**	₱139,146
Debt issue costs incurred during the year	**213,436**	52,500
Amortization during the year (see Note 14)	**(27,510)**	(19,537)
Balance at end of year	**₱358,035**	₱172,109

In 2018 and 2017, the Company has availed additional loan drawdowns amounting to ₱21.4 billion and ₱10.5 billion, respectively. Total interest expenses, excluding amortization of debt issue costs, recognized in 2018 and 2017 amounted to ₱3.6 billion and ₱2.4 billion, respectively.

At December 31, 2018 and 2017, the Company's borrowings were effectively at fixed rates ranging from 4.9% to 9.2%. Certain of the Company's loans that bear a fixed rate for the first five years are subject to an interest rate repricing on the fifth year (see Note 19, Interest Rate Risk).

The Company has not made any pledges as collateral with respect to the long-term debt as of December 31, 2018 and 2017. The repayments of loans based on existing terms are provided in Note 19.

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

As at December 31, 2018 and 2017, MPIC has complied with all its debt covenants.

Undrawn loan facilities. As at December 31, 2018, the Company has access to undrawn loan facilities amounting to ₱25.0 billion available within 2019.

10. Related Party Transactions

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

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

	Relationship		Management Fees (see Note 14)	Dividend Income (see Note 6)	Rent and Utilities Expense (see Note 12)	Donations and Contributions (see Note 12)	Total
					(In Thousands)		
MWHC	Subsidiary	**2018**	**₱–**	**₱1,430,571**	**₱–**	**₱–**	**₱1,430,571**
		2017	–	1,430,571	–	–	1,430,571
Maynilad	Subsidiary	**2018**	**911**	**155,730**	**–**	**–**	**156,641**
		2017	4,600	155,888	–	–	160,488
MPTC	Subsidiary	**2018**	**–**	**1,791,866**	**–**	**–**	**1,791,866**
		2017	–	1,595,898	–	–	1,595,898
Beacon Electric	Subsidiary	**2018**	**–**	**4,317,690**	**–**	**–**	**4,317,690**
		2017	–	2,540,919	–	–	2,540,919
MERALCO	Associate	**2018**	**–**	**1,583,248**	**–**	**–**	**1,583,248**
		2017	–	2,628,709	–	–	2,628,709
Indra Phils.	Associate	**2018**	**–**	**–**	**–**	**–**	**–**
		2017	–	10,042	–	–	10,042
MMI	Subsidiary	**2018**	**480**	**–**	**–**	**–**	**480**
		2017	3,929	–	–	–	3,929
MPHHI	Subsidiary	**2018**	**3,750**	**10,963**	**–**	**–**	**14,713**
		2017	3,120	82,996	–	–	86,116
PLDT	Associate of FPC	**2018**	**–**	**–**	**18,766**	**–**	**18,766**
		2017	–	–	18,323	–	18,323
MVP Sports Foundation	Affiliate*	**2018**	**–**	**–**	**–**	**15,650**	**15,650**
		2017	–	–	–	6,600	6,600
One MERALCO	Affiliate*	**2018**	**–**	**–**	**–**	**–**	**–**
		2017	–	–	–	90	90
Metro Pacific Investments Foundation, Inc. (MPIF)	Affiliate*	**2018**	**–**	**–**	**–**	**7,229**	**7,229**
		2017	–	–	–	9,300	9,300
		2018	**₱5,141**	**₱9,290,068**	**₱18,766**	**₱22,879**	**₱9,336,854**
		2017	₱11,649	₱8,445,023	₱18,323	₱15,990	₱8,490,985

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

The Company provides management advisory advices to its subsidiaries covered by a management agreement. Management fees are non-interest bearing, unsecured, requires cash settlement, and are not impaired. The Company, in the normal course of business, has advances with related parties. Advances are due and demandable, non-interest bearing, unsecured and requires cash settlement. Outstanding balances as at December 31 are carried in the parent company statements of financial position under the accounts listed below.

		Due from related parties		**Due to related parties**	
	Nature of Transaction	**2018**	2017	**2018**	2017
		(In Thousands)			
Parent					
MPHI		**₱–**	₱60	**₱–**	₱85
Subsidiaries					
NOHI	Advances	**–**	–	–	358,372
MPHHI	Management fees and advances	**6,543**	1,740	**14**	15
MMI	Management fees and advances	**260**	603	**–**	20,490
MPTC	Advances	**551**	856	**–**	–
Porrovia	Advances	**–**	–	**10,126**	–
MPCEH	Advances	**–**	1,962	**–**	–
MPW	Advances	**–**	840	**–**	–
Maynilad	Advances	**126**	3,566	**–**	–
GBPC	Advances	–	91	–	–
Delos Santos Medical Center (DLSMC)	Advances	–	42	**–**	–
East Manila Hospital Managers, Corp. (EMHMC)	Advances	–	42	**–**	–
MPLC	Advances	–	4	**–**	–
FCHI	Advances	–	5	–	–
BPHI	Advances	–	9	**–**	–
LRMC	Advances	**126**	77	**–**	–
MVPHI	Advances	–	4	**–**	–
Others	Advances	–	40	**–**	–
Associates					
MERALCO	Advances	**126**	500	**–**	–
*Other related parties**					
PLDT Communications and Energy Ventures, Inc. (PCEV)	Payable	**–**	–	**11,767,118**	15,552,750
FPC	Advances	**731**	732	**–**	–
MPIF	Advances	**210**	–	**–**	–
PLDT	Advances	–	3	**–**	–
Others	Advances	**47**	649	–	–
		8,720	11,825	**11,777,258**	15,931,712
Less allowance for ECL		**2,772**	–	**–**	–
		5,948	11,825	**11,777,258**	15,931,712
Less current portion		**5,948**	11,825	**4,385,495**	4,164,594
		₱–	₱–	**₱7,391,763**	₱11,767,118

**Other related parties are affiliates through FPC.*

PCEV

Due to PCEV as at December 31, 2018 and 2017 represents the present value of the outstanding amount for the purchase price of Beacon Electric shares acquired in May 2016 and June 2017.

- On May 30, 2016, the Company acquired from PCEV 645,756,250 common shares and 458,370,086 preferred shares representing 25% economic rights of Beacon Electric for the total consideration of ₱26.2 billion. As at December 31, 2018 and 2017, remaining nominal amount due to PCEV amounted to ₱5.2 billion and ₱7.2 billion, respectively. PCEV shall retain the voting rights over these shares until full payment of the total consideration.

- On June 13, 2017, MPIC entered into a Share Purchase Agreement with PCEV for the purchase of PCEV's 25% remaining interest in Beacon Electric for a total purchase price of ₱21.8 billion. As at December 31, 2018 and 2017, remaining nominal amount due to PCEV amounted to ₱7.4 billion and ₱9.8 billion, respectively. PCEV shall retain the voting rights over these shares until full payment of the total consideration.

- In 2018 and 2017, the Company has made scheduled payments to PCEV amounting to ₱4.5 billion and ₱14.0 billion, respectively.

- In 2018, PCEV entered into a Receivables Purchase Agreement (RPA), with various financial institutions (the Purchasers), to sell a portion of its receivables from the Company due in 2019 to 2021 amounting to ₱7.8 billion. Under the terms of the RPA, the Purchasers will have exclusive ownership of the purchased receivables and all of its rights, title, and interest.

The scheduled payment of the amounts due to PCEV based on existing terms are provided in Note 19.

MPIF

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

In October 2018, MPIF obtained its certificate of registration from the Department of Social Welfare and Development. As at March 5, 2019, MPIF is in the process of securing the Philippine Council for NGO Certification (PCNC) accreditation and BIR certification for income tax exemption under Section 30(e) of the National Internal Revenue Code of 1997, as amended.

MPIC made contributions to MPIF amounting to ₱7.2 million and ₱9.3 million in 2018 and 2017, respectively.

Others

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

Compensation of Key Management Personnel

The compensation and benefits of the Company's key management personnel for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
	(In Thousands)	
Short-term employee benefits	**₱327,465**	₱349,930
Post-employment benefits - Retirement cost (see Notes 12 and 13)	**15,938**	16,260
Share-based payment (see Notes 12 and 16)	**90,228**	66,672
LTIP expense (see Notes 12 and 13)	**190,434**	182,417
	₱624,065	₱615,279

Directors' Remuneration
Annual remuneration of the directors amounted to ₱6.3 million and ₱6.1 million for the years ended December 31, 2018 and 2017, respectively (see Note 12). Directors were also allocated common shares under the Company's ESOP and RSUP.

Non-executive directors are entitled to a per diem allowance of ₱100,000 for each attendance in the Company's Board meetings and ₱50,000 for each attendance in the Company's Committee meetings. The Company's By-Laws provide that an amount equivalent to 1.0% of net profit after tax of the Company shall be allocated and distributed among the directors of the Company who are not officers of the Company or its subsidiaries and affiliates, in such manner as the BOD may deem proper. No accrual was made with respect to this scheme for the years ended December 31, 2018 and 2017 in the absence of resolution from the BOD. There are no other special arrangements pursuant to which any director will be compensated.

11. **Equity**

Details of authorized and issued capital stock follow:

	2018		2017	
	No. of Shares	**Amount**	No. of Shares	Amount
		(In Thousands except for share amounts)		
Authorized common shares - ₱1.00 par value	**38,500,000,000**	**₱38,500,000**	38,500,000,000	₱38,500,000
Authorized preferred shares:				
Class A - ₱0.01 par value	**20,000,000,000**	**200,000**	20,000,000,000	200,000
Class B - ₱1.00 par value	**1,350,000,000**	**1,350,000**	1,350,000,000	1,350,000
Balance at December 31	**59,850,000,000**	**₱40,050,000**	59,850,000,000	₱40,050,000
Issued and Outstanding - common shares:				
Balance at beginning of year	**31,534,548,752**	**₱31,534,549**	31,527,848,752	₱31,527,849
Exercise of stock option plan	**7,000,000**	**7,000**	6,700,000	6,700
Issued - common shares	**31,541,548,752**	**31,541,549**	31,534,548,752	31,534,549
Less: Treasury Shares	**(26,100,000)**	**(26,100)**	(23,970,000)	(23,970)
Balance at end of year	**31,515,448,752**	**₱31,515,449**	31,510,578,752	₱31,510,579
Treasury shares - common shares:				
Balance at beginning of year	**23,970,000**	**₱167,363**	23,970,000	₱167,363
Share buy-back	**2,130,000**	**10,240**	–	–
Balance at end of year	**26,100,000**	**₱177,603**	23,970,000	₱167,363
Issued - preferred shares - Class A:				
Balance at beginning and end of year	**9,128,105,319**	**₱91,281**	9,128,105,319	₱91,281
Total number of stockholders	**1,303**	–	1,300	–

Common Shares
At various dates in 2018 and 2017, a total of 7.0 million and 6.7 million common shares, respectively, were issued in connection with the Company's ESOP (see Note 16).

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

do not have right to participate in any additional dividends declared for common shareholders. MPHI holds all of the Company's Class A Preferred Shares.

There are no undeclared dividends as at December 31, 2018 and 2017.

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

There were no Class B Preferred Shares issued in 2018 and 2017.

Treasury Shares
On September 1, 2016, MPIC acquired 23,970,000 MPIC common shares, at ₱6.9822 per share from the open market. On December 6, 2018, MPIC acquired additional 2,130,000 MPIC common shares, at ₱4.8075 per share from the open market.

The treasury shares were acquired pursuant to the share buy-back plan that shall partially cover the up to approximately 26.7 million shares (originally 27.4 million shares) to be granted to the directors and key officers of the Company under the Company's LTIP program, which includes the RSUP (see Note 16).

The RSUP and the implementation thereof which included the share buy-back, was approved by MPIC's Compensation Committee on July 14, 2016, pursuant to the authority granted to it by the MPIC's BOD on March 1, 2016.

Record of Registration of Securities with the Philippine SEC
In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Company's track record of registration of securities:

Issue	Offer price	Date of SEC approval	Number of registered shares securities	Number of holders of securities as at December 31, 2018	2017
Tender offer to shareholders of Metro Pacific Corporation (MPC) covering subscription warrants relating to common shares of MPIC with par value of ₱1.0 per share	Four (4) MPC shares for one (1) MPIC share plus three (3) warrants	October 25, 2006	Common shares of 56,878,766*	**1,303**	1,300
			Subscription warrants of 170,636,298	**–**	–

**Covered the 2006 registered shares only*

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

Dividends
Dividends declared and paid are as follows:

	2018	2017
	(In Thousands)	
Declared and paid:		
Final dividend in respect of the previous financial year declared and paid in the following year:		
Common shareholders (₱0.076 and ₱0.068 per share as final dividends for the calendar years in 2018 and 2017, respectively)	**₱2,394,956**	₱2,142,284
Class A preferred shareholders	**4,564**	4,564
Interim dividend declared and paid during the year:		
Common shareholders (₱0.0345 and ₱0.0345 per share in 2018 and 2017, respectively)	**1,087,218**	1,087,097
Class A preferred shareholders	**4,564**	4,564
	₱3,491,302	₱3,238,509
Final dividend*:		
Common shareholders (₱0.076 and ₱0.076 per share as final dividends for the calendar years 2018 and 2017, respectively)	**₱2,395,129**	₱2,394,956
Class A preferred shareholders	**4,564**	4,564
	₱2,399,693	₱2,399,520

**Final dividends on both common and Class A preferred shares were declared after December 31 and as such, are not recognized as a liability as at year-end.*

On March 5, 2019, the BOD approved the declaration of the cash dividends of ₱0.076 per common share in favor of the Company's shareholders of record as of the record date at March 20, 2019 with payment date of April 3, 2019. On the same date, the BOD also approved the declaration of cash dividends amounting to a total of ₱4.6 million in favor of MPHI as the sole holder of Class A Preferred shares.

Equity Reserves
This account is used to recognize the value of equity-settled share-based payments consisting of ESOP and RSUP that are provided to certain employees, including key management personnel and directors, as part of their remuneration. As at December 31, 2018 and 2017, equity reserve from ESOP amounted to ₱78.9 million and ₱59.8 million, respectively. The equity reserve from RSUP amounted to ₱200.2 million and ₱133.5 million as at December 31, 2018 and 2017, respectively (see Note 16).

12. **Operating Expenses**

This account consists of:

	2018	2017
	(In Thousands)	
Personnel costs	**₱800,949**	₱807,763
Professional fees	**386,345**	232,338
Public relation	**72,064**	63,978
Outside services	**53,952**	52,036
Provision for ECLs (see Note 19)	**52,772**	–
Donations and contributions (see Note 10)	**52,750**	6,690
Transportation	**30,004**	30,192
Depreciation and amortization (see Note 7)	**25,480**	24,324
Insurance	**16,669**	6,226
Rent (see Note 10)	**15,597**	13,002
Supplies	**12,069**	9,970
Communication, light and water (see Note 10)	**8,299**	7,198
Seminars and conferences	**7,650**	8,991
Directors' fee (see Note 10)	**6,309**	6,141
Membership dues	**2,831**	2,747
Repairs and maintenance	**1,240**	2,724
Taxes and licenses	**276**	24,260
Others	**69,432**	54,116
	₱1,614,688	₱1,352,696

Personnel costs for the years ended December 31, 2018 and 2017 consist of:

	2018	2017
	(In Thousands)	
Salaries and wages	**₱391,671**	₱414,438
LTIP expense (see Note 13)	**190,434**	182,417
RSUP expense (see Note 16)	**66,672**	66,672
Fringe benefit tax	**52,301**	55,793
ESOP expense (see Note 16)	**23,556**	–
Retirement cost (see Note 13)	**19,538**	20,317
Other employee benefits	**56,777**	68,126
	₱800,949	₱807,763

13. **Employee Benefits**

LTIP

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

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

The total cost of the LTIP for 2018 and 2017 amounted to ₱190.4 million and ₱182.4 million, respectively, included in "Personnel costs" under "Operating expenses" in the parent company statements of comprehensive income (see Note 12). The details of LTIP payable as at December 31 are as follows:

	2018	2017
	(In Thousands)	
Beginning balance	**₱380,235**	₱197,818
Current provision	**176,979**	171,323
Interest	**16,958**	8,481
Actuarial loss (gain)	**(3,503)**	2,613
LTIP payable	**570,669**	380,235
Less current portion (see Note 8)	**570,669**	–
LTIP payable – noncurrent portion	**₱–**	₱380,235

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

With the scheduled settlement of the LTIP liability in 2019, the balance of the LTIP fund amounting to ₱542.4 million was presented as "Other current assets" as at December 31, 2018. As at December 31, 2017, the LTIP fund balance included under "Other noncurrent assets" amounted to ₱227.9 million.

Pension

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

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

The Company's contributions to the plan are made based on the employee's monthly basic salary which is at 10.0%. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 40.0% of his monthly salary. The Company then provides an additional contribution to the fund which aims to match the employee's contribution but only up to a maximum of 5.0% of the employee's monthly salary. Although the plan has a defined contribution format, the Company regularly monitors compliance with RA No. 7641, which provides for its qualified employees under a defined benefit minimum guarantee. The defined minimum guarantee is

equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641. Accordingly, the Company accounted for the retirement obligation under the higher of defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan. Disclosures required for a defined benefit retirement plan apply to the Company's retirement plan.

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

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

	2018	2017
	(In Thousands)	
Current service cost	**₱19,998**	₱20,343
Net interest income	**(460)**	(26)
Total retirement cost (see Note 12)	**₱19,538**	₱20,317

Remeasurement effects recognized in OCI are as follows:

	2018	2017
	(In Thousands)	
Actuarial gain	**₱14,470**	₱17,394
Loss on return on plan assets excluding amount included in net interest cost	**(13,124)**	(3,652)
Effect of the asset ceiling	**(4,132)**	–
	(2,786)	13,742
Deferred tax (see Note 15)	**836**	(4,123)
Actuarial gain (loss), net of deferred tax	**(₱1,950)**	₱9,619

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

	2018	2017
	(In Thousands)	
Present value of obligation	**(₱105,881)**	(₱104,762)
Fair value of plan assets	**111,208**	107,686
Effect of the asset ceiling	**(4,132)**	–
Pension assets	**₱1,195**	₱2,924

Movements in the present value of obligation are as follows:

	2018	2017
	(In Thousands)	
Present value of obligation at the beginning of year	**₱104,762**	₱147,011
Current service cost	**19,998**	20,343
Interest cost	**6,014**	6,080
Benefits paid	**(10,423)**	(51,278)
Actuarial gain due to experience adjustments	**(14,470)**	(17,394)
Present value of obligation at the end of year	**₱105,881**	₱104,762

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

	2018	2017
	(In Thousands)	
Fair value of plan assets at beginning of year	**₱107,686**	₱147,485
Interest income included in net interest cost	**6,474**	6,106
Loss return excluding amount included in net interest cost	**(13,124)**	(3,652)
Actual contributions	**20,595**	9,025
Benefits paid	**(10,423)**	(51,278)
Fair value of plan assets at end of year	**₱111,208**	₱107,686
Actual return (loss) on plan assets	**(₱6,651)**	₱2,454

The allocations of the fair value of the trust fund as at December 31, 2018 and 2017 are as follows:

	2018	2017
	(In %)	
Investments in:		
Corporate equities, Government securities and Bonds	**64**	64
Unit trust funds	**32**	31
Cash and cash equivalents	**4**	3
Receivables and others	**–**	2
	100	100

As at December 31, 2018 and 2017, the trust fund consists of the following:

- Investments in government and corporate securities included fixed-rate treasury notes and retail treasury bonds and debt securities that bear interest ranging from 4.41% to 7.51% (2018) and 2.03% to 6.25% (2017) per annum and have maturities of up to 2024 and 2032 as at 2018 and 2017, respectively.
- Unit trust funds include subscription with unit investment fund offered by local institutional investment banks.
- Cash and cash equivalents include regular savings and time deposits, which bear interest ranging from 5.50% to 6.40% per annum as at 2018 and 2.40% to 5.50% per annum as at 2017, respectively.
- Receivables include interest receivables, dividends receivables and other receivables.

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

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

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

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

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

	2018	2017
Discount rate	**7.64%**	5.74%
Salary increase rate	**8.00%**	4.00%

The discount rate represents the range of single weighted average discount rate used by the Company in arriving at the present value of defined benefit obligation, service and interest cost components of the retirement cost. Assumptions regarding future mortality rate are based on the Philippine Inter-Company Mortality Study for 2018 and 2017, which provides separate rates for males and females.

The weighted average duration of the expected benefit payments is approximately 10.9 years and 17.69 years in 2018 and 2017, respectively.

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

	2018	2017
	(In Thousands)	
Less than one year	**₱78,318**	₱14,261
More than one year to five years	**29,536**	62,103
More than five years to 10 years	**103,530**	54,690
More than 10 years to 15 years	**165,816**	93,082
More than 15 years to 20 years	**126,790**	182,611
More than 20 years	**298,938**	306,373

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

	Movements	**2018**	2017
Discount rate	+1%	**₱–**	₱–
	-1%	**10**	–
Salary increase rate	+1%	**9**	–
	-1%	**–**	–

As at December 31, 2017, the defined contribution accumulation is higher than the legal minimum benefit. As the Company has no deficiency to meet legal obligation, the defined benefit obligation is not sensitive to reasonably possible changes (+/-100 basis points) in the significant assumptions.

The Company currently expects to make approximately ₱20.3 million of cash contributions to its retirement fund in 2019.

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

The following are the sources of the Company's interest income and interest expense:

	2018	2017
	(In Thousands)	
Interest income:		
Cash and cash equivalents and short-term deposits (see Note 5)	**₱354,095**	₱175,279
LTIP deposit	**12,561**	2,838
	₱366,656	₱178,117
Interest expense:		
Long-term debt (see Note 9)	**₱3,552,740**	₱2,400,433
Accretion on financial liabilities (see Notes 6, 8 and 10)	**669,817**	578,136
Amortization of debt issue cost (see Note 9)	**27,510**	19,537
	₱4,250,067	₱2,998,106
Other income (expenses) - net:		
Impairment of investments and advances (see Note 6)	**(₱755,187)**	(₱690,000)
Gain on sale of shares	**–**	654,224
Management fees (see Note 10)	**5,249**	13,723
Others	**75,405**	2,827
	(₱674,533)	(₱19,226)

In June 2017, MPIC completed the sale of 50.7 million shares representing approximately 4.5% of outstanding capital stock of MERALCO through an overnight private placement for ₱250.0 per share or total proceeds of ₱12.7 billion which resulted in a gain of ₱654.2 million, net of ₱272.6 million transaction costs. The proceeds from this transaction were used by the Company to partially fund its acquisition of the remaining 25% interest of PCEV in Beacon Electric (see Note 10).

15. Income Taxes

Current Tax

The provision for current income tax represents MCIT. MCIT is imposed where the regular corporate income tax (RCIT) at 30% is less than 2% MCIT on gross income.

Deferred Tax

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

	2018	2017
	(In Thousands)	
Deferred tax liabilities:		
Gain on dilution of interest in a subsidiary (see Note 6)	**₱725,008**	₱725,008
Pension assets (see Note 13)	**7,771**	8,607
	₱732,779	₱733,615

	2018	2017
	(In Thousands)	
Net movement recognized in:		
Profit or loss	**₱–**	₱241,674
Equity (OCI and Equity reserve)	**(836)**	4,123
	(₱836)	₱245,797

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

b. The details of the carryforward benefits of excess NOLCO, MCIT and other deductible temporary difference for which deferred tax assets were not recognized as at December 31, 2018 and 2017 since management believes that it is not probable that future taxable income will be available against which the deferred tax assets can be utilized as follows:

	2018	2017
	(In Thousands)	
Items recognized in profit and loss:		
NOLCO	**₱10,829,443**	₱8,091,003
Nondeductible expenses	**2,150,144**	1,750,622
MCIT	**1,399**	1,315
	₱12,980,986	₱9,842,940

The carryforward benefits of excess MCIT amounting to ₱1.4 million and ₱1.3 million as at December 31, 2018 and 2017, respectively, can be claimed as tax credit against future income taxes payable as follows:

Year Incurred	Balance as at December 31, 2017	Additions	Expired	Balance as at December 31, 2018	Expiry Year
		(In Thousands)			
2018	₱–	₱142	₱–	₱142	2021
2017	334	–	–	334	2020
2016	923	–	–	923	2019
2015	58	–	(58)	–	2018
	₱1,315	₱142	(₱58)	₱1,399	

As at December 31, 2018 and 2017, unutilized NOLCO amounting to ₱10,829.4 million and ₱8,091.0 million, respectively, can be carried forward and claimed as deduction from regular taxable income as follows:

Year Incurred	Balance as at December 31, 2017	Additions	Expired	Balance as at December 31, 2018	Expiry Year
		(In Thousands)			
2018	₱–	₱4,575,320	₱–	₱4,575,320	2021
2017	3,273,307	–	–	3,273,307	2020
2016	2,980,816	–	–	2,980,816	2019
2015	1,836,880	–	(1,836,880)	–	2018
	₱8,091,003	₱4,575,320	(₱1,836,880)	₱10,829,443	

The Company has no taxable income subject to RCIT for the years ended December 31, 2018 and 2017. The reconciliation between the Company's statutory income tax and the effective income tax on net income (current and deferred income tax) for the years ended December 31, 2018 and 2017 follows:

	2018	2017
	(In Thousands)	
Income before income tax at 30% RCIT	**₱935,231**	₱1,275,934
Adjustments for:		
Dividend income exempted from final tax	**(2,787,021)**	(2,533,507)
Additional NOLCO	**1,372,596**	981,992
Nondeductible expenses	**645,044**	525,141
Income already subjected to final tax	**(109,997)**	(53,338)
Nontaxable income	**(55,705)**	(196,268)
Unrealized foreign exchange (gain) loss	**(148)**	46
Additional MCIT	**142**	334
Change in capital gains tax rate	**–**	241,674
Current and deferred income tax	**₱142**	₱242,008

16. **Share-based Payment**

ESOP

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

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

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

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

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

For the years ended December 31, 2018 and 2017, the weighted average remaining term to expiry for the share options outstanding is 0.8 year.

For the years ended December 31, 2018 and 2017, the weighted average share price of MPIC's common share is ₱5.16 and ₱6.64 per share, respectively. The carrying value of ESOP, recognized under "Equity reserves" in the equity section of the parent company statements of financial position, amounted to ₱78.9 million and ₱59.8 million as at December 31, 2018 and 2017, respectively (see Note 11).

The ESOP charged to Equity reserves amounted to ₱19.1 million and ₱4.2 million for the years ended December 31, 2018 and 2017, respectively.

The following table illustrates the number of, exercise prices of, and movements in share options in 2018 and 2017:

	Fourth Grant			
	Tranche A		Tranche B	
	Number of shares	Exercise Price	Number of shares	Exercise Price
Outstanding at January 1, 2017	12,525,000	₱4.60	56,000,000	₱4.60
Exercised during the year (see Note 11)	6,700,000	4.60	–	–
Outstanding at December 31, 2017	5,825,000	₱4.60	56,000,000	₱4.60
Exercised during the year (see Note 11)	5,825,000	4.60	1,175,000	4.60
Outstanding at December 31, 2018	–	**₱4.60**	**54,825,000**	**₱4.60**
Exercisable at:				
December 31, 2017	5,825,000	4.60	56,000,000	4.60
December 31, 2018	–	**4.60**	**54,825,000**	**4.60**

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

	Fourth Grant	
	Tranche A	Tranche B
	50.0% vested on October 14, 2014	50.0% vested on October 14, 2015
Spot Price	₱4.59	₱4.59
Exercise price	₱4.60	₱4.60
Risk-free rate	0.66%	2.40%
Expected volatility*	35.23%	33.07%
Term to vesting in days	365	730
Call price	₱0.63	₱0.89

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

RSUP

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

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

The RSUP also limits the aggregate number of shares that may be subject to award to no more than three percent (3%) of the outstanding common shares of MPIC. For the first 3-year cycle (i.e., 2016 to 2018), MPIC will acquire up to 27.4 million common shares at such time and under such terms and conditions as the Committee may determine. As at December 31, 2018, MPIC had already acquired 26.1 million shares from the open market at and held as treasury shares (see Note 11).

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

Total RSUP expense for the years ended December 31, 2018 and 2017 amounted to ₱66.7 million included in "Personnel costs" under "Operating expenses" account in the parent company statements of comprehensive income (see Note 12).

17. Earnings Per Share

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

		2018	2017
		(In Thousands, Except for Per Share Amounts)	
Net income		**₱3,046,998**	₱3,977,442
Effect of dividends on preference equity holders of the Company		**(9,128)**	(9,128)
	(a)	**3,037,870**	3,968,314
Outstanding common shares at the beginning of the year		**31,510,579**	31,503,879
Effect of issuance of common shares during the year		**3,306**	3,619
Effect of share buy-back (see Note 11)		**(146)**	–
Weighted average number of common shares for basic earnings per share	(b)	**31,513,739**	31,507,498
Effects of potential dilution from ESOP and share award (see Note 11)		**33,926**	28,754
Weighted average number of common shares adjusted for the effects of potential dilution	(c)	**31,547,665**	31,536,252
Basic earnings per share	(a/b)	**₱0.096**	₱0.126
Diluted earnings per share	(a/c)	**₱0.096**	₱0.126

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

In 2018 and 2017, the ESOP and RSUP are considered in the computation of the diluted earnings and certain grants were considered dilutive.

18. Other Matters

Project for the Rehabilitation, Operations, and Maintenance of the Ninoy Aquino International Airport ("NAIA"). On December 21, 2017, MPIC agreed to form a consortium with Aboitiz InfraCapital Inc., AC Infrastructure Holdings Corporation, Alliance Global Group Inc., AEDC, Filinvest Development Corporation and JG Summit Holdings Inc. for the rehabilitation, operations, and maintenance of the NAIA through an unsolicited proposal which was submitted to the Department of Transportation on February 12, 2018.

In September 2018, the NAIA Consortium was granted Original Proponent Status from the Department of Transportation and the Manila International Airport Authority for its unsolicited proposal. Following the grant of Original Proponent Status, the NAIA Consortium's proposal shall be subject to review and approval by the National Economic and Development Authority (NEDA) Board and to a Swiss Challenge in accordance with the requirements of Republic Act No. 7718 or the Build-Operate-Transfer Law.

As at March 5, 2019, the management is still awaiting approval from NEDA Board.

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

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

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

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

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

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

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

The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The Company's exposure to foreign currency risk on its financial instruments is not significant. At December 31, 2018 and 2017, the Company's borrowings were effectively at fixed rates (see Note 9), hence, no significant interest rate risk.

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

Interest Rate Risk

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

Fixed rate debt is subject to fair value interest rate risk while variable rate debt is subject to cash flow interest rate risk. Save for certain loans that is subject to interest rate repricing on the fifth year (see Note 9), the Company's interest on long-term debts are fixed until maturity as at December 31, 2018 and 2017. Should the interest rate on the repricing date for this loan be significantly higher than the current fixed rate, the Company has an option to prepay or refinance the loan starting on or after the second year at every interest payment date.

No sensitivity analyses were made for 2018 and 2017 as the interest rates of the Company's outstanding long-term debt as at December 31, 2018 and 2017 were effectively at fixed rates.

Liquidity Risk

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

The Company monitors its cash position using a cash forecasting system. All expected collections, check disbursements and other cash payments are determined on a daily basis to arrive at the projected cash position to cover its obligations and ensuring that obligations are met as they fall due. The Company monitors its cash flow position particularly the collections from receivables, receipts of dividends and the funding requirements of operations to ensure an adequate balance of inflows and outflows. The Company also has an online facility with its depository banks wherein bank balances are monitored daily to determine the actual Company cash balances at any time. The Company has cash and cash equivalents and short-term deposits amounting to ₱9,048.4 million and ₱14,545.3 million as at December 31, 2018 and 2017, respectively, which are allocated to meet the Company's short-term liquidity needs.

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

- Managing the concentration and maturity profile of debt maturities;
- Maintaining debt financing plans; and

- Monitoring statement of financial position liquidity ratios against internal, external and regulatory requirements.

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

As at December 31, 2018, the Company has undrawn facilities amounting to ₱25.0 billion (see Note 9). Proceeds of these facilities shall be used by the Company to fund capital expenditures, fund various projects and for other general corporate purposes.

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

	Not exceeding 1 year	More than 1 year but not exceeding 2 years	More than 2 years but not exceeding 5 years	More than 5 years	Total
			(In Thousands)		
December 31, 2018					
Accrued expenses and other current liabilities [(a)]	**₱794,477**	**₱–**	**₱–**	**₱–**	**₱794,477**
Due to related parties:					
Due to PCEV	**4,451,341**	**5,645,977**	**2,450,000**	**–**	**12,547,318**
Due to related parties - others	**10,141**	–	–	–	**10,141**
Long-term debts (Principal and interest)	**6,200,147**	**7,365,710**	**28,324,317**	**57,324,891**	**99,215,065**
Financial liability	**99,796**	**–**	**–**	**–**	**99,796**
	₱11,555,902	**₱13,011,687**	**₱30,774,317**	**₱57,324,891**	**₱112,666,797**
December 31, 2017					
Accrued expenses and other current liabilities [(a)]	716,447	–	–	–	716,447
Due to related parties:					
Due to PCEV	4,451,341	4,451,341	8,095,977	–	16,998,659
Due to related parties - others	378,962	–	–	–	378,962
Long-term debts (Principal and interest)	3,791,244	4,277,247	19,720,598	36,226,686	64,015,775
Financial liability	44,577	55,219	–	–	99,796
	₱9,382,571	₱8,783,807	₱27,816,575	₱36,226,686	₱82,209,639

[(a)] *Excludes statutory payable.*

Credit Risk

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

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

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

The maximum exposure to credit risk on cash and cash equivalents without considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques is the carrying value of this financial asset. After considering the credit enhancement pertaining to insured deposits in banks

as prescribed by Philippine Deposit Insurance Corporation, net maximum exposure as at December 31, 2018 and 2017 amounted to ₱9,044 million and ₱9,069 million, respectively.

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

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

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

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

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

		Days past due					
	Current	<30	31-60	61-90	91-180	>180	Total
		Not Credit-impaired				Credit-impaired	
				(In Thousands)			
December 31, 2018:							
Expected loss rate	–%	–%	–%	–%	–%	74%	5%
Gross carrying amount:							
Receivables:							
Dividends receivable	₱1,405,690	₱–	₱–	₱–	₱–	₱–	₱1,405,690
Receivables - others	46,199	812	785	1,130	–	96,473	145,399
Due from related parties	1,763	443	680	393	1,378	4,063	8,720
	1,453,652	1,255	1,465	1,523	1,378	100,536	1,559,809
Loss allowance:							
Receivables	–	–	–	–	–	71,440	71,440
Due from related parties	–	–	–	–	–	2,772	2,772
	–	–	–	–	–	74,212	74,212
January 1, 2018:							
Expected loss rate	–%	–%	–%	–%	–%	28%	16%
Gross carrying amount:							
Receivables:							
Receivables - others	50,460	–	–	–	207	72,764	123,431
Due from related parties	2,997	1,051	3,039	303	1,459	2,976	11,825
	53,457	1,051	3,039	303	1,666	75,740	135,256
Loss allowance							
Receivables	–	–	–	–	–	21,440	21,440
	₱–	₱–	₱–	₱–	₱–	₱21,440	₱21,440

The closing loss allowance for receivables as at December 31, 2018 reconcile to the opening loss allowance based on life-time ECL is as follows:

	Receivables	Due from related parties	Total
		(In Thousands)	
Calculated under previous accounting policy	**₱21,440**	**₱–**	**₱21,440**
Amounts restated through opening retained earnings	**–**	**–**	**–**
Opening loss allowance as at January 1, 2018	**₱21,440**	**₱–**	**₱21,440**
Increase in loss allowance recognized in profit or loss during the year:	**50,000**	**2,772**	**52,772**
Written off/reversal	**–**	**–**	**–**
Balance as at December 31, 2018	**₱71,440**	**₱2,772**	**₱74,212**

Capital Management

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

MPIC's loan agreements require achievement of certain financial ratios (see Note 9). Moreover, under the loan agreements, MPIC needs to achieve a DSCR to be able to declare dividends. As at December 31, 2018 and 2017, MPIC is in compliance with the required financial ratios and other loan covenants.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may obtain additional advances from shareholders, return capital to shareholders, issue new shares or new debt or redeem existing debt. No changes were made in the objectives, policies or processes during the years ended December 31, 2018 and 2017.

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

In 2018, the Company's strategy, which was unchanged from 2017, was to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratios on December 31, 2018 and 2017 are as follows:

	2018	2017
	(In Thousands except for the debt-to-equity ratio)	
Long-term debt	**₱67,001,465**	₱46,821,291
Equity	**123,756,485**	124,134,489
Debt-to-equity ratio	**1:1.8**	1:2.7

20. Financial Assets and Financial Liabilities

Categories of Financial Instruments

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

	December 31, 2018						
	Financial Assets				Financial Liabilities		
	Amortized Cost	FVPL	Debt instruments at FVOCI	Equity Instruments at FVOCI	Amortized Cost	FVPL	Total
				(In Thousands)			
ASSETS							
Investment in UITF [a]	**₱–**	**₱1,000**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,000**
Receivables [b]	**1,479,649**	–	–	–	–	–	**1,479,649**
Due from related parties [b]	**5,948**	–	–	–	–	–	**5,948**
Other current assets:							
Deposit for LTIP	**542,375**	–	–	–	–	–	**542,375**
Other noncurrent assets:							
Quoted club shares	–	–	–	**20,000**	–	–	**20,000**
Other receivables	**359,804**	–	–	–	–	–	**359,804**
	₱2,387,776	**₱1,000**	**₱–**	**₱20,000**	**₱–**	**₱–**	**₱2,408,776**
LIABILITIES							
Accrued expenses and other current liabilities [c]	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,616,310**	–	**₱1,616,310**
Due to related parties	–	–	–	–	**11,777,258**	–	**11,777,258**
Long-term debt	–	–	–	–	**67,001,465**	–	**67,001,465**
	₱–	**₱–**	**₱–**	**₱–**	**₱80,395,033**	**₱–**	**₱80,395,033**

[a] *Included under 'Cash and cash equivalents and short-term deposits'.*
[b] *Net of allowance for ECL/doubtful accounts in receivables and due from related parties amounted **to** ₱71.4 million and ₱2.8 million, respectively.*
[c] *Excludes statutory payables.*

	2017				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Thousands)		
ASSETS					
Cash and cash equivalents[(a)]	₱–	₱9,072,419	₱–	₱–	₱9,072,419
Restricted cash	–	181,345	–	–	181,345
Receivables [(b)]	–	101,991	–	–	101,991
Due from related parties	–	11,825	–	–	11,825
AFS financial assets [(c)]	–	–	5,472,868	–	5,472,868
Other noncurrent assets:					
AFS financial assets	–	–	42,000	–	42,000
Deposit for LTIP	–	227,936	–	–	227,936
Other receivables	–	359,804	–	–	359,804
	₱–	₱9,955,320	₱5,514,868	₱–	₱15,470,188
LIABILITIES					
Accrued expenses and other current liabilities[(d)]	₱–	₱–	₱–	₱1,173,075	₱1,173,075
Due to related parties	–	–	–	15,931,712	15,931,712
Long-term debt	–	–	–	46,821,291	46,821,291
Financial liability	–	–	–	78,750	78,750
	₱–	₱–	₱–	₱64,004,828	₱64,004,828

[(a)] Excludes cash on hand to ₱0.06 million as at December 31, 2017.
[(b)] Net of allowance for doubtful accounts amounted to ₱21.4 million.
[(c)] Pertains to the Company's investment in UITF classified as AFS financial assets.
[(d)] Excludes statutory payables.

Fair Values

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

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

	December 31, 2018				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
			(In Thousands)		
Assets measured at fair value					
Financial Assets at FVPL					
Unit Investment Trust Fund	**₱1,000**	**₱–**	**₱1,000**	**₱–**	**₱1,000**
Equity Instruments at FVOCI					
Golf club shares	**20,000**	**20,000**	**–**	**–**	**20,000**
	₱21,000	**₱20,000**	**₱1,000**	**₱–**	**₱21,000**
Liabilities for which fair values are disclosed					
Financial liabilities at amortized cost					
Long-term debt (current and noncurrent)	**₱67,001,465**	**₱–**	**₱–**	**₱63,579,328**	**₱63,579,328**
Due to related parties	**11,777,258**	**–**	**–**	**11,309,268**	**11,309,268**
	₱78,778,723	**₱–**	**₱–**	**₱74,888,596**	**₱74,888,596**

	December 31, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
			(In Thousands)		
AFS Financial Assets					
Unit Investment Trust Fund	₱5,472,868	₱–	₱5,472,868	₱–	₱5,472,868
Investment in unquoted equity securities	25,000	–	25,000	–	25,000
Golf club shares	17,000	17,000	–	–	17,000
	₱5,514,868	₱17,000	₱5,497,868	₱–	₱5,514,868
Liabilities for which fair values are disclosed					
Financial liabilities at amortized cost					
Long-term debt (current and noncurrent)	₱46,821,291	₱–	₱–	₱46,109,540	₱46,109,540
Due to related parties	15,931,712	–	–	15,407,817	15,407,817
	₱62,753,003	₱–	₱–	₱61,517,357	₱61,517,357

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

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

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

Investments in Unquoted Equity Securities. In 2017, the unquoted equity securities classified as AFS financial assets are carried at cost as there are no reliable basis for determining the fair value.

Investments in Golf Club Shares. Fair value is based on quoted market price.

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

Long-term Debt. Estimated fair value is based on the discounted present value of future cash flows using the prevailing interest rates ranging from 5.41% to 7.49% and 4.53% to 7.14% in 2018 and 2017, respectively.

21. **Supplemental Cash Flow Information**

Non–cash investing activities
The following table shows the Company's significant non–cash investing activities and corresponding transaction amounts:

	2018	2017
	(In Thousands)	
Non-cash investing activities:		
Acquisition of Beacon Electric preferred and common shares on a deferred payment basis (unpaid portion as at year of acquisition; see Note 10)	₱–	₱8,859,466
Offsetting of share on common and preferred share dividends from Beacon Electric against the acquisition of MERALCO shares	–	1,417,720

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

	Long-term debt (see Note 9)	Due to related parties (see Note 10)
	(In Thousands)	
Balance as at January 1, 2018	₱46,821,291	₱15,931,712
Cash flow (see statements of cash flows)		
Proceeds	21,400,000	10,126
Payments	(1,033,900)	(4,830,288)
Transaction cost	(203,707)	–
	66,983,684	11,111,550
Non-cash:		
Amortization of debt issue costs	27,510	–
Interest accretion	–	665,708
Others	(9,729)	–
	17,781	665,708
Balance as at December 31, 2018	₱67,001,465	₱11,777,258
Balance as at January 1, 2017	₱36,739,054	₱8,730,204
Cash flow (see statements of cash flows)		
Proceeds	10,500,000	–
Payments	(384,800)	(14,020,516)
Transaction cost	(52,500)	–
	46,801,754	(5,290,312)
Non-cash:		
Amortization of debt issue costs	19,537	–
Acquisition of investments on a deferred payment basis	–	20,629,455
Interest accretion	–	572,078
Others	–	20,491
	19,537	21,222,024
Balance as at December 31, 2017	₱46,821,291	₱15,931,712

22. Events after the Reporting Period

Aside from MPIC's dividend declaration on March 5, 2019 (see Note 11), events occurring after the reporting period include:

MPIC's Share Buy-Back Transaction. On January 9, 2019, MPIC acquired 600,000 MPIC common shares from the open market at ₱4.7423 per share and held as treasury shares. Acquisition of shares pursuant to the share buy-back that shall cover the Company's RSUP (see Note 16).

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

Company	Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Expected Share in Dividends
					(In Thousands)
MERALCO	February 26, 2019	March 22, 2019	April 15, 2019	₱10.594	₱1,253,957
Maynilad	February 26, 2019	February 28, 2019	March 12, 2019	1,100.489	259,715
MWHC	March 5, 2019	March 5, 2019	March 14, 2019	0.868	2,377,619
MPTC	February 14, 2019	March 1, 2019	March 27, 2019	18.660	1,172,758

23. Significant Accounting Policies

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

a. Changes in Accounting Policies and Disclosures

The Company applied the following new PFRSs and amendments to existing standards effective January 1, 2018. Except for additional disclosure requirements and the changes in classification and measurement of financial assets as a result of adopting PFRS 9, adoption of the following standards did not have any material impact on the Company's separate financial statements:

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Company adopted PFRS 15 using the modified retrospective method of adoption.

Revenue from transactions or events that does not arise from a contract with a customer is not in the scope of the revenue standard and should continue to be recognized in accordance with other standards. As the Company's revenue substantially comprise of dividend income, adoption of the standard did not have a significant impact on the parent company financial statements.

- PFRS 9

  PFRS 9 replaces the provisions of PAS 39, *Financial Instruments: Recognition and Measurement*, that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

  The adoption of PFRS 9 from January 1, 2018 resulted in changes in accounting policies but did not have a material impact on the parent company financial statements. See Notes 3 and 9 for the impact of the adoption of PFRS 9.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing the new financial instruments standard, PFRS 9, before implementing PFRS 17, *Insurance Contracts*, which replaces PFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. These amendments are not relevant to the Company.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Clarification that measuring investees at FVPL is an investment-by-investment choice*

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at FVPL. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

- Amendments to PAS 40, *Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine date of the transactions for each payment or receipt of advance consideration.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective (see Note 24).

b. Impact of Adoption of PFRS 9

On Classification and Measurement

The adoption of PFRS 9 beginning January 1, 2018 resulted in changes in accounting policies and the categories of the financial instruments in the parent company financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in PFRS 9, comparative figures have not been restated.

On January 1, 2018 (date of initial application of PFRS 9), the Company assessed which business model apply to the financial assets held by the Company and has classified its financial assets into the appropriate categories. There were no material impact on the resulting reclassification:

		To PFRS 9 Categories		
From AFS Financial Assets	**Financial assets at FVPL**	**Debt Instruments at FVOCI**	**Equity Instruments at FVOCI**	**Total Carrying Value as at January 1, 2018**
		(In Thousands)		
Shares of stock in an unlisted company [(a)]	**₱–**	**₱–**	**₱25,000**	**₱25,000**
Golf club shares [(a)]	–	–	**17,000**	**17,000**
UITF [(b)]	**5,472,868**	–	–	**5,472,868**
	₱5,472,868	**₱–**	**₱42,000**	**₱5,514,868**

(a) Included under "Other noncurrent assets"
(b) Included under "Cash and cash equivalents and short-term deposits"

- *Reclassification to Equity Investments at FVOCI.* The Company elected to retain OCI changes in the fair value of all its equity investments previously classified as AFS financial assets because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, fair value changes were retained in other comprehensive income.

- *Reclassification to FVPL.* UITFs are ready-made investments that allow the pooling of funds from different investors with similar investment objectives. These UITFs are managed by professional fund managers and may be invested in various financial instruments such as money market securities, bonds and equities, which are normally available to large investors only. A UITF uses the mark-to-market method in valuing the fund's securities. It is a valuation method which calculates the NAV based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources. They do not meet the PFRS 9 criteria for classification at amortized cost, because their cash flows do not represent solely payments of principal and interest. Hence, these financial assets were reclassified to financial assets at FVPL.

On Impairment of Financial Assets
The Company's receivables and due from related parties are subject to PFRS 9's new expected credit loss model. The Company was required to revise its impairment methodology under PFRS 9 for each of these classes of receivables and due from related parties. No material impact of the change in impairment methodology on the Company's retained earnings and equity. As at January 1, 2018, the Company assessed that there was no significant increase in the credit risk related to the financial assets at amortized cost. Accordingly, the Company applied the 12-month ECL to all its financial assets and assessed that there is no material impact to the parent company financial statements. While cash and cash equivalents, short-term deposits and restricted cash are also subject to the impairment requirements of PFRS 9, the identified impairment loss was immaterial.

c. *Principal Accounting and Financial Reporting Policies*

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

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

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

All other assets are classified as noncurrent.

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

The Company classifies all other liabilities as noncurrent.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting policy applied for financial instruments beginning January 1, 2018

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

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

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

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

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

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

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

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

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

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

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

The Company's financial assets at amortized cost includes receivables.

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

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

The Company elected to classify irrevocably its investments in quoted and unquoted equity securities under this category.

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

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

This category includes the Company's investment in UITF. Income earned on UITF is also recognized in the parent company statement of comprehensive income when the right of payment has been established.

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

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

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

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

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

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

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

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss

allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

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

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

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

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

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

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

Gains or losses on liabilities held for trading are recognized in the parent company statement of comprehensive income.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Company has not designated any financial liability as at FVPL.

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

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

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

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

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

Accounting policy applied for financial instruments until December 31, 2017

Financial Instruments
The Company recognizes a financial asset or a financial liability in the parent company statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases and sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are also recognized on a trade date basis.

Initial Recognition. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market interest rates for similar instruments with similar maturities. The initial measurement of financial instruments, except for financial instruments at FVPL, includes transaction costs.

The Company classifies its financial instruments in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, loans and receivables, AFS financial assets, financial liabilities at FVPL and other financial liabilities.

The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. Management determines the classification of its instruments at initial recognition and, where allowed and appropriate, re-evaluates such classification at every reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividend, gains and losses relating to a financial liability or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of related income tax benefits.

The Company has no financial assets at FVPL, HTM investments and financial liabilities at FVPL as at December 31, 2017.

Amortized Cost
Amortized cost is computed using the EIR method less any allowance for impairment and principal reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are integral part of the EIR.

'Day 1' Profit or Loss
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the parent company statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where data is not observable, the difference between the transaction price and model value is only recognized in the parent company statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Subsequent Measurement. The subsequent measurement of financial assets and financial liabilities depends on their classification as follows:

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL, HTM investments or AFS financial assets. After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less any impairment. The amortization is included as part of interest income in the parent company statement of comprehensive income. Losses arising from impairment are recognized in the parent company statement of comprehensive income. Loans and receivables are included in current assets if maturity is within 12 months after the end of reporting period, otherwise these are classified as noncurrent assets.

Loans and receivables include cash and cash equivalents, short-term deposits (excluding Unit Investment Trust Fund or UITF presented as short-term deposits but classified as AFS financial assets), receivables, restricted cash, cash deposits and due from related parties (see Notes 5, 10, 19 and 20).

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are designated as such or not classified in any of the other categories and these include equity and debt securities. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets that are quoted are subsequently measured at fair value. The unrealized gains and losses arising from the change in fair value of AFS financial assets are recognized as other comprehensive income in the equity section of the parent company statement of financial position until the investment is derecognized or determined to be impaired at which time the cumulative gains and losses are reclassified to the parent company statement of comprehensive income. When the Company holds more than one investment in the same security, these are deemed to be disposed of on an average costing basis. Interest earned on holding AFS debt financial assets are reported as interest income using the EIR method. Dividends earned on holding AFS financial assets are recognized in the parent company statement of comprehensive income when the right of payment has been established. AFS equity financial assets that are unquoted are carried at cost less any impairment in value.

This category includes investments in UITF (see Note 5), and quoted and unquoted shares classified as AFS financial assets (see Notes 19 and 20).

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated at FVPL upon the inception of the liability. These include liabilities arising from operations and borrowings.

Issued financial instruments or their components, which are not classified as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. Any effects of restatement of foreign currency-denominated liabilities are recognized in the parent company statement of comprehensive income.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

All of the Company's financial liabilities are classified as other financial liabilities which include loans and borrowings (see Notes 8, 9, 10, 19 and 20).

All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs (referred to as "debt issue costs"). Debt issue costs are amortized over the life of the debt instrument using the EIR method. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the parent company statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process. This category generally includes short-term and long-term debt.

Classification of Financial Instruments Between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Impairment of Financial Assets
The Company assesses at each end of reporting period whether a financial asset or group of financial assets is impaired. If any such evidence exists, the Company applies the relevant impairment policies by measurement type of financial asset to determine the amount of any impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets Carried at Amortized Cost. The Company first assesses whether objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the parent company statement of comprehensive income. The assets together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral had been realized or had been transferred to the Company. If a write-off is later recovered, any amount formerly charged is credited to the parent company statement of comprehensive income.

If, in a subsequent year, the amount of the impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the parent company statement of comprehensive income, to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized at the date impairment is reversed. The amount of reversal shall be recognized in the parent company statement of comprehensive income.

Assets Carried at Cost. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the parent company statement of comprehensive income. The asset together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. Such impairment loss shall not be reversed.

AFS Financial Assets. For AFS financial assets, the Company assesses at each end of reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below their cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the other comprehensive income is removed from other comprehensive income and recognized in the profit or loss. Impairment losses on equity investments are not reversed through the parent company statement of comprehensive income. Increases in fair value after impairment are recognized directly in other comprehensive income.

Derecognition of Financial Instruments

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and any costs or fees incurred are recognized in the parent company statement of comprehensive income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the parent company statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

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

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

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

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

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

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

Software Cost
Software cost, included as part of "Other noncurrent assets" account in the parent company statement of financial position, includes the cost of software purchased from a third party, and other direct costs incurred in the software configuration and interface, coding and installation to hardware, including parallel processing, and data conversion. Software cost is amortized on a straight-line basis over the

estimated useful life of five years (see Note 7). The carrying cost is reviewed for impairment whenever there is an indication that software cost may be impaired.

Impairment of Nonfinancial Assets

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

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

Equity

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

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

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

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

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

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

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

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

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

Revenue Recognition

Accounting policy applied beginning January 1, 2018

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

Accounting policy applied until December 31, 2017

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding certain sales incentives and taxes or duty.

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

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

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

Management Fees
Fees are recognized when services are rendered [included as part of “Other expense - net” account in the parent company statement of comprehensive income].

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

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

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the agreement;
b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether the fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Operating lease payments, net of aggregate benefit of lease incentives, are recognized as expense in the parent company statement of comprehensive income on a straight-line basis over the lease term.

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

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

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution plan obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in the parent company statement of comprehensive income.

The defined contribution liability, on the other hand, is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. These remeasurements are not reclassified to profit or loss in subsequent periods.

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

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

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

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

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

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

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

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

RSUP

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

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

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

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

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

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

Income Taxes

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

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

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

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

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

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

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

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

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

Sales Tax

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

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

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

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

Earnings Per Share

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

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

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

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

24. **Future Changes in Accounting Policies**

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will not have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or FVOCI.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  The Company will apply the standard from its mandatory adoption date of January 1, 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption.

  The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has leases of certain vehicles and office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

The Company is currently assessing the impact of adoption of PFRS 16. Based on preliminary assessment, the Company expects that impact of adoption is not material as the net income is expected to decrease only by approximately ₱1 million for the year-ended 2019 as a result of adopting the new standard. The Company expects to recognize right-of-use assets of approximately ₱31.6 million on January 1, 2019 and equivalent lease liabilities apportioned as to current and noncurrent amounting to ₱13.2 million and ₱18.4 million, respectively.

The Company's activities as a lessor are not material and hence the Company does not expect any significant impact on the parent company financial statements. However, some additional disclosures will be required in 2019.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  The Company is currently assessing the impact of adoption of the interpretation in the parent company financial statements.

Deferred effectivity

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

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or

contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

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