COVER SHEET

3 4 2 1 8

AYALA CORPORATION AND SUBSIDIARIES

(Company's Full Name)

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

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

Josephine G. De Asis	**908-3000**
Contact Person	Company Telephone Number

Fiscal Year		Form Type	Annual Meeting	
Month	*Day*		*Month*	*Day*
1 2	3 1	1 7 - A	0 4	2 6

Secondary License Type, if Applicable

C F D	
Dept. Requiring this Doc.	Amended Articles Number/Section

	Total Amount of Borrowings	
6 5 0 7	P 4 0 B. **bonds**	
Total No. Of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

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SEC No. 34218
File No. _____

AYALA CORPORATION

(Company's Full Name)

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

(Company's Address)

908-3000

(Telephone Number)

December 31, 2018

(Fiscal Year Ending)
(Month & Day)

SEC Form 17- A

(Form Type)

SECURITIES AND EXCHANGE COMMISSION (SEC)

SEC FORM 17-A

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

1. For the fiscal year ended: **December 31, 2018**

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

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

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

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

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

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

8. Registrant's telephone number: **(632) 908-3000 / 908-3357**

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

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

Title of each class	Number of shares issued & outstanding As of December 31, 2018
Preferred A	12,000,000*
Preferred B Series 1	28,000,000**
Preferred B Series 2	30,000,000***
Voting Preferred	200,000,000
Common	630,627,482

** all are in treasury shares*
*** of which 8,000,000 shares are in treasury*
**** of which 3,000,000 shares are in treasury*

Amount of debt outstanding as of December 31, 2018: **₱40 billion in bonds******

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

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

As of December 31, 2018, a total of 618,288,147 common shares, 12,000,000 preferred A ("ACPA") shares, 28,000,000 preferred B series 1 ("ACPB1") shares, and 30,000,000 preferred B series 2 ("ACPB2") shares are listed in the Philippine Stock Exchange ("PSE"). A total of 12,000,000 ACPA shares, 8,000,000 ACPB1 shares, and 3,000,000 ACPB2 shares are held in Treasury by the Company.

12. Check whether the registrant:

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

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

13. Aggregate market value of the voting stock held by non-affiliates: About ₱310.4 billion (based on closing price of Ayala Corporation's common shares as of March 29, 2019 and outstanding shares owned by the public as of December 31, 2018).

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

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

    Yes [ ]   No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

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

    2018 Consolidated Financial Statements of Ayala Corporation and Subsidiaries

    2018 Consolidated Financial Statements of Bank of the Philippine Islands and Subsidiaries

    2018 Consolidated Financial Statements of Globe Telecom, Inc. and Subsidiaries

    2018 Opinion on and Individual Supplementary Schedules

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

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

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

As of December 31, 2018, the Company is 47.04% owned by Mermac, Inc. and the rest by the public. Its registered office address and principal place of business is 32F to 35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

The Company is organized as a holding company holding equity interests in subsidiaries, associates and joint ventures that compose the Ayala Group (the Group). The Group is one of the most significant business groups in the Philippines. The Group was initially primarily focused on real estate, banking and insurance. In the 1970s and 1980s, the Group expanded its existing businesses through organic growth and acquisitions. During this period, the Group also materially diversified its activities and disposed of interests that it considered peripheral to its business strategy.

In recent years, Ayala's business activities continued to develop to include real estate and hotels, financial services and insurance, telecommunications, water infrastructure, electronics solutions and manufacturing, power generation, transport infrastructure, automotive, international real estate, healthcare, education, and technology ventures. In 2016, a new initiative was launched – the establishment of industrial technologies group that will integrate the electronics solutions and manufacturing, automotive and potential investments in complementary industrial technologies. In 2017 and 2018, Ayala made its presence more felt in digital space and also ventured for the first time in logistics business. This investment forms part of Ayala's strategy to develop infrastructure that will result in better efficiencies and improve the fulfillment goals of its existing businesses in real estate, banking, telecommunications, and e-commerce.

Ayala's real estate business is primarily conducted through its subsidiary, Ayala Land, Inc. ("Ayala Land" or "ALI"), a diversified real estate company in the Philippines. Its involvement in financial services is through an affiliate, the Bank of the Philippine Islands ("BPI"), which, together with its subsidiaries (together, the "BPI Group"), form a universal banking group in the Philippines. Ayala's telecommunications business is carried out through an affiliate, Globe Telecom, Inc. ("Globe"), a leading telecommunications companies in the Philippines. Ayala's investments in water infrastructure is under Manila Water Company, Inc. ("Manila Water" or "MWC"). Its international business in electronics solutions and manufacturing services is under Integrated Micro-Electronics, Inc. ("IMI"). Ayala's automotive dealerships are under AC Industrial Technology Holdings Inc. ("AC Industrials or ACI") formerly Ayala Automotive Holdings, Corp., while its interests in international real estate assets are held under AG Holdings. Ayala's investments in the power sector are held under AC Energy, Inc. (ACEI), while its first toll road project (the 4-kilometer Daang-Hari connector road to the South Luzon Expressway) is held under the Parent Company. The Company has established AC Infrastructure Holdings Corp. ("AC Infra") as its vehicle for transport infrastructure and logistics related investments, as well as AC Ventures Holding Corporation ("AC Ventures" or "AVHC") for its digital space related investments. Ayala's investments in healthcare is conducted through Ayala Healthcare Holdings ("AC Health" or "AHHI") while its for-profit education business is operated through AC Education, Inc. ("AC Education" or "AEI").

The lists of subsidiaries and associates and joint ventures are contained in the attached Company's Consolidated Financial Statements for December 31, 2018.

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

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

- Real estate and hotels - planning and development of large-scale fully integrated mixed-used communities that become thriving economic centers in their respective regions. These include development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of high-end, upper middle-income and affordable and economic housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

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

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

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

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

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

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

Please refer to Note 29 on Operating Segment Information of the Company's Consolidated Financial Statements regarding operating segments which presents assets and liabilities as of December 31, 2018 and 2017 and revenue and profit information for the years ended December 31, 2018, 2017 and 2016.

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

For the years ended December 31, 2018, 2017 and 2016, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

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

For the detailed discussion on the specific subsidiaries falling under each business unit as well as the major transactions of the Group, please refer to Note 2 on Group Information of the Consolidated Financial Statements for December 31, 2018 which forms part of the Index of this SEC17A report. Other major transactions and developments were also disclosed in the Company's previously filed SEC17Q and SEC17-C reports, listing of which also forms part of the Index of this SEC17A report.

The consolidated financial statements of the Group as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 were endorsed for approval by the Audit Committee on March 7, 2019 and authorized for issue by the Board of Directors (BOD) on March 12, 2019.

Based on SEC's parameters, the significant subsidiaries of Ayala Corporation as of December 31, 2018 are Ayala Land, Inc. (ALI - organized in 1988), Manila Water Co, Inc. (MWC – established in 1997), Integrated Micro-Electronics, Inc. (IMI - organized in 1980), AC Energy, Inc. (ACEI – established in 2005) and AC Industrial Technology Holdings Inc. (AC Industrials – organized in 1991). Except as stated in the succeeding paragraphs and in the discussion for each of the Company's significant subsidiaries, there has been no other business development such as bankruptcy, receivership or similar proceeding not in the ordinary course of business that affected the registrant for the past three years.

As to the material reclassification, merger, consolidation or purchase or sale of a significant amount of assets

For detailed discussion as to material reclassification, merger, consolidation and purchase transactions with subsidiaries and investees, please refer to Note 2 Group Information, Note 10 Investments in Associates and Joint Ventures and Note 24 on Business Combinations and Transactions with Non-controlling Interests of the Company's Consolidated Financial Statements for December 31, 2018 which forms part of the Index of this SEC17A report.

Distribution methods of the company's products and services

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

Competition

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

Transactions with related parties

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

To date, there have been no complaints received by the Company regarding related-party transactions.

Related party transactions are further discussed in the Note 31 of the Consolidated Financial Statements for December 31, 2018 which forms part of the Index of this SEC17A report.

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

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

The Company has a total workforce of 152 employees as of December 31, 2018, classified as follows:

Staff	57
Managers and Executives	87
Consultants	8
	152

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

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

Risks
Risk Management has become an increasingly important business driver and part of successful corporate governance. At Ayala, an effective corporate governance entails risk intelligence – a philosophy that encourages risk-taking, and embeds appropriate risk management into the whole organization – so that risk-taking for value creation becomes as significant as risk mitigation for value protection. We ensure that our risk management system has the right architecture, strategy, and protocols to support the risk management process. We revisit these three key factors yearly, as we believe that with the right approach, risks can be turned into opportunities.

Institutionalized in 2002, the Company has adopted an enterprise risk management (ERM) framework that is continuously being enhanced and improved. Under the supervision of the Chief Risk Officer (CRO), the Group Risk Management & Sustainability Unit continues to align Ayala's risk governance with that of global risk consultant Deloitte, which espouses a best practice that goes beyond risk avoidance and mitigation to utilize calculated risk-taking as a means to create value.

In addition to the regular reports of the CRO thru the Group Risk Management and Sustainability Unit, the Company has engaged a third party to execute a group-wide risk management maturity assessment, the first round of which was completed in 2015. This study entailed development of Risk Maturity Index (RMI) designed to capture and assess an organization's risk management practices and provide the group with immediate feedback in the form of a Risk Maturity Rating and actionable steps for improvement. Through this study, the Company and the Group evaluated the effectiveness of the improvements implemented since 2015. Similarly, the Company's ERM roadmap was revised to address other potential areas for improvement. The Company assessed that key risk exposures include political and regulatory, information security and cyber and brand and reputation. At the group level, key risk exposures are political and regulatory, talent, and brand and reputation. The company and the group have laid down the policies and objectives to address these risks exposures.

Risk Policy

For the Company

Risk Exposure	Risk Management Policy	Objective
Political and regulatory	Inability to anticipate changes in the political and regulatory landscapes may result in the Group being unable to shield our profitability and brand value.	To ensure that the Corporation has the ability to anticipate and adapt to changes in the political and regulatory landscapes to continue its long-term value creation process for all its stakeholders
Information security and cyber	Failure to ensure strong and adequate information security controls to safeguard confidentiality, integrity and availability of critical information may result to financial losses and damaged reputation.	To ensure that the Corporation's critical and other information are processed and stored with appropriate information security controls to preserve its confidentiality, integrity and availability to stakeholders
Brand and reputation	The inability to maintain our stature as a company of choice may result in significant difficulty in creating and/or maximizing value for all stakeholders.	To maintain and improve the strong Ayala brand, identified as its core value

For the Group

Risk Exposure	Risk Management Policy	Objective
Political and regulatory	Inability to anticipate changes in the political and regulatory landscapes may result in the Group being unable to shield our profitability and our brand value.	To improve the Group's ability to anticipate and adapt to political and regulatory changes, which may impact the Group's business models
Talent	Failure to ensure that we have the right people at all times may result in inability to execute and achieve business objectives.	• To continue being the employer of choice • To enhance our talent management program from recruitment, talent development, succession planning, until resignation/retirement of our employees
Brand and reputation	The inability to maintain our stature as a company of choice may result in significant difficulty in creating and/or maximizing value for all stakeholders.	To continue the long-term value creation for the Group' stakeholders

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

Financial Risks Management

For detailed discussion, please refer to Note 32 on Financial Instruments – Financial Risk Management of the Company's Consolidated Financial Statements for December 31, 2018 which form part of the Index of this SEC17A report.

SIGNIFICANT SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

AYALA LAND, INC.

Background and Business

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

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

Ayala Land is the largest and most diversified real estate conglomerate in the Philippines. It is engaged in land acquisition, planning, and development of large scale, integrated, mixed-use, and sustainable estates, industrial estates, development and sale of residential and office condominiums, house and lots, and commercial and industrial lots, development and lease of shopping centers and offices, co-working spaces, and standard factory buildings and warehouses, and the development, management, and operation of hotels and resorts and co-living spaces. The Company is also engaged in construction, property management, retail electricity supply and airline services. It also has investments in Cebu Holdings, Inc., OCLP Holdings, Inc., Prime Orion Philippines, Inc., MCT Bhd, Qualimed and Merkado Supermarket. Ayala Land has 26 estates, is present in in 57 growth centers nationwide and has a total land bank of 11,624 hectares at the end of 2018.

Products / Business Lines

Property Development

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

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

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

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

MCT Bhd. is a publicly-listed property developer in Malaysia engaged in land acquisition, planning, and development of residential condominiums for sale for middle income segment. MCT has a land bank of 515 acres located in Subang Jaya, Cyberjaya and Petaling Jaya. Ayala Land owns 66.3% in MCT Bhd.

Commercial Leasing

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

Services

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

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

Strategic Investments

Ayala Land’s strategic investments include Cebu Holdings, Inc. (70.43%), OCLP Holdings, Inc. (21.01%), Prime Orion Philippines, Inc., (54.9%), MCT Bhd., (66.3%) Qualimed (40.0%) and Merkado Supermarket (50.0%).

Products / Business Lines (with 10% or more contribution to 2018 consolidated revenues before intercompany adjustments):

Property Development	52%
Commercial Leasing	15%
Services	33%

<u>Distribution Methods of Products</u>

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

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

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

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

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

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

2018

Ayala Land registered a solid topline and bottomline growth of 17% and 16% respectively, with revenues of P166.2 billion and net income of P29.2 billion. Property sales grew 16% to P141.9 billion driven by strong local and overseas Filipino demand. Its leasing business expanded with shopping centers gross leasable area (GLA) of 1.90 million sq, meters, office GLA of 1.11 million sq. meters and hotels and resorts rooms of 2,973. The total capital expenditure reached P110.1 billion. It launched two estates: Parklinks in the Quezon City – Pasig City corridor, and Habini Bay in Laguindingan, Misamis Oriental.

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

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

On September 12, 2018, One Makati Residential Ventures, Inc., a wholly owned subsidiary of AyalaLand Hotels and Resorts Corp. (AHRC) was incorporated for the development of One Ayala Residences.

2017

Ayala Land posted a healthy topline growth of 14% to P142.3 billion and solid net income growth of 21% to P25.3 billion. Property sales grew 13% to P122.0 billion. It broadened its leasing base, ending 2017 with shopping centers GLA of 1.80 million sq. meters, office leasing GLA of 1.02 million sq. meters and 2,583 hotel and resort rooms. The total capital expenditure reached P91.4 billion. It launched three estates: Evo City in Cavite, Azuela Cove in Davao and Seagrove in Cebu.

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

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

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

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

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

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

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

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

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

2016

Ayala Land grew its revenues by 16% to P124.6 billion and its net income by 19% to P20.9 billion. Property sales grew 3% to P108.0 billion. Its leasing business expanded, closing 2016 with shopping centers GLA of 1.62 million sq. meters, office leasing GLA of 836 thousand sq. meters and total hotels and resorts rooms of 2,027. Ayala Land spent P85.4 billion in capital expenditures.

On October 10, 2016, Lio Tourism Estate Management Corp. is a wholly owned subsidiary of Ten Knots Phils., Inc. (TKPI) and was incorporated.

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

Bankruptcy, Receivership or Similar Proceedings

None for any of the subsidiaries and affiliates above.

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

2018

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

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

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

On May 11, 2018, Ayala Land entered into a Memorandum of Understanding with Green Square Properties Corporation (GSPC) and Green Circle Properties and Resources, Inc. (GCPRI) for the formation of a joint-venture company (JVC) that will own and develop 27,852 hectares of land (the Properties), specifically located in Dingalan Aurora and General Nakar, Province of Quezon. ALI will own 51%, and GSPC and GCPRI will jointly own 49% of the JVC.

On April 30, 2018, ALI and POPI executed a Deed of Exchange where ALI will subscribe to 1,225,370,620 common shares of POPI for an aggregate subscription price of P3.0 billion in exchange for 30,186 common shares of Laguna Technopark, Inc. (LTI). The subscription and exchange shall be subject to and deemed effective only upon the issuance by the SEC of the confirmation of valuation of the shares.

On April 27, 2018 Ayala Land, Inc. issued and listed on the Philippine Dealing & Exchange Corp. a P10 billion bond due April 2028 with a coupon rate of 5.9203% p.a. for the initial five-year period of the ten-year term of the bond. The coupon rate will reprice on April 27, 2023, the fifth anniversary of the Issue Date, at the higher of (a) 5.9203% or (b) the prevailing 5-year benchmark plus 75 bps which shall apply to all interest payments thereafter. The Bond was assigned an issue credit rating of PRS AAA, with a Stable Outlook, by Philratings, the highest investment grade indicating minimal credit risk. The issuance is the fifth tranche of the Fixed Rate Bond series of the Company's P50 billion Debt Securities Program as approved by the Securities and Exchange Commission (SEC) in March 2016.

On April 4, 2018, Ayala Land, Inc. (ALI) signed a Deed of Absolute Sale with Central Azucarera de Tarlac, Inc. for the acquisition of several parcels of land with an aggregate area of approximately 290 hectares located in Barangay Central, City of Tarlac, Province of Tarlac.

On March 23, 2018, the Executive Committee of Ayala Land approved the exchange of its 75% equity interest in Laguna Technopark, Inc. (LTI) into additional shares of stock in Prime Orion Philippines, Inc. (POPI). The value of the transaction is P3.0 billion where POPI will issue 1,225,370,620 common shares to ALI in exchange for 30,186 LTI common shares and bring ALI's direct ownership in POPI to 63.90% from 54.91%.

On February 26, 2018, the Board of Directors of Cebu Holdings, Inc. (CHI) during its meeting, approved the merger of Cebu Property Ventures Development Corp. (CPVDC) with CHI as the surviving entity. The merger will consolidate CHI's portfolio under one listed entity, creating a unified portfolio for its investments and is expected to result in operational synergies, efficient funds management and simplified reporting to government agencies, as a result of the merger. The plan of merger shall be submitted for approval of the stockholders of the two companies during their respective annual stockholders' meeting to be held on April 10, 2018.

On February 20, 2018, the Philippine Competition Commission (PCC) approved the setting up of a joint venture between the Company and Royal Asia Land, Inc. to acquire, own, and develop a 936-hectare commercial and residential project in Silang and Carmona, Cavite. Both firms will own 50% equity in the joint venture vehicle while Royal Asia Land will receive a consultation fee of 2% of the joint venture firm's gross revenue for its participation in the planning and development of the property. ALI, meanwhile, will develop and market the project and receive a management fee of 12% and sales and marketing fee of 5% of the gross revenue. The PCC has deemed that the transaction does not result in a substantial lessening of competition because it will not have a structural effect on the market.

On January 11, 2018, SIAL CVS Retailers, Inc., FamilyMart Co., Ltd., and ITOCHU Corporation have concluded the transaction to sell 100% of the outstanding shares of Philippine FamilyMart CVS, Inc. (PFM) to P-H-O-E-N-I-X Petroleum Philippines, Inc. (PNX), further to a Memorandum of Agreement (MOA) entered into by the parties last October 30, 2017.

On January 2, 2018, Ayala Land, Inc., (ALI) through its wholly-owned subsidiary, Regent Wise Investments Limited (RWIL), signed a share purchase agreement to acquire an additional 17.24% share in MCT Bhd (MCT), subject to completion of certain conditions. This will bring ALI's shareholding in MCT to 50.19% from 32.95%. Subsequently, on January 5, 2018, Regent Wise Investments Limited (RWIL), issued a notice of an unconditional mandatory take-over offer to the Board of Directors of MCT Bhd (MCT), to acquire all remaining shares of the company that are not already held by RWIL, following the completion of certain conditions to the share purchase agreement. The take-over offer is made in connection to the acquisition of additional shares in MCT, which increased ALI's shareholding in MCT to 50.19%. On March 23, 2018, Ayala Land completed the acquisition process, increasing its ownership stake in MCT to 66.25%.

2017

On October 30, 2017, SIAL CVS Retailers, Inc., FamilyMart Co., Ltd., and ITOCHU Corporation entered into a Memorandum of Agreement (MOA) to sell 100% of the outstanding shares of Philippine FamilyMart CVS, Inc. (PFM) to P-H-O-E-N-I-X Petroleum Philippines, Inc. (PNX). SIAL CVS Retailers, Inc., a 50-50 joint venture company between ALI Capital Corp. (a 100% subsidiary of Ayala Land, Inc.) and SSI Group, Inc. (SSI), currently owns 60% of PFM, while Japanese companies, FamilyMart Co., Ltd. and ITOCHU Corporation, own 37.6% and 2.4% respectively.

In June 2017, Orion Land, Inc. (OLI), a subsidiary of POPI, acquired 512,480,671 common shares equivalent to 11.69% ownership at ₱2.45/share amounting to ₱1,255.58 million. The acquisition of POPI shares by OLI was treated as an acquisition of non-controlling interest resulting to a debt to equity reserve of ₱405.18 million. This increased ALI's effective share ownership to 63.05%.

On February 23, 2017, Ayala Land together with BPI Capital Corporation and Kickstart Ventures, Inc. signed an investment agreement to acquire ownership stakes in BF Jade E-Service Philippines, Inc, owner and operator of online fashion platform, Zalora Philippines. ALI will own 1.91% of Zalora Philippines through this transaction.

On February 22, 2017, Ayala Land signed an investment agreement to acquire a 1.91% ownership stake in BF Jade E-Service Philippines, Inc, the owner and operator of the online fashion platform Zalora Philippines (Zalora), subject to the fulfillment of certain conditions precedent, including obtaining the approval or deemed approval of the Philippine Competition Commission.

On February 20, 2017, The Board of Directors during its meeting approved the raising of up to ₱20.00 billion through (i) retail bonds, (ii) corporate notes and/or (iii) bilateral term loans with a term of up to ten (10) years, to partially finance general corporate requirements. The Board also approved the raising of up to ₱10.00 billion through the issuance of short dated notes with a tenor of up to 21 months to refinance the Corporation's short-term loans.

In February 2017, ALI purchased additional 631,000 common shares of POPI from BPI Securities Corporation for ₱1.26 million. ALI's interest remains at 51% of total POPI's outstanding capital stock.

In 2017, ALI purchased additional 97,763,900 common shares of CHI from BPI Securities Corporation totaling ₱575.0 million which brought up ALI's ownership to 72% of the total outstanding capital stock of CHI.

2016

On August 19, 2016, The Board of Directors during its meeting approved the terms and conditions of the ₱7.0 billion third tranche of the Fixed-rate Bonds Series and ₱3.0 billion Homestarter Bonds under the Corporation's ₱50.0 Billion Debt Securities Program as approved by the SEC in March 2016.

On June 1, 2016, Ayalaland Mall Synergies, Inc., a wholly owned subsidiary of Ayala Land, Inc, was incorporated. The company will house the Commercial Business Group's allied businesses such as but not limited to the partnership with Mercato, LED, and operations of upcoming mall's foodcourt.

On May 19, 2016, additional ESOWN shares were subscribed under the ESOWN totaling 3,110,756 common shares.

On May 18, 2016, additional ESOWN shares were subscribed totaling 293,919 common shares at ₱26.27 per share by four (4) grantees.

On May 11, 2016, 137 ESOWN grantees subscribed to 13,646,546 common shares at ₱26.27 per share.

In April 2016, Ayala Land purchased 6,000,000 common shares and 24,000,000 preferred redeemable shares, with par value of P10 per share each of Prow Holdings, Inc. (PHI) for P300,000,000. Further, on May 23, 2016, additional 3,000,000 common shares and 12,000,000 preferred redeemable shares with par value of P10 per share were acquired by ALI. Subsequently in August 2016, Ayala Land acquired 9,150,931 common shares and 12,876,456 preferred redeemable shares in Prow Holdings, Inc. (PHI) for a total consideration of P220,273,870 which brought ALI's ownership to 55% of the total outstanding capital stock in relation to the joint venture agreement for the development of Alviera Estate in Porac, Pampanga.

In March 2016, ALI bought additional 200,953,364 common shares of CHI. This increased the Company's stake from 56.40% to 66.87% of the total outstanding capital stock of CHI.

On March 14, 2016, the Company acquired 55% interest in Prow Holdings, Inc. for a purchase price of ₱150 million. The acquisition was made in line with the Company's partnership with Leonio Land, Inc. to develop a mixed-use community in Porac, Pampanga.

On March 1, 2016, SIAL Specialty Retailers, Inc. ("SIAL"), a joint venture company between ALI and the SSI Group, Inc., entered into a Deed of Absolute Sale with Metro Retail Stores Group, Inc. to sell fixed assets including fit-outs, furniture, fixtures and equipment in SIAL's department stores located at Fairview Terraces and UP Town Center.

In March 2016, the Company acquired an 18% stake in OCLP Holdings, Inc. (OHI), consistent with its thrust of expanding operations into other areas within and outside Metro Manila through partnerships. OHI holds 99.51% equity interest in Ortigas & Company Limited Partnership (OCLP), an entity engaged in real estate development and leasing businesses.

On February 24, 2016, Ayala Land and Prime Orion Philippines, Inc. ("POPI") executed a Deed of Subscription and a Supplement to the Deed of Subscription whereby ALI subscribed to 2,500,000,000 common shares of stock of POPI, which will represent 51.06% of the total outstanding shares of POPI. The consideration for the ALI subscription is PhP2.25 per share or a total subscription price of PhP5,625,000,000.00 of which 25% or PhP1,406,250,000.00 was paid on February 24 and the 75% to be paid upon fulfillment of certain terms and conditions. Consequently, on July 4, 2018, the SEC approved Ayala Land's increase in shares in POPI and issued a certificate of increase in capital stock.

In February 2016, the Company purchased additional 906,000 common shares of CHI from BPI Securities totaling ₱4.06 million. This brings ALI's ownership from 56.36% to 56.40% of total outstanding capital stock of CHI.

On January 21, 2016, Ayala Land and LT Group, Inc. (LTG) entered into an agreement to jointly develop a 35-hectare township that spans portions of Pasig City and Quezon City. On March 13, 2016, ALI-ETON Property Development Corporation was incorporated.

On January 12, 2016, Ayala Land, and its subsidiaries and affiliates together with Cebu Holdings, Inc., and Cebu Property Ventures and Development Corporation, (the "ALI Group") signed a Memorandum of Agreement ("MOA") with Manila Water Philippine Ventures, Inc. ("MWPV"), a wholly-owned subsidiary of Manila Water Company, Inc. Under the Agreement, MWPV shall provide water and used water services to all ALI Group projects nationwide.

On January 21, 2016, ALI and LT Group, Inc. ("LTG") entered into an agreement to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portions of Pasig City and Quezon City.

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

The Flats
Ayala Land opened its first co-living product, branded as "The Flats" on September 2018. It is located in Amorsolo, Makati and offers a total of 898 beds across 196 multiple occupancy rooms and communal spaces.

Clock In
In 2017, Ayala Land launched a co-working space product branded as "Clock In" with three operating branches in Makati and BGC with a total of 433 seats. In 2018, it launched three new sites in Vertis North Quezon City, 30Th Corporate Center in Pasig and Ayala North Exchange in Makati.

Standard Factory Buildings and Warehouses
In 2018, Ayala Land started to offer standard factory buildings (SFB) and warehouses for lease inside industrial parks to capture the growing opportunities in manufacturing and logistics. Ayala Land has a total of 136,864 sq. meters of SFB and warehouse GLA across various locations such as Laguna Technopark, Cavite Technopark, the Tutuban complex in Manila, and the Lepanto Ceramics facility in Laguna.

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

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

Competition

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

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

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

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

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

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

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

Suppliers

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

Customers

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

Transactions with related parties

Please refer to Item 12 of this report ("Certain Relationships and Related Transactions).

Government approvals/regulations

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

Employees

Ayala Land has a total workforce of 362 regular employees as of December 31, 2018. The breakdown as follows:

Senior Management	26
Middle Management	212
Staff	124
Total	362

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

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

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

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

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

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

Risks

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

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

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

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

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

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

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

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

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

Working Capital

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

Domestic and Export Sales

The table below illustrates the amounts of revenue, profitability, and identifiable assets attributable to domestic and foreign operations for the years ended December 31, 2018, 2017, 2016: (in ₱'000)

	2018	2017	2016
Consolidated revenues			
Domestic	156,142,062	139,131,909	122,873,268
Foreign	7,604,756	241,432	392,627
	163,746,818	139,373,341	123,265,895
Net operating income			
Domestic	52,436,826	43,071,498	38,271,169
Foreign	1,129,534	-90,142	343,765
	53,566,360	42,981,356	38,614,934
Net Income Attributable to Equity Holders of ALI			
Domestic	28,283,472	25,321,099	20,509,657
Foreign	957,408	(16,134)	(398,854)
Total	29,240,880	25,304,965	20,908,511
Total Assets			
Domestic	636,521,219	564,182,334	527,825,623
Foreign	32,299,263	9,810,000	8,607,372
Total	668,820,482	573,992,334	536,432,995

For further information on ALI, please refer to its 2018 Financial Reports and SEC17A which are available in its website www.ayalaland.com.ph.

MANILA WATER COMPANY, INC.

Background and Business

Manila Water Company, Inc. (alternately referred to as MWC, Manila Water, “the Company” or “the Group” in the entire discussion of Manila Water Company, Inc) holds the exclusive right to provide water and used water services to the eastern side (“East Zone”) of the franchise area of the Metropolitan Waterworks and Sewerage System pursuant to the Concession Agreement entered into between the Company and MWSS on February 21, 1997. The original term of the concession was for a period of twenty five (25) years to expire in 2022. The Company’s concession was extended by another fifteen (15) years by MWSS and the Philippine Government in 2009, thereby extending the term from May 2022 to May 2037.

The Company provides water treatment, water distribution, sewerage and sanitation services to more than six (6) million people in the East Zone, comprising a broad range of residential, semi-business, commercial, and industrial customers. The East Zone encompasses twenty-three (23) cities and municipalities spanning a 1,400-square kilometer area that includes Makati, Mandaluyong, Pasig, Pateros, San Juan, Taguig, Marikina, most parts of Quezon City, portions of Manila, as well as the following towns of Rizal: Angono, Antipolo, Baras, Binangonan, Cainta, Cardona, Jala-Jala, Morong, Pililia, Rodriguez, San Mateo, Tanay, Taytay, and Teresa.

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

Aside from the Manila Concession, the Group has a holding company for all its domestic operating subsidiaries in Manila Water Philippine Ventures, Inc. (“MWPV”). Currently under MWPV are Clark Water Corporation (“Clark Water”), Laguna AAA Water Corporation (“Laguna Water”), Boracay Island Water Company (“Boracay Water”), Manila Water Consortium, Inc. (“MW Consortium”), a subsidiary of MW Consortium – Cebu Manila Water Development, Inc. (“Cebu Water”), Bulacan MWPV Development Corporation (“BMDC”), Obando Water Consortium Holdings Corporation (“Obando Holdings”), a subsidiary of Obando Holdings – Obando Water Company, Inc. (“Obando Water”), Davao Water Infrastructure Company, Inc. (“Davao Water”), a subsidiary of Davao Water – Tagum Water Company, Inc. (“Tagum Water”), Zamboanga Water Company, Inc. (“Zamboanga Water”), Manila Water Technical Ventures (“MWTV”), and Aqua Centro MWPV Corporation (“Aqua Centro MWPV”). Also under MWPV is Estate Water, which is its division that operates and manages the water systems of townships developed by Ayala Land, Inc. Another subsidiary of Manila Water is Calasiao Water Company, Inc. (“Calasiao Water”), a water supply project for the Calasiao Water District in Pangasinan.

The holding company for its international ventures is Manila Water Asia Pacific Pte. Ltd. (“MWAP”). Under MWAP are two affiliated companies in Vietnam, namely Thu Duc Water B.O.O Corporation (“Thu Duc Water”) and Kenh Dong Water Supply Joint Stock Company (“Kenh Dong Water”), both supplying treated water to Saigon Water Corporation (“SAWACO”) under a take-or-pay arrangement. Also under MWAP are Saigon Water Infrastructure Corporation (“Saigon Water”), a holding company listed in the Ho Chi Minh City Stock Exchange, Cu Chi Water Supply Sewerage Company, Ltd. (“Cu Chi Water”) and another company tasked to pursue non-revenue water reduction projects in Vietnam called Asia Water Network Solutions (“Asia Water”). Apart from its operations in Vietnam, MWAP has affiliates in Thailand and Indonesia through Eastern Water Resources Development and Management Public Company Limited (“East Water”), and PT Sarana Tirta Ungaran (“STU”), respectively.

In addition, the Group has Manila Water Total Solutions Corporation (“MWTS”), a wholly-owned subsidiary that handles after-the-meter products and services. Its current offerings include pipelaying, integrated used water services, and the sale of Healthy Family Purified Water as five-gallon and 500-ml purified water in selected areas in Metro Manila.

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

Please refer to Schedule J (Supplementary Schedules) on the relationships of the entities within the Group.

The Concession

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Regulatory Office of MWSS

The Concession Agreement also provided for the establishment of the MWSS Regulatory Office (MWSS –RO) under the jurisdiction of the MWSS Board of Trustees (MWSS-BOT), to monitor the operations of the Concessionaires. The MWSS-Regulatory Office is composed of five members with five-year term, and no member of the MWSS-Regulatory Office may have any present or prior affiliation with MWSS, the Company, or Maynilad. The MWSS-Regulatory Office is funded by MWSS through the concession fee payments of the concessionaires. The Concession Agreement provides that major disputes between the Company and the MWSS-Regulatory Office be referred to an appeals panel consisting of two (2) members appointed by each of the MWSS-Regulatory Office and the Company and a third member appointed by the Chairman of the International Chamber of Commerce. Under the Concession Agreement, both parties waive their right to contest decisions of the appeals panel through the courts.

Key Performance Indicators and Business Efficiency Measures

The Concession Agreement initially set service targets relating to the delivery of services by the Company. As part of the Rate Rebasing exercise that ended on December 31, 2002, the Company and MWSS mutually agreed to amend these targets based on the Company's business and capital investment plan accepted by the MWSS-Regulatory Office. In addition, the Company and MWSS adopted a new performance-based framework. This performance-based framework, designed to mimic the characteristics of a competitive market and help the MWSS-Regulatory Office determine prudent and efficient expenditures, utilizes Key Performance Indicators (KPI) and Business Efficiency Measures (BEM) to monitor the implementation of the Company's business plan and will be the basis for certain rewards and penalties on the 2008 Rate Rebasing exercise.

Fourteen KPIs, representing critical performance levels for the range of activities the Company is responsible for, relate to water service, sewerage and sanitation service and customer service. The BEMs are intended to enable the MWSS-Regulatory Office to evaluate the efficiency of the management and operation of the concessions and gauge progress toward the efficient fulfillment of the concessionaires' business plans. There are seven (7) BEMs relating to income, operating expenses, capital expenditures and NRW. The BEMs are evaluated for trends and annual forecasts.

Amendments to the Concession Agreement

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

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

Organization

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

A. The Manila Water Operations

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

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

- The **East Zone Business Area Operations** consists of the six (6) Business Areas (BAs), which were previously eight (8) until January 2017. Balara and Cubao merged into now the Quezon City Business Area, and Mandaluyong and Makati into now the Mandaluyong-Makati Business Area. The rest of the BAs—Marikina, Pasig, Rizal and Taguig—remained as separate operating units. The area of operations of this Division covers the major business districts in Quezon City, Makati, Ortigas and Taguig, as well as the entire province of Rizal. The BAs are directly responsible for the processing of application for new water service connections, management of meter reading, billing and collection activities, and facilitation of complaints resolution and other after sales services, which form part of the end-to-end process of account management. They are also tasked to find specific business opportunities from different market segments. Their key mandates, as such, include the management of customer demand, differentiating touchpoints per customer type aligned with the specific needs of the customers and key accounts, geared towards achieving company targets on billed volume, revenue and customer centricity.

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

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

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

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

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

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

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

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

- **Technical Services** is composed of four (4) departments: the Laboratory Services, Systems Analytics, Energy and Innovations Departments.
- Under **Operations Services** are four (4) departments: Operations Management, Sustainability, Maintenance Services and Fleet Management Departments.

b. The **Corporate Human Resources Group** (CHRG) is organized into seven (7) core functions: Talent Management and Leadership Development, Manpower Planning and Organization Development, Total Rewards Management, HR Operations Management, Employee Engagement, HR Project and Change Management, and HR Business Partnering.

c. The **Corporate Information Technology Group** (CITG) is responsible for providing innovative technology solutions that support the Company's initiatives towards greater efficiency and growth. It is composed of five (5) Departments: IT Governance, Information Security, Infrastructure Planning and Delivery, Solutions Planning and Delivery, and Service Management.

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

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

   To deliver these services, SAMG is organized into six (6) departments namely, (1) Value Assurance, (2) Portfolio Management, (3) Strategic Asset Planning, (4) Asset Management (5) Asset Investment and Management Support and (6) Water Sources and Environmental Planning.

f. The **Corporate Regulatory Affairs Group** (CRAG) is mandated to (1) lead the planning and development of the East Zone rate rebasing submission and Rate Rebasing Readiness Program, (2) engage different groups within the MWO in the aligned execution of the MWSS-approved East Zone business plan, (3) advocate with MWSS and other key government/private/non-government organizations to advance the Company's policy interests, (4) provide political-regulatory management support services to the entire organization, and (5) conceptualize, develop and implement major Company political-regulatory initiatives. The said mandates are carried out through four (4) departments, namely: the Business Operations Regulation (BOR) Department, the

Financial Regulation (FR) Department, the Technical Regulation (TR) Department and the Public Policy Department. The Group, particularly through the Group Head and members of the BOR, FR and TR Departments, interface with the MWSS on matters relating to the Concession Agreement. It includes submitting reports and disclosures relating to compliance, handling negotiations with the MWSS relating to the Company's service targets, and distilling information from the Company's other groups to produce and periodically update financial projections (the bases for petitions submitted to the MWSS for quarterly, annual, and five-year tariff adjustments. The Public Policy Department handles matters related to public policy (e.g. preparation of policy position papers and attendance in various policy fora/dialogues, hearings) and relations with key government and non-government offices.

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

B. The New Business Operations and New Business Development Group

The New Business Operations and New Business Development Group is focused on existing products and services leveraging on expanding the core business to new geographies in the country and in Vietnam, Indonesia and Myanmar markets. These products and services are intended to be implemented through its wholly-owned subsidiaries, MWPV and MWAP, to ensure sustained growth beyond the East Zone. The strategic mandate of these groups is to expand the business throughout the Philippines and in the ASEAN region. The geographical expansion is anchored on the core competencies of the Company which have already been proven through its subsidiaries, Laguna AAAWater Corporation, Clark Water Corporation, Boracay Island Water Company, Inc., and Cebu Manila Water Development, Inc., all under the MWPV. In addition, MWPV also has its own operations through its operating division, Estate Water (EW), which has been created to implement projects with strategic partners.

The Manila Water Group has likewise gained traction in Ho Chi Minh City, Vietnam, through the MWAP Singapore subsidiaries (Manila Water South Asia Holdings Pte. Ltd., Kenh Dong Water Holdings Pte. Ltd., Thu Duc Water Holdings Pte. Ltd., and North-West of Saigon Holdings Pte. Ltd.) and affiliates/associates in Vietnam (Kenh Dong Water Supply Joint Stock Company, Thu Duc Water B.O.O. Corporation, Saigon Water Infrastructure Corporation, Asia Water Network Solutions Joint Stock Company, and Cu Chi Water Supply Sewerage Company Limited).

Both MWPV and MWAP have their own new Business Development units who are responsible for identifying and pursuing new business opportunities in the Philippines and in the ASEAN region. Zamboanga Water Company, Inc. and Tagum Water Company, Inc., are the recent joint ventures of the Company with local water districts for implementation of non-revenue water reduction program and bulk water supply project, respectively.

Finally, MWTS, a wholly-owned subsidiary of Manila Water, handles the after-the-meter products and services, and is in the business of producing and marketing the five-gallon packaged water in Metro Manila, under the Healthy Family Purified Drinking Water brand.

C. The Corporate Finance and Governance Group

The **Corporate Finance and Governance Group** (CFGG) is headed by the Chief Finance Officer and Treasurer. The Group is composed of five (5) divisions – Controllership, Accounting and Planning Division, Treasury and Enterprise Risk and Insurance Management Division, Supply Chain Division, Legal and Corporate Governance Division, Finance and Governance for Subsidiaries – and two (2) departments, Corporate Planning, and Internal Audit.

- The Controllership, Accounting and Planning Division is composed of the Controllership and Analysis Department, Financial Accounting Department, the Fixed Assets, Project and Regulatory Accounting Department, and the Financial Planning Department. The division provides controllership and management reporting, financial and regulatory accounting, investor relations and financial planning services.

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

- The Supply Chain Division is composed of three (3) departments: Procurement and Contracts Management, Materials Planning and Inventory Management, and Supply Chain Services. It provides supply planning, inventory, procurement and vendor management services across the Enterprise.

- The Legal and Corporate Governance Division is composed of the Legal and Corporate Governance Department and the Tax Management Department. The division provides legal services, tax advisory, land acquisition and right-of-of way services, and corporate governance guidance to the Company and its subsidiaries.

- The Finance and Governance for Subsidiaries Division leads the finance and accounting operations of MWPV and its subsidiaries, MWAP and its subsidiaries, and Manila Water Total Solutions. The division ensures the preparation of accurate and timely financial reports, as well as the implementation of effective financial systems and controls in all non-East Zone entities. The division also leads all financial aspect of the new business development initiatives including, but not limited to, financial modelling, valuation computations, financial due diligence and capital structuring. It is also responsible for building the capability of the new businesses to be able to manage and perform all finance-related operations such as, but not limited to, accounting, treasury, procurement, policy development, risk management and tax management.

The other departments which report directly to the Chief Finance Officer and Treasurer are as follows:

- The Corporate Planning Department is responsible for providing timely, objective and sound insight/advice to senior management on strategic decisions and related matters. Corporate Planning supports top management in charting the strategic roadmap of the Enterprise, and in aligning the execution of its various initiatives. This support is extended to the rest of the organization through the development and provision of market and industry information; coupled with the prioritization and alignment of action plans through the Enterprise Performance Management System. Equally important, Corporate Planning provides support to the actual execution of Enterprise strategies through the Enterprise Program Management Office (EPMO) – which oversees the execution, and manages the inter-dependencies of Enterprise projects. Finally, through the Investor Relations team, Corporate Planning manages the effective communication of the Enterprise state and strategy, both to investors and the market at large.

- The Internal Audit Department provides independent and objective assurance and consulting services and evaluates the effectiveness of the Enterprise's risk management, control and governance processes. The department reports functionally to the Audit Committee (AC) and administratively to the Chief Finance Officer and Treasurer. It supports the AC in the effective discharge of its oversight role and responsibility, and provides the management and the Board of Directors, through the AC, with analyses, recommendations, advice and information concerning the activities and processes reviewed. In 2017, the external auditing firm Punongbayan & Araullo conducted an independent validation of the internal audit function's Quality Assessment Review (QAR) and concurred that the internal audit activity "Generally Conforms" to the Standards.

Water Operations

The whole water supply chain generally involves the abstraction of water from water sources, treated subsequently through the water treatment facilities, and conveyed and distributed to customers through the Company's network of pipelines, reservoirs, and pump stations. In 2017, the concession supplied an average of 1,533 million liters per day (MLD) of clean and potable water to its customers and billed a corresponding volume of 488.39 million cubic meters (MCM). This is equivalent to a total of 1.031 million water service connections or approximately 6.7 million served population.

Water Source

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

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

To date, only a very small amount of the Company's water supply is still ground-sourced through deep wells, which are primarily for the benefit of customers in the remotest towns of the Province of Rizal wherein conveyance from the existing treatment plants would be impractical.

Water Treatment

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

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

The East La Mesa Treatment Plant, on the other hand, is located in Payatas, Quezon City. Relatively new to the system, the facility began its operation in June 2012. It has a capacity of treating 150 MLD of water. It supplies water to far-flung expansion areas in the Rizal province, improving the supply balance of the entire network.

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

Water Distribution

After treatment, water is conveyed through the Company's network of pipelines, pumping stations and reservoirs, and mini-boosters to bring potable water to its customers conveniently at set pressure standards. To date, 99 percent of currently served areas have a water supply pressure of 7 psi and above - made possible by the continuous implementation of technical solutions such as supply and pressure management.

As of December 31, 2017, the Company's network consisted of approximately more than 5,100 km of total pipeline, comprising of primary, secondary and tertiary mains ranging in diameter from 50 to 2,200 mm. The pipes are made of steel, cast iron, high-density polyethylene (hdpe), polyvinyl chloride (pvc) and other materials. From the start of the concession in 1997 until the end of 2017, the Company has laid almost 4,800 km of pipeline for service expansion or pipe replacement or rehabilitation.

Pumping stations also play a critical part in water distribution. Approximately 67% of the treated water supplied by the Company is pumped to ensure pressure compliance especially for the highly elevated areas. Currently, the Company operates nineteen (19) pumping stations with a combined maximum pumping capacity of 3,000 MLD and an average plant output of around 1270 MLD. Most of the major pumping stations have reservoirs with a combined capacity of almost 500 MLD.

The Company operates nine (9) line boosters to reach the fringe areas, which are quite distant from the treatment plants. Line boosters typically are small facilities aimed at augmenting water supply for areas that are not sufficiently supplied during the regular pumping operations of the pump stations.

Non-Revenue Water (NRW)

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

Over the years, the Company has delivered remarkable strides in managing its NRW. The concession started with a high system loss of 63% in 1997. In 2010, its NRW level is reduced to and maintained at just 11%. Yearend figure for 2017 was recorded at 11.59%. Continuous improvements of water supply management coupled with massive pipe replacement projects were done to maintain and improve the reduction of Company's system losses.

Water Quality

Raw water quality from Angat, Bicti, Ipo and La Mesa is regularly tested by the laboratory on a quarterly basis to assess any changes to raw water quality over time. This source monitoring provides early warning of potential raw water quality problems in terms of Microbiological and Physico-chemical (Inorganic and Organic constituents). The results are all satisfactory and through time still falls under the classification of Class A of DAO 34. Aside from source monitoring, routine monitoring of raw water at the treatment plant inlet is conducted on a weekly basis for operational control to effectively and efficiently manage treatment process operation. These routine monitoring include Microbiological and selected Physico-chemical parameters for over 7000 tests annually.
Since 1998, the Company's water quality has consistently surpassed the Philippine National Standards for Drinking Water (PNSDW) set by the Department of Health (DOH) and based on World Health Organization (WHO) water quality guidelines. To ensure that water supplied at the tap is safe to drink, stringent water quality monitoring is also continuously implemented at the treatment plants and throughout the distribution system. From the results of analysis conducted, water quality has always been maintained at 100% compliance based on the Microbiological, Physical and Chemical standards at the customers taps. In 2017, the Company conducted over 100,000 tests for Microbiological and Physico-chemical quality at the treatment plant outlet, facilities and reservoirs annually.

Continuous monitoring of water quality indicators throughout the network is also conducted at the customers taps by which more than 50,000 tests annually are tested from samples collected at the 886 pre-identified sampling points located at various influence area. Regulatory sampling points are designated at strategic locations across the distribution system - where sampling is conducted daily by the Company. The MWSS-Regulatory Office, Local Government Units (LGUs) and DOH likewise collect random samples from these designated sampling points and have them tested by third party laboratories and designated government laboratories. The Company's water samples scored an average water quality compliance of 100%, surpassing the threshold of 95% set in the PNSDW. In 1997, when the concession began, only 87% of water samples complied with these quality standards. The Company's rating is based on a series of tests conducted regularly at these points within the East Zone.

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

Sewerage Operations

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

Sewerage and Sanitation System

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

The Company had few facilities for sewerage services in 1997. The Sewage Treatment Plant (STP) in Magallanes Village was then the largest treatment facility in the country with a 40 MLD capacity. The STP in Magallanes provides sewerage services to the Makati central business district and some residential villages. Prior to privatization, this facility had poor treatment efficiency and did not meet effluent quality standards. The Karangalan Bio-module in Karangalan Village was serving approximately 100 households but also produced substandard effluent quality before 1997. In addition to these facilities, an Imhoff tank in Phil-Am Village and thirty-one communal septic tanks (CSTs) in Quezon City were also turned-over by the MWSS to Manila Water in 1997. These facilities were then serving approximately 19,000 households only. Manila Water upgraded these facilities to meet the effluent standards set by the DENR.

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

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

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

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

In 2015, two (2) new used water facilities became operational, and these are the Marikina North STP and Liwasan ng Kagitingan at Kalikasan STP which have a combined capacity of 175 MLD and by far, the biggest STPs of the Company. Another remarkable feature of the two (2) STPs is that both have the same treatment technology known as the Sequencing Batch Reactor (SBR) whereas the thirty-eight (38) facilities that were constructed under MSSP, MTSP and the take-over projects all employ the Conventional Activated Sludge treatment. As of end of 2016, the Company operates forty (40) used water facilities including the Marikina North and Liwasan ng Kagitingan at Kalikasan STPs, with a total capacity of 310MLD, compared to 40MLD in 1997.

Customers who are not connected to the sewer network are provided with septic tank maintenance services through the "Sanitasyon Para Sa Barangay" (SPSB) program. Through cooperation with the barangays, the program aims to desludge all septic tanks in a barangay without charge over a specified, set schedule.

For 2017, the Company has provided the service to 176,010 households which is equivalent to 104,170 septic tanks emptied. For the years covering 2007-2017, the total households provided with the desludging service were 2,419,333 equivalent to 701,639 septic tanks desludged. Furthermore, the average availment rate of the program has significantly increased through a more intensive Information, Education and Communication (IEC) program per barangay to educate customers of the East Zone about the importance of a properly maintained septic tanks.

The technical assistance component focus on information and education campaigns on proper liquid waste disposal and environment preservation and the preparation of follow-up programs on sewerage and sanitation, with emphasis on low-cost sanitation systems.

New Business and Investments

It is also the Manila Water Group's objective to further bring its expertise in water and used water services outside of the East Zone by establishing partnerships with private companies, local water districts and local government units in top metros of the country and in selected cities in the Asian region. Manila Water will offer value-added services in water and used water services anchored on public – private partnership (PPP) and business-to-business (B2B) models in emerging markets.

Various water business models, such as NRW reduction, bulk arrangements, Estate Water model, and operations and maintenance are also being explored and implemented. Furthermore, merger and acquisition (M&A) strategy will be extensively and aggressively used to support growth. Towards this end, the Manila Water Group has signed joint venture agreements and/or investment agreements with local and international partners in the last few years.

Local New Business and Investments

Laguna AAAWater Corporation ("Laguna Water") is a Joint Venture (JV) between MWPV (formerly "AAA Water Corporation"), a wholly-owned subsidiary of Manila Water, and the Provincial Government of Laguna (PGL), with shareholdings of 70% and 30%, respectively. The JV is for the purpose of undertaking the development, design, construction, operation, maintenance and financing of the water facilities that will service the needs of the cities of Sta. Rosa and Biňan, and the municipality of Cabuyao in Laguna. To this end, Laguna Water entered into a Concession Agreement with the PGL on April 9, 2002 for an operational period of 25 years. By virtue of an amendment signed on June 30, 2015, the concession area was expanded to cover all the cities and municipalities of Laguna, and the scope was amended to include the provision of used water services and the establishment of an integrated sewage and septage system in the province. In December 2013, Laguna Water signed an Asset Purchase Agreement with the Laguna Technopark, Inc. (LTI) for the acquisition of the water reticulation system of LTI in Laguna Technopark, a premier industrial park located in Sta. Rosa and Binan, Laguna which is home to some of the region's largest and more successful light to medium non-polluting industries.

Boracay Island Water Company, Inc. ("Boracay Water") is a JV between Manila Water and the Philippine Tourism Authority (PTA) with shareholdings of 80% and 20%, respectively. In April 2009, Boracay Water entered into a 25-year concession agreement with the PTA (now Tourism Infrastructure and Enterprise Zone Authority or TIEZA) covering the provision of water and used water services in the Island of Boracay.

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

In the first quarter of 2012, the Company, through Manila Water Consortium, Inc. (formerly "Northern Waterworks and Rivers of Cebu, Inc.") ("MW Consortium"), a consortium of Manila Water (51%), Metropac Water Investments Corporation (39%) and Vicsal Development Corporation (10%), signed a Joint Investment Agreement (JIA) with the Provincial Government of Cebu (PGC) for the development and operation of a bulk water supply system in the province. The JIA resulted in the incorporation of Cebu Manila Water Development, Inc. (CMWD), a corporation owned by the consortium and the PGC in the proportion of 51% and 49% respectively. In December 2013, CMWD signed a 20-year Bulk Water Supply Contract with the Metropolitan Cebu Water District for the supply of 18 million liters per day of bulk water for the first year and 35 million liters per day of bulk water for years two up to twenty.

In March 2015, all the shareholdings of Manila Water in Boracay Water, Clark Water and Manila Water Consortium have been transferred by Manila Water to Manila Water Philippine Ventures, Inc. (MWPV), which is intended by the Company to be its vehicle to undertake further business expansions in the country.

On December 19, 2014, the Company received a notice from the Zamboanga City Water District (ZCWD) awarding the project for non-revenue water reduction activities in Zamboanga City. A 10-year JV agreement between the Parent Company and the ZCWD, with shareholdings of 70% and 30%, respectively, was signed on January 30, 2015 and the JV's operations commenced on June 2, 2015 upon signing of the Non-Revenue Water Service Agreement.

In October 2015, Davao Del Norte Water Infrastructure Company, Inc. ("Davao Water"), the consortium formed between the Company and iWater, Inc., signed a JV agreement with the Tagum City Water District (TWD) for the operation of a 15-year take-or-pay bulk water supply arrangement for up to 38 MLD. Manila Water has 46% shares in this JV while iWater and TWD have 44% and 10% shares, respectively. Thereafter, on February 26, 2016, the JV Company and TWD signed the Bulk Water Sales and Purchase Agreement for the supply of Bulk Water to TWD for a period of fifteen (15) years from the Operations Start Date.

On the other hand, Bulacan MWPV Development Corporation ("Bulacan Water") entered into an asset purchase agreement with three (3) real estate companies in Bulacan Province for the acquisition of the water and used water systems of its property developments. Bulacan Water is a new subsidiary of MWPV which was registered with SEC last April 11, 2017 and is currently operating in Malolos City, Pulilan, Plaridel, San Ildefonso, Sta. Maria in Bulacan Province. It has started its commercial operations in May 2017.

Another new subsidiary of MWPV is the Obando Water Company, Inc. ("Obando Water") which was just registered with SEC in October 2017 and is operating in Municipality of Obando, Bulacan. The JV agreement was signed in August 2017 and Concession Agreement with Obando Water District was signed last October 12, 2017.

Calasiao Water Company, Inc. ("Calasiao Water") is a JV company between Manila Water Company, Inc. and Calasiao Water District (CWD), with shareholdings of 90% and 10%, respectively. The JV agreement with CWD, which was executed last June 19, 2017, is about a 25-year project that will improve, rehabilitate, and expand the water district's existing water system in the Municipality of Calasiao, Pangasinan. The primary purpose of this JV company is to engage in the development, financing, design, engineering, construction, upgrade, testing, commissioning, operation, management, and maintenance of the water facilities within the service area of CWD with a total population of about 95,000 and compose of twenty-four (24) barangays. Calasiao Water delivered its first water on December 28, 2017.

In January 2016, MWPV, Ayala Land, Inc. and the latter's subsidiaries ("ALI Group") executed a memorandum of agreement (MOA) wherein MWPV will provide the water and used water services and facilitates to all the property development projects of the ALI Group nationwide. This MOA is being implemented through Estate Water, a division of MWPV.

Moreover, on December 8, 2016, MWPV entered into a MOA with SM Prime Holdings, Inc., SM Development Corporation, and SM Residences Corporation. Pursuant to the MOA, MWPV, will provide water and / or used water services and facilities to the property developments of the SM Group identified in each MOA. As of December 31, 2016, five (5) projects will be developed under this arrangement.

In December 18, 2017, MWPV also signed a 25-year Lease Concession Agreement with the Philippine Economic Zone Authority (PEZA) to provide water and used water services to Cavite Special Economic Zone. Under the agreement, MWPV, will lease, operate, and manage the water and used water facilities of the 275 hectare industrial estate that accommodates almost 300 locators, consuming approximately 12 million liters of water per day.

International New Business and Investments

International new business and investments of the Manila Water Company are generally undertaken through its wholly-owned Singapore subsidiary, Manila Water Asia Pacific Pte. Ltd (MWAP), through the direct investments of the latter's subsidiaries, namely, Manila Water South Asia Holdings Pte. Ltd. (MWSAH), Thu Duc Water Holdings Pte. Ltd. (TDWH), and Kenh Dong Water Holdings Pte. Ltd. (KDWH). In November 2015 and June 2017, new Singapore subsidiaries, North-West of Saigon Holdings Pte. Ltd. (NWSH) and Manila Water Indonesia Holdings Pte. (MWIH) Ltd., respectively, were incorporated whose objective is to implement future expansions in the region. NWSH was renamed to Manila South East Asia Water Holdings Pte. Ltd. (MSEAW) in April 2017 while MWIH was renamed to Manila Water Thailand Holdings Pte. Ltd. (MWTH).

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

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

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

In 2015, MWSAH also entered into a Capital Transfer Agreement with Saigon Water Infrastructure Corporation and Vietnam-Oman Investment Company to develop and operate the water network in Cu Chi, a district in Ho Chi Minh City. The project will be undertaken with Cu Chi Water Supply Sewerage Company Limited ("Cu Chi Water"), a Vietnam limited company. Through this agreement, MWSAH holds 24.5% share in the charter capital of Cu Chi Water.

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

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

Environmental Compliance

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

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

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

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

Sustainable Development Projects

Sustainability for Manila Water is the full alignment of its business goals with its socio-environmental objectives. A renewed focus on sustainability issues that are materially affecting the organization from a more strategic perspective characterized the year 2017 in terms of embedding and advancing sustainability in Manila Water.

The Sustainable Development Department of Manila Water was transferred to the Operations Group, incorporating it into the Environment Department and Operations Management that has been re-named the Operations Management and Sustainability Department (OMSD). There is now an expanded mandate to reinforce the embedded sustainability principles (Society, Economy and Environment) into the Company's day to day operations and continue developing Sustainability Champions in all of Manila Water's internal and external stakeholders through a programmatic approach of raising employee awareness, communicating its sustainability initiatives to various audiences, encouraging active involvement from all stakeholders and embedding sustainability in Manila Water's planning, core and support processes.

Headed by OMSD and Strategic Asset Planning Department, the Climate Change Committee (CCC) was able to identify gaps and areas for improvement to streamline and optimize Manila Water's efforts to address the impacts of climate change, whether through mitigation initiatives or adaptation efforts. Aside from safeguarding Manila Water's critical infrastructures, the CCC will oversee the implementation of the Company's commitments in promulgating its Climate Change Policy. The Climate Change Policy of Manila Water was just recently revised to be able to cater to the fast-changing needs of the company. The policy focused on, resiliency and adaptation, disaster risk reduction and management, rehabilitation and enhancement of water source and watersheds, climate change mitigation programs, awareness programs, and partnerships.

In addition to the aforementioned management initiatives, Manila Water continued to focus on five (5) sustainability pillars:

a. Developing Employees

Manila Water seeks to embed sustainability in the daily activities of its employees through employee engagement and knowledge transfer programs on top of the training and competency development initiatives of the Company. The objective is to develop more Sustainability Champions to enhance organizational capabilities in managing its resources, adapting to a changing environment and addressing social and environmental risks and impacts.

After a year of introduction, the Manila Water University (MWU) which responses to the needs of a continuously growing organization, was able to launch and complete a competency assessment portfolio. The MWU affords talents with the opportunity to take charge of their individual career development, communicate career aspirations, seek support through coaching, feedback and meaningful job assignments, and eventually drive career growth within the Company. It is also the Company's institutionalized approach to learning, development and competency building that would strengthen and develop competencies that are important to its business. The MWU has online resources on various topics ranging from Asset Management, Finance, Regulatory and Public Policy, among others. There are also trainings and seminars on leadership and functional competencies where employees can register online. MWU focuses on both Center for Leadership Excellence and Center for Technical Excellence. A Technical Cadetship Program was developed under the Center for Technical Excellence, a revival of the proven Cadetship Program but with a more focused and specialized developmental learning.

Aside from training and development, Manila Water complements core and functional competencies with various employee engagement initiatives that seek to instill and cultivate the value of sustainability in the daily activities of its employees. With the Human Resources Group at the forefront of the Company's human development programs through its training and employee engagement initiatives, a number of activities facilitated by various departments (Safety Solutions, Sustainability, Innovations, Energy) have all contributed to the employee development efforts of the Company. Several trainings and seminars on environmental and energy-related topics such as Cleaner Production Assessment, Energy Audit, Hazardous Waste Management, Eco-driving, PCO Basic Training, Continuing education for PCOs, and Climate Change were conducted. Likewise, there were a number of workshops that were also conducted on Safety such as Chemical Safety, Electrical Safety, Fire Safety, Defensive Driving, Confined Space and First Aid. To spur creativity and innovation, Brown Bag meetings were facilitated and conducted as well.

Manila Water recognizes the need for work-life balance of its employees. Employee engagement activities focusing on employee volunteerism, themed programs and sports. *Bawat Patak Tumatatak (BPT)*, Manila Water's employee volunteerism program focuses on education, environment, and emergency disaster response.

b. Helping Build Communities

Manila Water believes that in the course of helping build communities, it is not enough to simply provide access to water and used water services for all. The resiliency of the services being provided is also of primary importance, considering that the Philippines is prone to natural and manmade disasters.

The Company has adopted strategies in order to minimize the adverse impacts of natural and manmade threats on the continuity of the Company's operations. The Climate Change Policy of the Company has been revised to focus on aligning with the country's strategy of prioritizing climate resilience work rather than carbon emissions reduction. The key manifestations of the climate change adaptation commitments of the Company include the mainstreaming of vulnerability assessment in the planning for new water and used water assets, retrofitting assets to be disaster-resilient, having a business continuity plan for its operations, taking a pro-active stance in the management and development of water sources and engaging key stakeholders in addressing risks beyond the control of the Company.

Manila Water's flagship program Tubig Para sa Barangay (TPSB) or Water for Low-Income Communities, continued to benefit the urban poor through the round-the-clock provision of potable water with immeasurable impacts on community life. The program has allowed residents from marginalized communities to avail of the Company's services at considerably lower connection fees and less stringent requirements. As of December 2018, more than 1.8 million people from urban poor communities have been served by the program with 211,681 water service connections. With the total number of water service connections in the East Zone reaching 1,056,701 at the end of 2018, roughly 23% of Manila Water's customers is under the TPSB program.

Complementing the TPSB program which also led to considerable improvements in the quality of community life is Manila Water's Lingap program, which seeks to improve water supply and sanitation facilities in public service institutions such as schools, hospitals, city jails, markets and orphanages, further empowering these institutions to more effectively carry out their respective roles in society. Through Lingap programs, Manila Water has rehabilitated the water reticulation system and installed wash facilities and drinking fountains of public service institutions. As of December 2018, an estimated 1.5 million were people served through the program.

Aside from the aforementioned social initiatives, the Company has strengthened its focus on enhancing operational reliability by strengthening its ability to respond to disasters and other emergency situations. Moreover, Manila Water exhibited its genuine concern for communities by readily providing relief operations in response to major disasters in the country. The Corporate Business Resiliency Department ("CBRD") has been very active in disaster response actions by leading Manila Water's Mobile Treatment Plant ("MTP") teams to disaster-stricken areas such as in Tacloban, Bohol, Cebu. The CBRD is also responsible for conducting company-wide earthquake drills. The objective of the drill is to be able to simulate Manila Water's incident management system, evaluate earthquake response protocols as well as business continuity plans, and familiarize employees with their individual roles and responsibilities. In this drill, the East Zone service area was divided into four "quadrants" based on Metro Manila Earthquake Impact Reduction Study, which assumes key lifelines of the metro to be unavailable in the event of a major earthquake.

As one of the pioneering members of the Philippine Disaster Recovery Foundation (PDRF), Manila Water's active involvement in PDRF has further leveraged its impact as a provider of lifeline services in times of disaster and the subsequent yet more daunting tasks of rebuilding communities. Last year, Manila Water started talks / dialogues with other lifeline companies in Metro Manila (from the power, telecommunications, transportation among other industries) to discuss interoperability during disasters.

c. Protecting the Environment

To enable the Company to fulfill its service obligations more effectively and to sustain operational efficiency, Manila Water's environmental protection advocacies and programs are geared towards ensuring water security, managing its environmental compliance risks, strengthening its used water program and enhancing operational efficiency.

Watershed management continued to be one of the imperatives for Manila Water, especially now that the El Nino phenomenon would from time to time threaten to put Metro Manila's water supply in an imminent water crisis. Since 2006, the company helps in the protection, rehabilitation and enhancement of critical watersheds. Manila Water provides funding support for the protection of 6,600 hectares Ipo Watershed and rehabilitation of the 2,659 hectares La Mesa Watershed Reservation. Under the joint administration and supervision of MWSS and DENR, Ipo Watershed is patrolled by around 170 Bantay Gubat of mostly Dumagats, the indigenous people living in the watershed.

The La Mesa Watershed Reservation Multi-sectoral Management Council and its Technical Working Group composed of MWSS, DENR, Quezon City LGU, Manila Water, Maynilad and ABS-CBN Lingkod Kapamilya Foundation's Bantay Kalikasan oversee the management of the La Mesa Watershed Reservation. In accordance with the Approved 25- Year La Mesa Integrated Watershed Management Plan, Manila Water continued the enrichment of open canopy forests in La Mesa by planting an additional 40,000 broad leaf forest tree seedlings in 100 hectares and continuous maintenance of 341 hectares of enriched areas planted in 2016 and 2017. The joint validation conducted by DENR and

MWSS showed that there was a 91% survival rate in the 100 hectares newly enriched area. Manila Water annually supports the One Million Tree Challenge of MWSS which started in 2017.

On the environmental compliance side, Manila Water has dramatically enhanced its proactive approach in addressing environmental compliance risks through the Facility Self-Assessment Report (FSAR) and risk-weighted compliance audit and monitoring system, further enabling process owners and front liners to actively own compliance at their level.

In terms of its used water treatment operations, the Company was able to treat 44.70 mcm of used water for the whole year of 2018 and in the process removed approximately 5,754 tons of Biological Oxygen Demand (BOD), further alleviating the pollution load in Metro Manila's waterways. As of December 2018, there were 140,455 sewer connections in the East Zone and 112,836 septic tanks were desludged.

The Company continues to implement the Lakbayan Program or the Water Trail Tour to raise awareness on the importance of water, used water and the environment. This program involves an educational tour of the Water Trail to show the participants the process that the raw water undergoes from the source to treatment and prior to distribution to customers, and how the consumers' used water is collected and treated. Participants are given a tour of the water and wastewater treatment facilities of the Company. The Program aims to promote stakeholder awareness on the need to conserve water and to care for water sources. In 2018, Lakbayan Program tours have been participated in by 22,238 participants from Non-Governmental Agencies (NGA), Local Government Units (LGU), academe, media, corporates, Non-Governmental Organizations, and similar entities.

Moreover, Manila Water demonstrates proper used water management through Toka Toka advocacy, aimed at reviving Metro Manila's heavily-polluted rivers and tributaries. This particular campaign encourages consumers and partner organizations to practice proper waste disposal, ensure proper sewer line connections, have their septic tanks desludged every five (5) years and support the Company's other community-based projects. Since 2012, thirty-three (34) Toka Toka partners from LGUs, NGAs and private institutions have pledged their own commitments for the environment.

Manila Water has been harnessing renewable energy with its solar panels in FTI Septage Treatment Facility, Magallanes Sewage Treatment Facility and Delos Santos Pumping Station. The three solar facilities have combined 177,222 kWh power generated in 2018. A 1.2 MW mini-hydro power plant incorporated in NBAQ4 aqueduct that will provide 50% of the electricity needs of Balara Treatment Facilities will be operational by 2021. Manila Water has a pilot waste-to-energy project with sludge as feed to generate electricity at the FTI Septage Treatment Plant.

d. Safeguarding Health and Safety

Manila Water recognizes its responsibility to safeguard health and safety not only of its employees and contractors but also to the general public. It continues to put a high premium on ensuring water quality and ensuring the health and safety of its supply chain.

To provide all personnel with a safe and healthy work environment, Manila Water established Safety Management System Standards that is aligned with an internationally-recognized safety management system, BSI OSHAS 18001 – Health and Safety. This safety management system requires a commitment to safety of the public and its visitors, but the Company also recognizes the risks and mitigation controls unique to its operations. This incorporates quality, environment, occupational safety and health into a single framework so called Operational Management Systems.

To guide employees in achieving a safe work environment for the Company' personnel and vendors, Manila Water defines a rigorous set of operational controls to manage the known hazards and risks of its operations. Full implementation of these controls will ensure that the Company is providing workplaces that meet the requirement to Safety standards. Manila Water extends these safety programs to its vendors through the conduct of monthly Safety Officer's Network Meeting and Contractor's Safety Forum for sharing of best practices amongst contractors.

In addition, Manila Water has established an internal audit process to help ensure that it is effectively implementing its operational controls and management routines. The Company has also engaged recognized external audit firms to assess the compliance status of its operations with applicable laws and regulations and occupational safety and health requirements.

The quality of water that Manila Water supplies has always been 100% compliant with the Philippine National Standards for Drinking Water, and there has been no major water contamination since the

Company began its operations in 1997. To maintain this record, the Company collects water samples from raw, untreated water to treatment plants and directly from the faucets of at least 843 customers each month. Water quality is stringently monitored and water samples are tested in a world-class laboratory that is recognized by the Philippine Department of Environment and National Resources, certified with and against ISO 9001 (quality management), ISO 14001:2008 (environmental management), OHSAS 18000 (Occupational Health and Safety), and accredited by the Philippine Department of Health (DOH) and ISO/IEC 17025:2005 (competence for testing and calibration laboratories). A Water Safety Plan was completed in 2009 and is continuously being reviewed as may be necessary. The plan is a multi-barrier approach to ensure that contamination is minimized and/or eliminated at each stage. It involves the application of an extensive risk assessment and risk management approach that encompasses all steps in water supply system from the sources, production, storage and conveyance to consumers to ensure safety of drinking water supply.

e. Contributing to Local and National Economies

To promote inclusive growth, Manila Water's policy on purchases from small- and medium-scale enterprises (SMEs) or cooperatives states that they are guaranteed at least 20% of total contract awards. To date, of the 240 contractors in the Company's Supply Chain, about 40% or around 95 of them are small enterprises (60% or about 145 are big). Some of these contractors were in fact part of the 153 cooperatives under the Kabuhayan Para sa Barangay program of Manila Water Foundation.

The Suki Vendor program has promoted inclusive growth and contributed significantly to local economies. The program aims to develop long term partnerships with the company's regular pipe laying contractors by nurturing these contractors and providing them technical assistance until such time that they have built their own capabilities and have grown into bigger companies as well.

Manila Water infused a total of Php8.7 billion of CAPEX investments to the economy through the expansion of its water and used water services in 2016.

Employees

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

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

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

On the leadership front, several initiatives were undertaken to ensure a strategic, well-rounded approach to leadership development:

- Succession Management: Manila Water has expanded its talent pool to strengthen the senior management leadership pool of Manila Water. Talents receive deliberate development interventions – individual development planning, stretched assignments, executive coaching, and mentorship to accelerate their development. Talent reviews have also been conducted with the line managers to identify and develop talents to assume current and emerging roles. Another key initiative was the integration of Manila Water's talent and succession management process with the New Business Operations (i.e. Laguna Water, Clark Water and Boracay Water). This exercise aims to strengthen the talent bench in the subsidiaries, so that they may become a potential talent source for the Group.

- Mentorship Program: The members of the Management Committee (MANCOM) serve as mentors to high potential talents being developed for executive roles.

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

- Center for Leadership Excellence: The Leadership Development Program (LDP) is an ongoing initiative which is part of the Manila Water University's Center for Leadership Excellence. This program was established to help develop leadership competencies which are enablers to ensure sustainable business success.

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

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

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

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

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

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

Awards and Recognition

For 2018, Manila Water was awarded with the following: The Asset Platinum Award (Excellence in Environmental, Social and Governance Practices), Top 50 ASEAN Publicly Listed Companies (PLC) during the 2nd ASEAN Corporate Governance (CG) Awards, 2017 Top 10 PLC, Top 5 PLC – Industrial Sector – by the Institute of Corporate Directors for the ASEAN CG Scorecard, ASEAN Energy Awards – First Runner-up for Energy Management – Building and Industries, Small and Medium Industry Category for "Project Lights-Out" at N. Domingo Pumping Station, Award of Excellence for 12.7 Million Safe Man-Hours without Lost-Time Accident Safety Organization of the Philippines Inc., Chairman's Prize for Emergency Reservoirs at the Ayala Innovation Excellence Awards, Enterprise Risk Programme of the Year Award during the StrategicRISK Asia-Pacific Risk Management Awards, Gold

Anvil Awards – Public Relations Society of the Philippines for the 2016 Integrated Annual and Sustainability Report (PR Tools – Publications), The Marikina North Sewerage System Project Story (PR Tools – Multimedia/ Audio-Visual Presentation), Silver Anvil Awards, Public Relations Society of the Philippines for Kasangga Day: Manila Water's Customer Appreciation Program (PR Program – Consumers/ Communities), Manila Water's 20th Anniversary Corporate Video and Mural (PR Tool – Multimedia/ Audio-Visual Presentation), Clark Water's Sitio Haduan Water Project (PR Program – Indigenous People) Boracay Water's Lingap Eskwela (PR Program – Communities/Schools) Laguna Water TSEK ng Bayan!: Tamang Sanitasyon Equals Kalinisan, Kalusugan at Kaunlaran ng Bayan (PR Program – Consumers/Communities), Quill Award of Excellence by the International Association of Business Communicators Philippines for the 2016 Integrated Annual and Sustainability Report (Communication Skills – Publications), and Quill Award of Merit by the International Association of Business Communicators Philippines for Manila Water's 20th Anniversary Corporate Video (Communication Skills – Audio-Visual Category).

Related Party Transactions

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

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

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

Risks Disclosure

2018 TOP ENTERPRISE RISKS	MITIGATION STRATEGIES
POLITICAL AND REGULATORY / COMPLIANCE Failure to manage regulatory and socio-political uncertainties that may adversely affect the organization; Failure to meet regulatory requirements / obligations resulting to penalties, fines etc.	Programs have been implemented to ensure control of regulatory, socio-political and compliance risks at both operational and strategic levels. Enhanced stakeholder relationship management has been given key priority, with regular coordination and strategic direction setting undertaken with groups involved in stakeholder engagement at the corporate and enterprise levels. There were organizational and process changes to improve the regulatory compliance of the organization. The document management system has been enhanced to improve readiness in regulatory review and audit.
RATE REBASING Failure to manage the rate rebasing process leading to unfavorable ruling by regulators, negative investor perception, loss in value and unrealistic rate rebasing commitments.	The Business Plan was approved on September 27, 2018 with a partial award of tariff to be implemented in the years of 2018, 2020, 2021 and 2022. Regular coordination meetings with the MWSS Regulatory and Corporate Offices were conducted involving discussions on medium-term water sources, corporate income taxes and other issues relative the concession. Key concession guidelines are developed to ensure that rate rebasing audits in the future will be facilitated in accordance with the CA.
WATER SUPPLY Failure to ensure adequacy, security, quality and reliability of water supply.	Activities are being done to further increase adequacy, security, quality, reliability and efficiency of the current water supply system such as the development of medium-term water sources, rehabilitation of deep wells, weekly monitoring and investigation of non-revenue water (NRW) contributors, weekly monitoring of dam water levels, preventive and corrective maintenance of dam facilities, aqueducts and water treatment facilities.
BUSINESS CONTINUITY Failure to ensure recovery and continuity of business operations through a	A project team has been established and a consultant has been engaged to enhance the Company's business continuity management system. There were organizational changes to improve the resiliency of the Company. Drills are regularly

comprehensive business continuity management plan.	conducted following contingency standards, procedures and processes which increased readiness and awareness of employees on emergency protocols. Emergency response plans are continuously reviewed and enhanced resulting in continuous operations of facilities even during natural calamities such as floods and incidents such as power interruptions.
CAPEX EXECUTION Failure to meet CAPEX targets within the approved cost, time and quality.	Monitoring of project milestones is being done to ensure timely completion of projects. An Enterprise Portfolio and Project Management System (EPPM) is implemented to improve project visibility. Manila Water conducts a rigorous review and approval process for project approval, variation orders and time extensions. Project management is risk-based such that review and reporting frequency, and escalation levels depend on a project's risk level. In addition, process improvements were implemented to eliminate repetitive tendering and approval activities.
NEW BUSINESS OPERATIONS Failure to operate new businesses properly as a result of poor integration, planning and execution.	The Enterprise Functional Council (EFC) was created to enable the Enterprise Group Directors, with no line relationship to the subsidiaries, to enforce functional standards across the business units. The EFC provides a venue for subject matter experts to share best practices. A Subsidiary Operations Group Director (SOGD) was appointed to oversee all operating subsidiaries.
NEW BUSINESS DEVELOPMENT Failure to launch significant new businesses to meet current and future business objectives.	A Regional Business Development structure is in place to provide more focus to business expansion opportunities. A comprehensive project development process and framework has been instituted, determining specific parameters, opportunities, and initiatives required that not only increase return on effort, but also improve the overall hit rate of project closure. The specific intent is to deliberately establish a pipeline of projects with significant size, economies of scale, and clear synergy with existing and established business units. Project viability is evaluated through a multi-stage approval process, assessing resource allocation and risk, which is subsequently considered in the determination of the cost of capital and appropriate development costs.
PLANNING AND EXECUTION Failure to plan and execute major initiatives in a systematic and well-coordinated manner leading to non-achievement of business and financial objectives;	An Enterprise Portfolio Management Office (EPMO) is in place to provide the necessary governance structure and support to facilitate timely and effective execution of enterprise plans. The EPMO facilitates the alignment of objectives, resources, structures and systems across the various project portfolios / change initiatives.
PORTFOLIO MANAGEMENT Failure to manage the risks associated with managing a portfolio.	A Portfolio Review Committee was established to objectively assess the financial and operating performance of current business units. Policies regarding investment and divestment of resources are in place, ensuring proper resource allocation across the enterprise.
TALENT MANAGEMENT Failure to address the talent requirements of the organization to achieve current and future business objectives.	A robust succession plan is in place to ensure a strong pipeline for critical roles. The Human Capital Management System (HCMS), a unified platform for all HR services, was implemented. In addition, on-time enhancements were made on rewards programs to maintain market competitiveness while being mindful of regulatory thresholds of the business.

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

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

In its report to the Board of Directors adopted in its meeting held on February 27, 2018, the Audit Committee confirmed that:

- The Committee reviewed and approved the quarterly unaudited consolidated financial statements and the annual Audited Consolidated Financial Statements of Manila Water Company, Inc. and subsidiaries, including Management's Discussion and Analysis of Financial Condition and Results

of Operations as of and for the year ended December 31, 2017, with the Company's Management, internal auditors, and SGV & Co. These activities were conducted in the following context:
  - Management has the primary responsibility for the financial statements and the reporting process
  - SGV & Co. is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with the Philippine Financial Reporting Standards.
- The Committee reviewed and approved the Management representation letter before submission to the Company's independent external auditors.
  - The Committee recommended to the Board of Directors the re-appointment of SGV & Co. as independent external auditors for 2018 based on its review of SGV's performance and qualifications, including consideration of Management's recommendation.
  - The Committee reviewed and approved all audit and audit-related services provided by SGV & Co. to the Company and the related fees for such services.
- The Committee discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and of SGV & Co., the results of their audits and their assessment of the Company's internal controls, and the overall quality of the financial reporting process.
- The Committee discussed the reports of the internal auditors, and ensured that Management is taking appropriate actions in a timely manner, including addressing internal control and compliance issues. All the activities performed by Internal Audit were conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.
- The Committee, through the audits conducted by SGV & Company and Internal Audit, has reviewed Management's system of internal controls and the Committee found the internal control system to be adequate and effective.
- The Committee discussed with Management the adequacy and effectiveness of the Enterprise Risk Management process, including significant risk exposures, the related risk-mitigation efforts and initiatives, and the status of the mitigation plans. The review was undertaken in the context that Management is primarily responsible for the risk management process.
- The Committee reviewed and confirmed that the existing Audit and Internal Audit Charters are sufficient to accomplish the Committee's and Internal Audit's objectives. The Audit Committee Charter is in compliance with the Securities and Exchange Commission Memo Circular No. 04 (2012).
- The Committee conducted a self-assessment of its performance to confirm that the Committee continues to meet the expectations of the Board, Management and shareholders.

Government Regulations

The Company has to comply with environmental laws and regulations which include:

- *General Environmental Safeguards*
  - Presidential Decree No. 1586 (Philippine Environmental Impact Statement System)
  - DENR Administrative Order No. 30, Series of 2003 (Implementing Rules and Regulations for the Philippine Environmental Impact Statement System)
  - DENR Administrative Order No. 2000-08 (Implementing Guidelines on Engineering Geological and Geohazard Assessment as Additional Requirement for ECC Applications)
  - DENR Administrative Order No. 02, Series of 2014 (Appointment/Designation of Pollution Control Officers).
  - DENR Administrative Order No. 27, Series of 2003 (Self-Monitoring Report System)
  - DENR Administrative Order No. 2017-15 (Guidelines on Public Participation under the Philippine Environmental Impact Statement (EIS) System

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

- *Air*
    - Republic Act No. 8749 or the Philippine Clean Air Act of 1999
    - DENR Administrative Order No. 81, Series of 2000 (Implementing Rules and Regulations of R.A. 8749)

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

- *Hazardous Wastes and Chemicals*
    - Republic Act No. 6969 or the Toxic Substances, and Hazardous and Nuclear Waste Control Act of 1990
    - Philippine Drug Enforcement Agency – Republic Act 9165- Regulatory Controls in Licit Trade of Controlled Precursors and Essential Chemicals
    - Philippine National Police – License to Possess/Purchase Explosives (Chemical used in the laboratory that are ingredients/kind of explosives)
    - DENR Administrative Order No. 29, Series of 1992 (Implementing Rules and Regulations of R.A. No. 6969)
    - DENR Administrative Order 2004-36 (Revised Procedural Manual on Hazardous Waste Management)
    - DENR Administrative Order No. 22, Series of 2013 (Revised Procedures and Standards for the Management of Hazardous Waste)
    - DENR Administrative Order 2005-27 (Revised Priority Chemical List)
    - Please include DENR Administrative Order 2007-23 (Prescribing additional Requirements for the Issuance of the Priority Chemical List Compliance Certificate)
    - DENR Administrative Order for all Chemical Control Orders
    - DENR Administrative Order 2013-24 Chemical Control Order for Lead
        - DENR Administrative Order 1997-38 Chemical Control Order for Mercury & Mercury Compounds
        - DENR Administrative Order 1997-39 Chemical Control Order for Cyanide & its Compound
        - DENR Administrative Order 2004-08 Revised Regulations on the Chemical Control Order for Ozone Depleting Substances (ODS)
        - DENR Administrative Order 2000-02 Chemical Control Order for Asbestos
        - DENR Administrative Order 2004-01 Chemical Control Order for Polychlorinated Biphenyls (PCB)
- LLDA
    - Board Resolution No. 408, Series of 2011 (Approving Revised Definition of Developmental Activities Required to Secure LLDA Clearance and Its Implementing Rules and Regulations)
    - Board Resolution No. 248, Series of 2005 (Providing Guidelines on the Use of Shoreland Areas Surrounding the Laguna De Bay)
    - Board Resolution No. 283, Series of 2006 (Resolution Providing Guidelines on Reclamation within the Shoreland of Laguna De Bay)
    - Board Resolution No. 113, Series of 1999 (Adding the Implementing Guidelines Governing the Lease of the Laguna De Bay Shoreland Areas)

- *Others*
    - Republic Act No. 4850 or the Act Creating the Laguna Lake Development Authority (LLDA)
    - Relevant LLDA Board Resolutions and Memorandum Circulars, including but not limited to Resolution No. 25, Series of 1996 (Environmental User Fee System in the Laguna de Bay Region) and Resolution No. 33, Series of 1996 (Approving the Rules and Regulations Implementing the Environmental User Fee System in the Laguna de Bay Region)
    - Presidential Decree No. 856 or the Philippine Sanitation Code
    - Implementing Rules and Regulations of the Philippine Sanitation Code
    - RA 9514 Fire Code of the Philippines
    - Philippine National Standards for Drinking Water 2007
    - NWRB Resolution No. 03-0715 0f 2015 (Approval of the revised 2015 NWRB Fees & Charges
    - PD 1067 Water Code of the Philippines
    - IRR of Water Code of the Philippines 1979

Other Matters

The Company has not been involved in any bankruptcy, receivership or similar proceeding as of December 31, 2018.

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

For further information on MWC, please refer to its 2018 Financial Reports and SEC17A which are available in its website www.manilawater.com.ph.

INTEGRATED MICRO-ELECTRONICS, INC.

Background and Business

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

(1) Business Development

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

AC is 47.04% owned by Mermac, Inc. and the rest by the public. The registered office address of the Parent Company is North Science Avenue, Laguna Technopark- Special Economic Zone (LT-SEZ), Bo. Biñan, Biñan, Laguna.

The Parent Company was listed by way of introduction in the PSE on January 21, 2010. It has completed its follow-on offering and listing of 215,000,000 common shares on December 5, 2014. On March 2, 2018, the Parent Company completed the stock rights offer and listing of 350,000,000 common shares to all eligible stockholders.

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assemblies (PCBA), flip chip assemblies, electronic sub-assemblies, box build products and enclosure systems. It also provides the following solutions: product design and development, test and systems development, automation, advanced manufacturing engineering, and power module assembly, among others. It serves diversified markets that include those in the automotive, industrial, medical, storage device, and consumer electronics industries, and non-electronic products (including among others, automobiles, motorcycles, solar panels) or parts, components or materials of non-electronic products.

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

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

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

In 2016, Cooperatief acquired a 76.01% ownership interest in VIA Optronics GmbH (VIA), a Germany-based company with operations in Germany and China and sales offices in the USA and Taiwan. VIA is a leading provider for optical bonding, a key technology to lower reflections thus enabling sunlight readability and increasing robustness, which is mandatory to allow thinner and lighter portable display solutions. The acquisition allows the Group to strengthen its partnerships with customers by offering complementary automotive camera and display monitor solutions for advanced driver assistance systems. The Group together with VIA enables the scale to introduce patented technology into automotive camera monitor systems for increased safety.

In 2018, VIA agreed to form a new joint venture company with a Japanese entity through the acquisition of 65% ownership interest. The new joint venture company, VTS-Touchsensor Co., Ltd. (VTS) serves the market for copper-based metal mesh touch sensors in Japan.

In 2016, Cooperatief acquired a property in the Republic of Serbia to strengthen its global footprint and support the growing market for automotive components in the European region. The manufacturing plant was completed and inaugurated in September 2018.

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

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

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

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

Please refer to Index to Financial Statements and Supplementary Schedules, Schedule J – Map of Relationships of the Companies within the Group (IMI portion) for the organizational chart of IMI which is part of this SEC 17A report.

(2) Business of Issuer

<u>Product Capabilities</u>

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

Automotive Electronics

Safety

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

Advanced Driver Assistance Systems

- Front Vision
- Surround View

- Rear View Camera
- Mirror Replacement Systems
- ADAS ECUs

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

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

Industrial Electronics

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

Automation
- System Integration (Robotics)
- Automated Meter Readers

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

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

Others
- LED lighting
- Aircon damper
- Accelerometer
- UPS
- Industrial power
- Power supply
- Industrial tooling

Medical Electronics

Diagnostics

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

Others

- Dental Imaging System
- Hearing Aids

Communications Electronics

Telecom Equipment and Devices

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

Consumer Electronics

White goods

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

Personal devices and lighting

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

Power Semiconductor

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

Optical Bonding and Display Solutions (VIA)

- Sunlight readable interactive or non-interactive LCD systems
- Custom cover lens and custom mechanical design
- Touchpanel assemblies
- LCD-Touch Assemblies
- Display Head Assemblies and Hinge-Up Monitors
- Optical bonding services

Precision Machining

- Conventional machines

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

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

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

Principal Products and Services

Design and Development (D&D) Group

IMI recently certified a high voltage IGBT for production, a base-plated power module on a 62X152 mm plastic case operating up to 1.7-kilo volts. A smaller version at 62X107 mm has been in production for quite some time. IMI also began the production of other packages operating at medium voltage with metal oxide semiconductor field effect transistor (MOSFET) and IGBT silicon in a similar plastic case last year, but with a direct bonded copper substrate as heatsink. These power modules are designed for both automotive and industrial applications.

Also in full swing in 2018 was the development of transfer molded plastic packages operating with low power MOSFET for automotive applications and will be ready for production by the second half of 2019. Another highlight is the early design and development phase of a hybrid version of a Pin-Fin baseplate and heatsink housing a full silicon carbide power module for electric vehicles.

IMI's D&D group also continues to lead in strengthening its capabilities in Internet-of-Things (IoT). In 2018, IMI have included the implementation of Low Power Wide Area Network (LPWAN) technologies such as LoRa, a long-range wireless communication protocol and Narrowband-IoT in the development of IoT devices, and gateway components to further supplement previous capabilities on more mature connectivity options for long range (cellular) and short range (i.e. Bluetooth, Zigbee), and general embedded systems such as hardware and software components.

Test and Systems Development (TSD)

In 2018, IMI's TSD group rolled out over 60 new innovative customized test solutions for its automotive and industrial EMS customers. Each tester was customized to achieve high efficiency in backend manufacturing and to guarantee high quality and reliability in products, which IMI manufactures for its OEMs and Tier 1 customers.

IMI also introduced its second generation custom testers for insulated gate bipolar transistor (IGBT) power modules for static, dynamic and isolation tests. The testers offer flexibility to test different power module models with the same system. A complete new suite of reliability testers was developed for power modules for automotive applications which include power cycling, passive thermal cycling tests, and high temperature reversed-bias tests, among others.

Analytical Testing and Calibration (ATC) Laboratory

In 2018, IMI's ATC Laboratory continued to develop new capabilities and zeroed in on the test requirements compliance to AECQ 101/IEC17025/LV324/VW80000/ ISO16750 of electric vehicles. It acquired vibration tester that allows us to test the mechanical reliability of electric vehicles. IMI takes pride in its much-improved complete test capabilities and expertise in handling contamination issues using the Ion Chromatography with Critical Cleanliness Control C3 system.

Advanced Manufacturing Engineering (AME)

As automotive and medical products get smaller, IMI USA continues to provide value to product miniaturization. IMI's global AME focused on several industrial microelectromechanical systems-based inertial measurement unit modules, commercial laser display modules, and automotive camera modules, including the IMI minicube camera platform. AME also developed a fully automated assembly line that manufactures a complex electro-mechanical assembly for automotive safety and security electronic control at IMI Jiaxing as well as in IMI Mexico. High-power modules for automotive and industrial applications, from design and development, and NPI to mass production are growing briskly.

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

Automation

IMI's global Automation Back End (ABE) group continued to develop in-house build capability for stand-alone systems. The group supports IMI operations across all sites with a total of seven complex automation lines completed as of 2018. Eighty percent of the group's automation projects focused on automotive product assemblies including processes such as final assembly, subassemblies, functional test, and packaging.

Camera Vision Technology (CVT)

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

In the second half of 2018, IMI started building sample cameras for the 360 degrees viewing system intended for an automotive OEM. The viewing system contains four cameras mounted on a vehicle and connected to one central ECU capable of providing both a bird's-eye view and 3D surround view for both safety and comfort.

In addition, IMI launched a custom automated six-axis focus and alignment system that uses mirrors to adjust the focusing distance. This innovation is ideal for focusing ADAS cameras intended for hauling trucks with extended focus distance requirements.

Segment Information

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

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

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

Revenue Contribution by Industry Segment (in US$)

	2018	2017	2016
Automotive	**$541,859,546**	$446,460,645	$377,639,245
Industrial	**334,634,178**	221,670,425	177,267,436
Consumer	**176,176,123**	188,760,154	71,038,949
Telecommunication	**134,078,546**	121,639,521	131,304,615
Aerospace/defense	**56,827,484**	24,973,446	–
Medical	**12,954,240**	19,303,996	21,280,959
Multiple market/others	**92,870,328**	67,780,002	64,435,220
	$1,349,400,445	$1,090,588,189	$842,966,424

Revenue Contribution by Customer Nationality (in US$)

	2018	2017	2016
Europe	**$670,603,567**	$519,149,422	$458,851,700
America	**292,610,530**	240,888,727	204,853,252
Japan	**45,241,436**	42,842,182	40,861,642
Rest of Asia/Others	**340,944,912**	287,707,858	138,399,830
	$1,349,400,445	$1,090,588,189	$842,966,424

Foreign Subsidiaries' Contribution

	2018		**2017**		**2016**	
	Revenue	**Net Income***	**Revenue**	**Net Income***	**Revenue**	**Net Income***
Foreign Subsidiaries:						
China/SG	25%	36%	25%	9%	31%	-12%
Europe/Mexico	31%	14%	33%	76%	39%	93%
Germany/UK (VIA/STI)	23%	21%	18%	15%	2%	-1%
TOTAL	**79%**	**71%**	**76%**	**101%**	**72%**	**80%**

* *Attributable to equity holders of the Parent Company*

Revenues are attributed to countries on the basis of the customer's location. Certain customers that are independent of each other but within the same group account for 10.55%, 12.58% and 14.97% of the Group's total revenue in 2018, 2017 and 2016, respectively.

Sales and Distribution

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

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

In 2018, IMI continued to pursue opportunities in segments with the highest potential for growth and customer impact. The company's core business pipeline expanded by US$320 million in new project awards, 72 percent of which are for automotive applications. By location, new program wins derived from Philippines and China accounted for 61 percent while 39 percent were awarded to Europe and Mexico. Meanwhile, STI Enterprises continued to strengthen its industrial and mil-aero capabilities with £25.6 million (US$33.2 million) major projects closed as of 2018. The company also expects VIA's revenue growth to achieve a balanced portfolio across market verticals supported by its new contracts for multiple automotive and industrial applications.

Mergers and Acquisition

In 2018, VIA agreed to form a new joint venture company with a Japanese entity through the acquisition of 65% ownership interest. The new joint venture company, VTS-Touchsensor Co., Ltd. (VTS) serves the market for copper-based metal mesh touch sensors in Japan. This will strengthen our portfolio of differentiated and value-added sensor technology for touch panels, touch-display modules, display head assemblies, and interactive display systems across multiple markets and segments.

As part of our strategic initiatives, IMI acquired an 80% stake in STI, in 2017 a private limited company based in the United Kingdom which provides electronics design and manufacturing solutions in both printed circuit board assembly and full box-build manufacturing for high-reliability industries. The company currently has two factories in the United Kingdom in Hook and Poynton as well as one in Cebu, Philippines and operates a design center in London. The acquisition will enable IMI to expand into the aerospace and defense markets while strengthening the industrial segment in manufacturing as well as in technology development and engineering.

Competition

IMI is now a global technology solutions company with 21 manufacturing facilities with presence in more than 10 countries, spanning through the continents of Asia, Americas, and Europe. The company has technology expertise and offerings in the whole breadth of electronics manufacturing services (EMS), power semiconductor assembly tests and services and vehicle assembly.

IMI currently ranks 18th in the list of top 50 EMS providers in the world by the Manufacturing Market Insider (March 2018 edition), based on 2017 revenues. In the automotive market, it is now the 5th largest EMS provider in the world per New Venture Research.

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

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

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

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

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

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

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

Flextronics is a Singapore-headquartered company with annual revenues of US$25.4 billion in 2018; its cost structure is very competitive it is vertically integrated as well. Flextronics poses competition to IMI in the automotive and industrial segment.

Plexus, a U.S.-based EMS, recorded US$2.9billion revenues in 2018. Plexus is a key EMS player in industrial, medical and communication sectors, which IMI play in this market.

Kimball Electronics as a manufacturing facility located in Jasper, Indian with revenues of US$1.1 billion in 2018. Kimball is a competitor of IMI in the automotive, industrial and medical market.

Principal Suppliers

IMI's suppliers are situated globally and are managed by the Global Procurement organization. The Company's top 10 suppliers in 2018 comprise about 23% of global purchases. Purchases from suppliers generally comprise of electronic components processed by our facilities. The Company strives to manage the quality of the products supplied to ensure strict adherence to quality standards and only purchase from suppliers whose product meet all applicable health and safety standards.

Transactions with Related Parties

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

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

Terms and Conditions of Transactions with Related Parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2018, 2017 and 2016, the Group has not recorded any impairment on receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

Intellectual Property

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

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

Existing / Pending Patents	Descriptions	Location / Filing Date	Expiration Date
United States Patent 9,839,142	Vacuum Pallet Reflow, a soldering device and method of soldering enabling vacuum reflow while using a standard reflow oven conveyor.	Dec 2017	
Pending USPTO 13457670	Used for die attach of power devices that require very minimal voiding between device and substrate to avoid localized heating and potential failure. Describes a new process to perform soldering in a vacuum environment to promote minimal voiding without the use of specialized and expensive equipment, solder preform and gas atmospheres, but with the efficiency of a standard reflow soldering process.	April 2012	In Process
Pending PCT/US12/51573	A flip chip video camera mounted on a flexible substrate with glass stiffener	August 2012	In Process
Pending USPTO 14109918	Unique construction of camera module that enhances the dissipation of heat generated by the image sensor while being easy to manufacture.	December 2013	In Process
United States Patent 6,571,468 6,846,701	A method for forming a fine-pitch flip chip assembly interconnects fine pitch devices after they have been connected to a carrier substrate.	California, USA, 2001	2021
United States Patent 6,776,859	An improved anisotropic bonding system and method connects two conductive surfaces together using an anisotropic material having	California, USA, 2000	2020

	elastic conductive particles dispersed in an insulating heat-curable carrier.		
United States Patent 6,648,213	A method for manufacturing a chip assembly that includes the steps of applying a controlled amount of flux to plurality of solder balls on a die, applying a non-fluxing underfill material to a substrate, and assembling the die and substrate together to form the chip assembly such that the non-fluxing underfill material is trapped between the die and the substrate.	California, USA and Singapore, 2001	2021
United States Patent 6,414,859	A passive component circuit comprising a bridge rectifier that is coupled in parallel to three capacitors.	Singapore, 2000	2020
United States Patent 7,787,265 B2	A dual switch forward power converter, and a method of operating the same, employs a self-coupled driver to achieve among other advantages higher efficiency, lower part count and component cost.	Singapore, 2007	2027
United States Patent 8,937,432 B2	Light Source Having LED Arrays for Direct Operation in Alternating Current Network and Production Method Thereof.	USA, 2015	2031
Japan - Applied	Bezelless display system	Divisional application filed	In Process
Taiwan - I 444 942		November 2014	July 2017
USA - US7924362		April 2011	October 2018
China - Applied	Nozzle to apply dry bonding preform	April 2014	In Process
Germany – 102013219628B4		August 2016	September 2017
South Korea – 10-1 703 383		January 2017	January 2020
Taiwan – I 530 330		April 2016	April 2018
Europe - EP2137570A1	Enhanced liquid crystal display system and methods	Published	In Process
Japan - JP 5513136		April 2014	April 2018
Taiwan - I 437 068		May 2014	May 2018
USA – 9 348 167		May 2016	November 2019
Germany – 600 42 590.8-08	SBLR (Super Bright Low Reflectance	July 2009	January 2018
Canada – 2 359 228		August 2005	January 2018
Taiwan – I 280 443		May 2007	April 2018
USA – 6 181 394		January 2001	January 2019
USA – 7 405 779		July 2008	January 2017
USA – 6 933 991		August 2005	January 2021
USA – 7 649 577		January 2010	July 2017
China - CN103820041A	Method for bonding two substrates used during manufacturing process of display device	May 2014	
Germany – Filed		Filed	
South Korea - 10-2014-0063470		May 2014	
Taiwan - 2014 32008		August 2014	

Government Regulations and Approvals

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

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

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

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

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

License/Permit Name`	**IMI Laguna**		
	License/Permit No.	**Issue Date**	**Expiry Date**
SEC Certificate of Registration	94419	08/08/1980	
PEZA Certificate of Registration - Export Enterprise	94-59 (Amended)	12/03/2015	
PEZA Certificate of Registration - Facilities Enterprise	11-19-F	11/29/2011	
BIR Form 2303 - Certificate of Registration	OCN 8RC0000039992	12/20/2012	
Permit to Use Computerized Accounting System	1214-116-00171CAS	01/01/2015	
Permit to Use Loose-leaf Invoices	LTAD-LL-09-769-14	09/05/2014	
Authority to Print Invoices	OCN 8AU0000273915 For Sales Invoice; Official Receipt	10/16/2014	10/15/2019
	OCN 8AU0000273913 For Billing Invoice; Collection Receipt	10/16/2014	10/15/2019
Barangay Business Clearance	BBC03718	01/08/2018	12/31/2018
Business Permit	2018-00494	01/09/2018	12/31/2018
Environmental Clearance (for Business Permit)	18-0498	01/09/2018	12/31/2018
Engineering Clearance (for Business Permit)	2018-01-0515	01/09/2018	12/31/2018
Zoning Clearance (for Business Permit)	DZC-00499-2018	01/09/2018	12/31/2018
Sanitary Permit (For Business Permit)	0511-2018	01/09/2018	12/31/2018
Environmental Compliance Certficate	ECC-R4A-1709-0321	09/29/2017	
Laguna Lake Development Authority Discharge Permit			01/16/2019
CG			04/30/2018
SSCG			10/16/2021
Philippine Drug Enforcement Agency Permit			10/06/2018
License to Operate and X-Ray Facility	renewal in process		
License to Handle Controlled Precursors & Essential Chemicals			02/16/2018
CG			02/09/2018
SSCG			05/20/2018
Radioactive Material License			05/31/2018

License/Permit Name	IMI Cavite	
	License No.	Issue Date
PEZA Certificate of Registration - Export Enterprise	94-59 (Amended)	12/03/2015
BIR Form 2303 - Certificate of Registration	OCN 8RC0000039988	12/12/2012
Permit to Use Computerized Accounting System	1214-116-00171CAS	01/01/2015
Permit To Operate - Emission Source Installation		Valid until 8/24/2022
License to Operate and X-Ray Facility	CDRRHR-RRD LTO No. IV-I-0193-18	01/01/2018 – 12/31/2018
License to Handle Controlled Precursors & Essential Chemicals		6/28/2018

License/Permit Name	IMI ROHQ		
	License No.	Issue Date	Expiry Date
SEC Certificate of Registration	FS200905182	04/16/2009	
BIR Form 2303 - Certificate of Registration	OCN 1RC000634390	06/25/2013	
Authority to Print Invoices	OCN 1AU0001692572	09/22/2017	09/21/2022
	OCN 1AU0000999180	06/24/2013	06/24/2018
Barangay Business Clearance	BBC03618	01/08/2018	12/31/2018
Business Permit	2018-00496	01/09/2018	12/31/2018
Environmental Clearance (for Business Permit)	18-0500	01/09/2018	12/31/2018
Engineering Clearance (for Business Permit)	2018-01-0518	01/09/2018	12/31/2018
Zoning Clearance (for Business Permit)	DZC-00600-2018	01/09/2018	12/31/2018
Sanitary Permit (For Business Permit)	0513-2018	01/09/2018	12/31/2018

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

Research and Development Activities

The Design and Development (D&D) Team has significantly enhanced competencies in electronic and mechanical design, and software development while also actively engaging in the development of platforms for the next generation projects. Last year ushered a major shift to platform-based test solutions specifically for customers whose products are manufactured in multiple factories. In the platform-based approach, a function tester was configured for another product with a similar application or design. The test allowed high re-use of technology—hardware and software and therefore enabling a more rapid tester development. Original equipment manufacturers of automotive electronics and mechatronics products (window lifters, power tailgate systems, etc.) which are assembled and tested in China, Mexico and Bulgaria benefited in this strategy.

The global trends on advanced driver-assistance systems (ADAS) continue to move our way. IMI's existing camera production reached more than six million units in 2018, exceeding volume and sales targets for the year. Interest in the areas of ADAS, mirror replacement and driver monitoring have also brought in new opportunities from both new and existing customers.

With these developments and opportunities, IMI continued to deliver new innovations to support the manufacturing of high-performance automotive cameras. An IMI proprietary tester design for stray light test measurement was introduced last year to screen out glare and flare in ADAS cameras. A technical paper on this project won top recognition in the Philippine electronics trade show in 2018.

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

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

		% to Revenues
2018	$6,287,175	0.47
2017	$3,506,223	0.32
2016	$3,601,736	0.43

Human Resources

The Company has a total workforce of 17,148 employees as of December 31, 2018, shown in the following table:

	2017	2018	2019 Plan
Managers	490	473	480
Supervisors	1,950	1,622	1,559
Rank-and-File	3,108	3,064	4,423
Technicians/Operators	11,200	11,989	12,109
TOTAL	16,748	17,148	18,571

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

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

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

Risk Factors

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

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

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

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

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

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

IMI is highly dependent on an industry that is characterized by rapid technological changes
The demand for the Company's solutions is derived from the demand of end customers particularly for end-use applications in the computing, communications, consumer, automotive, industrial and medical electronics industries. These industries have historically been characterized by rapid technological change, evolving industry standards, and changing customer needs. There can be no assurance that the Company will be successful in responding to these industry demands. New services or technologies may also render the Company's existing services or technologies less competitive. If the Company does not promptly make measures to respond to technological developments and industry standard changes, the eventual integration of new technology or industry standards or the eventual upgrading of its facilities and production capabilities may require substantial time, effort, and capital investment.

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

The industry where IMI operates in does not serve, generally, firm or long-term volume purchase commitments
Save for specific engagements peculiar to certain products and services required, the Company's customers do not generally contract for firm and long-term volume purchase. Customers may place lower-than-expected orders, cancel existing or future orders or change production quantities. There are no guaranteed or fixed volume orders that are committed on a monthly or periodic basis.

In addition, the Company makes significant investment decisions, including determining the levels of business that it will seek and accept capacity expansion, personnel needs, and other resource requirements. These key decisions are ultimately based on estimates of customer long-term requirements. The rapid changes in demand for its products reduce its ability to estimate accurately long-term future customer requirements. Thus, there is the risk that resource investments are not optimized at a certain period.

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

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

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

and complexities in integrating acquired businesses into existing operations, which may prevent it from achieving, or may reduce the anticipated synergy.

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

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

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

IMI may not be able to mitigate the effects of declining prices of goods over the life cycles of its products or as a result of changes in its mix of new and mature products, mix of turnkey and consignment business arrangements, and lower prices offered by competition

The price of the Company's products tends to decline over the later years of the product life cycle, reflecting decreased costs of input components, improved efficiency, decreased demand, and increased competition as more manufacturers are able to produce similar or alternative products. The gross margin for manufacturing services is highest when a product is first developed but as products mature, average selling prices of a product drop due to various market forces resulting in gross margin erosion. The Company may be constrained to reduce the price of its service for more mature products in order to remain competitive against other manufacturing services providers. This is most apparent in the automotive segment, where the reduction has historically been observed to occur between the first two to three years. The Company's gross margin may further decline to be competitive with the lower prices offered by competition or to absorb excess capacity, liquidate excess inventories, or restructure or attempt to gain market share.

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

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

IMI operates in a highly competitive industry

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

The industry could become even more competitive if OEMs fail to significantly increase their overall levels of outsourcing. Increased competition could result in significant price competition, reduced revenues, lower profit margins, or loss of market share, any of which would have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company regularly assesses the appropriate pricing model (so as to ensure that it is strategic/value based or demand based, among others) to be applied on its quotation to existing or prospective customers. The Company is also strengthening its risk management capabilities to be able to turn some of the risks (e.g., credit risks) into opportunities to gain or maintain new or existing customers, respectively. The Company also continues to develop high value-add services that fit the dynamic markets it serves. It continues to enhance capabilities in design and development, advanced manufacturing engineering, test and systems development, value engineering, and supply chain management to ensure an efficient product realization experience for its customers.

In addition, the Company's size, stability and geographical reach allow it to attract global OEMs customers that look for stable partners that can service them in multiple locations. This is evidenced by increasing number of global contracts that the Company is able to develop and have multiple sites serving single customers.

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

IMI may be subject to reputation and financial risks due to product quality and liability issues
The contracts the Company enters into with its customers, especially customers from the automotive and medical industry, typically include warranties that its products will be free from defects and will perform in accordance with agreed specifications. To the extent that products delivered by the Company to its customers do not, or are not deemed to, satisfy such warranties, the Company could be responsible for repairing or replacing any defective products, or, in certain circumstances, for the cost of effecting a recall of all products which might contain a similar defect in an occurrence of an epidemic failure, as well as for consequential damages. Defects in the products manufactured by the Company adversely affect its customer relations, standing and reputation in the marketplace, result in monetary losses, and have a material adverse effect on its business, financial condition, and results of operations. There can be no assurance that the Company will be able to recover any losses incurred as a result of product liability in the future from any third party.

In order to prevent or avoid a potential breach of warranties which may expose the Company to liability, the Company performs a detailed review and documentation of the manufacturing process that is verified, audited and signed-off by the customers. In addition, customers are encouraged, and in some cases, required to perform official audits of the Company's manufacturing and quality assurance processes, to ensure compliance with specifications. The Company works closely with customers to define customer specifications and quality requirements, and follow closely these requirements to mitigate future product liability claims. The Company also insures itself on product liability and recall on a global basis.

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

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

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

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

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

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

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

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

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

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

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

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

There is a risk that the Company will be unable to acquire necessary components for its business as a result of strong demand in the industry for those components or if suppliers experience any problems with production or delivery.

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

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

To the extent possible, the Company works closely with customers to ensure that there are back up suppliers or manufacturers for customer-supplied components or components supplied by customer-nominated suppliers to mitigate uncertainties in the supply chain. In addition, the Company has established supplier certification and development programs designed to assess and improve suppliers' capability in ensuring uninterrupted supply of components to the Company.

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

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

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

As an EMS provider, the Company may be exposed to a risk of inventory obsolescence because of rapidly changing technology and customer requirements. Inventory obsolescence may require it to make adjustments to write down inventory to the lower of cost or net realizable value, and its operating results could be adversely affected. The Company is cognizant of these risks and accordingly exercises due diligence in materials planning. The Company also provides in its inventory systems and planning a reasonable amount for obsolescence. It is working with key suppliers to establish supplier-managed inventory arrangements that will mutually reduce the risk. In addition, the Company often negotiates buy back arrangements with customers where, in the event the customers' purchase orders are delayed, canceled, or enter in the end-of-life phase, the customers assume the risk and compensate the Company for the excess inventory.

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

The Company may, from time to time, be involved in disputes with its employees and various parties involved in its manufacturing operations, including contractual disputes with customers or suppliers, labor disputes with workers or be exposed to damage or personal liability claims. Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs, delays in the Company's development schedule, and the diversion of resources and management's attention. The Company may also have disagreements with regulatory bodies in the course of its operations, which may subject it to administrative proceedings and unfavorable decisions that result in penalties and/or delay the development of its projects. In such cases, the Company's business, financial condition, results of operations and cash flows could be materially and adversely affected.

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

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

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

The Company's success depends partially on the ability of the Company, its contractors, and its third party marketing agents to maintain productive workforces. Any strikes, work stoppages, work slowdowns, grievances, complaints or claims of unfair practices or other deterioration in the Company's, its contractors' or its third party marketing agents' employee relations could have a material and adverse effect on the Company's financial condition and results of operations. There have been no historical events related to strikes or protests from its employees or unions, given the well-established employee relations of the Company.

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

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

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

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

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

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

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

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

- political instability, terrorism or military conflict, and
- other regulatory, political or economic developments in or affecting the Company

Notwithstanding the foregoing, the global operations, marketing, and distribution of the Company's products inherently integrate the impact of any economic downturn affecting a single country where the Company operates, and enables the Company to shift the focus of its operations to other jurisdictions.

The Company's manufacturing and sales operations are located in a number of countries throughout Asia, Europe, and North America. As a result, it is affected by business, political, operational, financial, and economic risks inherent in international business, many of which are beyond the Company's control, including difficulties in obtaining domestic and foreign export, import, and other governmental approvals, permits, and licenses, and compliance with foreign laws, which could halt, interrupt, or delay the Company's operations if it is unable to obtain such approvals, permits, and licenses, and could have a material adverse effect on the Company's results of operations.

Changes in law including unexpected changes in regulatory requirements affect the Company's business plans, such as those relating to labor, environmental compliance and product safety. Delays or difficulties, burdens, and costs of compliance with a variety of foreign laws, including often conflicting and highly prescriptive regulations also directly affect the Company's business plans and operations, cross-border arrangements and the inter-company systems.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IMI faces risks of international expansion and operation in multiple jurisdictions

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

The distances between the Company, the customers, and the suppliers globally, create a number of logistical and communications challenges, including managing operations across multiple time zones, directing the manufacture and delivery of products across significant distances, coordinating the procurement of raw materials and their delivery to multiple locations, and coordinating the activities and decisions of the Company's management team, the members of which are spread out internationally.

While the Company tries to keep its local expertise, it established global functions to ensure that there is adequate coordination of activities. In addition, the availability and use of cell phones, e-mails, and internet based communication tools by the Company resulted in more efficient and timely coordination of activities and decision making by management from different sites and countries.

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

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

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

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

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

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

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

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

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

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

The Philippines, China, and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South

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

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

The "British exit of the European Union (EU)," or known as Brexit on June 23, 2016 is considered the most significant economic demerger between major economies since the Second World War. British vote to leave the European Union is likely to impose major instability on top of economic fragility and artificial financial markets. The Brexit referendum roiled global markets, including currencies, causing the British pound to fall to its lowest level in decades. In November 2016, the British High Court ruled that the government needs the Parliament's approval to trigger Article 50 of the Lisbon Treaty and begin the two-year process of withdrawing the UK from the EU. On February 1, 2017, Prime Minister Theresa May won votes from Members of Parliament in the House of Commons for the bill to invoke Article 50 and start the Brexit process in March 2017. The bill is expected to pass through debates in the Commons and the House of Lords by March 7, and upon royal assent from Queen Elizabeth II, to become an Act of Parliament.

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

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

For further information on IMI, please refer to its 2018 Financial Reports and SEC17A which are available in its website www.global-imi.com.

AC INDUSTRIAL TECHNOLOGY HOLDINGS INC. - AUTOMOTIVE

AC Industrial Technology Holdings, Inc. or ACITHI (alternately referred to as “AC Industrials”, “the Company” or “the Group” in the entire discussion of AC Industrials.) is Company that invests in and manages an integrated and synergistic portfolio of operating units composed of platforms in global manufacturing solutions, emerging technologies, and vehicle assembly, distribution, and retail. Established in 2016, ACITHI is the Ayala group’s fast-growing industrial technologies arm. From previously Ayala Automotive Holdings Company (or AAHC) holding the automotive business of Ayala group, AC Industrials now has into its fold investments in IMI and related business units in industrial technologies.

AC Automotive, the automotive group under AC Industrials, is the country’s largest multi- brand vehicle distribution and dealership group. AC Automotive has minority investments in automobile manufacturing and assembly companies consisting of a 12.9% interest in HCPI and a 15% interest in IPC. HCPI is a joint venture with Honda Motors Co. Ltd and Rizal Commercial Banking Corp. (“RCBC”), which has assembled and manufactured Honda automobiles for the Philippine market in Laguna Technopark since September 1990. IPC is a joint venture with Isuzu Motors, Ltd., Mitsubishi Corporation (“Mitsubishi”) and RCBC.

Through AC Automotive’s wholly-owned subsidiaries, the Group has eleven Honda dealerships through Honda Cars Makati, Inc., nine Isuzu dealerships through Isuzu Automotive Dealership Inc., and four Volkswagen dealerships through Iconic Dealership Inc. as of 31 December 2017. It is also the official importer and distributor of Volkswagen for the Philippines through Automobile Central Enterprise Inc.

AC Automotive also entered the motorcycle business in 2016 via a strategic partnership with KTM AG, Europe’s largest motorcycle brand, to manufacture and distribute its products in the Philippines and other export markets. Adventure Cycle Philippines, a wholly-owned ACITHI subsidiary and official Philippine distributor of KTM products, holds a 66% interest in KTM Asia Motorcycle Manufacturing, a joint venture with KTM AG. Adventure Cycle Philippines also operates one KTM dealership as of 31 December 2017.

AC Automotive’s KTM business has 19 branches as of December 31, 2018 and commenced exports from its joint-venture manufacturing operations in 2018.

For the year 2018, the local automotive market declined 15 percent in 2018 after growing at a compounded annual rate of 16 percent over the prior seven years. The implementation of a new excise tax regime delivered a significant jolt to the system. Demand was tempered across the industry spectrum as buyers accelerated purchases to the previous year and market players implemented aggressive pricing strategies to adjust. AC Automotive weathered both intensifying competition and the overall market’s demand. The group attained an industry-wide market share of over four percent on the back of 16,199 automobiles distributed and sold across its Honda, Isuzu, and Volkswagen brands. The Honda and Isuzu dealership groups retained overarching leadership within their respective brands, holding network shares of 38 percent and 35 percent, respectively. In parallel, Volkswagen refreshed its product lineup with five all-new models carrying specifications and price points tailored to better compete in the Philippine market. Finally, the KTM business continued its steady growth trajectory, distributing over 2,300 motorcycles across the country and manufacturing over 6,400 units in its factory’s first full year.

AC Industrials is prepared to manage challenges and disruption for 2019 and beyond. At the automotive industry front, ACITHI closed the year by securing distributorship rights to the SAIC Maxus and Kia Motors brands, with operationalization of the latter – a globally leading brand well-recognized by the Filipino automotive market – already underway.

AC ENERGY, INC.

AC Energy, Inc. (alternately referred to as "AC Energy", "the Company" or "the Group" in the entire discussion of AC Energy) manages a diversified portfolio of renewable and conventional power generation projects and engages primarily in power project development operations and in other businesses located in the Philippines, Indonesia, Vietnam and Australia. AC Energy was designated in 2011 as Ayala Corporation's vehicle for investments in the power sector to pursue greenfield, as well as currently operating, power-related projects for both renewable and conventional technologies in various parts of the Philippines. In 2016, the Company expanded its business purpose to include the purchase, retail, supply and delivery of electricity and in 2017, the business purposes were expanded further to include the development, operation and maintenance of power projects.

Philippines

From 2011 to 2014, the Company made its initial investments in the power sector in the Philippines, with strategic investments in 50.0% of a wind farm located in Ilocos Norte province with a net capacity of 52MW (the "Northwind Project") (which interest has since increased to 67.79%), 50.0% in a 2 x 122MW CFB thermal power plant located in Batangas province (the "SLTEC Project") (which interest has since been reduced to 35.0%), 64.0% of a second wind farm located in Ilocos Norte province with a net capacity of 81MW (the "North Luzon Renewables Project") (which interest has since been reduced to 28.51%), 17.02% limited partnership interest in a 2 x 316MW coal-fired plant located in Bataan province (the "GNPower Mariveles Project") and 85.72% limited partnership interest in a 4 x 138MW coal-fired power plant under construction located in Lanao del Norte province (the "GNPower Kauswagan Project"). AC Energy has continued to make strategic investments in the energy sector since that time. In 2015, AC Energy invested in the development, construction and operation of a solar power farm located in Bais City, Negros Oriental (the "Montesol Project").

AC Energy is in the process of transitioning from a Philippine-focused energy investment holding company into a regional player with investment, development and operation capabilities, and is actively scaling up its renewable energy platform with expected investments in various projects in the pipeline in the Philippines and in markets where it is a new participant, such as Indonesia, Vietnam and Australia.

Indonesia

In 2017, the Company established its first footprint overseas with investments in renewable energy projects in Indonesia as part of a consortium with Star Energy Group Holdings Pte. Ltd, Star Energy Geothermal Pte. Ltd. of Indonesia (collectively "Star Energy") and The Electricity Generating Company ("EGCO") of Thailand, and acquired the Salak and Darajat geothermal projects (the "Salak-Darajat Geothermal Projects") in West Java, Indonesia with a combined capacity of 637MW of steam and power. AC Energy has an effective economic stake of 19.80% in the Salak-Darajat Geothermal Projects. The Sidrap wind project (the "Sidrap Wind Project"), AC Energy's first greenfield offshore investment, is the first utility-scale wind farm project in Indonesia with a net capacity of 75MW, which commenced commercial operations in March 2018.

Vietnam

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

In June 2018, the Company entered into a partnership with the BIM Group of Vietnam for the development of an aggregate of 330MW of solar power plants located in the province of Ninh Thuan, Vietnam (the "Ninh Thuan Solar Plants"), which are expected to commence operations by June 2019.
In April 2018, AC Energy International and Jetfly Asia Pte. Ltd. entered into an agreement for the acquisition of 25.0% interest in The Blue Circle Pte. Ltd. ("The Blue Circle") as well as co-investment

rights in The Blue Circle's projects in Southeast Asia. The Blue Circle is an international renewable energy developer which has a pipeline of projects in Southeast Asia, over which the Company has certain investment rights.

Australia

In May 2018, the Company entered the Australian renewable energy market through a joint venture with international renewable energy developer, UPC Renewable Asia Pacific Holdings Limited ("UPC Renewables"). AC Energy through its subsidiary, AC Energy International, invested U.S.$30 million for 50.0% ownership in UPC-AC Energy Renewables Australia (HK) Limited ("UPC-AC Energy Renewables Australia"). AC Energy also extended a U.S.$200 million revolver facility to partially fund the Australia projects. UPC-AC Energy Renewables Australia has certain projects in the pipeline, including the New England Solar Farm ("NE Solar Farm") currently under development located near Uralla in New South Wales with an expected net capacity of up to 700MW. The NE Solar Farm is being targeted for financial close by the first half of 2019 with commercial operations targeted by 2021. UPC-AC Energy Renewables Australia is also developing wind farms on Robbins Island and Jim's Plain in North West Tasmania with a targeted net capacity of up to 1,000MW. In addition to the revolver facility, AC Energy has investment rights to invest equity directly into the projects. UPC-AC Energy Renewables Australia continues to assess potential investments into additional renewable energy projects across Australia.

<u>Attributable energy</u>. As of December 2018, the Company's 2,800 gigawatt hours of attributable energy, of which 48% is from renewable sources.

In addition to its renewable and conventional energy businesses, AC Energy is also engaged in retail electricity supply ("RES"). AC Energy obtained an RES license allowing it to sell electricity to end-users in the contestable market in September 2016. As of December 2018, the Company has entered into agreements with various customers and end-users for the supply of over 100MW.

In September 2018, the Company, through Arlington Mariveles Netherlands Holding BV, entered into a share purchase agreement with Aboitiz Power for the sale of a 49% voting stake and 60% economic stake in AA Thermal, Inc. ("AA Thermal"), a wholly-owned subsidiary (the "AA Thermal Disposition"). AA Thermal holds the Company's interests in the GNPower Mariveles Project and in a 2 x 668MW supercritical coal-fired plant in Bataan (the "GNPower Dinginin Project"), which is currently under construction.

Risk Factors

<u>*Increased competition in the power industry, including competition resulting from legislative, regulatory and industry restructuring efforts could have a material adverse effect on the Company's operations and financial performance.*</u>
The Company's success depends on its ability to identify, invest in and develop new power projects, and the Company faces competition to acquire future rights to develop power projects and to generate and sell power. No assurance can be given that the Company will be able to acquire or invest in new power projects successfully.

The Philippine government has sought to implement measures designed to establish a competitive power market. These measures include the ongoing privatization of at least 70% of the NPC-owned-and-controlled power generation facilities and the grant of a concession to operate transmission facilities, as well as the implementation of retail competition and open access. The move towards a more competitive environment could result in the emergence of new and numerous competitors. These competitors may have greater financial resources, and have more extensive experience than the Company, giving them the ability to respond to operational, technological, financial and other challenges more quickly than AC Energy.

In addition, any decision to develop and construct power projects in various jurisdictions, including the Philippines, Indonesia and Vietnam, is made after careful consideration of regulatory requirements, availability of fiscal incentives, market conditions (including the demand and supply conditions), land availability, and other considerations.

<u>*AC Energy may not successfully implement its growth strategy and the impact of acquisitions, investments and value realization initiatives could be less favorable than anticipated.*</u>
As part of its business strategy, AC Energy seeks to actively manage its portfolio of power projects to maximize its capital base and has conducted and continues to carry out acquisitions and investments of varying sizes as well as value realization through certain dispositions, some of which are significant,

as well as develop additional power projects in both the Philippines and in international markets. This strategy may require entering into strategic alliances and partnerships and will involve substantial investments. The Company's success in implementing this strategy will depend on, among other things, its ability to identify and assess potential partners, investments and acquisitions, opportunities for value realization and redeployment of capital, and to successfully finance, close and integrate such investments and acquisitions, control costs and maintain sufficient operational and financial controls.

This growth strategy could place significant demands on AC Energy's management and other resources. AC Energy's future growth may be adversely affected if it is unable to make these investments, value realization and capital recycling initiatives or form these partnerships, or if these investments, value realization and capital recycling initiatives and partnerships prove unsuccessful.

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

The operations of the Company's power projects are subject to significant government regulation, including regulated tariffs such as FIT, and AC Energy's margins and results of operations could be adversely affected by changes in the law or regulatory schemes.

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

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

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

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

The Company's expansion and growth plans are expected to require significant fund raising. As part of the Company's current strategy to exceed 5,000MW of renewable energy capacity by 2025, the Company estimates that it will require around U.S.$2.0 billion of equity financing. The Company's continued access to debt and equity financing as a source of funding for new projects, acquisitions and investments, and for refinancing maturing debt is subject to many factors, including: (i) Philippine regulations limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers; (ii) the Company's compliance with existing debt covenants; (iii) the ability of the Company to service new debt; (iv) the macroeconomic fundamentals driving credit ratings of the Philippines; and (v) perceptions in the capital markets regarding the Company and the industries and regions in which it operates and other factors, some of which may be outside of its control, including general conditions in the debt and equity capital markets, political instability, an economic downturn, social unrest, changes in the regulatory environments where any power projects are located or the bankruptcy of an unrelated company operating in one or more of the same industries as the Company, any of which could increase borrowing costs or restrict the Company's ability to obtain debt or equity financing. There is no assurance that the Company will be able to arrange financing on acceptable terms, if at all. Any inability of the Company to obtain financing from banks and other financial institutions or from capital markets would adversely affect the Company's ability to execute its expansion and growth strategies.

The Company's international businesses and results of operations are subject to the macroeconomic, social and political developments and conditions of the countries where the Company's portfolio of projects are located.
In addition to the Philippines, the Company's portfolio of power projects in operation and under construction are currently located in Indonesia and Vietnam, with plans for further international expansion in other jurisdictions. International operations and plans for further international expansion may be affected by the respective domestic economic and market conditions as well as social and political developments in these countries, government interference in the economy in certain countries and changes in regulatory conditions, and there is no guarantee that the Company's existing operations as well as expansion plans will be successful in those countries.

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

The second package of the Comprehensive Tax Reform Program ("CTRP") is passed into law, or if these tax exemptions or tax incentives expire, are revoked, or are repealed or other new laws are enacted, the Company's tax expense would increase and its profitability would decrease. The expiration, non-renewal, revocation or repeal of these tax exemptions and tax incentives, the enactment of any new laws, and any associated impact on the Company, could have a material adverse effect on the Company's business, financial condition and results of operations.

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

Power generation involves the use of highly complex machinery and processes and the Company's success depends on the effective operation and maintenance of equipment for its power generation assets. Technical partners and third-party operators are responsible for the operation and maintenance of certain power projects. Any failure on the part of such technical partners and third-party operators to properly operate and/or adequately maintain these power projects could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's business depends on commitments to the promotion of renewable energy.
The countries in which the Company has investments have demonstrated a commitment to renewable energy. As a result, these countries have created favorable regulatory and tax regimes and financial incentives, as well as renewable portfolio standards that require distributors to source a certain percentage of their power requirements from renewable energy sources. For example, Vietnam's FIT programme provides for a FIT rate of $9.35 cents/ kWh for 20 years for solar plants completed by June 2019 (with the exception of solar power projects in located in Ninh Thuan province, which has extended this period to December 2019) and $8.50 cents/kWh for wind projects completed by November 2021. These commitments are, however, generally matters of domestic public policy and are subject to the execution of the relevant power purchase agreement ("PPA"). Should these commitments to renewable energy be reduced for any reason, it could affect the Company's ability to operate or renew the Company's permits and licenses and reduce the financial incentives available to the Company, which

could, in turn, have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

AC Energy may not be able to adequately influence the operations of its associates and joint ventures and the failure of one or more of its strategic partnerships may negatively impacts its business, financial condition, results of operations and prospects.
AC Energy derives a substantial portion of its income from investments in associates and joint ventures, in which it does not have majority voting control. These relationships involve certain risks including the possibility that these partners:

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

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

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

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

The Company is expanding its power generation operations and there are a number of projects in its energy portfolio under construction. These projects involve environmental, engineering, construction and commission risks, which may result in cost overruns, delays or performance that is below expected levels of output or efficiency. In addition, projects under construction may be affected by the timing of the issuance of permits and licenses by government agencies, any litigation or disputes, inclement weather, natural disasters, accidents or unforeseen circumstances, manufacturing and delivery schedules for key equipment, defect in design or construction, and supply and cost of equipment and materials. Further, project delays or cancelations or adjustments to the scope of work may occur from time to time due to incidents of force majeure or legal impediments.

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

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

Any restriction or prohibition on the ability of some or all of the Company's subsidiaries, associates and/or joint ventures to distribute dividends or make other distributions to the Company, either due to regulatory restrictions, debt covenants, operating or financial difficulties or other limitations, could have a negative effect on the Company's cash flow and therefore, its financial condition.

The administration and operation of power generation projects by project companies involve significant risks.

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

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

Climate change policies may adversely affect the Company's business and prospects.

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

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

Environmental regulations may cause the relevant project companies to incur significant costs and liabilities.

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

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

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

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

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

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

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

Exchange rate and/or interest rate fluctuations may have a significant adverse impact on the Company's business, financial condition, results of operations and prospects.
As a result of the international nature of the Company's business, changes in foreign currency rates could have an adverse impact on the Company's business, financial condition, results of operations and prospects. Currency fluctuations affect the Company because of mismatches between the currencies in which operating costs are incurred and those in which revenues are received. The Company's functional currency is the Philippine Peso, and the Company has and may have assets,

income streams and liabilities denominated in a number of currencies, including the U.S. Dollar, Indonesian Rupiah, Vietnamese Dong and Australian dollars.

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

Competitive Strengths

The Company believes that it has the following strengths:

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

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

For the period 2007 - 2017, power consumption grew by 5.0% CAGR, according to the DOE. In order to meet increasing demand, growth in installed capacity is essential and has compelled the Philippine government to encourage the expansion in renewable energy capacity. The National Renewable Energy Board ("NREB") has set a target of reaching 15GW of installed renewable capacity by 2030. In addition, renewable initiatives are currently in place, including income tax holiday, lower corporate income tax rate and tax-free importation. The NREB has also launched the Renewable Portfolio Standards ("RPS"), which mandates distribution utilities to source a portion of their power supply from renewable energy and requires 35% of power demand to come from renewable energy by 2030.

Similar to the Philippines, Indonesia, over the same period, power generation grew by 6.0% based on information from the *Perusahaan Listrik Negara* ("PLN", Indonesia's sole electricity business authority), underpinned by strong economic growth and the government's electrification efforts. Renewable power is expected to play a significant role in further supply expansion as the government targets new and renewable energy sources to account for 23% of total energy generation by 2025 and 31% by 2050. To support this growth, several renewable initiatives have been introduced or are under review, such as favorable tariff for solar and wind, income tax and importation incentives.
Vietnam offers one of the most attractive renewable energy markets in the region due to its large population and rapid nominal GDP growth. Over the same period, electricity consumption grew by 10.7% driven by strong economic growth and the country's rapidly expanding manufacturing sector, based on information from the Ministry of Industry and Trade of Vietnam. According to Business Monitor International ("BMI"), the Vietnam government is targeting power generation of over 330TWh by 2020 and over 695TWh by 2030, which are significantly higher than the aggregate electricity generated in 2017 of 160TWh. Renewable power is expected to play a key role in supporting the expansion in supply with the revised Power Development Plan 7 ("PDP 7") targeting 12GW and 6GW, respectively, in solar and wind by 2030. In addition, renewable initiatives are currently in-place to support this renewable target: for example, a 20-year FIT for solar and wind import tax exemptions and corporate income tax reductions.

Being a mature and developed market, Australia offers stability with growth driven by the national directive to shift towards renewable energy sources and the increasing cost competitiveness of renewable technology. Australia has an established renewable market underpinned by the Renewable Energy Act 2000. With the support of positive regulatory framework and the country's strong renewable projects pipeline, Australia's non-hydroelectric renewable market capacity is expected to grow 7.2%

annually during 2018 to 2027 according to BMI data, especially with the decommissioning of coal-fired power plants that begun in 2012.

Proven track record of delivering growth, rapid execution, performance and realizing value

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

To deliver on its objectives, on the same year, AC Energy made its initial foray into the renewables space with its acquisition of a 50.0% stake in Northwind Power Development Corporation ("NorthWind"), which operates a wind farm operating in Ilocos Norte, for a 16MW attributable capacity. At the time of the investment, it was the only wind farm in the country and considered the largest in Southeast Asia. AC Energy also signed a 50:50 JV agreement with the PHINMA Group, a leading diversified business group in the Philippines, to develop the South Luzon Thermal Energy Corporation ("SLTEC") coal project, the Company's first investment in conventional energy. The project was subsequently expanded to include a second unit.

Having established its foothold in the Philippine power sector, AC Energy embarked on a series of strategic power sector investments over the succeeding years.

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

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

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

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

Starting 2015, AC Energy began to realize value from its earlier investments. Mitsubishi Corporation ("Mitsubishi") and Marubeni Corporation ("Marubeni"), among Japan's largest trading houses and among the most active Japanese business groups in the country, partnered with AC Energy by acquiring equity interest in the North Luzon Renewables Project (in 2015) and in SLTEC (in 2016), respectively.

With fresh capital from the sale of its strategic stakes in its portfolio, a larger balance sheet, and the improved cost efficiency of emerging solar and wind technologies, AC Energy further embarked on the expansion of its renewable energy and international capabilities.

In 2017, AC Energy acquired 100.0% of San Carlos Clean Energy (now AC Energy Development, Inc.), a Philippines-based renewable energy developer, further expanding AC Energy's in-house renewable energy developmental and operational capability.

Over the next two years, AC Energy broadened its footprint in Indonesia, with the inauguration of the Sidrap Project in 2018, AC Energy's first offshore utility-scale wind farm and Indonesia's first commercial-scale wind farm. Through its partnership with the BIM Group and the AMI Group, the acquisition of The Blue Circle, and establishment of a joint venture with UPC Renewables in Australia, the Company has expanded its international presence and on-the-ground expertise to include the rapidly developing renewable energy markets of Vietnam and Australia.

In late 2018, AC Energy agreed to the sale of a 60% economic stake in its thermal platform, AA Thermal, to Aboitiz Power for U.S.$579.2 million, providing the Company with significant realized value and allowing it to focus on its renewable energy objectives.

Having grown its revenues and equity in net income and attributable capacity, including projects under construction in the year 2018, AC Energy believes that it has demonstrated its ability to identify and deliver attractive projects, attract world-class partners that complement its capabilities and create growth, particularly in the renewable energy space.

Further to its achievements, to date, the Company has also achieved several awards among which are:

- Fastest Growing Energy Platform in IFM Awards 2017 – Philippines by London-based International Finance Magazine
- Smart Project Award by Project Finance International during the Asia Best Practice Citations 2017
- Recognized by several regional and international organizations including The Asset, Alpha Southeast Asia, Project Finance International, International Financing Review Asia and IJGlobal for the acquisition of the geothermal and power business of Chevron Global Energy in Indonesia in 2017

Portfolio of projects across geographies, technologies and regulatory regimes provides stable cashflows, diversification and a strong platform for growth

AC Energy believes that it benefits from a portfolio approach to its investments, providing the Company with a blend of seasoned and new operating projects that provide stable cashflows underpinned by attractive, long-term contractual arrangements which are mostly dollar-linked and a diverse business model (a combination of bilateral contracts, spot sales and FIT contracts), fuel types, geographies and regulatory regimes that the Company is able to leverage as a platform for renewable capacity expansion and international growth.

The Northwind Project, Southeast Asia's first commercial wind farm, is a 52MW wind farm in Ilocos Norte province. Phases 1 and 2, with combined capacity of 33MW, began commercial operations in 2005 and 2008 respectively, benefit from a FIT rate of P5.76/KWh for 20 years beginning from June 2014. Phase 3 has a FIT rate of P8.53/KWh and is valid for 20 years. The FIT received by the projects provide a stable selling price that has recently been higher than the WESM's average Customer Effective Spot Settlement Price of P3.34/KWh and P4.11/KWh in 2017 and 2018. Phases 1 and 2, and Phase 3 have demonstrated strong availability factors at 92% and 96% respectively in 2018, owing to the attractive wind energy potential of the northern Philippines.

The North Luzon Renewables Project, an 81MW wind farm also in Ilocos Norte province, was awarded a FIT rate of P8.53/KWh from November 2014 and until 20 years thereafter. For 2018, it registered an availability factor of 94%.

AC Energy's initial foray into solar energy, the Montesol Project, is an 18MW solar farm in the province of Negros Oriental in the Visayas region of the Philippines. It is entitled to a FIT rate of P8.69/KWh valid for 20 years from March 2016. AC Energy believes in the potential for the project to be further expanded to 50MW.

In Indonesia, the Salak-Darajat Geothermal Projects and Sidrap Wind Project, similarly enjoy attractive commercial arrangements. The Salak- Darajat Geothermal Projects has PLN, the national electricity distributor and the Indonesia market's primary power purchaser, as its offtaker having granted the project with a take-or-pay contract. The Sidrap Wind Project has a 30-year PPA with the PLN at a US dollar-linked, levelized tariff of U.S.$0.1141/KWh, providing AC Energy with a hedge against any potential volatility in the Indonesia Rupiah.

GMCP, AC Energy's largest operating power asset in its portfolio to-date, in partnership with Power Partners and Aboitiz Power, provides the Company with access to a highly attractive 2 x 316MW clean pulverized coalfired power generation facility. Located in the Luzon island, the country's population and industrial base, over 95% of GMCP's offtake is contracted by electric cooperatives, with PPSAs ranging from 10 to 15 years. Most of the electric cooperatives that are off-takers of GMCP are rated AAA by the National Electrification Administration as of end-2017. GMCP began commercial operations in February 2014.

SLTEC similarly benefits from its proximity to the Mega Manila area, the region covering Metro Manila, Central Luzon, and the CALABARZON area and the country's economic center. SLTEC's capacity is fully contracted under a 15-year PPA. Unit 1 and 2 of SLTEC began commercial operations in April 2015 and February 2016 respectively.

Pipeline of projects in partnership with recognized and accomplished power industry developers, operators and investors provides a visible path to growth

AC Energy believes that its partners in its domestic and international operations are some of the most established developers and operators of conventional and renewable assets. In addition to pursuing attractive investment opportunities together with the sector's most established names, AC Energy believes that its commitment to its objectives, visible track record of success in achieving growth and the ability to forge partnerships in various market segments has made it a partner of choice.

Key among AC Energy's partners in the conventional energy business in the Philippines are Power Partners, Marubeni and PHINMA Energy Corporation ("PHINMA Energy"). Power Partners is a private limited partnership organized and established in the Philippines in 2001 and formed by principals having extensive backgrounds in power development both in the Philippines and around the world. Marubeni has significant power presence in the country such as through the Ilijan natural gas-fired plant, Sual and Pagbilao coal-fired plants and the San Roque hydro plant. PHINMA Energy is an integrated power solutions company engaged in power generation and electricity supply, renewable energy, and resource exploration and development.

Aboitiz Power Corporation, one of the country's largest power generation companies by gross installed capacity, has been a partner of the Company in the GNPower Mariveles and the GNPower Dinginin Projects, and a shareholder in both projects prior to AC Energy's selldown of its stake in AA Thermal. Aboitiz Power Corporation is led by the Spanish-Filipino Aboitiz family, whose involvement in the Philippine power sector began in 1905. To-date, Aboitiz Power and its affiliated companies collectively is one of the country's largest business conglomerates, with a long history of operating conventional power assets.

PINAI, an infrastructure-focused fund whose investors include the Macquarie Group, and the Asian Development Fund, has also been a repeat partner of the group. Initially a partner for the North Luzon Renewables Project, PINAI subsequently co-invested in the GNPower Kauswagan Project, joining AC Energy and Power Partners as an additional limited partner.

The GNPower Kauswagan and GNPower Dinginin projects, are scheduled to commence commercial operations from 2019 to 2020 and are expected to add 552MW of subcritical and 1,336 MW of supercritical net capacity into the system, respectively, of which an aggregate of 1,137MW is attributable to AC Energy.

In the international space, the Company has partnered with UPC Renewables, a U.S.-based renewable energy developer with over 20 years of global experience in the construction and operations of wind and solar energy projects. UPC Renewables has developed over 3,500MW of wind and solar projects, has a presence across 12 countries and has built 70 projects with approximately U.S.$5.0 billion of project debt and equity deployed.
AC Energy began its partnership with UPC Renewables in the North Luzon Renewables Project. Subsequent to this, AC Energy and UPC Renewables expanded their partnership by developing and constructing the Sidrap Wind Project. Inaugurated by Indonesia's President Joko Widodo, the Sidrap Wind Project is AC Energy's first offshore and Indonesia's first utility-scale wind farm.

In 2018, UPC Renewables and AC Energy established a joint venture, UPC-AC Energy Renewables Australia, which saw AC Energy invest U.S.$30 million for a 50% equity stake and provide a U.S.$200 million facility to fund the partnership's equity needs. UPC-AC Energy Renewables Australia is developing the Robbins Island and Jim's Plain wind projects and the NE Solar Farm located in Australia, which in total potentially combine for up to 1,700MW of renewable energy capacity.

In Southeast Asia, AC Energy has forged ties with The Blue Circle, the BIM Group, the AMI Group and Star Energy for various wind, solar and geothermal projects. Through The Blue Circle, AC Energy is participating in the development of The Blue Circle's pipeline of projects across Southeast Asia.

Through the BIM Group, AC Energy is participating in the development of 330MW of solar power projects in the Ninh Thuan province of Vietnam. Through the AMI group, AC Energy is part of the development of 80MW solar projects in Khan Hoa and Dak Lak provinces in Vietnam. These projects in Vietnam are expected to benefit from a FIT rate incentive.

AC Energy believes that its various partnerships provide it with the ability to source high quality projects efficiently and with local market expertise. Collectively, the Company's current partnerships provide visibility to over 4GW of expected gross capacity across wind, solar and geothermal projects in the Philippines, Indonesia, Vietnam and Australia, helping drive the Company towards its goal of achieving 5GW of attributable capacity from renewable energy sources by 2025.

For further information on AC Energy, please refer to its website www.acenergy.com.ph.

Bank of the Phil. Islands (BPI or the Bank), and **Globe Telecom** (Globe) are significant associate and joint venture of the Group, respectively.

BANK OF THE PHILIPPINE ISLANDS

Bank of the Philippine Islands' highlights of Consolidated Statements of Condition and Statements of Income are shown in the Note 10 of the Group's 2018 Consolidated Financial Statements as well as in the BPI's 2018 Consolidated Financial Statements which form part of Index to Financial Statements and Supplementary Schedules of this SEC 17A report.

Background and Business

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

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

(1) Business Development

BPI is the Philippines' third largest banking institution in terms of total assets and equity capital, and is among the highest in the industry in terms of market capitalization. The bank is licensed by the Bangko Sentral ng Pilipinas ("BSP") to provide universal banking services and has a significant share of total banking system deposits, loans, and investment assets under management. It is recognized as one of the country's top providers of cross-border remittances, life and non-life bancassurance services, as well as asset finance and leasing. BPI also has a significant capital markets presence, particularly in fixed income and equities underwriting, distribution and brokerage. It is a significant provider of foreign exchange to both retail and corporate clients. The bank also has the country's second largest branch network. It is a leader and innovator in the use of automated branch processes as well as in the use of electronic channels. The bank operates the country's second largest ATM network, and is also a major provider of financial services through internet banking, mobile banking, and phone banking.

Historical Background. Founded in 1851, BPI was the first bank formed in the Philippines and was the issuer of the country's first currency notes in 1855. It opened its first branch in Iloilo in 1897 and pioneered in sugar crop loans. It also financed the first tram service, telephone system, and electric power utility in Manila and the first steamship in the country. As such, BPI and its "escudo" ranks as one of the largest home-grown Philippine brands and carries an extensive legacy.

Recent History. For many years after its founding, BPI was the only domestic commercial bank in the Philippines. BPI's business was largely focused on deposit taking and extending credit to exporters and local traders of raw materials and commodities, such as sugar, tobacco, coffee, and indigo, as well as funding public infrastructure. In keeping with the regulatory model set by the Glass Steagall Act of 1932, the Bank operated for many years as a private commercial bank. In the early 1980s, the Monetary Board of the Central Bank of the Philippines (now the BSP) allowed BPI to evolve into a fully diversified universal bank, with activities encompassing traditional commercial banking as well as investment and consumer banking. This transformation into a universal bank was accomplished through both organic growth and mergers and acquisitions, with BPI absorbing an investment house, a stock brokerage, a leasing company, a savings bank, a retail finance company, and bancassurance platforms.

BPI consummated three bank mergers since the late 1990s. In 1996, it merged with City Trust Banking Corp., the retail banking arm of Citibank in the Philippines, which enhanced its franchise in consumer banking. In 2000, BPI acquired Far East Bank & Trust Company (FEBTC), then the largest banking merger in the Philippines. This merger established BPI's dominance in asset management & trust services and branch banking; furthermore, it enhanced the Bank's penetration of middle market clients. In 2000, BPI also formalized its acquisition of three major insurance companies in the life, non-life and reinsurance fields. In 2005, BPI acquired and merged with Prudential Bank, a medium sized bank with a clientele of middle market entrepreneurs.

In March 2011, BPI became the first bank in the Philippines to acquire the trust business of a foreign bank when it purchased the trust and investment management business of ING Bank N.V. Manila.

In December 2014, BPI completed a strategic partnership with Century Tokyo Leasing Corp., one of the largest leasing companies in Japan, to form BPI Century Tokyo Lease & Finance Corp., with BPI retaining 51% of ownership. This strategic partnership is expected to help BPI innovate in asset financing products and enhance the service experience of an expanding base of Philippine consumers and corporations seeking asset leasing and rental solutions.

BPI evolved to its present position as a leader in Philippine banking through a continuous process of improving its array of products and services, while maintaining a balanced and diversified risk profile that helped reinforce the stability of its earnings.

Business Milestones (2015-2018). On August 2015, BPI completed another strategic partnership with Global Payments, an Atlanta-based, NYSE-listed provider of international payment services. By combining its merchant acquiring network with that of GPN, BPI stands to provide enhanced services to its card customers, as well as to its merchant clients. The partnership with GPN remained 49% owned by BPI.

Last August 2016, BPI acquired a 10% minority stake in Rizal Bank Inc. (RBI), a member institution of Center for Agriculture and Rural Development Mutually Reinforcing Institutions (CARD MRI), a group of social development organizations that specialize in microfinance.

Effective September 20, 2016, BPI has taken full control over BPI Globe BanKO, Inc. after acquiring the 20% and 40% stake of Ayala Corporation and Globe Telecom, respectively. On December 29, 2016, the Securities and Exchange Commission approved change of the corporate name to BPI Direct BanKo, Inc., A Savings Bank, after BPI Direct absorbed the entire assets and liabilities of BanKO.

Also on December 29, 2016, BPI has successfully spun off its BPI Asset Management and Trust Group (BPI AMTG) to a newly-established Stand-Alone Trust Corporation (SATC) named BPI Asset Management and Trust Corp. (BPI AMTC). BPI AMTC officially commenced its operations on February 1, 2017.

In 2018, BPI tapped the equity and debt capital markets with landmark issuances, starting with the P50 billion stock rights offering (SRO) in May 2018. This was followed by the issuance of USD600 million in senior unsecured bonds in August 2018, and the issuance of P25 billion in peso fixed rate bonds in December 2018. The overwhelming success of these fund-raising transactions is testament to the strength of the BPI franchise.

Principal Subsidiaries. The Bank’s principal subsidiaries are:

(1) BPI Family Savings Bank, Inc. (“BFSB”) is BPI’s flagship platform for retail lending, in particular, housing, auto, and small business loans. It is also one of BPI’s primary vehicles for retail deposits. BFSB was acquired by BPI in 1984;

(2) BPI Capital Corp. (“BPI Cap”) is an investment house focused on corporate finance and the underwriting, distribution, and trading of debt and equity securities. It began operations in December 1994. BPI Cap wholly owns BPI Securities Corp., a stock brokerage;

(3) BPI Direct BanKo, Inc., A Savings Bank (“BanKo”), serves microfinance customers through branch, electronic, and partnership channels. Founded in February 2000 as BPI Globe BanKO, it is now wholly-owned, following a September 2016 purchase of stakes owned by Ayala Corp. (20%) and Globe Telecom, Inc. (40%) and a December 2016 merger with BPI Direct Savings Bank, Inc.;

(4) BPI International Finance Limited (“BPI IFL”) is a deposit taking company in Hong Kong. Originally established in August 1974, it provides deposit services as well as client-directed sourcing services for international investments. On November 21, 2018 BPI IFL distributed its shares in BPI Remittance Centre Hong Kong Ltd. (“BERC HK”) as a property dividend to the Parent Bank. BERC HK became an immediate subsidiary of the Parent Bank following this. BERC HK is a Licensed Money Service Operator in Hong Kong servicing the remittance services to beneficiaries residing throughout the Philippines;

(5) BPI Europe Plc. (”BPI Europe”) commenced operations in the United Kingdom in May 2007 as a bank registered in England and Wales. It is a UK-licensed bank authorized by the Prudential

Regulation Authority (PRA), and regulated by the PRA and the Financial Conduct Authority (FCA). It started its operations offering retail deposit products and money services, servicing retail customers, primarily targeting the Filipino community;

(6) BPI Century Tokyo Lease & Finance Corp. ("BPI CTL") is a non-bank financial institution ("NBFI") that provides financing services pursuant to the Financing Company Act. BPI CTL is a joint venture with Century Tokyo Leasing Corp., who purchased a 49% stake in 2014. BPI CTL wholly owns BPI Century Tokyo Rental Corp., which offers operating leases;

(7) BPI/MS Insurance Corp. ("BPI MS") is a non-life insurance company. It is a joint venture with Mitsui Sumitomo Insurance Co. (who owns a 49% stake), and is the result of a merger of FGU Insurance Co. and FEB Mitsui Marine Insurance Co., which was acquired as a subsidiary of Far East Bank in 2000.

(8) BPI Asset Management and Trust Corporation ("BPI AMTC") is a Stand Alone Trust Corporation (SATC) serving both individual and institutional investors with a full suite of local and global investment solutions. BPI AMTC was established after a Certificate of Authority to Operate was issued by the BSP on December 29, 2016 and it started operations on February 1, 2017.

(9) BPI Investment Management Inc. ("BIMI") is a wholly owned subsidiary of the Bank and serves as the Bank's manager and investment advisor to the ALFM mutual funds (which comprise a number of open-end investment companies registered with, and regulated by, the SEC). BIMI is also responsible for formulating and executing the funds' investment strategies.

(2) Business of Issuer

Principal Products & Services

The Bank offers a wide range of corporate, commercial and retail banking products. The Bank has two major categories for products & services. The first category covers its core financial intermediation business, which includes, deposit taking, lending, and securities investments. Revenue from this category is collectively termed as net interest income and accounts for about 71% of net revenues. The second category covers services ancillary to the Banks' financial intermediation business, and from which it derives transaction-based commissions, service charges & other fees. These include investment banking & corporate finance fees, asset management & trust fees, foreign exchange gains, securities distribution fees, securities trading gains, credit card membership fees, rental of bank assets, income from insurance subsidiaries and service charges or commissions earned on international trade transactions, drafts, fund transfers, and various deposit related services. Commissions, service charges, and other fees, when combined with trading gains and losses arising from the Bank's fixed income and foreign exchange operations, constitute non-interest income, which accounts for the remaining 29% of net revenues.

Foreign Offices Contribution

	2016	2017	2018
Share in Total Revenue (%)	0.74	1.51	0.56
Hong Kong	0.35	0.37	0.37
USA	0.06	0.86	(0.00)
Europe	0.33	0.28	0.20
Share in Total Net Income (%)	0.18	1.57	(0.02)
Hong Kong	0.10	0.18	(0.12)
USA	0.08	1.43	0.04
Europe	(0.00)	(0.04)	0.05

Distribution Network

BPI had 856 branches across the country, including 12 kiosk branches, as of end 2018. Kiosks are branches much smaller than traditional full-service branches, but are fully equipped with terminals allowing direct electronic access to product information and customers' accounts, as well as processing of self-service transactions. Kiosks serve as sales outlets in high foot traffic areas such as supermarkets, shopping malls, transit stations, and large commercial establishments. Additionally, there are 200 BPI Direct BanKo branches and Business-Lite Units (BLUs) set up in strategic locations in the country. BPI Direct BanKo, originally set-up as a joint venture with Ayala Corp. and Globe Telecom, is the country's first mobile-based savings bank whose goal is to extend microfinance services to the lower end of the market, thereby promoting financial inclusion. Overseas, BPI has one (1) Hong Kong office (BPI IFL) and two (2) BPI Europe offices in London.

BPI maintains a specialized network of overseas offices to service Filipinos working abroad. To date, BPI has 4 Remittance Centers located in Hong Kong and 2 representative offices located in UAE and Japan. BPI also maintains remittance tie-up arrangements with various foreign entities in several countries to widen its network in serving the needs of Filipinos overseas.

On the lending side, there are 26 business centers, servicing both corporate and retail clients, across the country to process loan applications, loan releases, and international trade transactions. These centers also provide after-sales servicing of loan accounts.

BPI's ATM network has grown to a total of 3,034 terminals as of end-2018 of which 2,421 are ATMs and 613 are Cash Accept Machines. This complements the branch network by providing cash related banking services to customers at any place and time of the day. In addition, the interconnection with Bancnet gives BPI cardholders access to over 20,771 ATMs across the country. BPI's ATM network is likewise interconnected with Mastercard, China Union Pay (CUP), Discover/Diners, JCB, and Visa. Through the Bank's extensive physical and digital networks, the Bank provides a broad range of value-added services to its clients, enhancing convenience and self-service capabilities, as well as greater accessibility.

The Retail Digital Platforms (online and mobile) of BPI provide clients a reliable, safe and intuitive digital banking experience. This translates to an ultimate convenience through quick and paperless transactions anytime, anywhere. Aside from the standard banking features (i.e. Account inquiry, Funds transfer, Bills payment), the digital platforms have introduced a new set of innovative features and service. These include:

- Transfer via QR Code – making transferring money to unenrolled account as easy as taking or uploading a photo.
- Expanded Reloading merchants – reloading to all telco networks is now available, as well as other prepaid merchants like Meralco Kuryente Load and Cignal.
- Debit Card control - clients can now manage their purchase limits for POS transactions, withdrawal limits, and temporarily or permanently block their debit cards on their own.
- Biometric login makes a safer and quicker way to login on the app.
- OTP as a primary security feature adds an extra layer of security to validate that transactions are really done by the client.
- Plus, Transfer to other BPI accounts is now available on both the BPI web and app platforms.

BPI Phone Banking provides clients with 24/7 self-service banking facilities and a gateway to get live support through the Bank's Contact Center. Using any phone, customers can call 89-100 to inquire their account balances and latest transactions, transfer funds to other BPI accounts in real time and pay for their various bills. Concerns and queries on any of BPI's products and services are addressed by the highly-trained Phone Banking Specialists any time, any day.

Competition

Mergers, acquisitions and closures continued to reduce the number of players in the industry from a high of 50 upon the liberalization of rules on the entry of foreign banks, down to 45 universal and commercial banks in December 2018.

Lending by universal and commercial banks, excluding thrift banks, grew by 14.6% in 2018 or 2.7 percentage points lower versus registered growth in 2017. The top five industry performers were arts, entertainment and recreation, construction, financial and insurance activities, water supply, sewerage, waste management and remediation activities, and mining and quarrying, education, public administration and activities of households as employers and undifferentiated goods-and-services-producing activities of households for own use which grew by 41.1%, 36.1%, 30.5%, 22.3% and 22.1%, respectively. Decent credit demands were also seen from education, agriculture, forestry and fishing, transportation and storage, wholesale and retail trade, repair of motor vehicles, motorcycles, and mining and quarrying. Consumer loans also grew by 14.6% in December 2018 versus the prior year.

While the Philippine Economy slightly slowed down from the 6.7% growth recorded in 2017, it is expected to beat its 2018 growth of 6.2% to at least 6.5% in 2019 on sustained investment inflows, easing inflation and election driven spending. The Government's big ticket infrastructure projects were able to take off backed by the Comprehensive Tax Reform Program which also yielded to increased purchasing power of the income earning populations.

As major banks raised capital in 2018, this enabled the financial sector to actively participate in private and government activities and likewise earned enough capital buffer in the short- to medium-term. The 2% reduction in reserve requirement also helped boost the sector's lending capacity and supported the capital market development.

BPI on its part will continue to grow its corporate and consumer clients while giving focus on small and medium size lending. The prioritization of SMEs was concretized by launching Business Bank last year. On microfinance, the Bank opened additional 100 BanKo branches and ended 2018 at 200.

Based on required published statements by the BSP as of December 2018, BPI is the third largest bank operating in the country in terms of assets, customer loans, deposits and capital. The Bank ranks second in terms of asset management and trust business. Total assets of BPI, based on Philippine Accounting Standards (PAS) compliant audited financial statements, are higher than the published statements prepared along BSP standards.

Patents, Trademarks, Licenses, Franchises, etc.

BPI sells its products and services through the BPI trademark and/or trade name. All its major financial subsidiaries carry the BPI name prefix (e.g., BPI Family Savings Bank, BPI Capital, BPI Securities, BPI Leasing, and BPI Direct BanKo), and so do its major product & service lines.

Following are some of BPI's trademarks for its products and services:

1. BPI Express Banking Centers, for its banking kiosks
2. BPI ATM, for its ATM
3. BPI CAM, for its cash accept machine
4. Express Payment System or EPS, for its debit card payment facility
5. Express Credit, BPI Credits and BPI BPI Credit Cards for its credit cards
6. Express Cash, for its electronic cash card
7. BPI Phone Banking, for its call center facility
8. BPI Online Banking, for its internet-based transaction platform for retail customers
9. BPI Mobile Banking, for its mobile banking facility
10. ExpressLink/BizLink, for its internet-based transaction platform for corporate customers
11. ExpressLink Mobile, for its mobile banking for corporate customers
12. Express Collect, for its corporate deposit related services

At BPI Family Savings Bank, the product trademarks include the BPI Family Housing Loan with BPI Family Housing Loan Paybreak variant, the BPI Family Auto Loan, and BPI Family Ka-Negosyo Business Loans (BPI Family Ka Negosyo Credit Line, BPI Family Ka-Negosyo Franchising Loan and BPI Family Ka-Negosyo Term Loan). Other product brands of BPI, BFSB and BPI Direct BanKo are Kaya Savings, Jumpstart, PondoKo Savings, Maxi-One, Save-up, Advance Savings, Maxi-Saver, Pamana Savings Account, Pamana Padala, Padala Moneyger, Ka Negosyo Checking Account, Plan Ahead, the BPI Personal Loan and a loan product specifically offered by BPI Direct BanKo, BanKo NegosyoKo.

All the Bank's Trademark registrations are valid for 10 years with years of expiration varying from year 2018 to 2028. Trademarks intended to be used or maintained by the Bank are so maintained and renewed in accordance with applicable Intellectual Property laws and regulations. The Bank closely monitors the expiry/renewal dates of its trademarks to protect the Bank's brand equity.

In terms of business licenses, BPI has an expanded commercial banking license while BFSB and BanKo have savings bank licenses. BPI Cap has an investment house license and is a registered Government Securities Eligible Dealer (GSED) with Broker Dealer of Securities and Mutual Fund Distributor. BPI CTL has a finance company license. BPI AMTC has a trust license, securities custodian license and is a PERA-accredited administrator while BIMI has an investment company adviser license, mutual fund distributor license, and is a registered transfer agent. BPI MS was granted by the Insurance Commission a Certificate of Authority to transact and sell non-life insurance products.

For foreign business licenses, BPI Europe has a UK banking license authorized by the Prudential Regulation Authority. Meanwhile, BPI IFL is licensed by the Hong Kong Monetary Authority as a deposit-taking company. It was further granted by the Hong Kong Securities and Futures Commission with licenses to engage in securities dealing and advising, and asset management.

Related Parties

In the ordinary course of business, the Bank has entered into various transactions with its Directors, Officers, Stockholders and their Related Interest, or DOSRI, including loan transactions. BPI and all its subsidiaries have always been in compliance with the General Banking Act, BSP Circulars and regulations on DOSRI loans and transactions. As of December 31, 2018, DOSRI loans amounted to 0.60% of loans and advances as per Note 26 of the 2018 Audited Financial Statements.

Government Regulations

Under the General Banking Act, the Monetary Board of the BSP is responsible for regulating and supervising financial intermediaries like BPI. The implementation and enforcement of the BSP regulations is primarily the responsibility of the supervision and examination sector of the BSP.

The General Banking Act was revised in 2000. The revisions allow (1) the issuance of tier 2 capital and its inclusion in the capital ratio computation, and (2) the 100% acquisition of a local bank by a foreign bank. The second item removes the advantage of a local bank over a foreign bank in the area of branching. In 2005, the BSP issued Circular No. 494 covering the guidelines in adopting the provision of Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) effective the annual financial reporting period beginning 1 January 2005. These new accounting standards aim to promote fairness, transparency and accuracy in financial reporting.

In July 2007, the risk-based Capital Adequacy Ratio (CAR) under the Basel II accord, which assigns risk weights for credit, market and operational risks, was implemented by the BSP through BSP Circular No. 538. The circular, which covers all universal and commercial banks including their subsidiary banks and quasi-banks, also maintained the 10% minimum capital adequacy ratio for both solo and consolidated basis. Subsequently, the Internal Capital Adequacy Assessment Process (ICAAP) guidelines were issued in 2009 for adoption by January 2011.

On January 6, 2012, the BSP announced that universal and commercial banks will be required to adopt the capital adequacy standards under Basel III starting January 1, 2014. On January 15, 2013, the BSP issued Circular No. 781, which prescribes the new capital adequacy standards in accordance with Basel III. This circular took effect in January 1, 2014.

On March 29, 2012, the BSP issued Circular No. 753 mandating the unification of the statutory/legal and liquidity reserves requirements on Peso deposits and Peso deposit substitutes. As such, effective the week of April 6, 2012, non-foreign currency deposit, unit deposit liabilities, including Peso demand, savings and time deposits, negotiable orders of withdrawal of accounts, and deposit substitutes, are subject to required reserves equivalent of 18%. Likewise, a universal bank is required to set up reserves of 15% against Peso-denominated “Trust and Other Fiduciary Accounts (TOFA) — Others.”

On June 27, 2014, the BSP issued Circular No. 839 which set prudential real estate stress test limits of Common Equity Tier 1 (CET1) capital ratio of 6% and risk-based capital adequacy ratio (CAR of 10% for universal/commercial banks (U/KBs), thrift banks (TBs) on a solo and consolidated basis on their aggregate real estate exposures (REEs). The stress test will be undertaken on a U/KB’s or TB’s REEs and other real estate property under an assumed write-off rate of 25%.

On October 29, 2014, the BSP issued Circular No. 856 requiring Domestic Systematically Important Banks (DSIBs) to submit data requirements for identification of DSIBs, starting with 2014 data. DSIBs will also be required to comply with the additional higher loss absorbency, phased-in from January 1, 2017, with full implementation by January 1, 2019. This circular took effect on December 31, 2014.

On June 9, 2015, the BSP issued Circular No. 881, requiring banks to maintain a minimum leverage ratio (Tier 1 capital / Exposure Measure) of 5.0% on both solo and consolidated bases. Starting December 31, 2014 and every quarter thereafter until December 31, 2016, concerned banks shall submit the Basel III Leverage Ratio reporting template, including required disclosure template, on both solo and consolidated bases for monitoring purposes. Final guidelines shall be issued in view of the changes to the framework as well as migration from monitoring of the leverage ratio to a Pillar 1 requirement starting January 1, 2017.

In October 2015, BSP Circular No. 888, Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments, was issued, which amends the section on recording of dividends. The liability for dividends declared shall be taken up in the bank's books upon its declaration. Prior to the release of BSP Circular No. 888, the liability for recording dividends declared is taken up in the books upon receipt of BSP approval thereof or if no such approval is received, after thirty (30) banking/business days from the date the required report on dividend declaration was received by the appropriate department of the Supervision and Examination Sector, whichever comes earlier.

On March 10, 2016, the BSP issued Circular Nos. 904 and 905.

- BSP Circular No. 904 requires DSIBs to submit their first recovery plan on June 30, 2016 and for the recovery plan to form an integral part of the ICAAP to be submitted every 31 March of each year.
- BSP issued Circular No. 905 requires banks to maintain a minimum Liquidity Coverage Ratio (LCR) on a daily basis with required BSP reporting of quarterly on a consolidated basis and monthly on a solo basis. The LCR shall be implemented on a phased-in arrangement with prescribed minimum set initially at 90% in 2018 and shall rise to the minimum required level of 100% on January 1, 2019.

On May 27, 2016, the BSP issued Circular No. 912 which contains the guidelines on the adoption of the full provisions of PFRS 9 Financial Instruments effective January 1, 2018 and on the closure of early adoption window of the PFRS 9 Financial Instruments.

On June 2, 2016, BSP announced thru Circular No. 913, the formal shift in its monetary operations to an interest rate corridor (IRC) system starting June 3, 2016. The IRC is a system for guiding short-term market rates towards the BSP policy interest rate which is the overnight reverse repurchase (RRP) rate. The IRC system consists of the following instruments: standing liquidity facilities, namely, the overnight lending facility (OLF) and the overnight deposit facility (ODF); the overnight RRP facility; and a term deposit auction facility (TDF).

On January 20, 2017, BSP issued BSP Circular No. 941, Amendments to the Regulations on Past Due and Non-Performing Loans, which amends the regulatory definition of past due accounts, restructured loans non-performing loans and other related provisions, effective January 1, 2018. In general, this provides a 30-day cure period within which to allow the borrowers to catch up on their late payments without being considered as past due, subject to meeting certain criteria as provided in the memo.

On December 19, 2017, Republic Act No. 10963, otherwise known as the “Tax Reform for Acceleration and Inclusion” (TRAIN) was signed into law. This is the first package of the Comprehensive Tax Reform Program (CTRP), which amends various provisions of the 1997 National Internal Revenue Code. Sections 51 to 70 of TRAIN law amends certain sections of NIRC covering documentary stamp tax (DST). Other than DST on debt instruments which increased by 50%, all other increases are 100%. The law will take effect starting January 1, 2018.

On January 4, 2018, BSP issued the BSP Circular No. 989, also known as the “Guidelines on the Conduct of Stress Testing Exercises” was issued. This circular provides the overarching governance standards and risk management expectations on stress testing practices in the banking industry. The BSP is issuing the stress testing guidelines as part of its continuing initiatives to further strengthen risk governance and contribute to the sustained safety and soundness of the industry. Stress testing allows banks to prepare for events with severe financial impact. In particular, based on the results of stress testing, banks may adopt proactive measures such as the implementation of capital build up initiatives or enhancement of risk management practices all aimed at improving their resilience in times of actual crisis.

On January 22, 2018, BSP issued the BSP Circular No. 990, Amendments to the Basel III Leverage Ratio Framework. Banks/QBs concerned shall submit the Basel lll Leverage Ratio reporting template, including required disclosure templates, on both solo and consolidated bases for monitoring purposes. During the monitoring period, public disclosure of information relative to leverage ratio shall not be required. The monitoring of the leverage ratio shall be implemented as a pillar 1 minimum requirement effective on 01 July 2018. Upon migration to a Pillar 1 requirement, the Basel lll Leverage Ratio report shall be submitted quarterly along with the Basel lll CAR report on both solo and consolidated bases.

In 2018, the BSP announced two reserve requirement reductions which mandated the 100-basispoint reduction in the reserve requirement ratios of all banks and non-bank financial institutions with quasi-banking functions, through:

- BSP Circular No. 997 on February 15, 2018, with reserve requirement currently at twenty (20) percent, effective March 02, 2018; and
- BSP Circular No. 1004 on May 24, 2018, with reserve requirement currently at twenty (19) percent, effective June 1, 2018.

This operational adjustment aims to support the BSP's shift toward a more market-based implementation of monetary policy as well as its broad financial market reform agenda. The reduction will apply to the reservable liabilities of all banks and non-bank financial institutions with quasi-banking functions.

On June 6, 2018, BSP issued BSP Circular No. 1007, Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). Bank/QB shall maintain a stable funding profile, at least 100% at all times, in relation to the composition of its assets and off-balance sheet activities in order to promote long-term resilience against liquidity risk. The NSFR framework shall apply to all universal and commercial banks (UBs/KBs) and their subsidiary banks and QBs on both solo and consolidated bases. Banks/QBs shall undergo an observation period from July 1 to December 31, 2018 and shall take effect on 01 January 2019.

On August 14, 2018, BSP issued Circular No. 1011, Guidelines on the Adoption of the PFRS 9 – Financial Instruments. It is the thrust of the BSP to align its financial reporting requirements with standards and practices that are widely accepted internationally to promote fairness, transparency, and accountability in the financial industry. In this light, the Monetary Board in its Resolution No. 1226 dated 26 July 2018, approved guidelines governing the adoption of PFRS 9. To ensure consistency of application and comparability of financial reports, BSP Supervised Financial Institutions (BSFIs) shall adopt the ff.: (a) accounting treatment of government grants, preparation of (b) prudential reports and (c) audited financial statements, (d) guidelines on the adoption of PFRS 9 financial instruments, (e) enforcement actions, and (f) transitory provisions.

On August 23, 2018, SEC released SEC memorandum circular MC No.12-2018, Guidelines on the issuance of Green Bonds under the ASEAN Green Bonds standards in the Philippines, whereas Green Bonds are specific purpose bonds where proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible Green Projects, and that comply with the ASEAN Green Bond Standards. Effectivity date take effect fifteen (15) days after its publication in a newspaper of general circulation.

On December 6, 2018, the BSP also released Circular No. 1024 on the Philippine Adoption of the Basel III Countercyclical Buffer. The countercyclical buffer ("CCyB") extends the size of the capital conservation buffer by a percentage set annually by the regulators. It aims to achieve a broader macroprudential goal of protecting the banking sector from the build-up of systemic vulnerabilities. At the moment, CCyB for Philippine banks is set to 0%.

Research and Development Activities

BPI spent the following for the last three years:

	In Million Pesos	**% of Revenues**
2016	428.7	0.6
2017	595.3	0.8
2018	802.1	1.0

Employees

Below is a breakdown of the manpower complement of BPI in 2018 as well as the approved headcount for 2019.

	December 31, 2018 Actual			December 31, 2019 Plan		
	Officers	Staff	Total	Officers	Staff	Total
Unibank	6,541	11,749	18,290	7,096	12,599	19,695
Consumer	4,176	10,228	14,404	4,592	11,077	15,669
Corporate	840	792	1,632	930	792	1,722
Investment	418	248	666	418	248	666
Support	1,107	481	1,588	1,156	482	1,638
Insurance Companies	120	501	621	120	501	621
TOTAL	6,661	12,250	18,911	7,216	13,100	20,316

Majority or 90% of the staff are members of various unions and are subject to Collective Bargaining Agreements (CBAs). The current CBA of the parent company was concluded / signed last May 31, 2016 for Provincial Union and September 16, 2016 for Metro Manila Union, which covers the period of April 1, 2016 to March 31, 2019. Currently there are ongoing negotiations for the parent company. The period covered is April 1, 2019 until March 31, 2021

CBA for BPI Family Savings Bank was concluded/ signed last December 13, 2018. The BFSB CBA covers the period November 1, 2018 to October 31, 2020.

Risk Management

The Bank espouses a comprehensive risk management and capital management framework, which integrates the management of all its financial and non-financial risk exposures. The framework conforms not only to the Bank's own rigorous standards, but also the Bangko Sentral ng Pilipinas directives in promoting an effective ICAAP and other risk management processes; and ensures that the Bank has adequate liquidity and capital levels to mitigate risks, as well as robust business continuity and crisis resiliency standards in place. The framework focuses on three (3) key components of:

- Sound risk management governance;
- Effective risk processes, information systems, and controls; and
- Timely and reliable risk data.

BPI's Board of Directors fulfills its risk management function through the Risk Management Committee (RMC). At the management level, the Risk Management Office (RMO) is headed by the Chief Risk Officer (CRO). The CRO is responsible in leading the formulation of risk management policies, methodologies, and metrics in alignment with the overall business strategy of the Bank, ensuring that risks are prudently and rationally undertaken and within the Bank's risk appetite, as well as commensurate and disciplined to maximize returns on capital. The CRO and the RMO facilitate risk management learning programs and promote best practices on an enterprise-wide basis.

The Bank's risk exposures are identified, measured, and monitored, and controlled according to three (3) major classifications:

- *Credit Risk*, the largest single risk for most local banks, arises from the Bank's core lending and investing businesses, and involves the thorough credit evaluation, appropriate approval, management and continuous monitoring of exposure risks, such as borrower (or counterparty) risk, facility risk, concentrations and industry risk relating to each loan account. In BPI, the entire credit risk management process is governed by stringent underwriting policies and rating parameters, and lending procedures and standards which are regularly reviewed and updated given regulatory requirements and market developments. The Bank's loan portfolio is continuously monitored and reviewed as to overall asset quality, concentration and utilization of limits. The Bank continuously experiences growth in loan volumes but is able to manage overall low credit risk and maintain asset quality (as evidenced by generally low NPLs and adequate reserves cover), and did so in general compliance with regulatory and prudential requirements relating to credit risk management (e.g. RPT and DOSRI restrictions, single borrower's limits, and credit concentration, internal and regulatory stress tests, among others).

- *Market and Liquidity Risks* arise from the Bank's business in managing interest rate and liquidity gaps, as well as in the trading and distribution of fixed income, foreign exchange, and derivative instruments (as allowed by regulation). Price Market risk and liquidity risk are managed using a set of established policies and metrics guided by the Bank's market, interest rate risk in the banking book (IRRBB), and liquidity risk management framework set by the Board/RMC. Price Market risk is the risk that the Bank's earnings will decline immediately (or over time) because of volatility in interest rates, FX rates, or equity prices. The Bank employs various methodologies risk metrics such as value-at-risk (VaR), stop loss limits, balance sheet value-at-risk, and earnings at-risk, supplemented by regular stress tests. Liquidity exposures on funding mainly come from the mismatches of asset, liability, and exchange contract maturities. The Bank manages liquidity risk by setting a minimum cumulative liquidity gap (MCLG – smallest net cumulative cash inflow or the largest net cumulative cash outflow), and complying with the liquidity coverage ratio (LCR) prescribed regulatory limit. The Bank also conducsting internal and regulatory liquidity stress tests which have consistently revealed ample liquidity to meet its financial obligations under both name-specific and system-wide crisis scenarios, and regularly testing an established liquidity contingency funding plan. The Bank's market, and liquidity, and IRRBB risk exposures are generally well within the RMC (Board-level) approved VaR, stop loss, and other risk limits at the BPI Parent and consolidated group levels.

- *Operational and IT Risks* arise from the Bank's people and processes, its information technology, threats to the security of its facilities, personnel, or data, models, business interruption risk, reputational risk, and compliance obligations to regulatory or taxing authorities, amongst others. Operational and IT risk management in the Bank involves the formulation of policies, setting and monitoring of key risk indicators, overseeing the thoroughness of bank-wide risk and control self-assessments and loss incident management; and in the process, creating and maintaining a sound business operating environment that ensures and protects the integrity of the Bank's assets, transactions, reputation, records and data of the Bank and its customers, the enforceability of the Bank's claims, and compliance with all pertinent legal and regulatory parameters. The Bank's actual operational losses are generally less than 1% of the Bank's annual gross income, which is well within the Bank's appetite for operational and IT risks.

Risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience working within the Bank. The Bank's risk managers regularly monitor key risk indicators and report exposures against carefully-established credit, market, liquidity and operational and IT risk metrics and limits approved by the RMC. Finally, independent reviews are regularly conducted by the Bank's Internal Audit group, regulatory examiners, and external auditors to ensure that risk controls and mitigants are in place and functioning effectively as intended.

BPI also has a Board-approved IT risk governance structure that espouses the three lines of defense. Identification, assessment, monitoring and addressing IT Risks is the primary responsibility of the business and operating units, including the Bank's Information Systems Group, through tools such as Risk Assessments, Key Risk Indicator (KRI) monitoring, Loss Event Data (LED) collection and analysis. There is an IT Risk Committee and IT Steering Committee that meets regularly, where IT risk issues are discussed at management level. The second line of defense is performed by the Risk Management Office, under which the Operational and Information Technology Risk Management unit develops and deploys the tools (such as Risk Assessments, KRIs, LED) used to identify, assess and monitor IT risks, and provides the RMC with reports on the Bank's IT risk profile. The Bank also has an Enterprise Information Security Management team which develops strategies and provides oversight in mitigating risks to the confidentiality, integrity, and availability of the Bank's information assets and information systems. The Bank also has in place business continuity and disaster recovery plans to ensure the recovery and availability of all critical organizational assets and customer-servicing infrastructure. Incident Management processes are in place to properly manage incidents. A Crisis Resiliency Committee and process is in place to prevent incidents from escalating to catastrophic proportions. Robust BCP sites are situated in strategic locations for critical head office services to meet the increasing demand on business continuity preparedness of the bank's operations. The Board-level RMC is regularly apprised of IT risks through comprehensive reporting and discussions during monthly meetings. To further strengthen information security awareness, the Board is continually briefed on current cybercrime landscapes, emerging risks and industry trends, as well as mitigating measures implemented by the Bank.

Compliance

Business or compliance risk, which can be defined as "the risk of regulatory or legal sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities", is addressed and managed within the Bank through its compliance function and its component system and program.

As the Bank's second line of defense, the compliance function has also evolved in recent years to adapt to the shift towards more technology-heavy strategies, as it seeks to deliver the compliance risk management outcomes required in an era of digital transformation. While remaining a key advisory function, it has embraced a more forward-thinking, risk-based and stress-tested approach to continuously monitor, evaluate and improve its ability to ensure compliance in a banking landscape that is subject to disruption and rapid change.

The Bank's compliance system is critically important in identifying, evaluating, and addressing the regulatory and reputational risks while the enterprise-wide compliance program helps the Bank to look at and across business lines and activities of the organization as a whole and to consider how activities in one area of the Bank may affect the business or compliance risks of other business lines and the entire group/enterprise. The compliance program also helps the Board and management in understanding where such regulatory and reputational risks in the organization are concentrated, provide comparisons of the level and changing nature of risks, and identify those control processes that most need enhancement.

Oversight of the management of the Bank's business risk and implementation of its compliance function is the responsibility of our Board of Directors, through the Audit Committee and the Corporate Governance Committee with respect to corporate governance compliance. At the management level, the compliance function is carried out by the Compliance Office, headed by the Chief Officer, who is not a member of the Board of Directors. The Compliance Office oversees the implementation of the Bank's enterprise-wide compliance programs. These programs take into account the size and complexity of the Bank, the relevant rules and regulations that affect its operations, and the business risks that may arise due to non-compliance. By using regulatory and self-assessment compliance matrices, compliance measures are formulated to mitigate identified business risks and tested to ensure effectiveness.

The Compliance Office is currently organized to cover Regulatory Compliance, Corporate Governance, Anti-Money Laundering Compliance and FATCA Compliance and the Data Privacy Office. Considering the rapid developments in the regulatory sphere as well as the growing complexity of bank products, services and transactions, the Compliance Office evolves in its coverage of compliance practice areas to anticipate and meet forward challenges. Enhancement of our compliance function's scope and domain is redefined for new and emerging sources of compliance risk. The Compliance Office is also empowered by the accountability to it of 14 Group Compliance Coordinating Officers, or GCCOs, who are embedded in operational units throughout the Bank. The GCCOs are charged with enforcing compliance office initiatives, as well as providing timely reports to the compliance office.

Overall enforcement is through self-regulation within the business units, and independent testing and reviews conducted by the Compliance Office and Internal Audit. Results of these reviews are elevated to the Board's Audit Committee and Corporate Governance Committee, with respect to governance issues. The Compliance Office promotes adherence and awareness to laws, rules and regulations by electronically posting information and documents in a compliance database that is accessible to all employees. Regular meetings are conducted by the Compliance Office with the GCOs to discuss the impact of new regulations, decide on the required compliance measures and amend compliance matrices as necessary. Through continued liaison and dialogue with regulators, the Compliance Office ensures the prompt dissemination of new regulations and other developments affecting bank operations.

Financial Consumer Protection

In 2015, the Bank, established its Customer Experience Management Office (CXMO) as part of the BPI Financial Consumer Protection Program required under BSP Circular 857.

In compliance with the circular, BPI's CXMO created the Customer Assistance Program (CAP) to build an enabling environment and to define safety nets for recognition and protection of consumer rights. The CAP promotes a culture of fair dealing and embeds responsible business practices in the Bank's operations, in accordance with the BSP's consumer protection regulations and standards of conduct. The CAP also equips Bank employees with the required education and training, and institutionalizes appropriate communication avenues as well as mechanisms for consumers to be able to provide feedback, ask questions, obtain information and clarifications, file complaints, or seek redress effectively and efficiently.

The CXMO is led by the Head of Customer Care and reports, functionally, to the Board through the Executive Committee and, administratively, to the Chief Operations Officer, who also heads the Bank's Enterprise Services Group. The CXMO reports to the senior management and the Board every month.

The Bank complies with product and service information and labeling regulations and voluntary codes for consumer protection such as the Banking Code for Consumer Protection of the Bank Marketing Association of the Philippines (BMAP) and its Council of Advisors and product governance such Markets in Financial Instruments Directives II (MiFID II). BPI has also taken corrective and remedial action in case of any deficiencies or areas for improvement.

In 2018, there were no confirmed incidents of non-compliance.

	2016	2017	2018
Complaints (in Thousands)	306.0	437.5	424.4
Transactions (in Millions)	1,341.4	1,442.1	1,540.7

Data Privacy

Republic Act No. 10173, known as the Data Privacy Act of 2012, requires government and private sector entities to apply the principles of Transparency, Legitimate Purpose and Proportionality in their processing of personal data so that the data is only used in relevant and specifically stated ways, is not stored for longer than necessary, is kept safe and secure, is used only within the confines of the law and is stored following people's data protection rights. Cybersecurity and data privacy and protection have, today, become corporate governance and risk management concerns.

BPI has established a comprehensive Data Privacy Program utilizing a combination of policies, organizational structure, access controls and technologies designed for risk reduction. The Bank has a Data Privacy Office, headed by a Board-appointed Data Privacy Officer (DPO), a lead senior management officer. The key focus of the DPO is to oversee data privacy compliance and manage data protection risks for the organization consistent with the Data Privacy Act rules and regulations, issuances by the National Privacy Commission and other applicable laws. Management has also appointed Compliance Officers for Privacy (COP) for major business units of the Bank.

For further details on the BPI's financial condition and operations, please refer to its 2018 Consolidated Financial Statements which is incorporated herein as part of Index to Financial Statements and Supplementary Schedules. Also, for further information on BPI, please refer to its SEC17A which is available in its website www.bpiexpressonline.com

GLOBE TELECOM, INC.

Globe Telecom, Inc.'s highlights of Consolidated Statements of Financial Position and Statements of Income are shown in the Note 10 of the Group's 2018 Consolidated Financial Statements as well as in the Globe's 2018 Consolidated Financial Statements which form part of Index to Financial Statements and Supplementary Schedules of this SEC 17A report.

Background and Business

The Ayala Group conducts its telecommunications business through Globe Telecom, Inc (alternately referred to as Globe, Globe Telecom, Globe Group or "the Company" in the entire discussion of Globe Telecom, Inc.). Globe's origin can be traced back to Robert Dollar Company, a California company which provided wireless long-distance message services. After subsequent mergers and re-namings, the company was named Globe Telecom, Inc. in 1983, when the partnership between Ayala and Singapore Telecom, the principal shareholders of Globe, was formalized. Since then, Globe has been recognized as the first company to offer SMS services in the Philippines and as the first Philippine internet service provider in the Philippines.

Globe Telecom, Inc. is a major provider of telecommunications services in the Philippines, supported by over 7,700 employees and over 1.2 million AutoloadMax (AMAX) retailers, distributors, suppliers, and business partners nationwide. The Company operates one of the largest and most technologically-advanced mobile, fixed line and broadband networks in the country, providing reliable, superior communications services to individual customers, small and medium-sized businesses, and corporate and enterprise clients. Globe currently has 74.1 million mobile subscribers (*including fully mobile subscribers*), 1.6 million home broadband customers, and close to 1.4 million landline subscribers.

Globe is one of the largest and most profitable companies in the country, and has been consistently recognized both locally and internationally for its corporate governance practices. It is listed on the Philippine Stock Exchange under the ticker symbol GLO and had a market capitalization of US$4.8 billion as of the end of December 2018.

The Company's principal shareholders are Ayala Corporation and Singapore Telecom, both industry leaders in their respective countries. Aside from providing financial support, this partnership has created various synergies and has enabled the sharing of best practices in the areas of purchasing, technical operations, and marketing, among others.

Globe is committed to being a responsible corporate citizen. Globe Bridging Communities (or Globe BridgeCom) is the company's umbrella corporate social responsibility program, which leads and supports various initiatives that promote the quality education, active citizenship to protect the environment, social entrepreneurship and responsive governance through the innovative and Communications Technology, resulting in enabled, empowered and enriched lives for its employees and partner communities. Since its inception in 2003, Globe BridgeCom has made a positive impact on the lives of thousands of public elementary and high school students, teachers, community leaders, and micro-entrepreneurs throughout the country. For its efforts, Globe BridgeCom has been recognized and conferred several awards and citations by various Philippine and international organizations.

The Globe Group is composed of the following companies:

- Globe Telecom, Inc. (Globe) provides digital wireless communications services in the Philippines under the Globe Postpaid, Globe Prepaid, and Touch Mobile (TM) brands, using a fully digital network. It also offers domestic and international long-distance communication services or carrier services;

- Innove Communications Inc. (Innove), a wholly-owned subsidiary, provides fixed line telecommunications and broadband services, high-speed internet and private data networks for enterprise clients, services for internal applications, internet protocol-based solutions and multimedia content delivery.

  On December 14, 2018, the President of the Philippines signed House Bill No. 5556 into RA No. 11151 entitled "Act Renewing For Another Twenty Five (25) Years the Franchise Granted to Isla Communications Company, Inc. Presently Known as Innove Communications, Inc., Amending for the Purpose Republic Act No. 7372 entitled "An Act Granting the Isla Communications Co. a Franchise to Install, Operate and Maintain Telecommunications Services Within the Territory of the Republic of the Philippines and International Points and for Other Purposes". RA No. 11151 shall take effect 15 days after its publication in the Official Gazette or a newspaper of general circulation. RA No. 11151 was published in the Official Gazette on December 27, 2018, and in a newspaper of general circulation on January 14, 2019.

On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal Data Center, Inc. (TechGlobal), a joint venture company formed for the purpose of operating and managing all kinds of data centers, and providing information technology-enabled, knowledge-based and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017;

- GTI Business Holdings, Inc. (GTI) is a wholly-owned subsidiary with authority to provide VOIP services. Its wholly-owned subsidiaries are: GTI Corporation (GTIC US), Globe Telecom HK Limited (GTHK), Globetel Singapore Pte. Ltd. (GTSG) and Globetel European Limited (GTEU). GTEU's wholly owned subsidiaries are UK Globetel Limited (UKGT), Globe Mobile' Italy S.r.l. (GMI) and Globetel Internacional European España, S.L. (GIEE).

  On June 2, 2016, the BOD approved the cessation of the operations of UKGT, GMI and GIEE effective July 31, 2016. UKGT completed the liquidation process in 2018. The completion of the regulatory requirements on the liquidation of GMI and GIEE is still in process as of December 31, 2018;

- Kickstart Ventures, Inc. (Kickstart) is the Philippines' most active Corporate Venture Capital firm investing in Seed to Series D digital startups. A wholly-owned subsidiary, Kickstart puts company resources – capial, market, and expertise – behind startups so they can achieve scale and profitability sooner. Kickstart's subsidiary, Flipside Publishing Services, Inc. (FPSI) has ceased operations in July 2016. As of reporting date, completion of regulatory requirements on the liquidation of FPSI is still in process;

- Asticom Technology, Inc., a wholly-owned subsidiary, is engaged in trading, marketing, installing, and servicing of computer equipment, peripherals, manpower, software, and other data processing devices. Asticom was consolidated beginning June 2014.

- Globe Capital Venture Holdings, lnc. (GCVHI) is a wholly-owned subsidiary incorporated on June 29, 2015. On October 13, 2015, GCVHI incorporated Adspark Holdings, Inc, a wholly owned subsidiary. GCVHI also owns 45% of Globe Fintech and 50% of Globe Telehealth.

  On December 28, 2015, AHI incorporated its wholly-owned subsidiary, Adspark Inc. (AI), to operate as an advertising company. On January 29, 2016, Adspark Inc. acquired 70% of the shares of Socialytics Inc. (Socialytics).

  On August 5, 2016, GFI incorporated its wholly-owned subsidiary, Fuse Lending, Inc. (Fuse), to operate as a lending company. GFI also holds 45% ownership interest in GXI;

- Bayan Telecommunications, Inc. (Bayan), is a provider of data and communications services such as dedicated domestic and international leased lines, frame relay services, Internet access, and other managed data services like Digital Subscriber Lines (DSL). Globe Telecom owns approximately 99% of BTI.

  On July 2, 2015, BTI issued additional shares to Globe Telecom following the approval of National Telecommunications Commission (NTC) on the conversion of BTI's Tranche A convertible debt to equity. The conversion increased the ownership of Globe Telecom on BTI's outstanding shares from 38% to 54% controlling interest. On July 20, 2015, Globe Telecom acquired additional voting shares of BTI, which further increased its controlling interest to 99%. BTI is a facilities-based provider of data services and fixed-line telecommunications.

  BTI's subsidiaries are: Radio Communications of the Philippines, Inc. (RCPI), Telecoms Infrastructure Corp. of the Philippines (Telicphil), Sky Internet, Incorporated (Sky Internet), GlobeTel Japan (formerly BTI Global Communications Japan, Inc.), BTI Global Communications Ltd. (BTI - UK), and NDTN Land, Inc. (NLI), (herein collectively referred to as "BTI Group"). On April 8, 2016, RCPI sold its 100% interest in Alarmnet Inc. to a third party.

  In July 2016, BTI - UK ceased its operations. The formal notice on the final dissolution of BTI-UK effective March 14, 2017 was received from Companies House in UK. On May 30, 2017, the Management Committee, with representation of at least sixty-seven percent of the total voting interest, approved the termination of the Agreement on the Construction, Operation and

Maintenance of the National Digital Transmission Network dated November 28, 1996, as well as the dissolution of Telicphil and NDTN Land, Inc.;

- TaoDharma (Tao), 67% owned by Globe Telecom, was established to operate and maintain retail stores in strategic locations within the Philippines that will sell telecommunications or internet-related services, devices, gadgets, and accessories.

  On November 4, 2016, the BOD of Globe Telecom approved the increase in stake in Tao from 25% to 67% resulting to Globe Telecom's gaining a controlling interest in Tao.

- GTowers Inc. (GTowers) is a fully owned subsidiary of Globe Telecom incorporated on August 17, 2018. As of December 31, 2018, GTowers is still under pre-operating stage.

The Company is a grantee of various authorizations and licenses from the National Telecommunications Commission (NTC) as follows: (1) license to offer and operate facsimile, other traditional voice and data services and domestic line service using Very Small Aperture Terminal (VSAT) technology; (2) license for inter-exchange services; and (3) Certificate of Public Convenience and Necessity (CPCN) for: (a) international digital gateway facility (IGF) in Metro Manila, (b) nationwide digital cellular mobile telephone system under the GSM standard (CMTS-GSM), (c) nationwide local exchange carrier (LEC) services after being granted a provisional authority in June 2005, and (d) international cable landing stations located in Nasugbu, Batangas, Ballesteros, Cagayan and Brgy. Talomo, Davao City.

A. <u>Business Development and Corporate History</u>

In 1928, Congress passed Act No. 3495 granting the Robert Dollar Company, a corporation organized and existing under the laws of the State of California, a franchise to operate wireless long-distance message services in the Philippines. Subsequently, Congress passed Act No. 4150 in 1934 to transfer the franchise and privileges of the Robert Dollar Company to Globe Wireless Limited which was incorporated in the Philippines on 15 January 1935.

Globe Wireless Limited was later renamed as Globe-Mackay Cable and Radio Corporation ("Globe-Mackay"). Through Republic Act ("RA") 4630 enacted in 1965 by Congress, its franchise was further expanded to allow it to operate international communications systems. Globe-Mackay was granted a new franchise in 1980 by Batasan Pambansa under Batas Pambansa 95.

In 1974, Globe-Mackay sold 60% of its stock to Ayala Corporation, local investors and its employees. It offered its shares to the public on 11 August 1975.

In 1992, Globe-Mackay merged with Clavecilla Radio Corporation, a domestic telecommunications pioneer, to form GMCR, Inc. ("GMCR"). The merger gave GMCR the capability to provide all forms of telecommunications to address the international and domestic requirements of its customers. GMCR was subsequently renamed Globe Telecom, Inc. ("Globe").

In 1993, Globe welcomed a new foreign partner, Singapore Telecom, Inc. (STI), a wholly-owned subsidiary of Singapore Telecommunications Limited ("SingTel"), after Ayala and STI signed a Memorandum of Understanding.

In 2001, Globe acquired Isla Communications Company, Inc. ("Islacom") which became its wholly-owned subsidiary effective 27 June 2001. In 2003, the National Telecommunications Commission ("NTC") granted Globe's application to transfer its fixed line business assets and subscribers to Islacom, pursuant to its strategy to integrate all of its fixed line services under Islacom. Subsequently, Islacom was renamed as Innove Communications, Inc. ("Innove").

In 2004, Globe invested in G-Xchange, Inc. ("GXI"), a wholly-owned subsidiary, to handle the mobile payment and remittance service marketed under the *GCash* brand using Globe's network as transport channel. GXI started commercial operations on 16 October 2004.

In November 2004, Globe and seven other leading Asia Pacific mobile operators ('JV partners') signed an agreement ('JV agreement') to form Bridge Alliance. The joint venture company operates through a Singapore-incorporated company, Bridge Mobile Pte. Limited (BMPL) which serves as a commercial vehicle for the JV partners to build and establish a regional mobile infrastructure and common service platform to deliver different regional mobile services to their subscribers. The Bridge Alliance currently has a combined customer base of over 250 million subscribers among its partners in India, Thailand, Hong Kong, South Korea, Macau, Philippines, Malaysia, Singapore, Australia, Taiwan and Indonesia.

In 2005, Innove was awarded by the NTC with a nationwide franchise for its fixed line business, allowing it to operate a Local Exchange Carrier service nationwide and expand its network coverage. In December 2005, the NTC approved Globe's application for third generation (3G) radio frequency spectra to support the upgrade of its cellular mobile telephone system ("CMTS") network to be able to provide 3G services. The Company was assigned with 10-Megahertz (MHz) of the 3G radio frequency spectrum.

On May 19, 2008, following the approval of the NTC, the subscriber contracts of *Touch Mobile* or *TM* prepaid service were transferred from Innove to Globe which now operates all wireless prepaid services using its integrated cellular networks.

In August 2008, and to further grow its mobile data segment, Globe acquired 100% ownership of Entertainment Gateway Group ("EGG"), a leading mobile content provider in the Philippines. EGG offers a wide array of value-added services covering music, news and information, games, chat and web-to-mobile messaging.

On 25 November 2008, Globe formed GTI Business Holdings, Inc. (GTIBH) primarily to act as an investment company.

On October 30, 2008, Globe, the Bank of the Philippine Islands (BPI) and Ayala Corporation (AC) signed a memorandum of agreement to form a joint venture that would allow rural and low-income customers' access to financial products and services. Last October 2009, the Bangko Sentral ng Pilipinas (BSP) approved the sale and transfer by BPI of its shares of stock in Pilipinas Savings Bank, Inc. (PSBI), formalizing the creation of the venture. Globe's and BPI's ownership stakes in PSBI is at 40% each, while AC's shareholding is at 20%. The partners plan to transform PSBI (now called BPI Globe BanKO, Inc.) into the country's first mobile microfinance bank. The bank's initial focus will be on wholesale lending to other microfinance institutions but will eventually expand to include retail lending, deposit-taking, and micro-insurance. BPI Globe BanKO opened its first branch in Metro Manila in the first quarter of 2011 and now has 6 branches nationwide, over 2,000 partner outlets, 261,000 customers and over ₱2.4 billion in its wholesale loan portfolio.

On March 2012, Globe launched Kickstart Ventures, Inc. (Kickstart) to help, support and develop the dynamic and growing community of technopreneurs in the Philippines. Kickstart is a business incubator that is focused on providing aspiring technopreneurs with the efficient environment and the necessary mechanisms to start their own business. Since its launch, Kickstart has 10 companies in its portfolio covering the digital media and technology, and web/mobile platform space.

In October 2013, following the court's approval of the Amended Rehabilitation Plan (jointly filed by Globe and Bayantel in May 2013), Globe acquired a 38% interest in Bayantel by converting Bayantel's unsustainable debt into common shares. This follows Globe's successful tender offer for close to 97% of Bayantel's outstanding indebtedness as of December 2012. As part of the amended rehab plan and pending regulatory approvals, Globe would further convert a portion of its sustainable debt into common shares of Bayantel, bringing up its stake to around 56%. On October 2014, Globe Telecom received a copy of the temporary restraining order (TRO) issued by the Court of Appeals (CA) stopping the National Telecommunications Commission's (NTC) proceedings in connection with the bid of Globe Telecom Inc. to take over Bayan Telecommunications Inc. (Bayantel). Despite the lapse of the Temporary Restraining Order (TRO) last December 9, 2014, the Court of Appeals has advised the NTC to refrain from conducting any proceedings in connection with the bid of Globe assume majority control of Bayantel.

On June 3, 2014, Globe signed an agreement with Azalea Technology, Inc. and SCS Computer Systems, acquiring the entire ownership stake in Asticom. a systems integrator and information technology services provider to domestic and international markets.

On July 20, 2015, Globe Telecom, Inc. ("Globe") has agreed to purchase from Bayan Telecommunications Holdings, Corporation ("BTHC') and Lopez Holdings, Corporation ("LHC") all the equity in the capital stock of Bayan Telecommunications, Inc. ("Bayan") that is held by BTHC and LHC. The transaction involved up to 70,763,707 Bayan shares and increased Globe's equity interests in Bayan from 56.87% to 98.57% of outstanding capital stock.

On November 12, 2015, Globe received the resolution from the rehabilitation court granting its motion for the termination of the rehabilitation proceedings involving Bayan. The resolution sets a key milestone for Bayan, wherein it successfully exits rehabilitation and provides key steps for Globe to continue to unlock opportunities for synergies with Bayan.

Globe Telecom, Inc. (Globe), Ayala Corporation (AC) and Bank of the Philippine Islands (BPI) signed an agreement on August 27, 2015 to turn over full ownership of BPI Globe BanKO (BanKO) to BPI, one of the majority owners of the joint venture. Despite the change in shareholder structure, BanKO will continue to provide broader and more competitive access to funds and critical financial services to the underbanked. Globe and AC sold their respective 40% and 20% stakes in BanKO to BPI, which already owned 40% of BanKO.

Xurpas Inc. signed an agreement with Globe Telecom on September 1, 2015, investing Php900 Million for a 51% equity stake in Yondu Inc. The investment solidifies the Globe and Xurpas partnership in the internet and digital space and will transform Yondu into a regional arm for digital content distribution and other technology driven services. The strategic alliance of Globe and Xurpas in Yondu bolsters Globe's track record of partnering with leading digital players to strengthen its position as the purveyor of the Filipino digital lifestyle.

On September 1, 2015, Yondu Inc. and GCVHI entered into a Deed of Assignment to assign the former's interest in Global Telehealth, Inc. ("GTHI") to GCVHI for a total consideration of ₱15 million.

On September 15, 2015, Globe Telecom sold its controlling interest in Yondu for a total consideration of ₱670 million. On the same date, Yondu issued additional 5,000 common shares from its unissued authorized capital stock to a third party which further dilutes Globe Telecom's ownership interest to 49% as of September 2015.

On May 30, 2016, the Board of Directors of Globe, through its Executive Committee, approved the acquisition and signing of a sale and share purchase agreement and other related definitive agreements for the following entities:

- 50% of the issued and outstanding capital stock of Vega Telecom, Inc. ("VTI") from San Miguel Corporation ("SMC") (PSE: SMC);
- 50% of the issued and outstanding capital stock of Bow Arken Holdings Company Inc. ("BAHC"); and,
- 50% of the issued and outstanding capital stock of Brightshare Holdings Corporation ("BHC").

VTI owns an equity stake in Liberty Telecom Holdings, Inc., a publicly listed company in the Philippine Stock Exchange. It also owns, directly and indirectly, equity stakes in various enfranchised companies, including Bell Telecommunication Philippines, Inc., Eastern Telecom Philippines, Inc., Express Telecom, Inc., and Tori Spectrum Telecom, Inc., among others.

The remaining 50% equity stake in VTI, BAHC and BHC was acquired by Philippine Long Distance Telephone Company (PLDT) under similar definitive agreements.

The acquisition provided Globe access to certain frequencies assigned to Bell Tel in the 700 Mhz, 900 Mhz, 1800 Mhz, 2300 Mhz and 2500 Mhz bands through a co-use arrangement approved by the NTC on May 27, 2016. NTC's approval is subject to the fulfilment of certain conditions including roll out of telecom infrastructure covering at least 90% of the cities and municipalities in three years to address the growing demand for broadband infrastructure and internet access.

On June 21, 2016, Globe Telecom exercised its rights as holder of 50% equity interest of VTI to cause VTI to propose the conduct of a tender offer on the common shares of Liberty Telecom Holdings, Inc. (LIB) held by minority shareholders as well as the voluntary delisting of LIB. At the completion of the tender offer and delisting of LIB, VTI's ownership of LIB is at 99.1%.

On August 17, 2018, Globe Telecom incorporated GTowers, Inc., a fully owned subsidiary aimed at the building and deployment of cellular towers in the country. As of December 31, 2018, GTowers is still under pre-operating stage.

There was no bankruptcy, receivership or similar proceedings initiated during the past four years.

B. Business Segments

1. Mobile Business

Globe provides digital mobile communication and internet-on-the-go services nationwide using a fully digital network based on the Global System for Mobile Communication (GSM), 3G, HSPA+, and LTE technologies. It provides voice, SMS, data, and value-added services to its mobile subscribers through three major brands: *Globe Postpaid, Globe Prepaid* and *TM (including fully mobile, internet-on-the-go service).*

Postpaid

Globe Postpaid is the leading brand in the postpaid market with various plan offerings. Over the years, these plans evolved in order to cater to the changing needs, lifestyles and demands of its subscribers.

In 2018, in order to keep up with this growing market, Globe once again highlights its portfolio of postpaid plans featuring The PLAN PLUS (SIM-ONLY PLANS), that offers up to 2x larger than life data. With The PLAN PLUS, all customers have to do is bring their own smartphone and get as much as 42GB of data (with 10 GB GoWatch for videos) for more time online. With access to premium entertainment like Netflix and Spotify Premium, their favorite movies, shows, and music are within easy reach. Plus, they can customize and build their plan based on their needs from a variety of plans ranging from Php 599 per month (Php599 + Free 200 bonus value) to Php 2,999 (Php599 + Free 200 bonus value), all with a lock-up period of only 6 months.

Prepaid

Globe Prepaid and *TM* are the prepaid brands of Globe. *Globe Prepaid* is focused on the mainstream market while *TM* caters to the value-conscious segment of the market. Each brand is positioned at different market segments to address the needs of the subscribers by offering affordable innovative products and services.

Globe Prepaid's GoSAKTO is a self-service menu that provides its subscribers easy access to avail of the latest promos and services of Globe by simply dialing *143# or through the *GoSAKTO* mobile app *(available on Android and iOS*). This menu also allows the subscribers to build their own promos (call, text and surf promos) that are best suited for their needs and lifestyle. *Globe Prepaid* customers can personalize their call, text and surfing needs for 1 day, 2 days, 3 days, 7 days, 15 days or even for 30 days. They can also select the type and number of call minutes and texts they need and adjust data allocation (in MBs) of mobile surfing the way they want it.

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

Loyalty & Rewards Program

The *Globe Rewards Program* is the Company's way of granting special treats to its active customers for their continued loyal use of Globe's products and services. Awesome rewards await its loyal customers in exchange for the points earned -- more rewards points mean more wonderful perks. Subscribers can:

1) *Earn Points* from Prepaid reloads or monthly Postpaid usage and view their available points in real-time through the Globe Rewards app.

2) *Redeem Rewards* in the form of mobile promos, bill rebates, gadgets and gift certificates, and more or use the earned points as cash at partner stores. Subscribers have the option to redeem rewards instantly, or accumulate points to avail of higher value rewards. Redeemed points in the form of telecom services is netted out against revenues whereas points redeemed in the form of non-telco services such as gift certificates and other products are reflected as marketing expense. At the end of each period, Globe estimates and records the amount of probable future liability for unredeemed points.

3) *Enjoy Perks* through special discounts, exclusive treats, and more wonderful surprises

(a) Mobile Voice

Globe's voice services include local, national and international long-distance call services. It has one of the most extensive local calling options designed for multiple calling profiles. In addition to its standard, pay-per-use rates, subscribers can choose from bulk and unlimited voice offerings for all-day or off-peak use, and in several denominations to suit different budgets.

Globe keeps Filipinos connected wherever they may be in the world, through its tie-up with 768 roaming partners in 237 calling destinations worldwide. Globe also offers roaming coverage on-board selected shipping lines and airlines, via satellite. Globe also provides an extensive range of international call and text services to allow OFWs (Overseas Filipino Workers) to stay connected with their friends and families in the Philippines. This includes prepaid reloadable call cards and electronic PINs available in popular OFW destinations worldwide.

(b) Mobile SMS

Globe’s *Mobile SMS* service includes local and international SMS offerings. Globe also offers various bucket and unlimited SMS packages to cater to the different needs and lifestyles of its postpaid and prepaid subscribers.

(c) Mobile Data

Globe’s *Mobile Data* services allow subscribers to access the internet using their internet-capable handsets, devices or laptops with USB modems. Data access can be made using various technologies including LTE, HSPA+, 3G with HSDPA, EDGE and GPRS. The Company spearheaded the shift from unlimited time-based data plans to volume-based consumable plans, geared towards improving the mobile data experience of its subscribers and ensuring the most appropriate pricing of data. Globe and TM subscribers can choose from a variety of GoSurf consumable data plans, ranging from ₱15 for 40 MB to ₱2,499 for 20 GB per month.

Globe’s *Nomadic (internet-on-the-go service)* is for consumers who require a fully mobile internet, which allows subscribers to access the internet using LTE, HSPA+, 3G with HSDPA, EDGE, GPRS or Wi-Fi using a plug-and-play USB modem/mobile Wifi. This service is available in both postpaid and prepaid packages.

Globe’s *Value-Added Services* offers a full range of downloadable content covering multiple topics including news, information, and entertainment through its web portal. Subscribers can purchase or download music, movie pictures and wallpapers, games, mobile advertising, applications or watch clips of popular TV shows and documentaries as well as participate in interactive TV, do mobile chat, and play games, among others. Additionally, Globe subscribers can send and receive Multimedia Messaging Service (MMS) pictures and video, or do local and international 3G video calling.

***2.* Fixed Line and Broadband Business**

Globe offers a full range of fixed line communications services, wired and wireless broadband access, and end-to-end connectivity solutions customized for consumers, SMEs (Small & Medium Enterprises), large corporations and businesses.

(a) Fixed Line Voice

Globe's fixed line voice services include local, national and international long-distance calling services in postpaid and prepaid packages through its *Globelines* brand. Subscribers get to enjoy toll-free rates for national long-distance calls with other *Globelines* subscribers nationwide. Additionally, postpaid Fixed Line Voice consumers enjoy free unlimited dial-up internet from their *Globelines* subscriptions. Low-MSF (monthly service fee) fixed line voice services bundled with internet plans are available nationwide and can be customized with value-added services including multi-calling, call waiting and forwarding, special numbers and voice mail. For corporate and enterprise customers, Globe offers voice solutions that include regular and premium conferencing, enhanced voice mail, IP-PBX solutions and domestic or international toll free services. With the Company's cutting-edge Next Generation Network (NGN), Globe Business Voice solutions offer enterprises a bevy of fully-managed traditional and IP-based voice packages that can be customized to their needs.

(b) Corporate Data

Corporate data services include end-to-end data solutions customized according to the needs of businesses. Globe's product offerings include international and domestic leased line services, wholesale and corporate internet access, data center services and other connectivity solutions tailored to the needs of specific industries.

Globe's international data services provide corporate and enterprise customers with the most diverse international connectivity solutions. Globe's extensive data network allow customers to manage their own virtual private networks, subscribe to wholesale internet access via managed international private leased lines, run various applications, and access other networks with integrated voice services over high-speed, redundant and reliable connections. In addition to bandwidth access from multiple international submarine cable operators, Globe also has two international cable landing stations situated in different locales to ensure redundancy and network resiliency.

The Company's domestic data services include data center solutions such as business continuity and data recovery services, 24x7 monitoring and management, dedicated server hosting, maintenance for application-hosting, managed space and carrier-class facilities for co-location requirements and dedicated hardware from leading partner vendors for off-site deployment.

Other corporate data services include premium-grade access solutions combining voice, broadband and video offerings designed to address specific connectivity requirements. These include Broadband Internet Zones (BIZ) for broadband-to-room internet access for hotels, and Internet Exchange (GiX) services for bandwidth-on-demand access packages based on average usage.

Globe Business knows that success is made up of different elements: effective products, streamlined processes, and reliable manpower, and that is why Globe's business solutions are a fusion of all three.

Among the products and solutions are as follows:

- Mobility - Further employee productivity with reimagined user engagements within and beyond the workplace. With Globe's enterprise mobility solutions, it's easier to build and maintain the business momentum: (1) Postpaid - Globe Business offers flexible plans to suit companies of every scale (2) Enterprise Mobile Management - Gain more control over enterprise mobile devices while simultaneously maximizing workforce productivity with Globe's all-in-one device management solution. Keep your mobile operations intact with a central device management platform. With Globe's Enterprise Mobile Management, the corporate mobile data is protected anytime, anywhere. (3) TxtConnect - Broadcast messages to your stakeholders at the push of a button. With TxtConnect's streamlined messaging delivery and 24/7 accessibility features, the company can reach their target audience easily and efficiently; (4) IsatPhone Pro - Take communications a notch higher with a reliable handheld satellite phone that lets you call, text, and do more-even from remote places around the globe. With IsatPhone Pro, you can keep your business operations going anytime, anywhere.

- Voice - Create lines of communications with Globe's extensive Philippine coverage of managed traditional and IP Voice solutions, which enables your business to interact clearly and reduce operational costs (Globelines; ISDN-PRI; Toll-Free Services; Enhanced Managed Voice Solution (EMVS); Managed IP-PBX; SIP Trunk; Hosted PBX System & Services; Collaboration Solutions).

- Connectivity - Globe Business Data and IP services are built on stable and established technologies to connect offices locally and globally (Domestic Data; International Data; Internet Services; Managed Services).

- Cloud - Respond quickly in today's dynamic business environment with a range of wireless platforms that could store, analyze, and calculate data. Match the elasticity of the business climate and increase your business agility with the Company's Cloud Solutions: Infrastructure-as-a-Service (IaaS); Backup-as-a-Service (BaaS); Disaster-Recovery-as-a-Service (DRaaS); G Suite; G Suite Business; Microsoft Office 365; GoCanvas; DocumentCloud.

- Data Center - Globe Data Center provides a superior experience that goes beyond technology. Our Account Managers invest time to discuss your business and technology plans. For technical support, you may reach our specialists 24/7. We strive to provide the best technology and service as we share in your passion for business.

- M2M - Drive your business with Fleet Management. Keep track of moving assets like delivery and service vehicles through Global Positioning System (GPS) from your laptop or mobile phone.

- Cybersecurity - Handle security threats and IT infrastructure cost-effectively. Manage your tasks and functions cost-effectively with Globe Business' Cybersecurity. Gain access to the best-in-class tool sets, hardware, software, and even niche technology experts while only paying for what you need, when you need it.

- HR Solutions - Get a wide range of reports without the inconvenience. Delegate your payroll processing, timekeeping, and HR management with the right enterprise solution.

(c) <u>Home Broadband</u>

Globe offers wired and fixed wireless broadband services, across various technologies and connectivity speeds for its residential and business customers. *Globe Home Broadband* consists of wired or DSL broadband packages which can be bundled with voice, content, and devices, or broadband data-only services which are available with download speeds ranging from 1 Mbps up to 15 Mbps. Globe also expanded its Long Term Evolution (LTE) footprint through LTE @Home offerings, bringing latest internet technology to households and allowing subscribers to surf the internet at ultrafast speeds to watch high-definition videos, downloading and uploading large files, seamless music streaming, and voice-over-internet-protocol (VOIP) calling with clear quality. This LTE service is backed by the largest 4G network in the country deployed by Globe.

With the new broadband plans, customers get exclusive access to a portfolio of entertainment content which allows them to watch movies and basketball games, as well as stream music at the comfort of their homes. As an online entertainment service provider, HOOQ boasts of an extensive content library with thousands of movies, television episodes and shows available for users to watch, including titles from partners Sony Pictures and Warner Bros. Entertainment. With Spotify, the world's most popular music streaming service, customers get the best music experience with access to over 20 million songs. On the other hand, the NBA League Pass allows customers to watch basketball games along with highlights, stats and other features. Likewise, with Walt Disney partnership, Globe customers will now have access to an array of Disney content offerings (whose brands include Disney, Pixar, Marvel, Star Wars and global leader in short-form video, Maker Studios) including long- and short-form programming, interactive content and games, theatrical releases and retail promotions. Moreover, Netflix partnership allows customers to watch today's top original Netflix series and renowned movie hits. Netflix adds TV programs and films all the time.

In 2018, Globe heard the clamor of its customers and has brought back an upgraded version of its unlimited internet plans through Go Unli. Go Unli is the ultimate unlimited data offering that allows customers to stream video, play music and games without having to worry about lock-up period, data capping, and speed throttling. GoUnli wired plans start at Php 1,699 a month, which come with unlimited surfing and streaming up to 5 Mbps. Faster speeds are also available with the following plans: Plan 1899 for speeds up to 10, 15, or 20 Mbps, Plan 2499 for speeds up to 50 Mbps, and Plan 2899 for speeds up to 100 Mbps. To avail of the no-lock up offer, interested parties need only pay for a one-time modem fee of P2,500 or P4,500 depending on the chosen plan. Those who choose to discontinue their subscription within the first 15 days will get a 100% refund of their modem fee upon the return of the modem and telephone set provided during installation. For those looking for an option without modem fees, 24-month contract plans are also available. All plans come with free landline with unlimited calls to Globe and TM for 24 months, nine months access to Netflix and Disney Channel Apps, and two months access to HOOQ. Globe is bringing in more content partners, with VIU and FOX+ now joining its extensive roster of content providers giving Globe customers access to a wide library of premium shows. VIU delivers the latest Korean entertainment, and FOX+ provides an unrivalled combination of TV, blockbuster movies, sports and documentaries. Starting April 15, 2018, Globe At Home Postpaid Plans will come with 6-month access to FOX+. Meanwhile, Globe At Home Prepaid WiFi devices will come with free 3-month access to VIU starting April 30, 2018.

Globe At Home has committed itself to transforming home entertainment from strict schedules to making primetime your time through its high-speed internet and partnerships with world class content partners. Through Globe At Home's partnership with FOX Networks Group, customers can experience a wider variety of content (latest Hollywood movies, TV shows, live sports and more) with Globe Streamwatch Roku Powered's collaboration with FOX+[1]. Customers now have access to FOX+ for 3 months using Globe Streamwatch Roku Powered device. Globe Streamwatch Roku Powered device can be availed by adding P50 for 24 months to a Globe At Home plan or a one-time payment of P999.

Globe At Home closes the gap between OFWs and their families as the Prepaid Home WiFi becomes finally available on SarisariPH[2]. Sending a Globe Prepaid Home WiFi along with other gift items through SarisariPH is easy: customers simply choose the items from over 170 brands for dining, shopping, health, leisure, and other services on the website. Then, they must fill out an order form, pay by credit card or pay cash via PayRemit outlets in key OFW cities abroad. The recipient will receive the eGift via SMS or email within a few minutes. Globe will contact eGift recipient within 24 hours upon receipt of eGift to confirm his/her preferred date and time of delivery.

C. Sales and Distribution

Globe has various sales and distribution channels to address the diverse needs of its subscribers.

1. Independent Dealers

Globe utilizes a number of independent dealers throughout the Philippines to sell and distribute its prepaid wireless services. This includes major distributors of wireless phone handsets who usually have their own retail networks, direct sales force, and sub-dealers Dealers are compensated based on the type, volume and value of reload made in a given period. This takes the form of fixed discounts for prepaid airtime cards and SIM packs, and discounted selling price for phonekits. Additionally, Globe also relies on its distribution network of over 1.2 million *AutoloadMax* retailers nationwide who offer prepaid reloading services to *Globe* and *TM* subscribers.

2. Globe Stores

As of December 31, 2018, the Company has a total of 224 Globe Stores all over the country where customers are able to inquire and subscribe to wireless, broadband and fixed line services, reload prepaid credits, make *GCASH* transactions, purchase handsets and accessories, request for handset repairs, try out communications devices, and pay bills. The Globe Stores are also registered with the Bangko Sentral ng Pilipinas (BSP) as remittance outlets.

In line with the Company's thrust to become a more customer-focused and service-driven organization, Globe departed from the traditional store concept which is transactional in nature and launched the redesigned Globe Store which carries a seamless, semi-circular, two-section design layout that allows anyone to easily browse around the product display as well as request for after sales support. It boasts of a wide array of mobile phones that the customers can feel, touch and test. There are also laptops with high speed internet broadband connections for everyone to try. The Globe store has an Express Section for fast transactions such as modification of account information and subscription plans; a Full-Service Section for more complex transactions and opening of new accounts; and a Cashier Section for bill payments. The store also has a self-help area where customers can, among others, print a copy of their bill, and use interactive touch screens for easy access to information about the different mobile phones and Globe products and services. Globe stores also include NegoStore areas, which serve as additional sales channels for current and prospective Globe customers. Moreover, select stores also have 'Tech Coaches' or device experts that can help customers with their concerns on their smartphones. The Company opened the first concept store in Greenbelt 4 in 2010 and accelerated its roll-out throughout 2011, averaging 4-5 new stores a month.

In 2012, Globe introduced other store formats in response to the need for more customer service channels to accommodate more subscribers availing of Globe postpaid, prepaid and internet services. The new store formats - the premium dealership store, pop-up store, microstore, kiosk, and store-on-the-go – were carefully designed based on demographics, lifestyle and shopping behaviors of its customers, each providing a different retail mix and experience to subscribers.

In 2013, Globe opened 50 concept stores and will open more concept stores in the country as part of its commitment to a wonderful customer service experience.

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[1]FOX+ is a video-streaming service in Asia promising an unrivalled combination of the latest TV series, first-run Hollywood blockbusters, hit Asian series and movies, live sports, thrilling documentaries and a big library of content all in one place in stunning high-definition.
[2]SarisariPH, an online gifting service made possible by Globe International Business, allows Filipinos from all over the world to send electronic gift certificates or eGifts to their family and friends in the Philippines.

In 2014, Globe simultaneously unveiled its Generation 3 flagship stores in SM North EDSA, Quezon City, Manila and in Limketkai Mall, Cagayan de Oro. Designed by Tim Kobe, the founder and CEO of Eight, Inc. and designer of Apple Stores, the Globe Gen3 stores features reconfigurable and interactive elements, all designed to empower the growing digital lifestyle of customers. The stores feature four lifestyle zones – music, entertainment, productivity, and life – each with their own interactive kiosks.

Continuing with its journey of transforming customer experience, Globe opened two more Gen3 stores in 2015. On July 2015, Globe opened its third Gen3 store in Ayala Center, Cebu and on August 2015, opened its fourth Gen3 and first two-storey store in Greenbelt, Makati.

In 2016, Globe opened its Flagship ICONIC store in Bonifacio Global City Central Square Taguig. Designed by Tim Kobe of Eight Inc., the same designer of the Globe GEN3 stores, the Globe ICONIC store is the first all-in-one retail and entertainment space and was launched in two phases. Phase 1 was completed in the June 2016 and featured the entertainment space that will house shows, concerts, and a variety of on-ground events and activities. Phase 2 completed in December 2016 features the complete Globe ICONIC Store with a glass bridge that links two Globe stores from opposite sides of the BGC Central Square.

3. Customer Facing Units

To better serve the various needs of its customers, Globe is organized along two key customer facing units (CFUs) tasked to focus on the integrated mobile, Fixed Line and international voice and roaming needs of specific market segments. The Company has a Consumer CFU with dedicated marketing and sales groups to address the needs of retail customers, and a Business CFU (Globe Business) focused on the needs of big and small businesses. Globe Business provides end-to-end mobile and Fixed Line solutions and is equipped with its own technical and customer relationship teams to serve the requirements of its client base. Globe Business also caters to the international voice and roaming needs of overseas Filipinos, whether transient or permanent. Moreover, it is tasked to grow the Company's international revenues by leveraging on Globe's product portfolio and developing and capitalizing on regional and global opportunities.

4. Others

Globe also distributes its prepaid products SIM packs, prepaid call cards and credits through consumer distribution channels such as convenience stores, gas stations, drugstores and bookstores. Lower denomination IDD prepaid loads are also available in public utility vehicles, street vendors, and selected restaurants and retailers nationwide via the IDD *Tingi* load, an international voice scratch card in affordable denominations.

D. <u>Operating Revenues</u>

Gross Operating Revenues by Business Segment	**Year Ended December 31**					
	Pre-PFRS				**Post-PFRS**	
(in Php Mn)	**2018**	**% of total**	**2017**	**% of total**	**2018**	**% of total**
Service Revenues						
Mobile*…………………………………………	**106,925**	**71%**	**98,483**	**73%**	**99,530**	**66%**
Voice[1]…………………………………………..	30,348	20%	32,275	24%	28,520	19%
SMS[2]……………………………………………	21,281	14%	23,149	17%	20,190	13%
Data[3]……………………………………………	55,296	37%	43,059	32%	50,820	34%
Fixed Line and Home Broadband…………**	**33,307**	**22%**	**29,423**	**22%**	**33,545**	**22%**
Home Broadband[4]……………………………	18,543	12%	15,645	12%	18,606	12%
Corporate Data[5]……………………………….	11,782	8%	10,288	8%	11,762	8%
Fixed Line Voice[6]…………………...……..	2,982	2%	3,490	2%	2,977	2%
Service Revenues……..…..……………………..	**140,232**	**93%**	**127,906**	**95%**	**132,875**	**88%**
Non Service Revenues………………………..	**10,088**	**7%**	**7,375**	**5%**	**18,297**	**12%**
Operating Revenues………………………….	**150,320**	**100%**	**135,281**	**100%**	**151,172**	**100%**

Note: Post-PFRS considered the new accounting standard on Revenues from Contracts with Customers (PFRS 15) and Financial Instruments: Recognition and Measurement (PFRS 9). Pre-PFRS financials are before impact of these standards, which are comparable with last year.
*Mobile business includes mobile and fully mobile broadband
**Home Broadband includes fixed wireless and wired broadband

[1] Mobile voice service revenues include the following:

a) Prorated monthly service fees on consumable minutes of postpaid plans;

b) Subscription fees on unlimited and bucket voice promotions including the expiration of the unused value of denomination loaded;
c) Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments, or CERA, net of loyalty discounts credited to subscriber billings; and
d) Airtime fees for intra network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs between 3 and 120 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts; and revenues generated from inbound international and national long distance calls and international roaming calls; and
e) Mobile service revenues of GTI.

Revenues from (a) to (d) are reduced by any payouts to content providers.

[2] Mobile SMS revenues consist of local and international revenues from value-added services such as inbound and outbound SMS and MMS, infotext, and subscription fees on unlimited and bucket prepaid SMS services, net of any interconnection or settlement payouts to international and local carriers and content providers.

[3] Mobile data service revenues consist of revenues from mobile internet browsing and content downloading, mobile commerce services, other add-on value added services (VAS), and service revenues of GXI and Yondu, net of any interconnection or settlement payouts to international and local carriers and content providers, except where Globe is acting as principal to the contract where revenues are presented at gross billed to subscriber and settlement pay-out are classified as part of costs and expenses. Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison.

[4] Home broadband service revenues consist of the following:
a) Monthly service fees of wired, fixed wireless, and bundled voice and data subscriptions;
b) Browsing revenues from all postpaid and prepaid wired and fixed wireless broadband packages in excess of allocated free browsing minutes and expiration of unused value of prepaid load credits;
c) Value-added services such as games; and
d) Installation charges and other one-time fees associated with the service.
e) Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison. Licensors' fees will be reflected as part of maintenance expense.

[5] Corporate data (previously called Fixed line data) service revenues consist of the following:
a) Monthly service fees from international and domestic leased lines;
b) Other wholesale transport services;
c) Revenues from value-added services; and
d) One-time connection charges associated with the establishment of service.

[6] Fixed Line voice service revenues consist of the following:
a) Monthly service fees;
b) Revenues from local, international and national long-distance calls made by postpaid, prepaid fixed line voice subscribers and payphone customers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid and payphone call card discounts;
c) Revenues from inbound local, international and national long-distance calls from other carriers terminating on Globe's network;
d) Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features;
e) Installation charges and other one-time fees associated with the establishment of the service; and
f) Revenues from DUO and SUPERDUO (fixed line portion) services consisting of monthly service fees for postpaid and subscription fees for prepaid subscribers.

Globe's mobile business contributed ₱106.9 billion in 2018 accounting for 71% of total operating revenues, 9% higher than last year's level of ₱98.5 billion. Mobile voice service revenues amounted to ₱30.3 billion in 2018, contributing 20% of operating revenues. Mobile SMS service revenues contributed ₱21.3 billion in 2018 or 14% of operating revenues. Mobile data posted strong revenue growth compared to last year's level and contributed ₱55.3 billion in 2018, 37% of operating revenues.

Accounting for 22% of total operating revenues, Globe's fixed line and broadband business grew 13%, registering ₱33.3 billion in 2018, compared to ₱29.4 billion in 2017. Home broadband contributed revenues of ₱18.5 billion, or 12% of operating revenues. Corporate data contributed 8%, at ₱11.8 billion and fixed line voice contributed 2% at ₱3.0 billion.

E. Competition

1. Industry, Competitors and Methods of Competition

(a) Mobile Market

The Philippine mobile market has a total industry SIM base of more than 134 million with an industry penetration rate of 124% as of December 31, 2018. With the growing penchant of Filipinos for smartphones, the mobile data business in the Philippines presents more opportunities for revenue growth. Mobile data usage of both prepaid and postpaid subscribers continues to be a promising market with fast-paced growth.

The Philippine government liberalized the communications industry in 1993, after a framework was developed to promote competition in the industry and accelerate the development of the telecommunications market. Ten (10) operators were granted licenses to provide CMTS services – Globe, Innove (previously Isla Communications, Inc. or "Islacom"), Bayan Telecommunications, Inc. ("Bayantel"), Connectivity Unlimited Resources Enterprises ("CURE"), Digitel Telecommunications Philippines, Inc. ("Digitel"), Express Telecom ("Extelcom"), MultiMedia Telephony, Inc., Next Mobile ("NEXTEL"), Pilipino Telephone Corporation ("Piltel") and Smart Communications, Inc. ("Smart"). Nine of the ten operators continued on to operate commercially except for Bayantel, which have yet to roll out their CMTS services commercially.

When Sun Cellular, Digitel's mobile brand, entered the market in 2003, it introduced to the market value-based unlimited call and text propositions, allowing it to build subscriber scale over time. With the market's preference for these value-based unlimited and bulk call and text services, Globe and Smart responded by creating a new set of value propositions for their subscribers. Today, with the high level of mobile penetration, driven in part by the prevalence of multi-SIMming (i.e., individuals having two SIMs), and the continued shift of consumer preferences to unlimited and bulk offers, the competition in the mobile market remains intense, albeit in a more rational environment.

The mobile market is currently at 134.6 million SIMs, a 13% increase from the previous year mostly due to the pronouncement of the National Telecommunications Commission (NTC), the Department of Information and Communications Technology (DICT), and the Department of Trade and Industry (DTI) that under Joint Memorandum Circular No. 05-12-2017, all prepaid load will now carry a one-year expiration period regardless of amount. Due to this, Globe ended 2018 with a higher SIM base of 74.1 million, with an estimated SIM share of approximately 55%, up from 51% in 2017.

	Mobile Subscribers (Mn)	**Penetration Rates (%)**	**Growth Rate**
1998	1.62	2.5	43%
1999	2.68	3.8	65%
2000	5.26	8.6	96%
2001	10.53	14.2	100%
2002	15.17	19.0	44%
2003	22.31	27.3	47%
2004	32.87	39.4	47%
2005	34.61	40.6	5%
2006	42.04	48.3	21%
2007	54.86	61.2	30%
2008	68.03	74.6	24%
2009	75.43*	82.3	11%
2010	86.15*	93.0	14%
2011	93.74*	98.7	9%
2012	102.99*	106.4	10%
2013	108.52*	110.0	5%
2014	113.89*	116.0	5%
2015	124.79	115.2	3%
2016[1]	125.56	120.4	1%
2017[2]	118.98	111.9	-5%
2018[3]	134.59	124.3	13%

** Estimated end of year figures.*
Source: National Telecommunications Commission (Statistical Data 2007), publicly available information and Company estimates
[1] Starting 2016, nomadic subscribers are included in mobile subscribers (previously reported under broadband subscribers)
[2] In 2017, the industry has excluded in their reporting the prepaid subscribers who do not reload within 90 days of the second expiry period, versus the previous cut-off of 120 days
[3] In 2018, under Joint Memorandum Circular No. 05-12-2017, all prepaid load now carries a one-year expiration period

Since 2000, the mobile communications industry has experienced a number of consolidations and ushered in new entrants, namely:

- In 2000, Philippine Long Distance and Telephone Company ("PLDT") acquired and consolidated Smart and Piltel, complementing the former's fixed line businesses with the latter's wireless businesses. Subsequently in 2008, PLDT, through Smart, purchased

CURE, one of the four recipients of 3G licenses awarded by the NTC, and has since launched another wireless brand in the market in Red Mobile, further heightening competition in the market at that time.

In October 2011, PLDT also acquired 99.4% of the outstanding common stock of Digitel, which owns the Sun Cellular brand, thereby allowing it to control over two-thirds of the industry subscribers. As a condition of PLDT's acquisition of Digitel, PLDT returned to the NTC the 3G license in CURE, which is expected to be re-auctioned in the near-term.

- In 2008, San Miguel Corporation ("SMC"), partnering with Qatar Telecom, bought interests in Liberty Telecom Holdings, Inc. ("Liberty") and announced plans to enter the mobile and broadband businesses.

  In 2010, SMC acquired 100% stake in Bell Telecommunication Philippines, Inc. ("BellTel"), after acquiring shares in three companies that own the shares of BellTel. Also in 2010, SMC purchased a 40% stake in Eastern Telecommunications Philippines, Inc. ("ETPI") to expand its telecommunications services. SMC subsequently gained a majority stake of ETPI in 2011. It now owns 77.7% of the telecommunications company.

  In 2012, NTC has granted BellTel, San Miguel Corporation's mobile telephony arm, an extension to its operating license to provide cellular mobile telephone system (CMTS) service in the country for another three years.

- In 2001, Globe acquired Islacom (now Innove). Globe, likewise, acquired approximately 96.5% of the total debt of Bayantel, in December 2012. On October 2013, Globe converted a portion of the debt it holds in Bayantel into a 38% interest in the latter, based on the Amended Rehabilitation Plan approved by the Rehabilitation Court in August of the same year. Upon obtaining relevant and regulatory approvals, Globe would further convert debt into a total 56.6% share of the common stock of Bayantel.

- In May 2013, ABS-CBN Convergence, Inc. ("ABS-C", formerly Multimedia Telephony, Inc.) announced the launch of its mobile brand, ABS-CBN Mobile. The launch of the new mobile brand was being supported through a network sharing agreement with Globe, wherein the latter provides network capacity and coverage to ABS-C on a nationwide basis. ABS-C formally launched the brand in November 26, 2013. On November 30, 2018, ABS-C discontinued its mobile phone services business and terminated the mobile network sharing arrangement with Globe Telecom.

- In November 2015, Cherry Mobile, a leading mobile phone company in the Philippines, entered into a co-branding partnership with Globe to launch the Cherry Prepaid SIM that also comes bundled with a Cherry Mobile phone. The Cherry Prepaid SIM will operate through a network sharing agreement with Globe, similar to ABS-CBN-Mobile.

- In November 2018, the Department of Information and Communications Technology (DICT) and the National Telecommunications Commission (NTC) declared Mislatel a new major telco player, a consortium composed of Mindanao Islamic Telephone Inc., Udenna Corporation, Chelsea Logistics Holdings, and China Telecom. As of reporting date, the new major player has not begun operations.

Today, only the PLDT Group and the Globe Group have built significant bases of mobile subscribers.

(b) <u>Fixed Line Market</u>

Fixed Line Voice

The number of lines in service in the fixed line voice market is estimated at 4.01 million lines as of December 31, 2018 with PLDT's subscriber market share at 68% and Globe subscriber market share at 32%.

The fixed line voice market is currently in decline as the country continues to shift towards alternative communication solutions like VoIP and chat messaging applications. Globe's fixed line voice subscriber base declined 3% to 1.35 million versus 1.40 million last year.

Corporate Data

The fixed line data business is a growing segment of the fixed line industry. As the Philippine economy grows, businesses are increasingly utilizing new networking technologies and the internet for critical business needs such as sales and marketing, intercompany communications, database management and data storage. The expansion of the local IT Enabled Service (ITES) industry which includes call centers and Business Process Outsourcing (BPO) companies has also helped drive the growth of the corporate data business.

Dedicated business units have been created and organized within the Company to focus on the mobile and fixed line needs of specific market segments and customers – be they residential subscribers, wholesalers and other large corporate clients or smaller scale industries. This structure has also been driven by Globe's corporate clients' preferences for integrated mobile and fixed line communications solutions.

(c) Home Broadband Market

Home broadband continues to be a major growth area for the local telecom industry. Industry home broadband subscribers is now at 3.64 million, growing 12% versus 2017. Globe's subscriber market share stands at 44% as of December 31, 2018, up from 40% a year ago. The aggressive network roll-out of the various operators, the wider availability of affordable prepaid broadband packages, as well as lower PC and tablet prices were the main drivers of subscriber growth. Operators used both wired and wireless technologies to serve the growing demand for internet connectivity.

While household penetration rates remain low, competition continues to intensify as telecom operators aim to capture the market by accelerating the rollout of broadband network to provide subscribers with faster internet connection and introducing more affordable and bundled offerings.

2. Principal Competitive Strengths of the Company

(a) Market Leadership Position

Globe is a major provider of telecommunications services in the Philippines. It is a strong player in the market and operates one of the largest and most technologically-advanced mobile, fixed line and broadband networks in the country, providing reliable, superior communications services to individual customers, small and medium-sized businesses, and corporate and enterprise clients. Globe's distinct competitive strengths include its technologically advanced mobile, fixed line and broadband network, a substantial subscriber base, high quality customer service, a well-established brand identity and a solid track record in the industry.

(b) Strong Brand Identity

The Company has some of the best-recognized brands in the Philippines. This strong brand recognition is a critical advantage in securing and growing market share, and significantly enhances Globe's ability to cross-sell and push other product and service offerings in the market.

(c) Financial Strength and Prudent Leverage Policies

Globe's financial position remains strong with ample liquidity, and gearing comfortably within bank covenants. At the end of 2018, Globe had total interest-bearing debt of ₱148.3 billion representing 67% of total book capitalization. As of December 31, 2018, consolidated gross debt to equity ratio is at 2.03x, well within the 2.5:1 debt to equity limit. Additionally, debt to EBITDA is also well within the 3:1 covenant level, currently at 2.33x. Approximately 84% of its debt is in pesos while the balance of 16% is denominated in US dollars. Expected US dollar inflows from the business offset any unhedged US dollar liabilities, helping insulate Globe's balance sheet from any volatilities in the foreign exchange markets.

Globe intends to maintain its strong financial position through prudent fiscal practices including close monitoring of its operating expenses and capital expenditures, debt position, investments, and currency exposures.

(d) Proven Management Team

Globe has a strong management team with the proven ability to execute on its business plan and achieve positive results. With its continued expansion, it has been able to attract and retain senior managers from the telecommunications, consumer products and finance industries with experience in managing large scale and complex operations.

(e) Strong Shareholder Support

The Company's principal shareholders are Ayala Corporation (AC) and Singapore Telecom (STI), both industry leaders in the country and in the region. Apart from providing financial support, this partnership has created various synergies and has enabled the sharing of best practices in the areas of purchasing, technical operations, and marketing, among others.

F. Suppliers

Globe works with both local and foreign suppliers and contractors. Equipment and technology required to render telecommunications services are mainly sourced from foreign countries. Its principal suppliers, among others, are as follows:

The Company's suppliers of mobile equipment include Huawei Technologies Co., Ltd. (China) and Nokia Corporation (Finland); and For transmission and IP equipment, Company has partnered with Huawei Technologies Co., Ltd, (China), Nokia Corporation (Finland), NEC (Japan), ECI Telecom, Ltd. (Israel), Aviat Networks (USA).

For Fixed Line and Fixed Broadband Service, Globe's principal equipment suppliers include Huawei Technologies Co., Ltd. (China), FiberHome Telecom Tech (China), Nokia Corporation (Finland), Juniper Networks (USA), ZTE Corporation, and Tellabs (USA/Singapore).

For WiFi service, Company partnered with Aruba Networks (USA) and Ruckus Networks (USA).

For Network Management and Operational Support Systems, Globe's primary solution provider includes IBM (USA), Mycom OSI (United Kingdom), Incognito (Canada), Netcracker (USA), Radcom (Israel) among others.

For the Company's IT modernization program, Globe has selected Amdocs, the leading provider of customer experience systems and services, to improve and upgrade Globe's Business Support Systems (BSS) and enterprise data warehouse. As part of the transformation program, Amdocs is tasked to manage and consolidate all of Globe's legacy systems onto a single Business Support System (BSS) platform. This will enable the Company to manage its customer relationships better across all it various product offerings, simplify business processes and shorten the time to deliver bundled and more innovative products to the market.

G. Customers

Globe has a large subscriber base across the country. The Company ended 2018 with 74.1 million mobile subscribers, comprised of 2.6 million postpaid and 71.5 million prepaid subscribers. Meanwhile, Globe has over 1.6 million home broadband customers and around 1.4 million fixed line voice subscribers.

No single customer and contract accounted for more than 20% of the Company's total sales in 2018.

H. Licenses, Patents, and Trademarks

1. Licenses

Globe currently holds the following major licenses:

Service	Type of License	Date Issued or Last Extended	Expiration Date
Globe			
Wireless	CPCN [(1)]	July 22, 2002	December 24, 2030
Local Exchange Carrier	CPCN [(1)]	July 22, 2002	December 24, 2030
International Long Distance	CPCN [(1)]	July 22, 2002	December 24, 2030
Interexchange Carrier	CPCN [(1)]	February 14, 2003	December 24, 2030
VSAT	CPCN [(1)]	February 6, 1996	February 6, 2021
International Cable Landing Station & Submarine Cable System (Nasugbu, Batangas)	CPCN [(1)]	October 19, 2007	December 24, 2030

International Cable Landing Station & Submarine Cable System (Ballesteros, Cagayan)	CPCN (1)	June 29, 2010	December 24, 2030

Innove	**Type of License**	**Date Issued or Last Extended**	**Expiration Date**
Wireless	CPCN (1)	July 22, 2002	May 7, 2017 (3)
Local Fixed line	CPCN (1)	July 22, 2002	May 7, 2017 (3)
International Long Distance	CPCN (1)	July 22, 2002	May 7, 2017 (3)
Interexchange Carrier	CPCN (1)	April 30, 2004	May 7, 2017 (3)

Bayantel	**Type of License**	**Date Issued or Last Extended**	**Expiration Date**
Local Exchange Carrier			
(a) *Quezon City, Malabon & Valenzuela, all in M.M., Albay, Camarines Norte, Camarines Sur, Catanduanes, Sorsogon & Masbate, all in Bicol Region*	CPCN (1)	(a) July 9, 1999	(a) July 8, 2024
(b) *Manila, Caloocan, Navotas*	CPCN (1)	(b) May 3, 2007	(b) August 9, 2021
(c) *Tacloban City, Tanauan and Palo, Leyte & Sogod, Southern Leyte*	CPCN (1)	(c) March 16, 2004	(c) March 15, 2029
(d) *Leyte (Abuyog, Baybay, Burauen, Carigara, Dulag, Hilongos, Isabel, Palompon & Hilaga) Eastern Samar (Guiuan & Borongan) Western Samar (Catbalogan & Basey) Southern Leyte (Maasin)*	CPCN (1)	(d) March 18, 2008	(d) August 9, 2021
(e) *Antique, Iloilo, Bohol, Bukidnon, Misamis Occidental, Misamis, Zamboanga del Sur, Davao del Norte, Davao del Sur, Davao Oriental, Saranggani, South Cotabato and Surigao del Sur*	PA	(e) March 9, 1998	(e) July 25, 2006 (2)
(f) *Aklan, Capiz (including Roxas City), Guimaras, Negros Occidental (including cities of Bacolod and Bago), Negros Oriental (including Dumaguete City), Cebu (including cities of Cebu, Lapu-Lapu and Mandaue), Zamboanga del Norte, Surigao del Norte (including Surigao City), Tagbilaran City, Cagayan de Oro City and Tagum City*	PA	(f) November 18, 2004	(f) May 1, 2006 (2)
(g) *Butuan City, Agusan del Norte & Agusan del Sur*	PA	(g) December 14, 1998	(g) June 14, 2005 (2)
VSAT	CPCN (1)	January 11, 2001	January 10, 2026
International Gateway Facility	CPCN (1)	April 19, 1996	April 18, 2021
Trunked Mobile Radio System	CPCN (1)	April 2, 1998	April 1, 2023
Domestic Data and Voice Communications	CPCN (1)	April 10, 2008	August 9, 2021

[1] *Certificate of Public Convenience and Necessity. The term of a CPCN is co-terminus with the franchise term.*
[2] *Motion for Extension of PA still pending with the NTC. No roll-out to justify the PA extension*
[3] *Pending in the Senate*

In July 2002, the NTC issued CPCNs to Globe and Innove which allow the Company to operate respective services for a term that will be predicated upon and co-terminus with the Company's congressional franchise under RA 7229 (Globe) and RA 7372 (Innove). Globe was granted permanent licenses after having demonstrated legal, financial and technical capabilities in operating and maintaining wireless telecommunications systems, local exchange carrier services and international gateway facilities. Additionally, Globe and Innove have exceeded the 80% minimum roll-out compliance requirement for coverage of all provincial capitals, including all chartered cities within a period of seven years.

2. Trademarks

Globe has the following registered trademarks in the Philippines: Globe, Globe Life Device, #LevelUpPH, #Next Level Ka Tournament, 0917,Adblast,AdSpark, Airfair, Airfair Enterprise, Barkada Congress, Bingeon,, BingeWatch, BingeWatching, Create Wonderful, Creating a Wonderful World, Data Rollover, DigiAds,Digimall, Duo International, EasyShare, EasyExtend, Game Sa Lahat, GG30, GG50, Globe AppMarket, Globe At Home, Globe At Home Streamfest, Globe Broadband, Globe Creating a Wonderful World, Globe Home Broadband,Globe International, Globe Live, Globe MyBusiness, Globe Prepaid #LevelUpPH, Globe Prism, Globe Rewards, Globe Rollover, Globe Streamwatch, Globe Studios, Globe Switch, Gmovies, GoBinge, Gocery, Good Games, GoWatch, Load Up, Konekt, My Shopkeeper, MyBizKit, MyBusiness Tracker, Park Ninja, Points Battle, Rollover, Rush, Seats, Sunkissed Boracay, SurfAlert, Supersurf, Tattoo,Tattoo Home Broadband, Tattoo@Home, Ticket Hub, TM Barkada Congress, Txt Connect and W00T. Globe also applied for the following trademarks: Elements Music Camp, Globe At Home Air, Globe at Home Air Fiber.

Globe and Saga Events, Inc. own the registered trademark "Stylefestph".

Further, Globe also applied and registered the following brand names: Globe Telecom (Australia, Taiwan, Japan, Singapore, Macau, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Korea, Canada, China, Saudi Arabia), Globe and Globe Life Device (Hong Kong, Taiwan, Singapore, Japan, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Macau, Qatar, UAE, USA, Saudi Arabia), Globe GCash (Singapore, Hong Kong, United Kingdom, Taiwan, Japan, Macau, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Qatar, Korea, UAE, Saudi Arabia, New Zealand, Ireland, Lebanon, Denmark, Sweden, Switzerland, Israel), Globe Kababayan (Singapore, Hong Kong, Taiwan, United Kingdom, Australia, Japan, Macau, USA, Saudi Arabia, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Malaysia, UAE, Italy, Korea, Taiwan), Globe Autoload Max (Norway, Singapore, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Japan, Hong Kong), Globe M-Commerce Hub (Taiwan, Singapore, Korea, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Australia, Macau, Qatar, Malaysia), Muzta, and Smiley With Salakot Device (Japan, UK, Australia, Kuwait, USA, Saudi Arabia, Bahrain, UAE), Smiley with Salakot (Japan, United Kingdom, Australia, USA, Saudi Arabia, Bahrain, UAE), and Muzta (Bahrain, UAE, Canada, Qatar, Saudi Arabia, UAE), GCash Remit and Logo (Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden. Lebanon, Japan, Switzerland, Macau, Hong Kong, Taiwan, New Zealand, China, Japan, Israel), GCash Express and Logo (Hong Kong, Singapore, Taiwan, Malaysia), Globe Load (Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Macau).

Globe subsidiaries and affiliates have applied/registered their respective marks with the Intellectual Property Office, namely:

a) Innove Communications, Inc. has registered the mark GoWifi. Innove also applied EasySurf and GoWifi Auto.

b) GXchange has the following registered trademarks GCash, GCash Remit, G-Xchange and PowerPay+. It has pending trademark applications for Cash In, GCash QR, GCash Mo na Yan! and GScore.
c) Globe Fintech Innovations, Inc. has the following registered trademarks: GPay and A Fresh Look at Money.
d) Fuse Lending, Inc. has the following registered marks Fuse, Fuse and Logo, First Loan for Everyone, Power Payday Advance, Go Loan, Spark Loan, Instaloan, and Fuse Business Loan
e) Asticom Technology, Inc. applied "Asticom"
f) Global Telehealth, Inc. applied "Konsulta MD"

3. Patents

Gxchange, Inc. and UTIBA Pty Ltd. have registered the following patents in the Philippines:

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones;
2. A Method of Converting Cash into Virtual Cash and Loading it to Mobile Phone Cash Account;
3. A Method of Cashless, Cardless Purchase Transaction Using Mobile Phones; and
4. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account.

Gxchange, Inc. and UTIBA Pty Ltd. have likewise registered the following patents in the United States:

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones; and
2. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account

Gxchange, Inc. and UTIBA Pty Ltd. have likewise filed the following patent applications in Indonesia, Singapore and Europe.

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones;
2. A Method of Converting Cash into Virtual Cash and Loading it to Mobile Phone Cash Account;
3. A Method of Cashless, Cardless Purchase Transaction Using Mobile Phones; and
4. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account.

Globe has applied the patent for "Systems and/or Methods for Authorizing and Facilitating Third-Party Withdrawals or Payment" with the Intellectual Property Office.

I. Government approvals/regulations

The Globe Group is regulated by the NTC under the provisions of the Public Service Act (CA 146), Executive Order (EO) 59, EO 109, and RA 7925. Under these laws, Globe is required to do the following:

a) To secure a CPCN/PA from the NTC for those services it offers which are deemed regulated services, as well as for those rates which are still deemed regulated, under RA 7925.

b) To observe the regulations of the NTC on interconnection of public telecommunications networks.

c) To observe (and has complied with) the provisions of EO 109 and RA 7925 which impose an obligation to rollout 700,000 fixed lines as a condition to the grant of its provisional authorities for the cellular and international gateway services.

d) Globe remains under the supervision of the NTC for other matters stated in CA 146 and RA 7925 and pays annual supervision fees and permit fees to the NTC.

On October 19, 2007, the NTC granted Globe a CPCN to operate and maintain an International Cable Landing Station and submarine cable system in Nasugbu, Batangas.

On May 19, 2008, Globe Telecom, Inc. announced that the National Telecommunications Commission (NTC) has approved the assignment by its wholly-owned subsidiary Innove Communications (Innove) of its Touch Mobile (*TM*) consumer prepaid subscriber contracts in favor of Globe. Globe would be managing all migrated consumer mobile subscribers of *TM*, in addition to existing Globe subscribers in its integrated cellular network.

On September 11, 2008, the NTC granted Globe a CPCN to operate and maintain an International Cable Landing Station in Ballesteros, Cagayan Province.

J. Research and Development

Globe incurred market research costs amounting to ₱150 million in 2018, 10% lower versus 2017 spend.

K. Compliance with Environmental Laws

The Globe Group complies with the Environmental Impact Statement ('EIS') system of the Department of Environment and Natural Resources ('DENR') and pays nominal filing fees required for the submission of applications for Environmental Clearance Certificates ('ECC') or Certificates of Non-Coverage ('CNC') for its cell sites and certain other facilities, as well as miscellaneous expenses incurred in the preparation of applications and the related environmental impact studies. The Globe Group does not consider these amounts material.

Globe has not been subject to any significant legal or regulatory action regarding non-compliance to relevant environmental regulations.

L. Employees

The Globe Group has 7,729 active regular employees as of December 31, 2018, of which 4% or 330 are covered by a Collective Bargaining Agreement (CBA) through the Globe Telecom Employee's Union (GTEU).

Breakdown of employees by main category of activity from 2016 to 2018 are as follows:

Employee Type	2018	2017	2016
Rank & File, CBU	2,791	2,527	2,617
Supervisory	2,760	2,605	2,546
Managerial	1,698	1,598	1,540
Executives	480	476	477
Total	7,729	7,206	7,180

In conformance with the Department of Labor and Employment's (DOLE) Collective Bargaining Agreement (CBA), the Globe Telecom Employees Union-Federation of Free Workers (GTEU-FFW) remains active to pledge the right of every Ka-Globe to form a collective bargaining unit. All employees are allowed to participate in CBA and through GTEU-FFW, everyone is informed and made aware of the mandates.

Globe has a long-standing, healthy, and constructive relationship with the GTEU characterized by healthy and constructive discussions and industrial peace. Both have shared goals such as enhancing productivity levels and ensuring consistent quality of service to customers across various segments.

Globe and GTEU-FFW renewed their collective bargaining agreement for another 5 years, beginning 2016. This is a testament to the strong partnership built between them and the alignment in their advocacies.

M. Risk Factors

The achievement of Globe's key business objectives can be affected by a wide array of risk factors. Some of these risk factors are universal while some are unique to the telecommunications industry. The risks vary widely in occurrence and severity, some of which are beyond the company's control. There may also be risks that are either presently unknown or not currently assessed as significant, which may later prove to be material. We aim to mitigate these exposures through appropriate RM strategies, strong internal controls and capabilities, close monitoring of risks and mitigation plans. The section below sets out the principal risk types, listed in no particular order of significance:

1. Political and Socio-Economic Risks

The growth and profitability of Globe may be influenced by the overall political and economic situation of the Philippines. Any political or geopolitical instability in the Philippines could negatively affect the country's general economic conditions which, in turn, could adversely affect the company's business, financial condition or results of operations, including the ability to enhance the growth of its customer base, improve its revenue base and implement its business strategies.

The current administration is implementing major changes to the telecommunications industry that can positively or negatively affect the company's business. These include:

- Pressure to improve network performance
- Sharing of network/facilities across operators
- Providing portability of mobile numbers
- Possible pressure on pricing
- Potential entry of foreign telecom players
- Potential improved LGU support
- Promise of increased infrastructure spend
- Potential changes that aim to disrupt the current industry model

A regular environmental scanning exercise is performed to ensure the identification of any uncertainties arising from political and socioeconomic factors. Management is closely monitoring the shift in policies to anticipate the potential impact to the business plans as well as maintaining open communication lines with the various government sectors.

2. Financial Markets Risk

(a) Foreign Exchange Risk

Exposure to foreign exchange risks remains a risk to Globe. Foreign exchange risk results primarily from movements of the Philippine peso against the US dollar (USD) with respect to the company's USD-denominated financial assets, liabilities, revenues and expenditures.

There are no assurances that declines in the value of the Peso will not occur in the future or that the availability of foreign exchange will not be limited. Recurrence of these conditions may adversely affect Globe's financial condition and results of operations.

(b) Interest Rate Risk

In order to fund major expenditures, Globe has entered into various short and long-term debt obligations, which exposes the company to the risk of changes in interest rates.

The company's exposure to interest rate risk and currency risk are being managed by:

- Using a mix of fixed and variable rate debt that are meant to achieve a balance between cost and volatility.
- Entering into interest rate swaps, in which the company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount.
- Using a combination of natural hedges and derivative hedging to manage foreign exchange exposure.

Globe also regularly evaluates its projected and actual cash flows and continuously assess conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise.

3. Industry and Operational Risks

(a) <u>Competition Risk</u>

(i) <u>Traditional Competition</u>

Competition remains intense in the Philippine telecommunications industry amidst a mature mobile market and high growth data business, as current competitor seeks to regain market share with aggressive offerings. In late 2018, a 3rd player was allowed by the government to enter the Philippine telecommunications industry, selected through a bidding process spearheaded by the Department of Information and Communications Technology (DICT).

These factors are seen to further heighten the competitive dynamics amidst a mature mobile market.

(ii) Alternative Competition

The competitiveness of the industry is further underscored by cheap alternatives to communication such as instant messaging, social network services and voice over internet protocol. These alternatives are also driven by the proliferation of affordable smartphones and internet-capable mobile devices.

The continued growth and development of the telecommunications industry will depend on many factors. Any significant economic, technological, or regulatory development could result in either a slowdown or growth in demand for mobile services and may impact the company's business, revenues, and net income.

These factors heighten the need to continuously expand and modernize the company's network and IT services, thus requiring an equally heightened level of capital spending.

Globe continues to assert its market position through the offering of personalized plans and attractive product/device bundles, and launching innovative products and services that are relevant and responsive to the needs of the customers and focusing on superior customer experience. The company also partners with leading providers of content, mobile messaging, social media and other popular applications in order to provide products and services that anticipate and cater to shifting customer preferences.

(b) Regulatory Risk

Globe Telecom is regulated by the National Telecommunications Commission (NTC), an attached agency of the Department of Information and Communications Technology (DICT), for its telecommunications business, and by the Securities and Exchange Commission (SEC) for other aspects of its business as well as the Philippine Stock Exchange (PSE) as one of its capital market regulators, to name a few. On the other hand, the Philippine Competition Commission (PCC) has oversight over mergers, acquisitions, and other similar transactions as it is tasked to effectively level the playing field among businesses and penalize anti-competitive agreements and abuse of market dominance.

The introduction of new, modifications, or the inconsistent application of laws or regulations from time to time, may materially affect the operations of Globe, and ultimately the company's earnings which could impair its ability to service debt. There is no assurance that the regulatory environment will support any increase in the company's business and financial activity.

Globe manages its regulatory risks through regular monitoring of regulatory rulings, especially those that could negatively impact its businesses, and proactive engagement with the regulators.

(c) Customer Preference and Technology Shift Risk

Globe's ability to recognize and quickly respond to changes in customer preferences by upgrading existing infrastructure and systems may impact its competitiveness in the marketplace.

Mobile data applications and the rising popularity of smartphones, mobile applications, and social media platforms as enabled by mobile and connected devices are key contributors to the explosion of data traffic. This phenomenon is putting a strain on the company's network capacity as well as the supporting back end systems, negatively impacting customer experience.

Globe's business, product and technical teams continue to keep abreast of the latest innovations and trends in telecommunications technologies, devices and gadgets. The information and insights gathered are considered in the roadmap of future products and services and the company's network and IT infrastructure evolution. Proper timing of investments in technology and infrastructure always consider its strategic implications, velocity of technology cycles and customer adoption.

The Globe data network is continuously being enhanced by deploying new mobile and data technologies, increasing network capacity and coverage while modernizing the fixed line data infrastructure.

(d) Change Program Risk

Globe is in the process of transforming its businesses and such changes permeate into its network and IT systems and supporting processes. Crucial changes in the company's network infrastructure are being pursued mainly to improve network quality, anticipate the surge in voice and data traffic, decrease total cost of ownership, and make the network robust enough to meet future needs. IT transformation programs are set to re-engineer the company's IT systems and key processes to enhance its ability to deliver superior customer experience and understand what customers value, while being able to roll out products to the market in a more efficient and effective manner.

Should Globe Telecom's ambitious and complex transformation programs fail to achieve the desired outcomes, Globe could ultimately lose market share thus impacting its financial results.

Globe has institutionalized the appropriate program governance organizations with Management Team oversight and accountability to ensure program risks are properly considered and managed aimed at achieving key program objectives and improving customer experience. Globe ensures that a competent program office and project organization are in place for major change programs. Supporting processes have been established to closely monitor and provide a venue for regular progress updates, alignment of efforts, discussion of critical implementation issues and challenges and help ensure successful execution of its change programs.

(e) Organizational Agility Risk

Leading the digital lifestyle for customers and diversification of Globe's business portfolio is critical to maintain market competitiveness. Failure to drive the entire organization to quickly adapt work practices and make the right shift in skills and competencies necessary for the company to lead in the digital space and forge into adjacent spaces may lead to missed business opportunities.

Globe has initiated cultural change programs that focus on customer centricity and innovation. Opportunistic hiring of talents required for innovation and new investment areas are also carefully considered. Globe continues to build the right leadership structures and system team that will support an agile, future-ready and customer-centric organization.

(f) Human Capital Risks

Globe is exposed to risks in staffing critical functions with competent management and technical expertise. Globe's greatest asset is its people and the company's success is largely dependent on its ability to attract highly skilled personnel and to retain and motivate the best employees.

As new players are poised to ramp up their operations, this may result in poaching of key employees from the company's talent pool.

In line with Globe's Purpose of treating people right, and in support of the Department of Labor and Employment's campaign against all illegal forms of contractualization, Globe strictly monitors its accredited partners on their sustained compliance with pertinent labor laws and regulations.

Various people-related programs designed to engage and motivate employees are being implemented in order to retain and attract key talents. Globe University was formally organized to address the growing competency and development needs of Globe. With the need to develop key talent imperatives, it is a significant move towards achieving key improvements in workforce capabilities and performance.

(g) Reputational Risk

Globe is recognized as one of the Philippines' top companies providing innovative services and delivering superior customer experience while maintaining a socially responsible business. The company is exposed to reputational risks which may result from its actions or that of its competitors; indirectly due to the actions of an employee; or consequently through actions of outsourced partners, suppliers, or joint venture partners.

Damage to Globe Telecom's reputation and erosion of brand equity could also be triggered by the inability to swiftly and adequately handle negative traditional and social media sentiments on Globe Telecom's products and services resulting from unfavorable customer experience, among others.

Regular process effectiveness and efficiency reviews on existing customer-impacting processes are being conducted to identify and address existing gaps, thus minimizing exposure to reputational risks arising from problem areas. Front line staff are regularly trained to enable them to effectively handle customer cases. On the other hand, close monitoring of customers' online sentiments is being performed to quickly detect subscriber issues being surfaced in social media and be able to manage them early on.

(h) Compliance Risks

(i) Cyber Threats

The cyber security landscape is rapidly evolving and users are heavily relying on digitized information and sharing vast amounts of data across complex and inherently vulnerable networks. This exposes Globe to various forms of cyber-attacks which could result in disruption of business operations, damage to reputation, legal and regulatory fines and customer claims.

New technologies and systems being installed in the name of advanced capabilities and processing efficiencies may introduce new risks which could outpace the organization's ability to properly identify, assess and address such risks. Further, new business models that rely heavily on global digitization, use of cloud, big data, mobile devices and social media increase the organization's exposure to cyber-attacks.

Globe continues to strengthen and enhance its existing security detection, vulnerability and patch management, configuration management, identity access management, events monitoring, data loss prevention and network/end-user perimeter capabilities to ensure that cyber threats are effectively managed.

As part of the company's mission to promote the intelligent and judicious use of the internet, Globe also educates the youth to better understand the impact of their online behavior so they can be responsible digital citizens, thereby lessening cyber threats to Globe. In parallel, online security is promoted through customer education drives.

(ii) Data Privacy

Globe, in the course of regular business, acquires personal information of its customers and retains the same either electronically or via hard copies. Existing laws require that information, especially customer information, be adequately protected against unauthorized access and or/disclosure. The risk of data leakage is high with the level of empowerment granted to in-house and outsourced employees handling sales and after sales support transactions to enable the efficient discharge of their functions.

Employee awareness on data protection and loss prevention is reinforced through regular corporate communication channels. Further, employees are made accountable for maintaining the confidentiality of data handled, including disclosures and information shared in various social media platforms. Controls over processes that require handling of customers' personal information are being tightened, coupled with enhancements in existing security capabilities to prevent compromise of customer data.

A Chief Information Security Officer and Data Protection Officer was appointed to strengthen the management of risks relating to the confidentiality and integrity of customer information while ensuring compliance with Data Privacy Act of 2012 or Republic Act 10173 (DPA). Our CISO/DPO reports to our Chief Technology and Information Officer (CTIO), and acts as Chairman of the Information Security and Privacy Committee in Management as well as leads our Information Security and Data Privacy Division (ISDP). ISDP is a fully-operationalized group that focuses on Globe's data privacy and cybersecurity matters.

The CISO provides regular updates on information security and data privacy matters to the Board, through the ARPT Committee to ensure that cyber risks and technology or digital threats to the business and our customers are addressed and managed effectively.

(iii) Business disruptions

The quality and continued delivery of Globe's services are highly dependent on its network and IT infrastructure which are vulnerable to damages caused by extreme weather disturbances, natural calamities, fire, acts of terrorism, intentional damage, malicious acts and other similar events which could negatively impact the attainment of revenue targets and the company's reputation.

Since 2012, our Business Continuity Management System (BCMS), which governs our Business Continuity and Disaster Recovery Planning, has been certified by BSI, Singapore – an internationally recognized certification body. The Globe BCMS is primarily responsible in ensuring that programs are in place for Globe to continuously improve on:

- the readiness of our employees to manage disastrous incidents;
- the ability of the organization to deliver critical products and services especially during disasters, and;
- the commitment to deliver on important legal and regulatory requirements.

The company is continuously enhancing its incident and crisis management plans and capabilities and have incorporated disaster risk reduction and response objectives in its business continuity planning. Part of Globe's Business Continuity Management Program initiatives include:

- Partnering with the Metropolitan Manila Development Authority (MMDA) and the Philippine Disaster Recovery Foundation (PDRF), to create a network of support during disasters.
- Sponsored the development of hazard maps for 54 out of 81 Philippine provinces, which will be used by Phivolcs to assist the provinces in their disaster management plans.
- Reinforced Ayala ASSIST, an app that enables Globe and other Ayala employees to easily seek assistance during disasters.
- Re-certification in Business Continuity (ISO 22301) on an enterprise-wide scale
- Reinforcing the company's business continuity policies and best practices through various awareness drives and training programs

(iv) Revenue leakage

The telecommunications industry is inherently vulnerable to revenue leakage with the continuing innovations in telco technologies, networks and IT systems and the multitude of its service plan offerings and accompanying such advancements. The pace at which new offers are launched in the market and the speed of technological innovations being adopted by Globe, coupled with the ongoing network and IT transformation programs heightens the need to identify and plug revenue leakages becomes an even more important capability in maximizing revenues and returns.

Globe strengthens its revenue assurance capabilities through the identification and embedding of appropriate revenue assurance controls into new products, services, and new systems as well as the implementation of sound controls on existing products and services.

Globe is continuously improving control effectiveness, efficiency, and coverage through periodic controls review exercises, controls discovery, and review of critical revenue-impacting processes. The company has recently completed the implementation of a revenue assurance tool that would increase efficiency in its operations through automated execution of controls.

(v) Fraud

Globe runs the risk of falling victim to fraud perpetrated by unscrupulous persons or syndicates either to avail of "free" services, to take advantage of device offers or defraud its customers. With the increased complexity of technologies, network elements and IT infrastructure, new types of fraud that are more difficult to detect or combat could also arise. This risk also involves irregularities in transactions or activities executed by employees for personal gain.

Globe remains committed to preventing and detecting fraud by institutionalizing processes and building capabilities that enable the early detection, investigation, resolution and enforcement of sanctions and legal options, close monitoring and timely reporting of various instances of fraudulent activities. The company has initiated various programs to equip its customers with the right and sufficient information so that they do not fall victim to fraudsters. Moreover, the company closely coordinates with law enforcement agencies to help protect customers from activities meant to defraud them.

Globe implements standards and practices that remind and deter employees, who through the course of business transactions with various partners, from engaging in corrupt or unethical practices. Management has zero tolerance for such acts and have corresponding severe penalties as provided in the company's Code of Conduct and Ethics (CoC). Globe employees, by virtue of his/her employment, are bound to uphold trust given to them by not seeking to gain any undue personal or pecuniary advantage (other than the rightful proceeds of employment) from dealings with or for and in behalf of Globe. Our employees maintain the highest standards of honesty, integrity, and professional conduct. Seeking undue financial and material advantage from transactions with Globe is a breach of trust between the employee and the company. Globe's CoC promulgates policies governing conflict of interest, whistleblowers, unethical, and corrupt practices, among others.

N. Management of Risks

Realizing the need to protect the business from losses arising from failures in internal processes, people, and systems or external events, which is an integral part of Globe's RM responsibility, an Operational Risk Management and Business Protection (ORB) department was established. ORB's primary objective is to provide end-to-end support for all activities under risk management, overseeing safety, environment, infrastructure hazard management, insurance, as well as enterprise business continuity management. ORB reports to the Head of Logistics and Administrative Services who directly reports to the CFO/CRO. The department is mandated to do the following:

- Provide hazard identification and risk assessment for Globe Telecom's operations, activities, events, and infrastructure;
- Facilitate implementation of risk control and mitigation measures for safety and environmental management, in collaboration with operational and business groups;
- Provide and facilitate risk transfer and business protection solutions through insurance or contractor liability agreements;
- Establish an effective framework for business continuity management for the organization to effectively respond to threats such as natural disasters, equipment failure, data breaches, and in effect, protect its business interests.

O. Debt Issues

For details on Globe Group's Loans Payable see Note 16 of Globe's 2018 Consolidated Financial Statements which is part of the exhibits to this report.

For further details on the Globe's financial condition and operations, please refer to its 2018 Consolidated Financial Statements which is incorporated herein as part of Index to Financial Statements and Supplementary Schedules. Also, for further information on Globe, please refer to its SEC17A which is available in its website www.globe.com.ph.

Item 2. Properties

Ayala Corporation

Ayala Corporation owns, among others the following properties: significant area in the 4 floors of the Tower One Building located in Ayala Triangle, Ayala Avenue, Makati (which were purchased in 1995 and are used as corporate headquarters of the Company); various provincial lots relating to its business operations totaling about 1,397.33 hectares and Metro Manila lots totaling 3.12 hectares including lots and buildings for the Honda Cars Makati, Honda Cars Pasig, Honda Cars Alabang and Isuzu Alabang dealerships (which are leased to these dealerships). Certain properties are subject to certain conditions, restrictions and covenants in which the Company is compliant.

ALI

The following table provides summary information on ALI's land bank as of December 31, 2018. Properties included are either wholly-owned or part of a joint venture and free of lien unless noted.

In Estates	Location	Hectares	Outside Estates	Hectares
Metro Manila		**168**	**Metro Manila**	**162**
Makati CBD	Makati City	46	Las Pinas	89
BGC	Taguig City	27	QC	25
Parklinks	Quezon City - Pasig City	35	Muntinlupa	18
Arca South	Taguig City	21	Manila	16
Vertis North	Quezon City	16	Pasig	8
Circuit Makati	Makati City	11	Paranaque	4
Cloverleaf	Quezon City	7	Makati	3
Southpark District	Muntinlupa City	4	Mandaluyong	1
			Pasay	0.1
Luzon		**5,298**	**Luzon**	**4,427**
Nuvali	Sta. Rosa, Laguna	1545	Cavite	1,953
Alviera	Porac, Pampanga	1468	Batangas	909
Altaraza	San Jose Del Monte, Bulacan	844	Laguna	665
Lio	El Nido, Palawan	837	Tarlac	290
Vermosa	Imus, Cavite	426	Bulacan	230
Evo City	Kawit, Cavite	180	Bataan	220
			Pampanga	81
			Camarines Sur	29
			Rizal	26
			Quezon	20
			Cagayan - Tuguegarao	2
			Nueva Ecija	2
Visayas		**851**	**Visayas**	**101**
Sicogon Island Resort	Iloilo	662	Cebu	71
North Point	Talisay, Negros Occidental	130	Iloilo	19
Cebu Park District	Cebu City, Cebu	19	Negros Occidental	11
Atria Park District	Mandurriao, Iloilo	10		
Gatewalk Central	Mandaue, Cebu	13		
Seagrove	Mactan, Cebu	13		
Capitol Central	Talisay, Negros Occidental	4		
Mindanao		**172**	**Mindanao**	**445**
Habini Bay	Laguindingan, Misamis Oriental	134	Misamis Oriental	230
Azuela Cove	Davao City, Davao del Sur	25	Davao del Sur	215
Abreeza	Davao City, Davao del Sur	9		
Centrio	Cagayan de Oro, Misamis Oriental	3		
2018 Land Bank: 11,624		**6,489**		**5,135**

Leased Properties

ALI has an existing contract with BCDA to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to P106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity.

On January 28, 2011, a notice was given to ALI for the P4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. ALI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew 58,000 square meters for another 25 years by mutual agreement. The project involves the construction of a retail establishment with 63,000 square meters of available gross leasable area and a combination of Headquarter-and-BPO- type buildings with an estimated 8,000 square meters of office space.

Rental Properties

ALI's properties for lease are largely shopping centers, office buildings and hotels and resorts. As of December 31, 2018, rental revenues from these properties amount to 34.9 billion or 15% consolidated revenues before intercompany adjustments, 17% higher than P29.9 billion recorded in 2017.

Property Acquisitions

With 11,624 hectares in its land bank as of December 31, 2018, Ayala Land believes that it has sufficient properties for development in next 25 years.

Nevertheless, ALI continues to seek new opportunities for additional, large-scale, master-planned developments in order to replenish its inventory and provide investors with an entry point into attractive long-term value propositions. The focus is on acquiring key sites in the Mega Manila area and other geographies with progressive economies that offer attractive potential and where projected value appreciation will be fastest.

On May 15, 2018, Ayala Land, Inc. ("ALI") entered into a Memorandum of Understanding with Green Square Properties Corporation ("GSPC") and Green Circle Properties and Resources, Inc. ("GCPRI") on May 11, 2018 for the formation of a Joint-Venture Company ("JVC") that will own and develop 27,852 hectares of land ("the Properties"), specifically located in Dingalan, Aurora and General Nakar, Province of Quezon. ALI will own 51%, and GSPC and GCPRI will jointly own 49% of the JVC.

On April 4, 2018, Ayala Land, Inc. (ALI) signed a Deed of Absolute Sale with Central Azucarera de Tarlac, Inc. for the acquisition of several parcels of land with an aggregate area of approximately 290 hectares located in Barangay Central, City of Tarlac, Province of Tarlac.

On February 20, 2018, the Philippine Competition Commission (PCC) approved the setting up of a joint venture between ALI and Royal Asia Land, Inc. to acquire, own, and develop a 936-hectare commercial and residential project in Silang and Carmona, Cavite. Both firms will own 50% equity in the joint venture vehicle while Royal Asia Land will receive a consultation fee of 2% of the joint venture firm's gross revenue for its participation in the planning and development of the property. ALI, meanwhile, will develop and market the project and receive a management fee of 12% and sales and marketing fee of 5% of the gross revenue. The PCC has deemed that the transaction does not result in a substantial lessening of competition because it will not have a structural effect on the market.

In June 2015, ALI, through SM-ALI Group consortium, participated and won in the bidding for Lot No. 8-B-1, containing an area of 263,384 sqm, which is a portion of Cebu City-owned lot located at the South Road Properties, Cebu City covered by Transfer Certificate of Title No. 107-2011000963 (the "Property"). SM-ALI Group consortium is a consortium among SM Prime Holdings, Inc. ("SM"), Ayala Land, and Cebu Holdings, Inc. ("CHI", together with ALI collectively referred to as the "ALI Group"). The SM-ALI Group will co-develop the property pursuant to a joint master plan.

In April 2015, ALI purchased all of the 8.2 million common shares of Aegis PeopleSupport Realty Corporation amounting to ₱435 million. Aegis PeopleSupport Realty Corporation is a PEZA-registered entity and the owner of Aegis building along Villa Street, Cebu IT Park, Lahug, Cebu City. The building is a certified LEED-Gold Office with a gross leasable area of 18,092 sqm and is largely occupied by Teleperformance under a long-term lease.

On February 6, 2015, ALI purchased the combined remaining interest of Allante Realty and Development Corporation (Allante) and DBH, Inc. (DBH) in North Triangle Depot Commercial Corporation (NTDCC) consisting of 167,548 common shares and 703,904 preferred shares amounting to ₱229 million. This brings ALIC) consisting of 167,548 common shares and 703,904 total outstanding capital stock of NTDCC.

In January 2014, ALI entered and signed into a 50-50% joint venture agreement with AboitizLand, Inc. for the development of a 15-hectare mixed-use community in Mandaue City, Cebu. The first project of this joint venture will involve the construction of a mall and a residential condominium unit with an estimated initial cost of ₱3 billion.

On November 23, 2013, ALI, through its wholly-owned subsidiary, Ayala Hotels and Resorts Corp, (AHRC) signed an agreement to acquire 100% interest in Asian Conservation Company, Inc. (ACCI) which effectively consolidates the remaining 40% interest in Ten Knots Development Corp. (TKDC) and Ten Knots Philippines Inc. (TKPI) (60%-owned subsidiary of ALI prior to this acquisition). The agreement resulted in ALI effectively obtaining 100% interest in TKPI and TKDC.

On April 16, 2013, ALI entered into a Sale and Purchase Agreement (SPA) with Global International Technologies Inc. (GITI) to acquire the latter’s 32% interest in ALI Property Partners Co. (APPCo) for ₱3.52 billion. GITI is a 100% owned company of the Goldman Sachs Group Inc. The acquisition increased ALI’s stake in APPCo from 68% to 100%. APPCo owns BPO buildings in Makati, Quezon City and Laguna with a total gross leasable area of around 230,000 sqm. The carrying amount of the non-controlling interest is reduced to nil as APPCo became wholly owned by ALI. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognized in equity attributable to ALI amounting to ₱2,722.6 million.

Mortgage, Lien or Encumbrance over Properties

ALI has certain properties in Makati City that are mortgaged with BPI in compliance with BSP rules on directors, officers, stockholders and related interests.

MWC

The Concession Agreement grants MWC the right to operate, maintain in good working order, repair, decommission, and refurbish the MWSS facilities in the East Zone, which include treatment plants, pumping stations, aqueducts and the business area office. However, legal title to these facilities remains with MWSS. The net book value of these facilities on Commencement Date based on MWSS’ closing audit report amounted to Php4.6 billion, with a sound value, or the appraised value less observed depreciation, of Php10.40 billion. These assets are not reflected in the financial statements of MWC.

Pursuant to the terms of the Concession Agreement, new assets contributed to the MWSS system by MWC during the term of the Concession Agreement are reflected in MWC’s financial statements and remain with MWC until the Expiration Date (as defined in the Concession Agreement), at which time all right, title and interest in such assets automatically vest to MWSS. The Concession Agreement allows MWC to mortgage or create security interests over its assets solely for the purpose of financing, or refinancing, the acquisition or construction of the said assets, provided that no such mortgage or security interest shall (i) extend beyond the Expiration Date of the Concession Agreement, and (ii) be subject to foreclosure except following an event of termination as defined under the Concession Agreement.

On July 17, 2008, MWC, together with all of its Lenders signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Prior to the execution of the Omnibus Amendment Agreement, the obligations of MWC to pay amounts due and owing or committed to be repaid to the lenders under the existing facility agreements were secured by Assignments of Interests by Way of Security executed by the MWC in favor of a trustee acting on behalf of the lenders. The Assignments were also subject to the provisions of the Amended and Restated Intercreditor Agreement dated March 1, 2004 and its Amendatory Agreement dated December 15, 2005 executed by MWC, the lenders and their appointed trustee.

Under the Omnibus Amendment Agreement, the lenders effectively released MWC from the assignment of its present and future fixed assets, receivables and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where MWC is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, MWC agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either MWC or MWSS. Currently, all lenders of MWC are considered Concessionaire Lenders and are on *pari passu* status with one another.

IMI

IMI has production facilities in the Philippines (Laguna, Cavite and Taguig), China (Shenzhen, Jiaxing, Chengdu, and Suzhou), Bulgaria, Czech Republic, Germany, Mexico and the UK. It also has a prototyping and NPI facility located in Tustin, California. Engineering and design centers, on the other hand, are located in the Philippines, Singapore, China, United States, Bulgaria, Czech Republic, and Germany. IMI also has a global network of sales and logistics offices in Asia, North America and Europe.

IMI's global facilities and capabilities of each location as of December 31, 2018 are shown below:

Location	Floor Area (square meters)	Capabilities
Manufacturing Sites		
Philippines-Laguna (2 sites)	96,182	▪ 31 SMT lines, 2 FC lines ▪ 5 COB/COF lines Box build to Complex Equipment manufacturing ▪ LVHM, HVLM ▪ Solder Wave, Potting, Al & AG W/B ▪ Protective Coating ▪ ICT, FCT, AOI, RF Testing ▪ Design & Development ▪ Test & System Development ▪ Cleanroom to class 100 ▪ Low Pressure Molding (Overmold) ▪ Precision Metals/Machining
Philippines-Cavite	2,350	▪ 3 SMT lines ▪ Box Build ▪ System Integration ▪ PTH, Solder Wave ▪ ICT, FCT, AOI ▪ 3D X-ray ▪ LVHM
Philippines-PSi Laguna	9,858	▪ Power Component Discrete Packaging, e.g., 2L,3L,4L TO-247, 3L TO252, 2L,3L TO-220 ▪ Silicon Carbide and Gallium Nitride Packaging ▪ Ag Sintering Process ▪ Diversified Packaging - from Low to High Power and Small to Large Outline ▪ R&D line/ Captive Lines for Power QFN and Modules ▪ Customized Power Packaging Requirements ▪ Low/ Med Power Discrete Packaging and Processes including Au Wire Bonding ▪ Al Ribbon, Cu Clip interconnect ▪ 3D Packaging, MCM, High Reliability OFN Packages: 3 x 3 mm,3.3x3.3 mm, 4x5 mm, 5x6mm, 6x5mm 8x8 mm at 1 mm to 1.5 mm package height
China-Pingshan	29,340	▪ 17 SMT lines, 1 COB line ▪ Box Build ▪ PTH, Solder Wave ▪ POP, Auto Pin Insertion ▪ Potting, Conformal coating and Burn-in ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ Design & Development ▪ LVHM, HVLM
China-Kuichong	23,524	▪ 21 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ ICT, FCT, AOI, SPI, RF Testing ▪ Test & System Development ▪ LVHM, HVLM

		▪ X-RAY 3D testing, RoHS screening instrument, BGA rework ▪ Burn-in test for high-end power supply, Thermal cycle test, Vibration test. ▪ Conformal Coating, Potting, PCB router, Underfill ▪ Bar-code tracking system
China-Jiaxing	18,452	▪ 11 SMT lines ▪ Vapor Phase Vacuum Reflow, SMD Odd shape Component Auto Mount ▪ Box Build (w/ Automated Customized Assembly Line) ▪ PTH, Auto Pin Insertion, Solder Wave, Selective Solder Wave ▪ Full Auto Selective Conformal Coating Line and CC AOI ▪ Ultrasonic welding and lamination ▪ Plastic injection (180T/300T press) ▪ SPI, 2D & 3D AOI, ICT, FCT, 3D X-ray, Run-in ▪ Test & System Development ▪ HVLM
China-Chengdu	7,500	▪ 6 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion, BGA, X-Ray ▪ Solder Wave ▪ Automated Conformal Coating ▪ ICT, FCT, AOI ▪ HVLM / LVHM ▪ Test Development
USA-Tustin, CA*	1,184	▪ 2 SMT prototyping lines ▪ Engineering Development ▪ Prototype Manufacturing Center ▪ Precision Assembly ▪ SMT, COB FCOF ▪ Box build
Botevgrad, Bulgaria (2 sites) Sofia, Bulgaria (1 site) Niš, Serbia (1 site)	 115, 416 50,000	▪ Bulgaria - 15 SMT lines ▪ Serbia – 6 SMT lines ▪ Box build ▪ PCB Assembly and Testing ▪ PTH, Auto Pin Insertion, Solder Wave ▪ Protective Coating ▪ Cabling ▪ ICT, FCT, AOI ▪ Test & System Development ▪ Design & Development ▪ Plastic Injection Embedded Toolshop ▪ Overmolding ▪ Metrology & laboratory ▪ Chip on board ▪ Tooling ▪ Automation
El Salto, Guadalajara, Mexico (2 sites)	25,000	▪ 9 SMT lines ▪ 40 Plastic Injection Machines (50-1,600T) including Overmolding ▪ Box build (w/ Automated Customized Assembly Line) ▪ PTH, Auto Pin Insertion, Solder Wave, Selective Solder Wave ▪ Full Auto Selective Conformal Coating Line and CC AOI, Automated potting ▪ SPI, 2D & 3D AOI, ICT, FCT, 3D X-Ray ▪ Embedded Toolshop ▪ Test & System Development
Třemošná, Plzeňská, Czech Republic	7,740	▪ 6 SMT lines ▪ 2 Pin Insertion ▪ 3 Wave soldering ▪ 2 Selective soldering ▪ 3 Selective coating ▪ ICT, FCT, AOI (SMT, CC) ▪ Mechanical Assembly ▪ 4 Automated line ▪ Further customized assembly line

Nuremberg, Germany (VIA) **VIA optronics GmbH**	4,268	▪ VIA bond plus qualification ▪ Bonding material development ▪ Manual line, mainly lower quantity projects ▪ Prototype 84Inch ▪ 2 clear rooms (ISO class 6 & ISO class 7) ▪ ESD control ▪ Engineering, prototyping and production process improvement ▪ Test & system development (electrical) ▪ Optical test labor (mainly for display evaluation)
Suzhou, China (VIA) **VIA optronics Suzhou**	9,750	▪ Semi autoline and full autoline ▪ Large size bonding in MaxVu II ▪ Touch capabilities, ACF process ▪ Curved bonding & bonding to plastic cover
Shiga, Japan (VIA) **VTS-Touchsensor Co., Ltd**	10,000	▪ Metal Mesh Sensor on roll ▪ Customized design ▪ 100µm/50µm Film thickness ▪ Up to 55“ VTS internal ▪ Up to 85“ through external partners
UK-Hook (STI)	5,946	▪ 3 high-speed ASM Siplace SMT Lines (2.4m components/day) ▪ High Reliability PCB Assembly & Box Build ▪ Full Test facilities ▪ Dedicated prototype facility with 2 flexible Mydata lines ▪ Special processes & full repair and rework facility ▪ Clean Room, NPI, RF Screened Room
UK-Poynton (STI)	5,481	▪ Manufacturer of highly secure satellite communications equipment (under long term Airbus DS contract) ▪ Manufacturer of specialist amplifiers ▪ Specialist spares and repairs ▪ Full rack wiring and integration ▪ Specialist test facility – RF Testing, Anechoic Chamber, EMC Chamber & Moog 6 Degree of Freedom Motion Bed ▪ Complex Wiring & Heavy Metalwork ▪ Advanced Box Build ▪ AS9100-D
Cebu, Phils (STI)	2,601	▪ 3 high-speed placement systems (6m components/day capacity) ▪ High volume PCB Assembly and Box Build ▪ Equipment and operational standards fully compatible with Hook manufacturing site ▪ IP protection and full product traceability guaranteed
Total Manufacturing Space	**409,317**	
Sales and Marketing Support		
Hong Kong*	300	Procurement, marketing and supply chain support
Japan*	110	Sales Support
Total Support Space	**410**	
Total	**409,317**	

BPI

In view of the planned re-development of the BPI Head Office building located at 6768 Ayala Avenue, Makati City, BPI's executive office and select business and support units have temporarily relocated to the Ayala North Exchange Tower 1, Ayala Avenue corner Salcedo St., Legaspi Village, Makati City. The rest of the business and support units have also temporarily relocated to BPI Buendia Center and various other sites in Makati, San Juan, Quezon City, and Muntinlupa.

Of the Bank's 856 local branches, 694 operate as BPI branches: 358 in Metro Manila/Greater Metro Manila Area and 336 in the provincial area. The parent bank owns 31% of these branches and leases the remaining 69%. Total annual lease expenses amounted to P992 million in 2018. Expiration dates of the lease contracts vary from branch to branch.

BFSB's Head Office is located at BFB Center, Paseo De Roxas, corner Dela Rosa St., Makati City. It operates 162 branches of which 19% are bank owned while 81% are leased. Total annual lease amounted to P187 million.

These office and branches are maintained in good condition for the benefit of both the employees and the transacting public. The Bank enforces standards for branch facade, layout, number and types of equipment and upkeep of the premises. The Bank also continuously reconfigures the mix of its traditional branches, and kiosk branches as it adjusts to the needs of its customers.

To date, the Bank has not identified any property to acquire.

All of the bank-owned properties are free from any lien.

Globe

Globe Telecom's Corporate Office is located at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig.

Globe also owns several floors of condominium corporation Pioneer Highlands Towers 1 and 2, located at Pioneer Street in Mandaluyong City. In addition, the Company also owns host exchanges in the following areas: Bacoor, Batangas, Ermita, Iligan, Makati, Mandaluyong, Marikina, Cubao-Aurora, among others.

Globe leases office spaces in W City Center, located at 7th Avenue corner 30th Street, Bonifacio Global City, Taguig, for its Network Technical Group. It also leases office spaces in Limketkai Gateway Tower located in Cagayan de Oro City and in Abreeza Technohub located in Davao City. It also leases the space for most of its Globe Stores, as well as the Company's base stations and cell sites scattered throughout the Philippines.

Globe's existing business centers and cell sites located in strategic locations all over the country are generally in good condition and are covered by specific lease agreements with various lease payments, expiration periods and renewal options. As Globe continues to expand its network, Globe intends to lease more spaces for additional cell sites, stores, and support facilities with lease agreements, payments, expiration periods and renewal options that are undeterminable at this time. *(For additional details on Buildings and Leasehold Improvements see Note 9 of Globe's 2018 Consolidated Financial Statements which is part of the exhibits to this report).*

Item 3. Legal Proceedings

Except as disclosed herein or in the Definitive Information Statements (DIS) of the Company or its subsidiaries or associates and joint ventures which are themselves public companies or as has been otherwise publicly disclosed, there are no material legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years to which the Company or any of its subsidiaries or associates and joint ventures or its directors or executive officers is a party or of which any of its material properties is subject in any court or administrative government agency. The Company's DIS is available at its website www.ayala.com.ph.

In any event, below are the significant legal proceedings involving the Company's subsidiaries, associates and joint ventures:

ALI

As of December 31, 2018, ALI, its subsidiaries, and its affiliates, are not involved in any litigation regarding an event which occurred during the past five (5) years that they consider material.

However, there are certain litigation ALI is involved in which it considers material, and though the events giving rise to the said litigation occurred beyond the five (5) year period, the same are still unresolved, as follows:

Las Piñas Property

Certain individuals and entities have claimed an interest in ALI's properties located in Las Piñas, Metro Manila, which are adjacent to its development in Ayala Southvale.

Prior to purchasing the aforesaid properties, ALI conducted an investigation of titles to the properties and had no notice of any title or claim that was superior to the titles purchased by ALI. ALI traced its titles to their original certificates of title and ALI believes that it has established its superior ownership position over said parcels of land. ALI has assessed these adverse claims and believes that its titles are in general superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning October 1993, ALI filed petitions in the Regional Trial Court of Makati and Las Piñas for quieting of title to nullify the purported titles or claims of these adverse claimants. These cases are at various stages of trial and appeal. Some of these cases have been decided by the Supreme Court. These include decisions affirming the title of ALI to some of these properties, which have been developed and offered for sale to the public as Sonera, Ayala Southvale. The remaining pending cases involve the remaining area of approximately 126 hectares.

Ayala Property Management Corp.(APMC)

As a result of the explosion which occurred on October 19, 2007 at the basement of the Makati Supermarket Building, the Philippine National Police has filed a complaint with the Department of Justice ("DOJ") and recommended the prosecution of certain officers/employees of Makati Supermarket Corporation, the owner of the building, as well as some employees of ALI's subsidiary, APMC, among other individuals, for criminal negligence. In a Joint Resolution dated April 23, 2008, the DOJ special panel of prosecutors ruled that there was no probable cause to prosecute the APMC employees for criminal negligence. This was affirmed by the DOJ Secretary in a Resolution dated November 17, 2008. A Motion for Reconsideration was filed by the Philippine National Police which remains pending with the DOJ. To date, no civil case has been filed by any of the victims of the incident.

ALI has made no allowance in respect of such actual or threatened litigation expenses.

MWC

MWC is presently involved in the following cases:

1. ***Manila Water Company, Inc. vs. The Republic of the Philippines***
   In the Matter of the Notice of Arbitration to the Republic of the Philippines
   Arbitration under the United Nations Commission on International Trade Law ("UNCITRAL") Rules (1976)
   Permanent Court of Arbitration

On April 23, 2015, the Company served on the Republic of the Philippines (the "Republic"), through the Department of Finance, its *Notice of Claim* of even date demanding that the Republic indemnify the Company in accordance with the indemnity clauses in Republic's Letter Undertaking dated July 31, 1997 and Letter Undertaking dated October 19, 2009.

At present, the arbitration case remains pending.

2. ***Manila Water Company, Inc. and Maynilad Water Services, Inc. vs. Hon. Borbe, et al.***
CBAA Case No. L-69
Central Board of Assessment Appeals ("Central Board")

This is an appeal from the denial by the Local Board of Assessment Appeals of Bulacan Province (the "Local Board") of the Company's (and Maynilad Water Services, Inc.'s [Maynilad]) appeal from the Notice of Assessment and Notice of Demand for Payment of Real Property Tax in the amount of P357,110,945 made by the Municipal Assessor of Norzagaray, Bulacan. The Company is being assessed for half of the amount.

In a letter dated April 3, 2008, the Municipal Treasurer of Norzagaray and the Provincial Treasurer of the Province of Bulacan, informed both the Concessionaires (the Company and Maynilad) that their total real property tax accountabilities have reached P648,777,944.60 as of December 31, 2007. This amount, if paid by the Concessionaires, will ultimately be charged to the customers as part of the water tariff rate. The Concessionaires (and the MWSS, which intervened as a party in the case) are thus contesting the legality of the tax on a number of grounds, including the fact that the properties subject of the assessment are owned by MWSS, which is both a government-owned and controlled corporation and an instrumentality of the National Government exempt from taxation under the Local Government Code.

The Central Board conducted a hearing on June 25, 2009. In the said hearing, the parties were given the opportunity and time to exchange pleadings regarding a motion for reconsideration filed by the Municipality of Norzagaray, Bulacan to have the case remanded to and heard by the Local Board rather than by the Central Board.

The Company and Maynilad have already concluded presentation of their respective evidence and witnesses, while MWSS waived its right to present evidence.

On August 12, 2015, the newly-constituted members of the Central Board's Panel conducted an ocular inspection of the subject properties. On September 17, 2015, the Province of Bulacan presented its first witness, Ms. Gloria P. Sta. Maria, the former Municipal Assessor of Norzagaray, Bulacan. The Company, Maynilad and MWSS have completed their cross-examination of Ms. Sta. Maria.

In an Order dated July 15, 2016, the Central Board denied the motion for reconsideration of the Municipality of Norzagaray, Bulacan for which it filed a Petition for Certiorari with the Court of Tax Appeals ("CTA") on August 24, 2016. In compliance with the directive of the CTA, the Company filed a Comment dated January 3, 2017. MWSS and Maynilad have likewise filed their respective Comments.

On January 31, 2017, the CTA requested the parties to file their respective memoranda. The Company filed its Memorandum on March 27, 2017. Maynilad filed its Memorandum dated March 16, 2017 while the Office of the Solicitor General ("OSG") filed its Memorandum last March 29, 2017.

On May 10, 2018, the CTA rendered a Decision denying the Petition for Certiorari finding that there was no grave abuse of discretion on the part of the Central Board.

At present, the Company has not received any motion for reconsideration or appeal from the Municipality of Norzagaray, Bulacan of the said Decision.

To date, this case remains pending.

3. ***Manila Water Company, Inc. vs. The Regional Director, Environmental Management Bureau-National Capital Region, et al.***
CA-G.R. No. 112023 (DENR-PAB Case No. NCR-00794-09), Supreme Court

This case arose from a complaint filed by the OIC Regional Director Roberto D. Sheen of the Environmental Management Bureau-National Capital Region ("EMB-NCR") before the Pollution Adjudication Board ("PAB") against the Company, Maynilad and the MWSS for alleged violation of R.A.

No. 9275 (Philippine Water Act of 2004), particularly the five-year deadline imposed in Section 8 thereof for connecting the existing sewage line found in all subdivisions, condominiums, commercial centers, hotels, sports and recreational facilities, hospitals, market places, public buildings, industrial complex and other similar establishments including households, to an available sewerage system. Two (2) similar complaints against Maynilad and MWSS were consolidated with this case.

On April 22, 2009, the PAB, through the Department of Environment and Natural Resources ("DENR") Secretary and Chair Jose L. Atienza, Jr., issued a Notice of Violation finding the Company, Maynilad and MWSS to have committed the aforesaid violation of R.A. 9275. Subsequently, a Technical Conference was scheduled on May 5, 2009. In the said Technical Conference, the Company, MWSS and Maynilad explained to the PAB their respective positions and it was established that DENR has a great role to play to compel people to connect to existing sewage lines and those that are yet to be established by the Company and Maynilad.

In addition to the explanations made by the Company during the Technical Conference, the Company together with MWSS and Maynilad wrote a letter dated May 25, 2009 and addressed to the respondent Secretary where they outlined their position on the matter.

In response to the May 25, 2009 letter, the OIC Regional Director for NCR, the Regional Director of Region IV-A and the Regional Director of EMB Region III submitted their respective Comments. The Company thereafter submitted its letter dated July 13, 2009 to the PAB where it detailed its compliance with the provisions of R.A. No. 9275 and reiterated its position that the continuing compliance should be within the context of the Company's Concession Agreement with MWSS. Despite the explanations of the Company, the PAB issued an Order dated October 7, 2009 which found the Company, Maynilad and MWSS to have violated R.A. 9275. The Company filed its Motion for Reconsideration dated October 22, 2009 which the PAB denied in an Order dated December 2, 2009. Hence, the Company filed its Petition for Review dated December 21, 2009 with the Court of Appeals. The Company thereafter filed an amended Petition for Review dated January 25, 2010.

In a Decision dated August 14, 2012, the Court of Appeals denied the Company's Petition for Review and on September 26, 2012, the Company filed a Motion for Reconsideration of the Court of Appeals' Decision.

On April 29, 2013, the Company received the Resolution dated April 11, 2013 of the Court of Appeals, denying its Motion for Reconsideration.

The Company has filed its appeal from the Decision and Resolution of the Court of Appeals in the form of a Petition for Review on Certiorari with the Supreme Court on May 29, 2013. In this Petition, the Company reinforced its argument that it did not violate Section 8 of R.A. 9275 as it was able to connect existing sewage lines to available sewage facilities, contrary to the findings of the Court of Appeals.

Per Resolution dated 19 September 2017, the Supreme Court acted on the Manifestation and Motion to Withdraw Appearance dated 1 August 2017 filed by Atty. A. Edsel C.F. Tupaz, counsel for petitioner Water for All Refund Movement, Inc. in G.R. No. 212581, and resolved to: (a) note the Manifestation, stating that he has been representing Petitioner Water for All Refund Movement in a pro bono capacity since the commencement of the case but he had recently been appointed to a public office since 13 March 2017; (b) defer action on the Motion to Withdraw Appearance; (c) grant Atty. Tupaz's request that notice relative to the instant Manifestation and Motion to Withdraw Appearance be sent to his current address of record; (d) note the Letter dated 15 August 2017 submitting the compact disc containing the soft copy of the aforementioned Manifestation and Motion to Withdraw.

To date, this case remains pending.

4. *The Consolidated Cases:*

A. Waterwatch Coalition, Inc. et al. vs. Ramon Alikpala, MWSS, et al., G.R. No. 207444
B. Water for All Refund Movement vs. MWSS, et al., G.R. No. 208207
C. Javier vs. MWSS, et al., G.R. No. 210147
D. ABAKADA Guro Party List vs. MWSS, et al. GR No. 213227

E. ***Neri Colmenares and Carlos Isagani Zarate, Representatives of Bayan Muna Partylist vs. Cesar V. Purisima, in his capacity as the Secretary of Finance, et al.***
G.R. No. 219362

A. The Waterwatch Petition:

On June 25, 2013, the Company received a copy of the Petition for Certiorari and Mandamus with Prayer for the Issuance of a Temporary Restraining Order dated June 20, 2013 filed by the Waterwatch Coalition ("Waterwatch"), Inc. The issues raised in the Petition are as follows:

(a) The Concession Agreements are unconstitutional for granting inherent sovereign powers to the Concessionaires which insist they are private entities and mere agents of the MWSS;
(b) The Concessionaires are public utilities;
(c) The Concession system of MWSS, the Company and Maynilad is in a state of regulatory capture;
(d) The Concession Agreements are State Contracts and cannot invoke the non-impairment clause in the Constitution;
(e) The Concessionaires have no vested property rights; and
(f) MWSS is in a state of regulatory capture.

B. The WARM Petition

On August 14, 2013, the Company received a copy of a Petition for Certiorari, Prohibition and Mandamus dated August 5, 2013 filed by the Water for All Refund Movement ("WARM"). The issues raised in the WARM Petition are as follows:

(a) The Concession Agreements unduly grant to the Concessionaires the exercise of governmental powers even without the benefit of legislation or, at the very least, a franchise for such purpose;
(b) Concessionaires are performing public service and are therefore, governed by the Public Service Law, and subject to the 12% rate of return cap;
(c) Concessionaires are public utilities, not mere agents or contractors of the MWSS;
(d) Public utility or not, Concessionaires may not pass on their income taxes to the water consumers as expenditures; and
(e) The Concession Agreements cannot cause the creation of a Regulatory Office, a public office performing public functions, or even source its funding from the Concessionaires, which are the very same entities it is supposed to regulate.

C. The Javier Petition

On January 3, 2014, the Company received a copy of a Petition for Certiorari, Prohibition and Mandamus dated December 13, 2013 filed by the Virginia S. Javier, et.al, ("Javier") who were suing in their capacity as consumers/customers of the Concessionaires. The issues raised in the Javier Petition are as follows:

(a) The Concession Agreements are unconstitutional and/or ultra vires for being delegations of sovereign power without the consent of Congress;
(b) The Concessionaires are public utilities;
(c) Respondents have improperly implemented RORB calculations for purposes of establishing tariffs;
(d) The Concession Agreements are not protected by the non-impairment clause;
(e) Respondents should be enjoined from proceeding with arbitration; and
(f) MWSS is in a state of regulatory capture.

On February 4, 2014, the Company received a copy of the Supreme Court's Resolution dated January 14, 2014 consolidating the three (3) cases. The Company filed a Consolidated Comment on the aforesaid Petitions. The arguments raised by the Company in response to the Petitions are as follows:

(a) The Concession Agreements are valid, legal and constitutional as these have statutory basis and do not involve any grant or delegation of the "inherent sovereign powers of police power, eminent domain and taxation";

(b) The Concessionaires are not public utilities in themselves but are mere agents and contractors of a public utility (MWSS);

(c) The Concession Agreements are protected by the non-impairment clause. Petitioners cannot invoke police power for courts to nullify, modify, alter or supplant the Concession Agreements. Police power is exercised by Congress, through the enactment of laws for the general welfare. No such law or enactment is involved in this case. If and when Congress passes a law affecting the Concession Agreements, only then will it be proper to examine the interplay between police power vis-à-vis due process and the non-impairment clause;

(d) The rates set under the Concession Agreements are compliant with the 12% rate of return cap in the MWSS Charter. Not being public utilities but mere agents of the MWSS, the Concessionaires are not subject to audit by the Commission on Audit (COA); and

(e) The Concessionaires are authorized to pass on corporate income taxes to water consumers.

D. The ABAKADA-Guro Petition

On September 22, 2014, the Company received another Petition for Certiorari and Prohibition filed by the ABAKADA-Guro Party List, represented by Atty. Florante B. Legaspi, Jr. This Petition was likewise consolidated with the Waterwatch, WARM and Javier Petitions due to similarities in the issues raised.

In particular, the Petition questions the constitutionality of the Concession Agreements entered into by MWSS with both the Company and Maynilad and the extension of the Concession Agreements for another 15 years from year 2022. The Petition also seeks to nullify the arbitration proceedings between MWSS and the Concessionaires. The Company has filed its Comment on the Petition.

In its Resolution dated April 21, 2015, the Supreme Court directed the parties to file their respective memoranda within thirty (30) days from notice thereof. After moving for the extension of the deadline on several occasions, on September 18, 2015, the Company filed its Memorandum.

Maynilad, MWSS and Waterwatch have likewise filed their respective Memoranda. Petitioners WARM, ABAKADA-Guro and Javier, et al. have manifested that they would adopt their respective Petitions as their Memoranda.

E. The Colmenares Petition

This case is a Petition for Certiorari and Prohibition [with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction] dated August 6, 2015 filed by petitioners Neri Colmenares and Carlos Isagani Zarate, representatives of Bayan Muna Partylist. The Petition was filed primarily for the following purposes:

(a) To nullify, supposedly for being unconstitutional, the Arbitration Clause contained in the Concession Agreements entered into by MWSS with the Company and Maynilad, respectively;

(b) To nullify, supposedly for being unconstitutional, the Sovereign Guarantee contained in the Undertaking Letters executed by the Republic in favor of the Concessionaires; and

(c) To declare that the Concessionaires' payments for corporate income taxes cannot be deducted as part of their operational expenditures; and

(d) To prevent Secretary Cesar V. Purisima and President Benigno Simeon C. Aquino III from processing the Concessionaires' claims under the Sovereign Guarantee.

On November 16, 2015, the Supreme Court issued a Resolution consolidating the Colmenares Petition with the Waterwatch, WARM, Javier, and ABAKADA-Guro Petitions and directing the respondents to file their respective Comments. On November 23, 2015, the Company filed its Comment/Opposition (Re: Petition for Certiorari and Prohibition [with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction] dated 06 August 2015). On November 13, 2015, the MWSS and MWSS-Regulatory Office filed their Comment. On November 28, 2015, Maynilad filed its Comment with Opposition (To the Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction).

On 10 March 2016, the Company received the Manifestation dated 7 March 2016 of the OSG requesting that the Department of Finance and the said Office be excused from filing a Comment on the instant Petition in view of the pendency of the arbitration proceedings related to the Undertaking Letters.

On 26 May 2016, the Company received Maynilad's Counter-Manifestation and Motions dated 17 May 2016, praying that the OSG be required to comment on the instant Petition. Maynilad also prayed that the instant case be set for oral arguments in accordance with the Rules of Court.

In its Resolution dated 15 March 2016, the Supreme Court noted and granted the Manifestation dated 7 March 2016 of the OSG and excused the same from filing a Comment on the instant Petition. On 16 June 2016, the Company received Maynilad's Motion for Reconsideration dated 7 June 2016 praying that the Supreme Court reconsider its Resolution dated 15 March 2016.

On 25 July 2016, the Company filed its Manifestation and Motion of even dated ("Manifestation and Motion"), where the Company joined Maynilad in seeking a reconsideration of the Supreme Court's Resolution dated 15 March 2016 and moved to set the consolidated cases for oral arguments. The Company's Manifestation and Motion was noted in the Supreme Court's Resolution dated 2 August 2016.

On 15 August 2016, the Company received the Manifestation dated 10 August 2016 of the Secretary of Finance Carlos G. Dominguez III, represented by the OSG, stating that he is adopting the position taken by his predecessor in office as stated in the Manifestation dated 7 March 2016, that the Secretary of Finance and the OSG be excused from filing a comment on the instant Petition.

The Manifestation and Motion filed by the Company, as well as the Manifestation dated 10 August 2016 filed by Secretary of Finance Carlos G. Dominguez III, were noted in the Supreme Court's Resolution dated 23 August 2016.

In a Resolution dated September 19, 2017, the Supreme Court denied Maynilad's Motion for Reconsideration. Maynilad again filed another Motion for Reconsideration dated November 6, 2017 to apprise the Supreme Court that in the interim, the arbitration between the Republic and Maynilad had been resolved by the issuance of an award in favor of Maynilad. Thus, according to Maynilad, the OSG can no longer use said arbitration proceeding as an excuse from filing its comment. Last December 12, 2017, the Company filed a Manifestation and Comment in support of Maynilad's Motion.

In a Resolution dated March 6, 2018, the Supreme Court granted the Motion for Reconsideration dated November 6, 2017 filed by Maynilad and the Motion for Leave to File Manifestation and Comment dated December 12, 2017 by the Company.

On 31 July 2018, the Company received MWSS' Comment dated 18 July 2018 on the Petition.

To date, the foregoing cases remain pending.

5. Allan Mendoza et al. vs. Manila Water Company, Inc.
Special Civil Action No. R-QZN-14-04863-SC, RTC QC Branch 77

On May 23, 2014, Allan Mendoza, et al. ("Petitioners") filed a Petition for Mandamus under Rule 65 of the Rules of Court praying that the Company and its President, Mr. Gerardo C. Ablaza, Jr. be commanded to: (a) reinstitute the Welfare Fund, under terms and conditions which are no less favorable than those provided in the MWSS Employees Savings and Welfare Plan; to make an accounting, and reimburse and/or return to the MWC Welfare Fund the employer's share as of December 2005 which was diverted to the MWC Retirement Plan; and to implement the progressive employer share from the time the Welfare Fund was dissolved in 2005 up to the time when the Fund is finally reinstituted for the petitioners who are still employed, and up to the end of employment for those who are already separated on account of resignation, retirement, termination, etc.; (b) to implement correctly the benefits of petitioners which are guaranteed against non-diminution, as indicated in Exhibit "F" of the Concession Agreement; (c) to allow petitioners to accumulate their paid leaves of 15 days of vacation leave and 15 days of sick leave annually; and (d) to pay interest on the foregoing at 12% per annum.

In an Order dated June 11, 2014, the Company and Mr. Ablaza were directed to file their Comment. On June 27, 2014, the Company and Mr. Ablaza filed their Comment and argued as follows: (a) the court has no jurisdiction over the subject matter of the instant Petition; being essentially an action for payment of employee benefits, the Labor Arbiters under the National Labor Relations Commission have original and exclusive jurisdiction over this case; (b) petitioners have resorted to mandamus in order to avoid payment of filing fees for a collection case; thus, the court has not acquired jurisdiction over the case for failure of the petitioners to pay the prescribed docket fees as set forth in Rule 141 of the Rules of Court; (c) petitioners are not entitled to a writ of mandamus; (d) there was a plain, speedy and adequate remedy available to the petitioners; (e) the case should not be treated as a class suit; (f) the claims of petitioners have prescribed; (g) the Complaint should be dismissed because petitioners' alleged cause of action is barred by laches; and (h) petitioners have received benefits no less favorable than those granted to such employees by the MWSS at the time of their separation from MWSS.

In an Order dated July 28, 2014, the Court set the presentation of petitioners' evidence on September 10, 2014 and October 8, 2014. However, the September 10, 2014 hearing was cancelled because the branch clerk of court, the clerk-in-charge of civil cases, the court interpreter and the court aide of the branch were attending a seminar for the e-Court system.

Thereafter, petitioners filed a Motion to Cancel (the October 8, 2014) Hearing and to Allow Parties to Submit Memoranda. In their Motion, petitioners claimed that the issues for resolution in the instant case are legal questions and prayed that the parties be required to submit Memoranda in lieu of presentation of evidence.

On October 1, 2014, the Company and Mr. Ablaza filed a Comment on the Motion and stated that they do not entirely agree with petitioners' statement as they have made factual allegations in their Petition that would need to be proven in a full-blown trial. These allegations include, among others, that the employees have suffered diminution of benefits and that the Company had allegedly used part of the Welfare Fund as seed money for the Retirement Fund.

However, the Company and Mr. Ablaza proposed that the following legal issues be initially disposed of by way of simultaneous Memoranda to be submitted by the parties, namely, whether or not: (a) the court has jurisdiction over the subject matter of the Petition being essentially an action for payment of employee benefits; (b) the court has acquired jurisdiction over the case considering the failure of the petitioners to pay the prescribed docket fees as set forth in Rule 141 of the Rules of Court; (c) the petitioners are entitled to a writ of mandamus; (d) there was a plain, speedy and adequate remedy available to the petitioners; (e) this case should be treated as a class suit; (f) the claims of petitioners have prescribed; and (g) the Petition should be dismissed because petitioners' alleged cause of action is barred by laches.

On October 8, 2014, the scheduled hearing for the initial presentation of petitioners' evidence was cancelled reset to March 5, 2015 due to the absence of the presiding judge. At the March 5, 2015 hearing, petitioners reiterated their prayer that the parties be required to submit Memoranda in lieu of presentation of evidence considering that only legal questions are involved. The Company and Mr. Ablaza again countered that petitioners have made factual allegations in their Petition that would need to be proven in a full-blown trial.

The presiding judge stated that the proceedings for a petition for mandamus are summary in nature. Thus, he directed the parties to simultaneously submit their respective Memoranda within sixty days, or by May 5, 2015. He directed the parties to address all legal issues and if there are factual issues, to attach judicial affidavits of witnesses. Upon submission of the Memoranda, he will determine if a party would be allowed to cross-examine the other's witnesses or if he would still conduct oral arguments.

The parties subsequently filed their respective Memoranda.

In an Order dated September 14, 2015, the parties were directed to manifest whether they would be submitting the case on the basis of their respective Memoranda or if they would request for a trial on the merits. At the October 12, 2015 hearing before the clerk of court, the Company and Mr. Ablaza, through counsel, reiterated that they would prefer if the issues on jurisdiction and other grounds for dismissal be resolved first before deciding whether or not the case should go to trial. The clerk of court noted this manifestation for discussion with the presiding judge.

The trial court thereafter set the case for initial trial on March 30, 2016. During the hearing, both parties stated that their respective positions are already set forth in the Memorandum each submitted. The issues on jurisdiction and other grounds for dismissal were submitted for resolution. In an Order dated April 1, 2016, the trial court dismissed the case, without prejudice, on the ground that the Petition filed by Mr. Mendoza failed to state a cause of action for mandamus. In an Order dated July 14, 2016, the trial court denied the Motion for Reconsideration of the petitioners.

Mr. Allan M. Mendoza proceeded to file a Petition for Certiorari with the Court of Appeals. On October 24, 2016, the Court of Appeals ordered the counsel of Mr. Mendoza to submit an Amended Petition, this time impleading the names of the other petitioners, stating their actual addresses, and appending copies of their Special Powers of Attorney. On December 1, 2016, the Amended Petition was filed.

In a Resolution dated January 19, 2017, the Court of Appeals directed the counsel for the petitioners to submit the addresses of some of the co-petitioners and to implead one additional petitioner. On

February 21, 2017, the Company received a Second Amended Petition filed by petitioners supposedly to comply with the directive of the court.

In a Resolution dated September 8, 2017, the Court of Appeals directed the Company to comment on the Amended Petition. The Company filed its Comment on October 30, 2017.

The Court of Appeals thereafter referred the parties to compulsory mediation, which however failed. In a Resolution dated March 6, 2018, the parties were directed to file their respective Memoranda. The Company filed its Memorandum on May 24, 2018.

In a Resolution dated July 31, 2018, the Court of Appeals admitted the Memorandum filed by the Company. However, the Memorandum filed by the Petitioners was deemed not filed, as their Motion for Extension of Time to file the same was unsigned. The Petitioners were directed to show cause why their Memorandum should be admitted despite being filed late. In a Compliance with Manifestation and Motion to Admit, Petitioners' counsel explained that late filing was an oversight caused by counsel's recent surgery and the medications prescribed, and prayed that Petitioners' Memorandum be admitted.

To date, this case remains pending.

IMI

There are no material pending legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years up to the present date to which IMI or any of its subsidiaries or its directors or executive officers is a party or of which any of its material properties are subject in any court or administrative government agency.

IMI filed a civil case on April 11, 2011 against Standard Insurance ("Standard") seeking to collect Standard's share in the loss incurred by IMI consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at the IMI's Cebu facility which IMI claims to be covered by Standard's "Industrial All Risks Material Damage with Machinery Breakdown and Business Interruption" policy. The share of Standard in the loss is 22% or US $1,117,056.84 after its co-insurers all paid the amount of loss respectively claimed from them. IMI had to resort to court action after Standard denied its claim on the ground that the claim is an excepted peril. Standard filed a motion to dismiss on various grounds, such as lack of cause of action and of prescription. The Regional Trial Court denied the motion to dismiss but Standard filed a Motion for Reconsideration with the Court of Appeals (CA). On April 26, 2013, the CA dismissed the case on the ground that the claim has prescribed. On April 19, 2013, IMI filed a Motion for Reconsideration. On December 10, 2013, IMI received a decision promulgated on December 2, 2013 denying the said Motion for Reconsideration.

IMI filed a Petition for Review on Certiorari dated January 23, 2014 which is pending with the Supreme Court as of December 31, 2018.

BPI

BPI does not have any material pending legal proceedings to which BPI or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

Globe

a. On October 10, 2011, the NTC issued Memorandum Circular No. 02-10-2011 titled Interconnection Charge for Short Messaging Service requiring all public telecommunication entities to reduce their interconnection charges to each other from ?0.35 to ?0.15 per text, which Globe Telecom complied as early as November 2011. On December 11, 2011, the NTC One Stop Public Assistance Center (OSPAC) filed a complaint against Globe Telecom, Smart and Digitel alleging violation of the said MC No. 02-10-2011 and asking for the reduction of SMS off-net retail price from ₱1.00 to ₱0.80 per text. Globe Telecom filed its response maintaining the position that the reduction of the SMS interconnection charges does not automatically translate to a reduction in the SMS retail charge per text.

   On November 20, 2012, the NTC rendered a decision directing Globe Telecom to:

   - Reduce its regular SMS retail rate from ₱1.00 to not more than ₱0.80;

- Refund/reimburse its subscribers the excess charge of ₱0.20; and
- Pay a fine of ₱200.00 per day from December 1, 2011 until date of compliance.

On May 7, 2014, NTC denied the Motion for Reconsideration (MR) filed by Globe Telecom last December 5, 2012 in relation to the November 20, 2012 decision. Globe Telecom's assessment is that Globe Telecom is in compliance with the NTC Memorandum Circular No. 02-10-2011. On June 9, 2014, Globe Telecom filed petition for review of the NTC decision and resolution with the Court of Appeals (CA).

The CA granted the petition in a resolution dated September 3, 2014 by issuing a 60-day temporary restraining order on the implementation of Memorandum Circular 02-10-2011 by the NTC. On October 15, 2014, Globe Telecom posted a surety bond to compensate for possible damages as directed by the CA.

On June 27, 2016, the CA rendered a decision reversing the NTC's abovementioned decision and resolution requiring telecommunications companies to cut their SMS rates and return the excess amount paid by subscribers. The CA said that the NTC order was baseless as there is no showing that the reduction in the SMS rate is mandated under MC No. 02-10-2011; there is no showing, either that the present ₱1.00 per text rate is unreasonable and unjust, as this was not mandated under the memorandum. Moreover, under the NTC's own MC No. 02-05-2008, SMS is a value-added service (VAS) whose rates are deregulated.

Thereafter, the NTC and Bayan Muna Party List (Bayan Muna) Representatives Neri Javier Colmenares and Carlos Isagani Zarate, who, in the meantime, had intervened in the case, filed their respective motions for reconsideration, which motions were both denied by the CA.

The NTC thus elevated the CA's ruling to the Supreme Court (SC) via a Petition for Review on Certiorari dated 15 September 2017. Globe awaits the SC's action on said petition.

For its part, Bayan Muna filed its own Petition for Review on Certiorari of the CA's Decision. On 04 January 2018, Globe received a copy of the SC's Resolution dated 06 Nov. 2017, requiring it to comment on said petition.

Globe Telecom believes that it did not violate NTC MC No. 02-10-2011 when it did not reduce its SMS retail rate from Php 1.00 to Php 0.80 per text, and hence, would not be obligated to refund its subscribers. However, if it is ultimately decided by the Supreme Court (in case an appeal is taken thereto by the NTC from the adverse resolution of the CA) that Globe Telecom is not compliant with said circular, Globe may be contingently liable to refund to its subscribers the ₱0.20 difference (between ₱1.00 and ₱0.80 per text) reckoned from November 20, 2012 until said decision by the SC becomes final and executory. Management does not have an estimate of the potential claims currently.

b. On July 23, 2009, the NTC issued NTC Memorandum Circular (MC) No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the CMTS whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first two (2) pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme.

   On December 28, 2010, the Court of Appeals (CA) rendered its decision declaring null and void and reversing the decisions of the NTC in the rates applications cases for having been issued in violation of Globe Telecom and the other carrier's constitutional and statutory right to due process. However, while the decision is in Globe Telecom's favor, there is a provision in the decision that NTC did not violate the right of petitioners to due process when it declared via circular that the per pulse billing scheme shall be the default.

   Last January 21, 2011, Globe Telecom and two other telecom carriers, filed their respective Motions for Partial Reconsideration (MR) on the pronouncement that "the Per Pulse Billing Scheme shall be the default". The petitioners and the NTC filed their respective Motion for Reconsideration, which were all denied by the CA on January 19, 2012.

   On March 12, 2012, Globe and Innove elevated to the Supreme Court the questioned portions of the Decision and Resolution of the CA dated December 28, 2010 and its Resolution dated January

19, 2012. The other service providers, as well as the NTC, filed their own petitions for review. The adverse parties have filed their comments on each other‟s‟ petitions, as well as their replies to each other‟s‟ comments. The case is now submitted for resolution.

c. (1) PLDT and its affiliate, Bonifacio Communications Corporation (BCC) and Innove are in litigation over the right of Innove to render services and build telecommunications infrastructure in the Bonifacio Global City. In the case filed by Innove before the NTC against BCC, PLDT and the Fort Bonifacio Development Corporation (FBDC), the NTC has issued a Cease and Desist Order preventing BCC from performing further acts to interfere with Innove's installations in the BGC.

On January 21, 2011, BCC and PLDT filed with the CA a Petition for Certiorari and Prohibition against the NTC, et al. seeking to annul the Order of the NTC dated October 28, 2008 directing BCC, PLDT and FBDC to comply with the provisions of NTC MC 05-05-02 and to cease and desist from performing further acts that will prevent Innove from implementing and providing telecommunications services in the Fort Bonifacio Global City pursuant to the authorization granted by the NTC. On April 25, 2011, Innove Communications, filed its comment on the Petition.

On August 16, 2011, the CA ruled that the petition against Innove and the NTC lacked merit, holding that neither BCC nor PLDT could claim the exclusive right to install telecommunications infrastructure and providing telecommunications services within the BGC. Thus, the CA denied the petition and dismissed the case. PLDT and BCC filed their motions for reconsideration thereto, which the CA denied.

On July 6, 2012, PLDT and BCC assailed the CA's rulings via a petition for review on certiorari with the Supreme Court. Innove and Globe filed their comment on said petition on January 14, 2013, to which said petitioners filed their reply on May 21, 2013. The case remains pending with the Supreme Court.

(2) In a case filed BCC against FBDC, Globe Telecom, and Innove before the RTC of Pasig, which case sought to enjoin Innove from making any further installations in the BGC and claimed damages from all the parties for the breach of the exclusivity of BCC in the area, the court did not issue a TRO and has instead scheduled several hearings on the case. The defendants filed their respective motions to dismiss the complaint on the grounds of forum shopping and lack of jurisdiction, among others. On March 30, 2012, the RTC of Pasig, as prayed for, dismissed the complaint on the aforesaid grounds.

The motion for reconsideration filed by BCC on July 20, 2012 remains pending with the trial court.

d. In a letter dated June 7, 2016 issued by Philippine Competition Commission (PCC) to Globe Telecom, PLDT, SMC and VTI regarding the Joint Notice filed by Globe Telecom, PLDT and SMC on May 30, 2016 disclosing the acquisition by Globe Telecom and PLDT of the entire issued and outstanding shares of VTI, the PCC claims that the Notice was deficient in form and substance and concludes that the acquisition cannot be claimed to be deemed approved.
On June 10, 2016, Globe Telecom formally responded to the letter reiterating that the Notice, which sets forth the salient terms and conditions of the transaction, was filed pursuant to and in accordance with Memorandum Circular No. l6-002 (MC No. l6-002) issued by the PCC. MC No. 16-002 provides that before the implementing rules and regulations for Republic Act No. 10667 (the Philippine Competition Act) come into full force and effect, upon filing with the PCC of a notice in which the salient terms and conditions of an acquisition are set forth, the transaction is deemed approved by the PCC and as such, it may no longer be challenged. Further, Globe Telecom clarified in its letter that the supposed deficiency in form and substance of the Notice is not a ground to prevent the transaction from being deemed approved. The only exception to the rule that a transaction is deemed approved is when a notice contains false material information. In this regard, Globe Telecom stated that the Notice does not contain any false information.

On June 17, 2016, Globe Telecom received a copy of the second letter issued by PCC stating that notwithstanding the position of Globe Telecom, it was ruling that the transaction was still subject for review.

On July 12, 2016, Globe Telecom asked the CA to stop the government's anti-trust body from reviewing the acquisition of SMC's telecommunications business. Globe Telecom maintains the position that the deal was approved after Globe Telecom notified the PCC of the transaction and that the anti-trust body violated its own rules by insisting on a review. On the same day, Globe Telecom filed a Petition for Mandamus, Certiorari and Prohibition against the PCC, docketed as CA-G.R. SP No. 146538. On July 25, 2016, the CA, through its 6th Division issued a resolution denying Globe Telecom's application for TRO and injunction against PCC's review of the transaction. In the same resolution, however, the CA required the PCC to comment on Globe Telecom's petition for certiorari and mandamus within 10 days from receipt thereof. The PCC filed said comment on August 8, 2016. In said comment, the PCC prayed that the ₱70 billion deal between PLDT-Globe Telecom and San Miguel be declared void for PLDT and Globe Telecom's alleged failure to comply with the requirements of the Philippine Competition Act of 2015. The PCC also prayed that the CA direct Globe Telecom to: cease and desist from further implementing its co-acquisition of the San Miguel telecommunications assets; undo all acts consummated pursuant to said acquisition; and pay the appropriate administrative penalties that may be imposed by the PCC under the Philippine Competition Act for the illegal consummation of the subject acquisition. The case remains pending with the CA.

Meanwhile, PLDT filed a similar petition with the CA, docketed as CA G.R. SP No. 146528, which was raffled off to its 12th Division. On August 26, 2016, PLDT secured a TRO from said court. Thereafter, Globe Telecom's petition was consolidated with that of PLDT, before the 12th Division. The consolidation effectively extended the benefit of PLDT's TRO to Globe Telecom. The parties were required to submit their respective Memoranda, after which, the case shall be deemed submitted for resolution.

On February 17, 2017, the CA issued a Resolution denying PCC's Motion for Reconsideration dated September 14, 2016 for lack of merit. In the same Resolution, the Court granted PLDT's Urgent Motion for the Issuance of a Gag Order and ordered the PCC to remove the offending publication from its website and also to obey the sub judice rule and refrain from making any further public pronouncements regarding the transaction while the case remains pending. The Court also reminded the other parties, PLDT and Globe, to likewise observe the sub judice rule. For this purpose, the Court issued its gag order admonishing all the parties "to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to Intervene, and Admit the Petition-in Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.

On April 18, 2017, PCC filed a petition before the Supreme Court docketed as G.R. No. 230798, to lift the CA's order that has prevented the review of the sale of San Miguel Corp.'s telecommunications unit to PLDT Inc. and Globe Telecom. On April 25, 2017, Globe filed before the Supreme Court a Motion for Intervention with Motion to Dismiss the petition filed by the PCC.

As of June 30, 2017, the Supreme Court did not issue any TRO on the PCC's petition to lift the injunction issued by the CA. Hence, the PCC remains barred from reviewing the SMC deal.
On July 26, 2017, Globe received the Supreme Court's en banc Resolution granting Globe's Extremely Urgent Motion to Intervene. In the same Resolution, the Supreme Court treated as Comment, Globe's Motion to Dismiss with Opposition Ad Cautelam to PCC's Application for the Issuance of a Writ of Preliminary Injunction and/or TRO.

On August 31, 2017, Globe received another Resolution of the Supreme Court en banc, requiring the PCC to file a Consolidated Reply to the Comments respectively filed by Globe and PLDT, within ten (10) days from notice. Globe has yet to receive the Consolidated Reply of PCC since the latter requested for extension of time to file the same.

In the meantime, in a Decision dated October 18, 2017, the Court of Appeals, in CA-G.R. SP No. 146528 and CA-G.R. SP No. 146538, granted Globe and PLDTs Petition to permanently enjoin and prohibiting PCC from reviewing the acquisition and compelling the PCC to recognize the same as deemed approved. PCC elevated the case to the SC via Petition for Review on Certiorari.

e. Other Developments

The Globe Board of Directors approved last July 5, 2018, the creation of a separate tower holding company and started the process of incorporation. Following our press release dated 08 February 2018, the establishment of a tower company will help speed up the building and deployment of cellular towers in the country. On August 17, 2018, Globe received the approval of the Securities and Exchange Commission (SEC) on the incorporation of GTowers Inc.

Moreover, Globe announced last July 16, 2018 that after a thorough assessment, ABS-CBN Convergence deemed its current mobile business model to be financially unsustainable. As a result, ABS-CBN Convergence and Globe reached an agreement not to renew their mobile network sharing agreement and look at more profitable opportunities in the content business. ABS-CBN

Convergence and Globe are exploring new ways and synergies that complement their business models. Leveraging on ABS-CBN Convergence's expertise as top content provider to the Filipino audience and the vast reach of Globe as the leading telecommunications company, both companies have decided to shift their focus in maximizing synergies. Meanwhile, all ABS-CBN mobile prepaid, postpaid, and SkyMobi subscribers will continue to enjoy text, call, and data services until the final date that will be approved by the National Telecommunications Commission (NTC).

On July 19, 2018, NTC released Memorandum Circular (MC) no. 05-07-2018 for the amendment of interconnect charge for voice from ₱2.50 per minute to ₱0.50 and text messaging rates from ₱0.15 per message to ₱0.05. This memorandum circular shall take effect fifteen days after publication.

In compliance with the directive of the NTC, Globe Telecom lowered its interconnection rates for voice calls to 50 centavos per minute from ₱2.50 per minute and Short Messaging Services (SMS) to 5 centavos per message from 15 centavos per message effective from September 1, 2018.

Moreover, in compliance with the directive of the National Telecommunications Commission (NTC), all telephone numbers of Globe customers in Greater Metro Manila (MM) with 02 area code will move to an 8-digit format on March 18, 2019. This directive is to ensure there will be sufficient resource pool to cater to the rapid growth of landline customers in major cities. The commission assigned a public telecommunications entity (PTE) identifier for telecom operators as an additional prefix in expanding from 7-digit to 8-digit landline number. The assigned PTE identifier for Globe and its subsidiary Innove is "7." For instance, a Globe customer with existing landline or DUO number of (02) 576-4567 will have to change his or her number to (02) 7576-4567 come March 18, 2019. Meanwhile, Bayan Telecommunications customers will follow the numbering format (02) 3000-XXXX to (02) 3499-XXXX effective March 18, 2019.

Details on these transactions have been extensively discussed in the disclosures filed by Globe with the SEC and PSE and may be accessed from the PSE and Globe websites.

Item 4. Submission of Matters to a Vote of Security Holders

Except for matters taken up during the annual meeting of stockholders, there was no other matter submitted to a vote of security holders during the period covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

A) Market Information

Principal market where the registrant's common equity is traded.

The following table shows the high and low prices (in PHP) of Ayala Corporation's shares in the Philippine Stock Exchange for the year 2018 and 2017:

	2018		2017	
	High	Low	High	Low
1st qtr	1,095.00	916.00	850.00	722.50
2nd qtr	990.00	876.00	899.00	837.00
3rd qtr	1,020.00	876.00	995.00	841.00
4th qtr	970.50	882.00	1116.00	970.00

Source: Bloomberg

The market capitalization of the Company's common shares as of end-2018, based on the closing price of ₱900 .00/share, was approximately ₱568 billion.

The price information of Ayala common, preferred B series 1 and preferred B series 2 shares as of the close of the latest practicable trading date, March 20, 2019 is ₱927.00, ₱474.60, and ₱497.60, respectively.

B) Holders

The following are the top 20 registered holders of the Company's securities based on the records of our stock transfer agents:

<u>*Common Shares*</u>

There are 6,486 registered holders of common shares as of February 28, 2019.

	Stockholder name	No. of common shares	Percentage of common shares
1.	Mermac, Inc.	296,625,706	47.0364%
2.	PCD Nominee Corporation (Non-Filipino)	180,765,980	28.6643%
3.	PCD Nominee Corporation (Filipino)	89,821,592	14.2431%
4.	Mitsubishi Corporation	41,577,540	6.5930%
5.	Shoemart, Inc.	7,529,203	1.1939%
6.	Sysmart Corporation	1,500,912	0.2380%
7.	SM Investment Corporation	1,418,610	0.2250%
8.	Philippine Remnants Co., Inc.	823,046	0.1305%
9.	ESOWN Administrator 2009	524,363	0.0831%
10.	ESOWN Administrator 2018	492,431	0.0781%
11.	ESOWN Administrator 2016	491,428	0.0779%
12.	ESOWN Administrator 2017	450,487	0.0714%
13.	ESOWN Administrator 2015	439,092	0.0696%
14.	Mitsubishi Logistics Corporation	360,512	0.0572%
15.	ESOWN Administrator 2014	339,479	0.0538%
16.	ESOWN Administrator 2012	330,854	0.0525%
17.	ESOWN Administrator 2008	206,610	0.0328%
18.	Telengtan Brothers & Sons, Inc.	136,857	0.0217%
19.	Lucio Yan	127,996	0.0203%
20.	Xavier P. Loinaz	126,052	0.0200%

Preferred B Series 1 Shares

There are 17 registered holders of preferred B series 1 shares as of February 28, 2019.

	Stockholder name	No. of preferred B series 1 shares	Percentage of preferred B series 1 shares
1.	PCD Nominee Corp – Filipino	19,820,250	99.1012%
2.	PCD Nominee Corp – Non-Filipino	92,680	0.4634%
3.	Insigne Fortuna Holdings Inc.	19,320	0.0966%
4.	One Point Contact, Inc.	18,000	0.0900%
5.	Mariano Vicente Lim Tan or Katherine Tan or Elena Lim Tan	8,000	0.0400%
6.	Santos, Leonel A. and/or Santos, Alicia	7,000	0.0350%
7.	Tan, Ben Cuevo and/or Tan, Imelda Toralba	6,000	0.0300%
8.	Chan, Raymond O. or Chan Lynette	5,000	0.0250%
9.	Chavez, Felix B. or Aida T. Chavez or Irene T. Chavez	5,000	0.0250%
10.	Philippine British Assurance Company, Inc.	4,000	0.0200%
11.	Zalamea, Enriquez M. Jr.	4,000	0.0200%
12.	Jose Maximillan F. Lumawig or Grace T. Lumawig	4,000	0.0200%
13.	Henry Dy Tan and or Sherly G. Tan	3,400	0.0170%
14.	Macabuhay, Melchor T.	1,540	0.0077%
15.	Bautista, Feliciano M. and or Bautista, Elisa D.	1,000	0.0050%
16.	Lim, Iris Veronica Go	600	0.0030%
17.	GD Tan and Company	200	0.0010%

Preferred B Series 2 Shares

There are nine (9) registered holders of preferred B series 2 shares as of February 28, 2019.

	Stockholder name	No. of preferred B series 2 shares	Percentage of preferred B series 2 shares
1.	PCD Nominee Corp – Filipino	26,885,170	99.5747%
2.	PCD Nominee Corp – Non Filipino	55,310	0.2048%
3.	First Life Financial Co., Inc.	40,000	0.1481%
4.	Jayme Alba or Elizabeth Alba	7,520	0.0279%
5.	Manalo Marwin Roman Tadeo and Ma. Dorothy Teodora Modomo	4,000	0.0148%
6.	Ramon, Carmen Paz C.	4,000	0.0148%
7.	Teh, Alfonso S.	2,000	0.0074%
8.	Luna, Reynaldo H.	1,000	0.0037%
9.	Leoncio, Hipolito A.	1,000	0.0037%

Voting Preferred Shares

There are 1,031 registered holders of voting preferred shares as of February 28, 2019.

	Stockholder name	No. of voting preferred shares	Percentage of voting preferred shares
1.	Mermac, Inc.	170,809,468*	85.4047%
2.	Mitsubishi Corporation	21,514,970*	10.7575%
3.	Deutsche Bank AG Manila OBO UBS HK A/C 12105904001	1,561,478	0.7807%
4.	Fernando Zobel de Ayala	554,983	0.2775%
5.	Jaime Augusto Zobel de Ayala	543,802	0.2719%
6.	CBNA MLA OBO AC 6002079755	364,810	0.1824%
7.	Delfin L. Lazaro	258,297	0.1291%
8.	Britel Fund Trustees Limited	170,064	0.0850%
9.	HSBC Manila OBO A/C 000-808154-573	169,803	0.0849%
10.	Deutsche Regis Partners, Inc. A/C Clients	137,372	0.0687%
11.	BDO Securities Corporation	115,794	0.0579%
12.	AB Capital Securities Inc.	113,164	0.0566%
13.	Deutsche Bank AG, Manila Branch	111,385	0.0557%
14.	Mercedita S. Nolledo	84,996	0.0425%
15.	Ariston Dela Rosa Estrada, Jr.	84,396	0.0422%
16.	Asiasec Equities Inc.	78,007	0.0390%
17.	HSBC Manila OBO A/C 000-083766-550	73,272	0.0366%

18.	HSBC Manila OBO A/C 000-171512-575	72,884	0.0364%
19.	Papa Securities Corporation	69,646	0.0348%
20.	Ansaldo Godinez & Company Inc.	65,977	0.0330%

**On February 28, 2019, Mermac, Inc. acquired 6,727,060 voting preferred shares from Mitsubishi Corporation.*

C) Dividends

Stock Dividends		
Percent	Record Date	Payment Date
20%	May 22, 2007	June 18, 2007
20%	April 24, 2008	May 21, 2008
20%	July 5, 2011	July 29, 2011

Cash Dividends On Common Shares			
Year	Payment Date	Rate	Record Date
2016	July 24, 2016 January 1, 2017	2.88/share 2.88/share	July 11, 2016 December 16, 2016
2017	July 22, 2017 December 31, 2017	3.46/share 3.46/share	July 7, 2017 December 15, 2017
2018	July 22, 2018 January 5, 2019	3.46/share 3.46/share	July 6, 2018 December 20, 2018

Dividend policy

As a holding company, Ayala’s policy is to provide a fixed-rate, semi-annual cash dividend on common shares. For voting preferred shares, the rate is 1.875% per annum. For non-voting Preferred B Series 1 and 2 shares, the dividends are given 5.25% and 5.575% per annum, respectively.

D) Recent Sales of Securities

The following shares were issued to/subscribed by the Company’s executives as a result of the exercise of stock options (ESOP) and the subscription to the stock ownership (ESOWN) plans:

	No. of shares	
Year	ESOP	ESOWN*
2017	169,035	957,850
2018	8,636	518,681

**Net of cancelled subscriptions.*

The above shares formed part of the 8,864,000 ESOP and ESOWN shares subject of the Commission’s resolution dated January 12, 2006 confirming the issuance of such shares as exempt transactions pursuant to Section 10.2 of the Securities Regulation Code.

E) Corporate Governance

i. The evaluation system which was established to measure or determine the level of compliance of the Board of Directors and top-level management with its Revised Corporate Governance Manual consists of a Board Performance Assessment which is accomplished by the Board of Directors indicating the compliance ratings. The above is submitted to the Chief Compliance Officer who issues the required Annual Corporate Governance Report to the Securities and Exchange Commission.
ii. To ensure good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the Company, as well as the mechanism for monitoring and evaluating Management’s performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.
iii. There were no deviations from the Company’s Revised Corporate Governance Manual. The Company has adopted in the Revised Corporate Governance Manual the leading practices and principles of good corporate governance, and full compliance therewith has been made since its adoption.
iv. The Company is taking further steps to enhance adherence to principles and practices of good corporate governance. In line with this, the Board also adopted the Charter of the Board of Directors on June 26, 2014.

Item 6. Management's Discussion and Analysis or Plan of Operations

<u>2018</u>

Ayala Corporation's net income in 2018 grew five percent to ₱31.8 billion from the previous year, boosted by strong earnings contribution from its real estate, telecommunications, and power businesses.

Consolidated Sales of Goods and Services

Sale of goods and services expanded 13 percent to ₱274.9 billion of which 3% was a result of the adoption of PFRS 15 (new accounting standard in 2018 pertaining to Revenues from Contracts with Customers). Revenue growth was driven by Ayala Land which posted higher sales across all its business segments, supported by higher sales from IMI's Europe, China, Philippines, and Mexico units as well as contribution of VIA Optronics and Manila Water's new business units.

Real Estate

Ayala Land sustained its growth momentum during the year with net income expanding 16 percent to ₱29.2 billion, primarily driven by the strong performance of its property development and commercial leasing businesses.

Property development revenues jumped 18 percent to ₱120.3 billion on strong sales across its residential, office-for-sale, and commercial lot segments. Residential revenues jumped 20 percent to ₱101.1 billion, while reservation sales grew 16 percent to ₱141.9 billion, bolstered by strong demand from local and overseas Filipinos, which accounted for 82 percent of total sales during the year.

Fresh bookings from One Vertis Plaza in Vertis North, Quezon City, The Stiles East Enterprise Plaza in Circuit Makati, and completion of Park Triangle Corporate Plaza in Bonifacio Global City lifted the sale of office spaces, with revenues reaching ₱11.4 billion, 14% higher year-on-year. In addition, revenues from the sale of commercial and industrial lots grew 10 percent to ₱7.7 billion, lifted by sales from its estates in the Visayas and Mindanao region, Evo City in Cavite, Alviera in Pampanga, and Cavite Technopark.

Meanwhile, the opening of new malls and office spaces as well as the launch of new hotel and resort rooms drove the 17 percent expansion in commercial leasing revenues to ₱34.9 billion from its year-ago level. In 2018, Ayala Land added 142,000 square meters of mall space with the opening of three new malls: the Circuit Mall in Makati, the Capitol Central Mall in Bacolod, One Bonifacio High Street in Taguig, bringing its total mall gross leasable area to 1.9 million square meters. Moreover, the completion of Bacolod Capitol Corporate Center, Vertis North Corporate Center 3, and Ayala North Exchange pushed up Ayala Land's total office GLA to 1.1 million square meters.

Ayala Land's commercial leasing business was further boosted by its hotels and resorts portfolio, which continues to benefit from the growth of the country's tourism sector. In 2018, it added 390 rooms across its portfolio of branded hotels and its own Seda brand as well as bed and breakfast rooms in its Lio and Sicogon eco-tourism estates, bringing the total to 2,973 rooms.

The sustained strong performance of its leasing segment has supported the continued buildup of Ayala Land's recurring income business, which increased at a compounded annual rate of 26 percent since 2013. Meanwhile, its development income, which comprises residential, office, and lot sales, grew at a compounded annual rate of 18 percent.

Water

Manila Water recorded a net income of ₱6.5 billion, 6 percent higher from the previous year, largely driven by the Manila Concession, boosted by the contribution of its newly acquired platforms in Thailand and Indonesia.

The Manila Concession posted steady growth, with a three percent increase in billed volume to 503 million cubic meters. This was supported by the 28 percent positive tariff adjustment granted by the Metropolitan Waterworks and Sewerage System to be implemented on a staggered basis over a five-year period from 2018 to 2022.

Outside the Manila Concession, revenues from Manila Water Philippine Ventures rose six percent to ₱3.3 billion. Lowered billed volume across its domestic subsidiaries as well as operational and regulatory challenges, including the closure of Boracay island, weighed down MWPV's performance during the year.

Manila Water Asia Pacific's overseas investments continues to bear fruit. It booked a 53 percent surge in equity share in net income of associates to ₱699 million. This was mainly driven by the two platforms it acquired during the year, East Water in Thailand, and PT Sarana Tirta Ungaran in Indonesia, which contributed ₱262.7 million and ₱1.4 million in equity earnings, respectively.

To support its diversification strategy, Manila Water continues to ramp up its domestic and international business development initiatives, securing 13 new businesses in 2018. These include the full concession projects in Calbayog in Samar, San Jose in Nueva Ecija, and in Iloilo, Isabela, Pangasinan, Batangas, Bulacan, and Laguna as well as the acquisition of a 19 percent stake in East Water and a 20 percent stake in PT Sarana Tirta Ungaran.

Power

AC Energy's net earnings expanded 16 percent to ₱4.1 billion in 2018, largely driven by its domestic thermal and renewable assets as well as higher contribution from its Indonesia investments.

The strong performance and higher equity stake in GNPower Mariveles, strong wind regime, and fresh contribution of its greenfield offshore project, the 75-megawatt Sidrap wind farm in Indonesia, as well as the full-year recognition of SD Geothermal boosted AC Energy's performance during the year. Equity earnings from AC Energy's investee companies reached ₱3.6 billion, 37 percent higher from the previous year. Recovery of the costs incurred due to adjustments in the construction schedule of GNPower Kauswagan also lifted AC Energy's net earnings during the period.

During the year, AC Energy generated 2,800 gigawatt hours of attributable energy, of which 48 percent was from renewable sources. To support its strategy to scale up its renewable portfolio, AC Energy raised US$410 million in green bond in January 2019, the first publicly syndicated US dollar green bond in Southeast Asia to be certified by the Climate Bonds Initiative.

AC Energy continued to expand its international footprint through strategic partnerships with developers and operating companies. AC Energy has identified the Philippines, Vietnam, Indonesia, and Australia as key markets in its expansion strategy. The 330-MWp Ninh Thuan solar farm in Vietnam, a joint venture between AC Energy and the BIM Group, is expected to commence early in the second quarter of 2019. Once completed, it will be one of the largest solar farms in Southeast Asia, benefiting Ninh Thuan province with income generation and job creation. AC Energy also broke ground on the 80-MWp solar farms located in the provinces of Khanh Hoa and Dak Lak, in partnership with AMI Renewables Energy. In addition, AC Energy signed a memorandum of understanding with Quang Binh Province to jointly develop a wind power project with AMI Renewables.

AC Energy has also entered the Australian renewables market through a joint venture with international RE developer UPC Renewables, investing US$30M for a 50% ownership in UPC's Australian business. The platform is developing the 1,000 MW Robbins Island and Jims Plain projects in North West Tasmania and the 700 MW New England Solar Farm located near Uralla in New South Wales. It also has a further development portfolio of another 3,000 megawatts located in NSW, Tasmania and Victoria.

In September, AC Energy announced the partial sell-down of its thermal platform to Aboitiz Power, which includes the GNPower Mariveles and GNPower Dinginin assets in Bataan. The sale, valued at US$ 579.2 million, represents approximately 35% of AC Energy's attributable thermal capacity and is part of the company's strategy to actively recycle capital and will enable the expansion of AC Energy's domestic and offshore renewable energy businesses. In late February, AC Energy received approval on the transaction from the Philippine Competition Commission.

Industrial Technologies

AC Industrials' net income dropped 53 percent year-on-year to ₱578 million, largely due to the weaker performance of its automotive businesses and startup losses from newly acquired businesses. This decline was partially offset by a one-time gain in its electronics manufacturing services arm.

IMI's revenues expanded 24 percent to ₱70.8 billion on the back of a 16 percent growth in revenues from traditional businesses and a 61 percent growth in recently acquired companies, VIA and STI. It likewise benefited from new programs in the industrial and automotive segments which grew 41 percent and 21 percent, respectively.

IMI reported a net income of ₱2.4 billion, up 34 percent from a year ago, boosted by non-operating items such as net gains from the sale of a China entity and reversal of contingent consideration related to the STI acquisition, partially offset by impairment provisions on some offshore investments. The effect of the RMB and EUR depreciation and higher interest rates also added downward pressure to IMI's performance during the year. Excluding the impact of the one-time net gain, IMI's net income went down 49 percent year-on-year.

AC Motors registered a 76 percent decline in net earnings to ₱164 million owing to significantly lower earnings of the group's Honda and Isuzu dealerships, both hit by weaker sales amid an industry-wide slowdown. This was aggravated by lower contributions from AC Industrials' investments in the Philippine distribution companies of Isuzu and Honda. Meanwhile Volkswagen's sales volume was affected by the delay in delivery of its China-sourced vehicles.

AC Industrials continues to ramp up its automotive retail portfolio and in 2018, it partnered with Kia Motors and China's SAIC Motor for the distribution of Kia and Maxus vehicles in the Philippines, respectively.

Share of Profit of Associates and Joint Ventures

Share of profits of associates and joint ventures grew 11 percent to ₱20.5 billion, lifted by Globe's higher data-driven revenues plus the growth in BPI's core businesses. The adoption of the new accounting standards PFRS 9 (Financial Instruments) and PFRS 15 has minimal effect in the net income of BPI and Globe in 2018. Higher equity in net earnings from AC Energy's investee companies, namely GN Power Mariveles, SD Geothermal, and Sidrap, as well as contribution of Manila Water's new overseas investments also drove the increase. However, this was partially offset by Ayala Land's consolidation of MCT, previously reported as an associate, as well as AC Ventures' share in net losses of Zalora and Mynt.

Banking

Bank of the Philippine Islands reported a net income of ₱23.1 billion, up 3 percent from the previous year, boosted by the robust growth of its core banking business but tempered by higher provisions and operational spending.

The bank's total revenues grew 11 percent to ₱78.5 billion on the back of a 16 percent growth in net interest income, which reached ₱55.8 billion. The increase in net interest income was a result of a 9 percent improvement in average asset base and a 21-basis point expansion in net interest margin.

Total loans stood at ₱1.35 trillion, reflecting a 13 percent growth year-on-year, boosted by strong performance of its corporate loans and credit card loans, which increased 13 percent and 24 percent, respectively. Total deposits reached ₱1.59 trillion, up 1.5 percent, with current and savings accounts registering faster growth at 2.4 percent. The bank's current account and savings account ratio stood at 71.9 percent while the loan-to-deposit ratio was at 85.4 percent.

The bank recorded higher fee income from its transaction-based service charges, credit card, and rental businesses. However, lower trust, investment management, and corporate finance fees, and securities trading income during the year, tempered BPI's non-interest income, which slid 1 percent to ₱22.7 billion.

Operating expenses totaled ₱43.6 billion for 2018, an increase of 13.2 percent year-on-year on accelerated spending to support the bank's digitalization strategy and investments in its microfinance network. In 2018, BPI Direct Banko, its microfinance arm, doubled its branch network to 200. These initiatives resulted in cost-to-income ratio of 55.5 percent in 2018 from 54.3 percent a year ago.

At the end of 2018, the bank's total assets stood at ₱2.1 trillion, up 9.5 percent from the previous year, with return on assets at 1.2 percent. With the success of its capital raising exercises - the ₱50 billion stock rights offering, the US$600 million in senior unsecured bonds, and the ₱25 billion in peso fixed rate bonds - BPI's total capital reached ₱248.52 billion, up by 38 percent from its year-ago level. Capital adequacy ratio was at 16.09 percent and Common equity tier 1 ratio was at 15.19 percent.

Telco

Data-driven demand across its business segments bolstered Globe's net profits, which reached ₱18.6 billion during the year.

On a post-PFRS basis, service revenues reached ₱132.9 billion. Mobile revenues grew nine percent to ₱106.9 billion driven by mobile data services, which accounted for 51 percent of the segment from 44 percent a year ago. This was supported by the sustained higher prepaid top-ups, indicating greater consumer spending on mobile data. This in turn, drove the mobile data traffic growth to 956 petabytes from 600 petabytes a year ago.

Globe's home broadband business jumped 19 percent to ₱18.5 billion on continued subscriber expansion in fixed wireless solutions, specifically the Home Prepaid Wi-Fi product. Similarly, its corporate data business expanded 15 percent to ₱11.8 billion amid increasing demand for fast, reliable, and secure internet connectivity and modern business solutions.

With a consistent strong revenue and well managed costs throughout the year, Globe's EBITDA improved 22 percent to ₱64.9 billion, with EBITDA margin at 46 percent from its year-ago level of 42 percent.

Globe continues to build its network capacities to address the increasing data traffic growth and customer base as it ramped up its LTE rollout. It spent ₱43.3 billion in capital expenditures in 2018, equivalent to 32 percent of its service revenues.

Costs and Expenses

Consolidated cost of sales and rendering services rose 12 percent to ₱196.6 billion, tracking the revenue growth.

General and administrative expenses expanded 18 percent to ₱29.8 billion, primarily driven by the combined increments in the group's expenses, particularly Ayala Land's taxes, contracted services, depreciation; Manila Water's management fees, manpower-related and selling expenses, and Ayala parent's higher business development and manpower costs. Moreover, the consolidation of our new subsidiaries namely MCT of Ayala Land, MT Technologies and Merlin Solar of AC Industirals, and VIA Optronics and STI of IMI drove the higher GAE during the period. This was further lifted by IMI's restructuring costs from its employee relocation in China prior to the property sale. Without the effect of these newly consolidated subsidiaries, GAE grew nine percent year-on-year.

Balance Sheet Highlights

At the end of 2018, Ayala's total assets stood at ₱1.2 trillion. Investments in associates and joint ventures expanded 19 percent to ₱240.1 billion owing to Ayala parent's subscription to BPI's stock rights offering as well as new investments of Manila Water in East Water in Thailand and PT Sarana in Indonesia, and AC Energy in renewable platforms in Australia and Vietnam. Furthermore, the growth was lifted by additional investments of AC Infrastructure in the LRT 1 project and higher share of net earnings in BPI and Globe and investee companies of Ayala Land, Manila Water, and AC Energy. This was partly offset by Ayala Land's consolidation of MCT, which was previously reported as associate as well AC Ventures' equity losses in Zalora and Mynt.

Investments in properties jumped 12 percent to ₱227.6 billion driven by Ayala Land's expansion projects in its malls, office properties, land development initiatives, and the impact of the consolidation of MCT. An adjustment in land classification required under the PFRS 15 likewise contributed to the increase.

At the end of the year, total debt at the consolidated level stood at ₱412 billion, 18 percent higher from the end-2017 level. This was driven by higher borrowings of the parent as well as higher loan balances of Ayala Land, Manila Water, and AC Energy.

Ayala's balance sheet remained healthy with enough capacity to undertake investments and cover its dividend and debt obligations. As of end-2018, parent level cash stood at ₱8.5 billion, while net debt stood at ₱96 billion. Loan-to-value ratio, the ratio of its parent net debt to the total value of its assets, stood at 11 percent.

The conglomerate's peso-dollar debt split ended at 64:36 for 2018. Ayala's dollar denominated debts are fully covered by foreign currency assets.

Outlook for 2019

Most ASEAN economies experienced a slowdown in 2018 as external risks weighed on local demand and exports. As the US economy showed strength, the Federal Reserve continued to raise policy rate that prompted ASEAN central banks to increase interest rates to temper currency depreciation. In addition, household consumption declined as global oil prices surged, while exports struggled amid the growth slowdown in China.

Moving forward, risk-aversion is expected as many awaits the development on key global geopolitical and economic issues, including the US-China trade war and the Brexit.

On the domestic front, inflation challenges marked the Philippine economy in 2018 as average inflation accelerated to a nine-year high, largely fueled by higher global oil prices, local food supply problems, and the weaker peso.

At the start of 2019, inflation has softened, falling to its lowest level in 10 months. Many analysts believe this trend will continue over the medium term as the national government carried out efforts to ease supply of key food items to allow food prices to stabilize.

Looking ahead, with inflation now in a downtrend, the Philippine economy has the opportunity to return to a low-inflation and high growth environment, especially as election spending boosts overall demand. Investment spending is still expected to be robust in 2019 to meet strong consumer demand.

Against the backdrop of these developments, the Ayala group will continue to execute on its five-year growth strategy for 2020 as it closely monitors key trends and potential risks in the global and domestic economies as well as in the industries where it operates.

Ayala maintains a healthy balance sheet with access to various funding options to meet requirements. A robust risk management system allows the company to maximize opportunities for reinvention, and navigate the challenges faced by its business units.

Capital Expenditure

For the year 2018, a total of ₱217.4 billion was spent at the group level in support of the parent's own investment program as well as the expansion initiatives of its real estate, telecom, water, and energy units, and the ramp-up of its industrial technologies, education, infrastructure, and healthcare businesses.

Ayala
Ayala parent has set aside ₱51.8 billion in capital spending for the year. In 2018, 84% or ₱43.7 billion of this budget has been deployed largely to support the stock rights offering of BPI and IMI as well as to fund the expansion of our emerging businesses: AC Energy, AC Industrials, AC Infra, AC Health and AC Education.

ALI
ALI spent ₱110.1 billion in capital expenditures to support the aggressive completion of new projects, 41% of which was spent on residential projects; 23% on commercial projects; 15%, land acquisition; 12%, development of estates; and 9%, on investments.

MWC
MWC ended 2018 with total capital expenditures of ₱10.0 billion, 23% lower than the previous year.

The Manila Concession spent a total of ₱8.0 billion (inclusive of concession fee payments) for capital expenditures in 2018. Of the total amount, 93% was spent on wastewater expansion, network reliability, and water supply projects, while the balance of 7% was accounted for by concession fees paid to MWSS.

Meanwhile, total capital expenditures of the domestic subsidiaries dropped by 20% to ₱1.9 billion from the ₱2.3 billion spent in 2017. Of the total amount, ₱561 million was spent by Laguna Water for its water network expansion, while Boracay Water and Tagum Water disbursed ₱444 million and ₱203 million, respectively. Estate Water spent ₱490 million for its greenfield and brownfield projects, with the balance being taken on by the remaining subsidiaries for its various projects.

IMI
In 2018, IMI spent $65 million on capital expenditures to build more complex manufacturing capabilities which were funded by proceeds from the stock rights offering. For 2019, IMI expects additional $68 million of capital expenditures intended to expand IMI's capacity and support expected increases in demand, as well as to sustain IMI's productivity and efficiency.

ACEI
For the year 2018, ACEI's budget for capital expenditures amounts to ₱20.1 billion of which ₱9.8 billion has been disbursed as of the twelve-month period mainly for investments in GNPD and GNPK and in foreign countries mainly Vietnam and Australia.

BPI
For the whole year 2018, total capital expenditures amounted to ₱3.5 billion.

Globe
As of end-December 2018, total cash capital expenditures stood at about ₱43.3 billion (approximately US$821 million), 2% higher than last year's level of ₱42.5 billion. The increase in capex was due to Globe's continued network upgrade and expansion.

Key performance indicators of the Company and its significant subsidiaries

The table sets forth the comparative key performance indicators of the Company and its significant subsidiaries.

Ayala Corporation (Consolidated)

(In million pesos, except ratios)	2018	2017	2016
Income	302,490	266,786	222,944
Net Income Attributable to Equity Holders	31,818	30,264	26,011
Total Assets	1,197,926	1,021,546	911,705
Total Debt	412,262	350,612	295,854
Total Stockholders' Equity	469,108	411,092	370,996
Current Ratio[1]	1.25	1.39	1.22
Debt to Equity Ratio[2]	0.88	0.85	0.80

Ayala Land, Inc.

(In million pesos, except ratios)	2018	2017	2016
Revenue	163,747	139,373	123,266
Net Income Attributable to Equity Holders	29,241	25,305	20,908
Total Assets	668,820	573,992	536,433
Total Debt	187,099	174,386	159,801
Total Stockholders' Equity	220,221	192,263	172,683
Current Ratio[1]	1.26	1.30	1.12
Debt to Equity Ratio[2]	0.85	0.91	0.93

Integrated Micro-Electronics, Inc.

(In thousand US dollars, except ratios)	2018	2017	2016
Revenue	1,349,400	1,090,588	842,966
Net Income Attributable to Equity Holders	45,507	34,002	28,116
Total Assets	1,070,593	920,918	639,128
Total Debt	324,314	300,154	180,774
Total Stockholders' Equity	406,436	276,595	239,328
Current Ratio[1]	1.32	1.28	1.51
Debt to Equity Ratio[2]	0.80	1.09	0.76

Manila Water Company, Inc.

(In million pesos, except ratios)	2018	2017	2016
Revenue	19,836	18,516	17,712
Net Income Attributable to Equity Holders	6,524	6,147	6,065
Total Assets	122,533	103,394	85,479
Total Debt	51,647	39,724	27,619
Total Stockholders' Equity	53,621	48,561	56,780
Current Ratio[1]	0.59	1.09	1.10
Debt to Equity Ratio[2]	0.96	0.82	0.49

[1] *Current Assets/ Current Liabilities.*
[2]*Total Debt/ Total Stockholders' Equity (Total Debt includes short term debt, long-term debt both current and noncurrent portion).*

Causes for any material variances
(Increase or decrease of 5% or more in the financial statements)

The December 31, 2018 and December 31, 2017 consolidated financial statements show several significant increases in Balance Sheet and Income Statement accounts relating to two (2) key factors:

1. Major acquisitions made by subsidiaries as follows:
   In year 2018
   a. Ayala Land, Inc.'s (ALI's) increase of ownership share in MCT Berhard (MCT) from 33% in December 2017 to 72.31% in February 2018.

   In year 2017
   b. AC Energy, Inc.'s (ACEI's) acquisition of 100% ownership of Visayas Renewable Corp. (VRC) (formerly Bronzeoak Clean Energy), AC Energy Development, Inc. (AEDI) (formerly AC Energy Devco, Inc.), and 66% in Manapla Sun Power Development Corp. (MSPDC) in March 2017; 100% ownership in SCC Bulk Water Supply, Inc. (SCC) and Solienda, Inc. (Solienda) in December 2017.
   c. Integrated Micro-Electronic's (IMI's) acquisition of 80% stake in Surface Technology International Enterprises Limited (STI) in April 2017.
   d. AC Industrial Technology Holdings, Inc.'s (AITHI's/ACI's) acquisition through AC Industrials (Singapore) Ptd. Ltd. of 94.9% ownership of MT Technologies Gmbh (MT) in July 2017.

2. Adoption of three major accounting standards – PFRS 9 (*Financial Instruments)* and 15 (*Revenue from Contracts with Customers)* and PIC Q&A (Advances to Contractors and Land Classification) give rise to new accounts in the balance sheet plus certain reclassifications within the balance sheet (contract assets and contract liabilities). The summarized impact of these new standards in the balance sheet are shown below. The impact to income statement is shown in the discussion of income statement variances.

IMPACT OF PFRS 15 & 9; and PIC Q&A

	December 31, 2018				December 31, 2017			Inc (dec)	
(in million pesos)	As reported	PFRS Adj*	PIC Adj	Pre - PFRS	As reported	PIC Adj	Pre - PFRS	Pre - PFRS	
ASSETS									
Cash	**60,624**	-	-	60,624	64,259	-	64,259	(3,635)	*-6%*
Short-term investment	**5,956**	-	-	5,956	5,400	-	5,400	556	*10%*
Accounts & notes receivable	**105,519**	48,871	23,866	178,256	100,243	23,866	124,109	54,147	*44%*
Contract assets	**52,209**	(52,209)	-	-	-	-	-	-	
Inventories	**120,560**	2,971	(28,653)	94,878	105,196	(28,653)	76,543	18,335	*24%*
Other current assets	**67,890**	-	(16,530)	51,361	61,854	(16,530)	45,325	6,036	*13%*
Noncurrent accts & notes receivable	**6,366**	35,671	-	42,037	45,774	-	45,774	(3,737)	*-8%*
Noncurrent contract assets	**35,930**	(35,930)	-	-	-	-	-	-	
Invest. in assoc & JVs	**240,141**	(1,605)	-	238,535	202,649	-	202,649	35,886	*18%*
Investment properties	**227,646**	-	28,653	256,299	202,873	28,653	231,527	24,772	*11%*
Property, plant and equipment	**104,492**	-	-	104,492	85,431	-	85,431	19,062	*22%*
Other noncurrent assets	**40,088**	259	(7,337)	33,010	27,390	(7,337)	20,054	12,956	*65%*
Service concession assets	**98,404**	-	-	98,404	91,050	-	91,050	7,355	*8%*
Deferred tax assets - net	**15,546**	-	-	15,546	12,721	-	12,721	2,825	*22%*
Others **	**16,553**	-	-	16,553	16,705	-	16,705	(152)	*-1%*
Total Assets	**1,197,926**	(1,972)	0	1,195,953	1,021,546	0	1,021,546	174,407	*17%*

IMPACT OF PFRS 15 & 9; and PIC Q&A

(in million pesos)	December 31, 2018				December 31, 2017			Inc (dec)	
	As reported	PFRS Adj*	PIC Adj	Pre - PFRS	As reported	PIC Adj	Pre - PFRS	Pre - PFRS	
LIABILITIES AND EQUITY									
Liabilities									
Short-term debt	**39,518**			39,518	29,905	-	29,905	9,614	*32%*
Accts payable & accr expenses	**204,758**			204,758	169,653	-	169,653	35,106	*21%*
Income tax payable	**3,407**			3,407	1,710	-	1,710	1,697	*99%*
Long-term debt - current	**48,481**			48,481	13,732	-	13,732	34,749	*253%*
Contract liabilities	**21,989**	(21,989)	-	-	-	-	-	-	
Other current liabilities	**11,129**	30,523	-	41,652	25,984	-	25,984	15,668	*60%*
Service concession obligation	**7,839**			7,839	8,552	-	8,552	(713)	*-8%*
Long-term debt - net of current portion	**324,263**			324,263	306,975	-	306,975	17,288	*6%*
Deferred tax liabilities - net	**10,999**			10,999	8,108	-	8,108	2,891	*36%*
Noncurrent contract liabilities	**8,630**	(8,630)	-	-	-	-	-	-	
Noncurrent liabilities - others **	**47,804**	46	-	47,849	45,835	-	45,835	2,015	*4%*
Total Liabilities	**728,817**	(51)	-	728,767	610,453	-	610,453	118,313	*19%*
Equity									
Paid-in capital	**83,362**			83,362	75,001	-	75,001	8,361	*11%*
Cumulative translation adj	**2,277**	27		2,304	2,794	-	2,794	(491)	*-18%*
Non-controlling interests	**178,501**	(154)		178,347	154,745	-	154,745	23,603	*15%*
FV reserver on FVOCI	**(545)**	(1,261)	-	(1,806)	(1,108)	-	(1,108)	(698)	*-63%*
Retained earnings	**196,915**	(534)	-	196,381	170,302	-	170,302	26,079	*15%*
Equity reserve	**10,872**		-	10,872	11,600	-	11,600	(728)	*-6%*
Equity - others **	**(2,273)**	-	-	(2,273)	(2,242)	0	(2,242)	(31)	*1%*
Total Equity	**469,108**	(1,922)	-	467,187	411,092	0	411,092	56,094	*14%*

** includes impact of PFRS 15 and 9* ***accounts with individual variance of below 5%*

Given the above, the discussion of variances below will focus on comparison of pre-PFRS/ PIC balances.

Balance Sheet Items
<u>As of December 31, 2018 vs. December 31, 2017</u>

<u>Cash and cash equivalents – 6% decrease from ₱64,259 million to ₱60,624 million</u>
Slight decline due to group's advances for/acquisition of Merlin Solar and ACEI's investments; AITHI/ACI's lower sales; Bestfull Holdings, Ltd.'s (BHL's) additional FVPL investments; AC's new loans were used to fund Bank of the Philippine Islands (BPI) stock rights offer (SRO) and additional capital infusion in existing subsidiaries. Sources of cash during the year: ACEI's dividends from investment and loan drawdowns; ALI's loan proceeds and consolidation of MCT; IMI's proceeds from SRO; and Manila Water Company, Inc.'s (MWC's) revenue collections and loan proceeds were used to fund new investments in Thailand by MWC and project expansions by ALI and ACEI. This account is at 5% and 6% of the total assets as of December 31, 2018 and 2017, respectively.

<u>Short-term investments – 10% increase from ₱5,400 million to ₱5,956 million</u>
Increase due to AYC's short-term placements partly offset by ALI's placements maturity. This account is at less than 1% of the total assets as of December 31, 2018 and 2017.

<u>Accounts and notes receivable (current) – 44% increase from ₱124,109 million to ₱178,256 million</u>
Increase resulting from ALI's higher sales and impact of consolidation of MCT; higher sales of IMI; and ACEI's retail electricity supply (RES) business and advances for projects; partly offset by ALI's sale of trade accounts to banks; and AITHI/ACI's decline due to lower sales. This account is at 15% and 12% of the total assets as of December 31, 2018 and 2017, respectively.

<u>Inventories – 24% increase from ₱76,545 million to ₱94,878 million</u>
Increase pertains to AITHI/ACI's increase in inventories resulting from lower sales in 2018. This account is at 8% and 7% of the total assets as of December 31, 2018 and 2017.

<u>Other current assets – 13% increase from ₱45,325 million to ₱51,361 million</u>
Increase pertains to: ALI's consolidation of MCT; higher creditable withholding tax, input tax, prepayments in ALI, IMI, AITHI/ACI's and MWC's; BHL's additional infusion in certain FVPL investments and impact of forex translation; partly offset by ACEI's reclassification of deferred input taxes to noncurrent assets. The account also included those assets held for sale such as: (1) AC Education, Inc. (AEI) (after consolidation of National Teachers College (NTC)) and (2) ACEI's net investment in GMCP and GN Power Dinginin Ltd. Co. (GNPD). This account is at 4% of the total assets as of December 31, 2018 and 2017.

Accounts and notes receivable (non-current) – 8% decrease from ₱45,774 million to ₱42,037 million
Account decrease due to ALI's sale of trade receivables partly offset by ACEI's receivable from UPC Renewables. This account is at less than 4% of the total assets as of December 31, 2018 and 2017.

Investments in associates & joint ventures – 18% increase from ₱202,649 million to ₱238,535 million
Increase attributable to AC's subscription to BPI's SRO; new investments of MWC (East Water – Thailand and PT Sarana - Indonesia) and ACEI (UPC Renewables Australia and solar unit in Vietnam) and additional infusion of AC Infrastructure Holdings, Inc. (AC Infra) for Light Rail Manila Holdings, Inc. (LRMHI); plus equity in net earnings (less dividends) from BPI, Globe, and from existing investees of ALI, MWC and ACEI groups. These were partly offset by ALI's step-up acquisition of MCT as discussed in item 1 above; ACEI's reclassification of part of its coal investments to assets held for sale and AC Ventures Holding Corp.'s (AVHC's) share in equity losses in Zalora and Mynt. This account is at 20% of the total assets as of December 31, 2018 and 2017.

Investment Properties – 11% increase from ₱231,527 million to ₱256,299 million
The increase relates to ALI group's expansion projects mainly on malls and office buildings plus impact of MCT consolidation. This account is at 21% and 23% of the total assets as of December 31, 2018 and 2017, respectively.

Property, plant and equipment – 22% increase from ₱85,431 million to ₱104,492 million
Increase coming from ACEI's construction of power plants for GN Power Kauswagan Ltd. Co.'s (GNPK's) coal unit plus impact of forex translation adjustment; ALI's consolidation of MCT; IMI's and MWC's expansion projects. This account is at 9% and 8% of the total assets as of December 31, 2018 and 2017, respectively.

Service concession assets – 8% increase from ₱91,050 million to ₱98,404 million
Increase attributable to MWC's additional service concession assets. This account is at 8% and 9% of the total assets as of December 31, 2018 and 2017, respectively.

Deferred tax assets-net - 22% increase from ₱12,721 million to ₱15,546 million
Increase related to additional deferred tax assets of ALI's leasing group. This account is at 1% of the total assets as of December 31, 2018 and 2017.

Other noncurrent assets - 65% increase from ₱20,054 million to ₱33,010 million
Increase pertains to: ALI's higher project advances, deferred tax and non-current prepaid expenses; MWC's higher FCDA; ACEI's reclassification of deferred input tax and project development cost from other current assets; AYC Finance Ltd.'s (AYC's) hold-out cash for a loan availed by AC; and BHL's additional FVOCI investments. The account also includes the Group's pension asset amounting to ₱82 million.[1] This account is at 3% and 2% of the total assets as of December 31, 2018 and 2017, respectively.

Short-term debt – 32% increase from ₱29,905 million to ₱39,518 million
Increase in loans due to additional borrowings of MWC and ACEI partly offset by ALI's net payments and AITHI/ACI's lower borrowing due to lower vehicle purchases. This account is at 5% of the total liabilities as of December 31, 2018 and 2017.

Accounts payable and accrued expenses – 21% increase from ₱169,653 million to ₱204,759 million
Increase mainly coming from ALI's trade payables, accrued project and manpower costs; IMI's increase in sales volume driving the vendors payable; and MWC's increase arising from acceleration of projects and accrual of expenses. These were partly offset by AITHI/ACI's and ACEI's lower trade payables. This account is at 28% of the total liabilities as of December 31, 2018 and 2017.

Income tax payable – 99% increase from ₱1,710 million to ₱3,407 million
Increase mainly arising from higher tax payable of ALI group. This account is less than 1% of the total liabilities as of December 31, 2017 and 2016.

[1] The Parent Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Parent Company, governed by a board of trustees appointed under a Trust Agreement between the Parent Company and the initial trustees. It holds common and preferred shares of the Parent Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee include the Parent Company's Chief Finance Officer, Group Head of Corporate Governance, General Counsel, Corporate Secretary and Compliance Officer, Head for Strategic Human Resources, Treasurer and Comptroller. ACEWRF has not exercised voting rights over any shares of the Parent Company that it owns.

Other current liabilities – 60% increase from ₱25,984 million to ₱41,652 million
Excluding the PFRS reclassification, account increase due to ALI's higher customer deposits. This account is at 6% and 4% of the total liabilities as of December 31, 2018 and 2017, respectively.

Long-term debt (current) – 253% increase from ₱13,732 million to ₱48,481 million
Increase in loans due to ALI's additional borrowings for expansion projects and effect of consolidation of MCT; AYC's reclassification of noncurrent long-term debt to current portion and impact of forex translation on outstanding USD debt; and IMI's increase for working capital requirements. These were partly offset by AC's payment of maturing loans. This account is at 7% and 2% of the total liabilities as of December 31, 2018 and 2017, respectively.

Long-term debt (noncurrent) – 6% increase from ₱306,975 million to ₱324,263 million
Increase in loans due to additional borrowings of AC to fund subscription to BPI and IMI SRO and infusions to subsidiaries; ACEI's additional drawdowns for GNPK project and new investments, including impact of forex translation; and MWC's new debt to fund various capital expenditures and projects. These were partly offset by IMI's and ALI's debt payments and AYC's reclassification of noncurrent long-term debt to current portion. This account is at 44% and 50% of the total liabilities as of December 31, 2018 and 2017, respectively.

Service concession obligation (total) – 8% decrease from ₱8,552 million to ₱7,839 million
Decrease was due to periodic payments made by MWC as well as to the reclassification of noncurrent to current account. This account is at 1% of the total liabilities as of December 31, 2018 and 2017.

Deferred tax liabilities – 36% increase from ₱8,108 million to ₱10,999 million
Increase attributable to increase in deferred tax liabilities of ALI. This account is at 2% and 1% of the total liabilities as of December 31, 2018 and 2017, respectively.

Other noncurrent liabilities – 4% increase from ₱45,835 million to ₱47,849 million
Increase primarily due to ALI's higher customer deposits and MWC's higher retentions payable and customer guaranty deposits. This account is at 6% and 7% of the total liabilities as of December 31, 2018 and 2017.

Paid-in capital – 11% increase from ₱75,001 million to ₱83,362 million
Increase attributable to the issuance of common shares to a single long-term institutional investor (see Note 21 of the Notes to Consolidated Financial Statements). This account is at 18% of the total equity as of December 31, 2018 and 2017.

Fair value reserve of financial assets at fair value through other comprehensive income (FVOCI) – 63% decrease from negative ₱1,108 million to negative P1,806 million
Decrease attributable to decline in market value of securities held by BPI group. This account is at less than 1% of the total equity as of December 31, 2018 and 2017.

Cumulative translation adjustments - 18% decrease from ₱2,794 million to ₱2,304 million
Decrease due to higher foreign liabilities of ACEI, AC International Finance Ltd. (ACIFL) and AYC; partly offset by upward impact of higher net asset of BHL, MWC and investment in Globe. Forex of Ph₱ vs US$ amounted to ₱52.58 in December 2018 vs. ₱49.93 in December 2017. This account is at 1% of the total equity as of December 31, 2018 and 2017.

Equity Reserve - 6% decrease from ₱11,600 million to ₱10,872 million
Decrease related to ALI's equity transactions for additional investment in Prime Orion Philippines, Inc, (POPI) and consolidation of MCT; plus impact of AEI's acquisition of remaining minority interest in NTC. This account is at 2% and 3% of the total equity as of December 31, 2018 and 2017, respectively.

Retained earnings – 15% increase from ₱170,302 million to ₱196,381 million
Increase represents share in group net income net of dividends declared. This account is at 42% and 41% of the total equity as of December 31, 2018 and 2017, respectively.

Non-controlling interests – 15% increase from ₱154,745 million to ₱178,347 million
Higher amount represents share in group net income and other comprehensive income net of dividends declared by subsidiaries to its non-controlling interests; plus impact of ALI's consolidation of MCT. This account is at 38% of the total equity as of December 31, 2018 and 2017.

Income Statement items
For the Year Ended December 31, 2018 vs. December 31, 2017

In 2017, the Group changed the presentation of its consolidated statement of income from the single step to the multiple step presentation. This presentation better reflects and distinguishes other income from revenue and other charges from the operating expenses of the Group. Prior years consolidated statements of income have been re-presented for comparative purposes. The change in presentation has no impact on the consolidated net income, equity, cash flows and earnings per share of the Group.

For 2018, the Group classified certain revenues from goods and rendering services to contract revenues, in compliance with provisions of PFRS 15 (see Note 2 of Notes to Consolidated Financial Statements) summarized as follows. Prior years consolidated statements of income have been re-presented for comparative purposes:

IMPACT OF PFRS 15

	For the year 2018			For the year 2017			Inc (dec)	
(in million pesos)	As reported	PFRS 15	Pre - PFRS	As reported	PFRS 15	Pre - PFRS	Pre - PFRS	
Sale of goods & services								
Revenues from customer contracts								
Real estate	**129,415**	(129,415)	-	109,876	(109,876)	-		
Manufacturing services	**69,731**	(69,731)	-	55,028	(55,028)	-		
Water and sewer services	**19,836**	(19,836)	-	18,516	(18,516)	-		
Others	**22,317**	(22,317)	-	30,176	(30,176)	-		
Rental income	**33,582**	(33,582)	-	28,631	(28,631)	-		
Sale of goods	**-**	200,766	200,766	-	178,676	178,676	22,090	
Rendering of services	**-**	73,254	73,254	-	63,552	63,552	9,702	
	274,881	(862) *	274,019	242,228	-	242,228	31,792	13%

**pertains to IMI's adjustment of revenues under PFRS 15.*

Equity in net earnings of associates and joint venture	**20,460**	(96)	20,364	18,494	-	18,494	1,869	10%

The discussion of variances focuses on pre-IFRS balances.

Sale of goods and rendering services – 13% increase from ₱242,228 million to ₱274,881 million
Increase in overall sale of goods and rendering services due to ALI's higher sales coming from all segments; IMI from its Europe, China, Philippines and Mexico units plus contribution of Via; MWC's and ACEI's service revenues arising from consolidation of new subsidiary and its RES unit. As a percentage to total revenue, this account is at 91% in December 31, 2018 and 2017.

Share of profit of associates and joint ventures – 11% increase from ₱18,494 million to ₱20,460 million, of which ₱83.7 million or 4% was due to PFRS reclassification as discussed in item 2 above
Increase coming from Globe's higher revenues; ACEI's share in net earnings of GNPD, Salak-Darajat and UPC Sidrap; MWC's stable earnings from foreign investments; and BPI's increase in NIAT coming from net interest income. These were partly offset by decline in ALI due to consolidation of MCT (previously reported as an associate) and AVHC's share in net losses of Zalora and Mynt. As a percentage to total revenue, this account is at 7% in December 31, 2018 and 2017.

Interest income from real estate – 30% increase from ₱5,410 million to ₱7,042 million
Increase attributable to interest income from ALI group. This account is at 2% of the total revenue in December 31, 2018 and 2017.

Dividend income – 84% decrease from ₱654 million to ₱107 million
Decrease in dividend income arising lower dividend income of AITHI/ACI and partly due to reclassification of accounts by ACEI. This account is at less than 1% of the total revenue in December 31, 2018 and 2017.

Cost of sales and rendering services – 12% increase from ₱175,674 million to ₱196,608 million
Increase in the overall cost of sales and rendering services is aligned with the growth in revenues. As a percentage to total costs and expenses, this account is at 87% in December 31, 2018 and 2017.

General and administrative expenses (GAE) – 18% increase from ₱25,213 million to ₱29,822 million of which P2,283 million or 50% of the increase represent impact of consolidation of new subsidiaries
Increase mainly on combined increments in the group's expenses specifically from: ALI (taxes, contracted services and depreciation plus impact of consolidation of MCT), MWCI (management fees,

manpower-related, selling expenses, provision for doubtful accounts and taxes), AITHI/ACI (mainly impact of consolidation of MT and Merlin), IMI (restructuring costs of Shenzen plant, consolidation of VIA and STI and partial impairment of certain goodwill asset), and AC (higher business development, sustainability and manpower costs. Without the effect of newly consolidated subsidiaries, GAE increased by P2,326 million or 9% year on year. As a percentage to total costs and expenses, this account is at 13% in December 31, 2018 and 2017.

Interest income – 93% increase from ₱1,404 million to ₱2,706 million
Increase mainly coming from interest income from ACEI group.

Interest and other financing charges – 32% increase from ₱14,441 million to ₱19,101 million
Increase due to higher interest expenses of ALI, AC/AYC, IMI, MWC and ACEI as a result of higher debt balance level this year as compared to last year.

Other charges – 17% decrease from ₱11,672 million to ₱9,662 million
Decrease due to MWC's lower rehabilitation works of service concession assets.

Provision for income tax (current and deferred) – 23% increase from ₱12,260 million to ₱15,120 million
Increase primarily due to higher taxable income attributable mainly to ALI's on account of better sales/revenues and better operating results plus ACEI's deferred income tax for GNPK investment.

Income attributable to Owners of the parent – 5% increase from ₱30,264 million to ₱31,818 million
Increase resulting from better operating results of most subsidiaries of the Group.

Income attributable to Non-controlling interests – 19% increase from ₱19,603 million to ₱23,247 million
Increase resulting from better operating results of most subsidiaries of the Group.

2017

Ayala Corporation recorded a net income of ₱30.3 billion in 2017, climbing 16 percent from the previous year on the back of robust double-digit growth of its real estate and power businesses.

Consolidated Sales of Goods and Services

Sales of goods and services climbed 22 percent to ₱242.2 billion, on the back of higher sales in all housing, residential, and condominium units of Ayala Land; strong vehicle sales across AC Industrials' automotive brands; and the improved output of Integrated Micro-Electronics' automotive electronics and industrial segments, as well as the consolidation of its new subsidiary. In addition, higher service revenues from AC Energy, primarily from the consolidation of its new subsidiary and Retail Electricity Supply (RES) unit, as well as from IMI and Manila Water, contributed to this. The account stands at 91 percent of Ayala's total revenues for 2017.

Real Estate

The resurgence of property sales combined with a solid leasing business drove Ayala Land's net earnings during the year, jumping 21 percent to ₱25.3 billion.

Revenues from property development, which includes residential and office-for-sale developments, as well as commercial lot sales, rose 23 percent to ₱101.5 billion on new bookings and project completion. Growth in reservation sales bounced back to double-digit levels during the year at 13 percent, reaching ₱122 billion.

Commercial leasing revenues, meanwhile, grew 10 percent to ₱31 billion driven by new mall openings, stabilized occupancy of office spaces, and the improved performance of its hotels and resorts portfolio.

Ayala Land's strategy to rebalance its net income mix is increasingly taking shape. In terms of location, established estates (Makati, Nuvali, Bonifacio Global City, Alabang and Cebu) accounted for 54 percent, while new estates and growth centers made up for 46 percent of Ayala Land's net earnings in 2017. In terms of business line, Ayala Land's recurring income (mall and office leasing, hotels and resorts, and property management segments) accounted for 35 percent, while development income (property sales and construction) contributed 65 percent of Ayala Land's net income during the year.

Ayala Land spent ₱91.4 billion in capital expenditure during the year. It launched 28 residential projects amounting to ₱88.8 billion. In leasing, it opened five new malls with 189,000 in gross leasable area, and six new offices with 185,000 in gross leasable area. In addition, it opened six new hotel and resort facilities, adding 556 rooms to its portfolio in 2017.

Water

Manila Water posted a muted net income growth of one percent to ₱6.2 billion as higher operating expenses and business development costs tempered topline growth during the year.

Revenues rose five percent to ₱18.5 billion, bolstered by strong revenue contributions from Laguna Water and Boracay Water, as well as higher supervision fees recognized by Estate Water balancing out flat revenue growth in the Manila Concession.

Operating expenses expanded 19 percent to ₱7.4 billion on higher overhead costs owing to Estate Water's expansion, business development costs, and a one-time write-off of uncollectible accounts in Laguna Water.

Manila Water posted higher billed volume across all its business lines, with the non-Manila Concession posting strong double-digit billed volume growth. This brought total billed volume to 738.7 million cubic meters, three percent higher year-on-year. In the Manila Concession, the two percent-increase in billed volume helped offset the impact of tariff reduction.

Manila Water continues to intensify its infrastructure build-up with a 48 percent expansion in capital expenditures. Last year, the Manila Concession completed the Marikina North Sewerage Treatment Plant, while the Pasig North and South System Project is scheduled for completion in November 2019. Both projects have a capacity of 100 million liters per day.

Further, Manila Water received a notice of award from the City of Ilagan Water District to establish a joint venture for a bulk water supply and septage management company. Manila Water also received a notice of award from the Leyte Metropolitan Water District to establish a joint venture for a concession company. As part of its ongoing expansion in Southeast Asia, Manila Water is establishing a footprint in Thailand with the signing of a share purchase agreement in February to acquire an 18.72 percent stake in Eastern Water Resources Development and Management Public Company Limited, a publicly-listed water supply and distribution company in Thailand.

Industrial Technologies

AC Industrials registered a net income of ₱1.2 billion, up four percent from its year-ago level, on the better performance of both its electronics manufacturing and vehicle retail units.

IMI's net earnings expanded 21 percent to US$34 million on the back of solid revenue growth, which exceeded the US$1 billion mark during the year. This topline growth was driven by contribution from recent acquisitions and sustained growth in the automotive and industrial markets.

Last February, IMI successfully completed its ₱4.998 billion rights offer with the issue of 350 million common shares to existing shareholders. AC Industrials, which previously held 50.6 percent of IMI's outstanding shares, subscribed to its proportionate share, as well as any unsubscribed rights shares. This raised its stake in IMI to 52 percent. Proceeds of the rights offer will be used to fund IMI's capital expenditure program and for debt refinancing.

Meanwhile, revenues from AC Automotive expanded 37 percent to ₱31.2 billion, boosted by strong sales across all brands—Honda, Isuzu, Volkswagen, and KTM.

AC Industrials continues to ramp up its portfolio in global and domestic industrial technologies by capitalizing on opportunities arising from disruptive technological shifts, changing industry landscapes, and increasing demand from end-users. Last month, AC Industrials acquired a controlling stake in Merlin Solar Technologies Inc., with an ownership interest of 78.2 percent after the close of the transaction and completion of other related activities. Merlin is an emerging company that is developing differentiated solar solutions resulting in products with high durability, flexibility, and increased solar power output, allowing for potentially innovative applications in areas with demanding environments, such as transportation and infrastructure. Headquartered in San Jose, California, Merlin currently has additional manufacturing facilities in Thailand.

Power Generation

AC Energy's net earnings jumped 31 percent to ₱3.5 billion in 2017, primarily driven by fresh equity earnings contribution from its geothermal platform, and boosted by solid contributions from its wind energy assets.

A strong wind regime bolstered the better performance of NorthWind and North Luzon Renewables during the year. Services income derived from the financial close of a new power plant likewise contributed to AC Energy's net earnings.

AC Energy continues to execute on its diversification strategy. Following the acquisition of Salak and Darajat Geothermal in Indonesia in early 2017, AC Energy is assembling a portfolio of renewable energy assets in Southeast Asia. It is developing a 75 megawatt wind project in Sidrap, Indonesia, which is expected to come online in the first quarter of 2018.

Last January, AC Energy, in partnership with BIM Group of Vietnam, agreed to jointly develop over 300 megawatts of solar power projects in Ninh Thuan province, Vietnam. The initial 30 megawatts of the solar project broke ground, with investment for this phase expected to reach 800 billion VND and to be completed within the year. The solar project is envisioned to be expanded by an additional 300 megawatts.

Similarly, AC Energy is boosting its conventional energy portfolio. Last December, the project financing for the second unit of its 2 x 668 MW super-critical coal fired power plant in Bataan, GNPower Dinginin, achieved financial close. AC Energy has approximately 50 percent economic stake in the project, which has an estimated cost of US$1.7 billion. The project will support the increasing electricity demand of Luzon and Visayas. Construction of the first unit is well underway, and is targeted for commercial operations by 2019, with the second unit scheduled for completion by 2020.

Share of Profit of Associates and Joint Ventures

Share of profits of associates and joint ventures reached ₱18.5 billion, up two percent, primarily on the steady increase of equity earnings from investees of Ayala Land and AC Energy, and the better performance of BPI. This was partially offset by a slight decline in share in earnings from Globe.

Banking

Bank of the Philippine Islands recorded a net income of ₱22.4 billion, up 1.7 percent from its year-ago level, as the absence of one-off gains tempered strong growth in its core banking business during the year. Excluding one-off gains from the sale of securities in 2016, net income grew 31 percent in 2017.

Total revenues rose seven percent to ₱71 billion as net interest income expanded 13 percent to ₱48 billion driven by asset growth and improvement in net interest margin. Non-interest income, meanwhile, dropped five percent to ₱22.9 billion on the absence of significant trading gains registered in 2016. This was partially offset by the bank's higher fee-based income, which grew 16 percent to ₱19.9 billion, lifted by higher credit card fees, trust and investment management fees, insurance fees, bank commissions, and service charges.

BPI continues to be a leader in profitability metrics, with cost-to-income ratio at 54.3 percent, slightly higher from the 52.5 percent posted a year ago, mainly driven by its digitalization initiatives.

Total loans jumped 16 percent to ₱1.2 trillion, boosted by corporate loans. Asset quality improved with the gross 90-day non-performing loans ratio declining from 1.46 percent to 1.29 percent and reserve cover ratio increasing from 119 percent to 129 percent.

Last year, BPI announced the creation of a business banking segment, a new client group focused on the banking needs of the country's small and medium scale enterprises. It also raised a record ₱12.2 billion from its offering of long-term negotiable certificates of time deposit, the largest issuance by far in the industry.

Last January, the bank announced a stock rights offering of up to ₱50 billion to support its strategic initiatives, including the strengthening of its market-leading businesses and core franchises through the expansion of lending activities across consumer, SME, and microfinance segments to capture positive momentum in the domestic economy. In addition, the stock rights offer will strengthen BPI's capital base as it pursues its growth strategy in the medium term. Ayala has signified its participation in the rights offering.

Telecom

Globe Telecom's net earnings dropped five percent to ₱15.1 billion in 2017 due to higher operating expenses and depreciation charges as a result of increased investments in its data network.

Topline growth, however, remains strong, with service revenues reaching ₱127.9 billion during the year, up six percent year-on-year. This was fueled by sustained demand for data-related products. Mobile revenues grew seven percent to ₱98.5 billion. Globe's mobile subscriber base reached 60.7 million at the end of 2017, three percent lower from a year ago. The decline in the cumulative mobile subscriber base was a result of the change in reporting Globe's prepaid subscribers in 2017, which excluded prepaid subscribers who do not reload within 90 days of the second expiry period. Mobile data continues to drive Globe's total mobile revenues, accounting for 44 percent from 38 percent a year ago.

Globe's home broadband segment posted a seven percent increase in revenues to ₱15.6 billion in 2017. Total home broadband subscribers climbed 15 percent to 1.3 million year-on-year, putting Globe on track with its target to provide internet service to two million homes by 2020. Corporate data business increased four percent from a year ago to ₱10.3 billion owing to strong demand for data-driven solutions by corporates.

Globe's consolidated EBITDA improved seven percent to ₱53.3 billion, while EBITDA margin stood at 42 percent from 41 percent in the previous year.

Globe spent around ₱42.5 billion in capital expenditure in 2017 to support its continuous network infrastructure enhancement. It launched new products to enable the Filipino digital lifestyle, including Mynt's rollout of the GCash scan-to-pay system in malls, fast food chains, major retailers, and convenience stores.

Other Income (Charges)

Other income surged 66 percent to ₱20.9 billion in 2017, as compared to ₱12.6 billion in the previous year. This was largely attributed to income from higher rehabilitation works of Manila Water; the reversal of impairment provision for a real estate property and higher management and marketing fees of Ayala Land; commission fees of AC Energy; and gains on disposal of certain investments of AG Holdings. Other charges which pertain to rehabilitation works consequently increased in 2017.

Costs and Expenses

Consolidated cost of sales for the year stood at ₱175.7 billion, a 24 percent increase, brought about by higher sales from the real estate segment, particularly in lots and residential units, AC Industrials' electronic manufacturing and automotive retail businesses, and stronger service revenues of the energy group.

Consolidated general and administrative expenses rose 20 percent to ₱25.2 billion. This was a result of combined increments in the groups expenses, particularly from Ayala Land's contracted services, professional fees, taxes, retirement, and trainings; the parent's, AC Energy's, and Manila Water's manpower, insurance costs, depreciation expenses, as well as Manila Water's AR provisions; AC Industrials' automotive business' marketing and promotional expenses, and IMI's manpower costs and professional and management fees. This also includes the impact of consolidation of IMI and AC Energy's new subsidiaries.

Balance Sheet Highlights

Ayala's balance sheet remains at a healthy level, allowing it to continue supporting its investments and meet its debt and dividend obligations.

Investments in associates and joint ventures rose to ₱202.6 billion, as a result of new investments made by AC Energy, AC Ventures, and Ayala Land. The parent's share in net earnings from BPI and Globe, as well as existing investees of Ayala Land, Manila Water, AC Energy, and AC Infrastructure, also contributed to growth, tempered in part by Bestfull's disposal of certain investments.

Investments in property jumped 24 percent to ₱137.7 billion through the real estate unit's expansion projects in malls, office properties, and select land development. Meanwhile, investments in property and equipment recorded a 33 percent increase to ₱85.4 billion. This was lifted by AC Energy's construction of power plants for GNP Kauswagan, Ayala Land's capex for hotels and resorts, IMI's new capital spending for its Europe and Mexico sites, and Manila Water's expansion projects. The impact from the consolidation of AC Energy's and IMI's new subsidiaries also factored in this account's growth.

At the end of 2017, total debt at the consolidated level stood at ₱350.6 billion, a 19 percent increase from the December 2016 level of ₱295.9 billion. This was due to capital-raising exercises by the parent, AYC, and Ayala Land, as well as borrowings for expansion projects of the real estate, energy, and water segments. Total assets crossed the ₱1 trillion mark in 2017.

Cash at the parent level reached ₱18.6 billion, while net debt stood at ₱64.7 billion. Net debt-to-equity ratio was 0.68 at the consolidated level, and 0.59 at the parent level. Ayala's loan-to-value ratio, or the ratio of the parent net debt to the total value of its investments, was 6.4 percent as of end-December 2017.

Capital Expenditure

Ayala
In 2017, Ayala spent ₱16.1 billion with significant allocation for the expansion plans of its power unit, ACEHI, and AC Industrial's Automotive group. The Company continues to strategically deploy capital across its businesses to explore new avenues of growth.

ALI
Ayala Land spent ₱91.4 billion in capital expenditures, higher than its estimated budget of ₱88.0 billion at the start of 2017, to support the aggressive completion of new projects in its pipeline. 48% was spent on residential projects, 29% on commercial projects, 17% for land acquisition and other investments and 6% for the development of the estates.

MWC
MWC ended 2017 with total capital expenditures of ₱13.03 billion, posting a growth of 48% over the previous year.

Manila Concession spent a total of ₱10.63 billion (inclusive of concession fee payments) for capital expenditures in 2017, 64% more than the ₱6.46 billion spent in the same period the previous year. Of the total amount, 91% was spent on wastewater expansion, network reliability and water supply projects, while the balance of 9% was accounted for by concession fees paid to MWSS.

Meanwhile, total capital expenditures of the domestic subsidiaries grew by 3% to ₱2.41 billion from the ₱2.34 billion spent in 2016. Of the total amount, ₱955 million was used by Laguna Water for its development of new water sources and network expansion, while Boracay Water and Clark Water disbursed ₱464 million and ₱263 million, respectively. Estate Water spent ₱481 million for its greenfield and brownfield projects while the balance was spent by Cebu Water, Tagum Water, Zamboanga Water and MWTS.

IMI
In 2017, IMI spent $65.3 million on capital expenditures as it continues to expand its footprint in higher complex box build offerings, while making disciplined investments to fund its growth initiatives. For 2018, IMI expects additional $75 million of capital expenditures majority of which are new SMT lines for expansions and new businesses, new manufacturing facilities and expansion buildings, innovation and automation, and additional software licenses. These are intended to expand IMI's capacity and support expected increases in demand, as well as to sustain IMI's productivity and efficiency.

ACEHI
In 2017, ACEHI spent ₱17.16 billion in capital expenditures which were partly funded through capital infusions from Ayala Corporation, internally generated funds and long-term borrowings. These investments are geared towards completion of project development in the country, investment tie-ups for offshore energy projects and the recent retail electricity supply area.

Outlook for 2018

2017 marked a year of stronger-than-expected, broad-based economic growth for the world, with a recovery in global trade, investment, and manufacturing. This is expected to continue in the short-term, though medium-term prospects are somewhat more muted. Asia continues to remain a bright spot in the global economy.

The Philippines continues to grow at a healthy pace. Already-robust domestic consumption is expected to increase further, supported by the passage of the first package of the government's tax reform program. Some pockets of uncertainty remain, particularly in external and internal policy that may affect trade, and the local business and investment climate. As such, the group will continue to monitor relevant global and domestic macroeconomic indicators that may have an effect on its businesses.

Ayala remains overall positive about the macroeconomic environment and its prospects for growth as it continues to execute on its five-year growth strategy through 2020.

Ayala maintains a healthy balance sheet with access to various funding options to meet requirements. A robust risk management system allows the company to maximize opportunities for reinvention, and navigate the challenges faced by its business units.

Key performance indicators of the Company and its significant subsidiaries

The table sets forth the comparative key performance indicators of the Company and its significant subsidiaries.

Ayala Corporation (Consolidated)			
(In million pesos, except ratios)	**2017**	**2016**	**2015**
Income	266,786	222,944	193,173
Net Income Attributable to Equity Holders	30,264	26,011	22,279
Total Assets	1,021,546	911,705	794,075
Total Debt	350,612	295,854	263,341
Stockholders' Equity[1]	256,348	230,923	208,657
Current Ratio[2]	1.31	1.22	1.28
Debt to Equity Ratio[3]	1.37	1.28	1.26

Ayala Land, Inc.			
(In million pesos, except ratios)	**2017**	**2016**	**2015**
Revenue	139,373	123,266	105,693
Net Income Attributable to Equity Holders	25,305	20,908	17,630
Total Assets	573,992	536,433	442,342
Total Debt	174,386	159,801	130,996
Stockholders' Equity[1]	166,755	147,705	133,731
Current Ratio[2]	1.18	1.12	1.14
Debt to Equity Ratio[3]	1.05	1.08	0.98

Integrated Micro-Electronics, Inc.			
(In thousand US dollars, except ratios)	**2017**	**2016**	**2015**
Revenue	1,090,588	842,966	814,364
Net Income Attributable to Equity Holders	34,002	28,116	28,790
Total Assets	921,351	639,128	516,535
Total Debt	300,154	180,774	119,899
Stockholders' Equity[1]	273,739	236,606	232,243
Current Ratio[2]	1.28	1.51	1.54
Debt to Equity Ratio[3]	1.10	0.76	0.52

Manila Water Company, Inc.			
(In million pesos, except ratios)	**2017**	**2016**	**2015**
Revenue	18,516	17,712	16,936
Net Income Attributable to Equity Holders	6,147	6,065	5,958
Total Assets	102,482	85,479	80,608
Total Debt	39,724	27,619	26,220
Stockholders' Equity[1]	47,555	43,384	38,825
Current Ratio[2]	1.19	1.10	0.80
Debt to Equity Ratio[3]	0.84	0.64	0.68

[1] Stockholders' Equity attributable to owners of the Parent.
[2] Current Assets/ Current Liabilities.
[3] Total Debt/ Stockholders' Equity[1] (Total Debt includes short-term debt, long-term debt and current portion of long-term debt).

Causes for any material changes
(Increase or decrease of 5% or more in the financial statements)

The audited consolidated financial statements show several significant increases in Balance Sheet and Income Statement accounts (vs. December 31, 2016 balances) relating to the following acquisitions of certain subsidiaries:

1. AC Energy Inc.'s (ACEI's) acquisition of 100% ownership of Visayas Renewable Corp. (VRC) (formerly Bronzeoak Clean Energy), AC Energy DevCo Inc. (AEDCI) (formerly San Carlos Clean Energy), SCC Bulk Water Supply, Inc. (SCC) and Solienda, Inc. (Solienda) and 66% in Manapla Sun Power Development Corp. (MSPDC);
2. IMI's acquisition of 80% stake in Surface Technology International Enterprises Limited (STI); and
3. AC Industrial's acquisition of 94.9% ownership of MT Misslbeck Technologies Gmbh.

Balance Sheet Items
As of December 31, 2017 vs. December 31, 2016

Cash and cash equivalents – 7% increase from ₱60,223 million to ₱64,259 million
Increase arising from: issuance of bonds by AC's P10.0B and AYC's USD 400M fixed for life (FFL) – both used for pre-termination of more expensive loans, infusion into Energy projects and new investment initiatives (Zalora & Mynt); ALI's P7.0B Homestarter bonds and LT debt drawdowns to fund expansion projects/ property acquisition and ST loan payments; MWC's new loans to fund maturing loans, CAPEX and expansion projects; ACI/Automotive's higher sales; and IMI's consolidation of a subsidiary. This account is at 6% and 7% of the total assets as of December 31, 2017 and 2016, respectively.

Short-term investments – 435% increase from ₱1,009 million to ₱5,400 million
Increase due to increase in ALI's investments partially offset by AYC's maturity of short-term investments. This account is at less than 1% of the total assets as of December 31, 2017 and 2016.

Accounts and notes receivable (current) – 6% increase from ₱116,842 million to ₱124,109 million
Increase resulting from surge in sales and impact of consolidation of new subsidiary of IMI; higher sales of ACI/ Automotive; ACEHI's impact of consolidation of new subsidiary and RES business; and higher sales in ALI less sale of receivables to banks and reclassification of receivables to noncurrent; partially offset by MWC's decline due to provisions. This account is at 12% and 13% of the total assets as of December 31, 2017 and 2016, respectively.

Other Current Assets – 35% increase from ₱33,638 million to ₱45,325 million
Increase pertains to ALI group's higher input tax, prepayments and project costs; ACEHI's and IMI's higher prepayments and input taxes; BHL's additional infusion in certain FVPL investments; and reclassification of AC Education's total assets into other current assets held for sale following the announcement of a potential merger transaction. This account is at 4% of the total assets as of December 31, 2017 and 2016.

Accounts and notes receivable (non-current) – 25% increase from ₱36,484 million to ₱45,774 million
Increase attributable to ALI's growth in real estate sales, following the introduction of new longer payment terms resulting to the reclassification of trade receivables from current accounts. This account is at 4% of the total assets as of December 31, 2017 and 2016.

Investments in associates & joint ventures – 12% increase from ₱180,314 million to ₱202,649 million
Growth was attributable to new and additional investments of ACEHI (Chevron and UPC Sidrap units), AC Ventures (Zalora and Mynt accounts) and ALI (Eton); plus share in net earnings from BPI, Globe, and from existing investees of ALI, MWCI, ACEHI, Infra groups; partially offset by BHL's partial disposal of investments (Vinaphil/ CII). This account is at 20% of the total assets as of December 31, 2017 and 2016.

Investment Properties – 24% increase from ₱110,917 million to ₱137,658 million
Increase related to ALI group's expansion projects mainly on malls, office properties and certain land development. This account is at 13% and 12% of the total assets as of December 31, 2017 and 2016, respectively.

Property, plant and equipment – 33% increase from ₱64,074 million to ₱85,431 million
Increase coming from ACEHI's construction of power plants for GNP Kauswagan's coal investment; ALI's capital expenditures for its hotels and resorts operations; IMI's new capex for Europe and Mexico

sites; and MWC's expansion project; plus impact of consolidation of new subsidiaries of ACEHI, IMI and ACI/Automotive. This account is at 8% and 7% of the total assets as of December 31, 2017 and 2016, respectively.

Service concession assets – 10% increase from ₱82,422 million to ₱91,050 million
Increase attributable to MWC's additional service concession assets. This account is at 9% of the total assets as of December 31, 2017 and 2016.

Intangible assets – 72% increase from ₱9,716 million to ₱16,705 million
Higher balance pertains to goodwill arising from new investments: IMI's Via and STI acquisitions (net of ₱2.9B), ACEHI's acquisitions in VRC, AEDCI, SCC, Solienda and MSPDC (₱2.2B), and BHL's intangibles (₱0.6B); plus ALI's incremental leasehold rights (₱0.9B). This account is at 2% and 1% of the total assets as of December 31, 2017 and 2016, respectively.

Other noncurrent assets - 22% decrease from ₱25,847 million to ₱20,054 million
Decrease due to ALI's decline in advances/project development costs; ACEHI's use of cash deposit to fund investment in an associate; BHL's net disposal of investment; partially offset by MWC's increase in relation to deposit for land acquisition. The account also includes the Group's pension asset amounting to ₱98 million.[2] This account is at 2% and 3% of the total assets as of December 31, 2017 and 2016, respectively.

Income tax payable – 25% decrease from ₱2,270 million to ₱1,710 million
Decline mainly arising from lower tax payable of ALI group. This account is less than 1% of the total liabilities as of December 31, 2017 and 2016.

Long-term debt (current) – 31% decrease from ₱19,793 million to ₱13,732 million
Decrease on account of AC's settlement of bonds due 2017; partially offset by increase in loans due to additional borrowings of ALI, MWC and ACEHI including impact of revaluation of certain foreign currency denominated loans and reclassification from noncurrent account. This account is at 2% and 4% of the total liabilities as of December 31, 2017 and 2016, respectively.

Service concession obligation (current) – 7% increase from ₱754 million to ₱804 million
Increase was due to MWCI's higher computed and actual obligation due within one year. This account is at less than1% of the total liabilities as of December 31, 2017 and 2016.

Other current liabilities – 48% increase from ₱17,523 million to ₱25,984 million
Increase due to ALI's and ACI/ Automotive's higher customer deposits; impact of consolidation of new subsidiaries of IMI; and AC Ventures' subscription payable for new investments. This account is at 4% and 3% of the total liabilities as of December 31, 2017 and 2016, respectively.

Long-term debt (noncurrent) – 25% increase from ₱245,203 million to ₱306,975 million
Increase contributed by bond issuance of AC, AYC and ALI including the latter's long-term notes; plus long-term borrowings for expansion projects of ALI, ACEHI and MWC. This account is at 50% and 45% of the total liabilities as of December 31, 2017 and 2016, respectively.

Service concession obligation (non-current) – 14% increase from ₱6,823 million to ₱7,748 million
Increase was due to MWCI's higher computed actual obligation. This account is at 1% of the total liabilities as of December 31, 2017 and 2016.

Deferred tax liabilities – 15% decrease from ₱9,544 million to ₱8,108 million
Decrease attributable to ALI's and MWC's groups decrease in DTL. This account is at 1% and 2% of the total liabilities as of December 31, 2017 and 2016, respectively.

Pension liabilities[1] – 5% increase from ₱2,469 million to ₱2,601 million
Increase due to net adjustment in deferred tax of ACI/Automotive and AC. This account is at less than 1% of the total liabilities as of December 31, 2017 and 2016.

[2] The Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Company, governed by a board of trustees appointed under a Trust Agreement between the Company and the initial trustees. It holds common and preferred shares of the Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee, all of whom are Managing Directors of the Company, are Jose Teodoro K. Limcaoco. (the Company's Chief Finance Officer, Chief Risk Officer & Finance Group Head), Solomon M. Hermosura (the Company's Group Head of Corporate Governance, General Counsel, Corporate Secretary & Compliance Officer), John Philip S. Orbeta (the Company's Head for Strategic Human Resources), Ma. Cecilia T. Cruzabra (the Company's Treasurer), and Josephine G. de Asis (the Company's Comptroller). ACEWRF has not exercised voting rights over any shares of the Company that it owns.

Other noncurrent liabilities – 6% increase from ₱40,870 million to ₱43,234 million
Increase primarily due to ALI's higher real estate deposits; and IMI's higher balances arising from consolidation of new subsidiaries; partially offset by MWC's reclassification of deposit to accounts payable account. This account is at 7% and 8% of the total liabilities as of December 31, 2017 and 2016, respectively.

Cost of share based payments – 50% decrease from ₱496 million to ₱248 million
Additions from exercise of stock ownership plans granted during the period was reduced by the adjustment on cost of share based recognized in 2017 following the change on certain valuation assumptions to align with same changes in the stock ownership plan of AC. This account is at less than 1% of the total equity as of December 31, 2017 and 2016.

Remeasurement gains (losses) on defined benefit plan – 16% increase from negative ₱1,548 million to negative ₱1,303 million
Increase attributable to the effect of PAS 19- immediate recognition of service cost and re-measurement of unrealized actuarial gains/losses.

Net unrealized gains (losses) on available-for-sale financial assets – 137% decline from negative ₱467 million to negative ₱1,108 million
Decline pertains mainly to realized gain recognized in P&L by BHL and AC upon disposal of certain AFS investments; partially offset by increase in the market value of securities held by BPI group as AFS financial assets. This account is at less than 1% of the total equity as of December 31, 2017 and 2016.

Cumulative translation adjustments - 98% increase from ₱1,415 million to ₱2,794 million
Increase due to upward impact of net foreign assets, significantly coming from ALI, IMI, ACI/Automotive groups and ACIFL and BHL. Forex of Ph₱ vs US$ increased causing higher CTA figure *(₱49.93 in December 2017 vs. ₱49.72 in December 2016).* This account is at less than 1% of the total equity as of December 31, 2017 and 2016.

Equity Reserve - 5% decrease from ₱12,211 million to ₱11,600 million
Decrease related to equity transactions for investments of ALI (POPI and CHI) and IMI (STI). This account is at 3% of the total equity as of December 31, 2017 and 2016.

Retained earnings – 17% increase from ₱145,622 million to ₱170,302 million
Increase represents share in full year 2017 group net income net of dividends declared. This account is at 41% and 39% of the total equity as of December 31, 2017 and 2016, respectively.

Non-controlling interests – 10% increase from ₱140,073 million to ₱154,745 million
Higher amount represents share in full year 2017 group net income and OCI net of dividends declared by subsidiaries to its non-controlling interests. This account is at 38% of the total equity as of December 31, 2017 and 2016.

Income Statement items
For the Period Ended December 31, 2017 vs. December 31, 2016

In 2017, the Group changed the presentation of its consolidated statement of income from the single step to the multiple step presentation. This presentation better reflects and distinguishes other income from revenue and other charges from the operating expenses of the Group. Prior years consolidated statements of income have been re-presented for comparative purposes. The change in presentation has no impact on the consolidated net income, equity, cash flows and earnings per share of the Group in 2016 and 2015.

Sale of goods and rendering services – 22% increase from a total of ₱199,209 million to ₱242,228 million
Growth in sale of goods came primarily from higher sales of: ALI group (higher lot sales, all segment of housing, residential and condo units); IMI group (consolidation of its new subsidiary and better output of its automotive electronics and industrial segments); and ACI/ Automotive group (vehicle sales across brands plus notable sales for motorcycles). Higher revenues from rendering of services of ACEHI group primarily coming from consolidation of new subsidiary and its RES unit; and higher revenues of IMI and MWCI. As a percentage to total income, this account is at 84% in December 31, 2017 and 2016.

Dividend and other income – 64% increase from ₱13,146 million to ₱21,592 million
Increase due to MWC's higher rehabilitation works (₱5.0B increase); ALI's reversal of impairment

provision for a real estate property based on latest appraisal report, higher management, marketing fees and investment related gain (₱1.7B increase); IMI's forex gain and MTM valuation of certain investment account (₱652M increase); BHL's divestments gain (₱544M increase); ACEHI's fee from services rendered that marked the financial closing and construction of power project and higher dividend income (₱266M increase). This account is at 7% and 6% of the total income in December 31, 2017 and 2016, respectively.

Cost of sales and rendering services – 24% increase from ₱141,350 million to ₱175,674 million
Increase resulting from higher sales of ALI arising from lot sales and residential units, and higher sales of IMI and ACI/Automotive group and higher service revenues of ACEHI. As a percentage to total costs and expenses, this account is at 77% in December 31, 2017 and 2016.

General and administrative expenses – 20% increase from ₱20,933 million to ₱25,213 million
Increase mainly on combined increments in the group's expenses specifically from: ALI (contracted services, professional fees, taxes, retirement and trainings), AC, ACEHI and MWC (manpower, insurance costs, depreciation expenses plus AR provisions for MWCI), ACI/ Automotive (marketing and promo expenses) and IMI (manpower costs, professional/ management fees) including impact of consolidation of new subsidiaries of IMI and ACEHI. As a percentage to total costs and expenses, this account is at 11% in both December 31, 2017 and 2016.

Other charges – 72% increase from ₱6,805 million to ₱11,672 million
Increase due to higher rehabilitation works costs of MWC. As a percentage to total costs and expenses, this account is at 5% and 4% both in December 31, 2017 and 2016, respectively.

Provision for income tax (current and deferred) – 17% increase from ₱10,507 million to ₱12,260 million
Increase primarily due to higher taxable income of several subsidiaries significant portion is attributable to ALI group on account of better sales and other operating results.

Income attributable to Owners of the parent – 16% increase from ₱26,011 million to ₱30,264 million
Increase resulting from better performance of most subsidiaries of the Group.

Income attributable to Non-controlling interests – 12% increase from ₱17,421 million to ₱19,603 million
Increase resulting from better operating results of most of the subsidiaries of the Group.

Item 7. Financial Statements and Supplementary Schedules

The consolidated financial statements and schedules as listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17 A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There were no disagreements with SGV & Co. on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure.

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new and amended Philippine Financial Reporting Standards (PFRS) and the Philippine Accounting Standards (PAS) and Interpretations issued by the Philippine Interpretations Committee (PIC) which became effective beginning January 1, 2018. Extensive discussions are made in the Group's financial statements for PFRS 15 and 9, PIC Q&A on Land Classification, and PIC Q&A on Advances to Contractors, as all these standards have significant impact on the Group. The Group will also adopt several amended and revised standards and interpretations in the coming years 2019, 2020 and 2021.

Please refer to Note 3 of the attached Company's audited financial statements on the Summary of Significant Accounting Policies for the accounting of the new PFRS, PAS and PIC which became effective in 2018 and new PFRS and PIC that will be effective in 2019, 2020 and 2021.

Information on Independent Public Accountant

a. The external auditor of the Company is the accounting firm of SyCip, Gorres, Velayo & Company (SGV & Co.). The Board, upon the recommendation of the Company's Audit Committee (with Mr.

Loinaz as Chairman and Messrs. Del Rosario, Jr. and Matsunaga as members), approved the re-appointment of SGV & Co. as the Company's independent auditor for 2019 based on its performance and qualifications, and fixed its remuneration amounting to ₱5.77 million, inclusive of value-added tax.

The re-appointment of SGV & Co., and the fixing of its remuneration will be presented to the stockholders for their approval at the annual stockholders' meeting.

b. Representatives of SGV & Co. for the current year and for the most recently completed fiscal year are expected to be present at the annual stockholders' meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Pursuant to the General Requirements of SRC Rule 68 (2011 Amended), Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor, and Ms. Lucy L. Chan is the Partner In-Charge starting audit year 2016 given the required audit partner rotation every five years.

External Audit Fees and Services

The Company paid or accrued the following fees, including VAT, to its external auditor in the past two years:

	Audit Fees	Audit-related Fees	Tax Fees	Non-Audit Fees
2018	₱5.99M	₱4.93M	-	₱0.12M
2017	₱5.43M	₱5.54 M	-	₱0.12M

SGV & Co. was engaged by the Company to audit its annual financial statements and midyear review of financial statements in connection with the statutory and regulatory filings or engagements for the years ended 2018 and 2017. The audit-related fees include assurance and services that are reasonably related to the performance of the audit or review of the Company's financial statements pursuant to the regulatory requirements.

No tax consultancy services were secured from SGV & Co. for the past two years.

In 2017 and 2018, SGV & Co. billed the Company a fee of ₱.12M for the validation of stockholders' votes during the annual stockholders' meeting each year.

The Audit Committee reviewed the nature of non-audit services rendered by SGV & Co. and the corresponding fees and concluded that these are not in conflict with the audit functions of the independent auditor.

The Audit Committee has an existing policy to review and to pre-approve the audit and non-audit services rendered by the Company's independent auditor. It does not allow the Company to engage the independent auditor for certain non-audit services expressly prohibited by regulations of the SEC to be performed by an independent auditor for its audit clients. This is to ensure that the independent auditor maintains the highest level of independence from the Company, both in fact and appearance.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

The following persons have been nominated to the Board for election at the annual stockholders' meeting and have accepted their respective nominations:

JAIME AUGUSTO ZOBEL DE AYALA	FERNANDO ZOBEL DE AYALA
KEIICHI MATSUNAGA	XAVIER P. LOINAZ
RAMON R. DEL ROSARIO, JR.	ANTONIO JOSE U. PERIQUET
DELFIN L. LAZARO	

The nominees were formally nominated to the Corporate Governance and Nomination Committee of the Board by a minority shareholder of the Company, Ms. Maria Angelica B. Estacio, who holds 1,383 common shares, or 0.0002% of the total outstanding voting shares of the Company, and who is not related to any of the nominees. Messrs. Ramon R. del Rosario, Jr., Xavier P. Loinaz and Antonio Jose U. Periquet, all incumbent directors, are being nominated as independent directors in accordance with SRC Rule 38 (Requirements on Nomination and Election of Independent Directors). The Corporate Governance and Nomination Committee evaluated the qualifications of all the nominees and prepared the final list of nominees in accordance with the Amended By-Laws and the Charter of the Board of Directors of the Company.

Only nominees whose names appear on the final list of candidates are eligible for election as directors. No nominations will be entertained or allowed on the floor during the annual stockholders' meeting.

All nominees, except for Mr. Matsunaga, have served as directors of the Company for more than five years. Mr. Matsunaga has served for two years.

The officers of the Company are elected annually by the Board during its organizational meeting.

A summary of the qualifications of the incumbent directors, who are all nominees for directors for election at the stockholders' meeting and incumbent officers, including positions held as of December 31, 2018 and in the past five years and personal data as of December 31, 2018, of directors and executive officers, is set forth below.

<u>Board of Directors</u>

Jaime Augusto Zobel de Ayala	Chairman and Chief Executive Officer
Fernando Zobel de Ayala	President and Chief Operating Officer
Delfin L. Lazaro	Non-Executive Director
Keiichi Matsunaga	Non-Executive Director
Xavier P. Loinaz	Lead Independent Director
Ramon R. del Rosario, Jr.	Independent Director
Antonio Jose U. Periquet	Independent Director

Jaime Augusto Zobel de Ayala, Filipino, 59, Director of Ayala Corporation since May 1987. He is the Chairman and CEO of Ayala Corporation since April 2006. He holds the following positions in publicly listed companies: Chairman of Globe Telecom, Inc., Integrated Micro-Electronics, Inc. and Bank of the Philippine Islands; and Vice Chairman of Ayala Land, Inc. and Manila Water Company, Inc. He is also the Chairman of AC Education, Inc., Ayala Retirement Fund Holdings, Inc., AC Industrial Technology Holdings, Inc., AC Ventures Holding Corp., AC Infrastructure Holdings Corporation and Asiacom Philippines, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Light Rail Manila Holdings, Inc. and AG Holdings Ltd. Outside the Ayala group, he is a member of various business and socio-civic organizations in the Philippines and abroad, including the JP Morgan International Council, JP Morgan Asia Pacific Council, Mitsubishi Corporation International Advisory Council, and Council on Foreign Relations. He sits on the board of the Singapore Management University, the global advisory board of University of Tokyo, and on various advisory boards of Harvard University, including the Global Advisory Council, HBS Board of Dean's Advisors, and HBS Asia-Pacific Advisory Board, which he chairs. He is Chairman Emeritus of the Asia Business Council, Co-Vice Chairman of the Makati Business Club, Chairman of Endeavor Philippines, and a board member of Eisenhower Fellowships. He was awarded the Presidential Medal of Merit in 2009, the Philippine Legion of Honor with rank of Grand Commander in 2010, and the Order of Mabini with rank of Commander in

2015 by the President of the Philippines in recognition of his outstanding public service. In 2017, he was recognized as a United Nations Sustainable Development Goals Pioneer for his work in sustainable business strategy and operations. The first recipient of the award from the Philippines, he was one of 10 individuals recognized for championing sustainability and the pursuit of the 17 SDGs in business. He graduated with B.A. in Economics (Cum Laude) from Harvard College in 1981 and obtained an MBA from the Harvard Graduate School of Business in 1987.

Fernando Zobel de Ayala*,* Filipino, 58, Director of Ayala Corporation since May 1994. He is the President and Chief Operating Officer of Ayala Corporation since April 2006. He holds the following positions in publicly listed companies: Chairman of Ayala Land, Inc. and Manila Water Company, Inc.; and Director of Bank of the Philippine Islands, Globe Telecom, Inc. and Integrated Micro-Electronics, Inc.; and Independent Director of Pilipinas Shell Petroleum Corporation. He is the Chairman of AC International Finance Ltd., ALI Eton Property Development Corporation, Liontide Holdings, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Automobile Central Enterprise, Inc., Alabang Commercial Corporation, Accendo Commercial Corp. and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Vice-Chairman of AC Industrial Technology Holdings, Inc., Aurora Properties Incorporated, Vesta Property Holdings, Inc., Ceci Realty Inc., Fort Bonifacio Development Corporation, Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc., Berkshires Holdings, Inc. AKL Properties, Inc., AC Ventures Holdings Corp., and Bonifacio Art Foundation, Inc.; Director of LiveIt Investments, Ltd., AG Holdings Ltd., AC Infrastructure Holdings Corporation, Asiacom Philippines, Inc., Ayala Retirement Fund Holdings, Inc., AC Education, Inc. Honda Cars Philippines, Inc., Isuzu Philippines Corporation, and Manila Peninsula; Member of the Board of INSEAD and Georgetown University; Member of the International Advisory Board of Tikehau Capita; Member of the Philippine-Singapore Business Council, INSEAD East Asia Council, World Presidents' Organization; and Chief Executives Organization; Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, and the National Museum. He graduated with B.A. Liberal Arts at Harvard College in 1982 and holds a CIM from INSEAD, France.

Delfin L. Lazaro, Filipino, 72, Non-Executive Director of Ayala Corporation since January 2007. He holds the following positions in publicly listed companies: Director of Ayala Land, Inc., Integrated Micro-Electronics, Inc., Manila Water Company, Inc., and Globe Telecom, Inc. His other significant positions include: Chairman of Atlas Fertilizer & Chemicals Inc., Chairman and President of A.C.S.T. Business Holdings, Inc.; Vice Chairman and President of Asiacom Philippines, Inc.; Director of AC Industrial Technology Holdings, Inc., AYC Holdings, Ltd.., AC International Finance, Ltd., Purefoods International Limited and Probe Productions, Inc. He graduated with BS Metallurgical Engineering at the University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

Keiichi Matsunaga**,** Japanese, 54, has been a Director of Ayala Corporation since April 2017. He is the General Manager of Mitsubishi Corporation Manila Branch. Currently, he is also the Chairman of International Elevator & Equipment Inc.; President of MC Diamond Realty Investment Phils., MC Oranbo Investment, MC Cavite Holdings, Inc., FMT Kalayaan, Inc.; and Director of Century City Development II Corporation (CCDC II), Isuzu Philippines Corporation, Kepco Ilijan Corporation, Trans World Agro-Products Corp., Portico Land Corp., Japanese Chamber of Commerce & Industry of the Philippines (JCCIPI) and The Japanese Association Manila, Inc. (JAMI). He is not a director of any publicly listed company in the Philippines other than Ayala Corporation. He entered Mitsubishi Corporation after graduating from the Faculty of Law at Waseda University in 1988 and has since held various leadership positions.

Xavier P. Loinaz*,* Filipino, 75, Independent Director of Ayala Corporation since April 2009. He has been our Lead Independent Director since April 2017. He is also an Independent Director of the Bank of the Philippine Islands, a publicly listed company. He also holds the following positions: Independent Director of BPI Family Savings Bank, Inc., and BPI/MS Insurance Corporation; Trustee of E. Zobel Foundation; Chairman of Alay Kapwa Kilusan Pangkalusugan and XPL Manitou Properties, Inc.; and Vice Chairman of XPL MTJL Properties, Inc. He was formerly the President of the Bank of the Philippine Islands (BPI) from 1982 to 2004. He was also the President of Bankers Association of the Philippines from 1989 to 1991. He graduated with an AB Economics degree at Ateneo de Manila University in 1963 and took his MBA-Finance at Wharton School, University of Pennsylvania in 1965.

Ramon R. del Rosario, Jr., Filipino, 74, Independent Director of Ayala since April 2010. He holds the following positions in publicly listed companies: President and Chief Executive Officer of Phinma Corporation; Chairman of PHINMA Energy Corp. and PHINMA Petroleum and Geothermal, Inc. He is the President and Chief Executive Officer of Philippine Investment Management, Inc.; Chairman of Araullo University, University of Iloilo, University of Pangasinan, Cagayan de Oro College, Southwestern University, St. Jude College, United Pulp and Paper Co., Inc., PHINMA Power Generation Corporation, PHINMA Renewable Energy Corp., One Subic Power Generation Corp., PHINMA Microtel Hotels, Inc. and PHINMA Hospitality, Inc. He is Vice-Chairman of Phinma Foundation, Inc. and Phinma Property Holdings Corp.; Director of Union Galvasteel Corp. and other PHINMA managed companies. He is the Chairman of Philippine Business for Education; and Vice-Chairman of Caritas Manila and Philippine Business for Social Progress. He is a former chairman of the National Museum of the Philippines, Ramon Magsaysay Award Foundation and Makati Business Club, where he remains a Trustee. Mr. del Rosario graduated from De La Salle College in 1967 with degrees in BSC-Accounting and AB Social Sciences Magna cum Laude a*nd* from Harvard Business School in 1969 for a Master in Business Administration degree. He has managed Phinma since 2002 and brings with him a wealth of experience in leading a diversified conglomerate.

Antonio Jose U. Periquet, Filipino, 57, Independent Director of Ayala Corporation since September 2010. He is the chairman of Campden Hill Group, Inc., and of BPI Asset Management and Trust Corporation. He also sits as an independent director of publicly listed companies such as Bank of the Philippine Islands, ABS-CBN Corporation, DMCI Holdings, The Max's Group of Companies and The Philippine Seven Corporation. He is also an independent director of Albizia ASEAN Tenggara Fund. Mr. Periquet is a trustee of Lyceum of the Philippines University and a member of the Dean's Global Advisory Council at the University of Virginia's Darden School of Business. He graduated with an AB Economics degree at Ateneo de Manila University in 1982 and took his Masters of Science in Economics at the Oxford University, UK in 1988 and Masters in Business Administration at University of Virginia, USA in 1990.

Nominees to the Board of Directors for election at the stockholders' meeting

All the nominees are incumbent directors.

Ayala Group Management Committee Members / Senior Leadership Team

*/***	Jaime Augusto Zobel de Ayala	Chairman and Chief Executive Officer
*/***	Fernando Zobel de Ayala	Vice Chairman, President and Chief Operating Officer
**	Cezar P. Consing	Senior Managing Director, President and CEO of Bank of the Philippine Islands
**	Bernard Vincent O. Dy	Senior Managing Director, President and CEO of Ayala Land, Inc.
**	Arthur R. Tan	Senior Managing Director, CEO of Integrated Micro-Electronics, Inc., and President and CEO of AC Industrial Technology Holdings, Inc.
**	Ernest Lawrence L. Cu	President and CEO of Globe Telecom, Inc.
**	Ferdinand M. dela Cruz	Managing Director,President and CEO of Manila Water Company, Inc.
***	Jose Rene Gregory D. Almendras	Managing Director, Public Affairs Group Head, President and CEO of AC Infrastructure Holdings Corporation
**	Alfredo I. Ayala	Managing Director, President and CEO of AC Education, Inc.
***	Paolo Maximo F. Borromeo	Managing Director, Corporate Strategy and Development Group Head, President and CEO of Ayala Healthcare Holdings, Inc.
***	John Eric T. Francia	Managing Director, President and CEO of AC Energy, Inc.
***	Solomon M. Hermosura	Managing Director, Chief Legal Officer, Corporate Secretary, Chief Compliance Officer, Data Protection Officer, and Corporate Governance Group Head
***	Jose Teodoro K. Limcaoco	Managing Director, Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer, and Finance Group Head
**	Ruel T. Maranan	Managing Director, President of Ayala Foundation, Inc.
***	John Philip S. Orbeta	Managing Director, Chief Human Resource Officer, and Corporate Resources Group Head
	Catherine H. Ang	Executive Director and Chief Audit Executive
	Estelito C. Biacora	Executive Director and Treasurer
	Josephine G. De Asis	Executive Director and Controller
	Dodjie D. Lagazo	Assistant Corporate Secretary
	Joanne M. Lim	Assistant Corporate Secretary

** Members of the Board of Directors.*
*** Ayala Group Management Committee members.*
**** Ayala Corporation Management Committee and Ayala Group Management Committee members*

Cezar P. Consing, Filipino, 59, is a Senior Managing Director of Ayala Corporation and has been a member of the Ayala Group Management Committee since April 2013. He has been the President and CEO of Bank of the Philippine Islands, one of the Ayala Group's publicly listed companies, since April 2013. He also holds the following positions in other publicly listed companies: Independent Director of Jollibee Foods Corporation and Chairman of National Reinsurance Corporation of the Philippines. His other significant positions are: President of Bancnet, Inc., Director of LGU Guarantee Corporation, Filgifts.com., The Rohatyn Group, Sqreem Technologies and Endeavor Philippines. He is also a board director of the US-Philippines Society, trustee of the Manila Golf Club Foundation, and a member of the Trilateral Commission. He served as an independent director of CIMB Group Holdings from 2006 to 2013 and First Gen Corporation from 2005 to 2013. Prior to being President of BPI, he first worked for BPI's corporate planning and corporate banking from 1980 - 1985. He worked for J.P. Morgan & Co. in Hong Kong and Singapore from 1985 – 2004 and became the co-head of the firm's investment banking business in Asia Pacific from 1997 – 2004 and President of J.P. Morgan Securities (Asia Pacific) Ltd. As a senior Managing Director of J.P. Morgan, he served as a member of the firm's global investment banking management committee and its Asia Pacific management committee. He was a partner at The Rohatyn Group from 2004 – 2013, ran its Hong Kong office and its private investing business in Asia, and was a board director of its real estate, and energy and infrastructure private equity investing subsidiaries. He graduated with a degree of A.B (Accelerated Program) Economics (Magna Cum Laude) from De La Salle University in 1979 and M.A. Applied Economics from the University of Michigan, Ann Arbor, in 1980.

Bernard Vincent O. Dy, Filipino, 55, is a Senior Managing Director of Ayala Corporation and has been a member of the Ayala Group Management Committee since April 2014. He is the President and Chief Executive Officer of Ayala Land, Inc. (ALI). Prior to this post, he was the Head of the Residential Business, Commercial Business and Corporate Marketing and Sales of ALI. He also holds the following positions in other publicly listed Companies: Chairman of Prime Orion Philippines, Inc. and Director of Cebu Holdings, Inc. and MCT Bhd of Malaysia. His other significant positions include: Chairman of Alveo Land Corp., Ayala Property Management Corporation, Makati Development Corporation, Amaia Land Corporation, Avencosouth Corp., AyalaLand Commercial Reit, Inc., Bellavita Land Corporation, Ayagold Retailers, Inc., Station Square East Commercial Corporation, Aviana Development Corp., Cagayan De Oro Gateway Corp., BGSouth Properties, Inc., BGNorth Properties, Inc., BGWest Properties, Inc., Nuevocentro, Inc., Portico Land Corp. and Philippine Integrated Energy Solutions, Inc.; Vice Chairman of Ayala Greenfield Development Corporation and Alviera Country Club, Inc.; Director and President of Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc., Berkshires Holdings, Inc., Fort Bonifacio Development Corporation, Aurora Properties Incorporated, Vesta Property Holdings, Inc., Ceci Realty Inc., Alabang Commercial Corporation and Accendo Commercial Corp.; President of the Hero Foundation Incorporated and Bonifacio Art Foundation, Inc.; Director of Avida Land Corp., Amicassa Process Solutions, Inc., Whiteknight Holdings, Inc., AyalaLand Medical Facilities Leasing, Inc., Serendra, Inc., Alveo-Federal Land Communities, Inc., ALI Eton Property Development Corporation and AKL Properties, Inc.; Trustee of Ayala Foundation, Inc. and Ayala Group Club, Inc. In 2015, he was inducted as member of the Advisory Council of the National Advisory Group for the Police Transformation Development of the Philippine National Police. He earned a degree of B.B.A Accountancy from the University of Notre Dame in 1985. He also received his Master's Degree in Business Administration in 1997 and in International Relations in 1989, both at the University of Chicago.

Arthur R. Tan, Filipino, 59, has been a Senior Managing Director of Ayala Corporation since January 2007 and has been a member of the Ayala Group Management Committee since 2002. He has been the Chief Executive Officer of Integrated Micro-Electronics, Inc. (IMI), a publicly listed company, since April 2002. He is also the Group President and Chief Executive Officer of AC Industrial Technology Holdings, Inc. Concurrently, he is also the Chairman of the Board and Chief Executive Officer of PSi Technologies Inc. and Merlin Solar Technologies (Phils.), Inc.; President and Chief Executive Officer of Speedy-Tech Electronics Ltd.; Chairman of the Board of Surface Technology International (STI), Ltd., Chairman of the Advisory Board of Via Optronics GmbH and MT Technologies GmbH. He was the President of IMI from April 2002 to June 23, 2016. Prior to IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts, USA), from 1994 to 1998, of which he became the Managing Director for Asia Pacific Region/Japan from 1998 to 2001. He graduated with B.S. in Electronics Communications Engineering degree from Mapua Institute of Technology in 1982 and attended post-graduate programs at the University of Idaho, Singapore Institute of Management, IMD and Harvard Business School.

Ernest Lawrence L. Cu, Filipino, 58, has been a member of the Ayala Group Management Committee since January 2009. He is the President and Chief Executive Officer of Globe Telecom, Inc., a publicly listed company. He is a trustee of Ayala Foundation, Inc. and Hero Foundation, Inc. Prior to joining Globe, he was the President and CEO of SPI Technologies, Inc. In 2017, he was adjudged Best CEO by Finance Asia. A second for Cu, he first received the award in 2010. Also in 2017, for the fifth straight year, Cu was recognized as one of the 100 most influential telecom leaders worldwide by London-based Global-Telecoms Business Magazine Power 100. Frost & Sullivan Asia Pacific has also named him CEO of the Year twice, first in 2012, and again in 2017. He earned a degree in BS Industrial Management Engineering from De La Salle University in 1982 and took his Master's Degree in Business Administration at the JL Kellogg Graduate School of Management in 1984.

Ferdinand M. dela Cruz, Filipino, 51, has been a Managing Director since 2011 and a member of the Ayala Group Management Committee since April 2017. He is the President and CEO of Manila Water Company, Inc. (MWC). Prior to his election as President of MWC, he was the Chief Operating Officer for Manila Water Operations; and President of Manila Water Total Solutions Corporation and Manila Water Foundation. He joined MWC in July 2011 as the East Zone Business Operations Group Director and was concurrently Group Director for Corporate Strategic Affairs. Before joining MWC, he was the head of Consumer Sales Group and the Consumer Sales and Consumer Sales Group of Globe Telecom for two years, and was head of its Wireless Business Group from October 2002 to June 2009. Prior to that, he was the President and General Manager of Kraft Foods (Philippines) Inc. for more than a year and the same company's Country General Manager for its various operating companies in Indonesia. He also held senior leadership roles in ALI, San Miguel Brewing Philippines, Inbisco Philippines, Unilever Philippines. He graduated cum laude with a degree in BS Mechanical Engineer from the University of the Philippines. He is a board top-notcher and a licensed Mechanical Engineer.

***Jose Rene Gregory D. Almendras**,* Filipino, 58, has been a Managing Director and member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since August 2016. He is currently the President and Chief Executive Officer of AC Infrastructure Holdings Corporation (AC Infra); Chairman of Light Rail Manila Holdings 6, Inc. and MCX Tollway, Inc.; and Executive Vice President of Asiacom Philippines, Inc. He also serves as a member of the Board of Directors of the following companies within the Ayala Group: Light Rail Manila Holdings, Inc., Light Rail Manila Holdings 2, Inc., AC Energy, Inc. and A2 Airport Partners, Inc. On a concurrent basis, he heads the Public Affairs Group of Ayala Corporation. He served as Secretary of Foreign Affairs for the Republic of the Philippines from March to June 2016. He also served as the Cabinet Secretary under the Office of the President from November 2012 to March 2016. Prior to his appointment as Cabinet Secretary, he served as the Secretary of the Department of Energy from July 2010 to October 2012. Under his leadership, the Department of Energy ranked as one of the Top 10 Performers, in a survey among government agencies on government performance specifically in ensuring integrity in public service. In 2011, he became the co-chair of the high-level discussion on the Long Term Strategy for the International Renewable Energy Agency (IRENA) held in Abu Dhabi. In the same year, the Philippines became a rotating member of the Executive Board of the International Energy Forum (IEF). Last September 2013, after stepping down as Energy Secretary, Rene was awarded ASEAN Individual Excellence in Energy Management by his fellow Energy Ministers during the 31st ASEAN Ministers on Energy Meeting (AMEM) and ASEAN Energy Awards, which was another 1st for the Philippines. In June 2013, he was given the rare privilege of addressing the United Nations Economic and Social Council (ECOSOC) at the Palais des Nations, Geneva and then again in December 2013 for the United Nations' Special Meeting of the ECOSOC in New York. He was the President and CEO of Manila Water Company, Inc. before he decided to serve the government in 2010. During his term, the company was awarded as one of the Best Managed Companies in Asia, the Best in Corporate Governance, one of the Greenest Companies in the Philippines and hailed as the world's Most Efficient Water Company. In June 2016, a Presidential Award, Order of Lakandula, Rank of Gold Cross Bayani, highest honor given to a civilian by the Republic of the Philippines, was awarded to him by President Benigno S. Aquino III, for his remarkable performance during the Aquino administration. He obtained his Bachelors of Science in Business Management degree from the Ateneo de Manila University in 1981. He attended the Strategic Business Economics Program from University of Asia & the Pacific in 1999.

Alfredo I. Ayala, Filipino, 57, has been a Managing Director of Ayala Corporation and a member of the Ayala Group Management Committee since June 2006. He is the President and Chief Executive Officer of LiveIt Investments Limited and of AC Education, Inc. which are Ayala Corporation's holding companies for its business processing outsourcing and educations investments, respectively. Currently, he also holds the following positions: Director of Affinity Express Holdings, Ltd., and Azalea International Venture Partners Limited.; Chairman and President of AC College of Enterprise and Technology, Inc., National Teachers College, and LINC Institute; Chairman of Affordable Private Education Center, Inc. and Newbridge International Investments Limited; Vice Chairman and Vice President of Affinity Express Philippines, Inc,; Vice Chairman of University of Nueva Caceres; and Trustee of Ayala Foundation, Inc. He is also a Trustee of Philippine Business for Education (PBEd). He has an MBA from the Harvard Graduate School of Business Administration in 1987 and B.A. in Development Studies (Honors) and Economics from Brown University in 1982.

Paolo Maximo F. Borromeo, Filipino, 41, has been a Managing Director since January 2016 and a member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since September 2014. He has served as Group Head of Corporate Strategy and Development of the Company since September 2014. In his role, he oversees the overall corporate planning process, portfolio strategy, group-wide innovation projects and new business development initiatives. In addition, he leads Ayala Corporation's healthcare businesses. He is currently the President and Chief Executive Officer of Ayala Healthcare Holdings, Inc. and of Zapfam, Inc., and the Vice Chairman of the Generika Group of Companies. He also sits on the board of AC Education, Inc., Affordable Private Education Center, Inc., AC College of Enterprise and Technology Holdings, Inc., LINC Institute, Inc., National Teachers College, AC Ventures Holding Corp., AC Industrial Technology Holdings Inc., HCX Technology Partners, Inc., Ayala International Holdings Limited, AG Holdings Limited and LiveIt Investments Limited. Prior to joining Ayala, he was a Principal at Booz & Company, a global strategy consulting firm, based in San Francisco, California, USA. He obtained his Bachelors of Science degree in Management Engineering from the Ateneo de Manila University and his Master's in Business Administration with honors from the Wharton School at the University of Pennsylvania.

John Eric T. Francia, Filipino, 47, has been a Managing Director and a member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since January 2009. He is the President and Chief Executive Officer of AC Energy, Inc. In his previous role as Head of Ayala's Corporate Strategy and Development group, he led Ayala's entry into the energy and transport infrastructure sectors in 2011. Under his leadership, Ayala invested in over 1,000MW of attributable capacity in the energy sector, and secured over $1bn worth of PPP projects in the transport infrastructure space. He is a Director of Manila Water Company, Inc., a publicly listed company. He is also a member of the Board of Directors of the following companies within the Ayala Group: Purefoods International Limited, Ayala Healthcare Holding, Inc., AC Education, Inc., AC College of Enterprise and Technology, Inc., LINC Institute, Inc., AC Ventures Holding Corp., Ayala Aviation Corporation, Zapfam, Inc., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, Light Rail Manila Corporation, AC Infrastructure Holdings Corporation, MCX Tollway, Inc., Ayala Hotels, Inc,, Michigan Holdings, Inc., and other various companies under the AC Energy Group. Prior to joining Ayala, he was a senior consultant and member of the management team of Monitor Group, a strategy consulting firm based in Cambridge, Massachusetts, USA. Prior to consulting, he spent a few years in the field of academe and media. He received his undergraduate degree in Humanities and Political Economy from the University of Asia & the Pacific, graduating magna cum laude in 1993. He then completed his Masters Degree in Management Studies at the University of Cambridge in the United Kingdom, graduating with First Class Honors in 1995.

Solomon M. Hermosura, Filipino, 56, has served as Managing Director of Ayala Corporation since 1999 and a member of the Ayala Corporation Management Committee since 2009 and the Ayala Group Management Committee since 2010. He is also the Group Head of Corporate Governance, and the Chief Legal Officer, Chief Compliance Officer, Corporate Secretary and Data Protection Officer of Ayala Corporation. He is the CEO of Ayala Group Legal. He serves as the Corporate Secretary and Group General Counsel of Ayala Land, Inc., and Corporate Secretary of Globe Telecom, Inc., Manila Water Company, Inc., Integrated Micro-Electronics, Inc. and Ayala Foundation, Inc. He also serves as a Corporate Secretary and a member of the Board of Directors of a number of companies in the Ayala group. He is currently a member of the faculty of the College of Law of San Beda University. He graduated valedictorian with Bachelor of Laws degree from San Beda College in 1986 and placed third in the 1986 Bar Examinations.

Jose Teodoro K. Limcaoco, Filipino, 56, has been the Chief Finance Officer and Finance Group Head of Ayala Corporation since April 2015. He is also the Chief Risk Officer and Sustainability Officer of Ayala Corporation. He is a director of Globe Telecom, Inc. and Integrated Micro-Electronics, Inc., two of the publicly listed companies of the Ayala Group; and an independent director of SSI Group, Inc, also a publicly listed company. He is the Chairman of Darong Agricultural and Development Corporation and Zapfam Inc. He is the President and CEO of AC Ventures Holding Corp., AYC Finance Limited, Bestfull Holdings Limited and Purefoods International Limited. He is the Vice Chairman of Lagdigan Land Corporation. He is the President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., AC Infrastructure Holdings Corporation, Ayala Aviation Corporation, AC Education, Inc., Asiacom Philippines, Inc., Ayala Group Legal, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc., A.C.S.T Business Holdings, Inc., LICA Management Inc., and Just For Kids, Inc. He is the Treasurer of Ayala Retirement Fund Holdings, Inc. He joined Ayala Corporation as a Managing Director in 1998. Prior to his appointment as CFO in April 2015, he held various responsibilities including President of BPI Family Savings Bank, President of BPI Capital Corporation, Officer-in-Charge for Ayala Life Assurance, Inc. and Ayala Plans, Inc., Trustee and Treasurer of Ayala Foundation, Inc., President of myAyala.com, and CFO of Azalea Technology Investments, Inc. He served as the President of the Chamber of Thrift Banks from 2013-1015. He was named as the ING-Finex CFO of the Year in 2018. He has held prior positions with JP Morgan & Co. and with BZW Asia. He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

Ruel T. Maranan, Filipino, 56, has been a Managing Director of Ayala Corporation since January 2015. He has served as President of Ayala Foundation, Inc. since March 1, 2015. He is also a member of the board of directors of Asticom Technology, Inc. and a member of the board of representatives of CIFAL Philippines. He was the Group Director of Manila Water Company, Inc. (MWC)'s Corporate Human Resources Group from 2004 to 2014. Before joining MWC, he was part of various organizations such as Globe Telecom, Inc., Vitarich Corporation, and Integrated Farm Management, among others. In MWC, he introduced numerous innovations in human resources management, rallying behind the company's being the first Filipino company to win the prestigious Asian Human Capital Award in 2011, an award sponsored by the Singapore Ministry of Manpower, CNBC Asia-Pacific, and INSEAD. Through his leadership in human resources, MWC was vested the 2006 Outstanding Employer of the Year by the People Management Association of the Philippines. Mr. Maranan earned his AB Social Sciences degree from the Ateneo de Manila University and his law degree from the University of Santo Tomas. The latter institution has recently granted him the UST 2016 Outstanding Alumni Award under Private Sector. He has also completed the Leadership Management Program under Harvard.

John Philip S. Orbeta, Filipino, 57, has served as a member of the Ayala Corporation Management Committee since May 2005 and the Ayala Group Management Committee since April 2009. He is currently the Managing Director, Chief Human Resources Officer and Group Head for Corporate Resources, covering Strategic Human Resources, Knowledge Management, Information & Communications Technology, AC Synergy and Corporate Support Services at Ayala Corporation. He is currently the Chairman of Ayala Aviation Corporation, Ayala Group HR Council, Ayla Group Corporate Security Council, and Ayala Business Clubs; Chairman and President of HCX Technology Partners, Inc.; and Vice Chairman of Ayala Group Club, Inc. Mr. Orbeta also serves as a Board Director of Ayala Group Legal, AC Industrial Technology Holdings, Inc., Ayala Healthcare Holdings, Inc., Ayala Retirement Fund Holdings, Inc., Zapfam, Inc., BPI Family Bank, Inc., ALFM Growth Fund, Inc., ALFM Money Market Fund, Inc., ALFM Peso Bond Fund, Inc., ALFM Dollar Bond Fund, Inc., ALFM Euro Bond Fund, Inc. and the Philippine Stock Index Fund Corp.; and as Trustee of Ayala Foundation, Inc. Mr. Orbeta served as the President and CEO of AC Industrial Technology Holdings, Inc. (formerly Ayala Automotive Holdings Corporation) and Automobile Central Enterprise, Inc. (Philippine importer of Volkswagen), as Chairman and CEO of Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc. and Iconic Dealership, Inc.; and as Board Director of Honda Cars Cebu, Inc. and Isuzu Cebu, Inc. Prior to joining Ayala Corporation, he was the Vice President and Global Practice Director of the Human Capital Consulting Group at Watson Wyatt Worldwide (now Willis Towers Watson), overseeing the firm's practices in executive compensation, strategic rewards, data services and organization effectiveness around the world. He was also a member of Watson Wyatt's Board of Directors. He graduated with a degree in A.B. Economics from the Ateneo de Manila University in 1982.

Catherine H. Ang, Filipino, 48, has served as Executive Director and Chief Audit Executive of Ayala Corporation since July 2013. She joined the Company in February 2012 as Head for Risk Management and Sustainability. Currently, she also holds the following positions: Director of Technopark Land, Inc.; Audit and Risk Committee Member of Ayala Healthcare Holdings, Inc., AC Energy, Inc., AC Infrastructure Holdings Corporation, Affinity Express Holdings, Ltd., and Ayala Multi-Purpose Cooperative; Audit Committee Member of Light Rail Manila Corporation and AF Payments, Inc.; Audit Committee Chair of the Financial Executives Institute of the Philippines (FINEX); and a member of the Governance Committee of The Institute of Internal Auditors – Philippines (IIAP). She was also the 2017 - 2018 Audit Committee Chair and Good Governance Committee Vice Chairperson of FINEX, 2016 Finance Committee Chair of FINEX Foundation, 2015-2016 Institute of Corporate Directors' Scorecard Circle Chair, 2014 Chair of the Board of Trustees, and a member of the Board of Directors from 2009 to 2013 of IIAP. Prior to joining Ayala Corporation, she was the Chief Audit Executive of Globe Telecom, Inc. where she started as an Internal Audit Manager in 1996 and rejoined the company in 2000. In 1998, she joined PricewaterhouseCoopers - Singapore as Manager for Operational and Systems Risk Management. She started her career at SGV & Co in 1991 as a financial and IT auditor. She is a Certified Public Accountant, a Fellow of the Institute of Corporate Directors, a qualified Crisis Communication Planner, and holds an Associate (Level 1) Certification from Global Innovation Management Institute (GIMI). She graduated magna cum laude from Saint Louis College in 1991 with a degree in Bachelor of Science in Commerce major in Accounting.

Estelito C. Biacora, Filipino, 48, is the Executive Director and Treasurer of Ayala Corporation since November 2018. He is Director and Treasurer of Michigan Holdings, Inc., Pameka Holdings, Inc., Technopark Land, Inc., Director of AYC Finance, Limited, AYC Holdings Limited, and Zapfam, Inc.

Currently, he also holds the following positions: Treasurer of AC Infrastructure Holdings Corporation, ACST Business Holdings, Inc., ASIACOM Philippines, Inc., AC Ventures Holding Corporation, Ayala Foundation, Inc., Azalea International Venture Partners, Ltd., Liontide Holdings, Inc., and Chief Finance Officer of Ayala Group Club, and member of Ayala Foundation Endowment Committee and Ayala Corporation Retirement Committee. Prior to joining Ayala, he served as Senior Vice President for Global Markets Group at the Bank of the Philippine Islands (BPI). His other previous senior assignments include Chief Investment Officer (CIO) for BPI Asset Management and Trust Group, and Senior Vice President and Head of BPI Private Banking. He also served as member of BPI Management Committee, and member of the board of BPI Forex Corporation and BPI International Finance Limited, Hong Kong. He has held prior positions with Far East Bank and Trust Company, and Banco Santander, Philippines. Mr. Biacora earned a Bachelor of Science degree in Commerce, major in Finance in 1990 and Masters in Business Administration in 1994, both from De La Salle University.

Josephine G. De Asis, Filipino, 47, has been the Controller of Ayala Corporation since August 2012. Currently, she also holds the following positions: Chairwoman of PPI Prime Venture, Inc.; Director and Chief Finance Officer of Pameka Holdings, Inc.; Director of Azalea International Venture Partner Ltd., Darong Agricultural & Development Corporation, Technopark Land, Inc., and Zapfam, Inc.; Chief Finance Officer of Azalea International Venture Partner Ltd. and Michigan Holdings, Inc.; Treasurer and Chief Finance Officer of AG Counselors Corporation; and Audit and Risk Committee Member of AC Energy, Inc. and AC Infrastructure Holdings Corporation. Prior to joining Ayala Corporation, she served as the Head of Financial Control Division of Globe Telecom, Inc. from 2010 to 2012 and Controller of the Wireless Business of Globe Telecom, Inc. from 2005-2010. She is a Certified Public Accountant. She graduated with a degree in BS Accountancy (summa cum laude) from Polytechnic University of the Philippines in 1991 and attended an Executive Management Program from the University of California Los Angeles in 2004-2005.

Dodjie D. Lagazo, Filipino,39, Filipino, has served as Assistant Corporate Secretary of Ayala Corporation since April 2015. He is the Head for Legal and Regulatory, as well as the Assistant Corporate Secretary, of AC Energy, Inc. He also serves as the Corporate Secretary of the various AC Energy subsidiaries and affiliates. He was a Director of Ayala Group Legal's management committee from January 2014 to July 2017. Prior to joining the Ayala Group, he was an associate at SyCip Salazar Hernandez & Gatmaitan. He received his undergraduate degree in Political Science from the University of the Philippines, Diliman, graduating *magna cum laude*. He then completed his Bachelor of Laws Degree in the College of Law of the University of the Philippines, Diliman, ranked sixth in the graduating class of 2003. He is a member in good standing of the Integrated Bar of the Philippines.

Joanne M. Lim, Filipino, 36, has served as Assistant Corporate Secretary of Ayala Corporation since June 2016. She is also the Assistant Corporate Secretary of Integrated Micro-Electronics, Inc, Ayala Foundation, Inc., AC Education, Inc, LiveIt Investments Limited and other companies within the Ayala Group to which she also provides other legal services. She is a Senior Counsel at Ayala Group Legal. Prior to joining Ayala Group Legal in 2015, she was a Project Legal Advisor for CFT Transaction Advisors. She served as Director of the Legal Affairs Office of the Department of Finance from 2011 to 2013 and was an Associate at SyCip, Salazar, Hernandez & Gatmaitan Law Offices from 2007 to 2010. She obtained her Bachelor of Laws degree in 2007 and her Bachelor of Arts degree in Broadcast Communication (magna cum laude) in 2003, both from the University of the Philippines, Diliman. She has a Master of Laws degree in Global Business Law from New York University and a Master of Laws degree in Corporate and Financial Services Law from National University of Singapore. She was admitted to the Philippine Bar in 2008 and to the New York State Bar in 2015.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements
The above-named executive officers are covered by letters of appointment stating their respective job functionalities, among others.

Significant Employees
The Company attributes its continued success to the collective efforts of its employees, all of whom contribute significantly to the business in various ways.

Family Relationships
Jaime Augusto Zobel de Ayala, Chairman and Chief Executive Officer, and Fernando Zobel de Ayala, President and Chief Operating Officer, are brothers.

Except for the foregoing, there are no known family relationships between the current members of the Board and key officers.

Ownership Structure and Parent Company
As of February 28, 2019, Mermac, Inc. owns 56.27% of the outstanding voting shares of the Company.

Involvement in Certain Legal Proceedings
Please refer to Part I - Item 3. Legal Proceedings.

Resignation of Directors/Management Committee members/Key Officers
To date, no director has resigned from, or has declined to stand for re-election to the Board since the date of the 2018 annual meeting of stockholders due to any disagreement with the Company relative to its operations, policies and practices.

Item 10. Executive Compensation

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Jaime Augusto Zobel de Ayala Chairman and CEO Fernando Zobel de Ayala President and Chief Operating Officer Solomon M. Hermosura Managing Director, Chief Legal Officer, Corporate Secretary, Chief Compliance Officer, Data Protection Officer, and Corporate Governance Group Head Jose Teodoro K. Limcaoco Managing Director, Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer, and Finance Group Head John Philip S. Orbeta Managing Director, Chief Human Resources Officer, and Corporate Resources Group Head				
CEO and Most Highly Compensated Executive Officers	Actual 2017	₱279.04M	₱210.51M	₱ 0
	Actual 2018	₱303.98M	₱243.29M	₱ 0
	Projected 2019	₱328.30M	₱261.77M	₱ 0
All other officers** as a group unnamed	Actual 2017	₱704.72M	₱442.48M	₱ 0
	Actual 2018	₱730.62M	₱464.87M	₱ 0
	Projected 2019	₱792.18M	₱503.97M	₱ 0

*** Managers and up (including all above-named officers).*

The total annual compensation consists of basic pay and other taxable income (guaranteed bonus and performance-based bonus).

The Company has no other arrangement with regard to the remuneration of its existing officers aside from the compensation received as herein stated.

Warrants and options outstanding; repricing

i. Since 1995, the Company has offered its officers options to acquire common shares under its executive stock option plan (ESOP). In 2018, there were options covering 8,636 shares exercised by a retired officer of the Company, whose availment of stock option is still valid after retirement pursuant to the Company's Stock Option Plan, to wit:

Date of Grant	Exercise Price	Market Price at Date of Grant
April 16, 2010	PhP227.53	PhP330.00

ii. The Company has adjusted the exercise price and market price of the options awarded to the above-named officers due to the stock dividends declared by the Company in May 2004, June 2007, May 2008 and July 2011 and to the reverse stock split in May 2005.

Compensation of Directors

Article IV, Section 20, of the By-laws provides:

Section 20 - Each Director shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as Director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the Directors. In no case shall the total yearly compensation of Directors exceed one percent (1%) of the net income before income tax of the Corporation during the preceding year.

The compensation and remuneration committee of the Board of Directors shall have the responsibility of recommending to the Board of Directors the fees and other compensation for directors. In discharging this duty, the committee shall be guided by the objective of ensuring that the level of compensation should fairly pay Directors for work required in a company of the Corporation's size and scope. (As amended on 18 April 2011.)

i. **Standard arrangement**

On April 21, 2017, the Board, upon the recommendation of its Personnel and Compensation Committee to make the level of remuneration more commensurate with their responsibilities, approved a resolution fixing the current remuneration of non-executive directors as follows:

Retainer Fee:	₱ 3,000,000.00
Board Meeting Fee per meeting attended:	₱ 200,000.00
Committee Meeting Fee per meeting attended:	₱ 100,000.00

Directors who hold executive or management positions do not receive directors' fees. The compensation of executive directors is included in the compensation table in Item 10 above.

ii. **Other arrangement**

None of the non-executive and independent directors who are paid fees as set forth above (Standard arrangement) is contracted and compensated by the Company for services other than those provided as a director.

The Company has no other arrangement with regard to the remuneration of its existing non-executive directors aside from the compensation received as herein stated.

The Company's Personnel and Compensation Committee is chaired by Mr. Del Rosario, Jr., an independent director, with Messrs. Lazaro and Matsunaga as members.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security ownership of certain record and beneficial owners (of more than 5%) as of February 28, 2019.

Title of class of voting shares	Name and address of record owner and relationship with Issuer	Name of beneficial owner and relationship with record owner	Citizenship	No. of shares held	Percent of outstanding voting shares
Common	Mermac, Inc.[3] 3/F Makati Stock Exchange Building, Ayala Triangle, Ayala Avenue, Makati City	Mermac, Inc.[4]	Filipino	296,625,706	35.7109%
Voting Preferred				170,809,468	20.5638%
Common	PCD Nominee Corporation (Non-Filipino)[5] G/F MSE Bldg. Ayala Ave., Makati City	PCD participants acting for themselves or for their customers[6]	Various Non-Filipino	180,765,980	21.7625%
Common	Mitsubishi Corporation[7] 3-1, Marunouchi 2- Chome, Chiyoda-ku, Tokyo 100-8086	Mitsubishi Corporation[8]	Japanese	41,577,540	5.0055%
Voting Preferred				21,514,970	2.5902%
Common	PCD Nominee Corporation (Filipino)[4] G/F MSE Bldg. Ayala Ave., Makati City	PCD participants acting for themselves or for their customers[5]	Filipino	89,821,592	10.8137%

Security ownership of directors and management as of February 28, 2019.

Title of class of outstanding shares	Name of beneficial owner	Amount and nature of beneficial ownership		Citizenship	Percent of total outstanding shares
Directors					
Common	Jaime Augusto Zobel de Ayala	300,187	(indirect)	Filipino	0.0342%
Preferred B Series 1		20,000	(indirect)		0.0023%
Voting Preferred		543,802	(direct)		0.0620%
Common	Fernando Zobel de Ayala	306,317	(direct & indirect)	Filipino	0.0349%
Voting Preferred		554,983	(direct)		0.0632%
Common	Delfin L. Lazaro	33,775	(direct & indirect)	Filipino	0.0038%
Voting Preferred		258,297	(direct)		0.0294%
Common	Keiichi Matsunaga	1	(direct)	Japanese	0.0000%
Common	Xavier P. Loinaz	126,614	(direct)	Filipino	0.0144%
Voting Preferred		65,517	(direct)		0.0075%
Common	Antonio Jose U. Periquet	1,200	(direct)	Filipino	0.0001%
Preferred B Series 2		400,000	(direct)		0.0456%
Common	Ramon R. Del Rosario, Jr.	1	(direct)	Filipino	0.0000%
CEO and most highly compensated officers					
Common	Jaime Augusto Zobel de Ayala	300,187	(direct & indirect)	Filipino	0.0342%
Preferred B Series 1		20,000	(indirect)		0.0023%

[3] The Co-Vice Chairmen of Mermac, Inc. ("Mermac"), Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala, are the Chairman and Chief Executive Officer and President and Chief Operating Officer of the Company, respectively. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power of Mermac.
[4] The Board of Directors of Mermac has the power to decide how Ayala shares held by Mermac are to be voted.
[5] PCD Nominee Corporation (PCD) is not related to the Company.
[6] Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his account with the PCD participant. Out of the 270,587,572 common shares registered in the name of PCD Nominee Corporation, 71,055,048 (8.5543% of the voting stock) and 60,086,903 (7.2339% of the voting stock) are for the accounts of Deutsche Bank Manila (DB) and The Hongkong and Shanghai Banking Corporation (HSBC), respectively. The Company has no record relating to the power to decide how the shares held by PCD are to be voted. As advised to the Company, none of DB and HSBC or any of their customers beneficially owns more than 5% of the Company's common shares.
[7] Mitsubishi Corporation ("Mitsubishi") is not related to the Company.
[8] The Board of Directors of Mitsubishi has the power to decide how Mitsubishi's shares in Ayala are to be voted. Mr. Keiichi Matsunaga has been named and appointed to exercise the voting power.

Voting Preferred		543,802	(direct)		0.0620%
Common	Fernando Zobel de Ayala	306,317	(direct & indirect)	Filipino	0.0349%
Voting Preferred		554,983	(direct)		0.0632%
Common	Solomon M. Hermosura	90,100	(indirect)	Filipino	0.0103%
Voting Preferred		53,583	(direct)		0.0061%
Common	Jose Teodoro K. Limcaoco	255,679	(indirect)	Filipino	0.0291%
Common	John Philip S. Orbeta	575,491	(indirect)	Filipino	0.0656%
Other executive officers (Ayala group ManCom members/Senior Leadership Team)					
Common	Cezar P. Consing	91,461	(indirect)	Filipino	0.0104%
Common	Bernard Vincent O. Dy	21,681	(indirect)	Filipino	0.0025%
Common	Arthur R. Tan	319,158	(indirect)	Filipino	0.0364%
Common	Jose Rene Gregory D. Almendras	66,099	(direct & indirect)	Filipino	0.0075%
Common	Alfredo I. Ayala	163,409	(direct & indirect)	Filipino	0.0186%
Common	Paolo Maximo F. Borromeo	51,210	(indirect)	Filipino	0.0058%
Common	Ferdinand M. Dela Cruz	46,592	(indirect)	Filipino	0.0053%
Common	John Eric T. Francia	147,933	(indirect)	Filipino	0.0168%
Common	Ernest Lawrence L. Cu	117,435	(indirect)	Filipino	0.0134%
Common	Ruel T. Maranan	17,089	(indirect)	Filipino	0.0019%
Common	Estelito C. Biacora	0		Filipino	0.0000%
Common	Josephine G. De Asis	23,038	(indirect)	Filipino	0.0026%
Common	Catherine H. Ang	22,505	(indirect)	Filipino	0.0026%
Voting Preferred		5,290	(direct)		0.0006%
Common	Dodjie D. Lagazo	0		Filipino	0.0000%
Common	Joanne M. Lim	0		Filipino	0.0000%
All Directors and Officers as a group		**4,678,447**			**0.5331%**

No director or member of the Company’s management owns 2.0% or more of the outstanding capital stock of the Company.

The Company knows of no person holding more than 5% of common shares under a voting trust or similar agreement.

No change of control in the Company has occurred since the beginning of its last fiscal year.

Item 12. Certain Relationships and Related Transactions

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

To date, there have been no complaints received by the Company regarding related-party transactions.

Related party transactions are further discussed in the Note 31 of the Consolidated Financial Statements for December 31, 2018 which forms part of the Index of this SEC17A report.

Transactions with Promoters

There are no transactions with promoters within the past five (5) years.

Awards and Recognitions

- Fernando Zobel de Ayala recognized by the Management Association of the Philippines as Management Man of the Year 2018.

- Institutional Investor 2018 All-Asia Executive Team Survey
  Ayala Corporation ranked second best among industrial companies in Asia for corporate governance and third best for metrics on environment, social, and governance (ESG) and socially responsible investing (SRI). Ayala was also among the emerging markets' "Most Honored Companies" after figuring on top in two of the four main categories, and ranked second for "Best IR Company". Under new categories, Ayala ranked first for "Best Corporate Governance and Best ESG SRI Metrics" while Jaime Augusto Zobel de Ayala ranked third as "Best CEO".

- 2017 ASEAN Corporate Governance Scorecard
  - Eight PLCs in the Ayala group were named among the Top Performing Companies, namely, Ayala Corporation, Ayala Land (ALI), Globe Telecom, Manila Water Company, Bank of the Philippine Islands, ALI subsidiaries – Cebu Holdings, Inc. and Cebu Property Ventures and Development Corp. and Integrated Micro-Electronics, Inc.
  - Ayala Corporation also ranked in the Top Five in the Holding Firm sector category.

- 2nd ASEAN Corporate Governance Awards
  Four of the nine Philippine companies, namely: Ayala Corporation, Ayala Land, Globe Telecom and Manila Water Company, ranked among the Top 50 ASEAN PLCs

- Strategic Risk Awards - Asia Pacific
  - 2018 Risk Manager of the Year, Ma. Victoria Tan
  - 2018 Risk Management Team of the Year, Ayala Corporation

- 4th Asia Sustainability Reporting Award
  Asia's Best Integrated Report – Highly Commended

- Finance Asia
  - Ayala Corporation ranked number one as Best Managed Company, Best Growth Story, and Best ESG and ranked third in Best Investor Relations.
  - Jaime Augusto Zobel de Ayala was cited Best CEO and Jose Teodoro K. Limcaoco as Best CFO.

- Order of the Rising Sun, Gold and Silver Star
  Jaime Zobel de Ayala received the Order of the Rising Sun, Gold and Silver Star from the Japanese government in recognition of his contribution to the economic and cultural relations between Japan and the Philippines. The Japanese government recognized Ayala's efforts under JZA's leadership, to develop the first industrial park which encouraged the entry of Japanese businesses into the country, and Ayala's continuing support to Japanese art and culture through various exhibitions staged at the Ayala Museum.

Website and Social Media

The Company's official website is www.ayala.com.ph. Further details on the Company's corporate information, background, activities, and other areas like governance initiatives is available at the website. Also as part of our stakeholder engagement, Ayala maintains the following social media accounts:

- Facebook.com/AyalaCorporation
- Twitter.com/Ayala_1834
- Instagram.com/Ayala_Corporation
- Linkedin.com/company/ayala-corporation
- Youtube.com/user/ayala1834.

Events after the Reporting Period

For detailed discussion of key transactions and information from December 31, 2018 up to issuance date of the 2018 consolidated financial statements, please refer to Note 39 of the Ayala Corporation's Consolidated Financial Statements for December 31, 2018 which forms part of the Index of this SEC17A report.

Other Information

Other information about the Group are disclosed in appropriate notes in the accompanying Audited Consolidated Financial Statements for December 31, 2018 or discussed in previously filed SEC17Q and SEC17-C reports for 2018 (refer to Item 14. Exhibits and Schedules Reports on SEC Form 17-C).

Also, the Company's Definitive Information Statement (DIS) report and Annual Report (AR) document are also sources of other information about Ayala group. These documents are available at the Company's website www.ayala.com.ph.

In addition, the Group has the following major transactions and information from the issuance date of the 2018 consolidated financial statements to the issuance date of this SEC17A report :

Ayala

a) On March 8, 2019, the Company clarified the news article entitled, "Ayala Corp. 2019 capex set at ₱249.4 billion" posted on Business Mirror (Internet Edition) on March 8, 2019. The Company confirmed the statement made by the Chief Finance Officer, Mr. Jose Teodoro K. Limcaoco, that the Ayala group's capital expenditure budget is similar, if not slightly higher than last year. In addition, we confirm that at the parent level, the capital expenditure budget will be lower compared to last year.

b) On March 12, 2019, the Board of Directors (BOD), at its regular meeting held this day, approved the following:
   i. The amendment to the Primary Purpose under the Second Article of our Articles of Incorporation to expressly include, as part of the acts which our Company may perform in furtherance of its primary purpose, its acting as guarantor or surety for the loans and obligations of its affiliates or associates; and
   ii. The amendments of Sections 5, 6 and 8 of Article III of our By-Laws to allow our shareholders to vote through remote communication or in absentia, subject to the rules and regulations that may be issued by the Securities and Exchange Commission from time to time.

   The amendment to the Articles of Incorporation will be presented to the stockholders for approval at their annual meeting on April 26, 2019. Given that the stockholders have delegated to the BOD the authority to amend the By-Laws, the amendments to the By-laws will become effective upon the approval by the SEC. The amendments to the By-Laws will also be presented to the stockholders at their annual meeting on April 26, 2019 as part of the acts of the Board for ratification.

c) On March 26, 2019, the approved resolution of the Toll Regulatory Board (TRB) on AC's 2016 Petition for Approval of Periodic Toll Rate Adjustment with Application for Provisional Relief was received. The approved new toll rates are as follows.

	VAT Inclusive Rates (Php)		
Vehicle Class	Current	Adjusted	Increment
Class I	17.00	17.00	0.00
Class II	34.00	35.00	1.00
Class III	51.00	52.00	1.00

   As indicated in the resolution, prior to TRB's issuance of the Notice to Start Collection, AC is directed to publish the approved new rates (in accordance with TRB rules) and to submit proof of such publication

AC Energy

a) On January 29, 2019, ACEI, through its wholly-owned subsidiary AC Energy Finance International Limited (ACEFIL), issued US dollar-denominated senior Green Bonds (Bonds) at an aggregate principal amount of US$225 million with a 5-year tenor and a coupon of 4.75%

per annum, priced at 99.451. The Bonds were successfully listed in the Singapore Exchange on January 30, 2019.

On February 12, 2019, IFC invested an additional US$75 million in ACEI's Bonds described above via a tap on the facility - bringing the total five-year issue size to US$300 million. On the same date, ACEFIL also issued 10-year Bonds with a principal amount of US$110 million, with a coupon of 5.25% per annum, priced at 99.616. These were also listed on the Singapore Exchange.

The Bonds, now with an aggregate principal amount of US$ 410 million, were issued off a recently established US$1.00 billion Medium Term Note Programme and are guaranteed by ACEI.

b) On March 7, 2019, the Company clarified the news article entitled, "Ayala Energy plans divestment of oil and gas part of PHINMA acquisition" posted on Manila Bulletin (Internet Edition) on March 6, 2019. The Company clarified that there is no current plan to divest or unload the upstream petroleum part of PHINMA Energy Corporation. While there is currently no mandate for AC Energy to invest in oil and gas sector, the Company will require time to study what to do with the asset after completing the transaction.

AITHI

a.) On March 25, 2019, AITHI and Roadworthy Cars, Inc. (RCI) executed a subscription agreement for additional subscriptions in KPMC that will result in AITHI's ownership at KPMC at 67.2% voting interest and 65% economic interest. AITHI also extended a loan to RCI amounting to P1.6 billion which bears interest at the rate of 8% per annum and is payable on or before year 2029.

b.) On March 13, 2019, AITHI through its subsidiary MT Technologies GmbH, has entered into an agreement with the shareholders of C-CON Group for the acquisition of a 75.1% stake in C-CON Group for a total consideration of EURO 1.1 million. The closing of the transaction transpired on April 1, 2019. C-CON Group is a German engineering, design and manufacturing group catering to the automotive, industrial and aerospace space industries.

AHHI

a.) On March 13, 2019, AHHI signed conditional agreements to subscribe to an additional 2.5% stake in the Generika group of companies, which is composed of Actimed, Inc., Erikagen, Inc., Novelis Solutions, Inc., and Pharm Gen Ventures Corp., (collectively, the "Generika Group"). Hence, increasing its stake from 50% to 52.5%. Issuance of shares will only be made after the satisfaction of the conditions precedent.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Please refer to the Definitive Information Sheet and Annual Corporate Governance Report posted in the Company's Official Website www.ayala.com.ph. The detailed discussion of the Annual Corporate Governance Section deleted as per SEC Memorandum Circular No. 5, series of 2013, issued last March 20, 2013.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C (Current Report)

(a) Exhibits - See accompanying Index to Financial Statements and Supplementary Schedules

(b) Reports on SEC Form 17-C

Aside from compliance with periodic reporting requirements, Ayala promptly discloses major and market sensitive information such as dividend declarations, joint ventures and acquisitions, the sale and disposition of significant assets, and other information that may affect the decision of the investing public.

In 2018 the Company filed, among others, unstructured disclosures and clarification of news articles as follows:

Unstructured Disclosures

1. Issuance of 8,810,000 Common Shares to Caisse De Depot Et Placement Du Quebec
2. 2018 ESOWN Grant
3. Resignation and appointment of new treasurer
4. Participation of directors and key officers in Corporate Governance Seminars
5. Notice and Agenda of the 2018 Annual Stockholders' Meeting
6. Results of 2018 Annual Stockholders' Meeting and Organizational Board of Directors' Meeting
7. Declaration of cash dividends to outstanding Common and Preferred Shares
8. Acquisition and sale of Company shares by the directors, officers, and 10% owners
9. Annual and Quarterly Press Statements on the Company's financial and operating results
10. Notice of Interest Payment for all outstanding Corporate Bonds
11. Notice of Analysts' Briefings
12. Notice of Special Analysts' Briefing on AC Energy
13. Public Ownership Reports
14. Top 100 Stockholders Reports
15. Setting of 2019 Annual Stockholders' Meeting
16. AC Education acquires of National Teachers College
17. AC Education merges with iPeople, inc.
18. AC Energy invests in renewable energy company The Blue Circle
19. AC Energy launches second renewable energy platform in Vietnam with 80 MW of solar projects
20. AC Energy and BIM Group scale up Vietnam solar project
21. Aboitiz Power Corporation invests in AC Energy's thermal platform company
22. AC Health invests in Negros Grace Pharmacy, Inc.
23. AC Health expands health technology portfolio through investment in AIDE app
24. AC Industrial signs Distributorship Agreement with Kia Motors Corporation
25. AC Industrial Technology Holdings Inc. as the official distributor of Maxus vehicles in the Philippines
26. AC Industrial Technology Holdings acquires a controlling stake in Merlin Solar Technologies
27. AC Infrastructure and Brillant 1257 GmbH & Co. Vierte Verwaltungs Kg. ("Brillant") forms a holding company to invest in courier and freight forwarding services
28. AC Infrastructure Holdings Corporation joins a consortium that submitted unsolicited proposal under the BOT Law to the Philippine Statistics Authority
29. AC Infrastructure signs Investment Agreement with fulfillment solutions company
30. AC Infrastructure joins NAIA consortium that submitted unsolicited proposal for the rehabilitation, upgrade, expansion, operation, and maintenance of the Ninoy Aquino International Airport

Clarification of News Articles

1. Ayala to Build Big Vietnam Wind Project
2. Ayala selling $1-billion coal plants
3. Ayala Group to acquire 65% of Columbian Autocar
4. Super consortium shapes up
5. Group taps Changi operator for airport plan
6. Ayala Corp. set to acquire KIA Philippines, but PBA comeback not part of plan, says source
7. Ayala Corp. to spend at least P200 billion in capex this year
8. AC Energy partners with BIM Group to develop over 300MW of solar power in Vietnam
9. Super consortium in NAIA bid eyes Changi as partner
10. Aboitiz 'likely buyer' of Ayala's $1-B coal plant assets

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on APR 0 8 2019.

AYALA CORPORATION

By:

Jaime Augusto Zobel de Ayala
Chairman of the Board and
Chief Executive Officer

Fernando Zobel de Ayala
Vice Chairman, President and
Chief Operating Officer

Jose Teodoro K. Limcaoco
Chief Finance Officer, Chief Risk Officer,
Chief Sustainability Officer,
and Finance Group Head

Solomon M. Hermosura
Chief Legal Officer, Corporate Secretary,
Compliance Officer, Data Protection Officer,
and Corporate Governance Group Head

Josephine G. de Asis
Comptroller

SUBSCRIBED AND SWORN to before me this APR 0 8 2019 at Makari City, affiants exhibiting to me their respective passports/driver's license, to wit:

Name	Passport No.	Date and Place of Issue
Jaime Augusto Zobel de Ayala	P9640299A	November 21, 2018 - DFA Manila
Fernando Zobel de Ayala	P0349883B	January 22, 2019 - DFA Manila
Jose Teodoro K. Limcaoco	P6682433A	April 5, 2018 - DFA Manila
Solomon M. Hermosura	EC5542302	September 30, 2015 - DFA Manila
Josephine G. De Asis	P0174919B	January 9, 2019 - DFA Manila

MARIA PAULA G. ROMERO-BAUTISTA
NOTARY PUBLIC
ROLL NO. 58335
MAKATI CITY, PHILS.

MARIA PAULA G. ROMERO-BAUTISTA
Notary Public – Makati City
Appt. No. 153 until December 31, 2019
Roll of Attorneys No. 58335
IBP No. 059414 – 01/09/19 – Makati City
PTR No. 7341730ME – 01/08/19 – Makati City
MCLE Compliance No. VI – 0009490 –06/20/2018
27th Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

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Book No. XI
Series of 2019

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

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

I. 2018 Consolidated Financial Statements of Registrant

1. Statement of Management's Responsibility for Financial Statements
2. Ayala Corporation and Subsidiaries Consolidated Financial Statements
   As of December 31, 2018 and 2017 and Years Ended December 31, 2018, 2017 and 2016 and Independent Auditors' Report

II. 2018 Supplementary Schedules

1. Independent Auditors' Opinion on Supplementary Schedules
2. Supplementary Schedules Details
   - A.1. Financial Assets (Current Marketable Equity Securities and Other Short-Term Cash Investments)
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   - J. Map of the Relationships of the Companies within the Group
   - K. Schedule of All the Effective Standards and Interpretations
   - L. Indebtedness of Unconsolidated Subsidiaries and Related parties
   - M. Financial Ratios

III. 2018 Consolidated Financial Statements of Associate and Joint Venture

1. Bank of the Philippine Islands and Subsidiaries
2. Globe Telecom, Inc. and Subsidiaries

IV. 2018 Original BIR/Bank Stamp "Received"

1. Independent Auditors' Report on Ayala Corporation (Parent Company) Financial Statements
2. Parent Company Statements of Financial Position as at December 31, 2018 and 2017
3. Parent Company Statements of Income, Comprehensive Income, Changes in Equity and Cash Flows for the Years Ended December 31, 2018 and 2017

V. 2018 Ayala Corporation and Subsidiaries Special Form for Financial Statements (SFFS)

1. SFFS Certification by CFO and Comptroller
2. Diskette form (soft copy) of SFFS
3. Printed copy of SFFS

I. 2018 Consolidated Financial Statements of Registrant

Ayala

33F Tower One, Ayala Triangle, Ayala Avenue
Makati City, 1226 Philippines
www.ayala.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Ayala Corporation is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company and its subsidiaries in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors and Chief Executive Officer

FERNANDO ZOBEL DE AYALA
President & Chief Operating Officer

JOSE TEODORO K. LIMCAOCO
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this MAR 12 2019 at Makati City, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Jaime Augusto Zobel de Ayala	P9640299A	November 21, 2018 - DFA Manila
Fernando Zobel de Ayala	P0349883B	January 22, 2019 – DFA Manila
Jose Teodoro K. Limcaoco	P6682433A	April 5, 2018 – DFA Manila

Doc. No. 880 ;
Page No. 77 ;
Book No. X ;
Series of 2019.

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

MARIA PAULA G. ROMERO-BAUTISTA
NOTARY PUBLIC
ROLL NO. 58335
MAKATI CITY, PHILS.

MARIA PAULA G. ROMERO-BAUTISTA
Notary Public – Makati City
Appt. No. 153 until December 31, 2019
Roll of Attorneys No. 58335
IBP No. 059414 – 01/09/19 – Makati City
PTR No. 7341730ME – 01/08/19 – Makati City
MCLE Compliance No. VI – 0009490 –06/20/2018
27th Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

ACCELERATING THE FUTURE

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

3	4	2	1	8						

COMPANY NAME

AYALA CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
acquery@ayala.com.ph	908-3000 / 908-3357	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
	April 26	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Josephine G. De Asis	deasis.jg@ayala.com.ph	908-3000	

CONTACT PERSON's ADDRESS

NOTE 1 *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Ayala Corporation
32F-35F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

Opinion

We have audited the accompanying consolidated financial statements of Ayala Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ayala Corporation and its subsidiaries as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Adoption of PFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under the modified retrospective approach. The Group recorded transition adjustments that increased retained earnings as of January 1, 2018 by ₱232.7 million, as well as recognition of contract assets and contract liabilities amounting to ₱73.9 billion and ₱18.1 billion, respectively, consider this as a key audit matter because the adoption of PFRS 15 requires the application of significant management judgment and estimation across various aspects of the five-step revenue recognition model. The adoption of PFRS 15 has led to significant changes in the Group's revenue recognition policies, processes and procedures, which are described below.

For Ayala Land, Inc. and subsidiaries (the ALI Group), accounting for real estate revenue requires significant judgment and estimation in the following areas: (1) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (2) assessment of the probability that the entity will collect the consideration from the buyer; (3) application of the output method as the measure of progress in determining real estate revenue; (4) determination of the actual costs incurred as cost of sales; and (5) recognition of cost to obtain a contract.

The ALI Group identifies the contract that meets all the criteria required under PFRS 15 for a valid revenue contract. In the absence of a signed contract to sell, the ALI Group identifies alternative documentation that are enforceable and that contains each party's rights regarding the real estate property to be transferred, the payment terms and the contract's commercial substance.

In evaluating whether collectability of the amount of consideration is probable, the ALI Group considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectability is also assessed by considering factors such as past history with the buyer, age of residential and office development receivables and pricing of the property. ALI Group's management regularly evaluate the historical sales cancellations and back-outs if it would still support its current threshold of buyers' equity before commencing revenue recognition.

In measuring the progress of its performance obligation over time, the ALI Group uses the output method. This method measures progress based on the physical proportion of work done on the real estate project which requires technical determination by the ALI Group's specialists (project engineers).

In determining the actual costs incurred to be recognized as cost of sales, the ALI Group estimates costs incurred on materials, labor and overhead which have not yet been billed by the contractor.

The ALI Group identifies sales commission after contract inception as the cost of obtaining the contract. For contracts which qualified for revenue recognition, the ALI Group capitalizes the total sales commission due to sales agent as cost to obtain the contract and recognizes the related commission payable. The ALI Group uses the percentage of completion method in amortizing sales.

For Integrated Micro-Electronics, Inc. and subsidiaries (the IMI Group), the adoption of PFRS 15 involves the application of significant management judgment in determining the timing of satisfaction of performance obligation over time or point in time and resulted in the change in the timing of revenue recognition of certain contracts. For recognition of revenue over time, IMI Group applied the cost approach in determining the measure of progress towards the complete satisfaction of the performance obligation.

For Manila Water Company, Inc. and subsidiaries (the MWC Group), its adoption of PFRS 15 involved the application of significant judgment in the assessment of the impracticability of the retrospective restatement in accounting for connection fees. In addition, its revenue recognition process for the East Zone requires the processing of data from a large number of customers classified as either residential, commercial, semi-business, or industrial within the MWC Group's concession area. The amounts billed to customers consist of a number of components, including basic charge, environmental charge and foreign currency differential adjustment and where applicable, sewer charge. These tariffs depend on the customer type and are determined based on a formula as prescribed by the Metropolitan Waterworks and Sewerage System Regulatory Office (MWSS RO). The revenue recognized also depends on the completeness of capture of water consumption based on the meter readings taken on various dates over the concession area taken on various dates; the propriety of rates applied across customer types; and the reliability of the systems involved in processing the billing transactions.

The disclosures related to the adoption of PFRS 15 are included in Note 3 to the consolidated financial statements.

Audit Response

For the different revenue streams mentioned above, we obtained an understanding of the Group's process of implementing the new revenue recognition standard. We reviewed the PFRS 15 adoption papers and accounting policies prepared by management, including revenue streams identification and scoping, and contract analysis.

We performed the following procedures for these revenue streams:

a. Real estate revenue
    - For the identification of the alternative documentation for sale of real estate property, in the absence of a signed contract to sell, that would meet the requirements of PFRS 15, our audit procedures include, among others, the involvement of our internal specialist in reviewing the ALI Group's legal basis regarding the enforceability of the alternative documentation against previous court decisions, buyers' behavior pattern, and industry practices.
    - For the buyers' equity, we evaluated management's basis for the buyer's equity threshold by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold.

- In recognizing real estate revenue and cost of sales, we obtained an understanding of the ALI Group's processes to determine the percentage of completion (POC) under the output method and performed tests of the relevant controls. We obtained the certified POC reports prepared by the project engineers and assessed the competence and objectivity of the project engineers by reference to their qualifications, experience and reporting responsibilities. For selected projects, we conducted ocular inspections, made relevant inquiries and obtained the supporting details of POC reports showing the stage of completion of the major activities of project construction.
- For the real estate inventories and cost of sales, we obtained an understanding of the ALI Group's cost accumulation process and performed tests of the relevant controls. For selected projects, we traced the accumulated costs, including costs incurred but not yet billed, to supporting documents such as invoices and accomplishment reports from the contractors and official receipts.
- For the recognition of cost to obtain a contract, we obtained an understanding of the sales commission process. For selected contracts, we agreed the basis for calculating the sales commission capitalized and the portion recognized in profit or loss, particularly: (a) the percentage of commission due against contracts with sales agents, (b) the total commissionable amount (e.g., net contract price) against the related contract to sell, and, (c) the POC used in the sales commission computation against the POC used in recognizing the related revenue from real estate sales.

b. Manufacturing services
- We checked whether IMI Group's timing of revenue recognition is based on when the performance occurs and control of the related goods or services is transferred to the customer.
- We reviewed the transition adjustment calculation prepared by management by testing the calculations and inputs used including the costs incurred and gross profit margins.
- We obtained an understanding of the IMI Group's cost accumulation process and performed test of relevant controls. For selected projects, we tested the cost incurred by tracing to the cost accumulation worksheet which included raw materials issued to production, labor and overhead costs incurred.
- Furthermore, we tested the gross profit margins by comparing to the agreed sales price, performing trend analysis and comparing the prior years.

c. Revenue from water and sewer services
- For connection fees, we obtained an understanding of the process for new water service connections.
- We obtained sample water and sewer contracts and reviewed whether the accounting policies for connection fees considered the requirements of PFRS 15.
- We also reviewed the basis of impracticability of retrospective restatement invoked by management against the requirements of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and against company and industry practices.
- We obtained an understanding, evaluated the design and tested the controls over the read and bill process, which includes the capture of water consumption and calculation of billed fees, downloading of data from the billing system and uploading of data to MWC Group's financial reporting system.

- We involved our internal specialist in the testing of the related controls over these processes.
- We performed test calculation of the billed amounts using the volume of water consumption and MWSS RO-approved rates and compared them with the amounts reflected in the billing statement.

We also performed test computations of the transition adjustments and evaluated the disclosures made in the consolidated financial statements on the adoption of PFRS 15.

Adoption of PFRS 9, Financial Instruments, Expected credit loss model of Impairment

On January 1, 2018, the Group adopted Philippine Financial Reporting Standards (PFRS) 9, *Financial Instruments*. PFRS 9, which replaced PAS 39, *Financial Instruments: Recognition and Measurement*, introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss. The Group adopted the modified retrospective approach in adopting PFRS 9.

Specifically, the ALI Group's adoption of the ECL model is significant to our audit as it involves the exercise of significant management judgment and estimation. Key areas of judgment include: segmenting the ALI Group's credit risk exposures; determining the method to estimate lifetime ECL; defining what comprises default; determining assumptions to be used in the ECL model such as the expected life of the residential and office development receivables and timing and amount of expected net recoveries from defaulted accounts; and incorporating forward-looking information in calculating ECL.

Refer to Notes 3 and 4 of the consolidated financial statements for the disclosures in relation to the adoption of PFRS 9 ECL model.

Audit Response

We obtained an understanding of the approved methodologies and models used for the ALI Group's different credit risk exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, the time value of money and, the best available forward-looking information.

We (a) assessed the ALI Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) checked the methodology used in applying the simplified approach by evaluating the key inputs, assumptions, and formulas used; (c) compared the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (d) tested loss given default by inspecting historical recoveries including the timing, related direct costs, and write-offs; (e) evaluated the forward-looking information used for overlay through statistical test and corroboration using publicly available information; and (f) tested the effective interest rate, or an approximation thereof, used in discounting the expected loss.

Further, we checked the data used in the ECL models, such as the historical analysis of defaults, and recovery data, by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We evaluated the disclosures made in the consolidated financial statements on allowance for credit losses using the ECL model.

Amortization of MWC Group's Service Concession Assets using the Units-of-production Method

The service concession assets (SCA) of MWC Group are related to its concession agreements. MWC Group uses units-of-production (UOP) method in amortizing its SCA based on the actual billed volume over the estimated billable water volume for the remaining period of the concession agreement. The UOP amortization method is a key audit matter as the method involves significant management judgment and estimates, particularly in determining the total estimated billable water volume over the remaining periods of the concession agreements. It considers different factors such as population growth, supply and consumption, and service coverage, including ongoing and future expansions.

Relevant disclosures related to this matter are provided in Notes 3 and 13 to the consolidated financial statements.

Audit Response

We obtained an understanding of MWC management's processes and controls in the estimation of billable water volume. We evaluated the competence, capabilities, and objectivity of MWC management's specialist who estimated the total billable water volume. We also reviewed the report of MWC management's specialist and gained an understanding of the methodology and the basis of the forecasted volumes. Further, we compared the estimated billable water volume for the year against the data generated from the billing system and recalculated the amortization expense for the year based on the actual billed water volume.

Accounting for Business Combinations

The Group had a number of acquisitions in 2018 and finalized the purchase price allocations of its 2017 acquisitions which resulted in the recognition of real estate properties, intangible assets and goodwill, among others. We considered the accounting for these acquisitions as a key audit matter because these required significant management judgment and estimation in identifying the underlying acquired assets and liabilities and in determining their fair values, specifically the acquired real estate properties and intangible assets.

Further details of the acquisitions made by the Group are disclosed in Note 24 to the consolidated financial statements.

Audit Response

We reviewed the purchase agreements covering the acquisitions, the consideration paid and the finalized purchase price allocation. We reviewed the identification of the underlying assets and liabilities based on our understanding of the businesses of the acquired entities and management's explanations on the rationale for the acquisitions. We assessed the competence, capabilities and objectivity of the external appraisers by considering their qualifications, experience and reporting responsibilities. We also involved our internal specialists in evaluating the methodologies and assumptions used in arriving at the fair values of the said underlying assets. We compared the key assumptions used such as discount rate, property values, lease rates, revenue and earnings forecast, royalty rates, and water supply contract rate, against historical information and relevant market data. We reviewed the presentation and disclosures of these business combinations in the consolidated financial statements.

Impairment Testing of Goodwill

The Group has goodwill amounting to ₱9.026 million as of December 31, 2018 which are required to be tested for impairment at least annually. The impairment testing is a key audit matter because it requires management to make significant estimates and assumptions with respect to the estimated future cash flows of the related cash-generating units (CGU), revenue growth rate and the discount rate used in calculating the present value of the cash flows.

Management's disclosures on goodwill are included in Note 14 to the consolidated financial statements.

Audit Response

We involved our internal specialists in evaluating the methodologies and assumptions used in their value in use calculation, specifically on identifying the cash-generating units, assessing the reasonableness of estimated future cash flows and the discount rates. We paid particular attention to the assumptions used such as the forecasted revenue growth rates, which we compared against actual historical growth rates and industry outlook, and gross margins against historical rates. We tested the parameters used in the derivation of the discount rates against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is more sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Accounting for Investments in Associate and Joint Venture

The Group has effective ownership of 48% in Bank of the Philippine Islands and Subsidiaries (BPI), as associate, and 31% in Globe Telecom, Inc. and Subsidiaries (Globe), a joint venture, as of December 31, 2018, which are accounted for using the equity method. BPI and Globe contributed ₱10.9 billion and ₱5.6 billion or 20% and 10%, respectively, to the Group's consolidated net income of the Group in 2018.

BPI's net income is significantly affected by the level of impairment provisioning on its BPI's loans and receivables which requires substantial management judgment and estimation. PFRS 9 which introduce a forward-looking expected credit loss (ECL) model to assess impairment on debt financial assets not measured at fair value through profit or loss. Meanwhile, Globe's net income is affected by the propriety of the revenue recognized given the significant volume of transactions, the operational complexity of the billing systems, the determination of the accounting for new products introduced during the year and the implementation of PFRS 15.

Relevant disclosures related to the Group's investments in BPI and Globe are provided in Note 10 to the consolidated financial statements.

Audit Response

We sent instructions to the statutory auditors of BPI and Globe to perform an audit on the relevant financial information of BPI and Globe for the purpose of our audit of the Group's consolidated financial statements. These audit instructions contained a discussion of their scope of work, risk assessment procedures, audit strategy and reporting requirements. We discussed with the statutory auditors of BPI and Globe about their identified key audit areas, including its significant area of estimation and judgment, planning and execution of audit procedures, and results of their work for the year ended December 31, 2018.

We reviewed their audit working papers and obtained relevant conclusion statements related to their audit procedures. For BPI, we focused the testing of its ECL model for its loans portfolio and treasury products. We discussed with BPI's statutory auditor the overall characteristics of the loan portfolio, changes during the year, and rationale for the changes in impairment provisioning. We reviewed the procedures performed in testing the processes and controls over loan loss provisioning, including reconciliations, automated calculations and management's review of the estimates. We also reviewed the procedures performed in testing the impairment model used, including the assessment of reasonableness of the inputs used in the ECL model, such as exposure at default, probability of default and loss given default.

In the case of Globe, we involved our internal specialist in the review of Globe's statutory auditor's procedures in testing Globe's IT general and application controls over the revenue recognition process. We also reviewed the testing of Globe's processes and controls over the identification of the performance obligations in their contracts with customers, the allocation of the transaction price to the performance obligations based on the stand-alone selling prices, and the recognition of revenue at a point in time or over-time.

We obtained the relevant financial information of BPI and Globe and recomputed the Group's share in the net income of BPI and Globe for the year ended December 31, 2018.

Consolidation process

Ayala Corporation is the holding company of a multiple number of domestic and foreign legal entities with diversified business portfolios. In preparing the consolidated financial statements, several factors are considered such as fair value adjustments arising from business combinations, the presence of non-controlling interests, numerous intercompany transactions, translation of subsidiaries' foreign-currency denominated financial information to Ayala Corporation's functional currency, and other equity adjustments. Accordingly, we consider the consolidation process as a key audit matter due to the complexity involved in consolidating the financial information of domestic and foreign subsidiaries comprising the Group.

Note 2 to the consolidated financial statements provides the relevant disclosures on the Group's investees.

Audit Response

We obtained an understanding of the consolidation process and relevant controls through which the consolidated financial statements are prepared. We also obtained an understanding of the Group's process for identifying related parties and related party transactions and the reconciliation of intercompany transactions and balances. We tested significant consolidation adjustments, including eliminations, deferral and realization of intercompany transactions and balances, amortization/ depreciation/reversal of fair value adjustments arising from business combinations, currency translation adjustments, and movements in non-controlling interests and other equity adjustments.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lucy L. Chan.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-5 (Group A),
November 16, 2018, valid until November 15, 2021
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332535, January 3, 2019, Makati City

March 12, 2019

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2018	2017 (As restated - see Note 3)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 31, 32 and 33)	**₱60,624,263**	₱64,259,279
Short-term investments (Notes 6, 31, 32 and 33)	**5,956,489**	5,400,239
Accounts and notes receivable (Notes 7, 31, 32 and 33)	**105,518,572**	100,242,845
Contract assets (Note 16)	**52,209,458**	–
Inventories (Note 8)	**120,560,493**	105,195,768
Other current assets (Notes 9 and 32)	**67,890,147**	61,854,311
Total Current Assets	**412,759,422**	336,952,442
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 7, 32 and 33)	**6,366,250**	45,774,058
Noncurrent contract assets (Note 16)	**35,929,990**	–
Investments in associates and joint ventures (Note 10)	**240,140,558**	202,649,300
Investment properties (Note 11)	**227,645,548**	202,873,411
Property, plant and equipment (Note 12)	**104,492,357**	85,430,631
Service concession assets (Note 13)	**98,404,486**	91,049,570
Intangible assets (Note 14)	**16,553,369**	16,705,000
Deferred tax assets - net (Note 25)	**15,546,040**	12,720,910
Other noncurrent assets (Notes 15, 31, 32 and 33)	**40,087,599**	27,390,430
Total Noncurrent Assets	**785,166,197**	684,593,310
Total Assets	**₱1,197,925,619**	₱1,021,545,752
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt (Notes 19, 31, 32 and 33)	**₱39,518,245**	₱29,904,723
Accounts payable and accrued expenses (Notes 17, 31, 32 and 33)	**204,758,244**	169,652,527
Contract liabilities (Note 16)	**21,988,850**	–
Income tax payable	**3,406,921**	1,710,260
Other current liabilities (Notes 18, 32 and 33)	**11,129,234**	25,983,794
Current portion of:		
Long-term debt (Notes 19, 31, 32 and 33)	**48,480,559**	13,731,967
Service concession obligation (Notes 13, 32 and 33)	**820,802**	803,898
Total Current Liabilities	**330,102,855**	241,787,169
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 31, 32 and 33)	**324,262,828**	306,975,262
Contract liabilities - net of current portion (Note 16)	**8,630,235**	–
Service concession obligation - net of current portion (Notes 13, 32 and 33)	**7,018,211**	7,748,056
Deferred tax liabilities - net (Note 25)	**10,999,354**	8,108,305
Pension liabilities (Note 27)	**2,589,852**	2,600,756
Other noncurrent liabilities (Notes 20, 32 and 33)	**45,213,929**	43,233,816
Total Noncurrent Liabilities	**398,714,409**	368,666,195
Total Liabilities	**728,817,264**	610,453,364

(Forward)

	December 31	
	2018	2017
Equity		
Equity attributable to owners of the parent company		
Paid-in capital (Note 21)	**₱83,361,675**	₱75,001,174
Share-based payments (Note 28)	**238,871**	248,212
Remeasurement losses on defined benefit plans (Note 27)	**(1,299,319)**	(1,303,288)
Net unrealized loss on available-for-sale financial assets (Note 15)	**–**	(1,107,962)
Fair value reserve of financial assets at fair value through other comprehensive income (FVOCI) (Note 15)	**(544,555)**	–
Cumulative translation adjustments	**2,276,669**	2,794,303
Equity reserve (Notes 2 and 24)	**10,872,124**	11,600,281
Equity conversion option (Note 19)	**1,087,015**	1,113,003
Retained earnings (Note 21)	**196,914,989**	170,302,028
Treasury stock (Note 21)	**(2,300,000)**	(2,300,000)
	290,607,469	256,347,751
Non-controlling interests (Note 2)	**178,500,886**	154,744,637
Total Equity	**469,108,355**	411,092,388
Total Liabilities and Equity	**₱1,197,925,619**	₱1,021,545,752

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2018	2017	2016
REVENUE			
Sale of goods and rendering of services (Notes 11, 22, 29 and 31)	**₱274,881,486**	₱242,227,640	₱199,208,899
Share in net profits of associates and joint ventures (Notes 10 and 29)	**20,459,804**	18,494,458	18,153,893
Interest income from real estate (Note 7)	**7,042,078**	5,409,944	5,010,993
Dividend income	**106,803**	653,721	570,455
	302,490,171	266,785,763	222,944,240
COSTS AND EXPENSES			
Costs of sales and services (Notes 8, 23 and 31)	**196,607,561**	175,674,469	141,350,400
General and administrative espenses (Notes 23, 28 and 31)	**29,822,058**	25,213,100	20,932,709
	226,429,619	200,887,569	162,283,109
OTHER INCOME (CHARGES) - Net			
Interest income (Note 31)	**2,705,648**	1,403,537	1,765,943
Other income (Note 23)	**20,181,693**	20,938,274	12,575,606
Interest and other financing charges (Notes 19, 23 and 31)	**(19,101,077)**	(14,441,334)	(14,258,189)
Other charges (Note 13 and 23)	**(9,661,977)**	(11,672,137)	(6,804,908)
	(5,875,713)	(3,771,660)	(6,721,548)
INCOME BEFORE INCOME TAX	**70,184,839**	62,126,534	53,939,583
PROVISION FOR INCOME TAX (Note 25)			
Current	**16,330,821**	14,629,398	11,357,136
Deferred	**(1,211,096)**	(2,369,639)	(850,162)
	15,119,725	12,259,759	10,506,974
NET INCOME	**₱55,065,114**	₱49,866,775	₱43,432,609
Net Income Attributable to:			
Owners of the Parent Company (Note 26)	**₱31,817,721**	₱30,263,842	₱26,011,263
Non-controlling interests	**23,247,393**	19,602,933	17,421,346
	₱55,065,114	₱49,866,775	₱43,432,609
EARNINGS PER SHARE (Note 26)			
Basic	**₱48.80**	₱46.67	₱39.88
Diluted	**₱48.21**	₱45.99	₱39.31

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
NET INCOME	**₱55,065,114**	₱49,866,775	₱43,432,609
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences arising from translations of foreign investments	**(560,840)**	2,360,433	1,600,871
Changes in fair values of available-for-sale investment in equity securities (Note 15)	–	(706,081)	(51,054)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans (Note 27)	**(252,675)**	350,532	162,382
Changes in fair values of financial assets at FVOCI - net (Note 15)	**(975,439)**	–	–
Tax effect relating to components of other comprehensive income	**(153,017)**	(51,063)	(19,486)
	(1,941,971)	1,953,821	1,692,713
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences arising from translations of foreign investments	**392,731**	105,163	(70,907)
Changes in fair values of available-for-sale investment in equity securities (Note 15)	–	65,822	201,430
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans	**307,648**	53,422	(284,084)
Changes in fair values of financial assets at FVOCI - net (Note 15)	**(56,073)**	–	–
	644,306	224,407	(153,561)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(1,297,665)**	2,178,228	1,539,152
TOTAL COMPREHENSIVE INCOME	**₱53,767,449**	₱52,045,003	₱44,971,761
Total Comprehensive Income Attributable to:			
Owners of the Parent Company	**₱30,606,268**	₱31,247,213	₱26,926,275
Non-controlling interests	**23,161,181**	20,797,790	18,045,486
	₱53,767,449	₱52,045,003	₱44,971,761

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT												
			Other Comprehensive Income										
	Paid-in Capital (Note 21)	**Share-based Payments** (Note 28)	**Remeasurement Gains (Losses) on Defined Benefit Plans** (Note 27)	**Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets** (Note 15)	**Fair Value Reserve of Financial Assets at FVOCI** (Note 15)	**Cumulative Translation Adjustments**	**Equity Reserve** (Note 2)	**Equity Conversion Option** (Note 19)	**Retained Earnings** (Note 21)	**Treasury Stock** (Note 21)	**Total**	**Non-controlling Interests** (Note 2)	**Total Equity**
						For the year ended December 31, 2018							
As of January 1, 2018, as previously stated	**₱75,001,174**	**₱248,212**	**(₱1,303,288)**	**(₱1,107,962)**	**–**	**₱2,794,303**	**₱11,600,281**	**₱1,113,003**	**₱170,302,028**	**(₱2,300,000)**	**₱256,347,751**	**₱154,744,637**	**₱411,092,388**
Effect of adoption of new accounting standards (Note 3)	**–**	**–**	**–**	**1,107,962**	**153,233**	**–**	**–**	**–**	**413,714**	**–**	**1,674,909**	**227,531**	**1,902,440**
As of January 1, 2018 (Restated)	**75,001,174**	**248,212**	**(1,303,288)**	**–**	**153,233**	**2,794,303**	**11,600,281**	**1,113,003**	**170,715,742**	**(2,300,000)**	**258,022,660**	**154,972,168**	**412,994,828**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**31,817,721**	**–**	**31,817,721**	**23,247,393**	**55,065,114**
Share in other comprehensive income (loss) of associates and joint ventures	**–**	**–**	**307,648**	**–**	**(56,073)**	**392,731**	**–**	**–**	**–**	**–**	**644,306**	**–**	**644,306**
Other comprehensive income (loss)	**–**	**–**	**(303,679)**	**–**	**(641,715)**	**(910,365)**	**–**	**–**	**–**	**–**	**(1,855,759)**	**(86,212)**	**(1,941,971)**
Total comprehensive income (loss)	**–**	**–**	**3,969**	**–**	**(697,788)**	**(517,634)**	**–**	**–**	**31,817,721**	**–**	**30,606,268**	**23,161,181**	**53,767,449**
Issuance of shares	**8,056,257**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,056,257**	**–**	**8,056,257**
Exercise of ESOP/ESOWN	**304,244**	**(340)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**303,904**	**–**	**303,904**
Cost of share-based payments	**–**	**(9,001)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,001)**	**–**	**(9,001)**
Exercise of exchange option (Note 19)	**–**	**–**	**–**	**–**	**–**	**–**	**288,161**	**(25,988)**	**–**	**–**	**262,173**	**77,840**	**340,013**
Cash dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,618,474)**	**–**	**(5,618,474)**	**(5,664,159)**	**(11,282,633)**
Change in non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(1,016,318)**	**–**	**–**	**–**	**(1,016,318)**	**5,953,856**	**4,937,538**
At December 31, 2018	**₱83,361,675**	**₱238,871**	**(₱1,299,319)**	**–**	**(₱544,555)**	**₱2,276,669**	**₱10,872,124**	**₱1,087,015**	**₱196,914,989**	**(₱2,300,000)**	**₱290,607,469**	**₱178,500,886**	**₱469,108,355**

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT											
			Other Comprehensive Income									
	Paid-in Capital (Note 21)	**Share-based Payments** (Note 28)	**Remeasurement Gains (Losses) on Defined Benefit Plans** (Note 27)	**Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets** (Note 15)	**Cumulative Translation Adjustments**	**Equity Reserve** (Note 2)	**Equity Conversion Option** (Note 19)	**Retained Earnings** (Note 21)	**Treasury Stock** (Note 21)	**Total**	**Non-controlling Interests** (Note 2)	**Total Equity**
						For the year ended December 31, 2017						
As of January 1, 2017	₱74,379,760	₱495,759	(₱1,548,192)	(₱466,676)	₱1,414,550	₱12,211,275	₱1,113,745	₱145,622,311	(₱2,300,000)	₱230,922,532	₱140,073,346	₱370,995,878
Net income	–	–	–	–	–	–	–	30,263,842	–	30,263,842	19,602,933	49,866,775
Other comprehensive income (loss)	–	–	191,482	(707,108)	1,274,590	–	–	–	–	758,964	1,194,857	1,953,821
Share in other comprehensive income (loss) of associates and joint ventures	–	–	53,422	65,822	105,163	–	–	–	–	224,407	–	224,407
Total comprehensive income (loss)	–	–	244,904	(641,286)	1,379,753	–	–	30,263,842	–	31,247,213	20,797,790	52,045,003
Exercise of ESOP/ESOWN	621,414	(247,043)	–	–	–	–	–	–	–	374,371	–	374,371
Cost of share-based payments	–	(504)	–	–	–	–	–	–	–	(504)	–	(504)
Exercise of exchange option (Note 19)	–	–	–	–	–	8,606	(742)	–	–	7,864	2,048	9,912
Cash dividends	–	–	–	–	–	–	–	(5,584,125)	–	(5,584,125)	(5,395,567)	(10,979,692)
Change in non-controlling interests	–	–	–	–	–	(619,600)	–	–	–	(619,600)	(732,980)	(1,352,580)
At December 31, 2017	₱75,001,174	₱248,212	(₱1,303,288)	(₱1,107,962)	₱2,794,303	₱11,600,281	₱1,113,003	₱170,302,028	(₱2,300,000)	₱256,347,751	₱154,744,637	₱411,092,388

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT											
			Other Comprehensive Income									
	Paid-in Capital (Note 21)	**Share-based Payments** (Note 28)	**Remeasurement Gains (Losses) on Defined Benefit Plans** (Note 27)	**Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets** (Note 15)	**Cumulative Translation Adjustments**	**Equity Reserve** (Note 2)	**Equity Conversion Option** (Note 19)	**Retained Earnings** (Note 21)	**Treasury Stock** (Note 21)	**Total**	**Non-controlling Interests** (Note 2)	**Total Equity**
						For the year ended December 31, 2016						
As of January 1, 2016	₱73,919,322	₱568,847	(₱1,249,716)	(₱554,297)	₱288,683	₱12,402,311	₱1,113,745	₱124,468,464	(₱2,300,000)	₱208,657,359	₱119,886,624	₱328,543,983
Net income	–	–	–	–	–	–	–	26,011,263	–	26,011,263	17,421,346	43,432,609
Other comprehensive income (loss)	–	–	(14,392)	(113,809)	1,196,774	–	–	–	–	1,068,573	624,140	1,692,713
Share in other comprehensive income (loss) of associates and joint ventures	–	–	(284,084)	201,430	(70,907)	–	–	–	–	(153,561)	–	(153,561)
Total comprehensive income (loss)	–	–	(298,476)	87,621	1,125,867	–	–	26,011,263	–	26,926,275	18,045,486	44,971,761
Exercise of ESOP/ESOWN	460,438	(321,094)	–	–	–	–	–	–	–	139,344	–	139,344
Cost of share-based payments	–	248,006	–	–	–	–	–	–	–	248,006	–	248,006
Cash dividends	–	–	–	–	–	–	–	(4,857,416)	–	(4,857,416)	(5,335,772)	(10,193,188)
Change in non-controlling interests	–	–	–	–	–	(191,036)	–	–	–	(191,036)	7,477,008	7,285,972
At December 31, 2016	₱74,379,760	₱495,759	(₱1,548,192)	(₱466,676)	₱1,414,550	₱12,211,275	₱1,113,745	₱145,622,311	(₱2,300,000)	₱230,922,532	₱140,073,346	₱370,995,878

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱70,184,839**	₱62,126,534	₱53,939,583
Adjustments for:			
Interest and other financing charges - net of amount capitalized (Note 23)	**19,101,077**	14,441,334	14,258,189
Depreciation and amortization (Note 23)	**13,561,593**	12,297,860	11,560,471
Cost of share-based payments (Note 28)	**(9,001)**	(504)	248,006
Provision for impairment/Losses on (Note 23):			
Investments in bonds and other securities	**–**	18,813	–
Investments in associates and joint ventures	**589,109**	356,700	1,436,854
Property, plant and equipment	**71,430**	–	45,737
Land and improvements	**–**	572,001	–
Intangible assets	**361,170**	26,112	–
Mark to market gain on financial assets at fair value through profit or loss and derivatives (Note 23)	**(996,170)**	(779,553)	(473,855)
Dividend income	**(106,803)**	(653,721)	(570,455)
Other income (Note 23)	**(1,637,720)**	18,528	(712,735)
Gain on sale of (Note 23):			
Investments	**(1,514,439)**	(1,394,560)	(2,128,522)
Other assets	**(62,463)**	(126,337)	(5,182)
Interest income	**(9,747,726)**	(6,813,481)	(6,776,936)
Share of profit of associates and joint ventures (Note 10)	**(20,459,804)**	(18,494,458)	(18,153,893)
Operating income before changes in operating assets and liabilities	**69,335,092**	61,595,268	52,667,262
Decrease (increase) in:			
Accounts and notes receivable – trade	**(24,472,429)**	(19,760,661)	(14,509,112)
Contract assets	**(11,305,130)**	–	–
Inventories	**6,547,964**	8,561,531	(5,676,226)
Service concession assets (Note 13)	**(10,445,119)**	(10,667,636)	(6,423,693)
Other current assets	**2,733,232**	(9,028,474)	(5,387,939)
Increase (decrease) in:			
Accounts payable and accrued expenses	**29,311,790**	5,305,175	20,002,946
Contract liabilities	**12,252,548**	–	–
Net pension liabilities	**(291,599)**	462,117	(1,143,247)
Other current liabilities	**3,511,976**	7,857,053	12,834,529
Net cash generated from operations	**77,178,325**	44,324,373	52,364,520
Interest received	**9,694,345**	6,782,727	7,054,102
Interest paid	**(18,646,300)**	(13,374,230)	(14,029,313)
Income tax paid	**(15,649,993)**	(16,626,572)	(10,172,006)
Net cash provided by operating activities	**52,576,377**	21,106,298	35,217,303
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of investments in bonds and other securities	**23,447**	1,834,186	1,659,387
Sale/maturities of financial assets at fair value through profit or losss	**71,690**	3,408,555	2,948,650
Sale/redemptions of investments in associates and joint ventures	**1,106,080**	944,104	3,672,767
Sale of a subsidiary (Note 2)	**–**	–	109,729

(Forward)

	Years Ended December 31		
	2018	2017	2016
Disposals of:			
Property, plant and equipment (Note 12)	**₱3,581,848**	₱1,016,548	₱363,849
Intangible assets (Note 14)	**1,105,170**	–	–
Investment properties (Note 11)	**1,754,974**	165	777,105
Maturities of (additions to) short-term investments	**(556,250)**	(4,391,533)	1,043,583
Additions to:			
Service concession assets (Note 13)	**(10,725)**	(26,290)	(110,383)
Investments in associates and joint ventures	**(37,633,169)**	(11,779,429)	(13,422,670)
Property, plant and equipment (Note 12)	**(14,006,370)**	(25,189,980)	(24,344,093)
Investment properties (Note 11)	**(37,287,003)**	(33,358.785)	(33,577,877)
Accounts and notes receivable - non trade	**(11,265,591)**	(1,336,144)	(11,274,562)
Financial assets at fair value through profit or loss	**(1,122,194)**	(1,555,243)	(2,742,790)
Investments in bonds and other securities	**(92,673)**	(799,529)	(52,642)
Intangible assets (Note 14)	**(488,357)**	(492,057)	(533,376)
Dividends received from associates, joint ventures and investments in equity securities (Note 10)	**7,478,203**	8,953,251	8,560,393
Acquisitions through business combinations - net of cash acquired (Note 24)	**(6,831,376)**	(5,322,990)	(2,551,035)
Decrease (increase) in other noncurrent assets	**(13,819,311)**	5,775,538	(6,709,456)
Net cash used in investing activities	**(107,991,607)**	(68,506,478)	(76,183,421)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term and long-term debt	**188,614,111**	225,841,869	97,216,392
Payments of short-term and long-term debt	**(137,303,524)**	(172,070,751)	(68,047,835)
Dividends paid (Note 21)	**(10,769,921)**	(10,864,490)	(10,104,138)
Service concession obligation paid (Note 13)	**(712,941)**	(778,819)	(858,230)
Collections of subscriptions receivable	**303,904**	374,371	139,344
Issuance of common shares	**8,069,960**	–	–
Cost of issuance of shares	**(13,703)**	–	–
Increase (decrease) in:			
Other noncurrent liabilities	**3,572,007**	1,181,105	1,368,605
Non-controlling interests in consolidated subsidiaries (Note 24)	**20,321**	(1,362,580)	(679,238)
Net cash provided by financing activities	**51,780,214**	42,320,705	19,034,900
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(3,635,016)**	4,035,955	(21,931,218)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**64,259,279**	60,223,324	82,154,542
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱60,624,263**	₱64,259,279	₱60,223,324

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Ayala Corporation (the Parent Company) is incorporated in the Republic of the Philippines on January 23, 1968. On April 15, 2016, during the annual meeting of its stockholders, the stockholders ratified the amendment of the Fourth Article of the Articles of Incorporation (AOI) to extend the corporate term for 50 years from January 23, 2018. The amendment to the AOI was approved by the Securities and Exchange Commission (SEC) on April 5, 2017. The Parent Company's registered office address and principal place of business is 32F-35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The Parent Company is a publicly listed company which is 47.04% owned by Mermac, Inc. and the rest by the public.

The Parent Company is the holding company of the Ayala Group of Companies (the Group), with principal business interests in real estate and hotels, financial services and insurance, telecommunications, water infrastructure, electronics solutions and manufacturing, industrial technologies, automotive, power generation, infrastructure, international real estate, healthcare, education and technology ventures.

2. Group Information

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries of the Group:

		% of Economic Ownership Interest held by the Group	
Subsidiaries	**Nature of Business**	**2018**	2017
AC Energy, Inc. (ACEI)	Power Generation	**100.0%**	100.0%
AC Infrastructure Holdings Corporation (AC Infra)	Infrastructure	**100.0**	100.0
AC International Finance Limited (ACIFL)*	Investment Holding	**100.0**	100.0
AG Counselors Corporation (AGCC)	Consulting Services	**100.0**	100.0
AC Industrial Technology Holdings Inc. (AITHI/ACI)	Industrial Technology and Automotive	**100.0**	100.0
Ayala Aviation Corporation (AAC)	Air Charter	**100.0**	100.0
AC Education, Inc. (AEI)	Education	**100.0**	100.0
Ayala Land, Inc. (ALI)	Real Estate and Hotels	**47.0**	47.1
AYC Finance Ltd. (AYCFL)*	Investment Holding	**100.0**	100.0
Azalea International Venture Partners Limited (AIVPL)**	Business Process Outsourcing (BPO)	**100.0**	100.0
Ayala Healthcare Holdings, Inc.(AHHI)	Healthcare	**100.0**	100.0
Bestfull Holdings Limited (BHL)***	Investment Holding – International	**100.0**	100.0
Darong Agricultural and Development Corporation (DADC)	Agriculture	**100.0**	100.0
HCX Technology Partners, Inc. (HCX)	HR Technology Services	**100.0**	100.0
Integrated Microelectronics, Inc. (IMI)	Electronics Manufacturing	**52.1**	50.7
Manila Water Company, Inc. (MWC)	Water Infrastructure	**51.4**	51.6
Michigan Holdings, Inc. (MHI)	Investment Holding	**100.0**	100.0
Philwater Holdings Company, Inc. (Philwater)	Investment Holding	**100.0**	100.0
Purefoods International, Ltd. (PFIL)**	Investment Holding	**100.0**	100.0
Technopark Land, Inc. (TLI)	Real Estate	**78.8**	78.8
AC Ventures Holding Corporation (AVHC)	Investment Holding	**100.0**	100.0

**Incorporated in Cayman Islands*
***Incorporated in British Virgin Islands*
****Incorporated in Hong Kong*

Unless otherwise indicated, the principal place of business and country of incorporation of the Parent Company's investments in subsidiaries, associates and joint ventures is the Philippines.

Except as discussed below, the voting rights held by the Parent Company in its investments in subsidiaries are in proportion to its ownership interest.

The following significant transactions affected the Parent Company's investments in its subsidiaries:

Investment in ACEI
On January 19, 2018, the Board of Directors (BOD) of the Parent Company approved the restructuring of ACEI as follows (see Note 10):

Effective January 29, 2018, ACE Mariveles Power Ltd. Co. (AMPLC), a wholly owned subsidiary of ACEI, became the legal and registered owner of the limited partnership interest in GNPower Mariveles Coal Plant Ltd. Co (GMCP).

On June 7, 2018, Ingrid Power Holdings, Inc., a wholly owned subsidiary of ACEI was incorporated.

On July 12, 2018, ACEI Group restructured Gigasol2, Inc. to transfer 100% ownership from AC Laguna Solar Inc., AC La Mesa Solar Inc., AC Subic Solar Inc., Gigasol1 Inc., Gigasol3 Inc. SolarAce1 Inc. and SolarAce2. These companies including Gigasol2 were 100%-owned by Presage Corporation (Presage), a wholly owned subsidiary of ACEI.

On September 7, 2018, ACE Thermal, Inc., a wholly owned subsidiary of ACEI was incorporated. On September 20, 2018, AA Thermal, Inc. (AA Thermal), a wholly owned affiliate of ACEI was incorporated.

On September 24, 2018, ACEI transferred 100% of its limited partnership interest in each of ACE Mariveles Power Ltd. Co. and Dinginin Power Holdings Ltd. Co. (DPHLC) to AA Thermal. The transfer is part of ACEI Group's restructuring plan for its thermal assets.

On September 25, 2018, ACEI and Arlingon Mariveles Netherlands Holdings B.V. (AMNHB), a subsidiary of ACEI, signed a subscription agreement for the purchase of shares of stock of AA Thermal, Inc.

On various dates in 2018, ACEI acquired 100% ownership interest in Pagudpud Wind Power Corp. (Pagudpud Wind) and HDP Bulk Water Supply, Inc. (HDP) for ₱2.5 million and ₱110.1 million, respectively (see Note 24).

In 2017, the Parent Company infused additional capital to ACEI which amounted to ₱3.9 billion. The proceeds were used to finance the various renewable energy, wind and coal projects of ACEI to complete its planned 2,000 megawatt (MW) capacity.

On March 16, 2017, ACEI signed definitive documents to acquire 100% ownership of Bronzeoak Clean Energy (BCE) and San Carlos Clean Energy (SCCE). With the acquisition, SCCE and BCE have been renamed as AC Energy DevCo Inc. (AEDCI) and Visayas Renewables Corp. (VRC), respectively (see Note 24). In addition, ACEI acquired Manapla Sun Power Dev't. Corp., SCC Bulk Water Supply, Inc. and Solienda, Inc. (Solienda) in 2017 (see Note 24). These acquired entities will be referred to as AC Energy DevCo Inc. Group in the notes to the financial statements.

On December 29, 2017, the SEC approved the change in name of AC Energy Holdings, Inc. to AC Energy, Inc.

In December 2016, ACEI sold all of its 70% ownership interest in QuadRiver Energy Corporation (Quadriver), Philnew Hydro Power Corporation (Hydro Power) and PhilnewRiver Corporation (PhilnewRiver) to Sta. Clara Power Corporation (Sta. Clara). As consideration for its purchase, Sta. Clara issued a noninterest-bearing note for ₱350.0 million, payable over four (4) years. ACEI recognized ₱143.6 million gain from the disposal included under "Other Income" account in the consolidated statement of income (see Note 23) and, as the note is noninterest-bearing, ACEI also recognized a 'Day 1' loss of ₱60.8 million. Subsequently, ACEI recognized a provision for impairment losses on the note amounting to ₱289.2 million (see Note 23).

Investment in AC Infra
On August 6, 2018, AC Infra acquired 57.90% ownership interest in Entrego Fulfilment Solutions, Inc. (Entrego) for a total amount of ₱158.86 million (see Note 24).

On various dates in 2018 and 2017, the Parent Company infused additional capital to AC Infra amounting to ₱1,649.3 million and ₱243.8 million, respectively. The additional capital was used to fund the investments in Light Rail Manila Holdings, Inc. (see Note 10), Entrego, AF Payments, Inc. (AFPI) and the operating and capital expenditures of AC Infra.

Investment in ACIFL
In March and April 2017, ACIFL repurchased its 115,000,000 shares and 39,968,660 shares, respectively, which were issued and registered in the name of the Parent Company, ACIFL's sole shareholder. The repurchase price was at par of US$1.00 per share for a total amount of US$155.0 million. ACIFL remained a wholly owned subsidiary of the Parent Company after the transaction.

Investment in AITHI
In March 2018, AITHI completed its subscription to 208,187,173 proportionate and unsubscribed rights share in IMI's stock rights offering (SRO), raising its ownership in IMI to 52.03%.

On February 24, 2018, AITHI completed its acquisition of a controlling stake in Merlin Solar Technologies, Inc. (Merlin US) through its offshore subsidiary, ACI Solar Holdings NA, Inc. (ACI Solar). AITHI had a previously held interest of 8.2% in Merlin US which it acquired in 2016. The 2018 acquisition resulted to a total ownership interest of 98.96% in Merlin US (see Note 24).

On various dates in 2018, AITHI was appointed as distributor of KIA and Maxus vehicles in the Philippines (see Note 39).

In 2018 and 2017, the Parent Company infused ₱3.7 billion and ₱7.8 billion, respectively, to AITHI Group to fund its subscription entitlement in IMI's stock offering, planned business expansion and various investments.

On June 1, 2017, AITHI, through its wholly owned subsidiary AC Industrial (Singapore) Pte. Ltd. (ACI Singapore), entered into an agreement to acquire 94.9% ownership interest in MT Misslbeck Technologies GmbH (MT) which was subsequently renamed to MT Technologies GmbH. The closing of the transaction transpired on July 5, 2017 upon completion of pre-closing conditions and regulatory approval (see Note 24).

Investment in AAC
The Parent Company infused additional capital to AAC amounting to ₱25.6 million in 2017. The additional capital was used to purchase new aircrafts and support working capital requirements.

In 2017, AAC converted its advances from the Parent Company amounting to ₱259.3 million to 4,321,742 common shares.

Investment in AEI
On February 8, 2018, AEI and most of the shareholders of National Teachers College (NTC) executed a Share Purchase Agreement for the acquisition of shares in NTC subject to certain closing conditions. On April 30, 2018, AEI assumed ownership of approximately 96.0% of the voting shares of NTC for a total consideration of ₱1.2 billion (see Note 24).

On October 1, 2018, AEI and iPeople, Inc. (IPO) executed a memorandum of agreement (MOA) for the merger, with IPO as the surviving entity and with House of Investments (HI) and the Parent Company owning 48.18% and 33.5%, respectively (Notes 9 and 27). The merger, which was approved by the stockholders of IPO and AEI on December 12, 2018 and December 5, 2018, respectively, was approved by the PCC on December 12, 2018. On January 31, 2019, AEI and IPO executed the Plan and Articles of merger, as approved by their respective boards of directors and stockholders.

On December 18, 2018, AEI purchased the rest of the non-controlling interest held by Pearson Affordable Learning Fund Limited (PALF) in Affordable Private Education Center, Inc. doing business under the name of APEC Schools (APEC), making APEC a wholly owned subsidiary of AEI (see Note 24).

On various dates in 2018 and 2017, the Parent Company infused additional capital to AEI which amounted to ₱2,597.0 million and ₱225.6 million, respectively, to fund its various investments.

On February 27, 2017, SEC approved the change in name of Ayala Education, Inc. to AC Education, Inc. as approved by the BOD of AEI on December 9, 2016.

Investment in ALI
ALI shares with cost of ₱258.9 million and ₱198.2 million as of December 31, 2018 and 2017, respectively, were collateralized to secure the Parent Company's loan facility. The fair value of ALI shares collateralized amounted to ₱13.8 billion and ₱11.6 billion as of December 31, 2018 and 2017, respectively (see Note 19).

The fair value of ALI shares held by the Parent Company amounted to ₱281.1 billion and ₱309.2 billion as of December 31, 2018 and 2017, respectively. The voting rights held by the Parent Company in ALI is 68.7% as of December 31, 2018 and 2017.

Investment in AIVPL and HCX
In 2016, LiveIt Investments, Limited (LiveIt), a wholly owned subsidiary of AIVPL, sold its 82.5% ownership interest in IQ BackOffice Holdings Ltd. (IQB), a California-based business process outsourcing company particularly engaged in finance and accounting outsourcing (FAO) and human resource outsourcing (HRO), to IQB's management team. The Group retained the HRO business under its newly incorporated subsidiary, HCX Technology Partners, Inc. (HCX).

The divestment resulted in ₱152.7 million loss in 2016 based on the remaining carrying value of the investment which is net of losses recognized in prior years (see Note 23).

Investment in AHHI
On December 6, 2018, AHHI entered into a share purchase agreement with Jasminum Corporation for the acquisition of a 75% ownership stake in Negros Grace Pharmacy, Inc. (Negros Grace). As of December 31, 2018, the purchase is subject to the fulfillment of certain closing conditions, including any necessary regulatory approval. This transaction, once completed, will allow AHHI to expand its portfolio in the pharma retail space, particularly in the Visayas region.

On various dates in 2018 and 2017, the Parent Company infused ₱389.8 million and ₱518.0 million to AHHI, respectively, to fund its various investments.

Investment in BHL
In July 2017, the Parent Company sold to ACIFL 1,286,320 common shares of BHL for a total consideration of ₱652.1 million. BHL remained a wholly-owned subsidiary of the Parent Company after the transaction.

Investment in IMI
On January 30, 2018, IMI obtained the approval of the Philippine Stock Exchange (PSE) for a stock rights offer of up to 350 million new common shares to eligible shareholders in order to raise up to ₱5.0 billion proceeds. Under the rights offer, each shareholder is entitled to subscribe to one rights share for every 5.3551 existing common shares held as of record date February 14, 2018. The offer price was determined to be at ₱14.28 per rights share which was based on the 30-day volume-weighted average price of IMI common shares listed at PSE as of February 7, 2018 at a discount of 25.3%. The listing of the shares was completed on March 2, 2018. As a result of the transaction, the ownership interest of the Group increased from 50.7% to 52.1%

On April 9, 2018, IMI, through its subsidiary, VIA Optronics GmbH (VIA), and Toppan Printing Co., Ltd. (Toppan) have agreed to form a new joint venture company to serve the market for copper-based metal mesh touch sensors by transferring 65% of the shares of Toppan Touch Panel Products Co., Ltd., a newly formed spin-off form Toppan, to VIA. The name of the new joint venture company is VTS-Touchsensor Co., Ltd. (VTS) (see Note 24).

In May 2017, IMI, through its subsidiary IMI UK, acquired 80% interest in Surface Technology International Enterprises Limited (STI) for US$54.7 million (see Note 24).

The fair value of the IMI shares held by the Group amounted to ₱12.2 billion and ₱17.8 billion as of December 31, 2018 and 2017, respectively. The voting rights held by the Group in IMI is 52.1% and 50.7% in 2018 and 2017, respectively.

Investment in MWC
The fair value of the MWC shares held by the Group amounted to ₱23.1 billion and ₱24.3 billion as of December 31, 2018 and 2017, respectively. The voting rights held by the Group in MWC is 80.3% and 80.4% as of December 31, 2018 and 2017.

Investment in AVHC
On various dates in 2018 and 2017, the Parent Company infused a total of ₱0.02 billion and ₱1.3 billion, respectively, to AVHC to fund its various investments in BF Jade E-Service Philippines, Inc. (BF Jade), the owner of Zalora Philippines (Zalora) and Globe Fintech Innovations, Inc. (GFI or Mynt) (see Note 10).

On August 22, 2017, the SEC approved the amended AOI and amended By-laws of AVHC with the following changes:

i. Change in name of Water Capital Works, Inc. to AC Ventures Holding Corp;
ii. Increase of capital stock, from ₱1.0 million divided into 1 million shares at ₱1.00 par value each to ₱5.0 billion divided into 50 million shares at ₱100.00 par value each; and
iii. Amendment in its primary purpose to include, among others, engaging in investment, loans and other transactions other than providing services for the capital works program of MWC.

Material partly-owned subsidiaries with material economic ownership interest
Information of subsidiaries that have material non-controlling economic interests is provided below:

2018	**ALI**	**MWC**	**IMI***
	(In Thousands, except for %)		
Proportion of equity interests held by non-controlling interest	**53.0%**	**48.6%**	**47.9%**
Voting rights held by non-controlling interest	**31.3%**	**19.7%**	**47.9%**
Accumulated balances of non-controlling interest	**₱129,072,954**	**₱34,446,560**	**₱10,639,501**
Net income allocated to non-controlling interest	**18,868,583**	**3,016,848**	**1,258,795**
Comprehensive income allocated to material non-controlling interest	**18,201,328**	**2,656,094**	**1,148,331**
Dividends paid to non-controlling interest	**3,996,386**	**1,407,921**	**248,175**

**Translated using the exchange rate at the reporting date (US$1:₱52.58 on December 31, 2018).*

2017	ALI	MWC	IMI*
	(In Thousands, except for %)		
Proportion of equity interests held by non-controlling interest	52.9%	48.4%	49.3%
Voting rights held by non-controlling interest	31.3%	19.6%	49.3%
Accumulated balances of non-controlling interest	₱111,363,317	₱32,149,779	₱7,023,270
Net income allocated to non-controlling interest	16,007,113	2,647,465	860,396
Comprehensive income allocated to material non-controlling interest	16,641,251	3,111,303	1,166,163
Dividends paid to non-controlling interest	3,799,525	1,387,852	208,190

**Translated using the exchange rate at the reporting date (US$1:₱49.93 on December 31, 2017).*

The summarized financial information of these subsidiaries is provided below. These information are based on amounts before inter-company eliminations.

2018	**ALI**	**MWC**	**IMI***
		(In Thousands)	
Statement of financial position			
Current assets	**₱302,829,898**	**₱13,448,541**	**₱36,648,380**
Noncurrent assets	**365,990,584**	**123,352,071**	**19,643,379**
Current liabilities	**240,784,527**	**22,708,379**	**27,615,126**
Noncurrent liabilities	**207,814,758**	**46,697,190**	**7,306,211**
Statement of comprehensive income			
Revenue	**163,746,818**	**19,836,292**	**70,951,475**
Profit attributable to:			
Equity holders of the parent	**29,240,880**	**6,523,701**	**2,392,754**
Non-controlling interests	**3,975,709**	**111,332**	**123,254**
Total comprehensive income attributable to:			
Equity holders of the parent	**29,701,636**	**6,987,646**	**1,848,268**
Non-controlling interests	**3,978,319**	**112,862**	**123,254**
Statement of cash flows			
Operating activities	**11,767,917**	**3,297,589**	**(701,246)**
Investing activities	**(2,978,246)**	**(8,859,009)**	**(4,372,792)**
Financing activities	**(6,264,296)**	**5,931,267**	**6,026,534**
Effect of changes in foreign exchange on cash and cash equivalents	**473,106**	**–**	**(10,940)**
Net increase (decrease) in cash and cash equivalents	**₱2,998,481**	**₱369,847**	**₱941,556**

**Translated using the exchange rate at the reporting date (US$1:₱52.58 on December 31, 2018).*

2017	ALI	MWC	IMI*
		(In Thousands)	
Statement of financial position			
Current assets	₱240,852,281	₱12,867,251	₱28,979,972
Noncurrent assets	333,140,053	105,836,163	17,001,451
Current liabilities	184,623,237	11,738,570	22,585,772
Noncurrent liabilities	197,105,739	43,650,182	9,585,282
Statement of comprehensive income			
Revenue	139,373,341	18,515,772	42,112,917
Profit attributable to:			
Equity holders of the parent	25,304,965	5,527,918	1,608,671
Non-controlling interests	2,860,694	(6,661)	22,019
Total comprehensive income attributable to:			
Equity holders of the parent	26,500,790	5,578,845	2,551,633
Non-controlling interests	2,860,694	(5,415)	39,047
Statement of cash flows			
Operating activities	24,233,585	(204,215)	(909,456)
Investing activities	(33,906,087)	(2,324,441)	(3,913,562)
Financing activities	9,800,657	7,483,699	4,986,386
Effect of changes in foreign exchange on cash and cash equivalents	(34,396)	–	40,271
Net increase (decrease) in cash and cash equivalents	₱93,759	₱4,955,043	₱203,639

**Translated using the exchange rate at the reporting date (US$1:₱49.93 on December 31, 2017).*

2016	ALI	MWC	IMI*
		(In Thousands)	
Statement of comprehensive income			
Revenue	₱124,628,795	₱17,711,911	₱41,912,291
Profit (loss) attributable to:			
Equity holders of the parent	20,908,011	6,065,221	1,397,922
Non-controlling interests	3,523,774	121,770	(4,971)
Total comprehensive income attributable to:			
Equity holders of the parent	21,107,974	6,538,210	1,193,573
Non-controlling interests	3,524,312	123,270	(4,971)
Statement of cash flows			
Operating activities	33,688,337	1,068,966	1,864,599
Investing activities	(60,553,938)	(614,276)	(4,813,714)
Financing activities	28,682,541	(3,238,945)	2,220,183
Effect of changes in foreign exchange on cash and cash equivalents	–	–	(16,056)
Net increase (decrease) in cash and cash equivalents	₱1,816,940	(₱2,784,255)	(₱744,988)

**Translated using the exchange rate at the reporting date (US$1:₱49.72 on December 31, 2016).*

3. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI), available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱) and all values are rounded to the nearest thousand pesos (₱000) unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs), which include the availment of the relief granted by the Securities and Exchange Commission (SEC) under Memorandum Circular Nos. 14-2018 and 3-2019 as discussed in the section below on Adoption of New and Amended Accounting Standards and

Interpretations. PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

a. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
b. Exposure, or rights, to variable returns from its involvement with the investee, and
c. The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a. The contractual arrangement with the other vote holders of the investee
b. Rights arising from other contractual arrangements
c. The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Parent Company. Any equity instruments issued by a subsidiary that are not owned by the Parent Company are non-controlling interests including preferred shares and options under share-based transactions. The portion of profit or loss and net assets in subsidiaries not wholly-owned are presented separately in the consolidated statement of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statement of financial position, separately from the Parent Company's equity. Non-controlling interests are net of any outstanding subscription receivable.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

In accounting for call and put options over non-controlling interests, management determines whether it has present access to the returns associated with the non-controlling interests. If the options give the Group access to the returns over the non-controlling interests, the Group consolidates the acquiree as if it acquired a 100% interest.

If the options does not give the Group present access to the returns over the non-controlling interests, the Group takes the view that the non-controlling interests should be accounted for in accordance with PFRS 10, *Consolidated Financial Statements* and must be presented within equity separate from the equity of the Parent Company, until the option is exercised.

For all periods up to and including the year ended December 31, 2017, the Group accounted for call options under PAS 39, *Financial Instruments: Recognition and Measurement.* For the year ended December 31, 2018, the call options are accounted for in accordance with PFRS 9, *Financial Instruments,* as a derivative asset carried at fair value through profit or loss.

The financial liability for the put option is accounted for under PFRS 9 like any other written put option on equity instruments. On initial recognition, the corresponding debit is made to a component of equity attributable to the parent, not to the non-controlling interest. All subsequent changes in the carrying amount of the financial liability that result from the remeasurement of the present value payable on exercise are recognized in profit or loss also attributable to the parent.

If the put option is exercised, the entity accounts for an increase in its ownership interest. At the same time, the entity derecognizes the financial liability and reverses the component of equity that was reduced on initial recognition. If the put option expires unexercised, the financial liability is reclassified to the same component of equity that was reduced on initial recognition.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as "Equity reserve" and attributed to the owners of the Parent Company.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while the resulting gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Changes in Accounting Policies and Disclosures

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2018. The nature and the impact of each new standard and amendment are described below:

- 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. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  The Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

  The Group applied PFRS 9 under the modified retrospective approach, with an initial application date of January 1, 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other comprehensive income (OCI) as of January 1, 2018, as appropriate.

  The effect of adopting PFRS 9 as of January 1, 2018 was, as follows:

	As previously reported January 1, 2018	**Adjustments**	**As restated January 1, 2018**
Financial assets at fair value through profit or loss (FVTPL)	₱6,063,585	₱1,087,593	₱7,151,178
Available-for-sale financial assets	4,466,367	(4,466,367)	–
Financial assets at fair value through other comprehensive income (FVOCI)	–	3,378,774	3,378,774
Investments in associates and joint ventures	202,649,300	170,195	202,819,495
	₱213,179,252	₱170,195	₱213,349,447
Retained earnings	₱170,302,028	(₱1,200,872)	₱169,101,156
Net unrealized gain (loss) on AFS financial assets / Fair value reserve of financial assets at FVOCI	(1,107,962)	1,261,195	153,233
Non-controlling interests	154,744,637	109,872	154,854,509
	₱323,938,703	₱170,195	₱324,108,898

  The nature of these adjustments are described below:

  Classification and measurement
  Under PFRS 9, debt instruments are subsequently measured at FVTPL, amortized cost, or FVOCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

  The assessment of the Group's business model was made as of the date of initial application, January 1, 2018, and then applied prospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

  The Group continued measuring at fair value all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Group's financial assets:

  - Cash and cash equivalents, short term investments and accounts and notes receivables previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost beginning January 1, 2018.
  - Equity investments in listed and certain non-listed companies previously classified as Available-for-sale (AFS) financial assets are now classified and measured as financial assets designated at fair value through OCI. The Group elected to classify irrevocably its equity

investments under this category as it intends to hold these investments for the foreseeable future. Impairment losses recognized in profit or loss for these investments in prior periods have been transferred from retained earnings to OCI in accordance with the requirements of PFRS 9 to recognize the difference between the cost of the equity instrument and its fair value upon transition in OCI.

- Certain unquoted equity instruments classified as AFS financial assets as at December, 31 2017 are classified and measured as Financial assets at FVTPL beginning January 1, 2018.

The Group has not designated any financial liabilities as at FVTPL and there are no changes in classification and measurement for the Group's financial liabilities.

In summary, upon adoption of PFRS 9, the Group had the following required or elected reclassifications as at January 1, 2018.

		PFRS 9 Measurement Categories*		
PAS 39 Categories	Balances	Fair value through profit or loss	Amortized cost	Fair value through OCI
Loans and receivables				
Cash and cash equivalents	₱64,259,279	₱–	₱64,259,279	₱–
Short term investments	5,400,239	–	5,400,239	–
Accounts and notes receivables	146,016,903	–	146,016,903	–
AFS financial assets	4,466,367	1,087,593	–	3,378,774
Financial assets at FVTPL	6,063,585	6,063,585	–	–
	₱226,206,373	₱7,151,178	₱215,676,421	₱3,378,774

**Without the impact of adopting PFRS 15.*

Impairment

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to record an allowance for impairment losses for all loans and other debt financial assets 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 Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For residential and office development receivables presented under trade receivables and contract assets, ALI Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Therefore, ALI Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

ALI Group used the vintage analysis accounts for expected credit losses by calculating the cumulative loss rates of a given trade receivables and contract assets pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the probability model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

In addition to life of loan loss data, primary drivers like macroeconomic indicators of qualitative factors such as forward-looking data on gross domestic product and inflation rate were added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points.

The key inputs in the model include ALI Group's definition of default and historical data of three years for the origination, maturity date and default date. ALI Group considers an installment contracts receivable (ICR) in default when contractual payment are 30 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature which may extend the definition of default to 30 days and beyond. However, in certain cases, ALI Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by ALI Group.

The probability of default is applied to the estimate of the loss arising on default which is based on the difference between the contractual cash flows due and those that ALI Group would expect to receive, including those from the repossession of the subject real estate property, net of cash outflows. For purposes of calculating loss given default, accounts are segmented based on facility/collateral type and completion. In calculating the recovery rates, ALI Group considered collections of cash and/or cash from resale of real estate properties after foreclosure, net of direct costs of obtaining and selling the real estate properties after the default event such as commission, refurbishment, payment required under the Maceda law and cost to complete (for incomplete units).

As these are future cash flows, these are discounted back to the time of default using the appropriate effective interest rate, usually being the original EIR or an approximation thereof.

For other trade receivables and contract assets, the Group applies the provision matrix which is based on historical observed default rate or losses and adjusted by forward-looking estimates.

For other financial assets such as accrued receivable, receivable from related parties, receivables from officers and employees, dividend receivable and advances to other companies and other receivables, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash and cash equivalents and short-term investments, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

There is no transition adjustment in relation to the impairment allowance as of January 1, 2018.

Hedge accounting
Under PAS 39, all gains and losses arising from the Group's cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under PFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change is not applicable to the Group because it does not have cash flow hedging arrangements.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising form contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

  PFRS 15 requires entities to exercise judgment, taking into consideration all 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. In addition, the standard requires extensive disclosures.

  The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all open contracts as of January 1, 2018.

  The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 11, PAS 18 and related interpretations.

  On February 14, 2018, the PIC issued PIC Q&A No. 2018-12 (PIC Q&A) which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. On October 25, 2018 and February 8, 2019, the SEC issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of three years:

  a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E
  b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D
  c. Accounting for Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H

Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A No. 2018-14: *PFRS 15 - Accounting for Cancellation of Real Estate Sales* was also deferred until December 31, 2020. The SEC Memorandum Circular also provided the mandatory disclosure requirements should an entity decide to avail of any relief. Disclosures should include:

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

Except for the CUSA charges discussed under PIC Q&A No. 2018-12-H which applies to leasing transactions, the above deferral will only be applicable for real estate sales transactions.

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

ALI Group availed of the deferral of adoption of the above specific provisions of PIC Q&A. Had these provisions been adopted, it would have the following impact in the consolidated financial statements:

- The exclusion of land and uninstalled materials in the determination of POC would reduce the percentage of completion of real estate projects resulting in a decrease in retained earnings as at January 1, 2018 as well as a decrease in the revenue from real estate sales in 2018. This would result to the land portion of sold inventories together with connection fees, to be treated as contract fulfillment asset.
- The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for contract assets and interest expense for contract liabilities using effective interest rate method and this would have impacted retained earnings as at January 1, 2018 and the revenue from real estate sales in 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.
- ALI Group is acting as a principal for the provision of air-conditioning services, common use service area services and administration and handling services. This would have resulted in the gross presentation of the related revenue and the related expenses and cost. Currently, the related revenue is presented net of costs and expenses. These would not result to any adjustment in the retained earnings as of January 1, 2018 and net income.
- Upon sales cancellation, the repossessed inventory would be recorded at fair value plus cost to repossess (or fair value less cost to repossess if this would have been opted). This would have increased retained earnings as at January 1, 2018 and gain from repossession in 2018. Currently, the Group records the repossessed inventory at cost.

The significant effects of adopting PFRS 15 as of January 1, 2018 is, as follows:

	Increase/(Decrease) (In thousands)				
	ALI	**IMI**	**MWC**	**Others**	**Total**
Assets					
Accounts and notes receivables	(₱73,937,300)	₱–	(₱402,417)	₱–	(₱74,339,717)
Contract assets - current	40,604,755	2,442,585	195,463	–	43,242,803
Inventories	–	(2,152,071)	–	–	(2,152,071)
Noncurrent contract assets	33,332,545	–	258,970	–	33,591,515
Investments in associates and joint venture	–	–	–	1,493,586	1,493,586
Other noncurrent assets	–	–	(52,016)	–	(52,016)
Total Assets	–	290,514	–	1,493,586	1,784,100
Liabilities and Equity					
Current Liabilities					
Contract liabilities	13,293,444	280,898	–		13,574,342
Other current liabilities	(18,085,639)	(280,898)	–		(18,366,537)
Total Current Liabilities	(4,792,195)	–	–		(4,792,195)
Noncurrent Liabilities					
Contract liabilities - net of current portion	4,792,195	–	–	–	4,792,195
Deferred tax liabilities - net	–	51,855	–	–	51,855
Total Noncurrent Liabilities	4,792,195	51,855	–	–	4,844,050
Total Liabilities	–	51,855	–	–	51,855
Equity					
Equity attributable to owners of the parent					
Retained earnings	–	121,000	–	1,493,586	1,614,586
Non-controlling interests	–	117,659	–	–	117,659
Total Equity	–	238,659	–	1,493,586	1,732,245
Total Liabilities and Equity	₱–	₱290,514	₱–	₱1,493,586	₱1,784,100

The adoption of PFRS 15 did not have a material impact on the consolidated statement of financial position, results of operations or the operating, investing and financing cash flows of the other subsidiaries in the Group.

Set out below are the amounts by which each financial statement line item of the subsidiaries is affected as at and for the year ended December 31, 2018 as a result of the adoption of PFRS 15. The adoption of PFRS 15 did not have a material impact on the Group's OCI. The first column shows amounts prepared under PFRS 15 and the second column shows what the amounts would have been had PFRS 15 not been adopted:

Consolidated statement of financial position for the year ended December 31, 2018

	Amounts prepared under		
	PFRS 15	Previous PFRS	Increase (decrease)
ASSETS			
Current Assets			
Accounts and notes receivable (Notes 7, 31, 32 and 33)	**₱105,518,572**	₱154,390,031	(₱48,871,459)
Contract assets (Note 16)	**52,209,458**	–	52,209,458
Inventories (Note 8)	**120,560,493**	123,531,217	(2,970,724)
Current assets – others	**134,470,899**	134,470,899	–
Total Current Assets	**412,759,422**	412,392,147	367,275
Noncurrent Assets			
Noncurrent accounts and notes receivable (Note 7)	**6,366,250**	42,037,270	(35,671,020)
Noncurrent contract assets (Note 16)	**35,929,990**	–	35,929,990
Other noncurrent assets	**40,087,599**	40,346,569	(258,970)
Other noncurrent assets - others	**702,782,358**	702,782,358	–
Total Noncurrent Assets	**785,166,197**	785,166,197	–
Total Assets	**₱1,197,925,619**	₱1,197,558,344	₱367,275

(Forward)

	Amounts prepared under		
	PFRS 15	Previous PFRS	Increase (decrease)
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued expenses	**₱204,758,244**	₱204,854,521	(₱96,277)
Contract liabilities (Note 15)	**21,988,850**	–	21,988,850
Other current liabilities (Note 18)	**11,129,234**	41,652,042	(30,522,808)
Current liabilities – others	**92,226,527**	92,226,527	–
Total Current Liabilities	**330,102,855**	338,733,090	(8,630,235)
Noncurrent Liabilities			
Noncurrent contract liabilities (Note 15)	**8,630,235**	–	8,630,235
Deferred tax liabilities - net (Note 25)	**10,999,354**	10,948,623	50,731
Noncurrent liabilities - others	**379,084,820**	379,084,820	–
Total Noncurrent Liabilities	**398,714,409**	390,033,443	8,680,966
Total Liabilities	**₱728,817,264**	₱728,766,533	₱50,731
Equity			
Cumulative translation adjustments	**₱2,276,669**	2,290,771	(14,102)
Retained earnings	**196,914,989**	196,758,908	156,081
Non-controlling interests	**178,500,886**	178,478,073	22,813
Equity - others	**91,415,812**	91,415,812	–
Total Equity	**469,108,355**	468,943,564	164,792
Total Liabilities and Equity	**₱1,197,925,619**	₱1,197,710,097	₱215,523

Consolidated statement of income for the year ended December 31, 2018

	Amounts prepared under		
	PFRS 15	Previous PFRS	Increase (decrease)
Revenue from contracts with customers	**₱274,881,486**	₱274,019,296	₱862,190
Cost of sales	**138,391,500**	137,622,525	768,975
Provision for deferred tax	**(1,211,096)**	(1,221,065)	9,969
Share of non-controlling interests	**23,247,393**	23,237,575	9,818

The nature of the adjustments as at January 1, 2018 and the reasons for the significant changes in the consolidated statement of financial position as at December 31, 2018 and the consolidated statement of income for the year ended December 31, 2018 are described below:

ALI Group

ALI Group records any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as installment contract receivables, as contract asset while the excess of collection over progress of work is recorded as contract liability.

Before the adoption of PFRS 15, contract asset is not presented separately from trade residential and office development receivables while contract liabilities are presented as customers' deposit.

The above resulted in recording of contract assets of ₱73.4 billion and contract liabilities of ₱18.1 billion as of Janury 1, 2018.

MWC Group

Accrued receivable for supervision fees and for performance fees

Before the adoption of PFRS 15, MWC Group recognized receivables even if the receipt of the total consideration was conditional on the final acceptance and milestone completion of the related services. Under PFRS 15, any earned consideration that is conditional should be recognized as a contract asset rather than receivable. Therefore, upon the adoption of PFRS 15, MWC Group reclassified ₱247.5 million (inclusive of the noncurrent portion amounting to ₱52.0 million) from Receivables to Contract assets as at January 1, 2018.

Concession financial receivables

Before the adoption of PFRS 15, MWC Group recognizes revenue from rehabilitation works and finance income earned during the construction phase as concession financial receivable. Under PFRS 15, during construction phase, any amounts earned is classified as contract assets. The contract asset is derecognized when construction is completed and replaced by concession financial receivable representing the consideration to be received. Therefore, upon the adoption of PFRS 15, MWC Group reclassified ₱207.0 million from Concession financial receivables to Contract assets as at January 1, 2018.

IMI Group
Prior to the adoption of PFRS 15, IMI Group recognized revenue from sale of goods when goods are shipped or goods are received by the customer (depending on the corresponding agreement with the customers), title and risk of ownership have passed, the price to the buyer is fixed or determinable, and recoverability is reasonably assured. Revenue from sale of services was recognized when the related services to complete the required units have been rendered.

Under PFRS 15, IMI Group assessed that revenue from manufacturing services shall be recognized over time. For turnkey contracts, revenue is recognized over time since the products created have no alternative use to IMI Group considering that manufacturing services are performed only based on customer purchase order or scheduling agreement, and IMI Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than IMI Group's failure to perform as promised. For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as IMI Group performs.

For WIP and FG inventories not covered by customer purchase orders or firm delivery schedule, and non-recurring engineering charges, tooling and other pre-production revenue stream, revenues are recognized at a point in time.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  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 fair value through profit or loss. They also clarify that 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. Retrospective application is required.

  The amendments do not have material impact on the Group's consolidated financial statements.

- Amendments to PAS 40, *Investment Property*, *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. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- 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 the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Standards and Interpretation Issued but not yet Effective

Effective beginning on or after January 1, 2019

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

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest (SPPI) on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  The Group is currently assessing the impact of adopting this interpretation.

- 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*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting this standard.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures.*

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The Group is currently assessing the impact of adopting this interpretation.

- 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 Group is currently assessing the impact of this interpretation in the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs 2015-2017 Cycle*

  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  The Group is currently assessing the impact of adopting this amendment.

Effective beginning on or after January 1, 2020

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

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

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

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

  - A specific adaptation for contracts with direct participation features (the variable fee approach)

- A simplified approach (the premium allocation approach) mainly for short-duration contracts PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The new standard is not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

Deferred Effectivity

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

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

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

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

Significant Accounting Policies
PIC Q&A on Advances to Contractors and PIC Q&A on Land Classification
The Group adopted PIC Q&A No. 2018-11, *Classification of Land by Real Estate Developer* and PIC Q&A No. 2018-15, *PAS 1- Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current* starting January 1, 2018. The impact of adoption is applied retrospectively which resulted to the following reclassifications in the consolidated statement of financial position.

		Inventories	**Other current assets**	**Investment Properties**	**Other noncurrent assets**
Land and improvements	(a)				
As of January 1, 2017		₱32,526,262	₱–	₱68,930,537	₱–
As of December 31, 2017		28,653,230	–	65,623,425	–
Advances to contractors and suppliers	(b)				
As of January 1, 2017		–	19,713,031	–	6,453,035
As of December 31, 2017		–	16,529,615	–	7,336,662

(a) Land and improvements previously presented as non-current asset includes land which the BOD of ALI has previously approved to be developed into residential development for sale. Before the adoption of PIC Q&A No. 2018-11, the classification was based on the Group's timing to start the development of the property. This was reclassified under inventories in the consolidated statement of financial position. Land with undetermined future use was reclassified to investment properties.

(b) Advances to contractors and suppliers previously presented under accounts and notes receivables-current, representing prepayments for the construction of investment property and property and equipment was reclassified to non-current asset while the portion representing prepayments for the construction of real estate inventories was reclassified to other current assets. Before the adoption of PIC Q&A No. 2018-15, the classification of the Group is based on the timing of application of these advances against billings and timing of delivery of goods and services. This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage/realization of the asset to which it is intended for (e.g. inventory, investment property, property plant and equipment).

In addition, in 2018, the Group reclassified its creditable withholding taxes amounting to ₱314.5 million from current assets to noncurrent. The 2017 consolidated statement of financial position has been restated to conform with the current year presentation. This resulted in the decrease in current and increase in noncurrent other assets by ₱314.6 million and ₱270.5 million as of December 31, 2017 and January 1, 2017, respectively.

These reclassifications have no impact on the prior year net income, equity, total assets, total liabilities and cash flows. Accordingly, no third consolidated statement of financial position has been presented and accounts affected have been disclosed.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statement of financial position based on a current and noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as noncurrent.

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

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

Short-term Investments
Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.

Financial Instruments
For all periods up to and including the year ended December 31, 2017, the Group accounted for financial instruments under PAS 39, *Financial Instruments: Recognition and Measurement.* For the year ended December 31, 2018, the Group accounted for financial instruments in accordance with PFRS 9, *Financial Instruments.*

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

Financial instruments prior to January 1, 2018
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. In the case of derivatives, the Group follows trade date accounting.

Initial recognition of financial instruments
All financial assets and financial liabilities are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

‘Day 1’ difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a ‘Day 1’ difference) in the consolidated statement of income under “Interest income” or “Interest and other financing charges” unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the ‘Day 1’ difference amount.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include derivatives, financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Fair value gains or losses on investments held for trading, net of interest income or expense accrued on these assets, are recognized in the consolidated statement of income under “Other income” or “Other charges”. Interest earned or incurred is recorded in “Interest income” or “Interest and other financing charges” while dividend income is recorded in “Other income” when the right to receive payment has been established.

Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and financial liabilities may be designated at initial recognition as at FVPL if any of the following criteria are met:
(i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
(ii) the assets or liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
(iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

The Group's financial assets and financial liabilities at FVPL pertain to government securities, other investment securities, derivatives not designated as accounting hedges and embedded derivatives.

Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group uses derivative instruments such as structured currency options and currency forwards to hedge its risks associated with foreign currency fluctuations. Such derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows that otherwise would be required under the contract.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial asset at FVPL. This accounting policy relates to the consolidated statement of financial position captions “Cash and cash equivalents”, “Short-term investments” and “Accounts and notes receivable” (except for Advances to contractors and suppliers).

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The amortization is included in the “Interest income” account in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized under “Provision for doubtful accounts” in the consolidated statement of income.

Loans and receivables are included in current assets if maturity is within 12 months or when the Group expects to realize or collect within 12 months from the reporting date. Otherwise, they are classified as noncurrent assets.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS financial assets are recognized in other comprehensive income and are reported as “Net unrealized gain (loss) on available-for-sale financial assets” (net of tax where applicable) in equity. The Group’s share in its associates’ or joint ventures’ net unrealized gain (loss) on AFS is likewise included in this account.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under “Other income” or “Other charges”. Where the Group holds more than one investment in the same security, the cost is determined using the weighted average method. Interest earned on AFS financial assets is reported as interest income using the effective interest rate. Dividends earned are recognized under “Other income” in the consolidated statement of income when the right to receive payment is established. The losses arising from impairment of such investments are recognized under “Provision for impairment losses” in the consolidated statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

The Group’s AFS financial assets pertain to investments in debt and equity securities included in “Investments in bonds and other securities” under “Other noncurrent assets” in the consolidated statement of financial position. AFS financial assets are included under “Other current assets” if expected to be realized within 12 months from reporting date.

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

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to the Group’s short-term and long-term debt, accounts payable and accrued expenses, and other current and noncurrent liabilities and obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Other financial liabilities are included in current liabilities if maturity is within 12 months or when the Group expects to realize or collect within 12 months from the reporting date. Otherwise, they are classified as noncurrent liabilities.

Exchangeable bonds
AYCFL issued exchangeable bonds (see Note 19). On issuance of exchangeable bonds, the proceeds are allocated between the embedded exchange option and the liability component. The embedded exchange option is recognized at its fair value. The liability component is recognised as the difference between total proceeds and the fair value of the exchange option.

The exchange option is subsequently carried at its fair value with fair value changes recognized in profit or loss. The liability component is carried at amortised cost until the liability is extinguished on exchange or redemption.

When the exchange option is exercised, the carrying amounts of the liability component and the exchange option are derecognized. The related investment in equity security of the guarantor is likewise derecognized.

Upon consolidation, the exchangeable bond is classified as a compound instrument and accounted for using split accounting. The value allocated to the equity component at initial recognition is the residual amount after deducting the fair value of the liability component from the issue proceeds of the exchangeable bonds. Transaction costs incurred in relation to the issuance of the exchangeable bonds was apportioned between the liability and equity component based on their values at initial recognition.

Subsequently, the liability component is carried at amortized cost using the effective interest rate method while the equity component is not revalued. When the convertion option is exercised, the carrying amount of the liability and equity component is derecognized and their balances transferred to equity. No gain or loss is recognized upon exercise of the conversion option.

Deposits, retentions payable and customers' guaranty and other deposits
Deposits, retentions payable and customers' deposits and other deposits are initially measured at fair value. After initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. The difference between the cash received and its fair value is deferred (included in the "Deferred credits" account in the consolidated statement of financial position). Deposits are amortized using the straight-line method with the amortization included under the "Rendering of services" account in the consolidated statement of income while customers' guaranty and other deposits are amortized over the remaining concession period with the amortization included under "Interest and other financing charges" in the consolidated statement of income.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized where:

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

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

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

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

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is charged to the consolidated statement of income under "Provision for doubtful accounts". Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Financial assets carried at cost
If there is an objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS financial assets
In the case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. “Significant” is to be evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from other comprehensive income and recognized in the consolidated statement of income under “Other charges.” Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of “Interest income” account in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

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

Financial instruments as of January 1, 2018
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15. Refer to the accounting policies under revenue from contracts with customers.

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

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

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

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial asets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)
This category is the most relevant tot the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Group's financial assets at amortised cost includes cash and cash equivalents, short-term investments, and accounts and notes receivables.

Financial assets at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognized in OCI. Upon derecognition the cumulative fair value change recognized in OCI is recycled to profit or loss.

As of December 31, 2018 and 2017, the Group does not have financial assets at fair value through OCI (debt instrument).

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

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

The Group elected to classify irrevocably its listed and unquoted equity investments under this category.

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

Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of income.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the consolidated statement of 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 fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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

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

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

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

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

Impairment of financial assets
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

For other financial assets such as accrued receivable, receivable from related parties, receivable from officers and employees, and advances to other companies, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash and cash equivalents and short-term investments, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The key inputs in the model include the Group's definition of default and historical data of three years for the origination, maturity date and default date. The Group considers trade receivables and contract assets in default when contractual payment are 90 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature which may extend the definition of default to 90 days and beyond. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Determining the stage for impairment
At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

the Group considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include accounts payable and accrued expenses, short-term debt, long-term debt, other current and non-current liabilities (other than liabilities accrued by other accounting standards such as income tax payable, provisions, etc.).

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liablities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liablities held for trading and financial liablities designated upon initial recognition as at fair value through profit or loss.

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

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

Financial liabilities designated upon initial recongnition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as interest and other financing charges in the consolidated statement of income.

This category generally applies to interest-bearing loans and borrowings.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as accounts payable and accrued expenses where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effect of restatement of foreign currency-denominated liabilities is recognized in profit or loss.

This accounting policy applies to the Group's accounts payable and accrued expenses, dividends payables and subscriptions payable (other than liabilities covered by other accounting standards such as pension liability and income tax payable).

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

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments
Initial recognition and subsequent measurement
The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entred into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Financial guarantee contracts
Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are measured at the higher of the amount of expected credit loss determined in accordance with the policy set out in Note 32 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised over the period of the guarantee.

Exchangeable bonds
AYCFL issued exchangeable bonds (see Note 19). On issuance of exchangeable bonds, the proceeds are allocated between the embedded exchange option and the liability component. The embedded exchange option is recognized at its fair value. The liability component is recognised as the difference between total proceeds and the fair value of the exchange option.

The exchange option is subsequently carried at its fair value with fair value changes recognized in profit or loss. The liability component is carried at amortised cost until the liability is extinguished on exchange or redemption.

When the exchange option is exercised, the carrying amounts of the liability component and the exchange option are derecognized. The related investment in equity security of the guarantor is likewise derecognized.

Upon consolidation, the exchangeable bond is classified as a compound instrument and accounted for using split accounting. The value allocated to the equity component at initial recognition is the residual amount after deducting the fair value of the liability component from the issue proceeds of the exchangeable bonds. Transaction costs incurred in relation to the issuance of the exchangeable bonds was apportioned between the liability and equity component based on their values at initial recognition.

Subsequently, the liability component is carried at amortized cost using the effective interest rate method while the equity component is not revalued. When the convertion option is exercised, the carrying amount of the liability and equity component is derecognized and their balances transferred to equity. No gain or loss is recognized upon exercise of the conversion option.

Deposits, customers' guaranty and other deposits
Deposits, customers' guaranty and other deposits are initially measured at fair value. After initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. The difference between the cash received and its fair value is deferred (included in the "Deferred credits" account in the consolidated statement of financial position). Deposits are amortized using the straight-line method with the amortization included under the "Costs of rendering of services" account in the consolidated statement of income while customers' guaranty are amortized over the remaining concession period with the amortization included under "Interest and other financing charges" in the consolidated statement of income.

Financial guarantee contracts
Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

<u>Inventories</u>
Inventories are carried at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and conditions are generally accounted for as follows:

Real estate inventories
- Land cost
- Land improvement cost
- Amounts paid to contractors for construction and development
- Planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs

Vehicles - purchase cost on specific identification basis.

Finished goods and work-in-process - determined on a moving average basis; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Parts and accessories, materials, supplies and others - purchase cost on a moving average basis.

NRV for real estate inventories, vehicles, finished goods and work-in-process and parts and accessories is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale, while NRV for materials, supplies and others represents the related replacement costs. In the event that NRV is lower than cost, the decline shall be recognized as an expense in the consolidated statement of income.

An allowance for inventory losses is provided for slow-moving, obsolete and defective inventories based on management's physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged against operations.

Prepaid Expenses
Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for marketing fees and promotion, taxes and licenses, rentals and insurance.

Creditable Withholding Tax
This pertains to the tax withheld at source by the Group's customer and is creditable against the income tax liability of the Group.

Value-Added Tax (VAT)
Expenses and assets are recognized, net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of VAT included.

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

Deposits in Escrow
Deposits in escrow pertain to the proceeds from the sale of the Group's projects that have only been granted temporary License to Sell (LTS) as of reporting date. These proceeds are deposited in a local bank and earn interest at prevailing bank deposit rates.

Advances to Contractors and Suppliers
Advances to other companies and advances to contractors and suppliers are carried at cost less impairment losses, if any. Prepayments for the construction of investment property and property and equipment are classified as non-current asset while the portion representing prepayments for the construction of real estate inventories are reclassified as other current assets.

Noncurrent Assets Held for Sale
Noncurrent assets held for sale are carried at the lower of its carrying amount and fair value less costs to sell. At reporting date, the Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Group measures noncurrent asset held for sale at the lower of its carrying amount and fair value less cost to sell (see Note 9).

Investments in Associates and Joint Ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in associates or joint ventures is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of these investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share in net profits or loss of associates and joint ventures is shown on the face of the consolidated statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as "Share in net profits of associates and joint ventures" in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Investment Properties
Investment properties comprise completed property and property under construction or re-development that are held to earn rentals and for capital appreciation, and are not occupied by the companies in the Group. The Group uses the cost model in measuring investment properties since this represents the historical value of the properties subsequent to initial recognition. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance are normally charged against income in the period in which the costs are incurred.

Construction-in-progress (including borrowing cost) are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, regardless of utilization. The estimated useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

The estimated useful lives of investment properties follow:

Land improvements	8 to 40 years
Buildings	20 to 40 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.

The Group discloses the fair values of its investment properties in accordance with PAS 40. The Group engaged independent valuation specialist to assess fair value as at December 31, 2018 and 2017. The Group’s investment properties consist of land and building pertaining to land properties, retail (malls) and office properties. These were valued by reference to market-based evidence using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Property, Plant and Equipment

Property, plant and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property, plant and equipment consists of its construction cost or purchase price and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use.

Construction-in-progress is stated at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated or amortized until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use and computed on a straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

Buildings and improvements	20 to 40 years
Machinery and equipment	5 to 7 years
Hotel property and equipment	20 to 50 years
Furniture, fixtures and equipment	3 to 10 years
Transportation equipment	3 to 5 years

The assets' residual values, useful lives and depreciation and amortization methods are reviewed periodically to ensure that the amounts, periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When property, plant and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Service Concession Arrangements

Intangible Asset Model

The Group accounts for its concession arrangements with Department of Public Works and Highways (DPWH), Metropolitan Waterworks and Sewerage System (MWSS), Provincial Government of Laguna (PGL), Tourism Infrastructure and Enterprise Zone Authority (TIEZA) and Clark Development Corporation (CDC), Obando Water District (OWD), and Calasiao Water District (CWD) under the Intangible Asset model as the Group receives the right (license) to charge users of public service. Under the Group's concession agreements, the Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide the public water services. The legal title to these assets shall remain with DPWH, MWSS, PGL, TIEZA and CDC at the end of the concession period.

The "Service concession assets" (SCA) pertain to the fair value of the service concession obligations at drawdown date and construction costs related to the rehabilitation works performed by the Group and other local component costs and cost overruns paid by the Group.

Amortization of SCA commences once the SCA are available for use and are calculated on a straight-line basis over the remaining concession period. Beginning May 1, 2017, the SCA of MWC, Boracay Island Water Company (BIWC), Clark Water Corporation (CWC), and Laguna AAA Water Corporation (LAWC) are amortized using the units of production (UOP) method over the expected total billable volume for the remaining concession period to better reflect the usage of the SCA, which is directly related to its expected total billable volume and is aligned with industry practice. This change in method resulted to a ₱554.0 million reduction of amortization expense from May 1 to December 31, 2017.

In addition, the Parent Company, MWC, LAWC, BIWC, CWC, Obando Water Company, Inc. (Obando Water), Calasiao Water Company, Inc. (Calasiao Water), Cebu Manila Water Development, Inc. (CMWDI), and Tagum Water Company, Inc. (TWC) recognize and measure revenue from rehabilitation works in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs. Recognition of revenue is by reference to the 'stage of completion method,' also known as the 'percentage of completion method' as provided under PAS 11. Contract revenue and costs from rehabilitation works are recognized as "Revenue from rehabilitation works" and "Cost of rehabilitation works," respectively, in profit or loss in the period in which the work is performed.

The Parent Company recognizes its contractual obligations to restore certain parts of the infrastructure to a specified level of condition in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as the obligations arise.

Financial Asset Model
On the other hand, the concession arrangement with the Department of Transportation (DOTr), Provincial Government of Cebu (PGC) and Tagum Water District (TWD) are accounted for under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. Under the concession arrangement with PGC and TWD, Cebu Manila Water Development, Inc. (CMWD) and TWC, both subsidiaries of MWC, are awarded the right to deliver bulk water supply to the grantor for a specific period of time under the concession period. The concession agreement with DOTr qualifies under the Financial Asset model as Arca South Integrated Terminal Inc. (ASITI), a subsidiary of ALI, has an unconditional contractual right to receive cash or other financial assets (i.e., the Annual Grantor Payment) for its construction, operating and maintenance services directly from DOTr.

Under this model, the operator recognizes a financial asset in its consolidated statement of financial position in consideration for the services it provides (design, construction, etc.). Such financial assets are recognized in the consolidated statement of financial position under "Other current assets" and "Other noncurrent assets" in an amount corresponding to the fair value of the infrastructure on first recognition and subsequently at amortized cost. The receivable is settled when payments from the grantor are received. The financial income calculated on the basis of the effective interest rate is recognized in profit or loss.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The estimated useful life of intangible assets is assesse as either finite or indefinite.

The estimated useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized over their estimated useful lives on a straight line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The estimated useful lives of intangible assets follow:

Leasehold rights	20 to 23 years
Customer relationships	5 years
Unpatented technology	5 years
Developed software	3 years
Licenses	3 years
Technical service agreement	3 years
Trademark	3 to 5 years

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible assets and is recognized in the consolidated statement of income when the intangible asset is derecognized.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset under “Project Development Cost” when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development; and,
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. The estimated useful life of research and development costs is 5 years. During the period of development, the asset is tested for impairment annually.

<u>Business Combinations and Goodwill</u>
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and included under “Remeasurement gain/loss arising from business combination” in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as bargain purchase gain. The Group reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure amounts to be recognized at the acquisition date if the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Combinations of Entities Under Common Control
Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method generally involve the following:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity.
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- Comparative financial information are presented as if the entities had always been combined.

The effects of any intercompany transactions are eliminated to the extent possible.

Asset Acquisitions

If the assets acquired and liabilities assumed in an acquisition transaction do not constitute a business as defined under PFRS 3, the transaction is accounted for as an asset acquisition. The Group identifies and recognizes the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets) and liabilities assumed. The acquisition cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such transaction or event does not give rise to goodwill. Where the Group acquires a controlling interest in an entity that is not a business, but obtains less than 100% of the entity, after it has allocated the cost to the individual assets acquired, it notionally grosses up those assets and recognizes the difference as non-controlling interests.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments in associates and joint ventures

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee company. The Group determines at each reporting date whether there is any objective evidence that the investment in the investee company is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the investee company and the carrying cost and recognizes the amount as a reduction of the "Share in net profits of associates and joint ventures" account in the consolidated statement of income.

Impairment of goodwill

For assessing impairment of goodwill, a test for impairment is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Equity
Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the shares are sold at premium, the difference between the proceeds at the par value is credited to “Additional paid-in capital” (APIC) account. Direct costs incurred related to equity issuance are chargeable to APIC account. If APIC is not sufficient, the excess is charged against retained

earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares and is presented as reduction from equity.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue and Cost Recognition
For all periods up to and including the year ended December 31, 2017, the Group accounted for its revenue in accordance with PAS 11, PAS 18 and related interpretations as follows:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Real estate revenue and costs
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with PIC Q&A No. 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the physical proportion of contract work. The percentage of completion is determined by the Company's project engineers.

Any excess of collections over the recognized receivables are included in the "Deposits and other current liabilities" account in the liabilities section of the consolidated statement of financial position.

If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Deposits and other current liabilities" account in the liabilities section of the consolidated statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied and is determined with reference to the specific, including estimated costs, on the property allocated to sold area. Cost of residential and commercial lots and units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Company's in-house technical staff.

Estimated development costs include direct land development, shared development cost, building cost, external development cost, professional fees, post construction, contingency, miscellaneous and socialized housing. Miscellaneous costs include payments such as permits and licenses, business permits, development charges and claims from third parties which are attributable to the project. Contingency includes fund reserved for unforeseen expenses and/ or cost adjustments. Revisions in estimated development costs brought about by increases in projected costs in excess of the original budgeted amounts are considered as special budget appropriations that are approved by management and are made to form part of total project costs on a prospective basis and allocated between costs of sales and real estate inventories.

Revenue from construction contracts included in the "Real estate" account in the consolidated statement of income is recognized using the percentage-of-completion method, based on the completion of a physical proportion of the contract work inclusive of the uninstalled goods and materials delivered to the site.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Rooms revenue from hotel and resort operations is recognized when the services are rendered.

Revenue from banquets and other special events are recognized when the events take place.

Water and sewer revenue
Water and sewer revenue are recognized when the related water and sewerage services are rendered. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. A certain percentage of water revenue is recognized as environmental charges. Other customer related fees such as reconnection and disconnection fees are recognized when these services have been rendered.

Supervision fees
Supervision fees are recognized using the percentage of completion (POC) method of accounting, measured principally on the basis of the physical proportion of the contract work to the estimated completion of a project.

Revenue from pipeworks and integrated used water services
Revenue from pipeworks and integrated used water services is recognized when the related water and wastewater network related services are rendered.

Distributors' fee
Distributors' fee is recognized when significant risk and rewards of ownership of trade assets have been transferred to the distributor.

Revenue from packaged water
Revenue from packaged water and other water related products is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods where the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of transfers of risks and rewards varies depending on the individual terms of the contract of sale but usually occurs when the customer receives the product.

Operation and maintenance services
Service fee income is recognized when the operation, maintenance and management services have been rendered for water and waste water facilities of Bonifacio Water Corporation (BWC).

Performance fees
Performance fees are recognized when the non-revenue water reduction (NRW) has been recovered based on specific targets and schedule as agreed in the Non-revenue Water Reduction Service Agreement (NRWSA) with Zamboanga City Water District (ZCWD).

Service fees
Service fees for technical assistance extended to ZCWD are recognized when the related services have been rendered.

Other operating income
Other customer related fees such as connection, reconnection and disconnection fees, income from customers late payments, sale of scrap materials, income from septic sludge disposal, and income from bacteriological water analysis are recognized when these services have been rendered.

Revenue from rehabilitation works
Revenue from rehabilitation works is recognized and measured by the Group in accordance with PAS 11 for the construction and PAS 18 for the service. This includes revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of SCA.

When the Group provides construction or upgrade services, the consideration received or receivable is recognized at its fair value. The Group accounts for revenue and costs relating to operation services in accordance with PAS 18.

Toll revenues
Revenue from toll fees is recognized upon entry of vehicles in the toll road facility and receipt of cash payment. Toll fees received in advance, through transponders or magnetic cards, are included under "Accounts Payable".

Revenue from sales of electronic products and vehicles and related parts and accessories
Revenue from sales of electronic products and vehicles and related parts and accessories are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received excluding discounts, returns, rebates and sales taxes.

Energy sales
Energy sales is recognized upon actual delivery of concerted electricity from the 51.9M NorthWind Renewable Energy Plant (REP) at Bagui Farm and 18MW DC Solar Power Plant of Montesolar at Bais, Negros Oriental.

The tariff on the generation of REP's original twenty (20) turbines (Phases I & II) is a Feed-in-Tariff (FIT) rate specific to ACEI of ₱5.76/kWh, as approved by the Energy Regulatory Commission (ERC) in its decision dated June 30, 2014. The FIT specific to ACEI is lower than the national FIT and is valid for twenty (20) years, less the actual years of operation as provided for under the FIT Rules.

The tariff on the new six (6) turbines (Phase III) shall be the national FIT of ₱8.53/kWh, subject to compliance by ACEI of the requirements under the FIT System. Being a new plant and established under the incentives granted under RA 9513, it shall have FIT period of twenty (20) years.

Revenue from sale of electricity through Retail Electricity Supply (RES) Contract is composed of generation charge from monthly energy supply with various contestable customers and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge.

Marketing and management fees
Marketing fees, management fees from administrative and property management and revenue from vehicle repairs are recognized when services are rendered.

Revenue from digitizing and document creation services
Revenue from digitizing and document creation services are recognized when the service is completed and electronically sent to the customer. Provision for discounts and other adjustments are provided for in the same period the related sales are recorded.

Tuition and other school fees
Tuition and other school fees are recognized over the period of instruction. Tuition and other school fees collected during the year that are applicable in the next school year are deferred and presented under the "Others" account in the Other Noncurrent Liabilities section of the consolidates statement of financial position.

Interest income
Interest income is recognized as it accrues using the effective interest method.

Dividend income
Dividend income is recognized when the right to receive payment is established.

For the year ended December 31, 2018, revenue is accounted for under PFRS 15, *Revenue from Contracts with Customers.*

ALI Group's Revenue from Contract with Customers
The Group primarily derives its real estate revenue from the sale of vertical and horizontal real estate projects. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the provisioning of water, electricity, air-conditioning and common use service area in its mall retail spaces, wherein it is acting as agent.

The disclosures of significant accounting judgments, estimates and assumptions relating to revenue from contracts with customers are provided in Note 4.

Real estate sales
The Group derives its real estate revenue from sale of lots, house and lot and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses the output method. The Group recognizes revenue on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date. This is based on the monthly project accomplishment report prepared by the project engineers as approved by the construction manager which integrates the surveys of performance to date of the construction activities for both sub-contracted and those that are fulfilled by the developer itself.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as residential and office development receivables, under trade receivables, is included in the "contract asset" account in the asset section of the consolidated statement of financial position.

Any excess of collections over the total of recognized trade receivables and contract assets is included in the "contract liabilities" account in the liabilities section of the consolidated statement of financial position.

Cost recognition
The Group recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land and connection fees. These include costs of land, land development costs, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

In addition, the Group recognizes as an asset only costs that give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered.

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Marketing fees, management fees from administration and property management are recognized over time as the customer receives and consumes the benefit from the performance of the services.

Hotel and resorts revenue
The Group recognizes revenue from hotel operations at a point in time (i.e., when the related service and goods are rendered or served). Revenue from banquets and other special events are recognized at a point in time when the events take place.

Cost of hotel operations
Cost of hotel operations pertains to expenses incurred in relation to sale of goods and rendering of services. These are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. These are recognized when incurred and measured at the amount paid or payable.

Construction revenue and cost
Revenue from fixed price construction contracts are recognized over time using the milestone-based revenue recognition which is in reference to output method. The output method is determined based on the start and completion of a task of the contract work inclusive of uninstalled goods and materials delivered to the site.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Information about ALI Group's performance obligations are summarized below:

Real estate sales
ALI Group entered into contracts to sell with one identified performance obligation which is the sale of the real estate unit together with the services to transfer the title to the buyer upon full payment of contract price. The amount of consideration indicated in the contract to sell is fixed and has no variable consideration.

The sale of real estate unit may cover the contract for either the (i) serviced lot; (ii) service lot and house, and (ii) condominium unit and ALI Group concluded that there is one performance obligation in each of these contracts. ALI Group recognizes revenue from the sale of these real estate projects under pre-completed contract over time during the course of the construction.

Payment commences upon signing of the contract to sell and the consideration is payable in cash or under various financing schemes entered with the customer. The financing scheme would include payment of 10% of the contract price spread over a certain period (e.g., one to two years) at a fixed monthly payment with the remaining balance payable (a) in full at the end of the period either through cash or external financing; or (b) through in-house financing which ranges from two (2) to ten (10) years with fixed monthly payment. The amount due for collection under the amortization schedule for each of the customer does not necessarily coincide with the progress of construction, which results to either a contract asset or contract liability.

After the delivery of the completed real estate unit, ALI Group provides one year warranty to repair minor defects on the delivered serviced lot and house and condominium unit. This is assessed by ALI Group as a quality assurance warranty and not treated as a separate performance obligation.

Hotels and resorts
Rooms revenue from hotel and resort operations is recognized when the services are rendered. Revenue from banquets and other special events are recognized when the events take place.

Construction
Revenue from fixed price construction contracts are recognized over time using the milestone-based revenue recognition which is in reference to the output method. The output method is determined based on the start and completion of a task of the contract work inclusive of uninstalled goods and materials delivered to the site.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially satisfied) as at December 31, 2018 are as follows:

	December 31, 2018
	(In Thousands)
Within one year	₱47,937,926
More than one year	55,328,212
	₱103,266,138

The remaining performance obligations expected to be recognized within one year and in more than one year relate to the continuous development of ALI Group's real estate projects. ALI Group's condominium units are completed within three years and five years, respectively, from start of construction while serviced lots and serviced house and lots are expected to be completed within two to three years from start of development.

MWC Group's Revenue from Contracts with Customers
Revenue recognized over time based on MWC Group's right to invoice

- *Water and sewer revenue*
  Water and sewer revenue is recognized over time as the customer receives and consumes the benefit from the performance of the related water and sewerage services. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. Also, twenty percent (20%) of water revenue is recognized by the Parent Company as environmental charge.

- *Operation and maintenance services*
  Revenue from operation and maintenance services is recognized over time as the operation, maintenance, and management services are rendered for water and waste water facilities of Bonifacio Water Corporation (BWC).

- *Performance fees*
  Performance fees are recognized as revenue over time as the NRW are recovered based on specific targets and schedule as agreed in the NRWSA with ZCWD.

MWC Group recognizes revenue from water and sewer services, environmental charge, operation and maintenance services and performance fees based on the amount to which MWC Group has a right to invoice since MWC Group bills a fixed amount for every cubic meter of water delivered or NRW recovered.

Revenue recognized over time using input method

- *Revenue from rehabilitation works and Cost of rehabilitation works*
  Revenue from rehabilitation works is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of SCA and pertain to revenue from construction or upgrade services. Revenue from rehabilitation works is recognized over time, using input method. Under this method, progress is measured by reference to the actual costs incurred to date over the estimated total costs of the project.

- *Construction revenue*
  Construction revenue arise from the NRWSA with ZCWD for the establishment of district metering areas. Revenue from construction services is recognized over time, using input method. Under this method, progress is measured based on actual costs incurred on materials, labor, and overhead relative to the total project costs.

- *Service fees*
  Service fees for technical assistance extended to ZCWD are recognized over time, using input method, when the related services have been rendered to the ZCWD. Under this method, progress is measured based on actual costs incurred on manpower and overhead relative to the total project costs.

MWC Group determined that the input method is the appropriate method in measuring progress of the rehabilitation works, construction revenue and service fees because there is a direct relationship between MWC Group's effort (i.e., actual cost incurred incurred) and the transfer of service to the customer.

Revenue recognized over time using output method

- *Connection fees*
  Connection fees are amounts paid by customers in exchange for the set-up of a connection from the customer's establishment to MWC Group's water or sewer network. Revenue from connection fees is recognized over time, using output method based on time elapsed.

- *Supervision fees*
  Supervision fees arise from MWPVI, Aqua Centro MWPV Corp. (Aqua Centro), a wholly owned subsidiary of MWC, and LAWC's provision of design and project management services in the development of water and used water facilities. Revenue from supervision fees is recognized over time, using output method. Under this method, progress is measured using survey of performance completed to date and milestone reached. This is based on the work accomplishment report prepared by the project contractor as approved by the project management head.

- *Revenue from pipeworks and integrated used water services*
  Revenue from pipeworks and integrated used water services is recognized over time as the water and wastewater network related services are rendered, using output method. Under this method, progress is measured using survey of performance completed to date and milestone reached. This is based on the work accomplishment report prepared by the project contractor as approved by the project management head.

MWC Group has determined that the output method is the appropriate method in measuring progress of the project management services, and pipeworks and integrated used water services since this depicts MWC Group's performance in managing and providing service connection from water and used water facilities to the developments.

Revenue recognized at a point in time
- *Distributors' fee*
  Distributors' fee is recognized as revenue at a point in time when control of the trade assets have been transferred to the distributor, generally upon delivery of the related assets.

- *Revenue from packaged water*
  Revenue from packaged water and other water related products is recognized at the point in time when control of the goods is transferred to the distributor, generally upon receipt of the related product.

- *Other operating income*
  Other customer related fees such as reconnection and disconnection fees, income from customers late payments, income from septic sludge disposal, and income from bacteriological water analysis are recognized at a point in time when the control over these good or services have been transferred to the customer.

IMI Group's Revenue from Contracts with Customers
IMI Group is in the business of providing electronic manufacturing and other related services to various customers. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which IMI Group expects to be entitled in exchange for those goods or services. IMI Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

Manufacturing services
IMI Group provides manufacturing services in accordance with the customer's specifications. IMI Group promises to provide a combined performance obligation comprised of non-distinct goods or services, which include issuance of materials to production, assembly, testing and packaging.

Contracts with customers are generally classified as turnkey or consignment. In a turnkey contract, IMI Group procures the materials and provides the assembly services to the customer. In a consignment contract, IMI Group only provides assembly services to the customer.

For turnkey contracts, revenue is recognized over time since the products created have no alternative use to IMI Group and IMI Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than IMI Group's failure to perform as promised.

For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as IMI Group performs its obligation.

Tooling
Non-recurring engineering charges, tooling and other pre-production revenue stream (NREs) are recognized at a point in time since the criteria for over time recognition is not met. This is based on the assessment that while, in general, IMI Group has no alternative use for these NREs, either due to customization or restrictions by the customer, there is no assurance or relevant experience that IMI has enforceable right to payment or can recover the cost, plus reasonable margin, in case of contract termination. Point in time revenue recognition for NREs would mean revenue is recognized upon customer acceptance of the NREs (transfer of control).

IMI Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., customer options that provide material rights to customers, warranties). In determining the transaction price, IMI Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer, if any.

Sale of equipment and installation service
The installation required is complex and is not capable of being performed by several alternative service providers. Given this, the customer cannot benefit from the equipment on its own. Accordingly, management determines that the equipment and installation are not separable and represent one performance obligation.

Revenue from the sale of equipment and installation service is recognized at a point in time because the equipment has no design specifications that are unique to the customer. Revenue is recognized when control of the asset is transferred to the customer, generally upon acceptance of the equipment by the customer.

Sale of bonding materials
Revenue from sale of bonding materials is recognized at point in time when control of the asset is transferred to the customer, generally when goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customer.

Variable consideration
If the consideration in a contract includes a variable amount, IMI Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Significant financing component
IMI Group's contracts with its customers are short-term in nature. Using the practical expedient in PFRS 15, IMI Group does not adjust the promised amount of consideration of the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

IMI Group does not have significant separate performance obligations wherein the transaction price needs to be allocated as of December 31, 2018.

Warranty obligations
IMI Group provides warranties for general repairs of defects that existed at the time of sale. The warranties provided are customary per industry practice. These assurance-type warranties are accounted for under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

IMI Group does not provide warranty beyond fixing defects that existed at the time of sale or outside of industry practice. After-sales repairs are arranged with customers separately and are accounted for as any other manufacturing service contract with customers.

Toll revenues
Revenue from toll fees is recognized upon entry of vehicles in the toll road facility and receipt of cash payment. Toll fees received in advance, through transponders or magnetic cards, are included under "Accounts Payable".

Revenue from sales of vehicles and related parts and accessories
Revenue from vehicles and related parts and accessories are recognized when the control of the goods or services are transferred to the customer.

Energy sales
Energy sales is recognized upon actual delivery of concerted electricity from the 51.9MW NorthWind Renewable Energy Plant (REP) at Bagui Farm and 18MW DC Solar Power Plant of Montesolar at Bais, Negros Oriental.

The tariff on the generation of REP's original twenty (20) turbines (Phases I & II) is a Feed-in-Tariff (FIT) rate specific to ACEI of ₱5.76/kWh, as approved by the Energy Regulatory Commission (ERC) in its decision dated June 30, 2014. The FIT specific to ACEI is lower than the national FIT and is valid for twenty (20) years, less the actual years of operation as provided for under the FIT Rules.

The tariff on the new six (6) turbines (Phase III) shall be the national FIT of ₱8.53/kWh, subject to compliance by ACEI of the requirements under the FIT System. Being a new plant and established under the incentives granted under RA 9513, it shall have FIT period of twenty (20) years.

Revenue from sale of electricity through Retail Electricity Supply (RES) Contract is composed of generation charge from monthly energy supply with various contestable customers and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge.

Marketing and management fees
Marketing fees, management fees from administrative and property management and revenue from vehicle repairs are recognized when services are rendered.

Revenue from digitizing and document creation services
Revenue from digitizing and document creation services are recognized when the service is completed and electronically sent to the customer.

Tuition and other school fees
Tuition and other school fees are recognized over the period of instruction. Tuition and other school fees collected during the year that are applicable in the next school year are deferred and presented under the "Others" account in the Other Noncurrent Liabilities section of the consolidates statement of financial position.

Interest income
Interest income is recognized as it accrues using the effective interest method.

Dividend income
Dividend income is recognized when the Group's right to receive the payment is established.

Contract Balances

Receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

The contract liabilities also include payments received by the Group from the customers for which revenue recognition has not yet commenced.

Costs to obtain contract

The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. The Group has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Real estate costs and expenses" account in the consolidated statement of income.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

Amortization, de-recognition and impairment of capitalized costs to obtain a contract

The Group amortizes capitalized costs to obtain a contract to cost of sales over the expected construction period using percentage of completion following the pattern of real estate revenue recognition. The amortization is included within cost of sales.

A capitalized cost to obtain a contract is derecognized either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Group determines whether there is an indication that cost to obtain a contract may be impaired. If such indication exists, the Group makes an estimate by comparing the carrying amount of the assets to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant costs or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific performance indicators that could trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, their judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

Assets and liabilities arising from rights of return
Right of return assets
Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities
A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer.

The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

Cost to obtain a contract
The Group pays sales commission to its employees for each contract that they obtain for bundled sales of equipment and installation services. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions (included under employee benefits and part of cost of sales) because the amortisation period of the asset that the Group otherwise would have used is one year or less.

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 or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

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

Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the consolidated asset are classified as operating leases. Fixed lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Group as lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rent is recognized as revenue in the period in which it is earned.

Expenses
Expenses are recognized in the consolidated statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are recognized in the consolidated statement of income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

Direct operating expenses and general and administrative expenses are recognized as they are incurred.

Borrowing Costs
Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets (included in “Inventories”, “Investment properties”, “Property, plant and equipment” and “Service concession assets” accounts in the consolidated statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group’s weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Pension Cost
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees’ projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

Pension liabilities are the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net pension asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

<u>Income Tax</u>
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of reporting date.

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

Deferred tax
Deferred income tax is provided, using the liability method, on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in foreign subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

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

For periods where the income tax holiday (ITH) is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the subsidiary neither results in a deductible temporary difference or temporary taxable difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

Foreign Currency Transactions
The functional and presentation currency of the Parent Company and its subsidiaries (except for AYCF, ACIFL, PFIL, BHL, AIVPL and IMI), is the Philippine Peso (₱). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in the consolidated statement of comprehensive income until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical

cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currency of AYCF, ACIFL, PFIL, BHL, AIVPL and IMI is the US Dollar (US$). As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Parent Company (the Philippine Peso) at the closing rate as at the reporting date and their statement of income accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity as “Cumulative Translation Adjustment”. On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in the consolidated statement of income.

Exchange differences arising from elimination of intragroup balances and intragroup transactions are recognized in profit or loss. As an exception, if the exchange differences arise from intragroup balances that, in substance, forms part of an entity’s net investment in a foreign operation, the exchange differences are not to be recognized in profit or loss, but are recognized in OCI and accumulated in a separate component of equity until the disposal of the foreign operation.

On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

The Group’s share in the translation adjustments of associates and joint ventures are likewise included under the “Cumulative Translation Adjustments” account in the consolidated statement of comprehensive income.

MWC Group
As approved by the MWSS Board of Trustees (BOT) under Amendment No. 1 of the Concession Agreement with MWSS, the following will be recovered through billings to customers:

a. Restatement of foreign currency-denominated loans;
b. Excess of actual concession fee payment over the amounts of concession fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱53.16:US$1.00 based on the latest rate rebasing exercise effective January 1, 2018;
c. Excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and
d. Excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

In view of the automatic reimbursement mechanism, the MWC Group recognizes deferred foreign currency differential adjustment (FCDA) (included as part of “Other noncurrent assets” or “Other noncurrent liabilities” in the consolidated statement of financial position) for both the realized and unrealized foreign exchange gains and losses. Other water revenue-FCDA is credited (debited) upon recovery (refund) of realized foreign exchange losses (gains). The write-off or reversal of the deferred FCDA pertaining to concession fees will be made upon determination of the rebased foreign exchange rate, which is assumed in the business plan approved by MWSS-Regulatory Office (RO) during the latest Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

<u>Share-based Payments</u>
The Group has equity-settled, share-based compensation plans with its employees.

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will ultimately vest. Fair value is determined by using the Binomial Tree and Black-Scholes model, further details of which are provided in Note 28 to the consolidated financial statements.

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

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

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pre-PFRS 2 Options
For options granted before November 7, 2002 that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 26).

Employee share purchase plans
The Parent Company and certain subsidiaries have employee share purchase plans (ESOWN) which allow the grantees to purchase the Parent Company's and its respective subsidiaries' shares on installment payment plan. The Group recognizes stock compensation expense over the holding period. These are accounted for similar to the PFRS 2 options. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. The Group treats its ESOWN plan as option exercisable within a given period. For the measurement of the fair value of options at the grant date, the Parent Company uses a Binomial Tree Model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 28.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income attributable to common equity owners by the weighted average number of common shares issued and outstanding during the year. The net income attributable to common equity owners is net of dividends attributable to preferred equity holders.

Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. Calculation of diluted EPS considers the potential ordinary shares of subsidiaries, associates and joint ventures that have dilutive effect on the basic EPS of the Parent Company. The calculation of diluted EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share. Basic and diluted EPS are adjusted to give retroactive effect to any stock dividends declared during the period.

Assets Held in Trust
Assets which are owned by MWSS, PGL, TIEZA and CDC but are operated by the MWC Group under the concession agreements are not reflected in the consolidated statement of financial position but are considered as Assets Held in Trust (see Note 37).

Operating Segments
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 29 to the consolidated financial statements.

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

Events after the Reporting Period
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

4. Significant Accounting Judgments, Assumptions and Estimates

The preparation of the accompanying consolidated financial statements in conformity with PFRSs requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue from contracts with customers
The Group applied the following judgments that significantly affect the identification of a contract, determination of the performance obligation and amount as well as timing of revenue from contracts with customers.

ALI Group
Existence of a contract
ALI Group's primary document for a contract with a customer is a signed contract to sell. It has determined, however, that in cases wherein contract to sell are not signed by both parties, the combination of its other signed documentation such as reservation agreement, official receipts, buyers' computation sheets and invoices, would contain all the criteria to qualify as contract with the customer under PFRS 15.

In addition, part of the assessment process of ALI Group before revenue recognition is to assess the probability that ALI Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the customer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history with the customer, age and pricing of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of customers' equity before commencing revenue recognition.

Revenue recognition method and measure of progress
ALI Group concluded that revenue for real estate sales is to be recognized over time because: (a) ALI Group's performance does not create an asset with an alternative use and; (b) ALI Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on ALI Group's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date. In addition, ALI Group requires a certain percentage of buyer's payments of total selling price (buyer's equity), to be collected as one of the criteria in order to initiate revenue recognition. Reaching this level of collection is an indication of buyer's continuing commitment and the probability that economic benefits will flow to ALI Group. ALI Group considers that the initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

ALI Group has determined that output method used in measuring the progress of the performance obligation faithfully depicts ALI Group's performance in transferring control of real estate development to the customers.

IMI Group
Identifying contracts with customers
Generally, a valid and approved manufacturing service agreement (MSA), scheduling agreement (SA), customer accepted quote, customer forecast, and/or customer purchase order or firm delivery schedule will be in place before IMI Group provides services or manufacture goods for the customers. IMI Group is not obligated to transfer any goods or provide services until the customer submits a purchase order or firm delivery schedule under the MSA or SA, respectively. The purchase order or firm delivery schedule creates the enforceable rights and obligations and is therefore evaluated together with the MSA or SA for revenue recognition in accordance with PFRS 15.

Determining the timing of revenue recognition
IMI Group assessed that revenue from manufacturing of goods shall be recognized over time or point in time. For turnkey contracts wherein the products created have no alternative use to IMI Group and IMI Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than IMI Group's failure to perform as promised, revenue is recognized over time. For goods manufactured not covered by customer purchase orders or firm delivery schedule, revenues are recognized at a point in time. For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as IMI Group performs.

Determining the method to measure of progress for revenue recognized over time
IMI Group measures progress towards complete satisfaction of the performance obligation using an input method (i.e., costs incurred). Management believes that this method provides a faithful depiction of the transfer of goods or services to the customer because IMI Group provides integration service to produce a combined output and each item in the combined output may not transfer an equal amount of value to the customer.

Water infrastructure services revenue recognized using the input and output method
MWC Group recognizes revenue from rehabilitation works, construction revenue, and service fees using the input method while it recognizes supervision fees and revenue from pipeworks and integrated used water services using the output method. The input or output method of recognizing revenue over the period covered by the separate contracts with customers requires MWC Group to base the level of transfer of control over these services based on MWC Group's review and concurrence with work accomplishment reports prepared by project managers or submitted by independent project contractors.

Definition of default and credit-impaired financial assets
ALI Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criterion - for sales contracts receivable, the customer receives a notice of cancellation and does not continue the payments.

Qualitative criteria
The customer meets unlikeliness to pay criteria, which indicates the customer is in significant financial difficulty. These are instances where:
a. The customer is experiencing financial difficulty or is insolvent
b. The customer is in breach of financial covenant(s)
c. An active market for that financial assets has disappeared because of financial difficulties
d. Concessions have been granted by ALI Group, for economic or contractual reasons relating to the customer’s financial difficulty
e. It is becoming probable that the customer will enter bankruptcy or other financial reorganization

The criteria above have been applied to the financial instruments held by ALI Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) throughout ALI Group’s expected loss calculation.

Incorporation of forward-looking information
ALI Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

To do this, ALI Group considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. Based on ALI Group’s evaluation and assessment and after taking into consideration external actual and forecast information, ALI Group formulates a ‘base case’ view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The base case represents a most-likely outcome and is aligned with information used by ALI Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, ALI Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

ALI Group has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Significant increase in credit risk
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors.

The Group's cash and cash equivalents and short-term investments are graded in the top investment category by globally recognized credit rating agencies such as S&P, Moody's and Fitch and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from these credit rating agencies both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Investment in Subsidiaries
The Group determined that it has control over its subsidiaries (see Note 2) by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following were also considered:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual agreements
- The Group's voting rights and potential voting rights

Consolidation of entities in which the Group holds only 50% or less than majority of voting rights
The Group determined that it controls certain entities even though it owns 50% or less than majority of the voting rights. The factors considered include, among others, the size of its block of voting shares, the relative size and dispersion of holdings of other shareholders, and contractual agreements to direct the relevant activities of the entities.

Investment in Associates
The Group determined that it exercises significant influence over its associates (see Note 10) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee), board representation and participation on board sub-committees, and other contractual terms.

Investment in Joint Ventures
The Group's investments in joint ventures (see Note 10) are structured in separate incorporated entities. Even though the Group holds various percentage of ownership interest on these arrangements, their respective joint arrangement agreements requires unanimous consent from all parties to the agreement for the relevant activities identified. The Group and the parties to the agreement only have rights to the net assets of the joint venture through the terms of the contractual arrangements.

Service concession arrangement
In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Group has made a judgment that its concession agreements with DPWH, MWSS, PGL, TIEZA, CDC, OWD and CWD qualify under the Intangible Asset model as it receives the right (license) to charge users of public service.

On the other hand, the Group has made a judgment that the concession agreement with DOTr, PGC and TWD qualifies under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial assets for its construction services directly from the grantors.

The accounting policy on the Group's SCA under the Intangible Asset and Financial model is discussed in Note 3.

Distinction of land between real estate inventories and investment properties
The Group determines whether a property will be classified as real estate inventories or investment properties. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (real estate inventories). All other properties that are not yet determined to be sold in the normal operating cycle are classified as investment properties.

Property acquisitions and business combinations
The Group acquires subsidiaries that own real estate properties. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made with regard to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the Group (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in PAS 40 on ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

Contingencies
The Group is currently involved in various legal proceedings in the ordinary conduct of business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsel handling the defense in these matters and is based upon an analysis of potential results.

The Group currently does not believe that these proceedings will have a material adverse effect on the Group's financial position and results of operations (see Note 36).

Management's Use of Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revenue and cost recognition on real estate projects
ALI Group's revenue recognition and cost policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. ALI Group's revenue from real estate and construction contracts is recognized based on the percentage of completion and are measured principally on the basis of the estimated completion of a physical proportion of the contract work. Apart from involving significant estimates in determining the quanitity of imports such as materials, labor and equipment needed, the assessment process for the POC is complex and the estimated project development costs requires technical determination by management's specialists (project engineers). See Notes 22 and 23 for the related balances.

Similarly, the commission is determined using the percentage of completion.

Revenue and cost recognition - rehabilitation works
MWC Group measures revenue from rehabilitation works at the fair value of the consideration received or receivable. MWC Group's revenue from rehabilitation works are recognized over time, using input method. Under this method, progress is measured by reference to the actual costs incurred to date over the estimated total costs of the project. Revenue from rehabilitation works recognized by MWC Group is equivalent to the costs of rehabilitation works incurred as these costs are recovered by MWC Group through its right to charge the customers. As of December 31, 2018 and 2017, MWC Group's revenue from and cost of rehabilitation works amounted to ₱9,662.0 million and ₱11,672.1 million, respectively (see Note 23).

Accounting for business combination
In 2018, the ALI Group, through its wholly-owned subsidiary, RWIL, has acquired 39.4% ownership in MCT for a total consideration of ₱6.0 billion.

Further, management has measured the inventories, property and equipment and investment properties that were acquired using the appraisal report that was prepared by the external appraiser. These appraisals involve selecting the appropriate valuation methodology and making various assumptions such as price per sqm, adjustment factors, discount rate, location, size and time element factors. The properties were valued using the sales comparison approach. Significant assumptions used include comparable property prices adjusted for nature, location and condition of the land.

AEI and AITHI acquired 96% ownership interest in NTC and 98.96% ownership interest in Merlin which resulted in goodwill amounting to ₱44.9 million and ₱88.7 million, respectively, in 2018. Significant assumptions used in computing the fair values of assets and liabilities acquired include discount rate, property values, lease rates, revenue and earnings forecast, and royalty rates.

In 2018, AITHI finalized the purchase price allocation for its 2017 acquisition of MT and determined the fair value of land and building which amounted to €4.9 million (₱247.9 million) and €13.3 million (₱674.1 million), respectively. The determination of the fair value of MT's land and building arising from the finalization of the purchase price allocation also involves estimates such as discount rate, lease rates and land value.

Furthermore, ACEI finalized the purchase price allocation for its 2017 acquisitions of Bronzeoak entities and determined the fair value of equity investments through FVOCI, investment properties, water supply contract and leasehold rights which amounted to ₱579.9 million, ₱253.7 million, ₱127.5 million and ₱470.7 million, respectively. The determination of the fair value of Bronzeoak's tangible and intangible assets arising from the finalization of the purchase price allocation also involves estimates such as discount rate, land value and future cash flows.

Further details on the purchase price allocation exercise are provided in Note 24.

Fair value of the financial liabilities on put option
The acquisition of VIA in 2016 and STI in 2017 included call and put options over the non-controlling interests. These options are considered when determining whether the entity has obtained control over the acquiree if in substance the entity already has access to the returns associated with that ownership interest. IMI management assessed that the options do not give IMI Group present access to the returns associated with the non-controlling interests in subsidiary and, therefore, accounted for the non-controlling interests under PFRS 10, while the financial liability was accounted for under PAS 39 measured at the present value of the redemption amount, with a debit to a component of equity attributable to the parent.

IMI management assessed that the discounted, probability-weighted cash flow methodology is the appropriate model to derive the present value of the redemption amount. The key estimates and assumptions used in the valuation include the current equity value of the acquiree, forecasted interest rate and probability of trigger events occurring. The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital. For STI, IMI management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronic services solutions to derive its current equity value. IMI management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization.

Further details on the valuation of the put options are disclosed in Note 33.

Fair value of contingent consideration liability
The cost of acquisition of STI also includes contingent consideration that will depend on the actual normalized EBITDA performance less adjustments in 2018 and 2019. IMI management assessed that the probability-weighted average of payouts associated with each possible outcome is the appropriate model to derive the fair value as part of the consideration transferred. Valuing normalized EBITDA requires management to make an estimate of the expected future cash flows of STI and an appropriate discount rate in order to calculate the fair value of the contingent consideration as of acquisition date.

Further details on the valuation of the contingent consideration liability are disclosed in Note 33.

Provision for expected credit losses of trade receivables and contract assets

ALI Group
ALI Group uses a provision matrix to calculate ECLs for trade receivables other than the residential and office development trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on ALI Group's historical observed default rates. ALI Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information such as inflation rate and Gross Domestic Product (GDP) growth rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

ALI Group uses vintage analysis approach to calculate ECLs for residential and office development receivables and contract assets. The vintage analysis accounts for expected losses by calculating the cumulative loss rates of a given loan pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the PD model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

The assessment of the correlation between historical observed default rates, forecast economic conditions (inflation and interest rates) and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. ALI Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Other trade receivables and contract assets
For the other trade receivables and contract assets, the Group uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. .At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions, and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Although lifetime expected credit losses are determined collectively, trade receivables and contract assets are also assessed individually based on default or delinquencies and possibility of financial difficulties or possibility of bankruptcy of the customers.

Evaluation of net realizable value of inventories
Inventories are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' and land and improvements' estimated selling price in the ordinary course of business, cost of completion and costs necessary to make a sale to determine the NRV. For real estate inventories, the Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the real estate inventories. In determining the recoverability of the inventories and land and improvements, management considers whether those inventories are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased.

In the event that NRV is lower than the cost, the decline is recognized as an expense. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Further details on inventories are provided in Note 8.

Evaluation of impairment of nonfinancial assets
The Group reviews investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets for impairment of value. Impairment for goodwill is assessed at least annually. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

The Group estimates the recoverable amount as the higher of the fair value less costs to sell and value in use. For investments in associates and joint ventures, fair value less costs to sell pertain to quoted prices (listed equities) and to fair values determined using discounted cash flows or other valuation technique such as multiples. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets.

For goodwill, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

Further details on investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets are provided in Notes 10, 11, 12, 13 and 14, respectively.

Determining the fair value of investment properties
The Group discloses the fair values of its investment properties. The Group engaged independent valuation specialists to assess fair value as at December 31, 2018 and 2017. The Group's investment properties consist of land and building pertaining to land properties, retail (malls) and office properties. These were valued by reference to market based evidence using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Further details on investment properties assets are provided in Note 11.

Estimating billable water volume
Starting May 1, 2017, the SCAs related to MWC Group's concession agreements are amortized using the UOP method based on actual billed volume and total estimated billable volume for the remaining period of the concession agreements. MWC Group considers factors such as population growth rate, supply and consumption, and service coverage, including ongoing and future expansions in estimating the total billable water volume over the remaining periods of the concession agreements. For the years ended December 31, 2018 and 2017, SCA amortization expense based on the UOP method amounted to ₱2,042.04 million and ₱862.21 million, respectively (see Note 13).

Deferred FCDA
Under the concession agreements entered into by the MWC Group with MWSS and TIEZA, MWC and Boracay Island Water Company (BIWC) are entitled to recover (refund) foreign exchange losses (gains) arising from concession loans and any concessionaire loans. MWC and BIWC recognized deferred FCDA (included as part of "Other noncurrent assets" or "Other noncurrent liabilities" in the consolidated statement of financial position) for both realized and unrealized foreign exchange gains and losses. Deferred FCDA is set up as an asset for the realized and unrealized exchange losses since this is a resource controlled by MWC and BIWC as a result of past events and from which future economic benefits are expected to flow to MWC and BIWC. Realized and unrealized foreign exchange gains, on the other hand, which will be refunded to the customers, are presented as liability.

The deferred FCDA of MWC and BIWC arises from a rate adjustment mechanism for the recovery or compensation on a current basis, subject to quarterly review and adjustment by MWSS or TIEZA, when necessary, of accrued foreign exchange gains and losses, arising from MWSS or TIEZA loans and concession loans used for capital expenditures and concession fee payments.

Further details on deferred FCDA of MWC and BIWC are provided in Note 15.

Deferred tax assets
The Group reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

Further details on deferred tax assets are provided in Note 25.

Recognition and measurement of taxes
The Group has exposure to taxes in numerous jurisdictions. Significant judgment is involved in determining the group-wide provision for taxes including value-added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact profit or loss in the period in which such determination is made.

Further details on the carrying amount of the Group's income taxes payable are provided in Note 25.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Parent Company and certain subsidiaries.

Further details on the share-based payments recognized by the Group are provided in Note 28.

Defined benefit plans (pension benefits)
The cost of defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 27.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Further details about the fair value of financial instruments are provided in Note 33.

5. Cash and Cash Equivalents

This account consists of the following:

	2018	2017
	(In Thousands)	
Cash on hand and in banks (Note 31)	**₱26,213,080**	₱21,448,048
Cash equivalents (Note 31)	**34,411,183**	42,811,231
	₱60,624,263	₱64,259,279

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term rates.

6. Short-term Investments

Short-term investments pertain to money market placements made for varying periods of more than three months but less than one year and earn interest ranging from 1.8% to 4.6% per annum in 2018 and 1.6% to 3.7% per annum in 2017.

7. Accounts and Notes Receivable

This account consists of the following:

	2018	2017 (As restated - see Note 3)
	(In Thousands)	
Trade:		
Real estate	**₱54,390,917**	₱100,885,847
Electronics	**16,202,397**	13,022,906
Automotive	**2,896,516**	5,532,186
Water infrastructure	**2,614,044**	2,234,960
Power generation	**1,072,345**	1,151,909
Information technology and BPO	**261,012**	290,915
International and others	**47,348**	22,518
Advances to other companies	**24,842,066**	19,029,334
Receivable from related parties (Note 31)	**8,964,594**	3,070,255
Receivable from officers and employees (Note 31)	**1,497,997**	1,479,532
Dividend receivable (Note 31)	**1,334,894**	1,153,206
Receivable from BWC	**388,411**	501,014
Others (Note 31)	**388,518**	287,484
	114,901,059	148,662,066
Less allowance for expected credit losses	**3,016,237**	2,645,163
	111,884,822	146,016,903
Less noncurrent portion	**6,366,250**	45,774,058
	₱105,518,572	₱100,242,845

The classes of trade receivables of the Group follow:

Real estate
Real estate receivables consist of:
- Residential and office development - pertain to receivables from the sale of high-end, upper middle-income and affordable residential lots and units; economic and socialized housing units and sale of commercial lots; sale of office units; and leisure community developments. Upon adoption of PFRS 15, the Group records any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as residential and office development trade receivables, as contract asset (see Notes 3 and 16).
- Corporate business - pertain to lease receivables from office and factory buildings and receivables from sale of industrial lots
- Shopping centers - pertain to lease receivables from retail spaces
- Construction contracts - pertain to receivables from third party construction projects
- Management fees - pertain to receivables from facilities management services
- Others - pertain to receivables from hotel operations and other support services

Sales contract receivables, under residential and office development receivables are collectible in monthly installments over a period of one (1) to ten (10) years. These are carried at amortized cost using the effective interest rate method with annual interest rates ranging from 8.3% to 13%. Titles to real estate properties are transferred to the buyers only once full payment has been made.

Corporate business receivables are collectible on a monthly or quarterly basis depending on the terms of the lease contracts.

Receivables from shopping centers, construction contracts and management fees are due within 30 days upon billing.

Receivables from hotel operations and other support services are normally due within 30 to 90 days upon billing.

ALI Group sold real estate receivables on a without recourse basis to partner mortgage banks, which include BPI Family Savings Bank, a related party, totaling ₱12,323.6 million in 2018 and ₱7,711.3 million in 2017. These were sold at a discount with total proceeds of ₱11,459.7 million and ₱₱7,320.8 million, respectively. ALI Group recognized loss on sale amounting to ₱863.9 million in 2018 and ₱390.5 million in 2017 (see Note 23).

Electronics
Pertain to receivables arising from manufacturing and other related services for electronic products and components and have credit terms averaging 80 days from invoice date.

Automotive
Automotive receivables relate to sale of passenger cars, motorcycles and commercial vehicles and are collectible within 30 to 90 days from date of sale.

Water infrastructure
Water infrastructure receivables arise from water and sewer services rendered to residential, commercial, semi-business and industrial customers of MWC Group and are collectible within 30 days from billing date.

These receivables also include receivables from pipework services collectible within 12 months, receivables from distributors' fees arising from the Exclusive Distributorship Agreement (EDA) entered into by Manila Water Total Solutions Corp. (MWTS), a wholly-owned subsidiary of MWC, with distributors of its Healthy Family drinking water which are collectible within the period that is agreed with the distributors and receivables arising from supervision fees on the development of water and used water facilities which are collectible within thirty (30) days from billing date.

Power generation
Power generation receivables pertain to ACEI Group's receivable from its various RES customers, Philippine Electric Market Corporattion (PEMC), Ilocos Norte Electric Cooperative, Inc. (INEC), Wholesale Electricity Sport Market (WESM) and National Transmission Corporation (TransCo), acting as administrator of FIT system.

Information technology and BPO
Information technology and BPO receivables arise from venture capital for technology businesses; provision of value-added content for wireless services, online business-to-business and business-to-consumer services; electronic commerce; technology infrastructure sales and technology services; and onshore- and offshore-BPO services and are normally collected within 30- to 60- days from invoice date.

International and others
International and other receivables arose from investments in overseas property companies and projects, charter services, agri-business, education and others and are generally on 30- to 60- day terms.

The nature of the Group's other receivables follows:

Advances to other companies
Advances to other companies mainly pertain to ALI's advances to third party joint venture partners that have been made in consideration of project costs and purchases of land that are still subject to completion. The documentation for these advances provides that these will be payable over a fixed term or on demand in order to allow for repayment of the advances when closing does not occur.

Advances to other companies also includes receivables from MRT Development Corporation (MRTDC) shareholders which pertains to interest-bearing advances made by North Triangle Depot Commercial Corporation (NTDCC) to MRTDC equivalent to the Pre-2006 Development Rights Payment (DRP) Payables and the Residual Depot DRP which is due more than one year, in relation to the funding and repayment agreement. As of December 31, 2018 and 2017, receivables from MRTDC shareholders for both years amounted to ₱436.7 million and ₱445.5 million, respectively.

Receivables from officers and employees
Receivable from officers and employees pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction. These are interest bearing ranging from 6.0% to 10.0% per annum and have various maturity dates ranging from 2019 to 2027.

The Group entered into agreements with BPI Asset Management and Trust Corporation (BPI Trust) in 2018 and 2017 for the assignment of interest-bearing employee receivables amounting to ₱11.3 million and ₱69.0 million, respectively. The transactions were without recourse and did not result to any gain or loss.

Receivables from BWC
Receivables from BWC pertain to the assigned receivables from the share purchase agreement between MWC and Veolia Water Philippines, Inc. (VWPI) related to the acquisition of VWPI's interest in Clark Water Corporation (CWC) in 2011.

The assigned receivable will be paid by BWC at an amount equal to 30% of the product consumed by all of BWC's customers and the tariff imposed by MWC on its customers falling under the corresponding classification pursuant to the Concession Agreement, and all amounts received by BWC as connection fees from customers, and any fee BWC may charge in relation to the interconnection with the wastewater treatment plant of areas of developments outside the BWC service area. The assigned receivable from BWC is interest bearing and MWC Group classifies as current the portion of its gross receivable from BWC that is due within the next twelve (12) months in accordance with the agreed terms.

Others
Other receivables include accrued interest receivable and other nontrade receivables from non-related entities which are non-interest bearing and are due and demandable. This also includes receivable from the DPWH pertaining to the additional costs incurred by the Parent Company in the construction of the Daang Hari-South Luzon Expressway (SLEX) Link Road arising from the government directive to revise the interconnection design of the road amounting to ₱215.9 million (see Note 13).

As of December 31, 2017, nominal amounts of trade receivables from residential and office development totaling ₱99,530.8 million was recorded initially at fair value. The fair values of the receivables were obtained by discounting future cash flows using the applicable rates of similar types of instruments.

Movements in the unamortized discount of ALI Group's receivables as of December 31, 2017 follows:

	2017
	(In Thousands)
Balance at beginning of the year	₱7,448,048
Additions during the year	8,294,042
Accretion for the year	(5,409,944)
Balance at end of the year	₱10,332,146

Movements in the allowance for expected credit losses follow (amounts in thousands):

	2018							
	Real Estate	**Electronics**	**Water Infrastructure**	**Automotive**	**Information Technology and BPO**	**Power Generation**	**Parent Company and Others**	**Total**
At January 1	**₱725,946**	**₱100,373**	**₱1,064,885**	**₱78,480**	**₱174,758**	**₱352,562**	**₱148,159**	**₱2,645,163**
Provisions during the year (Note 23)	**236,048**	**4,640**	**199,118**	**16**	**1,896**	**14,807**	**35,991**	**492,516**
Write-offs	**(652)**	**(3,623)**	**–**	**–**	**–**	**–**	**–**	**(4,275)**
Reversals/Adjustments (Note 23)	**(89,074)**	**–**	**(24,242)**	**(713)**	**(102)**	**–**	**(11,323)**	**(125,454)**
Reclassification/Others	**–**	**4,518**	**–**	**–**	**–**	**–**	**3,770**	**8,288**
At December 31	**₱872,268**	**₱105,908**	**₱1,239,761**	**₱77,783**	**₱176,552**	**₱367,369**	**₱176,597**	**₱3,016,238**

**Disclosure of individually and collectively impaired receivables is not required under PFRS 9.*

	2017							
	Real Estate	Electronics	Water Infrastructure	Automotive	Information Technology and BPO	Power Generation	Parent Company and Others	Total
At January 1	₱1,189,847	₱86,202	₱770,207	₱53,427	₱176,217	₱307,771	₱120,683	₱2,704,354
Provisions during the year (Note 23)	93,718	11,261	586,226	24,356	1,814	50,121	61,437	828,933
Addition through business combination								
Write-offs	(47,900)	(1,428)	–	–	–	–	–	(49,328)
Reversals/Adjustments (Note 23)	(509,861)	3,974	(291,548)	697	(3,273)	–	(8,674)	(808,685)
Reclassification/Others	142	364	–	–	–	(5,330)	(25,287)	(30,111)
At December 31	₱725,946	₱100,373	₱1,064,885	₱78,480	₱174,758	₱352,562	₱148,159	₱2,645,163
Individually impaired	₱550,660	₱100,373	₱67,074	₱29,903	₱171,346	₱–	₱–	₱919,356
Collectively impaired	175,286	–	997,811	48,577	3,412	352,562	148,159	1,725,807
Total	₱725,946	₱100,373	₱1,064,885	₱78,480	₱174,758	₱352,562	₱148,159	₱2,645,163
Gross amount of loans and receivables individually determined to be impaired	₱550,660	₱100,373	₱67,074	₱29,903	₱171,346	₱–	₱–	₱919,356

8. **Inventories**

This account consists of the following:

	2018	2017 (As restated - see Note 3)
	(In Thousands)	
At cost:		
Residential and condominium units and offices	**₱52,254,774**	₱46,739,183
Residential and commercial lots	**51,704,811**	43,685,334
Vehicles	**4,640,443**	3,601,894
Work-in-process	**681,059**	1,367,598
Finished goods	**106,041**	1,812,228
Materials, supplies and others	**10,833,660**	7,441,182
	120,220,788	104,647,419
At NRV:		
Materials, supplies and others	**307,610**	–
Parts and accessories	**29,207**	460,415
Finished goods	**2,888**	78,869
Residential and commercial lots	**–**	9,065
	339,705	548,349
	₱120,560,493	₱105,195,768

A summary of the movements of real estate inventories is set out below.

2018

	Residential and Commercial Lots	Residential and Condominium units and Offices	Total
		(In Thousands)	
Opening balances at January 1	**₱43,694,399**	**₱46,739,183**	**₱90,433,582**
Land acquired during the year	**6,694,113**	**540,324**	**7,234,437**
Acquisition through business combination	**–**	**13,620,873**	**13,620,873**
Construction/Development costs incurred	**23,640,668**	**29,317,230**	**52,957,898**
Borrowing costs capitalized	**–**	**167,036**	**167,036**
Disposals (recognized as cost of sales)	**(29,520,948)**	**(38,263,140)**	**(67,784,088)**
Transfers from/to investment properties and other assets	**7,196,579**	**133,268**	**7,329,847**
	₱51,704,811	**₱52,254,774**	**₱103,959,585**

2017 (as restated)

	Residential and Commercial Lots	Residential and Condominium units and Offices	Total
		(In Thousands)	
Opening balances at January 1	₱62,317,645	₱46,014,989	₱108,332,634
Land acquired during the year	360,264	–	360,264
Construction/Development costs incurred	5,491,565	37,420,455	42,912,020
Borrowing costs capitalized	–	28,754	28,754
Disposals (recognized as cost of sales)	(22,107,339)	(37,757,091)	(59,864,430)
Transfers from/to investment properties and other assets	(2,454,884)	–	(2,454,884)
Write-down of inventories/reversal of write-down	1,298,438	–	1,298,438
Other adjustments/Reclassifications	(1,211,290)	1,032,076	(179,214)
	₱43,694,399	₱46,739,183	₱90,433,582

On January 1, 2018, the Group adopted PIC Q&A 2018-11, *Classification of Land by Real Estate Developer*. Land and improvements previously presented as non-curret asset includes land which the BOD of ALI has previously approved to be developed into residential development for sale. Before the adoption of PIC Q&A 2018-11, the classification was based on the Group's timing to start the development of the property. This was reclassified under inventories in the consolidated statement of financial position (see Note 3).

In 2018 and 2017, ALI reversed nil and ₱1,298.4 million allowance for impairment in residential and commercial lots, respectively, due to higher fair value than its carrying amount. This is included under "Other income" (see Note 23).

The Group recognized provision for inventory obsolescence amounting to ₱125.5 million in 2018 and recorded a reversal of provision for inventory obsolescence amounting to ₱13.7 million and ₱128.0 million in 2017 and 2016, respectively. The provision is included under "General and administrative expenses" in the consolidated statements of income (see Note 23).

The cost of the inventories carried at NRV amounted to ₱348.8 million and ₱874.9 million as of December 31, 2018 and 2017, respectively.

Inventories recognized as cost of sales amounted to ₱134.2 billion, ₱132.8 billion and ₱105.7 billion in 2018, 2017 and 2016, respectively, and were included under "Costs of sales" in the consolidated statements of income.

9. Other Current Assets

This account consists of the following:

	2018	2017 (As Restated - see Note 3)
	(In Thousands)	
Input VAT	**₱15,694,759**	₱20,403,191
Prepaid expenses	**13,546,821**	12,480,978
Advances to contractors	**11,452,729**	16,529,615
Noncurrent assets held for sale (Notes 10 and 24)	**10,162,121**	1,821,049
Financial assets at FVTPL	**9,236,804**	6,063,585
Creditable withholding tax	**4,771,550**	3,671,713
Deposits in escrow	**322,666**	259,898
Concession financial receivable	**193,199**	197,044
Derivative assets (Notes 32 and 33)	**65,788**	85,347
Others	**2,443,710**	341,891
	₱67,890,147	₱61,854,311

Input VAT
Input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

Prepaid expenses
Prepaid expenses mainly include prepayments for commissions, taxes and licenses, rentals and insurance and current project costs.

Advances to contractors
Advances to contractors represents prepayments for the construction of inventories.

<u>Financial Assets at FVTPL</u>

TRG Investments

As of December 31, 2018, financial assets at FVTPL includes the Group's investment in the common and preferred shares of The Rohatyn Group (TRG) Allocation LLC and TRG Management LP (collectively TRG investments) amounting to US$37.8 million (₱1.9 billion) and US$5.4 million (₱283.9 million), respectively. As of December 31, 2017, financial assets at FVTPL includes the Group's investment in the common and preferred shares of The Rohatyn Group (TRG) Allocation LLC and TRG Management LP (collectively TRG investments) amounting to US$26.8 million (₱1.3 billion) and US$8.4 million (₱419.4 million), respectively.

In 2018 and 2017, the Group made additional investment in TRG investments amounting to US$1.4 million and US$8.3 million, respectively, representing capital call for the year.

As of December 31, 2018 and 2017, the Group's remaining capital commitment with the TRG Investments amounted to US$0.3 million and US$1.7 million, respectively.

Unit Investment Trust Fund (UITF) investments

As of December 31, 2018, ALI Group invested in BPI Money Market Fund (MMF) with a fair value of ₱85.7 million. The BPI MMF's Net Asset Value (NAV) was at ₱8,331.5 million with duration of 150 days.

As of December 31, 2017, ALI Group invested in BPI Money Market Fund (MMF) with a fair value of ₱82.98 million. The BPI MMF's Net Asset Value (NAV) was at ₱5,866.9 million with duration of 142 days.

ARCH Fund

In 2007, the private equity fund, called ARCH Capital Asian Partners, L.P. (ARCH Fund I) was established. The ARCH Fund I achieved its final closing, resulting in a total investor commitment of US$330.0 million in 2007. As of December 31, 2018 and 2017, the carrying amount of the BHL Group's investment in ARCH Fund I amounted to US$1.1 million (₱57.8 million) and US$2.2 million (₱109.8 million), respectively.

In 2018 and 2017, the ARCH Fund I returned capital amounting to US$1.2 million (₱63.1 million) and US$0.7 million (₱34.5 million), respectively. The proceeds from the return of capital of ARCH Fund 1 came from its real estate project called The Concordia. Phase 1 to 3 of The Concordia was fully sold and hand over of units to buyers have already started.

In 2011, BHL Group committed to invest US$50.0 million in ARCH Capital's second real estate fund, ARCH Capital-TRG Asian Partners, L.P. (ARCH Fund II), which had its first closing on June 30, 2011. As of December 31, 2018 and 2017, the carrying amount of the ARCH Fund II amounted to US$16.2 million (₱851.8 million) and US$26.7 million (₱1.3 billion), respectively.

On various dates in 2018 and 2017, ARCH Fund II made capital calls where BHL Group's share amounted to US$0.1 million (₱5.3 million) and US$0.3 million (₱14.3 million), respectively. In 2018 and 2017, the ARCH Fund II returned capital amounting to US$13.3 million (₱699.3 million) and US$7.2 million (₱359.5 million), respectively.

As of December 31, 2018 and 2017, BHL Group's remaining capital commitment with the ARCH Fund II amounted to nil and US$0.1 million (₱5.0 million), respectively.

On July 1, 2014, the Group committed to invest 10% of capital raised, capped at US$50.0 million in ARCH Capital's third real estate fund, ARCH Capital-TRG Asian Partners III, L.P. (ARCH Fund III). As of December 31, 2018 and 2017, the carrying amount of the investment in the ARCH Fund III amounted to US$58.5 million (₱3,075.9 million) and US$36.6 million (₱1,827.4 million), respectively.

On various dates in 2018 and 2017, the ARCH Fund III made capital calls where the Group's share amounted to US$11.5 million (₱604.7 million) and US$15.6 million (₱778.9 million), respectively.

As of December 31, 2018 and 2017, the Group's remaining capital commitment with the ARCH Fund III amounted to US$6.0 million (₱315.5 million) and US$18.2 million (₱908.7 million), respectively.

As of December 31, 2018 and 2017, ALI Group's investment in ARCH Fund amounted to ₱390.5 million and ₱457.6 million, respectively. Contributions and return of capital in 2018 amounted to ₱2.7 million and ₱69.8 million, respectively. In 2017, contributions and return of capital amounted to ₱39.4 million and ₱17.2 million, respectively.

Maloekoe Capital Fund 2
Maloekoe Capital Fund 2 is a venture capital fund which focuses on technology investments in Indonesia and Southeast Asia. In 2017, the Group committed to invest up to US$2.0 million. As of December 31, 2018 and 2017, the Group has invested US$0.2 million (₱12.6 million) and US$0.8 million (₱40.9 million), respectively, in Maloeke Capital Fund 2 representing 15.38% of the Class A shares of the fund.

Alibaba
Alibaba Group's New Retail Strategic Opportunities Fund is a fund which aims to invest in traditional brick-and-mortar retail companies based in China and integrate them with Alibaba's e-commerce platform, leveraging on Alibaba's consumer reach, data scale and technology.

On January 12, 2018, AVHC, through Total Jade Group Ltd., a wholly-owned subsidiary of BHL, invested an additional US$0.8 million to Alibaba's New Strategic Retail Opportunities Fund.

As of December 31, 2018 and 2017, the carrying amount of the investment in the Alibaba amounted to US$0.8 million (₱43.1 million) and US$0.5 million (₱24.7 million), respectively.

Arbor Venture Fund I L.P. (Arbor Fund I)
The Arbor Fund I is a private equity fund which focuses on providing funding for new ventures in the financial technology and services space. The fund has investments in companies providing big data decision making (credit scoring, identity verification), asset management, payments processing, and on-line credit linked to payment processing, HR services, and cloud based accounting. On November 29, 2017, AIVPL and Total Jade Group Limited (Total Jade), a wholly-owned subsidiary of BHL, entered into an assignment and assumption agreement whereby AIVPL transferred and assigned all its rights with respect to its investment in Arbor Fund I at carrying amount. Total Jade committed to invest US$2.0 million in Arbor Fund I and Total Jade's remaining capital commitment to Arbor Fund I amounted to US$1.8 million and US$1.6 million as of December 31, 2018 and 2017, respectively.

In 2018 and 2017, Arbor Fund I made capital calls where the Group's share amounted to US$0.3 million (₱15.8 million) and US$0.5 million (₱22.9 million), respectively.

As of December 31, 2018 and 2017, the carrying amount of the investment in Arbor Fund I amounted to US$2.3 million (₱123.0 million) and US$1.6 million (₱77.5 million), respectively. The Group's remaining capital commitment amounted to US$0.2 million (₱10.5 million) and US$0.4 million (₱22.3 million) in 2018 and 2017, respectively.

Arbor Venture Fund GP II, L.P (Arbor Fund II)
Arbor Fund II is a fund which focuses on Asian financial technology firms. Total Jade has committed to invest up to US$2.0 million and Total Jade's remaining capital commitment to Arbor Fund II amounted to US$1.5 million and US$1.6 million as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the carrying amount of the investment in Arbor Fund II amounted to US$0.5 million (₱24.7 million) and US$0.4 million (₱20.0 million), respectively.

TRG Global Opportunity Fund (GOF) and TRG Special Opportunity Fund (SOF)
The GOF is a multi-strategy hedge fund which invests primarily in emerging markets securities. The SOF focuses on less liquid assets in emerging markets (Latin America, Asia, Emerging Europe, Middle East and Africa) such as distressed debt, NPLs, corporate high yield, mid and small cap stocks, real estate (debt and equity) and private equity. In 2018, the Group received return of capital and realized loss amounting to nil. In 2017, the Group received return of capital and realized loss amounting to US$0.13 million (₱6.8 million) and US$0.03 million (₱1.4 million), respectively (see Note 23).

The aggregate carrying amount of GOF and SOF amounted to US$1.3 million (₱68.3 million) and US$1.6 million (₱79.4 million) as of December 31, 2018 and 2017, respectively.

Sares-Regis Multifamily Value-added Fund II LLP (Sares Regis)
Sares Regis is a real estate private equity fund managed by the Sares-Regis Group (SRG) based in California, USA. In 2017, the Group co-invested with the Sares Regis for the acquisition of a 319-unit apartment community in Rancho Cucamonga, California, USA amounting to US$4.8 million (₱239.7 million).

In 2018 and 2017, Sares Regis returned capital amounting to nil and US$1.9 million (₱94.9 million), respectively. As of December 31, 2018 and 2017, the carrying amount of the investment in Sares Regis amounted to US$22.7 million (₱1,193.6 million) and US$19.0 million (₱947.2 million), respectively. In 2018, this investment was reclassified as FVTPL from AFS financial assets as a result of the Group's adoption of PFRS 9 (see Note 3).

Wave Computing
In 2017, the Group invested US$2.2 million (₱109.8 million) in Wave Computing. As of December 31, 2018 and 2017, the carrying amount of the invested amounted to US$9.6 million (₱504.8 million) and US$2.2 million (₱109.8 million), respectively. In 2018, this investment was reclassified as FVTPL from AFS financial assets as a result of the Group's adoption of PFRS 9 (see Note 3).

These investments are accounted for at FVTPL. There is no change in management's intention to hold the investments for trading purpose. Net changes in fair value of financial assets at FVTPL amounting to ₱996.2 million, ₱779.5 million and ₱473.8 million in 2018, 2017 and 2016, respectively, is included under "Other income" in the consolidated statements of income (see Note 23).

<u>Creditable withholding tax</u>
The Group will be able to apply the creditable withholding taxes against income tax payable.

<u>Deposits in escrow</u>
Deposits in escrow pertain to the proceeds from the sale of ALI Group that have been only granted with a temporary License To Sell (LTS) by the Housing and Land Use Regulatory Board (HLURB). For projects with temporary LTS, all payments, inclusive of down payments, reservation, and monthly amortization, among others, made by the buyer within the selling period shall be deposited in an escrow account.

<u>Concession financial receivable</u>
Concession financial receivable is accounted for in accordance with IFRIC 12, arising from the bulk water contract between CMWDI and Metropolitan Cebu Water District (MCWD) whereby the facilities constructed by CMWDI shall be used for the delivery of potable and treated water to MCWD at an aggregate volume of 18,000 cubic meters per day for the first year and 35,000 cubic meters per day for the succeeding years up to twenty (20) years at ₱24.59 per cubic meter.

In 2016, due to the declaration of the state of calamity arising from the El Niño, CMWDI and MCWD invoked the force majeure clause in the Bulk Water Supply Contract which effectively lifted the requirement for MCWD to purchase and for CMWDI to deliver the agreed thirty five (35) million liters of water starting January 2016 up to September 2016. Due to this change in the timing of the implementation of the thirty five (35) million liters of guaranteed volume, CMWDI recognized an impairment loss amounting to ₱8.60 million on its concession financial receivable. This is recorded as part of "Provision for probable losses and doubtful accounts" in the consolidated statement of comprehensive income (see Note 23).

In 2018 and 2017, CMWDI also invoked the force majeure clause due to high water turbidity which resulted to intermittent delivery of the required 35.0 million liters of water to MCWD for a period of four (4) months. As a result, an additional ₱3.3 million and ₱2.6 million impairment loss was recognized for the years ended December 31, 2018 and 2017, respectively.

The breakdown of the concession financial receivable is as follows:

	2018	2017
	(In Thousands)	
Current	**₱193,706**	₱197,044
Noncurrent	**853,335**	1,187,508
	₱1,047,041	₱1,384,552

Others
In 2018, others include accrued liquidated damages (see Notes 12 and 23). In 2017, others include noncurrent assets held for sale arising from the sale and purchase agreement between Speedy-Tech Electronics (Singapore) Co., Ltd. (STSN), a subsidiary of IMI, and Jinnuo Century Trading Limited in connection with the plan to relocate its manufacturing facility in Liantang, Luohu, in line with the urban redevelopment projects of the Shenzhen City government. On January 5, 2018, the 33% share transfer related to the sale was approved by the China government (Note 23). The net gain recognized from sale amounted to US$19.1 million, net of employee relocation incentive (see Note 23).

10. Investments in Associates and Joint Ventures

This account consists of the following:

	2018	2017
	(In Thousands)	
Investment in stocks - cost		
Balance at beginning of year	**₱158,766,616**	₱145,178,507
Additions	**38,118,448**	14,879,077
Acquisition of control on previously held interest	**(6,376,975)**	(1,290,968)
Disposal/ transfer to non-current asset held for sale	**(6,741,378)**	–
Balance at end of year	**183,766,711**	158,766,616
Accumulated equity in net earnings:		
Balance at beginning of year	**47,771,969**	38,001,485
Impact of adoption of PFRS 9	**(248,674)**	–
Balance at the beginning of the year (as restated)	**47,523,295**	38,001,485
Equity in net earnings during the year	**20,459,804**	18,494,458
Dividends received during the year	**(7,553,088)**	(8,224,602)
Disposal/ transfer to non-current asset held for sale	**(1,090,466)**	–
Provision and others	**(539,025)**	(499,372)
Acquisition of control on previously held interest	**(1,094,148)**	–
Balance at end of year	**57,706,372**	47,771,969
Other Comprehensive Income:		
Balance at beginning of year	**(3,889,285)**	(2,866,249)
Impact of adoption of PFRS 9	**1,912,454**	–
Balance at the beginning of the year (as restated)	**(1,976,831)**	(2,866,249)
Share of associates and joint ventures in OCI	**644,306**	(1,023,036)
Balance at end of year	**(1,332,525)**	(3,889,285)
	₱240,140,558	₱202,649,300

Details of the Group's investments in associates and joint ventures and the related percentages of ownership are shown below:

	Percentage of Ownership		Carrying Amounts	
	2018	2017	**2018**	2017
			(In Millions)	
Domestic:				
Bank of the Philippine Islands (BPI)	**32.9%**	32.5%	**₱101,691**	₱77,495
Liontide Holdings, Inc. (LHI)*	**78.1**	78.1	**45,291**	41,855
Globe Telecom, Inc. (Globe)*	**30.9**	31.0	**23,215**	21,194
OCLP Holdings, Inc. (OHI)	**21.0**	21.0	**8,118**	7,738
Emerging City Holdings, Inc. (ECHI)*	**50.0**	50.0	**3,911**	3,916
Light Rail Manila Holdings, Inc. (LRMHI)	**50.0**	50.0	**3,417**	1,825
South Luzon Thermal Energy Corp. (SLTEC)*	**35.0**	35.0	**3,042**	2,704
GNPower Mariveles Coal Plant Ltd. Co (GMCP)**	**20.4**	20.4	**2,781**	8,006
ALI-ETON Property Development Corporation*	**50.0**	50.0	**2,109**	604
GNPower Dinginin Ltd. Co. (GNPD)**	**50.0**	50.0	**2,023**	2,266
AKL Properties, Inc.*	**50.0**	–	**1,943**	–
Berkshires Holdings, Inc. (BHI)*	**50.0**	50.0	**1,933**	1,910
Cebu District Property Enterprise, Inc. (CDPEI)*	**35.0**	42.0	**1,464**	1,476
Bonifacio Land Corporation (BLC)	**10.0**	10.0	**1,428**	1,395
Philippine Wind Holdings Corporation (PWHC)*	**42.9**	42.9	**1,420**	1,006
Asiacom Philippines, Inc. (Asiacom)*	**60.0**	60.0	**1,308**	1,302
BF Jade E-Services Philippines, Inc. (BF Jade)	**44.7**	44.2	**930**	1,051
Rize-Ayalaland (Kingsway) GP Inc. (Rize-Ayalaland)	**49.0**	49.0	**794**	674
Alveo-Federal Land Communities, Inc.*	**50.0**	50.0	**789**	661
Generika Group*	**50.0**	50.0	**474**	500
Globe Fintech Innovations, Inc. (Mynt)	**10.0**	10.0	**192**	461
Foreign:				
Star Energy Salak-Darajat B.V. (incorporated in Indonesia)	**19.8**	19.8	**10,280**	9,045
Eastern Water Resources Development and Management Public Company Limited (Eastern Water) (incorporated in Thailand)	**20.0**	–	**8,623**	–
Thu Duc Water B.O.O. Corporation (TDW) (incorporated in Vietnam)	**49.0**	49.0	**3,074**	2,725
Kenh Dong Water Supply Joint Stock Company (KDW) (incorporated in Vietnam)	**47.4**	47.4	**2,721**	2,574
BIM Energy Joint Stock Co. (incorporated in Vietnam)*	**30.0**	–	**2,241**	–
UPC Renewables Australia (incorporated in Australia)*	**50.0**	–	**1,462**	–
Saigon Water Infrastructure Joint Stock Company (Saigon Water) (incorporated in Vietnam)	**38.0**	38.0	**1,172**	1,151
New Energy Investments Corporation (incorporated in Vietnam)*	**50.0**	–	**1,131**	–
UPC Sidrap HK Ltd. (incorporated in Indonesia)*	**11.0**	11.0	**334**	321
UPC Renewables Asia III Ltd. (incorporated in Indonesia)*	**51.0**	51.0	**103**	1,180
MCT Berhard (MCT) (incorporated in Malaysia)	**–**	33.0	**–**	7,471
Others	**Various**	Various	**727**	143
			₱240,141	₱202,649

**Joint ventures*

*** In accordance with the share purchase agreement, the Group reclassified portion of its effective holdings in GMCP and GNPD as asset held for sale as of December 31, 2018. The closing of the agreement, however, is subject to certain conditions precedent that have not yet materialized as of date. Accordingly, the effective ownership of the Group remains unchanged as of December 31, 2018.*

Unless otherwise indicated, the principal place of business and country of incorporation of the Group's investments in associates and joint ventures is the Philippines.

Except as discussed in subsequent notes, the voting rights held by the Group in its investments in associates and joint ventures are in proportion to their ownership interest.

Financial information on significant associates follows:

BPI	**2018**	2017
	(In Millions, except earnings per share)	
Total resources	**₱2,085,228**	₱1,903,905
Total liabilities	**1,833,690**	1,720,354
Equity	**251,538**	183,551
Less: non-controlling interest	**3,017**	2,863
Equity attributable the equity holders of BPI	**248,521**	180,688
Net interest income and other income	**78,524**	71,020
Total expenses	**55,195**	48,284
Net income	**23,329**	22,736
Net income attributable to:		
Equity holders of BPI	**23,078**	22,416
Non-controlling interests	**251**	320
Group's share in net income for the year	**7,685**	7,238
Other comprehensive loss	**(1,289)**	(17)
Group's share in other comprehensive loss	**(387)**	(2)
Total comprehensive income	**22,040**	22,719
Total comprehensive income attributable to:		
Equity holders of BPI	**21,878**	22,406
Non-controlling interests	**162**	313
Group's share in total comprehensive income	**7,251**	7,236
Earnings per share:		
Basic and diluted	**5.35**	5.69
Dividends received from BPI	**₱2,503**	₱2,306

OHI	**2018**	2017
	(In Millions)	
Current assets	**₱18,304**	₱14,886
Noncurrent assets	**16,354**	11,733
Current liabilities	**8,828**	6,816
Noncurrent liabilities	**18,713**	14,351
Equity	**7,117**	5,452
Revenue	**9,279**	6,738
Cost and expenses	**7,468**	5,283
Net income	**1,811**	1,455
Group's share in net income for the year	**382**	306
Total comprehensive income	**1,811**	1,455
Group's share in total comprehensive income for the year	**382**	306
Dividends received	**₱27**	₱35

LRMHI	**2018**	2017
	(In Millions)	
Current assets	**₱2,237**	₱1,816
Noncurrent assets	**23,808**	15,311
Current liabilities	**736**	455
Noncurrent liabilities	**11,578**	8,683
Equity	**13,371**	7,989
Revenue	**3,464**	3,253
Cost and expenses	**2,819**	2,745
Net income	**645**	508
Group's share in net income for the year	**226**	178
Total comprehensive income	**669**	508
Group's share in total comprehensive income for the year	**234**	178
Dividends received	**–**	–

GMCP	2018	2017
	(In Millions)	
Current assets	**US$253**	US$173
Noncurrent assets	**647**	679
Current liabilities	**104**	63
Noncurrent liabilities	**716**	578
Equity	**80**	211
Revenue	**447**	433
Cost and expenses	**321**	370
Net income	**126**	64
Group's share in net income for the year	**22**	13
Total comprehensive income	**130**	64
Group's share in total comprehensive income for the year	**22**	13
Dividends received	**US$5**	US$–

Salak Darajat	2018	2017
	(In Millions)	
Current assets	**US$231**	US$208
Noncurrent assets	**2,476**	2,484
Current liabilities	**120**	130
Noncurrent liabilities	**1,612**	1,675
Equity	**975**	887
Revenue	**342**	241
Cost and expenses	**258**	190
Net income	**84**	51
Group's share in net income for the year	**16**	10
Total comprehensive income	**98**	51
Group's share in total comprehensive income for the year	**19**	10
Dividends received	**US$–**	US$–

Eastern Water	2018
	(In Millions)
Current assets	**₱1,383**
Noncurrent assets	**47,048**
Current liabilities	**3,602**
Noncurrent liabilities	**9,826**
Equity	**35,003**
Revenue	**6,194**
Net income	**1,403**
Group's share in net income for the year	**263**
Total comprehensive income	**1,403**
Group's share in total comprehensive income for the year	**263**
Dividends received from KDW	**223**

The conversion rates used were ₱1.6220 to THB1 as of December 31, 2018.

TDW	**2018**	2017
	(In Millions)	
Current assets	**₱213**	₱157
Noncurrent assets	**3,938**	3,221
Current liabilities	**324**	263
Noncurrent liabilities	**440**	439
Equity	**3,387**	2,676
Revenue	**851**	808
Net income	**520**	494
Group's share in net income for the year	**255**	242
Total comprehensive income	**520**	494
Group's share in total comprehensive income for the year	**255**	242
Dividends received from TDW	**₱128**	₱111

The conversion rates used were ₱0.0022 to VND1 and ₱0.0022 to VND1 as of December 31, 2018 and 2017, respectively.

KDW	**2018**	2017
	(In Millions)	
Current assets	**₱690**	₱407
Noncurrent assets	**3,900**	3,737
Current liabilities	**406**	411
Noncurrent liabilities	**1,349**	1,208
Equity	**2,835**	2,525
Revenue	**512**	489
Net income	**322**	313
Group's share in net income for the year	**153**	148
Total comprehensive income	**322**	313
Group's share in total comprehensive income for the year	**153**	148
Dividends received from KDW	**₱63**	₱74

The conversion rates used were ₱0.0022 to VND1 and ₱0.0022 to VND1 as of December 31, 2018 and 2017, respectively.

Financial information on significant joint ventures (amounts in millions, except earnings per share figures) follows:

LHI	**2018**	2017
	(In Millions)	
Current assets, including cash and cash equivalents amounting to ₱636.2 million in 2018 and ₱9.8 million in 2017	**₱1,454**	₱723
Noncurrent assets	**49,919**	36,229
Current liabilities	**174**	–
Noncurrent liabilities	**9,869**	–
Equity	**51,304**	36,952
Revenue	**4,635**	7,156
Interest income	**27**	2
Costs and expenses		
Depreciation and amortization	**–**	–
Interest expense	**397**	–
Provision for income tax	**(5)**	–
Net income	**4,241**	7,158
Group's share in net income for the year	**3,335**	3,534
Other comprehensive income (loss)	**641**	54
Group's share in other comprehensive loss	**501**	(1)
Total comprehensive income	**4,882**	7,212
Group's share in total comprehensive income	**3,836**	3,533
Dividends received from LHI	**₱393**	₱1,113

Globe	2018	2017
	(In Millions)	
Current assets, including cash and cash equivalents amounting to ₱23.2 billion in 2018 and ₱11.2 billion in 2017	**₱73,523**	₱57,515
Noncurrent assets	**225,975**	220,251
Current liabilities including financial liabilities* amounting to ₱16.8 billion in 2018 and ₱8.3 billion in 2017	**85,466**	79,457
Noncurrent liabilities, including financial liabilities* amounting to ₱131.5 billion in 2018 and ₱123.2 billion in 2017	**140,889**	131,751
Equity	**73,143**	66,558
Less: non-controlling interest	**24**	43
Equity attributable the equity holders of the Parent	**73,119**	66,515
Revenue	**151,173**	135,281
Interest income	**391**	140
Costs and expenses		
Depreciation and amortization	**(30,422)**	(27,513)
Interest expense	**(7,096)**	(5,252)
Provision for income tax	**(8,988)**	(6,457)
Net income	**18,626**	15,084
Net income attributable to:		
Equity holders of the Parent	**18,641**	15,066
Non-controlling interests	**(15)**	18
Share in net income for the year	**5,646**	4,508
Other comprehensive income	**1,094**	542
Share in other comprehensive income (loss) for the year	**338**	228
Total comprehensive income	**19,720**	15,626
Share in total comprehensive income for the year	**5,934**	4,736
Earnings per share:		
Basic	**135.91**	109.22
Diluted	**135.40**	109.01
Dividends received from Globe	**₱3,745**	₱3,745

**excluding trade and other payables and provisions*

ECHI	2018	2017
	(In Millions)	
Current assets	**₱10,421**	₱13,980
Noncurrent assets	**32,371**	30,806
Current liabilities	**3,285**	4,313
Noncurrent liabilities	**7,479**	7,396
Equity	**32,028**	33,077
Revenue	**5,315**	6,167
Cost and expenses	**3,112**	3,807
Net income (continuing operations)	**2,203**	2,508
Net income attributable to:		
Parent	**797**	1,730
Non-controlling interest	**1,406**	631
Group’s share in net income for the year	**398**	315
Total comprehensive income attributable to parent	**798**	630
Group’s share in total comprehensive income for the year	**399**	315
Dividends received	**₱200**	₱350

SLTEC	**2018**	2017
	(In Millions)	
Current assets	**₱4,239**	₱5,391
Noncurrent assets	**16,478**	16,872
Current liabilities	**3,025**	2,895
Noncurrent liabilities	**10,098**	11,665
Equity	**7,954**	7,703
Revenue	**6,625**	8,248
Cost and expenses	**5,647**	6,132
Net income	**978**	2,116
Group's share in net income for the year	**338**	741
Total comprehensive income	**980**	2,116
Group's share in total comprehensive income for the year	**338**	741
Dividends received	**₱173**	₱821

In addition to the interest in associates and joint ventures discussed above, the Group also has interest in a number of individually immaterial associates and joint ventures. Below is a summary of certain financial information concerning these immaterial associates and joint ventures:

	2018	2017
	(In Millions)	
Carrying amount	**₱23,977**	₱17,926
Share in net income	**90**	188
Share in other comprehensive income (loss)	**648**	4
Share in total comprehensive income	**738**	192

The following significant transactions affected the Group's investments in associates and joint ventures:

Investment in BPI
On January 17, 2018, the BOD of BPI approved the offering for subscription of up to 567.0 million shares of BPI by way of a SRO up to ₱50.0 billion.

On April 25, 2018, BPI completed the SRO, issuing 558,659,210 new common shares at ₱89.50 per share. The issuance received strong support from domestic and foreign shareholders such that a total of 683,258,317 shares were subscribed, representing an oversubscription of 22.4%. The Group subscribed to its proportionate and unsubscribed rights share which was very minimal, raising its effective ownership in BPI to 48.6%.

Adoption of PFRS 9
The adoption of PFRS 9 resulted in changes in accounting policies and adjustments to the amounts previously recognized by BPI Group. Resulting adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening balance of Surplus and Reserves of BPI Group as of January 1, 2018.

The adoption of PFRS 9 has resulted in changes mainly in BPI Group's accounting policies for recognition, classification and measurement and impairment of financial assets using the ECL method. There were no changes in the classification of financial liabilities.

The changes in BPI Group's classification and measurement and impairment of financial assets resulted to an increase in BPI's surplus by ₱62.0 million and decrease in accumulated other comprehensive loss by ₱4,111.0 million as of January 1, 2018, of which the Group's share amounted to ₱31.4 million and ₱1,912.4 respectively.

Adoption of PFRS 15
The impact of PFRS 15 adoption did not result to a significant change in the revenue recognition of BPI Group.

BPI spun-off its BPI Asset Management and Trust Group (BPI AMTG) to a newly-established Stand-Alone Trust Corporation (SATC) named BPI Asset Management and Trust Corp. (BPI AMTC). BPI AMTC officially commenced its operations on February 1, 2017.

The fair value of the BPI shares held by the Group amounted to ₱130.7 billion and ₱138.5 billion as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the notional goodwill resulting from the difference between the share in the net assets in BPI and its carrying value amounted to ₱19.2 billion.

Investment in LHI
In July 2018, LHI completed its subscription to 112,191,314 proportionate and unsubscribed rights share in BPI's SRO by securing from a local bank a ₱10.0 billion loan bearing 5.9134% interest per annum and maturing on April 20, 2025.

As of December 31, 2017, LHI owns 618,338,612 common shares of BPI representing a direct ownership interest in BPI of 20.1%. The Parent Company and GIC Special Investments Pte. Ltd. (GICSI), as joint venture partners, agreed to vote their BPI shares based on the common position reached jointly by them as shareholders. In January 2017, the SEC approved the reclassification of 48,574,200 of LHI's Common B shares into redeemable preferred shares (RPS). In March 2017, Arran Investment Pte Ltd, the holder of these RPS, issued a notice to LHI for a redemption in-kind involving 10,913,830 RPS shares for 45,627,477 shares of BPI held by LHI. The redemption in-kind has a total consideration of US$90.9 million (₱4.6 billion) worth of BPI shares. The cross at the PSE was executed on May 5, 2017.

As of December 31, 2018 and 2017, LHI owns 904.2 million and 792.0 million common shares of BPI representing a direct ownership interest in BPI of 20.1%. The Parent Company and GIC Special Investments (GICSI) Pte Ltd., the entity controlling Arran Investments Pte. Ltd., as joint venture partners, agreed to vote its BPI shares based on the common position reached jointly by them as shareholders.

The fair value of BPI shares held by LHI amounted to ₱85.0 billion and ₱85.6 billion as of December 31, 2018 and 2017 respectively.

As of December 31, 2018 and 2017, the notional goodwill resulting from the difference between the share in the net assets in LHI and its carrying value amounted to ₱12.9 billion.

Investment in Globe
In 2018, Globe Group adopted PFRS 9 and 15 and the resulting adjustments were recognized in the opening balance of retained earnings as of January 1, 2018.

The impact of the adoption of PFRS 15 and 9 on the Globe Group's retained earnings as of January 1, 2018 is as follows:
a) PFRS 15 - increase in retained earnings as of January 1, 2018 by ₱4.9 billion, of which the Group's share is ₱1.5 billion, brought about by:
    - Re-allocation of contract consideration between wireless communication services and the sale of handsets
    - Capitalization of certain commissions and installation costs as deferred contract costs and amortized over the period when the performance obligations are satisfied
    - Deferral of installation fees as contract liabilities and recognized as revenue on a straight-line basis over the subscription contract

b) PFRS 9 - decrease in retained earnings as of January 1, 2018 by ₱5.6 billion, of which the Group's share is ₱1.7 billion, brought about by the recognition of additional impairment losses on subscriber receivables under the ECL method.

On February 28, 2017, Globe and PLDT each subscribed to 2,760,000 new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of Vega Telecom, Inc. (VTI), at a subscription price of ₱4,000 per subscribed shares (inclusive of a premium over par of ₱3,000 per subscribed share) or a total subscription price of ₱11,040 million (inclusive of a premium over par of ₱8,280 million). Globe and PLDT's assigned advances from San Miguel Corporation (SMC), which amounted to ₱11,040 million, were treated as deposit for future stock subscription by VTI and applied subsequently as full payment of the subscription price.

Also, on the same date, Globe and PLDT each subscribed to 800,000 new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of VTI, at a subscription price of ₱4,000 per subscribed share (inclusive of a premium over par of ₱3,000 per subscribed share), or a total subscription price of ₱3,200 million (inclusive of a premium over par of ₱2,400 million). Globe and PLDT each paid ₱148 million in cash for the subscribed shares. The remaining balance of the subscription price shall be paid by Globe and PLDT upon call of the VTI BOD.

On February 17, 2017, Globe Telecom and its wholly-owned subsidiaries, GFI/Mynt and Globe Capital Venture Holdings, Inc. (GCVHI) entered into an investment agreement with Alipay and the Parent Company, for Alipay and the Parent Company to invest in the unissued common shares of GFI/Mynt.

On September 27, 2017, following the approval from PCC, GFI/Mynt received the capital infusion from Alipay and the Parent Company through AVHC amounting to ₱2,784.60 million in exchange for GFI/Mynt's 513 million common shares. The issuance of shares to Alipay and AVHC diluted GCVHI's ownership interest to 45% and resulted in a loss of control over GFI/Mynt. Thereafter, investment in GFI/Mynt was accounted for as a joint venture under equity method since no single party controls the arrangement and approvals of all parties are required for business decisions. The transaction resulted in a gain on fair value of retained interest in Globe's consolidated financial statements amounting to ₱1,889.9 million in 2017.

The fair value of Globe shares held by the Parent Company amounted to ₱78.2 billion as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, the notional goodwill resulting from the difference of the share in the net assets in Globe and its carrying value amounted to ₱3.9 billion.

The Parent Company also holds 60% ownership interest in Asiacom, which owns 158.5 million Globe preferred shares and 460.0 million AC preferred shares as of December 31, 2018 and 2017. The Parent Company does not exercise control over Asiacom and Globe since it is a joint venture with Singapore Telecommunications Limited (SingTel).

Investment in OHI

OHI owns 99.5% interest in Ortigas & Company Limited Partnership (OCLP), an entity engaged in real estate development and leasing businesses. In 2016, ALI acquired a 21.0% stake in OHI consistent with its thrust of expanding its operations to other areas within and outside of Metro Manila through partnerships. The acquisition was made possible via the purchase of shares from existing OHI shareholders, and this was recorded under "Investments in associates and joint ventures" account for ₱7,320.7 million. In 2017, the Group finalized the purchase price allocation of its acquisition of OHI through business combination in March 2016. The final purchase price allocation resulted in gain from bargain purchase of ₱148.0 million included under "Other income" (see Note 23).

Investment in ECHI, BHI and BLC
ALI's 5.32% direct investment in BLC and 4.78% through Regent Time International, Limited (Regent Time) are accounted for using the equity method because ALI has significant influence over BLC.

On April 17, 2003, the following transactions were consummated pursuant to the terms and conditions of the Assignment Agreement (Agreement), dated February 8, 2003, among ALI, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among ALI, EHI and Neo Oracle Holdings, Inc. ([formerly Metro Pacific Corporation (MPC)] as amended:

(a) The assignment to ALI and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPC, pursuant to which, Larouge extended MPC a loan in the principal amount of US$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by ALI and EHI for such assignment was approximately US$90.0 million, subject in part to foreign exchange adjustment.

(b) The assignment to ALI and EHI [acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus)] of the controlling interests in BLC representing 50.38% of BLC's outstanding capital stock. The assignment was effected by MPC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.6% of its outstanding capital stock.

The Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.

ALI and EHI jointly hold the 50.38% equity interest in BLC through ECHI and BHI. ALI and EHI assigned the notes receivable from MPC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method, resulting in a negative goodwill of ₱1.4 billion.

Subsequent to this, ALI and EHI acquired additional shares of BLC through a combination of direct acquisition and through its associates at varying dates as follows:

On July 31, 2008, the Group acquired, through ALI, Regent and Columbus, additional 4,360,178 shares of BLC from FBDC amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC. In January and October 2009, a total of 2,295,207 BLC shares were acquired from Development Bank of the Philippines and MPC, pertaining to the pledged shares, through Columbus amounting to ₱362.6 million. This resulted in an increase in the Group's effective interest in BLC to 45.05% as of December 31, 2009.

In 2011, BLC redeemed its 3,485,050 preferred shares with an aggregate redemption price of ₱500.0 million.

Investment in Light Rail Manila Holdings, Inc. (LRMHI)
LRMHI was incorporated on June 23, 2014, as a holding company for the LRT 1 Cavite extension project. LRMHI holds 70% of the total equity of Light Rail Manila Corporation (LRMC), the project company established for the construction, operation and maintenance of the LRT 1 Cavite extension project. AC Infra owns 50% of the shares of LRMHI that ultimately resulted to a 35% interest in LRMC.

On September 12, 2015, LRMC took over the operations of LRT Line 1. In December 2015, LRMC started its rehabilitation of certain LRT 1 stations. As of December 31, 2018, the structural restoration project and the rehabilitation and upgrade of propulsion, train control and management systems of the LRT 1 generation 2 trains were 89.72% and 53.74% complete, respectively, while the rehabilitation of eleven (11) rectifier subs-stations and the design, supply and installation of CCTV, access control, and security network systems were at the design, planning and mobilization phase.

As of December 31, 2018 and 2017, AC Infra's remaining equity investment commitment for the LRT 1 project amounted to ₱4.1 billion and ₱5.2 billion, respectively.

Investment in SLTEC
SLTEC is a 50-50 joint venture between ACEI and PHINMA Energy Corporation (PEC) incorporated for the construction and operation of the 135 MW power plant in Calaca, Batangas. The power plant employs the environment-friendly Circulating Fluidized Bed boiler technology. SLTEC will operate as a base load plant to serve the anticipated demand for power in the Luzon grid. On April 24, 2015 and February 26, 2016, Unit 1 and 2 have achieved Commercial Operations Date (COD), respectively. Upon COD, PEC entered into a 15-year power purchase agreement to purchase all of the generated output of SLTEC.

On December 20, 2016, ACEI sold 5,374,537 common shares and 5,374,537 preferred shares in SLTEC to Axia Power Holdings Philippines Corp. (Axia Power), a subsidiary of Marubeni Corporation, which resulted in a net gain of ₱1.2 billion. The transaction resulted in the decrease in ownership interest of ACEI in SLTEC from 50% to 35%.

Investment in GMCP
In 2014, AMPLC closed the acquisition from AMNHB of 17.02% limited partnership interest and 0.08% general partnership interest in GMCP for a consideration amounting to US$163.9 million (₱7.2 billion) and agreed that until the issuance of Bureau of Internal Revenue (BIR) of tax clearance certificate authorizing the transfer of registration of the ownership interests from the seller to the buyer, AMNHB remains to be the legal and registered owner of the limited partnership interest.

On August 29, 2017, GMCP signed a Notes Facility Agreement with certain lenders for an aggregate principal amount of US$800.0 million (the NFA). Financial Closing under the NFA was successfully achieved on September 29, 2017 with the proceeds of the loan being used to refinance its existing loan obligations, return of capital to the partners, and for other general corporate purposes.

GMCP recognized loan breakage costs and accounting mark-to-market losses amounting to US$45.8 million due to refinancing, which in turn reduced the equity earnings of ACEI by ₱396.0 million as of December 31, 2017.

Following the return of capital to the project sponsors and owners last October 12, 2017, the sharing percentage of ACEI (through its limited partnership interest) increased from 17.0246% to 20.3372%, pursuant to the terms of the Second Amended and Restated Limited Partnership Agreement for GMCP.

Effective January 29, 2018, AMPLC became the legal and registered owner of the limited partnership interest in GMCP.

On September 20, 2018, AA Thermal, a wholly owned affiliate of ACEI was incorporated.

On September 24, 2018, ACEI transferred 100% of its limited partnership interests in each of AMPLC and DPHLC to AA Thermal. The transfer is part of ACEI's restructuring plan for its thermal assets.

The AA Thermal platform will initially consist of ACEI's limited partnership interests in GMCP, the owner and operator of an operating 2x316 MW coal plant in Mariveles, Bataan, and in GNPD, the developer and owner of a 2x668 MW supercritical coal plant project in Dinginin, Bataan, which is currently under construction.

On September 25, 2018, ACEI and AMNHB signed a subscription agreement for the purchase of shares of stock of AA Thermal, Inc.

On September 26, 2018, Aboitiz Power Corp. (Aboitiz Power) entered into a share purchase agreement with ACEI Group for the acquisition of 12.20% effective interest in GMCP and 30.00% effective interest in GNPD. The closing of the sale transaction is subject to conditions precedent (including the approval by the Philippine Competition Commission [PCC]). The transaction was valued at US$579.2 million. After the sale, the Group's effective ownership in GMCP and GNPD will be reduced to 8.13% and 20%, respectively.

Consequently, as a result of the share purchase agreement, the Group's interest in GMCP and GNPD, in so far as it relates to the portion to be sold to Aboitiz Power is reclassified to noncurrent asset held for sale as of December 31, 2018 (see Note 9). ACEI Group also determined that the asset held for sale shall be carried at reclassification date at the carrying value of the two investments amounting to ₱5,635.3 million since this is lower than the fair value less cost to sell of US$579.20 million.

As of December 31, 2018 and 2017, the notional goodwill resulting from the difference of the share in net assets in GMCP and the carrying value amounted to US$128.0 million. A portion of this goodwill has been reclassified to "Noncurrent asset held-for-sale" as a result of the share purchase agreement between ACEI Group and Aboitiz Power.

ALI-ETON Property Development Corporation (ALI-ETON)
ALI-ETON Property Development Corporation was incorporated on March 13, 2016. ALI-ETON is a joint venture between ALI and LT Group, Inc. The ALI and LT Group, Inc. entered into an agreement on January 21, 2016 to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portions of Pasig City and Quezon City.

Investment in GNPD
On May 21, 2014, ACEI, through its subsidiary DPHLC, acquired 50.0% interest in GNPD. GNPD was registered primarily to develop, construct, operate and own an approximately 2x600 MW (net) supercritical coal-fired power plant located in Mariveles, Bataan.

GNPD achieved financial close for its first 2x600 MW plant and its second unit for 2x668 MW super-critical coal fired power plant, in Dinginin, Bataan on September 2, 2016 and December 12, 2017, respectively. The estimated project cost of the GNPD Project is US$1.7 billion with the debt component to be provided by Philippine banks. The GNPD Project will support the increasing electricity demand of Luzon and Visayas. Construction of the first unit is well underway, and is targeted for commercial operations by 2019, with the second unit scheduled for completion by 2020.

As of December 31, 2018 and 2017, ACEI's remaining total capital commitment on its investment in GNPD amounted to US$82.2 million and US$122.2 million, respectively.

Investment in AKL
AKL Properties, Inc. is a 50:50 joint venture between Ayala Land, Inc. and Royal Asia Land, Inc., and is organized primarily for future mixed-use development in South Luzon area.

Investment in Cebu District Property Enterprise, Inc.
Cebu District Property Enterprise, Inc. (CDPEI) was incorporated on February 20, 2014 and is a 50:50 joint venture between ALI and Aboitiz Land, Inc. CDPEI's main purpose is to create a mixed-use commercial and residential district with the 15.4 hectare property in Subangdaku, Mandaue. On April 11, 2014, ALI's 50% equity was further broken down to 35% ALI, 10% CHI and 5% CPVDC.

Investment in PWHC
On July 12, 2013, ACEI, through PWHC, signed an Investment Framework Agreement and Shareholders' Agreement with UPC Philippines Wind Holdco I B.V. (UPC), a wholly-owned company of UPC Renewable Partners and the Philippine Investment Alliance for Infrastructure fund (PINAI),

comprised of the Government Service Insurance System, Langoer Investments Holding B.V. and Macquarie Infrastructure Holdings (Philippines) Pte. Limited, to develop wind power projects in Ilocos Norte through North Luzon Renewable Energy Corp. (NLREC) as their joint venture company. An initial equity investment has been agreed for the first 81 MW project with an investment value of approximately US$220.0 million with ACEI funding 64% of equity, PINAI 32% and UPC 4%.

The 81MW wind power project received a declaration of commerciality on June 17, 2013 from the Department of Energy (DOE).

In 2014, the DOE issued a Certificate of Endorsement for FIT for the wind power project after it was commissioned and started commercial operations (see Note 38).

On April 13, 2015, the wind power project received their Feed-in-Tariff Certificate of Compliance (FIT COC) from the Energy Regulatory Commission (ERC). This entitled the wind power project to a feed-in-tariff (FIT) of ₱8.53 per kilowatt hour for a period of 20 years from November 11, 2014 to November 10, 2034.

Investment in BF Jade

On February 23, 2017, the Parent Company, ALI , BPI Capital Corporation (BPI Capital), and Kickstart Ventures Inc. (Kickstart) signed an investment agreement to acquire ownership stakes in BF Jade, subject to the fulfillment of certain closing conditions, including the approval of the acquisition by the PCC. BF Jade is the owner and operator of online fashion platform Zalora Philippines (Zalora). BPI Capital and Kickstart are wholly owned subsidiaries of BPI and Globe, respectively. The transaction will result in the following ownership interest by new investors over BF Jade: Parent Company at 43.28%, while the rest at 1.91% each for a total of 49% for the Ayala Group.

On August 14, 2017, certain conditions precedent to closing the transaction have been complied with, including the approval (or deemed approval) from the PCC.

On August 31, 2017, the parties completed the closing of the transaction and the new investors subscribed to shares of BF Jade. The Parent Company and ALI assigned their rights to subscribe to their wholly owned subsidiaries AVHC and AMSI,Inc., respectively.

As of January 31, 2018, the parties, BF Jade, AVHC, ALI Kickstart and BPI Capital, completed the post-closing conditions of the acquisition of BF Jade and made their respective capital contributions to BF Jade. AVHC paid ₱334.7 million while AMSI, Inc., BPI Capital and Kickstart paid ₱14.8 million.

The valuation of BF Jade was based on enterprise value/sales multiples of similar e-commerce fashion companies.

In 2018, the PPA for the above acquisition was finalized. AVHC's total investment amounted to ₱1,113.9 million. As of December 31, 2018, the fair values of the identifiable assets and liabilities acquired amounted to ₱1,293.4 million and ₱1,171.3 million, respectively. AVHC's share in the net assets of BF Jade is ₱53.0 million and corresponding notional goodwill on this investment amounted to ₱1,060.9 million which formed part of the carrying amount of the investment as of December 31, 2018 and 2017. The goodwill recognized on the acquisition can be attributed to Zalora's brand and current workforce.

On October 4, 2018, AVHC infused additional capital of ₱151.9 million at the same valuation as the last infusion. AMSI, Inc. BPI Capital and Kickstart waived their right to infuse additional capital. As a result, AVHC assumed their portion of the capital infusion, increasing the ownership stake of AVCH to 43.89% from 43.28%. Following AVCH's infusion, Ayala Group's combined ownership remained at 49.00%.

Investment in Rize-Ayalaland
Rize-Ayalaland (Kingsway) GP, Inc. was incorporated on January 25, 2013 under the laws of British Columbia, Canada. ALI's effective ownership is 49% through its Vancouver-based subsidiary, AyalaLand Real Estate Investments Inc.

Investment in Alveo-Federal Land Communities, Inc. (AFLCI)
Alveo signed a Joint Venture Agreement (JVA) with Federal Land, Inc. last April 29, 2015 for equal ownership over AFLCI. The JV is for the development of project Lexus located in Laguna near Nuvali.

Investment in Generika Group of Companies
On July 15, 2015, AHHI acquired a 50% ownership interest in the Generika Group for a total consideration of ₱400.0 million.

On July 11, 2017, AHHI infused additional capital of ₱30.0 million to Pharm Gen Ventures Corporation.

Investment in Globe Fintech Innovations, Inc. (Mynt)
On February 17, 2017, the Parent Company and Ant Financial Services Group (Ant Financial) signed an investment agreement, with closing conditions, to subscribe to new shares of Mynt, a holding company for financial technology businesses operating under Globe Capital Venture Holdings, Inc. (GCVHI), a wholly-owned subsidiary of Globe. Through this transaction, the Parent Company will own 10% of Mynt.

The PCC approved the transaction on August 23, 2017 paving the way for the deal closing where the Parent Company (through AVHC) and Ant Financial will subscribe to new shares of Mynt. On September 27, 2017, parties completed the closing of this transaction.

Standard valuation methodologies such as the use of comparable company multiples and discounted cash flows were used to determine fair value computations and in preparing the purchase price allocation.

In 2018, the PPA for the above acquisition was finalized. AVHC's investment amounted to ₱506.3 million. With Mynt's assets and liabilities valued at ₱4,975.7 million and ₱1,805.2 million, respectively, AVHC's corresponding notional goodwill on this investment amounted to ₱189.3 million and is included as part of the carrying amount of the investment as of December 31, 2018 and 2017.

Investment in AFPI
AFPI was incorporated on February 10, 2014 and is engaged in the design, construction, installation and operation and maintenance of a contactless automated fare collection system for public utility transport facilities. AC Infra, Globe and BPI owns 10%, 20% and 20%, respectively of the total shares and voting interest of AFPI.

In 2018 and 2017, AC Infra made ₱30.0 million and ₱50.0 million equity infusion, respectively, for the subscription of 62.13 million preferred shares and full payment of common shares subscribed to AFPI in 2017.

AFPI has incurred operating losses since the launch of its contactless smartcard for the stored value ridership and contactless medium technology as replacement of the old-magnetic-based ticketing system. The target growth turned significantly lower than actual and expectation has also been tempered by AFPI's revenue generation forecasts. On this basis and following the key requirements of PAS 36 wherein assets can be carried at no more than their recoverable amount, management has recognized impairment provisions of ₱78.4 million and ₱64.9 million in 2018 and 2017, respectively. As of December 31, 2018, the net carrying value of the investment in AFPI amounted to nil.

As of December 31, 2018 and 2017, AC Infra's remaining equity investment commitment for the project amounted to ₱125.0 million and ₱155.0 million, respectively.

Investment in Isla Bio
On March 20, 2018, ACEI through Presage and Zabaleta & Co. Inc. entered into a share purchase agreement for the acquisition of 21,484 common shares in Negros Island Biomass Holdings (Isla Bio) which represents 42.97% interest in Isla Bio. Isla Bio is the entity that holds interests in the 3 biomass plants in Negros - San Carlos BioPower, South Negros BioPower and North Negros BioPower.

The purchase price allocation for the above acquisition has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information based on discounted future cash flows and information necessary for the valuation of identifiable intangible assets. Reasonable changes are expected as additional information becomes available. The provisional purchase price allocation will be finalized within one year from the dates of closer of the above transactions.

Investment in Star Energy Salak-Darajat B.V. (Salak-Darajat)
On March 31, 2017, ACEI, as part of an Indonesian consortium, completed the purchase and acquisition of Chevron's geothermal assets and operations in Indonesia. The Indonesia consortium consists of ACEI (with significant influence as a result of its 19.8% economic stake), Star Energy Group Holdings Pte. Ltd., Star Energy Geothermal Pte. Ltd., and Electricity Generating Public Company Ltd. and the acquisition was made through their joint venture company, Star Energy Geothermal (Salak-Darajat) B.V. The Indonesia assets and operations include the Darajat and Salak geothermal fields in West Java, Indonesia, with a combined capacity of 637MW of steam and power.

On July 24, 2017, ACEI together with Star Energy Geothermal Holdings, Pte. Ltd. entered into definitive agreements for the transfer of 99% of their consortium interests in ACEI-Star Holdings, Inc. (ACEI-Star) to AllFirst Equity Holdings, Inc. ACEI-Star is the special purpose company that signed a share sale and purchase agreement with Chevron in December 2016 to acquire Chevron's Philippine geothermal assets subject to the satisfaction of certain conditions precedent, including the approval of the PCC.

In 2018, the purchase price allocation for the above acquisition was finalized. As of December 31, 2018 and 2017, ACEI's investment in Salak-Darajat amounted to US$168.5 million. The identifiable assets and liabilities acquired and goodwill arising from the transaction follows: Salak-Darajat's assets and liabilities amounting to US$2,677.2 million and US$1,826.7 million, respectively. Assets include developed and undeveloped geothermal intangible assets amounting to US$44.3 million and US$1,196.2 million, respectively, which will not be amortized but will be subjected to impairment assessment. ACEI's corresponding notional goodwill on this investment amounted to US$0.1 million and is included as part of the carrying value of the investment as of December 31, 2018 and 2017.

Investment in Eastern Water
Eastern Water is incorporated in Thailand with principal place of business in Bangkok, Thailand. Eastern Water is listed in the Stock Exchange of Thailand. On March 14, 2018, MWC, through its wholly-owned subsidiary Manila Water (Thailand) Co., Ltd. (MWTC), acquired 311.44 million ordinary shares in Eastern Water representing 18.72% equity of Eastern Water. The acquisition cost of the investment amounted to ₱8.8 billion (THB5.3 billion). The investment in associate account includes a notional goodwill amounting to ₱1.8 billion arising from the acquisition of shares in Eastern Water. Share in net identifiable assets on date of acquisition amounted to ₱6.8 billion. The intangible assets of Eastern Watern includes right from service concession arrangements pertaining to the right to produce and supply tap water with the government and is amortized using the straight-line method over concession period and recorded in profit and loss.

Investment in Thu Duc Water B.O.O. Corporation (TDW)
In 2011, Thu Duc Water Holdings Pte. Ltd. (TDWH) (a subsidiary of MWC) completed the acquisition of CII's 49% interest (2.45 million common shares) in TDW and after which TDWH obtained significant influence in TDW.

The acquisition cost of the investment amounted to ₱1.8 billion (VND858.0 billion). The investment in TDW include notional goodwill amounting to ₱1.4 billion.

Investment in Kenh Dong Water Supply Joint Stock Company (KDW)
In 2012, Kenh Dong Water Holdings Pte. Ltd. (KDWH), a subsidiary of MWC, completed the acquisition of CII's 47.35% interest in KDW for a total purchase price of ₱1.7 billion including contingent consideration that amounted to ₱95.9 million (VND44.5 billion) which resulted into KDWH obtaining significant influence in KDW.

In 2013, KDW finalized its purchase price allocation which resulted in a notional goodwill amounting to ₱1.4 billion.

Investment in Bim Renewables Energy Joint Stock Company
On June 1 2018, AC Energy Vietnam Investments Pte Ltd. (ACEV), a wholly-owned subsidiary of ACEI SG, entered into a 30-70 joint venture with BIM Group to develop 300MW of solar power projects in Ninh Thuan province, Vietnam. As of December 31, 2018, ACEI investment in BIM RE is US$37.80 million (₱1,990.6 million) representing contribution for common shares of 1,071,429, deposits for subscription amounting to VND89.3 billion and additional paid in capital amounting to VND772.4 million.

The purchase price allocation for the above acquisition has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information based on discounted future cash flows and information necessary for the valuation of identifiable intangible assets. Reasonable changes are expected as additional information becomes available. The provisional purchase price allocation will be finalized within one year from the dates of closer of the above transactions.

Investment in UPC Renewables Australia
On May 23, 2018, ACEI participated in the Australian renewables market through a joint venture with international renewable energy developer, UPC Renewables Australia. ACEI has invested US$30.00 million (₱1,620.6 million) for 50% ownership in UPC's Australian business and is also providing US$200.0 million facility to fund project equity.

UPC Renewables Australia is developing the 1,000 MW Robbins Island and Jims Plain projects in North West Tasmania and the 600 MW New England Solar Farm located near Uralla in New South Wales. UPC Renewables Australia also has a further development portfolio of another 3,000 MW's located in NSW, Tasmania and Victoria.

The purchase price allocation for the above acquisition has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information based on discounted future cash flows and information necessary for the valuation of identifiable intangible assets. Reasonable changes are expected as additional information becomes available. The provisional purchase price allocation will be finalized within one year from the dates of closer of the above transactions.

Investment in Saigon Water Infrastructure Joint Stock Company (SWI)
On October 8, 2013, Manila Water South Asia Holdings Pte. Ltd (MWSAH), a subsidiary of MWC, entered into an Investment Agreement with SWI to acquire a 31.47% ownership interest. The acquisition cost of the investment amounted to ₱642.8 million (VND310.5 billion). The share subscription transaction was completed on October 8, 2013 and MWSAH obtained significant influence in SWI.

In 2014, MWSAH finalized the notional goodwill amounting to ₱288.8 million arising from the acquisition of shares of stock in SWI by MWC Group as of December 31, 2013. There were no adjustments made to the fair values of the net assets as of acquisition date.

On June 21, 2017, MWSAH subscribed to an additional 6.15 million primary shares of SWI for ₱229.16 million (VND103.87 billion) which increased MWSAH's holding in SWI to 37.99% from 31.47%. The notional goodwill arising from the additional subscription amounted to ₱39.4 million.

In 2018, MSWAH recognized impairment loss on its investment in SWI amounting to ₱65.4 million arising from the decline in the market capitalization and distributed profit of SWI shares. This is presented as part of "Other income" (see Note 23).

<u>New Energy Investments Corp. (NEI)</u>
On January 22, 2018, ACEV, a wholly owned subsidiary of ACEI SG, entered into a 50-50 joint venture with AMI Renewables Energy Joint Stock Company (AMI RE JSC), a joint stock company incorporated in Vietnam, to invest in New Energy Investments Corporation (NEI), a joint stock company with a 100% ownership shares in AMI Energy Khanh Hoa Joint Stock Company (AMI KH JSC), a 50MWp Solar Farm in Khanh Hoa, in AMI Energy Binh Thuan Joint Stock Company (AMI BT JSC), a 50MWp Solar Farm in Bihn Thuan and in B&T Windfarm Joint Stock Company (B&T QB JSC), a 200MW Wind Farm in Quang Binh, all of which are situated in Vietnam.

The purchase price allocation for acquisitions made in 2018 have been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information based on discounted future cash flows and information necessary for the valuation of identifiable intangible assets. Reasonable changes are expected as additional information becomes available. The provisional purchase price allocation will be finalized within one year from the dates of closer of the above transactions.

<u>Investments in UPC Sidrap HK Ltd. and UPC Renewables Asia III Ltd. (UPC III)</u>
On January 21, 2017, ACEI signed investment agreements with UPC Renewables Indonesia Ltd. for the development, construction, and operation of a wind farm project in Sidrap, South Sulawesi, Indonesia (the Sidrap Project). The project will be developed through PT UPC Sidrap Bayu Energi (UPC Sidrap), a special purpose company based in Indonesia and 72%-owned by UPC Renewables Asia III Ltd. The Sidrap Project, with generating capacity of 75 MW, started commercial operations in April 2018 and is the first utility-scale wind farm project in Indonesia once completed. The investment in UPC Sidrap HK Ltd. is comprised of 1,130 Redeemable Class B shares amounting to US$6.4 million (₱334.0 million). In 2017, ACEI SG infused a total of US$23.7 million to UPC Renewables Asia III Ltd. representing 51% ownership interest.

In 2018, the purchase price allocation for the above acquisition was finalized. The fair values of the identifiable assets and liabilities acquired and goodwill arising from the transaction follows: net assets and liabilities amounting US$0.2 million. Assets include certain project development assets. ACEI's corresponding notional goodwill on this investment amounted to US$23.5 million is included as part of the carrying amount of the investment as of December 31, 2018 and 2017.

<u>Investment in MCT</u>
In 2015, ALI acquired 9.16% shares of MCT, a property development company specializing in mixed-use projects which include retail, offices, hotels, and mid-to-affordable residences, through its wholly-owned subsidiary, Regent Wise Investments Limited (RWIL) who entered into call option agreements with the founders and majority shareholders of MCT which were exercised by RWIL for a total consideration of US$92.0 million, increasing the ownership interest in to 32.95% and providing ALI with the opportunity to establish a stronger foothold in the Real Estate sector in Malaysia.

On January 2, 2018, ALI Group through RWIL acquired an additional 17.24% share in MCT Bhd for a total cost of RM202.5 million (₱2.6 billion) which brought ALI's shareholding in MCT to 50.19% from 32.95%. On February 19, 2018, as a result of the mandatory take-over offer, ALI Group's shareholdings in MCT increased from 50.19% to 72.31% (see Note 24).

Others

Investment in PT STU

PT STU is incorporated in Indonesia with principal place of business in Semarang, Indonesia. On March 6, 2018, MWC through its wholly-owned subsidiary PT Manila Water Indonesia (PTMWI), acquired 4,478 ordinary shares in PT STU to own twenty percent (20%) of the outstanding capital stock. The acquisition cost of the investment amounted to ₱37.0 million (IDR10.00 billion). The investment in associate account includes a notional goodwill amounting to ₱1.1 million arising from the acquisition of shares of stock in PT STU. Share in net identifiable assets on date of acquisition amounted to ₱35.9 million.

Investment in TBC

On April 26, 2018, AC Energy International Pte Ltd. (ACEI SG), a wholly owned subsidiary of ACEI, and Jetfly Asia Pte. Ltd. executed a Share Sale Purchase Agreement for the acquisition of 25% interest in The Blue Circle Pte. Ltd. (TBC). ACEI's investment in TBC is US$1.9 million representing ownership of 489,227 ordinary shares (SGD1.00 par value per share). TBC has a platform of wind projects in the Southeast Asia.

The purchase price allocation for the above acquisition has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information based on discounted future cash flows and information necessary for the valuation of identifiable intangible assets. Reasonable changes are expected as additional information becomes available. The provisional purchase price allocation will be finalized within one year from the dates of closer of the above transactions.

SIAL CVS Retailers, Inc.,

SIAL CVS Retailers, Inc., FamilyMart Co., Ltd., and ITOCHU Corporation have concluded the transaction to sell 100% of the outstanding shares of Philippine FamilyMart CVS, Inc. (PFM) to P-H-O-E-N-I-X Petroleum Philippines, Inc. (PNX), further to a Memorandum of Agreement (MOA) entered into by the parties last October 30, 2017.

PFM is the official Area Franchisee of the Family Mart brand of convenience stores in the Philippines with a current network of 67 company-owned and franchised stores all over the country. Prior to this transaction, SIAL CVS Retailers, Inc., a 50-50 joint venture company between ALI Capital Corp. (a 100% subsidiary of ALI) and SSI Group, Inc. (SSI), owned 60% of PFM, while Japanese companies, FamilyMart Co., Ltd. and ITOCHU Corporation, owned 37.6% and 2.4% respectively.

The transaction was approved by the PCC last January 3, 2018.

As of December 31, 2018 and 2017, the Group has no contingent liabilities in relation to its investments in associates and joint ventures.

On certain investments in associates and joint ventures, the Group entered into shareholders' agreements with fellow shareholders.

11. Investment Properties

The movements in investment properties follow:

2018

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	**₱85,924,880**	**₱95,058,339**	**₱49,660,703**	**₱230,643,922**
Additions	**6,346,917**	**16,744,741**	**13,781,075**	**36,872,733**
Acquisition through business combination (Note 24)	**1,223,498**	**4,489,137**	**–**	**5,712,635**
Exchange differences	**209,538**	**107,665**	**–**	**317,203**
Disposals	**(1,642,908)**	**(115,958)**	**–**	**(1,758,866)**
Transfers	**(7,493,526)**	**3,233,277**	**(8,026,620)**	**(12,286,869)**
Balance at end of the year	**84,568,399**	**119,517,201**	**55,415,158**	**259,500,758**
Accumulated depreciation and amortization				
Balance at beginning of the year	**–**	**27,641,070**	**–**	**27,641,070**
Depreciation and amortization (Note 23)	**–**	**4,068,284**	**–**	**4,068,284**
Disposals	**–**	**(3,892)**	**–**	**(3,892)**
Exchange differences	**–**	**20,307**	**–**	**20,307**
Balance at end of the year		**31,725,769**	**–**	**31,725,769**
Accumulated impairment losses				
Balance at beginning and end of the year	**129,441**	**–**	**–**	**129,441**
Net book value	**₱84,438,958**	**₱87,791,432**	**₱55,415,158**	**₱227,645,548**

2017 (as restated - see Note 3)

	Land	Building	Construction-in-Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of the year	₱84,575,151	₱86,371,631	₱32,813,912	₱203,760,694
Additions	2,471,773	7,084,526	20,502,732	30,059,031
Exchange differences	–	8,012	–	8,012
Disposals	(3,192,672)	(5,019)	–	(3,197,691)
Transfers	2,070,628	1,599,240	(3,655,941)	13,927
Retirement	–	(51)	–	(51)
Balance at end of the year	85,924,880	95,058,339	49,660,703	230,643,922
Accumulated depreciation and amortization				
Balance at beginning of the year	–	24,142,720	–	24,142,720
Depreciation and amortization (Note 23)	–	3,500,802	–	3,500,802
Disposals	–	(4,905)	–	(4,905)
Transfers	–	2,453	–	2,453
Balance at end of the year	–	27,641,070	–	27,641,070
Accumulated impairment losses				
Balance at beginning of the year	178,441	–	–	178,441
Reversal	(49,000)	–	–	(49,000)
Balance at end of the year	129,441	–	–	129,441
Net book value	₱85,795,439	₱67,417,269	₱49,660,703	₱202,873,411

On January 1, 2018, the Group adopted PIC Q&A No. 2018-11, *Classification of Land by Real Estate Developer*. Land and improvements previously presented as noncurrent asset includes land which the BOD of ALI has previously approved to be developed into residential development sale. Before the adoption of PIC Q&A No. 2018-11, the classification was based on the Group's timing to start the development of the property. Land with undetermined future use was reclassified to Investment Properties (see Note 3).

Certain parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove all improvements (such as buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its own use and benefit.

Construction in progress pertain to buildings under construction to be leased as retail and office spaces upon completion.

The aggregate fair value of the Group's investment properties amounted to ₱338.3 billion in 2018 and ₱334.4 billion in 2017. The fair values of the investment properties were arrived at using the Market Data Approach and Cost Approach for land and building, respectively, and were determined by independent professionally qualified appraisers.

The values of the land and buildings were arrived at using the Market Data Approach. Market Data Approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. This approach was used for the land and condominium unit as it is commonly used in the property market since inputs and data for this approach are available. For Market Data Approach, the higher the price per sqm., the higher the fair value.

The significant unobservable inputs to valuation of investment properties ranges from ₱5,100-₱250,000 per sqm.

Interest capitalized amounted to ₱19.0 million, ₱17.7 million and ₱129.5 million in 2018, 2017 and 2016, respectively. The capitalization rates are 2.00-6.85%, 2.50-4.75% and 3.20-4.75% in 2018, 2017 and 2016, respectively.

Consolidated rental income from investment properties amounted to ₱33.6 billion in 2018, ₱28.6 billion in 2017 and ₱23.2 billion in 2016. Consolidated direct operating expenses arising from the investment properties amounted to ₱7.5 billion in 2018, ₱5.0 billion in 2017 and ₱4.4 billion in 2016, respectively.

Depreciation and amortization expense pertaining to investment properties amounted to ₱4.1 billion in 2018, ₱3.5 billion in 2017 and ₱2.8 billion in 2016 (see Note 23).

12. Property, Plant and Equipment

The movements in property, plant and equipment follow:

	2018						
	Land, Buildings and Improvements (Note 19)	**Machinery and Equipment**	**Hotel Property and Equipment** (Note 19)	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Construction-in-Progress**	**Total**
				(In Thousands)			
Cost							
At January 1	**₱17,578,981**	**₱27,105,172**	**₱14,093,725**	**₱11,406,113**	**₱6,062,370**	**₱36,707,006**	**₱112,953,367**
Additions	**3,723,434**	**2,670,054**	**287,562**	**2,080,723**	**384,562**	**4,765,699**	**13,912,034**
Additions through business combination (Note 24)	**3,943,696**	**1,609,365**	**–**	**129,198**	**35,883**	**–**	**5,718,142**
Disposals	**(2,414,111)**	**(2,326,724)**	**(361,871)**	**(914,843)**	**(382,406)**	**(219)**	**(6,400,174)**
Transfers	**3,652,638**	**326,394**	**421,846**	**16,247**	**(10,324)**	**–**	**4,406,801**
Exchange differences	**731,626**	**(207,812)**	**–**	**206,034**	**34,201**	**3,443,039**	**4,207,088**
Others	**(3,653)**	**227**	**–**	**(3,348)**	**(119,071)**	**(975)**	**(126,820)**
At December 31	**27,212,611**	**29,176,676**	**14,441,262**	**12,920,124**	**6,005,215**	**44,914,550**	**134,670,438**
Accumulated depreciation and amortization and impairment loss							
At January 1	**5,954,838**	**10,053,614**	**2,487,261**	**7,022,646**	**1,915,624**	**88,753**	**27,522,736**
Depreciation and amortization for the year (Note 23)	**1,932,429**	**1,599,308**	**466,319**	**287,926**	**974,078**	**–**	**5,260,060**
Impairment loss	**25,159**	**46,271**	**–**	**–**	**–**	**(88,753)**	**(17,323)**
Disposals	**(426,976)**	**(1,209,941)**	**(343,028)**	**(533,470)**	**(304,911)**	**–**	**(2,818,326)**
Exchange differences	**172,102**	**164,837**	**–**	**137,667**	**63,520**	**–**	**538,126**
Others	**(840)**	**(425,797)**	**–**	**126,709**	**(7,264)**	**–**	**(307,192)**
At December 31	**7,656,712**	**10,228,292**	**2,610,552**	**7,041,478**	**2,641,047**	**–**	**30,178,081**
Net book value	**₱19,555,899**	**₱18,948,384**	**₱11,830,710**	**₱5,878,646**	**₱3,364,168**	**₱44,914,550**	**₱104,492,357**

	2017						
	Land, Buildings and Improvements (Note 19)	Machinery and Equipment	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
				(In Thousands)			
Cost							
At January 1	₱16,409,853	₱24,282,520	₱12,017,829	₱10,700,460	₱4,191,564	₱21,924,238	₱89,526,464
Additions	1,341,422	4,378,438	526,608	797,019	2,512,536	15,633,957	25,189,980
Additions through business combination (Note 24	954,697	667,618	–	16,774	11,703	22,766	1,673,558
Disposals	(759,108)	(2,794,885)	–	(153,161)	(635,862)	(73,009)	(4,416,025)
Transfers	(386,665)	160,842	1,549,288	68,727	765	(816,588)	576,369
Exchange differences	18,782	410,639	–	(23,706)	(18,336)	15,642	403,021
At December 31	17,578,981	27,105,172	14,093,725	11,406,113	6,062,370	36,707,006	112,953,367
Accumulated depreciation and amortization and impairment loss							
At January 1	5,692,258	9,369,138	2,063,261	6,566,459	1,672,124	88,753	25,451,993
Depreciation and amortization for the year (Note 23)	706,221	3,075,447	424,000	589,598	561,469	–	5,356,735
Impairment loss	(40,538)	(5,657)	–	3	–	–	(46,192)
Disposals	(418,528)	(2,532,616)	–	(133,543)	(314,790)	–	(3,399,477)
Exchange differences	18,349	146,653	–	977	(3,429)	–	162,550
Transfers	(2,924)	649	–	(848)	250	–	(2,873)
At December 31	5,954,838	10,053,614	2,487,261	7,022,646	1,915,624	88,753	27,522,736
Net book value	₱11,624,143	₱17,051,558	₱11,606,464	₱4,383,467	₱4,146,746	₱36,618,253	₱85,430,631

Construction in progress of ACEI Group pertains to the construction and development of GNPower Kauswagan (GNPK), a 4x135 MW (net) coal-fired power generating facility and private port facility located in the Barangays of Tacub and Libertad in the Municipality of Kauswagan, Province of Lanao del Norte.

GNPK has the right to claim compensation due to the adjustment in construction schedule using the rate of US$20,550 per day on the Onshore Engineering, Procurement and Construction (EPC) and US$42,710 per day on the Offshore EPC or a total of US$63,260 per day rate. Unit 1's completion date was expected and contracted to be on December 1, 2017 which resulted in thirty (30) days of adjustment. Total compensation in 2018 and 2017 amounted to US$36.5 million (₱1,788.5 million) and nil, respectively (see Note 23). As of December 31, 2018 and 2017, ACEI Group has cost recoveries from liquidated damages amounting to US$31.3 million (₱1.6 billion) and US$2.0 million (₱100.0 million), respectively.

As of December 31, 2018 and 2017, the carrying value of IMI Group's pledged equipment with BNP Paribas amounted to US$1.4 million (₱71.0 million) and US$1.4 million (₱67.4 million), respectively.

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱5.3 billion in 2018, ₱5.4 billion in 2017 and ₱5.4 billion in 2016 (see Note 24).

13. Service Concession Assets and Obligations

Service Concession Assets (SCA)
The movements in this account follow:

	2018	2017
	(In Thousands)	
Cost		
At January 1	**₱122,151,008**	₱110,490,224
Additions during the year		
Construction and rehabilitation works	**9,478,084**	11,560,964
Transfers	**16,649**	3,952
Concession fees	**948,016**	91,419
Local component cost	**13,095**	4,449
Retirements/Disposals	**(179)**	–
At December 31	**132,606,673**	122,151,008

(Forward)

	2018	2017
	(In Thousands)	
Accumulated amortization		
At January 1	**₱31,101,438**	₱28,067,975
Amortization (Note 23)	**3,100,805**	3,033,043
Transfers	**–**	420
Retirements/Disposals	**(56)**	–
At December 31	**34,202,187**	31,101,438
Net book value	**₱98,404,486**	₱91,049,570

SCA consists of the present value of total estimated concession fee payments, including regulatory costs and local component costs, pursuant to the Group's concession agreements and the revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements.

The Parent Company has a concession agreement with the DPWH while the MWC Group has concession agreements with MWSS, PGL, TIEZA, CDC, OWD, and CWD. These concession agreements set forth the rights and obligations of the Parent Company and MWC Group throughout the concession period (see Note 37).

Total interest and other borrowing costs capitalized as part of SCA amounted to ₱1,018.3 million, ₱713.3 million and ₱654.3 million in 2018, 2017 and 2016, respectively. The capitalization rates used range from 0.64% to 7.57% in 2018, 5.12% to 9.15% in 2017, and 2.62% to 9.15% in 2016.

Variation Order
On February 25, 2013, the DPWH sent a Variation Notice to Perconsult International, the Project's Independent Consultant (IC), instructing the IC to advise the Parent Company to submit a request for Prior Clearance and Variation Proposal in connection with TRB's directive to include in the Project's design a provision for future expansion of SLEX to accommodate possible fifth lane for both directions at the Filinvest to Susana Heights Section. IC, in its letter to the Project's Management Consultant dated March 4, 2013, effectively directed the Parent Company to comply with the DPWH letter dated February 25, 2013.

Such proposal was made in accordance with the Concession Agreement which provides that in the event the DPWH initiates a variation, the Parent Company as concessionaire shall prepare a proposal setting out the necessary details and additional cost estimates.

On April 10, 2014, the Parent Company submitted a variation proposal to the DPWH and sought for approval of (1) Direct payment of the construction cost for the works related to the provisioning of the SLEX future expansion amounting to ₱251.2 million inclusive of VAT and (2) Extension of the concession period by 3 ½ years due to the delays encountered as a result of the variation order.

DPWH, in its letter to IC dated February 6, 2015, advised the same that it has issued the approved Prior Clearance/Authority to Issue Variation Order No. 1 with a cap of ₱223.0 million.

On May 27, 2015, the DPWH approved the adjusted cost of the variation order in the amount of ₱223.0 million (which was rectified by the Bureau of Construction) variation proposal and endorsed it to the National Economic and Development Authority (NEDA) for information and appropriate action. Accordingly, the Parent Company reclassified the amount of ₱223.0 million from service concession account to receivables from the Government upon DPWH's approval of the variation order.

NEDA in its meeting held on July 15, 2015 confirmed the recommendation of the variation order.

On May 31, 2016, variation order for the project amounting to ₱16.6 million was reclassified to service concession assets under investment in toll road. Also, various reimbursement for expenses incurred during the acquisition of the right of way amounting to ₱1.1 million was received from the DPWH under the Reimbursement Agreement.

On November 21, 2016, the IC recommended to the DPWH that a Certificate of Final Completion be issued for the project. Subsequently, DPWH, on its letter dated December 21, 2016, issued the certificate of completion. As of December 31, 2018 and 2017, total outstanding receivable balance from DPWH is ₱215.9 million (see Notes 9 and 15).

<u>Service Concession Obligation</u>

Provision for maintenance obligation of MCX

Provision for maintenance obligation pertains to the present value of the estimated contractual obligations of the Parent Company to undertake the financing of the Project's periodic maintenance, which includes renewal and restoration of toll roads and toll road facilities prior to turnover of the asset to DPWH, the grantor.

Under the Minimum Performance Standards and Specifications (MPSS), the Parent Company has the obligation to perform routine and periodic maintenance. Routine maintenance pertains to day-to-day activities to maintain the road infrastructures while periodic maintenance comprises of preventive activities against major defects and reconstruction. Moreover, the Parent Company is required to perform maintenance and repair work in a manner that complies with the MPSS once it hands the asset back to the DPWH. The provision is a product of the best estimate of the expenditure required to settle the obligation based on the usage of the road during the operating phase. The amount is reduced by the actual obligations paid for heavy maintenance of the service concession asset.

MWSS Concession Fees

The aggregate concession fees of MWC pursuant to the concession agreement are equal to the sum of the following:

a. 10% of the aggregate peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray Angat Transbasin Project (UATP), on the prescribed payment date;
b. 10% of the aggregate peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date, on the prescribed payment date;
c. 10% of the local component costs and cost overruns related to the UATP;
d. 100% of the aggregate peso equivalent due under MWSS loans designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or elected by MWC for continuation; and
e. 100% of the local component costs and cost overruns related to existing projects;
f. MWC's share in the repayment of MWSS loan for the financing of new projects; and
g. One-half of MWSS annual corporate budget.

In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II (the Angat Project). Total loan facility amounted to US$116.6 million with maturity of twenty (20) years including a 5-year grace period. Interest rate is 3% per annum.

MWSS subsequently entered into a Memorandum of Agreement (MOA) with MWC and Maynilad to equally shoulder the repayment of the loan with such repayment to be part of the concession fees.

In 2016, MWC paid MWSS ₱500.0 million as compensation for additional water allocation in the Angat reservoir. The payment made shall be part of the MWC's business plan and shall be considered in the next rate rebasing exercise.

The schedule of undiscounted future concession fee payments follows:

Year	Foreign Currency-Denominated Loans (Translated to US$)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2019	$9,750,894	₱395,714,907	₱908,416,913
2020	9,348,648	395,714,907	887,266,819
2021	6,711,761	395,714,907	748,619,300
2022	6,419,168	395,714,907	733,234,760
2023	6,567,631	395,714,907	741,040,945
2024 onwards	51,115,013	5,540,008,695	8,227,636,079
	$89,913,115	₱7,518,583,230	₱12,246,214,816

**Peso equivalent is translated using the PDEx closing rate as of December 31, 2018 amounting to ₱52.58 to US$1.*

PGL Concession Fees
Under LAWC's concession agreement with PGL, LAWC is required to pay concession fees to PGL computed as a percentage of water sales as follows:

Operational Period	Percentage of Water Sales
Years 1 to 5	4%
Years 6 to 10	3%
Years 11 to 25	2%

Seventy percent (70%) of the concession fees shall be applied against any advances made by LAWC to PGL. The remaining thirty percent (30%) of the concession fees shall be payable annually thirty (30) days after the submission of the audited financial statements by LAWC, starting on the first operational period, which begins upon the expiration of the transition period. Advances as of December 31, 2018 and 2017 amounted to ₱84.4 million (see Notes 9 and 15).

TIEZA Concession Fees
The aggregate concession fee pursuant to BIWC's concession agreement with TIEZA is equal to the sum of the following:

a. Servicing the aggregate peso equivalent of all liabilities of BWSS as of commencement date;
b. 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes which are for the account of BIWC; and
c. Payment of annual operating budget of the TIEZA Regulatory Office starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.0 million. For the year 2012 and beyond, BIWC shall pay not more than ₱20.0 million, subject to annual CPI adjustments.

CDC Concession Fees
The aggregate concession fee pursuant to the CWC's concession agreement with CDC is equal to the sum of the following:

a. Annual franchise fee of ₱1.5 million;
b. Semi-annual rental fees of ₱2.8 million for leased facilities from CDC.

As a result of the extension of the Concession Agreement of CWC, payment of rental fees on the CDC existing facilities was extended by an additional 15 years from October 1, 2025 to October 1, 2040.

<u>OWD Concession Fees</u>
The aggregate concession fee pursuant to Obando Water's concession agreement with OWD is equal to the sum of the following:

i. base concession fee which shall be used for operations of the OWD; and
ii. additional concession fee composed of amounts representing amortization payments for the outstanding obligations of OWD and 2% of the gross annual receipts of Obando Water, representing franchise tax to be paid by the OWD.

For the years ended December 31, 2018 and 2017, concession fees recognized as part of SCA and SCO arising form the concession agreement with OWD amounted to ₱470.9 million and nil, respectively.

<u>CWD Concession Fees</u>
Under Calasiao Water's concession agreement with CWD, concession fees are based on a fixed schedule of annual payments over the twenty five (25) year concession period.

For the years ended December 31, 2018 and 2017, concession fees recognized as part of SCA and SCO arising from the concession agreement with CWD amounted to nil and ₱80.1 million, respectively.

14. Intangible Assets

The movements in intangible assets follow:

	2018									
	Goodwill	**Customer Relationships**	**Unpatented Technology**	**Developed Software**	**Licenses**	**Trademarks**	**Project Development Cost**	**Leasehold and Other Rights**	**Others**	**Total**
	(In Thousands)									
Cost										
At January 1	**₱12,677,470**	**₱1,886,728**	**₱447,941**	**₱440,741**	**₱605,032**	**₱57,811**	**₱834,436**	**₱4,822,296**	**₱84,733**	**₱21,857,188**
Additions during the year	**–**	**–**	**–**	**8,125**	**–**	**–**	**270,823**	**5,728**	**–**	**284,676**
Additions through business combination (Note 24)	**326,686**	**38,802**	**894,083**	**–**	**482,091**	**121,237**	**–**	**–**	**–**	**1,862,899**
Exchange differences	**(649,812)**	**396,404**	**(19,125)**	**–**	**56,863**	**1,117**	**30,424**	**–**	**–**	**(184,129)**
Reclassification/Others	**(1,224,690)**	**(1,282,067)**	**212,969**	**470,430**	**(386,748)**	**(57,811)**	**51,263**	**470,727**	**46,585**	**(1,699,342)**
At December 31	**11,129,654**	**1,039,867**	**1,535,868**	**919,296**	**757,238**	**122,354**	**1,186,946**	**5,298,751**	**131,318**	**22,121,292**
Accumulated amortization and impairment loss										
At January 1	**1,981,708**	**1,830,072**	**113,920**	**373,054**	**372,648**	**46,166**	**51,520**	**298,367**	**84,733**	**5,152,188**
Amortization (Note 23)	**–**	**355,789**	**151,345**	**635**	**95,789**	**7,283**	**100,826**	**409,451**	**11,326**	**1,132,444**
Impairment Loss (Note 23)	**361,170**	**–**	**–**	**–**		**–**	**–**	**–**	**–**	**361,170**
Exchange differences	**(239,462)**	**(305,194)**	**9,545**	**–**	**28,145**	**–**	**23,259**	**–**	**–**	**(483,707)**
Reclassification/Others	**–**	**(844,384)**	**–**	**421,899**	**(42,805)**	**(46,165)**	**–**	**–**	**(82,717)**	**(594,172)**
At December 31	**2,103,416**	**1,036,283**	**274,810**	**795,588**	**453,777**	**7,284**	**175,605**	**707,818**	**13,342**	**5,567,923**
Net book value	**₱9,026,238**	**₱3,584**	**₱1,261,058**	**₱123,708**	**₱303,461**	**₱115,070**	**₱1,011,341**	**₱4,590,933**	**₱117,976**	**₱16,553,369**

	2017									
	Goodwill	**Customer Relationships**	**Unpatented Technology**	**Developed Software**	**Licenses**	**Trademarks**	**Project Development Cost**	**Leasehold and Other Rights**	**Other**	**Total**
Cost										
At January 1	₱7,320,980	₱1,882,598	₱32,159	₱439,320	₱421,782	₱57,811	₱1,266,098	₱3,611,808	₱88,861	₱15,121,417
Additions during the year	–	–	6,169	–	164,428	–	306,393	15,067	–	492,057
Additions through business combination (Note 24)	5,565,680	–	18,332	–	–	–	243	–	–	5,584,255
Exchange differences	8,321	4,130	18,698	1,421	21,181	–	1,068	–	–	54,819
Reclassification/Others	(217,511)	–	372,583	–	(2,359)	–	(739,366)	1,195,421	(4,128)	604,640
At December 31	12,677,470	1,886,728	447,941	440,741	605,032	57,811	834,436	4,822,296	84,733	21,857,188
Accumulated amortization and impairment loss										
At January 1	1,981,708	1,824,690	12,305	371,633	279,380	46,166	721,753	78,518	88,861	5,405,014
Amortization (Note 23)	–	1,252	105,508	–	79,805	–	41,480	179,235	–	407,280
Retirement/Disposals	–	–	–	–	–	–	26,112	–	–	26,112
Exchange differences	–	4,130	229	1,421	15,410	–	1,541	–	–	22,731
Reclassification/Others	–	–	(4,122)	–	(1,947)	–	(739,366)	40,614	(4,128)	(708,949)
At December 31	1,981,708	1,830,072	113,920	373,054	372,648	46,166	51,520	298,367	84,733	5,152,188
Net book value	₱10,695,762	₱56,656	₱334,021	₱67,687	₱232,384	₱11,645	₱782,916	₱4,523,929	₱–	₱16,705,000

Goodwill pertains to the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

Impairment Testing of Goodwill for the Group

IMI Group
Goodwill acquired through business combinations have been allocated to the particular CGUs of IMI for impairment testing as follows (amounts in thousands):

	2018		2017	
	In US$	**In Php***	In US$	In Php*
STI (Notes 2 and 25)	**US$54,965**	**₱2,890,060**	US$55,955	₱2,793,833
VIA	**45,643**	**2,399,909**	44,540	2,223,882
Speedy Tech Electronics, Ltd. (STEL)	**38,225**	**2,009,870**	45,128	2,253,241
IMI	**1,098**	**57,733**	1,098	54,823
IMI CZ	**520**	**27,342**	650	32,455
	US$140,451	**₱7,384,914**	US$147,371	₱7,358,234

**Translated using the PDEx closing exchange rate at the consolidated statement of financial position date (US$1:₱52.58 in 2018 and US$1:₱49.93 in 2017).*

STI, VIA, STEL Group, IMI USA and IMI CZ
The recoverable amounts of these CGUs have been based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The post-tax discount rates applied to cash flows are as follows:

	2018	2017
STEL	**14.25%**	14.21%
STI	**11.83%**	8.70%
VIA	**11.76%**	13.40%
IMI CZ	**10.15%**	8.30%

Cash flows beyond the five-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate (CAGR) for the global electronic manufacturing services (EMS) industry.

Key assumptions used in value in use calculations
The calculations of value in use for the CGUs are most sensitive to the following assumptions:

- Revenue - Revenue forecasts are management's best estimates considering factors such as industry CAGR, customer projections and other economic factors.
- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of IMI Group and its operating segments and is derived from its weighted average cost of capital.

In 2018, an impairment loss amounting to US$6.90 million was recognized for STEL (see Note 23) and nil for the other CGUs. No impairment loss was assessed for STI, VIA, STEL and IMI CZ in 2017 and 2016.

Sensitivity to changes in assumptions
With regard to the assessment of value-in-use of STI, STEL, VIA and IMI CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of these CGUs to exceed their recoverable amount.

IMI
The goodwill of IMI pertains to its acquisition of M. Hansson Consulting, Inc. (MHCI) in 2006 and IMI USA in 2005. MHCI was subsequently merged to IMI as testing and development department. IMI USA acts as direct support to IMI Group's customers by providing program management, customer service, engineering development and prototyping manufacturing services. IMI USA's expertise in product design and development particularly on the flip chip technology is being used across IMI Group in providing competitive solutions to customers. The recoverable amount was based on the market price of IMI's shares at valuation date less estimated costs to sell. The fair value of the IMI's shares represents the value of IMI Group.

The comparison of the recoverable amounts and the carrying amounts resulted to no impairment loss in 2018, 2017 and 2016.

MWC and Philwater
Goodwill from the acquisition of MWC and Philwater amounted to ₱393.8 million as of December 31, 2018 and 2017. The recoverable amount in 2018 and 2017 was based on the market price of MWC shares at valuation date less estimated cost to sell. The comparison of the recoverable amount and the carrying amount resulted in no impairment.

CWC
Goodwill from the acquisition of CWC amounted to ₱130.3 million as of December 31, 2018 and 2017. MWC's impairment tests for goodwill from the acquisition of CWC is based on value in use calculations using a discounted cash flow model. The 2018 cash flows for the next twenty-two (22) years assume a steady growth rate and is are derived from CWC's latest business plan. The MWC Group used the remaining concession life of CWC when testing for impairment. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model. The post-tax discount rate applied to cash flows projections is 12.48% and 8.97% in 2018 and 2017, respectively.

No impairment loss was recognized as a result of the impairment testing performed.

ACEI Group
Goodwill acquired through business combinations pertaining to the AC Energy DevCo. Inc. Group and Wind Power CGU of ACEI for impairment testing aggregated to ₱786.2 million and ₱33.5 million in 2018 and 2017, respectively.

The recoverable amount is based on value in use calculations using cash flow projections from financial budgets approved by ACEI management covering the period the CGU is expected to be operational. The post-tax discount rates applied to cash flow projections is 10% which is based on weighted average cost of capital of comparable entities. The value in use computation is most sensitive to the discount rate and growth rate applied to the cash flow projections.

ACEI management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the CGUs to exceed its recoverable amount.

No impairment loss was recognized in 2018 and 2017.

Customer relationships
Customer relationships pertain to STEL Group's and IMI BG's contractual agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business. Customer relationships of STEL and IMI BG aggregating $19.7 million (₱1,035.8 million) were fully amortized as of December 31, 2018 and 2017.

Unpatented Technology
Unpatented technology of STEL Group pertains to products which are technologically feasible. These technologies are also unique, difficult to design around, and meet the separability criteria.

The unpatented technology amounting to $0.01 million (₱0.5 million) was fully amortized as of December 31, 2018 and 2017.

Licenses
This includes acquisitions of computer software, applications and modules.

Developed Software
Developed Software includes the system application acquired by the Ayala Healthcare Holdings, Inc. (AHHI) to compile its electronic medical records, as well as to facilitate online pharmacy and consultation. It also includes developed software pertaining to HCXI.

Trademarks
Trademarks pertain to the trademark recognized by AITHI upon its acquisition of Merlin Solar Technologies, Inc.

Project development cost
Project development cost includes cost arising from the development phase of certain projects of IMI which are still undergoing qualification amounting to ₱692.5 million, as well as those pertaining to easement right of way (ROW) which is the privilege granted to one person to pass across another's land. During the construction of Kauswagan Transmission Line Project and Mariveles Project, several ROW were acquired from local residents for the right to erect the transmission lines which will be used to connect to the National Grid Corporation of the Philippines. Easement right acquired from local residents is for an indefinite period of time.

As of December 31, 2018 and 2017, project development cost pertaining to easement ROW amounted to ₱311.1 million and ₱296.5 million, respectively.

Leasehold and other rights
Leasehold rights consist of the following:
- Through the acquisition of POPI, ALI acquired leasehold rights arising from their lease agreement with Philippine National Railways (PNR) (see Notes 24 and 30).
- TKPI's leasehold rights pertains to the right to use the property in Apulit Island located in Taytay, Palawan expiring on December 31, 2029.
- NTDCC's leasehold rigts refer to development rights on an 8.3-hectare portion of the MRT Development Corporation, which is located on the North Triangle property, and enabled the Group to develop and construct a commercial center.
- Through the acquisition of Solienda, ACEI acquired the absolute and irrevocable title, rights and interests in the contract of lease, and the subsequent amendment agreements, of San Julio Realty, Inc. (SJRI) with San Carlos Sun Power, Inc. (SACASUN), San Carlos Solar Energy, Inc. (SACASOL) and San Carlos Biopower Inc. (SCBP) amounting to ₱445.3 million and ₱168.1 million as of December 31, 2018 and 2017, respectively (see Note 24). The Assignment Agreements were amended on December 26, 2016 to clarify that SJRI irrevocably assigns, transfers and conveys absolutely unto Solienda, Inc. all its rights, ownership and/or interest in 50% of the total rental payments due under the Contracts of Lease. The parties undertake to provide continuing support for the full implementation of the Agreements and shall perform in good faith any and all facts necessary to implement the Agreements and its amendments. These leasehold rights were previously classified under "Other Noncurrent Assets" as of December 31, 2017.

This account also includes MWC Group's water banking rights pertaining to the rights to draw water from the Luyang River, Pampanga River, Abacan River, Pasig-Potrero River and Agno River. On August 22, 2012, the National Water Resources Board (NWRB) approved the assignment of Water Permit No. 16241 from Central Equity Ventures Inc. (now Stateland Inc.) to MW Consortium which MW Consortium allows CMWDI to use for its project. As of December 31, 2018 and 2017, CMWDI's water banking right amounted to ₱45.0 million.

In 2018 and 2017, MWPVI incurred costs to aquire conditional water permits form the NWRB amounting to ₱5.7 million and ₱15.1 million, respectively. A conditional water permit is necessary prior to the issuance of the water permit by NWRB subject to submission of certain requirements, including plans and specifications for the diversion works, pump structure, water measuring deivce and water distribution system, and environmental compliance certification by the Department of Environmental and Natural Resources, among others. In 2018, the NWRB granted MWPVI the permits to use the water from the Pampanga River, Abacan River, and Pasig-Potrero River. These permits supersede the conditional water permits granted to MWPVI in 2017. As of December 31, 2018, MWC Group believes that the remaining requirements for the Agno River are ministerial and is certain that it will be able to comply with the conditions required.

15. Other Noncurrent Assets

This account consists of the following:

	2018	2017 (As restated - see Note 3)
	(In Thousands)	
Advances to contractors	**₱10,272,615**	₱7,336,662
Deferred charges	**9,650,001**	5,354,019
Deferred input VAT	**6,907,123**	2,403,553
Investment in bonds and other securities	**3,034,245**	4,466,367
Deferred FCDA	**2,620,320**	1,329,351
Deposits - others	**2,478,582**	4,239,797
Concession financial receivable (Note 9)	**853,335**	1,187,508
Creditable withholding taxes	**500,700**	515,133
Pension assets (Note 27)	**82,005**	97,952
Leasehold rights - net	**–**	168,120
Others	**3,688,673**	291,968
	₱40,087,599	₱27,390,430

<u>Advances to contractors</u>
Advances to contractors represents prepayments for the construction of investment properties, property and equipment and service concession assets.

<u>Deferred charges</u>
Deferred charges pertain to project-related costs already paid but not yet consumed in the actual construction activities. These are costs as the related awarded project progresses.

<u>Deferred input VAT</u>
Deferred input VAT pertains to unamortized VAT portion from purchases of capital goods.

Investments in Bonds and Other Securities
This account consists of equity investments, which are classified as financial assets at fair value through OCI and AFS financial assets, follows:

	2018	2017
	(In Thousands)	
Financial assets at FVOCI		
Quoted equity investments	**₱2,200,447**	₱–
Unquoted equity investments	**833,798**	–
AFS financial assets		
Quoted equity investments	**–**	2,072,962
Unquoted equity investments	**–**	2,393,405
	₱3,034,245	₱4,466,367

As a result of adoption of new accounting standards, the Group presented the comparative information with respect to the prior period AFS financial assets.

Quoted Equity Investments
Quoted equity instruments consist mainly of investments in listed equity securities and golf club shares. Investments in golf club shares wherein ALI Group does not exercise control or demonstrate significant influence amounted to ₱1,425.4 million and ₱1,475.0 million as of December 31, 2018 and 2017, respectively. It also includes the following quoted equity investment:

Ho Chi Minh City Infrastructure Investment Joint Stock Co. (CII)
The Group, through BHL, has acquired a 10% ownership interest in CII for US$15.9 million in 2012. CII is listed on the Ho Chi Minh City Stock Exchange and is a leading player in the infrastructure sector in Vietnam. CII has a portfolio of strategic infrastructure assets, including water treatment plants and toll roads serving Ho Chi Minh City and surrounding areas.

In 2018, BHL converted nil units of bonds. In 2018, a decrease in fair value of the investments amounting to US$1.5 million (₱78.9 million) was recognized directly in equity. BHL did not dispose any shares in 2018 (see Note 23).

In 2017, BHL converted 11,229,765 units of bonds to 3,977,329 shares at a ratio of 1:0.4 which increased the value of the investment by US$4.8 million (₱173.9 million). In 2017, an increase in fair value of the investments amounting to US$4.9 million (₱355.2 million) was recognized directly in equity. BHL disposed 17,569,840 shares resulting in a gain of US$7.9 million (₱394.4 million) in 2017 (see Note 24).

The carrying amount of the investment in CII amounted to US$4.5 million (₱236.6 million) and US$6.2 million (₱308.6 million) as of December 31, 2018 and 2017, respectively.

Unquoted Equity Investments
Unquoted equity investments include unlisted preferred shares in public utility companies which the Group will continue to carry as part of the infrastructure that it provides for its real estate development projects, water utilities projects, and to its other operations. It also includes the following unquoted equity investments:

Investments in Negros Island Solar Power, Inc. (ISLASOL) and San Carlos Solar Energy, Inc. (SACASOL)
ACEI's investments in ISLASOL and SACASOL ₱336.5 million and ₱260.9 million, respectively, are equity securities of domestic corporations whose shares are not listed in PSE. The investments are carried at fair value following the finalization of the purchase price allocation of VRC in 2018 (see Note 24).

As of January 1, 2018, the investments in Sares Regis and Wave Computing amounting to ₱947.6 million and ₱110.5 million, respectively, were reclassified to FVTPL as a result of the Group's adoption of PFRS 9 (see Note 10).

Quoted Debt Investments
Quoted debt investments pertain to CII convertible bonds amounting to nil in 2018 and 2017. The bonds bear interest rate of 12% per annum and will mature 5 years from issue date. The bonds are convertible at the option of the bond holder. In 2017, BHL converted 43,755 bonds into 3,977,329 shares as part of the bond conversion exercise resulting to a decrease in the investment by US$5.0 million (₱249.7 million) (see Note 34).

In 2018 and 2017, BHL recognized a gain on the conversion exercise amounting to nil and VND91.3 million (US$4.0 million), respectively (see Note 23).

The net fair value gain (loss) on financial assets at FVOCI and AFS financial assets as reflected in the equity section is broken down as follows:

	2018	2017
	(In thousands)	
Net unrealized gain on financial assets at FVOCI of the Parent Company and its consolidated subsidiaries	**(₱1,196,758)**	₱–
Share in the net unrealized loss on financial assets at FVOCI of associates and joint ventures	**652,203**	–
Net unrealized gain (loss) on AFS financial assets of the Parent Company and its consolidated subsidiaries	**–**	96,215
Share in the net unrealized loss on AFS financial assets of associates and joint ventures	**–**	(1,204,177)
	(₱544,555)	(₱1,107,962)

The rollforward of unrealized gain (loss) on financial assets at FVOCI/AFS financial assets of the Parent Company and its consolidated subsidiaries is as follows:

	2018	2017
	(In thousands)	
At January 1, as previously stated	**₱96,215**	₱803,323
Effect of adoption of PFRS 9	**(651,259)**	–
At January 1, as restated	**(555,044)**	803,323
Changes in fair value recognized in equity	**(641,714)**	424,415
Recognized in consolidated profit and loss (see Note 24)	**–**	(1,129,306)
Others	**–**	(2,217)
At December 31	**(₱1,196,758)**	₱96,215

Deferred FCDA
Deferred FCDA refers to the net unrecovered amounts from (amounts for refund to) customers of MWC Group for realized losses (gains) from payments of foreign loans based on the difference between the drawdown or rebased rate versus the closing rate at payment date. This account also covers the unrealized gains or losses from loan valuations.

Deposits - others
This includes deposits and advances for projects which include escrow deposits and security deposits on land leases, electric and water meter deposits. In 2018, deposit for land acquisition amounting to ₱1,299.8 million which was outstanding as of December 31, 2017 was reclassified to rehabilitation works under SCA (see Note 13).

Leasehold rights
In 2017, leasehold rights pertain to the assigned rights of Solienda to various contracts of lease (see Note 14). These were reclassified under "Intangible Assets" as a result of the finalization of the purchase price allocation of Solienda (see Notes 14 and 24).

Others
Others pertain to prepayments for expenses that is amortized for more than one year. In 2018, this includes restricted cash which amounted to ₱2.4 billion that is not available for use by the Group (see Note 19).

16. Contract Balances and Cost to Obtain a Contract

The contract balances of the Group consist of the following:

	2018
	(In thousands)
Contract Assets	
Current	**₱52,209,458**
Noncurrent	**35,929,990**
Total Contract Assets	**₱88,139,448**
Contract Liabilities	
Current	**₱21,988,850**
Noncurrent	**8,630,235**
Total Contract Liabilities	**₱30,619,085**

Set out below is the nature of contract assets and liabilities of the Group:

ALI Group
Contract assets and liabilities

This account consists of:

	2018
	(In thousands)
Contract assets - current	**₱48,473,011**
Noncurrent contract assets	**35,437,047**
Contract liabilities - current	**21,874,681**
Contract liabilities - net of current portion	**8,630,235**

Contract assets are initially recognized for revenue earned from real estate sales as receipt of consideration is conditional on successful completion of installation. Upon completion of performance obligation and acceptance by the customer, the amounts recognized as contract assets are reclassified to trade residential and office development receivables.

Contract liabilities consist of collections from real estate customers which have not reached the 10% threshold to qualify for revenue recognition and excess of collections over the recognized receivables and contract assets based on percentage of completion.

As of December 31, 2018, nominal amount of contract assets from residential and office development amounting to ₱100,983.3 million was recorded initially at fair value. The fair values of the contract assets were obtained by discounting future cash flows using the applicable rates of similar types of instruments.

Movements in the unamortized discount of ALI Group's contract assets as of December 31, 2018 follow:

	2018
	(In thousands)
Balance at beginning of year	**₱10,332,147**
Additions during the year	**13,783,125**
Accretion for the year	**(7,042,078)**
Balance at end of year	**₱17,073,194**

The amount of revenue recognized in 2018 from amounts included in contract liabilities at the beginning of the year amounted to ₱11,479.4 million.

Cost to Obtain a Contract
The balances below pertains to the cost to obtain contracts included in the other current and noncurrent assets:

	2018
	(In thousands)
Balance at beginning of year	**₱2,258,052**
Additions	**5,713,387**
Amortization	**(5,048,405)**
Balance at end of year	**₱2,923,034**

In line with ALI Group's accounting policy, as set out in Note 3, if a contract or specific performance obligation exhibited marginal profitability or other indicators of impairment, judgement was applied to ascertain whether or not the future economic benefits from these contracts were sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific key performance indicators that could trigger variable consideration, or service credits.

IMI Group
Contract assets and liabilities
As of December 31, 2018, IMI Group's contracts assets and contract liabilities consist of:

	In US$	**In ₱**
	(In Thousands)	
Contract assets - current	US$63,484	**₱3,337,998**
Contract liabilities - current	1,831	**96,277**

**Translated using the exchange rate at the reporting date (US$1:₱52.58 on December 31, 2018).*

Contract assets are initially recognized for revenue earned from manufacturing of goods as receipt of consideration is conditional on successful completion of the services. When goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customers, the amounts recognized as contract assets are reclassified to trade receivables. Payments are received from customers depending on the credit terms.

In 2018, IMI Group did not recognize a provision for expected credit losses on contract assets.

Contract liabilities includes short-term advances received to render manufacturing services.

The amount of revenue recognized from amounts included in contract liabilities at the beginning of the year amounted to US$5.6 million.

IMI Group applied the practical expedient in PFRS 15 on the disclosure of information about the transaction price allocated to remaining performance obligations given the customer contracts have original expected duration of one year or less.

MWC Group
Contract assets
As of December 31, 2018, contracts assets consists of:

	2018
	(In Thousands)
Contract assets from:	
Supervision fees	**₱262,202**
NRWSA with ZCWD	**66,475**
Bulk Water Sales and Purchase Agreement with TWD (Note 13)	**69,770**
Current portion	**398,447**
Bulk Water Sales and Purchase Agreement with TWD (Note 13)	**415,679**
NRWSA with ZCWD	**77,264**
Noncurrent portion	**492,943**
	₱891,390

Contract assets from supervision fees are initially recognized for revenue earned arising from the provision of design and project management services in the development of water and used water facilities. These contract assets are reclassified to "Accounts and notes receivables" upon acceptance and reaching certain construction milestones for the related water and used water facilities.

Contract assets from the NRWSA with ZCWD are initially recognized for revenue earned arising from construction revenue and performance fees for NRW reduction services. These contract assets are reclassified to "Accounts and notes receivables" upon acceptance of and billing to the customer.

Contract assets arising from the Bulk Water Sales and Purchase Agreement with TWD consist of the cost of rehabilitation works which will be reclassified to "Concession financial receivables" upon completion of construction of the related facilities. The rollforward of these contract assets follows:

	2018
Balance at beginning of year	**₱206,954**
Rehabilitation works	**219,078**
Finance income (Note 23)	**70,847**
Reclassification to concession financial receivables (Note 10)	**(11,429)**
Balance at end of year	**₱485,450**

17. Accounts Payable and Accrued Expenses

This account consists of the following:

	2018	2017
	(In Thousands)	
Accounts payable	**₱120,312,117**	₱90,750,983
Accrued expenses		
Project costs	**18,641,346**	15,946,912
Personnel costs	**9,078,336**	8,368,005
Professional and management fees	**5,422,587**	5,820,306
Rental and utilities	**3,741,150**	3,799,693
Repairs and maintenance	**3,093,319**	2,074,653
Advertising and promotions	**1,416,910**	1,120,738
Various operating expenses	**3,479,680**	3,024,200
Taxes payable	**20,688,048**	20,706,997
Retentions payable (Note 20)	**6,762,286**	4,924,173
Interest payable (Note 31)	**4,137,612**	3,682,835
Dividends payable	**4,131,317**	3,618,606
Liability for purchased land	**2,544,623**	3,710,462
Related parties (Note 31)	**1,072,551**	1,873,861
DRP obligation	**236,362**	230,103
	₱204,758,244	₱169,652,527

Accounts payable and accrued expenses are non-interest bearing and are normally settled on 15- to 60-day terms. Other payables are non-interest bearing and are normally settled within one year.

Accrued operating expenses include accruals for utilities, postal and communication, supplies, commissions, royalty, transportation and travel, subcontractual costs, security, insurance, and representation.

Project costs represent accrual for direct costs associated with the commercial, residential and industrial project development and construction like engineering, design works, contract cost of labor and direct materials.

Taxes payable consists of net output VAT, withholding taxes, business taxes, capital gains tax and other statutory payables, which are due within one year.

Retentions payable pertains to the amount withheld by ALI Group on contractor's billings to be released after the guarantee period, usually one (1) year after the completion of the project or upon demand. The retention serves as a security from the contractor should there be defects in the project. Liability for purchased land pertains to the current portion of unpaid unsubdivided land acquired payable during the year. These are normally payable in quarterly or annual installment payments or upon demand.

Development Rights Payment (DRP) obligation pertains to the current portion of the liability arising from the assignment agreement between ALI and MRTDC of the latter's development rights. In consideration of the lease, ALI will be charged an annual rent related to the original DRP obligation on the MRTDC and 5% of the rental income from ALI's commercial center business. Of the 5% variable amount due, 2.42% shall be directly paid by ALI to the minority shareholders of Monumento Rail Transit Corporation, 28.47% shall be paid directly to Metro Global Holdings Corporation and the remaining 69.11% shall be applied against receivables.

18. Other Current Liabilities

This account consists of:

	2018	2017
	(In Thousands)	
Deposits	**₱7,169,097**	₱23,722,969
Nontrade payables	**1,490,379**	575,974
Financial liabilities on put option (Notes 24 and 33)	**1,371,226**	1,094,079
Liabilities attributable to a disposal group (Note 24)	**1,075,272**	585,849
Derivative liability (Note 33)	**15,700**	1,505
Installment payable	**7,560**	3,418
	₱11,129,234	₱25,983,794

Deposits pertain to security and customers' deposits. Security deposits are equivalent to three (3) to six (6) months' rent of tenants with cancellable lease contracts and whose lease term will end in the succeeding year. This will be refunded to the lessees at the end of the lease term or be applied to the last months' rentals on the related contracts. Customers' deposits consist of collections from real estate customers which have not reached the 10% threshold to qualify for revenue recognition (see Note 3). As of December 31, 2018, the cutomers' deposits account of ALI Group have been reported as contract liabilities in the consolidated statements of financial position under the modified retrospective approach. Customers' deposits also include deposits paid by MWC Group's customers for the set-up of new connections which will be refunded to the customers upon termination of the customers' water service connections or at the end of the concession, whichever comes first.

Nontrade payables pertain mainly to non-interest bearing real estate-related payables to contractors and various non-trade suppliers which are due within one year.

Financial liabilities on put option relate to the acquisitions of VIA and STI and pertain to the right of the non-controlling shareholders of VIA and STI to sell their shares in the aquiree to IMI Group (see Note 24).

19. Short-term and Long-term Debt

Short-term debt consists of:

	2018	2017
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 4.38% to 7.03% per annum in 2018 and 2.64% to 7.00% per annum in 2017	**₱18,120,547**	₱22,925,600
Foreign currency debt - with interest rates ranging from 2.50% to 6.04% in 2018 and 1.82% to 4.31% in 2017	**21,397,698**	6,979,123
	₱39,518,245	₱29,904,723

<u>ALI Group</u>
The short-term debt of ALI Group amounting to ₱14,386.7 million and ₱17,644.4 million as of December 31, 2018 and 2017, respectively, represents peso and foreign-currency denominated bank loans with various interest rates. Peso-denominated short term loans had a weighted average cost of 5.00% and 2.64% per annum in 2018 and 2017.

In compliance with BSP rules on directors, officers, stockholders and related interests, certain short-term and long-term debt with a carrying value of ₱14,170.3 million and ₱17,697.5 million as of December 31, 2018 and 2017 are secured by real estate mortgages dated September 2, 2014 and March 14, 2016 covering both land and building of the Greenbelt Mall. Net book value of the property amounted to ₱2,618.9 million and ₱3,121.3 million as of December 31, 2018 and 2017, respectively which is accounted as part of the "Investment properties" account.

MWC Group
On March 5, 2018, MWTC entered into a one-year term facility agreement with Mizuho Bank, Ltd., Bangkok Branch (Mizuho Bangkok), whereby Mizuho Bangkok extended credit to MWTC for THB5.3 billion to finance MWTC's acquisition of the shares in Eastern Water (see Note 11). The loan bears interest of BIBOR plus margin and is guaranteed by the MWC Group.

As of December 31, 2018, the carrying value of the short-term debt amounted to ₱8,596.54 million.

AITHI Group
The Philippine peso debt of AITHI Group pertains to short-term loans with various banks and institutions amounting to ₱4.5 billion and ₱5.2 billion as of December 31, 2018 and 2017, respectively. These loans are unsecured and bear interest rate of 4.38% to 7.03% per annum in 2018 and 2.7% to 4.0% per annum in 2017.

AIVPL Group
The peso-denominated and dollar-denominated debt of AIVPL Group through its subsidiary, Affinity Express India Private Limited (AEIPL), pertains to short-term loans with various banks amounting to ₱260.8 million and ₱243.0 million as of December 31, 2018 and 2017, respectively. These loans are unsecured and bear interest rate at 12.0% in 2018 and 5.5% to 7.0% in 2017.

IMI Group
As of December 31, 2018 and 2017, IMI Group has short-term loans aggregating to US$136.3 million (₱7,168.7 million) and US$135.1 million (₱6,743.4 million), respectively. These short-term loans have maturities ranging from 30-180 days and bear fixed interest rates ranging from 2.50% to 3.12% in 2018 and 1.82% to 2.34% in 2017.

Long-term debt consists of:

	2018	2017
	(In Thousands)	
The Parent Company:		
Bank loans - with fixed interest rates ranging from 5.3% to 6.0% and floating interest rates based on applicable benchmark plus credit spread ranging from 0.5% to 0.70% with varying maturity dates up to 2028	**₱27,405,387**	₱9,198,822
Bonds	**39,762,594**	39,719,659
	67,167,981	48,918,481
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 1.39% to 5% in 2018; 1 month Euribor plus 0.9% to 2.7%; 2.15% to 3-month LIBOR plus 2.9% spread per annum in 2017	**68,364,538**	58,680,020
Philippine peso - with interest rates ranging from 2.85% to 9.00% in 2018 and 1.86% to 9.00% in 2017 (Note 24)	**76,558,056**	66,976,028

(Forward)

	2018	2017
	(In Thousands)	
Bonds:		
Fixed for life notes	**₱20,918,114**	₱19,843,316
Exchangeable bonds due 2019	**15,285,934**	14,551,428
Due 2019	**12,313,125**	12,299,234
Due 2020	**3,989,546**	3,984,041
Due 2021	**5,000,000**	5,000,000
Due 2022	**12,605,471**	12,591,034
Due 2023	**14,861,918**	6,943,949
Due 2024	**14,923,051**	14,910,133
Due 2025	**14,895,124**	14,882,298
Due 2026	**7,939,468**	7,932,643
Due 2027	**6,969,630**	6,966,801
Due 2028	**9,886,828**	–
Due 2033	**1,984,613**	1,983,990
Fixed Rate Corporate Notes (FXCNs)	**11,986,615**	17,180,464
Short-dated notes	**7,093,375**	7,063,369
	305,575,406	271,788,748
	372,743,387	320,707,229
Less current portion	**48,480,559**	13,731,967
	₱324,262,828	₱306,975,262

Reconciliation of carrying amount against nominal amount follows:

	2018	2017
	(In Thousands)	
Nominal amount	**₱374,143,753**	₱322,180,330
Unamortized discount	**(1,400,366)**	(1,473,101)
	₱372,743,387	₱320,707,229

The Parent Company

Generally, the Parent Company's long-term loans are unsecured. Due to certain regulatory constraints in the local banking system regarding loans to directors, officers, stockholders and related interest, some of the Parent Company's credit facilities with a local bank are secured by shares of stock of a subsidiary with a fair value of ₱14.0 billion and ₱11.6 billion as of December 31, 2018 and 2017, respectively, in accordance with Bangko Sentral ng Pilipinas (BSP) regulations. All credit facilities of the Parent Company outside of this local bank are unsecured, and their respective credit agreements provide for this exception.

The Parent Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions.

In October 2012, the Parent Company availed of a ₱2.0 billion loan from a local bank to mature in 2017. The ₱2.0 billion loan shall have interest rate per annum equal to the 3-month PDST-R2 plus a spread of seventy five basis points (0.75%) per annum, or BSP reverse repurchase (RRP) rate, whichever is higher. The first and second principal payment for the ₱2.0 billion loan amounting to ₱100.0 million each was paid in October 2015 and 2016, respectively. The Parent Company paid the final principal payment which amounted to ₱1.8 billion in October 2017.

In November and December 2013, the Parent Company availed of a ₱2.0 billion and a ₱4.3 billion loan from various banks to mature in 2018 and 2020, respectively. The ₱2.0 billion loan shall have interest rate per annum equal to the 3-month PDST-R2 plus a spread of 100 basis points (1%) per annum, or BSP overnight reverse repurchase (RRP) rate plus a spread of 25 basis points (0.25%), whichever is higher. In February 2016 and November 2017, the Parent Company paid the first and second principal payment for the ₱2.0 billion loan which amounted to ₱100.0 million each. In November 2018, the Parent Company paid the final principal payment which amounted to ₱1.8 billion. The ₱4.3 billion loan shall have interest rate per annum equal to the 6-month PDST-R1 plus a spread of thirty basis points (0.30%) for the first six months and 3-month PDST-R1 plus a spread of sixty basis points (0.60%) thereafter. In December 2015, 2016, 2017 and 2018, the Parent Company paid the four principal payments for the ₱4.3 billion loan which amounted to ₱42.5 million each.

In August 2015, the Parent Company availed of a 7-year loan from a local bank amounting to ₱3.0 billion which bears fixed interest rate of 5.2883% per annum. Principal repayments amounting to ₱30.0 million shall be made at the end of the third year until the sixth year and payment of remaining principal balance amounting to ₱2.9 billion at maturity date.

In December 2016, the Parent Company entered into a revolving term loan agreement amounting to ₱10.0 billion. The first drawdown of the loan amounted to ₱300.0 million on December 22, 2017 with a quarterly repricing rate and a tenor of three years. The ₱300.0 million shall have interest rate equivalent to (i) the Benchmark Rate-Floating plus a margin of seventy basis points (0.70%) per annum or (ii) the 28-day BSP Deposit Facility Rate plus a margin of forty-five basis points (0.45%) per annum, whichever is higher. On February 23, 2018 and July 19, 2018, the Parent Company drew an additional ₱2.5 billion for three years and ₱0.5 billion for four years, respectively. Both drawdowns are repriced quarterly similar to the terms of the initial drawdown. The Parent Company paid the first principal payment for the ₱300.0 million and ₱0.5 billion drawdowns amounting to ₱3.0 million and ₱12.5 million, respectively, in 2018.

On January 30, 2018, the Parent Company signed the following loan facilities with BPI that are secured by collateral:

a. ₱1.9 billion 10-year loan facility with ALI shares as collateral (70% of outstanding loan on 2:1 collateral ratio). The loan shall have interest rate equivalent to (i) the Benchmark Rate-Floating plus a margin of sixty basis points (0.60%) per annum or (ii) the average of BSP Overnight Deposit Facility (ODF) and BSP Term Deposit Auction Facility (TDF) Rate of the tenor nearest the interest period, whichever is higher; and

b. ₱10.0 billion 10-year loan facility with US$ deposits as collateral (1:1 ratio). The loan shall have interest rate equivalent to (i) the Benchmark Rate-Floating plus a margin of sixty basis points (0.60%) per annum or (ii) the average of BSP Overnight Deposit Facility (ODF) and BSP Term Deposit Auction Facility (TDF) Rate of the tenor nearest the interest period, whichever is higher.

On February 26, 2018, the Parent Company drew down the full amount of the ₱1.9 billion loan with ALI shares as collateral. In 2018, the Parent Company paid three principal payments for the ₱1.9 billion loan amounting to ₱23.8 million each.

On April 30, 2018, the Parent Company drew down ₱6.0 billion from its ₱10.0 billion 10-year loan facility secured by an assignment of AYCFL's deposits amounting to ₱115.7 million. On May 15, 2018, the Parent Company drew down ₱0.5 billion from the same facility secured by an assignment of AYCFL's deposits amounting to ₱9.6 million. In 2018, Parent Company paid the first principal payment for the ₱6.0 billion and ₱0.5 billion draw down amounting to ₱4.1 billion and ₱25 million respectively.

In April 2018, the Parent Company signed an ₱11 billion fixed term loan facility with a local bank with a tenor of 8 years. The loan shall have a fixed interest rate of 6.0043%, which was based on the prevailing PDST-R2 benchmark plus a spread of 65 basis points. The amount was fully drawn on April 30, 2018.

Also in April 2018, the Parent Company signed a ₱5.0 billion term loan facility with a local bank. The Parent Company drew down ₱2.0 billion with a tenor of 5 years with fixed interest rate of 6.0043%, which was based on the prevailing PDST-R2 benchmark plus a spread of 65 basis points.

Bonds
Below is the summary of the outstanding Peso bonds issued by the Parent Company:

Year Issued	Term	Interest rate	Principal Amount (In thousands)	Carrying Value (In thousands) 2018	2017	Features
2011	10 years	6.80%	10,000,000	**9,970,466**	9,959,350	20% balance puttable on the 5th anniversary of the issue date; balance puttable on the 8th anniversary issue date
2012	15 years	6.875%	10,000,000	**9,946,221**	9,939,791	Callable from the 10th anniversary issue until every year thereafter until the 14th anniversary issue date
2016	7 years	3.92%	10,000,000	**9,927,904**	9,913,730	Callable from the 5.5th anniversary issue until every year thereafter until the 7th anniversary issue date
2017	8 years	4.82%	10,000,000	**9,918,003**	9,906,788	Callable from the 6.5th anniversary issue until every year thereafter
			₱40,000,000	**₱39,762,594**	₱39,719,659	

The outstanding Peso bonds of the Parent Company have been rated “PRS Aaa” by PhilRatings.

Bonds due 2017
In April 2017, the Parent Company paid the ₱10.0 billion bonds issued in April 2010.

Bonds due 2019
In November 2016, the Parent Company exercised its Call Option and redeemed the ₱10 billion Ayala 5.45% Bonds issued in November 2012. The bonds were redeemed by payment in cash of the redemption price set at 100.500% of the Issue Price plus all accrued and unpaid interest based on a coupon rate of 5.45% per annum. Total cash outlay was ₱10.2 billion, inclusive of interest of ₱136.3 million.

Bonds due 2025
On February 10, 2017, the Parent Company issued ₱10.0 billion, 4.82% bonds due in 2025. This pertains to the second and final tranche of the ₱20.0 billion fixed rate bonds program approved by the BOD on March 10, 2016.

The long-term debt of the Parent Company provide for certain restrictions and requirements with respect to maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Parent Company as of December 31, 2018 and 2017.

Interest paid amounted to ₱3.3 billion and ₱2.8 billion in 2018 and 2017, respectively (see Note 18).

Subsidiaries

Foreign Currency Debt
AYCFL
On November 28, 2013, AYCFL, entered into a 5-year syndicated term loan with a foreign bank, with the Parent Company as guarantor, for US$225.0 million. On January 14, 2014, AYCFL drew the full amount of the term loan at a rate of 135 basis points over the 1-, 3- or 6-month LIBOR at the option of AYCFL. In 2017, AYCFL made full prepayment on the loan.

In March 2016, AYCFL increased the existing Bilateral Term Loan Facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd from US$100.0 million up to US$200.0 million with interest rates at certain basis points over LIBOR and maturing in September 2022. The Bilateral Term Loan Facility has an availability period of 5 years which offers the same flexibility as a Revolving Credit Facility. As of December 31, 2018, AYCFL has withdrawn US$10.0 million from the loan facility.

Furthermore, AYCFL undertook the conversion of the US$200.0 million Club Term Loan facility into Revolving Credit facility with Mizuho Bank, Ltd. and Sumitomo Mitsui Banking Corporation with interest rates at certain basis points over LIBOR and maturing in March 2020. The loan facility is guaranteed by the Parent Company. As of December 31, 2018, AYCFL has withdrawn US$10.0 million from the loan facility.

IMI Group

IMI

The long-term debts of IMI aggregating to US$180.0 million and US$154.5 million as of December 31, 2018 and 2017, respectively, were obtained from Singapore-based and local banks with terms of three to five years, subject to fixed annual interest rates ranging from 2.15% to 3.94% in 2018 and 2.85% to 2.86% in 2017.

Cooperatief

Cooperatief's long-term debt aggregating to €14.3 million (US$20.4 million) as at July 29, 2011 relates primarily to the acquisition of EPIQ shares and receivables of EPIQ NV from IMI EU/MX subsidiaries. Based on the payment schedule in the SPA, this long-term debt will be settled from 2013 to 2018, subject to interest rate of 1.60% plus 1.50%. The loan was fully paid in 2018.

IMI CZ

IMI CZ has term loan facility from Czech-based payable in 60 regular monthly installments and bears interest of 1-month EURIBOR plus spread ranging from 0.9% to 2.70% but is not to exceed 15% per annum. Outstanding balance as of December 31, 2018 and 2017 amounted to €3.1 million (US$3.5 million) and €4.2 million (US$5.1 million), respectively.

IMI BG

IMI BG has a long-term debt from European-based bank that relates to the term loan facility for financing the construction of a new warehouse with a term of five years and bears interest based on 3-month EURIBOR plus 2.90%. The loan matured in December 2018. The warehouse was completed in 2013.

The credit facility with the bank is subject to the following collateral: Security of Transfer of Ownership Title relating to office and factory equipment with a carrying value of US$1.4 million.

VIA

VIA has a long-term debt from a Germany-based bank amounting to €0.1 million (US$0.1 million) as of December 31, 2018 and €0.2 million (US$0.2 million) as of December 31, 2017. The debt is unsecured and bears annual interest of 5.35% and matures on June 30, 2019.

VIA also has a long-term loan with a Japanese bank with a face amount of JPY500.0 million granted in 2018 and will mature in 2023. The loan is payable monthly and bears interest of 1.67%. Outstanding balance as of December 31, 2018 and 2017 amounted to US$4.4 million and nil, respectively.

MWC Group

MWC International Finance Corporation (IFC) Loan

On March 28, 2003, MWC entered into a loan agreement with IFC (the First IFC Loan) to partially finance MWC's investment program from 2002-2005 to expand water supply and sanitation services, improvement on the existing facilities of MWC, and concession fee payments. The First IFC Loan will be made available in Japanese Yen (JPY) in the aggregate principal amount of JPY3,591.6 million equivalent to US$30.0 million and shall be payable in 25 semi-annual installments, within 12 years starting on July 15, 2006.

On July 15, 2018, MWC paid the outstanding balance of the loan as scheduled. As of December 31, 2018 and 2017, the carrying value of the loan amounted to nil and JPY143.2 million (₱63.0 million), respectively.

Land Bank of the Philippines (LBP) Loans
On October 20, 2005, MWC entered into a Subsidiary Loan Agreement with LBP to finance the improvement of the sewerage and sanitation conditions in the East Zone. The loan has a term of 17 years, and was made available in Japanese Yen in the aggregate principal amount of JPY6.6 billion payable via semi-annual installments after the 5-year grace period.

MWC made its last drawdown on October 26, 2012. The total drawn amount for the loan is JPY4.0 billion. As of December 31, 2018 and 2017, outstanding balance of the LBP loan amounted to JPY1.2 billion (₱564.9 million) and JPY1.5 billion (₱669.2 million), respectively.

On October 2, 2012, MWC entered into a Subsidiary Loan Agreement with LBP under the Metro Manila Wastewater Management Project (MWMP) with the World Bank. The MWMP aims to improve used water services in Metro Manila through increased wastewater collection and treatment. The loan has a term of 25 years, and was made available in US Dollars in the aggregated principal amount of US$137.5 million via semiannual installments after the 7-year grace period. MWC made four drawdowns in 2015 aggregating to US$22.6 million (₱1,123.7 million) and three drawdowns in 2016 aggregating to US$17.5 million (₱868.1 million). In 2017, MWC made an additional three drawdowns with a total amount of US$22.4 million (₱1,118.4 million). In 2018, MWC made additional drawdown amounting to US$8.9 million (₱468.0 million). The carrying value of the MWMP loan as of December 31, 2018 and 2017 is US$70.9 million (₱3,727.9 million) and US$62.0 million (₱3,097.2 million), respectively.

NEXI Loan
On October 21, 2010, MWC entered into a term loan agreement (NEXI Loan) amounting to US$150.0 million to partially finance capital expenditures within the East Zone. The loan has a tenor of 10 years and is financed by a syndicate of four banks - ING N.V Tokyo, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ Ltd. and Sumitomo Mitsui Banking Corporation and is insured by Nippon Export and Investment Insurance. First, second and third drawdowns of the loan amounted to US$84.0 million, US$30.0 million and US$36.0 million, respectively. The carrying value of this loan as of December 31, 2018 and 2017 amounted to US$37.0 million (₱1,945.5 million) and US$55.1 million (₱2,751.1 million), respectively.

JPY40.0 billion loan
On September 30, 2015, MWC signed a 7-year JPY40.0 billion term loan facility with three international banks: The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation to finance MWC's capital expenditures. MWC made its first drawdown on March 9, 2016 amounting to JPY13.4 billion (₱5.7 billion). In 2017, MWC made two additional drawdowns totaling JPY 26.6 billion (₱11.7 billion). MWC did not make any drawdown in 2018. The loan's carrying value as of December 31, 2018 and 2017 is JPY27.2 billion (₱13.0 billion) and JPY33.9 billion (₱14.9 billion), respectively.

<u>ALI Group</u>
In October 2012, ALI executed and fully drawn a US$58.5 million long-term facility. The loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriceable quarterly. The loan will mature on the third month succeeding the tenth anniversary of the initial drawdown date. Subsequently in March 2016, a US$30.0 million long-term facility was assigned by ALI Makati Hotel Property, Inc. (AMHPI) to ALI. The assigned loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriceable quarterly and had a remaining term of 3 years and 4

months from the time of assignment. ALI paid the remaining dollar-denominated loans on December 20, 2018.

ACEI Group

GNPK

The peso-denominated and dollar-denominated debt of GNPK pertains to a construction and term loan facility having an aggregate principal amount of ₱1,700.0 million and US$605.0 million, respectively, with interests ranging from 6.88% to variable at LIBOR plus a margin of three and one-quarter of one percent (3.25%). The dollar-denominated debt is composed of the following: 1) Tranche A Loan US$375.0 million; 2) Tranche B Loan US$60.0 million; and 3) Tranche C Loan US$170.0 million.

As of December 31, 2018 and 2017, the assets of GNPK amounting to US$831.0 million and US$820.7 million, respectively, are pledged as collateral. The carrying value of the loans amounted to US$696.2 million and US$579.0 million as of December 31, 2018 and 2017, respectively.

ACEI SG

On April 20, 2018 and July 30, 2018, respectively, ACEI SG signed a short-term loan line and revolving credit facility with Rizal Commercial Banking Corporation and Mizuho Bank Ltd. Singapore amounting to US$65.0 million (₱3,511.3 million) and US$50.0 million (₱2,701.0 million), respectively. Proceeds of the loan are to be used to finance investments in power and power related projects and for other general corporate purpose expenses.

As of December 31, 2018, outstanding drawdowns from the short-term loan line and revolving credit facility amounted to US$35.0 million (₱1,890.7 million) and US$15.00 million (₱810.3 million), respectively.

In 2018, ACEI SG received additional loan drawdowns from different banks aggregating to US$86.0 million (₱4,521.9 million) and made repayments amounting to US$50.0 million.

Philippine Peso Debt

MWC Group

MWC Parent Company

On August 16, 2013, MWC entered into a Credit Facility Agreement with a local bank having a fixed nominal rate of 4.42% and with a term of 7 year from the issue date which is payable annually. MWC may repay the whole and not a part only of the loan starting on the 3rd anniversary of the drawdown date of such loan or on any interest payment date thereafter. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱4.9 billion.

On May 11, 2018, MWC signed a ₱5.0 billion, 10-year term loan facility with a local bank. The loan will be used to finance general corporate requirements and capital investment programs in the Manila Concession as well as to refinance existing concessionaire loans. The carrying value of the loan as of December 31, 2018 amounted to ₱4.8 billion.

On April 8, 2011, MWC issued ₱10.0 billion FXCN with ₱5.0 billion having a term of five (5) years (Five-Year FXCN Note) from the issue date and the other ₱5.0 billion with a term of ten (10) years (Ten-Year FXCN Note) from the issue date which is both payable quarterly. MWC may repay the whole and not a part only of the Ten-Year FXCN Notes on the 7th anniversary of the drawdown date of such FXCN Note or on any FXCN interest payment date thereafter.

On April 8, 2016, MWC prepaid the outstanding balance of the Five-Year FXCN Note. The carrying value of the FXCN as of December 31, 2018 and 2017 amounted to ₱4.8 billion and ₱4.9 bilion, respectively.

On July 17, 2008, MWC, together with all of its Lenders signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Prior to the execution of the Omnibus Amendment Agreement, the obligation of MWC to pay amounts due and owing committed to be repaid to the lenders under the existing facilty agreements were secured by Assignment of Interest by Way of Security executed by MWC in favor of a trustee acting on behalf of the lenders. The Assignments were also subject to the provisions of the Amended and Restated Intercreditor Agreement dated March 1, 2004 and its Amendatory Agreement dated December 15, 2005 executed by MWC, the lenders and their appointed trustee.

Under the Omnibus Amendment Agreement, the lenders effectively released MWC from the assignment of its present and future fixed assets, receivables and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where MWC is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, MWC agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either MWC or MWSS. Currently, all lenders of MWC Group are considered Concessionaire Lenders and are on *pari passu* status with one another.

In November and December 2014, MWC Group signed Amendment Agreements to its loan agreements with its existing lenders. This effectively relaxed certain provisions in the loan agreements providing MWC Group more operational and financial flexibility. The loan amendments include the shift to the use of MWC Group from consolidated financial statements for the purposes of calculating the financial covenant ratios, the increase in maximum debt to equity ratio to 3:1 from 2:1 and the standardization of the definition of debt service coverage ratio at a minimum of 1.2:1 across all loan agreements.

LAWC
On September 7, 2010, LAWC, entered into a loan agreement with two local banks for the financing of its construction, operation, maintenance and expansion of facilities in its servicing area. Pursuant to the loan agreement, the lenders have agreed to provide loans to LAWC up to ₱500.0 million, principal payments of which will be made in 30 consecutive equal quarterly installments starting August 2013. The carrying value of this loan amounted to ₱132.9 million and ₱199.1 million as of December 31, 2018 and 2017, respectively.

On April 29, 2013, LAWC entered into a loan agreement with Development Bank of the Philippines (DBP) to partially finance the modernization and expansion of the water network system and water supply facilities in Biñan, Sta. Rosa and Cabuyao, Laguna. Under the agreement, the lender has agreed to provide a loan to the borrower through the Philippine Water Revolving Fund (PWRF) in the aggregate principal amount of up to ₱500.0 million bearing an effective interest rate of 7.29%. The carrying value of this loan as of December 31, 2018 and 2017 amounted to ₱432.9 million and ₱462.3 million, respectively.

On January 9, 2014, LAWC excercised its option to avail of the second tranche of its loan agreement with DBP to finance its water network and supply projects, including the development of a well-field network on the Biñan, Sta. Rosa area of Laguna. Under the expanded facility agreement, DBP provided additional loans to LAWC in the aggregate principal amount of ₱833.0 million. The carrying value of the loans amounted to ₱743.1 million and ₱793.4 million as of December 31, 2018 and 2017, respectively.

On October 23, 2015, LAWC entered into a loan agreement with a local bank to finance the modernization and expansion of its water network system and water supply facilities throughout the province of Laguna. Under the loan agreement, the lender agreed to provide a loan to the borrower in the aggregate principal amount of up to ₱2.5 billion for an applicable fixed interest rate, as determined in respect of each drawdown. The carrying value of the loan amounted to ₱2.3 billion and ₱2.5 billion as of December 31, 2018 and 2017, respectively.

On March 29, 2017, LAWC entered into a loan agreement with Grand Challenges Canada to fund the project during the period beginning on the effective date of the loan agreement and ending on the project end date of March 31, 2018 for up to an aggregate principal amount of CA$0.87 million (₱34.7 million). The project supported by the loan is the "Bundling water and sanitation services for the poor in informal urban communities." As of December 31, 2018 and 2017, the carrying value of the loan amounted to CA$0.87 million (₱33.5 million) and CA$0.83 million (₱32.8 million), respectively.

BIWC
On July 29, 2011, BIWC, entered into an omnibus loan and security agreement with DBP and a local bank to finance the construction, operation, maintenance and expansion of facilities for the fulfillment of certain service targets for water supply and waste water services for the Service Area under the Concession Agreement, as well as the operation and maintenance of the completed drainage system. The loan shall not exceed the principal amount of ₱500.0 million and is payable in twenty (20) years inclusive of a three (3)-year grace period.

Sub-tranche 1
The loan shall be available in three sub-tranches, as follows:
- Sub-tranche 1A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through PWRF;
- Sub-tranche 1B, the loan in the amount of ₱125.0 million to be provided by a local bank and funded through PWRF; and
- Sub-tranche 1C, the loan in the amount of ₱125.0 million to be provided by a local bank and funded through its internally-generated funds.

The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱371.8 million and ₱400.7 million, respectively.

Sub-trance 2
The Agreement provided BIWC the option to borrow additional loans from the lenders. On November 14, 2012, BIWC entered into the second omnibus loan and security agreement with DBP and a local bank. The agreed aggregate principal of the loan amounted to ₱500.0 million which is available in three sub-tranches:

- Sub-tranche 2A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through PWRF
- Sub-tranche 2B, the loan in the amount of ₱125.0 million to be provided by a local bank and funded through PWRF
- Sub-tranche 2C, the loan in the amount of ₱125.0 million to be provided by a local bank and funded through BIWC's internally-generated funds.

The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱397.7 million and ₱428.7 million, respectively.

Sub-trance 3
On October 9, 2014, BIWC signed a Third Omnibus Loan and Security Agreement in the amount of ₱650.0 million with SBC to fund capital expenditures related to water and sewerage services in the concession area of BIWC. The carrying value of loan as of December 31, 2018 and 2017 amouted to ₱642.7 million and ₱641.8 million, respectively.

On December 20, 2017, BIWC signed a Fourth Omnibus Loan and Security Agreement in the amount of ₱2.4 billion with the Bank of the Philippine Islands (BPI). The loan will be used to finance the general corporate and capital expenditures requirements of BIWC. BIWC made its first drawdown on April 30, 2018 amounting to ₱250.0 million. The second drawdown was made on September 25, 2018 amounting to ₱250.0 million. The third drawdown was made on December 20, 2018 amounting to ₱100.0 million. The carrying value of loan as of December 31, 2018 amounted to ₱595.6 million.

CWC
On April 10, 2015, CWC entered into a loan agreement with a local bank, whereby the bank extended credit to CWC for up to ₱1.2 billion to partially finance its concession capital expenditures program. Under the agreement, the loan bears interest at a rate of 6.179% and principal payments will be made in forty eight (48) consecutive equal quarterly installments starting July 2018. The carrying value of the loan amounted to ₱1.1 billion as of December 31, 2018 and 2017.

On December 13, 2018, CWC availed of a fifteen (15)-month term loan with RCBC amounting to ₱100.0 million to finance its working capital requirements. Under the agreement, the loan bears interest at the rate of 7.55% payable monthly. The loan's principal payment is due on March 13, 2020. The carrying value of the loan amounted to ₱100.0 million as of December 31, 2018.

CMWD
On December 19, 2013, the CMWD entered into an omnibus loan and security agreement (the Agreement) with DBP to partially finance the construction works in relation to its bulk water supply project in Cebu, Philippines. The lender has agreed to extend a loan facility in the aggregate principal amount of ₱800.0 million or up to 70% of the total project cost whichever is lower. Principal payments will be made in twenty (20) equal quarterly installments starting December 2017. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱655.8 million and ₱699.3 million, respectively.

Zamboanga Water Company, Inc.(ZWC)
On June 30, 2016, ZWC, a 70% joint venture company of MWC, signed a term loan agreement in the amount of ₱85.00 million with DBP. The proceeds of the loan will be used to partially finance ZWC's capital expenditures in relation to its NRW reduction and management program in Zamboanga City. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱84.7 million.

MWPVI
On October 5, 2016, MWPVI signed a 15-year fixed rate term loan facility amounting to ₱4.0 billion with various domestic banks. The terms of the loan include an option to increase the size of the facility to a maximum of ₱7.0 billion. The proceeds of the loan will be used to finance MWPVI's capital expenditures, future acquisitions and other general corporate requirements.

On November 9, 2017, MWPVI made its first drawdown amounting to ₱450.0 million from each bank. On October 5 and December 19, 2018, MWPVI made its subsequent drawdowns amounting to ₱50.00 million and ₱175.00 million from each bank, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱1,341.0 million and ₱894.4 million, respectively.

TWC
On October 7, 2016, TWC signed a term loan agreement for ₱450.0 million. The proceeds of the loan will be used to partially finance the development, construction, operation and maintenance of bulk water supply facilities, including the delivery and sale of treated bulk water exclusively to the TWD. TWC made its first drawdown on September 25, 2017 amounting to ₱130.0 million.

On April 18 and November 23, 2018, TWC made its subsequent drawdowns amounting to ₱120.0 million and ₱154.0 million, respectively. The carrying value of the loan as of December 31, 2018 and 2017 amounted to ₱401.2 million and ₱129.3 million, respectively.

ALI Group
In August to September 2015, ALI assumed an aggregate of ₱15,442.3 million various long-term facilities of some subsidiaries from various banks. The loans bear fixed interest rates ranging from 4.5% to 4.7% per annum and terms ranging from 4.4 years to 10.5 years. In 2016, ALI paid ₱251.6 million. During 2017, ALI also paid ₱317.6 million for its current portion Peso-denominated loans. In March 2017, ALI executed a ₱10,000.0 million long-term facility with a domestic bank, of which ALI had simultaneously drawn an initial ₱5,000.0 million. The loan carries a fixed interest rate of 4.949% per annum and a term of 10 years. The balance of facility of ₱5,000.0 million was drawn in April 2017. In March 2018, ALI executed a ₱5,000.0 million long-term facility with a domestic bank, of which ALI had simultaneously drawn the entire facility amount. As of December 31, 2018 and 2017, remaining balance of the Peso-denominated long-term loans amounted to ₱29,465.7 million and ₱24,873.1 million, respectively.

Subsidiaries
The Philippine Peso bank loans include ALI subsidiaries' loans that will mature on various dates up to 2028. Peso-denominated loans bear various floating interest rates at 60 bps to 80 bps spread over the benchmark 91-day PDST-R2 or and fixed interest rates ranging from 3.89% to 6.49% per annum Certain loans which are subject to floating interest rates are subject to floor floating interest rates equivalent to (i) 95.0% or par of the Overnight Reverse Repurchase Agreement Rate of the Bangko Sentral ng Pilipinas (BSP Overnight Rate) or (ii) the BSP Overnight Rate plus a spread of 20 bps to 75 bps per annum or (iii) the average of the Bangko Sentral ng Pilipinas Overnight Deposit Rate and Term Deposit Facility with a term closed to the 90-day interest period. The total outstanding balance of the subsidiaries' loans as of December 31, 2018 and 2017 amounted to ₱21,738.1 million and ₱26,853.2 million loans, respectively.

ACEI Group
On February 20, 2017, ACEI entered into an unsecured loan agreement with The Philippine American Life and General Insurance Company (PHILAM) amounting to ₱1.0 billion payable in 10 years from the date of drawdown with 6% fixed interest per annum. The loan shall be paid in one lump sum at the maturity date.

On April 27, 2017, ACEI entered in to an unsecured loan agreement with Philippine National Bank (PNB) amounting to ₱7.0 billion. The loan is payable seven (7) years from initial the drawdown date. ACEI shall pay interest on the outstanding principal amount of the loan at the fixed rate of 5.75% per annum, with duration of three (3) months commencing on the drawdown date. All drawdown beyond May 5, 2017, the relevant PDST-R2 benchmark rate will apply +1% per annum spread, with a floor of 5.25% per annum. Repayment of the principal amount shall be 20% of the loan from 5th to 27th interest period and the remaining 80% shall be paid lump sum at the end of 28th interest period. Drawdown of ₱250.0 million was made by ACEI on May 3, 2017. On May 25, 2018, an additional drawdown of ₱2.0 billion was made by ACEI. Principal repayment amounted to ₱8.7 million and nil in 2018 and 2017, respectively. As of December 31, 2018 and 2017, ACEI has undrawn loan amounting to ₱4.8 billion and ₱6.8 billion, respectively.

On June 22, 2017, ACEI entered into unsecured loan agreement with Security Bank Corporation (SBC) amounting to ₱5.0 billion. The tenor of the loan agreement is seven (7) years from the initial drawdown date, with grace period on principal payments of up to three (3) years, reckoned from the initial drawdown. Repayment of the principal amount shall be 16% of the loan from the 12th to 27th interest period and the remaining 84% of the loan will be paid lump sum on the 28th interest period. ACEI shall pay interest on the outstanding principal amount of the loan at the fixed rate of 5.75% per annum for all drawdowns from June 2017 to June 2018. For all drawdowns beyond June 2018, the interest rate shall be based on the relevant Peso Benchmark Rate PDST-R2 rate, plus credit spread, the fixed interest rate shall have a floor rate of 5.00%.

Bonds

AYCFL US$400.0 Million Senior Unsecured and Guaranteed Fixed For Life Perpetual Notes (Fixed For Life)
On September 7, 2017, the Parent Company announced that AYCFL had successfully set the terms of a US dollar-denominated fixed-for-life (non-deferrable) senior perpetual issuance at an aggregate principal amount of US$400 million with an annual coupon of 5.125% for life with no step-up. The issuance is the first corporate fixed-for-life with no coupon step-up in Southeast Asia and the first fixed-for-life with no step-up (and reset) deal in the Philippines. The issuer, AYCFL, may redeem the Notes in whole but not in part on September 13, 2022 (first redemption date) or any interest payment date falling after the first redemption date at 100% of the principal amount of the Notes plus any accrued but unpaid interest. The proceeds of the issuance will be used to refinance the issuer's US Dollar maturing obligations and to fund investments of the Guarantor (the Parent Company) or its offshore subsidiaries.

The pricing of the Notes reflected a 50-basis point compression from initial price guidance. The offering was more than five times oversubscribed, with investors' confidence reflecting the high quality of the Ayala signature. 19% of the order book for the Notes was allocated to investors from the Philippines, 10% from Europe with the remaining 71% from rest of Asia. By investor type, the split was 67% to fund/asset managers, 12% to banks, 7% to insurance and pension funds, and the remaining 14% to private banks and other investors. The Notes was settled on September 13, 2017 and was listed in the Singapore Exchange Securities Trading Limited on September 14, 2017.

The Group will account for this as liability, and, thus shown forming part of long-term debt as of December 31, 2018 and 2017. The cost of issuance is at US$2.7 million resulting in net proceeds of US$397.3 million.

AYCFL Exchangeable Bonds
On May 2, 2014, AYCFL issued at face US$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.50% per annum, payable semi-annually. The Bonds are guaranteed by the Parent Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds are listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options. The Bondholders have the right to exchange their Bonds for shares at any time during the exchange period. AYCFL shall lodge sufficient shares in its securities account to service Exchange Rights. In consideration for the reservation of the shares and by way of deposit for the exercise by the Bondholders of the Exchange Right, AYCFL shall remit to the Parent Company from time to time such amount as may be agreed between them, as defined in the Exchange Protocol agreed between AC and AYCFL. The exchange price per principal amount to be exchanged, translated into at the fixed exchange rate of ₱44.31/US$1.00, is equal to 36.48, subject to anti-dilutive adjustments contingent on certain events. The exchange option was assessed to be an equity component of the Bonds at the consolidated financial statements as the Bonds are denominated in the functional currency of AYCFL and to be settled by the Parent Company through issuance of a fixed number of ALI's common shares.

The put option entitles the bondholders to require AYCFL to redeem, in whole or in part, the Bonds on May 2, 2017 (put option date) at 100% of the principal amount together with accrued and unpaid interest. Moreover, if a change of control event occurs (the change of control put) or in the event that the common shares of ALI are delisted or suspended from trading for a period of more than 20 consecutive trading days (the delisting put), the bondholders may require AYCFL to redeem the Bonds, in whole but not in part, at 100% of the principal amount together with accrued and unpaid interest.

The early redemption option gives the right to AYCFL to redeem the Bonds, in whole but not in part, at any time after May 2, 2017 at 100% of the principal amount on the date fixed for such redemption, provided, however, that no such redemption may be made unless the closing price of the common shares of ALI (translated into US$ at the prevailing average to US$ exchange rate as published by the BSP) for any 30 consecutive trading days was at least 130% of the exchange price then in effect (translated into US$ at the fixed exchange rate of ₱44.31/US$1.00). In addition, if at any time the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued or if a tax event occurs, AYCFL may redeem the Bonds, in whole but not in part, at 100% of principal amount together with accrued and unpaid interest.

The put and early redemption options were assessed to be embedded derivatives that are clearly and closely related to the host contract, therefore, not required to be bifurcated. As the Bonds were determined to be a compound instrument at the consolidated level, (i.e., it has a liability and an equity component which pertains to the exchange option), the Group applied split accounting. The value allocated to the equity component at issue date amounted ₱1.1 billion, being the residual amount after deducting the fair value of the liability component amounting to ₱11.9 billion from the issue proceeds of the Bonds.

As of December 31, 2018, an equivalent amount of US$7.2 million principal was exchanged and converted into a total of 9,094,414 shares.

ALI Group
Below is the summary of the outstanding Peso bonds issued by ALI Group:

Year Issued	Term (Years)	Interest rate	Principal Amount (In thousands)	Carrying Value (In thousands) 2018	2017	Features
2012	7.0	5.6250%	₱9,350,000	**₱9,341,196**	₱9,330,126	Fixed rate bond due 2019
2012	10.0	6.0000%	5,650,000	**5,644,680**	5,637,991	Fixed rate bond due 2022
2013	7.0	4.6250%	4,000,000	**3,989,546**	3,984,041	Fixed rate bond due 2020
2013	20.0	6.0000%	2,000,000	**1,984,613**	1,983,990	Fixed rate bond due 2033
2013	10.5	5.0000%	15,000,000	**14,923,051**	14,910,133	Fixed rate bond due 2024
2014	11.0	5.6250%	8,000,000	**7,945,703**	7,938,923	Fixed rate bond due 2025
2015	7.0	4.5000%	7,000,000	**6,960,744**	6,953,043	Fixed rate bond due 2022
2016	9.5	4.7500%	7,000,000	**6,949,421**	6,943,375	Fixed rate bond due 2025
2016	10.0	4.8500%	8,000,000	**7,939,468**	7,932,643	Fixed rate bond due 2026
2016	3.0	3.0000%	2,982,530	**2,971,976**	2,969,108	Homestarter Bond due 2019
2016	7.0	3.8915%	7,000,000	**6,952,613**	6,943,949	Fixed rate bond due 2023
2017	10.0	5.2624%	7,000,000	**6,969,630**	6,966,801	Fixed rate bond due 2027
2018	10.0	5.9203%	10,000,000	**9,886,828**	−	Fixed rate bond due 2028
2018	5.0	7.0239%	8,000,000	**7,909,305**	−	Fixed rate bond due 2023
Total				**₱100,368,774**	₱82,494,123	

Philippine Rating Services Corporation (PhilRatings) rated the ALI’s 2018 bond issue “PRS Aaa” with a stable outlook, and maintained the “PRS Aaa” rating with a stable outlook for all other outstanding bonds.

Philippine Peso 3-Year Homestarter Bond due 2019 and 7-year Bonds due 2023
In October 2016, ALI issued a total of ₱10,000.0 million bonds, broken down into a ₱3,000.0 million Homestarter bond due 2019 at a fixed rate of 3.0% per annum and a ₱7,000.0 million fixed rate bond due 2023 at a rate equivalent to 3.8915% per annum The Bonds represent the first tranche of Homestarter Bonds series and the third tranche of the Fixed-rate Bonds Series issued under ALI's ₱50,000.0 million Debt Securities Program registered with the SEC, and listed in the PDEx. The Bonds have been rated PRS Aaa with a Stable Outlook by PhilRatings. In 2017, ALI paid ₱9.1 million as an early down payment of the outstanding 3-Year Homestarter Bond. In 2018, ALI paid ₱8.4 million as an early down payment of the outstanding 3-Year Homestarter Bond. As of December 31, 2018 and 2017, the remaining balance of the 3-Year Homestarter Bond amounted to ₱2,982.5 million and ₱2,990.9 million, respectively.

Philippine Peso 10-year Bonds due 2028
In April 2018, ALI issued a ₱10,000.0 million fixed rate bond due 2028 at a rate equivalent to 5.9203% per annum and subject to repricing on 27 April 2023, the fifth anniversary of the Issue Date, at the higher of 5.9203% or the prevailing 5-year benchmark plus 75 bps. The Bonds represent the fifth tranche of the Fixed-rate Bonds Series issued under ALI's ₱50,000.0 million Debt Securities Program registered with the SEC,and listed in the PDEx.

Philippine Peso 5-year Bonds due 2023
In October 2018, ALI issued a ₱8,000.0 million fixed rate bond due 2023 at a rate equivalent to 7.0239% per annum The Bonds represent the sixth and final tranche of the Fixed-rate Bonds Series issued under ALI's ₱50,000.0 million Debt Securities Program registered with the SEC, and listed in the PDEx.

Philippine Peso 21-month Note due 2019
In July 2017, ALI issued and listed on the Philippine Dealing & Exchange Corp. a ₱4,300.0 million Corporate Note. This Note issue is an SEC-registration exempt transaction under Section 10.1(l) of the Securities Regulation Code (SRC) and Section 10.1.3 of the 2015 Implementing Rules and Regulations of the SRC. Thus, the Note was offered on a limited basis to juridical persons or entities who, at the point of offer or sale, were Qualified Buyers. The Notes bear a fixed interest rate of 2.75% per annum The Corporate Notes will mature in April 2019.

Philippine Peso 15-month Note due 2019
In November 2017, ALI issued and listed on the PDEx Corp. a ₱3,100.0 million Corporate Note. This Note issue is an SEC-registration exempt transaction under Section 10.1(l) of the Securities Regulation Code (SRC) and Section 10.1.3 of the 2015 Implementing Rules and Regulations of the SRC. Thus, the Note was offered on a limited basis to juridical persons or entities who, at the point of offer or sale, were Qualified Buyers. The Notes bear a fixed interest rate of 3.25% per annum The Corporate Notes will mature in February 2019.

Philippine Peso 5-, 10-, 15-Year FXCN due on 2016, 2021 and 2026
In January 2011, ALI issued ₱10,000.0 million FXCNs to various financial institutions and retail investors. The notes will mature on various dates up to 2026. The FXCNs bear fixed interest rates ranging from 5.6% to 7.5% per annum depending on the term of the notes. ALI prepaid ₱1,950.0 million of notes due in 2016 on January 19, 2013. In 2014, ALI paid ₱43.0 million for the matured portion of the loan. In January 2016, ALI paid ₱3,750 million notes for the matured portion of the loan. In 2017, ALI paid ₱43.0 million for the matured portion of the loan. In 2018, ALI prepaid ₱3,234.0 million notes and paid ₱10.0mn for the matured portion of the loan. As of December 31, 2018 and 2017, the remaining balance of the FXCN amounted to ₱970.0 million and ₱4,214.0 million, respectively.

Philippine Peso 10-year Note due 2023
In December 2012, ALI executed a ₱5.0 billion committed Corporate Note facility with a local bank, of which an initial ₱3.5 billion was drawn in 2012. The balance of ₱1.5 billion was subsequently drawn in January 2013. The Corporate Notes currently bear a fixed interest rate of 4.50% and will mature on the third month succeeding the tenth anniversary of the initial drawdown date. In 2015, the ₱50.0 million was prepaid by ALI. In 2017, another ₱50.0 million was prepaid by ALI. In 2017, ALI paid another ₱50.0 million. In 2018, another ₱50.0 million was prepaid by ALI. As of December 31, 2018 and 2017, the remaining balance of the note amounted to ₱4,800.0 million and ₱4,850.0 million, respectively.

Philippine Peso 5.0 Billion Fixed Rate Bonds due 2021
In June 2014, CHI issued a total of ₱5.0 billion bonds due 2021 at a fixed rate equivalent to 5.32% per annum

The loan agreements on long-term debt of the Parent Company and some subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Group as of December 31, 2018 and 2017.

Total interest paid amounted to ₱18.6 billion in 2018 and ₱13.4 billion in 2018 and 2017.

Interest capitalized by subsidiaries amounted to ₱196.2 million and ₱61.8 million in 2018 and 2017, respectively. The capitalization rates are 2%-7.65% in 2018 and 2.5-5.05% in 2017.

20. Other Noncurrent Liabilities

This account consists of the following:

	2018	2017
	(In Thousands)	
Deposits and deferred credits	**₱22,995,791**	₱21,250,665
Contractors payable	**7,264,642**	7,955,096
Retentions payable	**5,721,123**	8,374,661
Liability for purchased land	**5,021,034**	2,303,140
DRP obligation	**1,001,146**	728,390
Subscriptions payable	**802,702**	516,695
Provisions (Note 36)	**569,893**	501,099
Others	**1,837,598**	1,604,070
	₱45,213,929	₱43,233,816

Deposits and deferred credits
Deposits include security deposits from tenants of retail and office spaces and deferred credits arising from sale of real estate properties. Security deposits are equivalent to three (3) to six (6) months' rent of long-term tenants with noncancellable leases. This will be refunded to the lessees at the end of the lease term or be applied to the last months' rentals on the related contracts. Deferred credits pertain to advances from buyers of real estate properties to cover various processing fees including, but not limited to, fees related to transfer of title such as registration fees, documentary taxes and transfer taxes. Payments made by ALI Group for the processing of title are charged to this account.

Contractors payable
Contractors payable represents estimated liability on property development.

Retentions payable
Retentions payable pertains to amount withheld by the Group from the contractors' billings to be released after the guarantee period, usually one (1) year after the completion of the project or upon demand. The retention serves as a security from the contractor should there be defects in the project.

Liability for purchased land
Liability for purchased land pertains to the portion of unpaid unsubdivided land acquired during the year. These are normally payable in quarterly or annual installment payments within three (3) or five (5) years.

DRP obligation
DRP obligation pertains to the liability arising from the assignment agreement between NTDCC, a subsidiary of ALI, and MRTDC of the latter's development rights (see Note 35). In consideration of the lease, NTDCC will be charged an annual rent related to the original DRP obligation on MRTDC and 5% of the rental income from NTDCC's commercial center business.

Subscriptions payable
Subscription payable mainly pertains to POPI's investment in Cyber Bay.

On April 25, 1995, Central Bay, a wholly-owned subsidiary of Cyber Bay, entered into a Joint Venture Agreement with the Philippine Reclamation Authority (PRA; formerly Public Estates Authority) for the complete and entire reclamation and horizontal development of a portion of the Manila-Cavite Coastal Road and Reclamation Project (the Project) consisting of three partially reclaimed and substantially eroded islands (the Three Islands) along Emilio Aguinaldo Boulevard in Parañaque and Las Piñas, Metro Manila with a combined total area of 157.8 hectares, another area of 242.2 hectares contiguous to the Three Islands and, at Central Bay's option as approved by the PRA, an additional 350 hectares more or less to regularize the configuration of the reclaimed area.

On March 30, 1999, the PRA and Central Bay executed an Amended Joint Venture Agreement (AJVA) to enhance the Philippine Government's share and benefits from the Project which was approved by the Office of the President of the Philippines on May 28, 1999.

On July 9, 2002, the Supreme Court (SC) (in the case entitled "Francisco Chavez vs. Amari Coastal Bay and Reclamation Corp.") issued a ruling declaring the AJVA null and void. Accordingly, PRA and Central Bay were permanently enjoined from implementing the AJVA.

On July 26, 2002, Central Bay filed a Motion for Reconsideration (MR) of said SC decision. On May 6, 2003, the SC En Banc denied with finality Central Bay's MR. On May 15, 2003, Central Bay filed a Motion for Leave to Admit Second MR. In an En Banc Resolution of the SC dated July 8, 2003, the SC resolved to admit the Second MR of Central Bay.

On November 11, 2003, the SC rendered a 7-7 split decision on Central Bay's Second MR. Because of the new issues raised in the SC's latest resolution that were never tried or heard in the case, Central Bay was constrained to file on December 5, 2003 a Motion for Re-deliberation of the SC's latest resolution which motion was denied with finality by the SC.

With the nullification of the AJVA, Central Bay has suspended all Project operations. On August 10, 2007, in view of the failure by the PRA to comply with its obligations and representations under the AJVA, Cyber Bay and Central Bay have filed their claims for reimbursement of Project expenses in the amount of ₱10,200.0 million with the PRA. Cyber Bay and Central Bay provided the PRA with the summary and details of their claims on September 5, 2007.

On July 15, 2008, Cyber Bay sent a follow-up letter to the PRA. The PRA, in its letter dated July 18, 2008, informed Cyber Bay that its claim is still being evaluated by the PRA. As at October 3, 2013, the claim is still being evaluated by the PRA.

On November 13, 2012, the SEC approved the conversion of debt to equity of Cyber Bay resulting to a change in percentage ownership of POPI from 22.3% to 10.5%. The management assessed that POPI ceased to have significant influence over Cyber Bay. As a result of the debt to equity conversion, the investment in Cyber Bay was reclassified to AFS financial asset.

As of December 31, 2018 and 2017, ALI Group has unpaid subscription in Cyber Bay amounting to ₱481.7 million. The investment in Cyber Bay under "Investment in bonds and other securities" amounted to ₱548.3 million and ₱777.3 million as of December 31, 2018 and 2017, respectively (see Note 15).

Provisions

Provisions relate to pending unresolved claims and assessments. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these claims and assessments (see Note 37).

Others

Others include nontrade payables, warranty payables and liability for the unpaid portion of the total purchase price of several parcels of land acquired by ALI Group from Central Azucarera de Tarlac, Inc. with an aggregate area of approximately 290 hectares located in Barangay Central, City of Tarlac, Province of Tarlac. In 2017, others consisted of IMI Group's contingent consideration arising from the acquisition of STI amounting to US$24.6 million (₱1.2 billion), respectively (see Notes 24 and 33).

21. Equity

The details of the Parent Company's preferred and common shares follow:

	Preferred A shares		Preferred B shares		Preferred C shares		Voting Preferred shares		Common shares	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	(In Thousands, except par value per share)									
Authorized shares	**12,000**	12,000	**58,000**	58,000	**40,000**	40,000	**200,000**	200,000	**900,000**	900,000
Par value per share	**₱100**	₱100	**₱100**	₱100	**₱100**	₱100	**₱1**	₱1	**₱50**	₱50
Issued and subscribed shares	**12,000**	12,000	**58,000**	58,000	**–**	–	**200,000**	200,000	**630,627**	621,292
Outstanding shares										
At beginning of year	**–**	–	**47,000**	47,000	**–**	–	**200,000**	200,000	**621,292**	620,224
Issuance of shares	**–**	–	**–**	–	**–**	–	**–**	–	**8,810**	–
Issued shares on exercise of share options	**–**	–	**–**	–	**–**	–	**–**	–	**7**	110
Subscribed shares	**–**	–	**–**	–	**–**	–	**–**	–	**518**	958
At end of year	**–**	–	**47,000**	47,000	**–**	–	**200,000**	200,000	**630,627**	621,292

Details of Preferred B shares as follows:

	Series 1		Series 2	
Preferred B	**2018**	2017	**2018**	2017
Par value per share	**₱100**	₱100	**₱100**	₱100
Issued and subscribed shares	**28,000**	20,000	**30,000**	27,000
Outstanding shares	**20,000**	20,000	**27,000**	27,000

Preferred Shares

Preferred A shares

On November 11, 2008, the Parent Company filed a primary offer in the Philippines of its Preferred A shares at an offer price of ₱500.00 per share to be listed and traded on the PSE.

Preferred A shares are cumulative, nonvoting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 8.88% per annum. The Preferred A shares may be redeemed at the option of the Parent Company starting on the fifth year.

On June 28, 2013, the BOD approved and authorized the exercise of call option on Preferred A shares effective November 25, 2013 based on the dividend rate of 8.88% per annum. The redemption of Preferred A shares is presented as part of treasury stock.

Preferred B shares

In July 2006, the Parent Company filed a primary offer in the Philippines of its Preferred B shares at an offer price of ₱100.00 per share to be listed and traded in the PSE. The Preferred B shares are cumulative, nonvoting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of shares and with dividend rate of 9.4578% per annum. The Preferred B shares may be redeemed at the option of the Parent Company starting on the fifth year from the date of issuance.

On March 14, 2011, the BOD approved and authorized the exercise of call option on its Preferred B shares effective July 21, 2011 based on the dividend rate of 9.5% per annum. The redemption of Preferred B shares is presented as part of treasury stock.

Preferred B Series 1 shares

In September 2013, the BOD approved and authorized the re-issuance and offering of 20.0 million Preferred B Series 1 shares from its 58.0 million authorized Class "B" preferred treasury share capital for an aggregate amount of ₱10.0 billion. The Preferred B Series 1 shares were offered at a price of ₱500.00 per share with a fixed quarterly dividend rate of 5.25% per annum.

Preferred B Series 2 shares
On August 22, 2014, the BOD approved and authorized the re-issuance and offering of 27.0 million Preferred B Series 2 shares, which comprise a second and separate series from the Parent Company's outstanding 5.25% Preferred B Series 1 shares, from its 58.0 million authorized Class "B" preferred treasury share capital, for an aggregate amount of ₱13.5 billion. The Preferred B Series 2 shares were offered at a price of ₱500.00 per share with a fixed quarterly dividend rate of 5.575%. The reissuance resulted to the Parent Company recognizing ₱10.7 billion additional paid-in capital net of direct expenses from re-issuance.

Preferred C shares
Preferred C shares are cumulative, non-participating, non-voting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of the shares.

Voting Preferred shares
On March 15, 2010, the BOD approved the reclassification of 4.0 million unissued common shares with a par value of ₱50.00 per share into 200.0 million Voting Preferred shares with a par value of ₱1.00 per share and the amendment of the Parent Company's amended Articles of Incorporation to reflect the reclassification of the unissued common shares into new Voting Preferred shares.

On April 16, 2010, the Parent Company's stockholders ratified the reclassification.

On April 22, 2010, the SEC approved the amendments to the Parent Company's Articles of Incorporation embodying the reclassification of the unissued common shares to new Voting Preferred shares.

The Voting Preferred shares are cumulative, voting and redeemable at the option of the Parent Company under such terms that the BOD of the Parent Company may approve at the time of the issuance of shares and with a dividend rate of 5.3% per annum. In 2016, the dividend rate was repriced to 3.6950%.

Common Shares
The common shares may be owned or subscribed by or transferred to any person, partnership, association or corporation regardless of nationality, provided that at any time at least 60% of the outstanding capital stock shall be owned by citizens of the Philippines or by partnerships, associations or corporations with 60% of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

In July 2013, the SEC approved the amendments to the Parent Company's Articles of Incorporation for the exemption of 100 million common shares from the exercise of pre-emptive rights of holders of common shares. These shares are allocated to support the financing activities of the Parent Company.

On July 21, 2018, the Parent Company issued 8.8 million common shares at a price of ₱916.0 per share to an institutional investor and paid the documentary stamp taxes amounting to ₱4.4 million.

Treasury shares
As of December 31, 2017 and 2016, treasury shares include 12.0 million Preferred A shares and 11.0 million Preferred B shares amounting to ₱1.2 billion and ₱1.1 billion, respectively.

The details of the Parent Company's paid-in capital follow:

2018

	Preferred Stock - A	Preferred Stock - B	Voting Preferred	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)				
At beginning of year	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱30,899,877**	**₱164,725**	**₱37,929,927**	**(₱1,193,355)**	**₱75,001,174**
Issuance of new shares	**–**	**–**	**–**	**440,500**	**–**	**7,615,757**	**–**	**8,056,257**
Exercise/Cancellation/ Subscription of ESOP/ESOWN	**–**	**–**	**–**	**340**	**25,933**	**610,334**	**(500,942)**	**135,665**
Collection of subscription receivables	**–**	**–**	**–**	**–**	**–**	**–**	**168,579**	**168,579**
At end of year	**₱1,200,000**	**₱5,800,000**	**₱200,000**	**₱31,340,717**	**₱190,658**	**₱46,156,018**	**(₱1,525,718)**	**₱83,361,675**

2017

	Preferred Stock - A	Preferred Stock - B	Voting Preferred	Common Stock	Subscribed	Additional Paid–in Capital	Subscriptions Receivable	Total Paid–in Capital
				(In Thousands)				
At beginning of year	₱1,200,000	₱5,800,000	₱200,000	₱30,839,021	₱172,209	₱36,928,326	(₱759,796)	₱74,379,760
Exercise/Cancellation/ Subscription of ESOP/ESOWN	–	–	–	5,479	47,893	1,001,601	(808,044)	246,929
Collection of subscription receivables	–	–	–	55,377	(55,377)	–	374,485	374,485
At end of year	₱1,200,000	₱5,800,000	₱200,000	₱30,899,877	₱164,725	₱37,929,927	(₱1,193,355)	₱75,001,174

2016

	Preferred Stock – A	Preferred Stock – B	Voting Preferred	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)				
At beginning of year	₱1,200,000	₱5,800,000	₱200,000	₱30,808,747	₱171,810	₱36,316,709	(₱577,944)	₱73,919,322
Exercise/Cancellation/ Subscription of ESOP/ESOWN	–	–	–	4,116	26,557	611,617	(321,196)	321,094
Collection of subscription receivables	–	–	–	26,158	(26,158)	–	139,344	139,344
At end of year	₱1,200,000	₱5,800,000	₱200,000	₱30,839,021	₱172,209	₱36,928,326	(₱759,796)	₱74,379,760

In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Parent Company's track record of registration of securities.

				2018	2017
	Number of shares registered	Issue/offer price	Date of approval	Number of holders of securities as of December 31	Number of holders of securities as of December 31
Common shares	200,000,000*	₱1.00 par value**; ₱4.21 issue price	July 1976	**6,507**	6,587
Preferred A shares***	12,000,000	₱100 par value; ₱500 issue price	November 2008	**–**	–
Preferred B shares	18,000,000	₱100 par value; ₱500 issue price	July 2006	**–**	–
Preferred B shares-Series 1****	20,000,000	₱100 par value; ₱500 issue price	October 2013	**19**	19
Preferred B shares-Series 2*****	27,000,000	₱100 par value; ₱500 issue price	October 2014	**10**	11
Voting preferred shares	200,000,000	₱1 par value; ₱1 issue price	March 2010	**1,031**	1,028

**Initial number of registered shares only.*
***Par value now is ₱50.00*
****The Preferred A shares were fully redeemed on November 25, 2013.*
*****The Preferred B- Series 1 shares were re-issued on November 15, 2013.*
******The Preferred B-Series 2 shares were re-issued on November 6, 2014.*

Retained Earnings
Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries and associates and joint ventures accounted for under the equity method amounting to ₱142,844.6 million, ₱116,104.3 million and ₱93,176.0 million as of December 31, 2018, 2017 and 2016, respectively, which are not available for dividend declaration by the Parent Company until these are declared by the investee companies.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury.

In accordance with the SRC Rule 68, as Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2018 and 2017 amounted to ₱34.0 billion and ₱33.2 billion, respectively.

Dividends consist of the following:

	2018	2017	2016
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	**₱4,333,459**	₱4,299,109	₱3,572,400
Cash dividends per share	**6.92**	6.92	5.76
Dividends to equity preferred shares declared during the year			
Cash dividends to Preferred B shares	**1,277,625**	1,277,625	1,277,625
Cash dividends to Voting Preferred shares	**7,390**	7,390	7,390

Capital Management
The primary objective of the Parent Company's capital management policy is to ensure that it maintains a robust balance sheet in order to support its business and maximize shareholder value.

The Parent Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2018, 2017 and 2016.

The Parent Company monitors capital using a gearing ratio of debt to equity and net debt to equity. Debt consists of short-term and long-term debt of the Group. Net debt includes short-term and long-term debt less cash and cash equivalents, short-term investments and restricted cash of the Group. The Parent Company considers as capital the total equity.

	2018	2017
	(In Thousands)	
Short-term debt	**₱39,518,245**	₱29,904,723
Long-term debt	**372,743,387**	320,707,229
Total debt	**412,261,632**	350,611,952
Less:		
Cash and cash equivalents	**60,624,263**	64,259,279
Short-term investments	**5,956,489**	5,400,239
Restricted cash	**2,365,311**	–
Net debt	**₱343,315,569**	₱280,952,434
Total equity	**₱469,108,355**	₱411,092,388
Debt to equity	**87.9%**	85.3%
Net debt to equity	**73.2%**	68.3%

The loan agreements on long-term debt of the Parent Company and some subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels. These restrictions and requirements were complied with by the Group as of December 31, 2018 and 2017.

Due to certain constraints in the local banking system regarding loans to directors, officers, stockholders and related interest (DOSRI), some of the Parent Company's credit facilities with a local bank are secured by US dollar cash in accordance with BSP regulations. Any outstanding loan amount, as well as the interest, all other charges and expenses, shall be secured by an assignment of US dollar denominated deposits (thru its financing arm AYCFL, see Note 19) and remain on holdout by the bank for as long as the loan is outstanding at a collateral to loan ratio of 1:1, which the borrower agrees to maintain at all times.

The Parent Company also monitors capital through return-to-common equity ratio. For this ratio, the Parent Company considers as capital the average amount of equity with the exclusion of accounts pertaining to preferred shares and the non-controlling interests.

	2018	2017
	(In Thousands)	
Net income attributable to owners of the parent	**₱31,817,721**	₱30,263,842
Less:		
Dividends to equity preferred shares	**1,285,015**	1,285,015
Net debt	**₱30,532,706**	₱28,978,827
Average common equity attributable to owners of the parent	**₱249,959,899**	₱220,117,430
Return to common equity	**12.2%**	13.2%

22. Revenue

This account consists of

	2018	2017	2016
		(In Thousand)	
Revenue from contracts with customers			
Real estate	**₱129,414,974**	₱109,876,459	₱99,491,886
Manufacturing services	**69,731,033**	55,028,256	39,993,394
Water and sewer services	**19,836,292**	18,515,772	17,711,911
Others	**22,317,267**	30,175,837	18,792,113
	241,299,566	213,596,324	175,989,304
Rental income	**33,581,920**	28,631,316	23,219,595
Sale of goods and rendering services	**274,881,486**	242,227,640	199,208,899
Share in net profits of associates and joint ventures	**20,459,804**	18,494,458	18,153,893
Interest income from real estate	**7,042,078**	5,409,944	5,010,993
Dividend income	**106,803**	653,721	570,455
Total	**₱302,490,171**	₱266,785,763	₱222,944,240

Disaggregated revenue information

Set out below is the disaggregation of revenue from contracts with customers of the material subsidiaries of the Group:

ALI Group
Revenue from contracts with customers of ALI Group consists of:

	2018	2017	2016
		(In Thousands)	
Revenue from contracts with customers			
Residential development	**₱120,396,794**	₱101,797,865	₱82,738,691
Hotels and resorts	**6,386,896**	5,621,164	6,052,309
Construction	**2,393,683**	1,559,430	10,700,886
Other	**237,601**	898,000	–
Total Revenue	**₱129,414,974**	₱109,876,459	₱99,491,886

ALI Group derives revenue from the transfer of goods and services over time and at a point in time, in different product types. ALI Group's disaggregation of each source of revenue from contracts with customers are presented below:

Residential development

	2018
	(In thousands)
Type of Product	
Condominium	**₱35,284,221**
Coremid	**33,694,884**
Middle Income Housing	**33,401,701**
Lot only	**18,253,589**
	₱120,634,395

All of ALI Group's real estate sales from residential development are revenue from contracts with customers recognized over time.

Hotels and resorts

	2018
	(In thousands)
Type of Product	
Rooms	**₱3,909,395**
Food and beverage	**2,116,548**
Other operated department	**296,049**
Others	**64,904**
	₱6,386,896

ALI Group's construction revenue all pertains to transactions with related parties.

IMI Group
The following table presents revenue of IMI Group per product type (amounts in thousands):

	2018	2017	2016
Automotive	**₱28,351,717**	₱ 22,502,867	₱ 17,929,065
Industrial	**17,509,064**	11,172,810	8,416,073
Consumer	**9,218,063**	9,514,040	3,372,695
Telecommunication	**7,015,392**	6,130,972	6,233,910
Aerospace/defense	**2,973,384**	1,258,732	–
Medical	**677,805**	972,975	1,010,350
Multiple market/others	**3,985,608**	3,475,860	3,031,301
	₱69,731,033	₱55,028,256	₱39,993,394

Translated using the weighted average exchange rate for the year(US$1:₱52.32 in 2018, $1:₱50.40 in 2017, and US$1:₱47.48 in 2016).

MWC Group
The following are the disaggregation of MWC's revenue from contracts with customers for the year ended December 31, 2018:

	Manila Concession and Head Office	Domestic Subsidiaries	Foreign Subsidiaries	Total
		(In Thousands)		
Revenue from contracts with customers				
Water	₱12,966,631	₱2,264,888	₱–	₱15,231,519
Sewer	246,598	273,803	–	520,401
Environmental charges	2,691,308	28,343	–	2,719,651
Other operating income	449,396	886,318	29,007	1,364,721
	₱16,353,933	₱3,453,352	₱29,007	₱19,836,292
Timing of revenue recognition				
Revenue recognized over time	₱16,106,434	₱3,089,330	₱–	₱19,195,764
Revenue recognized at a point in time	247,499	364,022	₱29,007	640,528
	₱16,353,933	₱3,453,352	₱29,007	₱19,836,292

23. Costs and Expenses and Other Income (Charges)

Details of costs of sales and services included in the consolidated statements of income are as follows:

	2018	2017	2016
		(In Thousands)	
Cost of sales (Notes 8 and 31)	**₱138,391,500**	₱132,793,134	₱105,752,969
Cost of services:			
Rental, utilities and supplies	**₱13,959,651**	₱9,543,126	₱7,315,333
Personnel costs (Notes 28 and 31)	**11,537,846**	8,909,288	7,261,015
Depreciation and amortization (Notes 11, 12, 13 and 14)	**11,175,750**	10,379,824	9,711,215
Professional and management fees	**7,328,236**	4,894,435	3,075,871
Repairs and maintenance	**3,463,661**	2,722,452	3,276,559
Taxes and licenses	**3,096,281**	2,961,788	2,508,810
Contract labor	**1,615,872**	1,309,488	692,791
Transportation and travel	**441,097**	342,524	388,431
Insurance	**417,063**	230,913	193,350
Others	**5,180,604**	1,587,497	1,174,056
	58,216,061	42,881,335	35,597,431
Costs of sales and services	**₱196,607,561**	₱175,674,469	₱141,350,400

Cost of sales includes, among others, the cost of real estate inventories amounting to cost of ₱67.8 billion in 2018, ₱59.9 billion in 2017 and ₱47.4 billion in 2016; electronics goods amounting to ₱49.5 billion in 2018, ₱44.2 billion in 2017 and ₱31.0 billion in 2016; and cost of vehicles, automotive parts and accessories amounting to ₱19.7 billion in 2018, ₱28.4 billion in 2017 and ₱20.4 billion in 2016. "Others" include various costs such as cost of energy sales, communication, dues and fees and miscellaneous overhead, among others.

General and administrative expenses included in the consolidated statements of income are as follows:

	2018	2017	2016
		(In Thousands)	
Personnel costs (Notes 28 and 31)	**₱13,494,518**	₱11,396,267	₱9,028,939
Professional fees	**2,854,665**	2,492,431	1,792,108
Depreciation and amortization (Notes 11, 12, 13 and 14)	**2,385,843**	1,918,036	1,849,256
Taxes and licenses	**1,998,557**	1,520,686	1,411,866
Contract labor	**1,238,418**	882,776	756,859
Rental and utilities	**1,111,449**	1,037,261	734,745
Repairs and maintenance	**934,752**	661,737	526,265
Advertising and promotions	**926,407**	831,679	845,082
Transportation and travel	**836,593**	661,883	459,175
Postal and communication	**403,248**	319,910	265,356
Insurance	**377,182**	269,062	303,649
Donations and contributions	**298,304**	254,893	150,915
Provision for impairment / Losses on:			
Land and Improvements	**–**	572,001	–
Investments in associates and joint ventures (Note 10)	**589,109**	356,700	1,436,854
Receivables (Note 7)	**492,516**	828,933	812,997
Intangible assets (Notes 14 and 24)	**361,170**	26,112	–
Investments in bonds and other securities (Note 15)	**–**	18,813	–
Property, plant and equipment (Note 12)	**71,430**	–	45,737
Supplies	**295,350**	172,293	123,698
Dues and fees	**255,509**	173,009	110,652
Entertainment, amusement and recreation	**206,442**	207,293	178,306
Provision for (reversal of) inventory obsolescence (Note 8)	**125,460**	(13,674)	(127,976)
Research and development	**14,372**	181,018	54,315
Others	**550,764**	443,981	173,911
	₱29,822,058	₱25,213,100	₱20,932,709

"Others" include various expenses such as plant relocation costs, management fees, marketing, collection charges, sales commission, bank service charge, periodicals and miscellaneous operating expenses. The plant relocation costs pertaining to the transfer of one of IMI's operations in China from Liantang, Luohu to Pingshan were also charged to certain general and administrative expenses. Such plant relocation is in line with the urban redevelopment projects of the Shenzhen City government.

Depreciation and amortization expense included in the consolidated statements of income follows:

	2018	2017	2016
		(In Thousands)	
Included in:			
Cost of sales and services	**₱11,175,750**	₱10,379,824	₱9,711,215
General and administrative expenses	**2,385,843**	1,918,036	1,849,256
	₱13,561,593	₱12,297,860	₱11,560,471

Personnel costs included in the consolidated statements of income follow:

	2018	2017	2016
		(In Thousands)	
Included in:			
Cost of sales and services	**₱9,413,620**	₱8,909,288	₱7,261,015
General and administrative expenses	**13,494,518**	11,396,267	9,028,939
	₱22,908,138	₱20,305,555	₱16,289,954

Other income consists of:

	2018	2017	2016
		(In Thousands)	
Revenue from rehabilitation works (Note 13)	**₱9,661,977**	₱11,672,137	₱6,804,908
Gain on sale of investments (Notes 2, 10 and 24)	**1,514,439**	1,394,560	2,138,620
Mark-to-market gain on financial assets at FVTPL and derivatives (Notes 9 and 32)	**996,170**	779,553	473,855
Revenue from management contracts	**622,149**	960,851	224,818
Collateral income on automotive sales	**492,115**	588,045	624,396
Connection fees	**265,530**	299,103	529,674
Insurance claim	**71,793**	45,877	39,727
Gain on sale of other assets	**62,463**	126,337	5,182
Recoveries of accounts written off (Note 7)	**5,690**	775,087	1,603
Foreign exchange loss (Note 32)	**(222,845)**	(126,365)	(56,035)
Others	**6,712,212**	4,423,089	1,788,858
	₱20,181,693	₱20,938,274	₱12,575,606

"Others" mainly pertain to income derived from ancillary services and miscellaneous income of consolidated subsidiaries. In 2018, this includes, among others, gain on reversal of contingent consideration amounting to US$21.3 million (₱1.0 billion), liquidated damages amounting to US$36.0 million (₱1.9 billion), commission income amounting to ₱827.2 million, marketing fees, integrated used water and other water services (e.g., sale of packaged water, septic sludge disposal and bacteriological water analysis); and income from sale of scrap. In 2018, gain on sale of investments includes gain from sale by STSN to Jinnuo Century Trading Limited amounting to US$19.1 million (₱1.0 billion). In 2017, this account consisted of AC Energy Cayman's commission income amounting to ₱1.5 billion (see Note 35) and ALI's reversal of allowance for impairment in inventories of ALI amounting to ₱1.3 billion (see Note 8). In 2017, ALI reversed its allowance for impairment in inventories due to higher fair value than its carrying amount.

Interest and other financing charges consist of:

	2018	2017	2016
		(In Thousands)	
Interest expense on:			
Short-term debt	**₱595,375**	₱659,044	₱1,039,030
Long-term debt	**17,010,015**	12,575,158	11,337,401
Amortization of service concession obligations and deposits	**789,712**	614,717	613,044
Amortization of discount on long-term debt	**146,151**	511,623	592,811
Others	**559,824**	80,792	675,903
	₱19,101,077	₱14,441,334	₱14,258,189

"Others" include, among others, various charges, such as pretermination costs, bond offering fees, and credit card charges.

"Other Charges" consist of cost of rehabilitation works (see Note 13).

24. Business Combinations and Transactions with Non-controlling Interests

2018 Acquisitions

MCT Berhad (MCT)
On January 2, 2018, ALI through its wholly-owned subsidiary, Regent Wise Investments Limited (RWIL), signed a share purchase agreement to acquire an additional 17.24% share in MCT Berhad (MCT), subject to completion of certain conditions.

On January 5, 2018, the transfer of shares was completed, increasing ALI's shareholding in MCT to 50.19% from 32.95%. RWIL also issued a notice of an unconditional mandatory take-over offer to the BOD of MCT, to acquire all remaining shares of MCT that are not already held by RWIL, following the completion of certain conditions to the share purchase agreement.

The mandatory take-over offer made in connection to the acquisition of additional shares in MCT closed as of 5:00 p.m. (Malaysian time) February 19, 2018. Owners of 295,277,682 shares accepted the offer, equivalent to 22.12% of MCT's total outstanding shares. As a result of the offer, ALI's shareholdings in MCT increased from 50.19% to 72.31%. Total consideration paid is ₱6.0 billion.

ALI Group remeasured its previously held interest in MCT based on its acquisition-date fair value which resulted to a remeasurement loss of ₱1.8 billion.

ALI Group finalized the purchase price allocation of its acquisition of MCT through business combination in December 2018. The final purchase price allocation resulted in gain from bargain purchase of ₱1.8 billion. The net gain of ₱60.0 million from the acquisition is presented under 'Other income' account in the 2018 consolidated statement of income.

The following are the fair values of the identifiable assets and liabilities assumed (amounts in thousands):

Assets	
Cash and cash equivalents	**₱1,078,224**
Trade and other receivables	**2,833,560**
Inventories	**13,620,873**
Investment properties	**5,712,635**
Property, plant and equipment	**4,599,423**
Other noncurrent assets	**69,222**
	27,913,937
Liabilities	
Accounts and other payables	**5,506,336**
Borrowings	**2,752,114**
Income tax payable	**128,551**
Deferred tax liabilities	**2,287,772**
	10,674,773
Net assets	**₱17,239,164**
Total net assets acquired (72.31%)	**12,465,640**
Negative goodwill	**(1,854,073)**
Cost of acquisition	**₱10,611,567**

Analysis of cash flows on acquisition:

	In ₱
Cash consideration	**₱10,611,567**
Previously held interest	**(4,849,007)**
Less: Cash acquired from the subsidiary	**(1,078,224)**
Net cash flow (included in cash flows from investing activities)	**₱4,684,336**

The fair value of the trade and other receivables approximate their carrying amounts since these are short-term in nature. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

From January 8 to December 31, 2018, ALI Group's share in MCT's revenue and net income amounted to ₱7.6 billion and ₱1.3 billion.

National Teachers College (NTC)
On February 8, 2018, AEI and shareholders of National Teachers College (NTC) executed a Share Purchase Agreement for the acquisition of shares in NTC subject to certain closing conditions. NTC is located at Nepomuceno Street, Quiapo, Manila and was founded in 1928, as the first school in the country to offer General Education leading to a Bachelor of Science in Education. NTC is one of the most recognized teacher education institutions in the Philippines. It also offers programs in business, accountancy, psychology, hospitality and tourism management, and information technology. NTC offers pre-school, elementary, secondary, tertiary and post-graduate courses. It has approximately 12,000 students in all levels of education.

On April 30, 2018, AEI assumed ownership of approximately 96% of the voting shares of NTC for a total consideration of ₱1.16 billion. With NTC added to the existing AEI's portfolio currently composed of APEC Schools and University of Nueva Caceres (UNC), AEI's combined student population is now approximately 38,000 students.

The values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash	**₱53,719**
Trade and other receivables	**54,222**
Other current assets	**217**
Property, plant and equipment	**865,325**
Intellectual property rights	**422,243**
Student relationship	**38,802**
Other noncurrent assets	**21,033**
	1,455,561
Liabilities	
Accounts and other payables	**36,587**
Tax liabilities	**143,154**
Other payables	**10,712**
	190,453
Net Assets	**₱1,265,108**
Non-controlling interest (11.8%)	**(149,283)**
Goodwill	**44,911**
Cost of acquisition	**₱1,160,736**

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

Acquisition-related costs, which consist of professional and legal fees, transaction costs, taxes, representation and travel expenses amounting to ₱13.9 million were recognized as expense in 2018.

Analysis of cash flows on acquisition follows:

	In ₱
Cash consideration	**₱1,160,736**
Less: Cash acquired from the subsidiary	**(53,719)**
Net cash flow (included in cash flows from investing activities)	**₱1,107,017**

Merlin Solar Technology, Inc. (Merlin)
On February 24, 2018, AITHI completed its acquisition of a controlling stake (additional in Merlin Solar Technologies, Inc. (Merlin USA). This transaction was done through AITHI's subsidiary, ACI Solar Holdings NA, Inc. (ACI Solar), which had previously acquired an 8.2% stake in Merlin in 2016. The acquisition resulted in a total of 98.96% ownership interest in Merlin. PFRS 3, *Business Combinations*, provided that in a step acquisition, the previously held equity interest is remeasured at fair value and the difference is recognized as a gain or loss in the consolidated statement of comprehensive income. A loss on remeasurement of previously held equity interest in Merlin of US$3.2 million was recognized at the acquisition date.

The Group has elected to measure non-controlling interest in the acquiree at fair value. The fair value of the non-controlling interest in Merlin USA, a non-listed company, has been estimated by applying a discounted cash flow technique. The fair value measurement is based on significant inputs that are not observable in the market. The fair value estimate is based on an assumed discount of 39.1% and terminal value exit multiple of 1.2x.

The value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

	In US$	In ₱*
Assets		
Cash	US$65	**₱3,386**
Receivables	710	**37,015**
Inventories	1,510	**78,674**
Other current assets	469	**24,010**
Property, plant and equipment	2,130	**110,962**
Intangible assets - Intellectual Property and Trademark	14,240	**741,904**
Other noncurrent assets	1,507	**78,530**
	20,631	**1,074,481**
Liabilities		
Trade accounts payable and accrued liabilities	4,272	**222,218**
Loans payable	3,046	**158,691**
	7,318	**380,909**
Net assets	US$13,313	**₱693,607**
Goodwill	$1,702	**88,702**
Fair value of previously held interest	(1,384)	**(72,119)**
Non-controlling interest at fair value	(303)	**(15,788)**
Less: Fair value of net assets acquired	13,313	**693,572**
Cost of acquisition	US$13,328	**₱694,367**

**Translated using the exchange rate at the date of the closing of the transaction ($1:₱52.10 on February 26, 2018).*

The deferred tax assets mainly comprise of the tax effect of the net operating loss carryover and temporary differences between financial statement balance and tax balance of accruals and tangible and intangible assets.

The goodwill recognized on the acquisition can be attributed to the automotive Tier 1 manufacturing competencies in modelling, cubing, tooling and plastic parts production that MT adds to AITHI's portfolio, as well as expected synergies from cross-selling and organizational efficiencies with other AITHI companies.

Analysis of cash flows on acquisition follows (amounts in thousands):

	In US$	**In ₱***
Initial purchase consideration	11,985	**624,419**
Liabilities related to contingent consideration recognized	1,343	**69,970**
Cost of acquisition	US$13,328	**₱694,389**
Purchase cash consideration	11,985	**624,419**
Less: Cash acquired from the subsidiary	65	**3,387**
Net cash flow (included in cash flows from investing)	US$11,920	**₱621,032**

**Translated using the exchange rate at the date of the closing of the transaction ($1:₱52.10 on February 26, 2018).*

The initial purchase consideration of US$12.0 million was paid in cash. The transaction purchase price also includes contingent consideration of US$1.3 million payable to the previous shareholders, subject to certain conditions.

Acquisition-related costs, which consist of professional and legal fees, transaction costs and travel expenses amounting to US$0.6 million were recognized as expense in 2018.

From the date of acquisition, AITHI's share in Merlin's revenue and net losses amounted to US$3.0 million and US$11.3 million, respectively, covering 10 months from March to December 2018. If the combination had taken place at the beginning of 2018, the AITHI's share in Merlin's revenue and net loss would have been US$3.1 million and US$15.0 million, respectively.

VTS-Touchsensor Co., Ltd. (VTS)
On April 9, 2018, IMI, through its subsidiary, VIA Optronics GmbH (VIA), and Toppan Printing Co., Ltd. (Toppan) have agreed to form a new joint venture company to serve the market for copper-based metal mesh touch sensors by transferring 65% of the shares of Toppan Touch Panel Products Co., Ltd., a newly formed spin-off form Toppan, to VIA. The name of the new joint venture company is VTS.

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

The control concept according to PFRS 10, Consolidated Financial Statements, sets out three elements of control consisting of power over investee, exposure or rights to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of these returns. Based on assessment, VIA has control over VTS and needs to consolidate VTS in its consolidated financial statements.

The purchase price allocation for the acquisition of VTS has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The provisional goodwill recognized on the acquisition can be attributed to its years of knowledge and experience of market requirements, system-level design, and production in the automotive, consumer and industrial markets to support further development of the core sensor technology.

The provisional values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	**In US$**	**In ₱***
Receivables - net	US$185	**₱9,620**
Inventories	1,244	**64,688**
Property, plant and equipment	97	**5,044**
Intangible assets	5,258	**273,416**
	US$6,784	**₱352,768**
Liabilities		
Other noncurrent liabilities	US$5,254	**₱273,208**
Net Assets	**US$1,530**	**₱79,560**
Non-controlling interest (35%)	(US$535)	**(₱27,820)**
Provisional goodwill	971	**50,492**
Cost of Acquisition	**US$1,966**	**₱102,232**

**Translated using the exchange rate at the closing date of transaction (US$1:₱52.00 on April 9, 2018).*

Analysis of cash flows on acquisition follows:

	In US$	In ₱*
Cash consideration	**US$1,966**	**₱102,232**
Less: Cash acquired from the subsidiary	**–**	**–**
Net cash flow (included in cash flows from investing activities)	**US$1,966**	**₱102,232**

**Translated using the exchange rate at the closing date of transaction (US$1:₱52.00 on April 9, 2018).*

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

Acquisition-related costs, which consists of professional and legal fees, travel and recruitment services amounting to US$1.1 million were recognized as expense in 2018.

From the date of acquisition, VTS contributed US$26.5 million of revenue and US$0.9 million profit before tax to the Group. If the combination had taken place at the beginning of 2018, the IMI's share in VTS' revenue and net income would have been US$35.3 million and US$1.3 million, respectively.

Entrego Fulfilment Solutions, Inc. (Entrego)
On August 6, 2018, AC Infra acquired 54.33% ownership interest in Entrego for a total acquisition cost of ₱158.9 million by subscription to Entrego's Class A Common shares, Class B Common shares and Preferred shares. The shareholders' agreement has been signed by the parties on August 17, 2018, the closing date of the transaction. The Investment Agreement, signed on February 13, 2018, allowed ALI through its wholly-owned subsidiary AMSI, Inc., BPI through its wholly-owned subsidiary BPI Capital Corporation and Kickstart Ventures, Inc. to subscribe for up to 1.9% of the Class A Common Shares each, provided that the total equity interest of the Ayala Shareholder Group in the common shares of the issuer shall amount to 60%.

This investment forms part of Ayala's strategy to develop infrastructure that will result in better efficiencies and improve the fulfillment goals of its existing businesses in real estate, banking, telecommunications, and e-commerce.

As of December 31, 2018, AC Infra has infused a total of ₱359.0 million to this investment.

The purchase price allocation has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation which includes information necessary for the valuation of other intangible assets, if any. The provisional goodwill is subject to reasonable changes, if any, as additional information becomes available and the purchase price allocation has been finalized.

The provisional values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	**₱49,759**
Receivables	**39,653**
Prepayments	**4,951**
Other current assets	**4,385**
Property and equipment	**6,817**
Other noncurrent assets	**2,045**
Subscription receivable	**98,391**
	206,001
Liabilities	
Accounts and other payables	**74,492**
Tax payable	**4,992**
Other current liability	**1,772**
	81,256
Net Assets	**₱124,745**
Non-controlling interest	**2,964**
Provisional goodwill	**31,155**
Cost of acquisition	**₱158,864**

Analysis of cash flows on acquisition follows:

	In ₱*
Cash consideration	**₱158,864**
Less: Cash acquired from the subsidiary	**(49,759)**
Net cash flow (included in cash flows from investing activities)	**₱109,105**

The fair value of the receivables and subscription receivable approximate their carrying amounts. None of the receivables and subscription receivable have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired, except subscription receivable, and liabilities assumed.

Acquisition-related costs, which consist of legal fees, travel and meeting expenses amounting to ₱7.7 million were recognized as expense in 2018.

From the date of acquisition, AC Infra's share in Entrego's revenue and net loss amounted to ₱73.5 million and ₱73.0 million, respectively. If the combination had taken place at the beginning of 2018, AC Infra's share in Entrego's revenue and net loss would have been ₱99.7 million and ₱91.7 million, respectively.

Pagudpud Wind Power Corp. (Pagudpud Wind or PWPC)
On November 27, 2018, Presage entered into an Investment Framework Agreement and Shareholders' Agreement for the development and construction of a proposed Balaoi-Caunayan wind farm project in Ilocos Norte (Balaoi). As part of the transaction, Presage agreed to acquire 100% ownership of PWPC the majority shareholder of Bayog Wind Power Corp. (BWPC), the project company for Balaoi.

The provisional values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	**₱875**
Prepayments and other current assets	**530**
	1,405
Liabilities	
Accounts payable and accrued expenses	**1,497**
Net assets (liabilities)	**(92)**
Goodwill	**2,592**
Cost of acquisition	**₱2,500**

Analysis of cash flows on acquisition follows:

Cash consideration	**₱2,500**
Less: Cash acquired from the subsidiary	**(875)**
Net cash flow (included in cash flows from investing activities)	**₱1,625**

The purchase price allocation has been prepared on a preliminary basis due to unavailability of information to facilitate the fair value computation. These include, among others, information based on appraisal reports for property, plant and equipment and information necessary for the valuation of identifiable intangible assets (i.e. process, projects development costs, etc.). Reasonable changes are expected as additional information becomes available. The provisional purchase price allocation will be finalized within one year from the date of closure of the above acquisition.

From November 27 to December 31, 2018, ACEI's share in Pagudpud Wind's revenue and net loss amounted to nil and ₱0.1 million, respectively. If the combination had taken place at the beginning of 2018, ACEI's share in Pagudpud's revenue and net loss would have been nil and ₱0.1 million, respectively.

HDP Bulk Water Supply Inc. (HDP)
On December 7, 2018, Presage entered into a Share Purchase Agreement with Jose Maria Eduardo P. Zabaleta and Juan Xavier P. Zabaleta for the purchase of one hundred percent (100%) of outstanding capital stock of HDP Bulk Water Supply Inc. for a total consideration of ₱110.1 million. The transaction was also closed on the same day.

HDP is a domestic company that supplies water to San Carlos Bioenergy, Inc. (SCBI) under a Water Supply Contract executed on October 31, 2006 (originally between SCBI and San Julio Realty Inc. (SJRI), which was later assigned by SJRI to San Carlos Land, Inc. (SCLand) on December 22, 2008, and then by SCLand to the HDP on December 11, 2017).

The provisional values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	₱1,111
Receivables	3,463
Prepayments and other current assets	5,355
Intangibles	7,381
Property, plant and equipment	350
	17,660
Liabilities	
Accounts payable and accrued expenses	12,423
Net Assets	**5,237**
Goodwill	104,862
Cost of acquisition	**₱110,099**

Analysis of cash flows on acquisition follows:

Cash consideration	**₱110,099**
Less: Cash acquired from the subsidiary	**(1,111)**
Net cash flow (included in cash flows from investing activities)	**₱108,988**

The purchase price allocation has been prepared on a preliminary basis due to unavailability of information to facilitate the fair value computation. These include, among others, information based on appraisal reports for property, plant and equipment and information necessary for the valuation of identifiable intangible assets (i.e., process, projects development costs, etc.) Reasonable changes are expected as additional information becomes available. The provisional purchase price allocation will be finalized within one year from the date of closure of the above acquisition.

From December 7 to 31, 2018, ACEI's share in HDP's revenue and net income amounted to ₱1.65 million and ₱1.58 million, respectively. If the combination had taken place at the beginning of 2018, ACEI's share in HDP's revenue and net income would have been ₱18.03 million and ₱9.07 million, respectively.

Extraordinary Development Corporate Group (EDCG)
On December 11, 2018, Aqua Centro, a wholly-owned subsidiary of MWC, entered into seven (7) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to the provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic in the province of Cavite. These subsidiaries are Earth Aspire Corporation, First Advance Development Corporation, Ambition Land Inc., Prosperity Builders Resources Inc., Tahanang Yaman Homes Corporation, Extraordinary Development Corp., and Earth + Style Corporation.

On January 9, 2019, Aqua Centro paid 50% of the total contract price amounting to total consideration of ₱24.7 million, while the remaining 50% shall be payable upon compliance with all conditions precedent, within six (6) months after agreement date.

On December 11, 2018, LAWC entered into four (4) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to or used in its water service provision operations in Biñan, Laguna. The APAs are with the following EDCG subsidiaries, namely, Earth Aspire Corporation, Earth Prosper Corporation, Earth and Style Corporation and Extraordinary Development Corp. Total acquisition cost amounted to ₱20.5 million, while the remaining 50% shall be payable upon compliance with all conditions precedent, within six (6) months after agreement date .

MWC management assessed that the following acquisitions are considered as acquisition of business under PFRS 3 since: a) the assets purchased by MWC Group have the ability to create or operate water services when one or more processes were applied; b) the business can be integrated to MWC Group's operations; and c) revenues from the provision of water is considered an output that MWC Group will benefit from as a result of the acquisition.

The fair values of the identifiable assets on these transactions as of the date of acquisition were as follows (amounts in thousands):

	Assets Acquired (Property, Plant and Equipment)	Acquisition Cost	Goodwill (Bargain Purchase)
Aqua Centro			
First Advance Development Corporation	₱40,790	₱20,769	(₱20,021)
Earth Aspire Corporation	3,753	1,356	(2,397)
Ambition Land Inc.	5,528	4,559	(968)
Prosperity Builders Resources Inc.	11,604	12,475	871
Tahanang Yaman Homes Corporation	7,249	10,189	2,940
Laguna Water			
Earth Prosper Corporation	13,952	6,881	(7,071)
Earth + Style Corporation	23,303	17,338	(5,965)
Extraordinary Development Corp.	5,753	81	(5,672)
Earth Aspire Corporation	18,278	16,619	(1,659)

No identifiable liabilities were assumed by Aqua Centro and LAWC in these acquisitions. Total gain on bargain purchase amounting to ₱43.75 million is presented as part of "Other income" in the 2018 consolidated statement of comprehensive income.

Cash outflow amounted to ₱20.5 million and no cash was acquired in the transaction.

As of December 31, 2018, the purchase price allocations of Aqua Centro and Laguna Water for the acquisitions are provisional as the valuation of property, plant and equipment is yet to be finalized.

From the date of acquisition, Extraordinary Development Corporation Group contributed ₱2.5 million of revenue and ₱1.4 million profit before tax to the Group.

2017 Acquisitions

AC Energy DevCo Inc. (AEDCI), Visayas Renewables Corp. (VRC) and Manapla Sun Power Dev't. Corp.

On March 16, 2017, ACEI signed definitive documents to acquire 100% ownership of Bronzeoak Clean Energy (Bronzeoak) and SCCE. With the acquisition, SCCE and Bronzeoak have been renamed as AC Energy DevCo Inc. and Visayas Renewables Corp. (VRC), respectively. In March 2017, ACEI Group also acquired 66.22% ownership interest in Manapla Sun. Manapla Sun is the landowner of and lessor for Islasol's solar farm in Manapla, Negros Occidential.

The fair values of the identifiable assets and assumed acquired liabilities and goodwill arising as at the date of acquisition follows (amounts in thousands):

AC Energy DevCo Inc. Group

Assets	
Cash and cash equivalents	₱9,381
Receivables	5,224
Prepayments and other current assets	19,527
Property, plant and equipment	2,447
	36,579
Liabilities	
Accounts payable and accrued expenses	10,315
Net Assets	26,264
Cost of acquisition	812,527
Goodwill (Note 14)	₱786,263
Cash consideration	₱812,527
Less: Cash acquired from the subsidiary	9,381
Net cash flow	₱803,146

As of December 31, 2018, ACEI finalized its purchase price allocation and there were no changes to the fair values of the assets acquired and liabilities assumed.

The goodwill arising from the acquisition of AEDCI is from the established capabilities of its assembled workforce which includes:

a. Pre-development and development – which involves site acquisition, permitting and studies to get the project to a shovel ready state
b. Construction – including sourcing of investors as well as managing the construction of the power plants
c. Operations – covering management of the power plants in lieu of the investors for a fee

Further, the above acquisition included projects in its pipeline with a view of developing projects (new and from the pipeline) for ACEI Group. Through this acquisition, ACEI Group is able to have the capability to develop projects end-to-end from permits and feasibility studies all the way to construction and operations.

Currently, the assembled workforce oversees the pre-development and development of several potential sites for its solar projects within the Philippines, as well as the construction of offshore renewable power plants where ACEI Group co-invested with local partners.

From March 16 to December 31, 2017, ACEI's share in AEDCI's revenue and net income amounted to ₱119.9 million and ₱12.4 million, respectively. If the combination had taken place at the beginning of 2017, ACEI's share in AEDCI's revenue and net income would have been ₱180.2 million and ₱31.8 million, respectively.

Visayas Renewables Corp.

Assets	
Cash and cash equivalents	₱6,226
Prepayments and other current assets	21
Equity investments at FVOCI	579,886
	586,133
Liabilities	
Accounts payable and accrued expenses	107
Net Assets	586,026
Cost of acquisition	586,026
Goodwill	₱–
Cash consideration	₱586,026
Less: Cash acquired from the subsidiary	6,226
Net cash flow	₱579,800

As of December 31, 2018, ACEI Group finalized its purchase price allocation resulting in the recognition of equity investments at FVOCI amounting to ₱579.9 million and reduction in goodwill by the same amount. The prior period comparative information was not restated, instead the adjustment to the provisional goodwill recognized in 2017 was included under Reclassification/other adjustments for 2018 in Note 14. The fair value of prepayments and other current assets and accounts payable and accrued expenses approximate their carrying amounts since these are short-term in nature. The valuation technique adopted for equity instruments at fair value through other comprehensive income dated March 16, 2017 is the discounted cash flow method. The fair value measurement using unobservable data is based on Level 3 of the fair value hierarchy.

From March 16 to December 31, 2017, ACEI's share in VRC's revenue and net income amounted to ₱11.6 million and ₱11.3 million, respectively. If the combination had taken place at the beginning of 2017, ACEI's share in VRC's revenue and net income would have been ₱16.0 million and ₱15.6 million, respectively.

Manapla Sun Power Dev't. Corp.

The fair values of the identifiable assets and assumed acquired liabilities and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	₱2,684
Receivables	28,817
Prepayments and other current assets	8,255
Investment property	253,670
	293,426
Liabilities	
Accounts payable and accrued expenses	49,440
Net Assets	243,986
Cost of acquisition	236,000
Non-controlling Interest	7,986
Goodwill	₱–
Cash consideration	₱236,000
Less: Cash acquired from the subsidiary	2,684
Net cash flow	₱233,316

As of December 31, 2018, ACEI Group finalized its purchase price allocation resulting in the recognition of investment property amounting to ₱253.7 million and reduction in goodwill by the same amount. The prior period comparative information was not restated, instead the adjustment to the provisional goodwill recognized in 2017 was included under Reclassification/other adjustments for 2018 in Note 14. The fair value of receivables and accounts payable and accrued expenses approximate their carrying amounts since these are short-term in nature. The valuation technique adopted for the measurement of investment property (i.e., land) fair value is the market approach. The market price per square meter of land amounts to ₱680.00. The fair value measurement using unobservable data is based on Level 3 of the fair value hierarchy.

From March 16 to December 31, 2017, ACEI's share in Manapla Sun's revenue and net income amounted to ₱46.0 million and ₱37.5 million, respectively. If the combination had taken place at the beginning of 2017, ACEI's share in Manapla Sun's revenue and net income would have been ₱40.3 million and ₱36.6 million, respectively.

SCC Bulk Water Supply, Inc. (SCC)
On December 18, 2017, Presage acquired 100% interest in SCC Bulk Water.

The fair values of the identifiable assets and assumed acquired liabilities and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	₱152
Prepayments and other current assets	77
Property, plant and equipment	18,281
Water supply contract (Note 16)	127,476
Other assets	243
	146,229
Liabilities	
Accounts payable and accrued expenses	₱19,158
Net Assets	127,071
Cost of acquisition	127,071
Goodwill	₱–
Cash consideration	₱127,071
Less: Cash acquired from the subsidiary	152
Net cash flow	₱126,919

As of December 31, 2018, ACEI Group finalized its purchase price allocation resulting in the recognition of water supply contract amounting to ₱127.5 million and reduction in goodwill by the same amount. The prior period comparative information was not restated, instead the adjustment to the provisional goodwill recognized in 2017 was included under Reclassification/other adjustments for 2018 in Note 14.

The fair value of prepayments and other current assets, other assets and accounts payable and accrued expenses approximate their carrying amounts since these are short-term in nature. The valuation technique adopted for the measurement of property, plant and equipment and water supply contract is the discounted cash flow method. The fair value measurement using unobservable data is based on Level 3 of the fair value hierarchy.

From December 18 to 31, 2017, ACEI's share in SSC Bulk Water's revenue and net loss amounted to nil. If the combination had taken place at the beginning of 2017, ACEI's share in SSC's revenue and net loss would have been nil and ₱0.50 million, respectively.

Solienda, Incorporated

On December 28, 2017, Presage acquired 100% interest in Solienda.

The fair values of the identifiable assets and assumed acquired liabilities and goodwill arising as at the date of acquisition follows (amounts in thousands):

Assets	
Cash and cash equivalents	₱13,665
Receivables	6,112
Prepayments and other current assets	3
Deferred tax assets	6,143
Leasehold rights	470,727
Liabilities	
Accounts payable and accrued expenses	₱148,965
Net Assets	347,685
Cost of acquisition	347,685
Goodwill	₱–
Cash consideration	₱347,685
Less: Cash acquired from the subsidiary	13,665
Net cash flow	₱334,020

As of December 31, 2018, ACEI Group finalized its purchase price allocation resulting in the recognition of leasehold rights amounting to ₱470.7 million and reduction in goodwill by the same amount. The prior period comparative information was not restated, instead the the adjustment to the provisional goodwill recognized in 2017 under Reclassification/other adjustments for 2018 in Note 14.

The fair value of receivables, prepayments and other current assets and accounts payable and accrued expenses approximate their carrying amounts since these are short-term in nature. The valuation technique adopted for the measurement of leasehold rights is the discounted cash flow method. The fair value measurement using unobservable data is based on Level 3 of the fair value hierarchy.

From December 28 to 31, 2017, ACEI's share in Solienda's revenue and net income amounted to nil. If the combination had taken place at the beginning of 2017, ACEI's share in Solienda's revenue and net income would have been ₱68.4 million and ₱44.7 million, respectively.

Surface Technology International Enterprises Limited (STI)
On April 6, 2017, IMI, through its subsidiary IMI UK, entered into an agreement with the shareholders of STI for the acquisition of an 80% stake in STI, an electronics manufacturing services (EMS) company based in the United Kingdom, with factories in Hook and Poynton in the United Kingdom and Cebu, Philippines. The closing of the transaction transpired on May 16, 2017 upon completion of pre-closing conditions and regulatory approvals.

In 2017, the purchase price allocation for the acquisition of STI has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation.

IMI finalized the purchase price allocation with the following changes to the values based on additional information subsequently obtained (amounts in thousands):

Assets	In US$	**In₱**
Cash and cash equivalents	US$4,046	**₱201,005**
Receivables	11,195	**556,168**
Inventories	14,116	**701,283**
Other current assets	3,445	**171,148**
Property, plant and equipment	5,963	**296,242**
Intangible asset	1,438	**71,440**
	US$40,203	**₱1,997,286**
Liabilities		
Trade payable and other current liabilities	25,404	**1,262,071**
Short and long-term debt	15,108	**750,565**
Other noncurrent liabilities	1,484	**73,725**
	41,996	**2,086,361**
Net Liabilities	(1,793)	**(89,076)**
Non-controlling interest (20%)	358	**17,785**
Goodwill	56,159	**2,789,979**
Cost of acquisition	$54,724	**₱2,718,688**

**Translated using the exchange rate at the closing date of transaction (US$1:₱49.68 on May 16, 2017).*

The changes in the fair values pertain to the audited balances of STI as of acquisition date. The prior period comparative information was not restated since the audited fair values approximates the provisional carrying values. Adjustment of the provisional goodwill recognized in 2017 was included under Reclassification/other adjustments for 2018 in Note 14. The goodwill recognized on the acquisition can be attributed to STI's access to the UK market. Further, the partnership will allow IMI Group's entry into the aerospace, security and defense sectors. Management assessed that as a contract manufacturer, STI does not hold any intellectual property rights and that there are no existing customer relationships. For fixed assets, there is no fair value adjustment required due to the age and nature of equipment. The fair value of the receivables approximates their carrying amounts. None of the receivables have been impaired and is expected that the full contractual amounts can be collected.

The initial purchase consideration of £23.0 million (US$29.8 million) was paid in cash upon signing of the agreement. The contingent consideration is based on the actual normalized earnings before interest, taxes, depreciation and amortization (EBITDA) performance less adjustments in 2018 and 2019. The contingent consideration was recognized at its fair value as part of the consideration transferred using the probability-weighted average of payouts associated with each possible outcome. Fair values of the contingent consideration amounted to £3.0 million (US$3.7 million) and £19.3 million (US$25.0 million) as of December 31, 2018 and 2017, respectively (see Note 9). The gain from the reversal of contingent liability amounting to US$21.30 million was included under "Other Income" in the 2017 consolidated statement of income (see Note 23).

Analysis of cash flows on acquisition:

	In US$	In ₱*
Initial purchase consideration	US$29,750	₱1,477,980
Contingent consideration	24,976	1,240,808
Cost of acquisition	US$54,726	2,718,788
Cash consideration	US$29,750	1,477,980
Less: Cash acquired from the subsidiary	4,045	200,956
Net cash flow (included in cash flows from investing activities)	**US$25,705**	**₱1,277,024**

**Translated using the exchange rate at the reporting date (US$1:₱49.68 on December 31, 2017).*

The agreement also provided details regarding the sale of additional shares from the non-controlling interest through the grant of put and call options. The Group accounted for the call option as a derivative asset at nil value. The Group accounted for the put option as a financial liability measured at the present value of the redemption amount which amounted to US$10.4 million (₱546.8 million) and US$10.2 million (₱509.3 million) as of December 31, 2018 and 2017, respectively. Mark-to-market gains (losses) amounting to (US$0.8 million) (₱41.9 million) and US$2.6 million (₱131.0 million) were recognized for the years ended December 31, 2018 and 2017, respectively, in the consolidated statements of income.

From the date of acquisition up to December 31, 2017, STI contributed US$45.5 million of revenue and US$0.3 million profit before tax to the Group. If the combination had taken place at the beginning of the year, STI would have contributed revenue amounting to US$64.8 million and loss before tax mounting to US$6.3 million.

Acquisition-related costs, which consist of professional and legal fees, financing and transaction costs, taxes, representation and travel expenses amounting to US$1.4 million were recognized as expense in the consolidated statements of income.

MT Misslbeck Technologies GmbH (MT)
On June 1, 2017, AITHI, through its subsidiary ACI Singapore, has entered into an agreement with the shareholders of MT for the acquisition by ACI Singapore of a 94.90% equity stake and various shareholder and other loans in MT, a supplier of models, tools and plastic parts based in Ingolstadt, Germany. The said agreement became effective on June 2, 2017. The closing of the transaction transpired on July 5, 2017 upon completion of pre-closing conditions and regulatory approval.

In 2017, the purchase price allocation for the acquisition of AITHI has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation.

AITHI finalized the purchase price allocation in 2018 with the following changes to the fair values based on additional information subsequently obtained (amounts in thousands):

	In EUR	**In ₱***
Assets		
Cash	€2	₱147
Receivables	3,626	216,654
Inventories	10,382	620,347
Property, plant and equipment	24,994	1,493,389
Other noncurrent assets	257	15,332
	39,261	2,345,869
Liabilities		
Trade accounts payable	11,159	666,761
Long-term debt	25,629	1,531,343
Other noncurrent liabilities	2,954	176,503
	39,742	2,374,607
Net assets	**(€481)**	**(₱28,738)**
Non-controlling interest (5.10%)	€0.001	₱0.06
Goodwill	481	(28,738)
Cost of acquisition	€0.001	₱0.06

**Translated using the exchange rate at the date of the closing of the transaction (€1:₱50.60 on July 5, 2017).*

AITHI has elected to measure non-controlling interest in the acquiree at the proportionate share of the non-controlling interest in the recognized amounts of the acquiree's identifiable net assets. The carrying amount of non-controlling interest changes due to allocation of profit or loss, changes in other comprehensive income and dividends declared for the reporting period.

The goodwill recognized on the acquisition can be attributed to the automotive Tier 1 manufacturing competencies in modelling, cubing, tooling and plastic parts production that MT adds to AITHI's portfolio, as well as expected synergies from cross-selling and organizational efficiencies with other AITHI companies.

Analysis of cash flows on acquisition (amounts in thousands):

	In EUR	In ₱*
Cost of acquisition	€0.001	₱0.06
Assumption of shareholder and other loans	21,897	1,308,346
Less: Cash acquired with the subsidiary	2	147
Net cash flow (included in cash flows from investing activities)	**€21,895**	**₱1,308,199**

**Translated using the exchange rate at the date of the closing of the transaction (€1:₱50.50 on July 5, 2017).*

The initial purchase consideration of EUR1 upon signing of the agreement was paid in cash. The transaction also includes put and call options on the non-controlling interests in MT of 5.1%, the exercise of which are subject to certain conditions. The estimated fair value of the financial liability amounted to ₱68.5 million.

Acquisition-related costs, which consist of professional and legal fees, transaction costs, taxes, representation and travel expenses amounting to EUR1.2 million were recognized as expense in 2017.

From July 5 to December 31, 2017, AITHI's share in MT's revenue and net loss amounted to €19.3 million (₱1,147.3 million) and €3.2 million (₱190.3 million), respectively. If the combination had taken place at the beginning of 2017, the AITHI's share in MT's revenue and net loss would have been €32.7 million (₱1,919.8 million) and €4.4 million (₱265.8 million), respectively.

Renewable Energy Test Center, LLC (RETC)
On September 15, 2017, AI North America (AINA), a wholly-owned subsidiary of BHL, fully acquired RETC for a total consideration of US$13.1 million. The closing of the transactions is subject to completion conditions and regulatory approval. BHL Group previously held 15.75% equity interest in RETC indirectly through the Series A Preferred Interests in PFIL North America, Inc. As a result of the transaction, RETC became a wholly-owned subsidiary of the BHL Group.

On March 8, 2018, AINA, a wholly-owned subsidiary of BHL, through its subsidiary PFIL North America, Inc. (PFIL NA), sold 70% interest of RETC for a total consideration of US$10.8 million to Marubeni Corporation (see Note 11). As a result of the transaction, BHL Group's ownership interest in RETC decreased from 100% to 30% (see Note 11). The Group recognized gain on loss of control amounting to ₱2.2 million included under "Other income" (see Note 23).

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

On July 31, 2017, MWPVI assigned all its rights and obligations on the APA to BMDC under a Deed of Assignment. On the same day, the Deed of Absolute Sale has also been executed between Asian Land and BMDC. Total consideration paid by BMDC to Asian Land amounted to ₱54.0 million, inclusive of VAT.

Solar Resources, Inc. (Solar Resources)
On July 26, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar developments in the province of Bulacan. On July 31, 2017, Solar Resources executed a Deed of Assignment in relation to the APA

and a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC. Total consideration paid by BMDC to Solar Resources amounted to ₱21.0 million, inclusive of VAT.

Borland Development Corporation (Borland)
On December 14, 2017, Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale to sell, assign, transfer, and convey its assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan to BMDC. Total consideration paid by BMDC to Borland amounted to ₱7.3 million, exclusive of VAT.

The fair values of the identifiable assets on these transactions as of the date of acquisition were as follows:

	Asian Land	Solar Resources	Borland
Assets acquired			
Property, plant and equipment	₱103,122	₱17,544	₱6,050
Acquisition cost	48,214	18,750	7,280
Goodwill (Bargain purchase)	(₱54,908)	₱1,206	₱1,230

No identifiable liabilities were acquired by BMDC in these acquisitions. The gain on bargain purchase is presented as part of “Other income” in the 2017 consolidated statement of income.

Merger of AEI to iPeople, Inc. (IPO)
On January 8, 2018, the Group publicly announced the potential merger of AEI and IPO, the listed holding company for the education sector of House of Investments Inc., a member of the Yuchengco Group of Companies (see Note 10). The parties agreed to an exclusivity period to complete due diligence, and to finalize the terms and conditions of the proposed merger within the first quarter of 2018. As of December 31, 2017, AEI was classified as a disposal group held for sale.

On October 1, 2018, AEI and IPO executed a memorandum of agreement (MOA) for the merger, with IPO as the surviving entity and with HI and the Parent Company owning 48.18% and 33.5%, respectively (see Note 10 for assets held for sale). The merger, which was approved by the stockholders of IPO and AEI on December 12, 2018 and December 5, 2018, respectively, was approved by the PCC on December 12, 2018. On January 31, 2019, AEI and IPO executed the Plan and Articles of Merger, as approved by their respective boards of directors and stockholders.

Also on January 31, 2019, the Parent Company executed a share purchase agreement for 7.28% of IPO with some of its stockholders, subject to the approval by the SEC of the merger and the effectivity thereof.

The major classes of assets and liabilities of AEI classified as held for sale as of December 31, 2018 and 2017 are as follows (amounts in thousands):

	2018	2017
Assets		
Cash and cash equivalents	**₱1,464,681**	₱423,234
Accounts and other receivables	**162,876**	89,097
Other current assets	**68,996**	55,706
Investment property	**1,490,005**	867,634
Property and equipment	**556,294**	312,936
Other noncurrent assets	**783,972**	72,442
	4,526,824	1,821,049

(Forward)

	2018	2017
Liabilities		
Accounts and other payables	**₱410,660**	₱88,312
Loans payable	**30,000**	80,000
Other noncurrent liabilities	**634,612**	417,537
	₱1,075,272	₱585,849
Non-controlling interests	**₱358,427**	₱315,339

The net cash flows incurred by AEI for the year are as follows:

Assets	**2018**	2017
Operating	**₱399,453**	(₱87,728)
Investing	**(1,716,136)**	(100,908)
Financing	**2,358,112**	235,845
Net cash inflow	**₱1,041,429**	₱47,209

Transactions with Non-controlling Interest

Parent Company
MWC
On various dates in 2016, the Parent Company purchased additional 1,040,600 shares amounting to ₱21.3 million. In December 2016, the Parent Company disposed of 437,300 shares amounting to ₱3.7 million. The Parent Company recognized ₱9.4 million gain on sale. The transactions resulted to an increase in the Parent Company's ownership interest in MWC by 0.02%. As of December 31, 2017 and 2016, ownership interest of the Parent Company in MWC is at 35.3%.

The difference between the fair value of the consideration paid and the amount of which the noncontrolling interest is adjusted amounting to ₱675.4 million is recognized in equity under "Equity Reserve" in 2015.

ALI Group
In January 2018, ALI purchased additional 202,774,547 shares of POPI from Genez Investment Corporation for ₱497.7 million increasing ALI's ownership to 67%.

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

In 2018, ALI acquired additional 59,631,200 common shares of CHI totaling to ₱352.8 million. Further, an additional 77,742,516 shares was acquired as a result of swap of CPVDC shares for a total consideration of ₱229.3 million which brings ALI's ownership to 70.4%.

The transactions were accounted for as an equity transaction since there were no changes in control. The movements within equity are accounted for as follows:

	2018		
	Consideration paid	Carrying value of Non-controlling interests acquired	Difference recognized within Equity
		(In Thousands)	
4.14% in POPI	₱497,652	₱315,951	₱181,701
20.00% in LTI	800,000	528,295	271,705
1.53% net reduction in CHI	582,106	826,752	(244,646)
	₱1,879,758	₱1,670,998	₱208,760

In March 2018, the Irredeemable Convertible Unsecured Loan Stock of Dato Sri Tong and Tan Sri Barry Go, founders of MCT, were converted into 122,218,357 shares. This resulted in a 6.07% dilution of ALI's stake in MCT as of date of share issuance. As such, the current ownership stake of ALI in MCT is 66.25%. This resulted in an increase in Equity reserve amounting to ₱1,044.5 million.

In 2017, ALI purchased additional 97,763,900 common shares of CHI from BPI Securities Corporation totaling ₱575.0 million which brought up ALI's ownership to 72% of the total outstanding capital stock of CHI.

In February 2017, ALI purchased additional 631,000 common shares of POPI from BPI Securities Corporation for ₱1.26 million. ALI's interest remains at 51% of the total POPI's outstanding capital stock.

In June 2017, Orion Land, Inc. (OLI), a subsidiary of POPI, acquired 512,480,671 common shares equivalent to 11.69% ownership at ₱2.45 share amounting to ₱1,255.58 million. The acquisition of POPI shares by OLI was treated as an acquisition of non-controlling interest resulting to a debit to equity reserve of ₱405.18 million. This increased ALI's effective ownership to 63.05%.

The transactions were accounted for as an equity transaction since there were no change in control. The movements within equity are accounted for as follows:

	Consideration paid	Carrying value of Non-controlling interests acquired	Difference recognized within Equity
		(In Thousands)	
5.09% in CHI	₱574,994	₱394,907	₱180,087
11.69% in POPI	1,258,579	852,656	405,923
	₱1,833,573	₱1,247,563	₱586,010

In August 2017, AHRC entered into a memorandum of agreement with SIDECO and an individual to develop Sicogon Island into a new leisure destination. The investment of SIDECO and an individual to Sicogon Island Tourism Estate Corp. (SITEC) changed the ownership interest of AHRC in SITEC from 100% to 77% without a loss of control. The difference between the amount by which non-controlling interest of 23% are adjusted and the fair value of consideration paid is recognized directly to equity amounting to ₱134.0 million.

In 2016, ALI purchased additional 201,859,364 common shares of CHI for total consideration of ₱1,209.8 million which brought ALI's ownership from 56.4% to 66.9%. The transaction was accounted for as an equity transaction since there was no change in control. The difference between the fair value of the consideration paid and the amount of which the noncontrolling interest is adjusted amounting to ₱461.0 million is recognized in equity under "Equity Reserve".

From March 2016 to July 2016, LLHI subscribed to 18,150,931 common and 48,876,456 preferred shares of Nuevo Centro or equivalent to 45.0% stake of NCI's total outstanding capital. This transaction resulted into lower ALI's interest to 55.0% in NCI as of December 31, 2016. The transactions were accounted as an equity transaction since there was no change in control.

In 2015, ALI purchased additional shares from non–controlling interests of CHI, NTDCC, Aurora Properties Incorporated (API). The transactions were accounted as an equity transaction since there was no change in control. The movements within equity are accounted for as follows:

	Consideration paid	Carrying value of Non-controlling interests	Difference recognized within Equity
		(In Thousands)	
6.7% in CHI	₱649,927	₱434,074	₱215,853
9.4% in NTDCC	778,356	174,770	603,586
1.9% in API	58,157	45,540	12,617
	₱1,486,440	₱654,384	₱832,056

In 2014, ALI Group acquired additional shares from non-controlling interests of Philenergy (40.0%), NTDCC (14.5%) and CECI (0.40%) and were accounted as an equity transaction since there was no change in control.

In 2013, ALI Group acquired additional 32% interest in APPCo and additional 40% interests in TKDC and TKPI increasing its ownership interest to 100%. The transactions were accounted as an equity transaction since there was no change in control. Following is the schedule of the movement in equity reserves recorded within the equity:

	Consideration paid	Carrying value of Non-controlling interests acquired	Difference recognized within Equity
		(In Thousands)	
6.7% in CHI	₱3,520,000	₱797,411	₱2,722,589
9.4% in NTDCC	2,000,000	1,413,960	586,040
	₱5,520,000	₱2,211,371	₱3,308,629

IMI Group
<u>STEL</u>
On December 26, 2016, STEL acquired the remaining non-controlling interest in Shenzhen Speedy-Tech Electronics Co., Ltd. for a total consideration of US$0.4 million.

The details of the transaction are as follows (amounts in thousands):

	In US$	**In Php***
Non-controlling interest acquired	US$190	₱9,447
Consideration paid to the non-controlling shareholder	(360)	(17,899)
Total amount recognized in “Equity Reserves” account within equity	(US$170)	(₱8,452)

**Translated using the exchange rate at the reporting date (US$1:₱49.72 on December 31, 2016).*

AEI
<u>APEC Schools</u>
In 2014, AEI entered into a joint venture agreement with UK-based Pearson Affordable Learning Fund Limited (PALF), an affiliate of Pearson PLC, the world’s leading learning company, to roll out a chain of affordable private high schools under APEC Schools. AEI owns 60% of APEC Schools and Pearson owns the balance of 40% share.

In January 2018, AEI subscribed to and paid the amount of ₱82.4 million to APEC Schools, increasing its ownership interest to 70.64% from 67.14%. Subsequently on December 31, 2018, AEI acquired the remaining non-controlling interest of 29.36% in APEC held by Pearson Affordable Learning Fund Ltd. (PALF) for a total consideration of ₱361.5 million. AEI recognized an decrease in equity reserve in relation to the transaction amounting to ₱338.8 million.

25. **Income Tax**

The components of the Group's deferred taxes are as follows:

Net deferred tax assets

	2018	2017
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱10,531,049**	₱8,229,295
Service concession obligation	**1,449,136**	1,247,529
NOLCO	**813,314**	891,246
Unrealized foreign exchange loss	**789,643**	169,120
Allowance for probable losses	**649,222**	677,516
Accrued expenses	**605,405**	1,283,669
Retirement benefits	**470,937**	416,474
Fair value adjustments on long-term debt	**165,769**	–
Allowance for doubtful accounts	**95,875**	15,214
Advanced rental	**32,537**	32,926
Allowance for inventory obsolescence	**7,866**	12,722
Remeasurement loss	**6,951**	13,025
Contract asset	**1,668**	–
Fair value adjustment on property, plant and equipment arising from business combination	–	13,150
Others	**575,984**	523,178
	16,195,356	13,525,064
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(434,023)**	(447,596)
Difference between amortization expense of SCA per straight-line depreciation	**(215,293)**	–
Others	–	(356,558)
	(649,316)	(804,154)
Net deferred tax assets	**₱15,546,040**	₱12,720,910

Net deferred tax liabilities

	2018	2017
	(In Thousands)	
Deferred tax assets on:		
Allowance for probable losses	**₱116,102**	₱42,863
Fair value adjustments on:		
Long-term debt	**88,852**	104,269
AFS financial asset	**1,116**	1,116
NOLCO	**52,616**	10,325
Difference between tax and book basis of accounting for real estate transactions	**43,621**	522,615
Accrued expenses	**17,476**	40,307
MCIT	**9,051**	5,910
Retirement benefits	**3,637**	2,462
Advanced rental	**–**	970
Others	**138,856**	73,897
	471,327	804,734

(Forward)

	2018	2017
Deferred tax liabilities on:		
Fair value adjustment arising from other business combination	**(₱4,093,238)**	(₱1,709,279)
Fair value adjustments arising from business combination with MWC:		
Service concession assets	**(3,683,544)**	(3,887,223)
Land and improvements	**(625,490)**	(625,490)
Property, plant and equipment	**(173,056)**	(394,528)
Service concession obligation	**–**	(34,091)
Customers' guaranty and other deposits	**–**	(18,691)
Difference between tax and book basis of accounting for real estate transactions	**(1,006,586)**	(1,272,005)
Accrual of liquidated damage	**(651,970)**	–
Capitalized interest and other expenses	**(144,668)**	(15,658)
Unrealized lease income	**(75,850)**	–
Concession finance receivable	**(72,793)**	(76,799)
Depreciation	**(38,577)**	–
Contract asset	**(37,282)**	–
Prepaid expenses	**(21,381)**	(1,966)
Accrued receivables	**(11,327)**	(54,429)
Unrealized fair value gain less costs to sell of biological assets	**(6,909)**	(9,583)
Unrealized foreign exchange gain	**(2,486)**	(5,056)
Difference between amortization expense of SCA per straight line method and per UOP	**(433)**	(12,149)
Retirement benefits	–	(102,983)
Unrealized gain on AFS financial assets	–	(32,209)
Gain on bargain purchase	–	(15,989)
Others	**(825,091)**	(644,911)
	(11,470,681)	(8,913,039)
Net deferred tax liabilities	**(₱10,999,354)**	(₱8,108,305)

Deferred tax related to remeasurement gain on defined benefit plans recognized in OCI amounted to ₱93.6 million and ₱51.1 million in 2018 and 2017, respectively.

The Group has NOLCO amounting to ₱18.0 billion and ₱16.7 billion in 2018 and 2017, respectively, and MCIT amounting to ₱181.6 million and ₱75.7 million in 2018 and 2017, respectively. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. As of December 31, 2018, total unrecognized NOLCO and MCIT amounted to ₱15.2 billion and ₱44.5 million, respectively. The subsidiaries will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As of December 31, 2018, NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities, respectively, are as follows:

Year incurred	Expiry Date	NOLCO	MCIT
		(In Thousands)	
2015	2018	₱5,233,048	₱26,391
2016	2019	5,835,744	23,198
2017	2020	5,632,420	26,132
2018	2021	6,555,855	132,281

As of December 31, 2018 and 2017 deferred tax liabilities have not been recognized on the undistributed earnings and cumulative translation adjustment of foreign subsidiaries since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future. The undistributed earnings and cumulative translation adjustment amounted to ₱18.1 billion and ₱14.4 billion as of December 31, 2018 and 2017, respectively.

The reconciliation between the statutory and the effective income tax rates follows:

	2018	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Nontaxable share in net profits of associates and joint ventures	**(8.75)**	(8.93)	(10.10)
Nondeductible expenses	**0.44**	1.45	4.57
Interest income and capital gains subjected to lower rates	**(1.28)**	(1.93)	(0.58)
Income under income tax holiday	**(0.59)**	(0.35)	(3.94)
Others	**1.72**	(0.51)	(0.47)
Effective income tax rate	**21.54%**	19.73%	19.48%

The income tax on profits of overseas subsidiaries have been calculated at the rates of tax prevailing in the countries where such subsidiary operates, based on existing legislation, interpretations and practices in respect thereof.

Revenue Regulations (RR) No. 16-2008
RR No. 16-2008 provided the implementing guidelines for Section 34 of RA No. 9504 on the use of the OSD for corporations. The OSD allowed shall be an amount not exceeding 40% of the gross income. Gross income earned refers to gross sales or gross revenue derived from any business activity, net of returns and allowances, less cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses. This was applied by MWC Group for the years ended December 31, 2018, 2017 and 2016.

The availment of OSD affected the recognition of several deferred tax assets and liabilities, in which the related income and expenses are not considered in determining gross income for income tax purposes. The MWC Group forecasts that it will continue to avail of the OSD, such that the manner by which it will recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result in any future tax consequence under OSD.

The tax rate of 18% for the years in which OSD is projected to be utilized was used in computing the deferred income taxes on the net service concession obligation starting 2009.

Registration with the PEZA and Board of Investments (BOI) Incentives
Some activities of certain local subsidiaries are registered with the PEZA and BOI. Under the registration, these subsidiaries are entitled to certain tax and nontax incentives, which include, but are not limited to, income tax holiday (ITH) and duty-free importation of inventories and capital equipment. Upon the expiration of the ITH, the subsidiaries will be liable for payment of a five percent (5%) tax on gross income earned from sources within the PEZA economic zone in lieu of payment of national and local taxes.

26. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to owners of the Parent Company:

	2018	2017	2016
	(In Thousands, except EPS figures)		
Net income attributable to the owners of the Parent Company	**₱31,817,722**	₱30,263,842	₱26,011,263
Less dividends on preferred stock	**1,285,015**	1,285,015	1,285,015
	30,532,707	28,978,827	24,726,248
Less profit impact of assumed conversions of potential ordinary shares of investees	**266,797**	319,184	262,166
	₱30,265,910	₱28,659,643	₱24,464,082
Weighted average number of common shares	**625,644**	620,928	620,058
Dilutive shares arising from stock options	**2,119**	2,240	2,379
Adjusted weighted average number of common shares for diluted EPS	**627,763**	623,168	622,437
Basic EPS	**₱48.80**	₱46.67	₱39.88
Diluted EPS	**₱48.21**	₱45.99	₱39.1

27. Defined Benefit Plan

The Parent Company and certain subsidiaries have their respective funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on defined formula with a certain minimum lump-sum guarantee of effective salary per year of service. The consolidated retirement costs charged to operations amounted to ₱878.4 million, ₱969.2 million and ₱817.4 million in 2018, 2017 and 2016, respectively.

The Parent Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Parent Company, governed by a board of trustees appointed under a Trust Agreement between the Parent Company and the initial trustees. It holds common and preferred shares of the Parent Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee include the Parent Company's Chief Finance Officer, Group Head of Corporate Governance, General Counsel, Corporate Secretary and Compliance Officer, Head for Strategic Human Resources, Treasurer and Comptroller. ACEWRF has not exercised voting rights over any shares of the Parent Company that it owns.

For the subsidiaries, the funds are generally administered by a trustee bank under the supervision of the Board of Trustees of the plan for each subsidiary. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity.

Existing regulatory framework in the Philippines requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. Some of the entities of the Group also provides additional post employment healthcare benefits to certain senior employees in the Philippines.

The components of expense (included in personnel costs under “Cost of rendering services” and “General and administrative expenses”) in the consolidated statements of income follow:

	2018	2017	2016
		(In Thousands)	
Current service cost	**₱763,607**	₱787,865	₱704,932
Past service cost	**10,563**	549	14,350
Net interest cost on benefit obligation	**104,197**	189,488	153,556
Gain on curtailment and settlements	**84**	(8,679)	(1,416)
Total pension expense	**₱878,451**	₱969,223	₱871,422

The remeasurement effects recognized in other comprehensive income (included in Equity under “Remeasurement losses (gains) on defined benefit plans”) in the consolidated statements of financial position follow:

	2018	2017	2016
		(In Thousands)	
Loss (gain) on plan assets (excluding amount included in net interest)	**₱699,513**	(₱270,307)	₱236,148
Actuarial gain due to liability assumption changes - demographic	**102,522**	(151,681)	(336,353)
Actuarial loss (gain) due to liability assumption changes - financial	**(549,360)**	71,456	(62,177)
Remeasurements in other comprehensive income	**₱252,675**	(₱350,532)	(₱162,382)

The funded status and amounts recognized in the consolidated statements of financial position for the pension plan as of December 31, 2018 and 2017, as follows:

	2018	2017
	(In Thousands)	
Benefit obligations	**₱10,027,735**	₱10,035,831
Plan assets	**(7,437,883)**	(7,533,027)
Net pension liability position	**₱2,589,852**	₱2,502,804

As of December 31, 2018 and 2017, pension assets (included under “Other Noncurrent Assets”) amounted to ₱82.0 million and ₱98.0 million (see Note 15), respectively, and pension liabilities amounted to ₱2.6 billion.

Changes in net defined benefit liability of funded funds in 2018 and 2017 are as follows:

2018

		Net benefit cost in consolidated statement of income						Remeasurements in other comprehensive income									
	January 1	**Current service cost**	**Past Service Cost**	**Net interest**	**Loss (gain) on Curtailments and Settlements**	**Subtotal**	**Benefits paid**	**Return on plan assets***	**Actuarial loss due to liability experience**	**Actuarial gain due to liability assumption changes**	**Subtotal**	**Transfer payments**	**Contribution by employer**	**Foreign currency exchange differences**	**Reclassi-fications**	**Settlements**	**December 31**
											(In Thousands)						
Present value of defined benefit obligation	**₱10,035,831**	**₱763,607**	**₱10,563**	**₱505,571**	**₱84**	**₱1,279,825**	**(₱795,581)**	**₱–**	**(₱549,360)**	**₱102,522**	**(₱446,838)**	**(₱42,700)**	**₱–**	**₱–**	**₱–**	**(₱2,802)**	**₱10,027,735**
Fair value of plan assets	**(7,533,027)**	**–**	**–**	**(401,374)**	**–**	**(401,374)**	**357,789**	**699,513**	**–**	**–**	**699,513**	**87,203**	**(650,789)**	**–**	**–**	**2,802**	**(7,437,883)**
Net defined benefit liability (asset)	**₱2,502,804**	**₱763,607**	**₱10,563**	**₱104,197**	**₱84**	**₱878,451**	**(₱437,792)**	**₱699,513**	**(₱549,360)**	**₱102,522**	**₱252,675**	**₱44,503**	**(₱650,789)**	**₱–**	**₱–**	**₱–**	**₱2,589,852**

**Excluding amount included in net interest*

2017

		Net benefit cost in consolidated statement of income						Remeasurements in other comprehensive income									
	January 1	Current service cost	Past Service Cost	Net interest	Loss (gain) on Curtailments and Settlements	Subtotal	Benefits paid	Return on plan assets*	Actuarial loss due to liability experience	Actuarial loss due to liability assumption changes	Subtotal	Transfer payments	Contribution by employer	Foreign currency exchange differences	Reclassi-fications	Settlements	December 31
											(In Thousands)						
Present value of defined benefit obligation	₱9,586,617	₱787,865	₱549	₱521,151	(₱8,679)	₱1,300,886	(₱593,372)	₱–	₱71,456	(₱151,681)	(₱80,225)	(₱38,238)	₱–	(₱1,097)	(₱99,896)	(₱38,844)	₱10,035,831
Fair value of plan assets	(7,354,356)	–	–	(331,663)	–	(331,663)	593,372	(270,307)	–	–	(270,307)	240,930	(495,764)	(261)	46,178	38,844	(7,533,027)
Net defined benefit liability (asset)	₱2,232,261	₱787,865	₱549	₱189,488	(₱8,679)	₱969,223	₱–	(₱270,307)	₱71,456	(₱151,681)	(₱350,532)	₱202,692	(₱495,764)	(₱1,358)	(₱53,718)	₱–	₱2,502,804

**Excluding amount included in net interest*

The following tables present the changes in the present value of defined benefit obligation and fair value of plan assets:

Present value of defined benefit obligation

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱10,035,831**	₱9,586,617
Current service cost	**763,607**	787,865
Interest cost	**505,571**	521,151
Past service cost	**10,563**	549
Remeasurements in other comprehensive income:		
Actuarial changes arising from experience adjustments	**102,522**	71,456
Actuarial changes arising from changes in liability assumptions	**(549,360)**	(151,681)
Benefits paid from plan assets	**(795,581)**	(593,372)
Reclassifications to other current liabilities	**–**	(99,896)
Settlements	**(2,802)**	(38,844)
Transfer payments	**(42,700)**	(38,238)
Foreign currency exchange difference	**–**	(1,097)
Gain on curtailment and settlements	**84**	(8,679)
	₱10,027,735	₱10,035,831

Fair value of plan assets

	2018	2017
	(In Thousands)	
Balance at beginning of year	**₱7,533,027**	₱7,354,356
Contributions	**650,789**	495,764
Interest income on plan assets	**401,374**	331,663
Return on plan assets (excluding amount included in net interest)	**(699,513)**	270,307
Foreign currency exchange difference	**–**	261
Benefits paid	**(357,789)**	(593,372)
Transfer payments	**(87,203)**	(240,930)
Reclassifications to other current assets	**–**	(46,178)
Settlements	**(2,802)**	(38,844)
	₱7,437,883	₱7,533,027

The fair value of plan assets by each classes as at the end of the reporting period are as follows:

	2018	2017
	(In Thousands)	
Assets		
Cash and cash equivalents	**₱33,714**	₱339,677
Debt investments	**5,342,728**	3,997,425
Equity investments	**2,039,884**	3,142,117
Other assets	**100,009**	310,991
	7,516,335	7,790,210
Liabilities		
Trust fee payable	**(45,804)**	(2,670)
	(45,804)	(2,670)
Net Asset Value*	**₱7,470,531**	₱7,787,540

****The difference of ₱32.6 million and ₱254.5 million in the fair value of plan assets as of December 31, 2018 and 2017, respectively, pertains to movements after the valuation date.***

All equity and debt instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plans and other post–employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

	2018	2017
Discount rates	**0.9% to 8.5%**	1.4% to 5.9%
Future salary increases	**3.0% to 8.0%**	1.2 to 8.0%

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

		2018	2017
	Increase (decrease)	Net Pension Liabilities	
		(In Thousands)	
Discount rates	1%	**(₱383,831)**	(₱485,593)
	(1%)	**452,594**	720,338
Future salary increases	1%	**458,707**	712,879
	(1%)	**(394,987)**	(483,717)

The management performed an Asset–Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Group's current strategic investment strategy consists of 71.08% of debt instruments, 27.14% of equity instruments and 1.78% other assets.

The Group expects to contribute ₱967.8 million to the defined benefit pension plan in 2019.

The average duration of the defined benefit obligation at the end of the reporting period is 4.05 to 26.1 years in 2018 and 4.05 to 26.1 years in 2017.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018 (amounts in thousands):

	2018	2017
Less than 1 year	**₱2,430,702**	₱1,122,351
More than 1 year to 5 years	**26,453,265**	14,392,011
More than 5 years	**118,301,970**	27,956,423
	₱147,185,937	₱43,470,785

As of December 31, 2018 and 2017, the plan assets include shares of stock of the Parent Company with total fair value of ₱341.1 million and ₱459.8 million, respectively. The Parent Company gives the trustee bank the discretion to exercise voting rights over the shares.

The fund includes investment in securities of its related parties. Details of the investment per type of security are as follows (amounts in thousands):

2018	**Historical Cost**	**Fair Value**	**Unrealized Gains (Losses)**
		(In Thousands)	
Equity securities	**₱830,611**	**₱825,021**	**₱13,752**
Debt securities	**1,777,777**	**1,705,619**	**(24,934)**
Unit investment trust funds	**112,885**	**109,830**	**(3,055)**
Others	**73,307**	**74,285**	**978**
	₱2,794,580	**₱2,714,755**	**(₱13,259)**

2017	Historical Cost	Fair Value	Unrealized Gains
		(In Thousands)	
Equity securities	₱1,055,337	₱1,151,094	₱95,757
Debt securities	2,470,907	2,435,663	(35,244)
Unit investment trust funds	368,937	381,694	12,757
Others	50,962	51,999	1,037
	₱3,946,143	₱4,020,450	₱74,307

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

The Group's transactions with the fund mainly pertain to contributions, benefit payments, settlements and curtailments.

28. Stock Option Purchase Plans

The Parent Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (ESOWN) covering 3.0% of the Parent Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a defined period of time.

ESOP
The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Parent Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he/she is given 3 years to exercise his/her vested and unvested options. In case the grantee resigns, he/she is given 90 days to exercise his/her vested options.

A summary of the Parent Company's stock option activity and related information for the years ended December 31, 2018, 2017 and 2016 follows:

	2018		2017		2016	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, at beginning of year	**1,032,703**	**₱287.32**	1,201,738	₱295.27	1,338,693	₱301.51
Exercised	**(8,636)**	**227.53**	(169,035)	343.88	(136,955)	(356.29)
Outstanding, at end of year	**1,024,067**	**₱287.82**	1,032,703	₱287.32	1,201,738	₱295.27

The options have a contractual term of 10 years. As of December 31, 2018 and 2017, the weighted average remaining contractual life of options outstanding is 2.53 years and 3.54 years, respectively, and the exercise prices ranged from ₱227.50 to ₱500.00.

The fair value of each option is estimated on the date of grant using the Black-Scholes Merton Formula. The fair values of stock options granted under ESOP at each grant date and the assumptions used to determine the fair value of the stock options are as follows:

	April 26, 2013	April 18, 2011	April 16, 2010
Weighted average share price	₱640.00	₱352.08	₱303.70
Exercise price	₱500.00	₱264.06	₱227.53
Expected volatility	42.40%	41.21%	41.31%
Option life	10 years	10 years	10 years
Expected dividends	0.54%	0.86%	0.92%
Risk-free interest rate	3.04%	6.64%	8.56%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

The Parent Company also has ESOWN granted to qualified officers wherein grantees may subscribe in full to the shares awarded to them based on the average market price determined by the Personnel and Compensation Committee as the offer price set at grant date. For any share awards unsubscribed, grantees still have the option to subscribe from the start of the fifth year but not later than on the start of the seventh year from date of grant.

To subscribe, the grantee must be an employee of the Parent Company or any of its subsidiaries during the 10-year payment period. In case the grantee resigns, the unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, and payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may continue to subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Parent Company's Right to Repurchase.

In 2015, the Parent Company introduced a revised ESOWN plan wherein grantees are given one (1) month from the time an allocation is awarded to subscribe in full, with any unsubscribed awards forfeited.

ESOWN grants totaling 492,875, 456,286 and 501,564 were subscribed in 2018, 2017 and 2016, respectively. Movements in the number of options outstanding under ESOWN as of December 31, 2018, 2017 and 2016 follow:

	2018		2017		2016	
	Number of options	**Weighted average exercise price**	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
At January 1	**–**	**₱–**	–	₱–	–	₱–
Granted	**494,683**	**926.00**	458,120	837.53	515,299	717.30
Subscribed	**(492,875)**	**(926.00)**	(456,286)	(837.53)	(501,564)	(717.30)
Expired	**(1,808)**	**(926.00)**	(1,834)	(837.53)	(13,735)	(717.30)
At December 31	**–**	**₱–**	–	₱–	–	₱–

The ESOWN grants are effectively treated as options on shares exercisable within a given period, considering both the subscription period allowed to grantees and the subscription payment pattern. As such, the fair values of these options are estimated on the date of grant using the Black-Scholes Merton Formula and Binomial Tree Model, taking into account the terms and conditions upon which the options were granted. These models require six inputs to produce the stock option value, which are namely: share price, exercise price, time to maturity, volatility rate, dividend yield, and risk-free rate.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	April 20, 2018	April 18, 2017	December 16, 2016	December 23, 2015	April 11, 2014
Number of unsubscribed shares	**–**	–	–	–	8,344
Fair value of each option	**₱256.30**	₱222.49	₱176.82	₱444.59	₱619.00
Share price	**₱919.00**	₱859.00	₱732.00	₱718.88	₱673.96
Exercise price	**₱926.00**	₱837.53	₱717.30	₱611.05	₱480.00
Expected volatility	**30.28%**	29.55%	30.31%	38.23%	42.13%
Dividend yield	**0.75%**	0.61%	0.70%	0.67%	0.74%
Interest rate	**3.68%**	2.89%	1.46%	4.81%	4.38%

Total expense arising from share-based payments (included under “General and administrative expenses”) in the consolidated statements of income amounted to ₱248.0 million in 2016.

In 2018, the Parent Company recognized ₱126.3 million as share-based payments expense.

In 2017, the Parent Company recognized an adjustment of ₱166.7 million reduction in the ESOWN costs of share-based payments following the revised valuation methodology.

Subscriptions receivable from the stock option plans covering the Parent Company’s shares are presented under equity.

ALI

ALI has stock option plans for key officers (ESOP) and employees (ESOWN) covering 2.5% of ALI’s authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

ESOP

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of ALI or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

ALI has no ESOP grant and availment during 2018, 2017 and 2016.

ESOWN

In November 2001, ALI offered all its ESOWN subscribers with outstanding ESOWN subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

In 2005, ALI introduced a revised ESOWN Plan (the Plan) wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee of ALI as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of ALI or any of its subsidiaries during the ten (10)-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the ten (10)-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the Plan are subject to ALI's right to repurchase.

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of stock options granted are estimated on the date of grant using the Black-Scholes Merton (BSM) Formula and Binomial Tree Model (BTM), taking into account the terms and conditions upon which the options were granted. The BSM Formula and BTM Model requires six inputs to produce an option stock value namely; market value of the share, book value of the share, time to maturity, volatility rate, dividend yield, and risk free rate. The expected volatility was determined based on an independent valuation.

Movements in the number of options outstanding and weighted average exercise prices (WAEP) under ESOWN follow:

	2018	**WAEP**	2017	WAEP	2016	WAEP
At January 1	**5,150,628**	**₱19.31**	7,288,035	₱19.95	8,734,420	₱16.96
Granted	**10,384,365**	**–**	11,420,517	–	15,182,203	–
Subscribed	**(9,933,523)**	**41.14**	(12,264,970)	33.32	(17,051,221)	24.11
Availment	**96,516**	**–**	113,541	–	678,086	–
Cancelled	**(96,516)**	**–**	(1,406,495)	–	(407,975)	–
At December 31	**5,601,470**	**₱32.71**	5,150,628	₱19.31	7,135,513	₱19.95

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Date							
	March 28, 2018	March 01, 2017	April 05, 2016	March 20, 2015	March 20, 2014	March 18, 2013	March 13, 2012	March 31, 2011
Number of unsubscribed shares	–	–	181,304	–	1,369,887	1,713,868	3,967,302	3,843,057
Fair value of each option (BTM)	₱–	₱8.48	₱13.61	₱16.03	₱12.60	₱16.05	₱9.48	₱7.81
Fair value of each option (BSM)	₱12.71	₱–	₱18.21	₱20.63	₱12.16	₱11.85	₱6.23	₱7.27
Weighted average share price	₱41.02	₱39.72	₱35.58	₱36.53	₱31.46	₱30.00	₱21.98	₱15.5
Exercise price	₱45.07	₱35.81	₱26.27	₱29.58	₱22.55	₱21.45	₱14.69	₱13.2
Expected volatility	34.04%	30.95%	32.03%	31.99%	33.50%	36.25%	33.00%	36.25%
Dividend yield	1.22%	1.34%	1.27%	1.02%	1.42%	1.93%	0.9%	1.01%
Interest rate	4.14%	4.41%	4.75%	4.11%	3.13%	2.78%	5.70%	5.60%

Total expense (included under "General and administrative expenses") recognized in 2018, 2017 and 2016 in the consolidated statement of income arising from share–based payments of ALI amounted to ₱98.5 million, ₱153.8 million and ₱208.3 million, respectively.

IMI

IMI Group has an ESOWN, which is a privilege extended to IMI Group's eligible managers and staff whereby IMI Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the ESOWN.

The key features of the plan are as follows:

- The subscription price per share shall be based on the average closing price at the PSE for 20 consecutive trading days with a discount to be determined by the Compensation Committee of IMI.

- Term of payment is eight years reckoned from the date of subscription with specified percentage of payment (i.e., 2.5% initial payment, 5.0% on 1st anniversary, 7.5% on 2nd anniversary, 10% on 3rd anniversary and balance over remaining years).
- Holding period: 40%, 30% and 30% after one (1), two (2) and three (3) years from subscripton date, respectively.

Movements in the number of shares outstanding under ESOWN in 2018, 2017 and 2016 follow:

	2018		2017		2016	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
At beginning of year	**140,406,496**	**₱6.67**	141,565,253	₱6.69	143,740,493	₱6.69
Forfeitures	**(1,041,647)**	**9.40**	(1,158,757)	8.66	(2,175,240)	6.99
At end of year	**₱139,364,849**	**₱6.65**	₱140,406,496	₱6.67	141,565,253	₱6.69

Total expense arising from share-based payments of IMI (included under "General and administrative expenses") in the consolidated statement of income amounted to US$0.3 million (₱15.8 million), US$0.26 million (₱13.0 million), and US$0.7 million (₱33.2 million) in 2018, 2017 and 2016, respectively.

MWC

Executive Stock Option Plan (Executive SOP), Expanded Executive SOP and ESOWN

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule.

For the unsubscribed shares of the ESOWN grants in 2013 and 2012, the employee still has the option to subscribe within seven (7) years.

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and Black–Scholes Merton Formula, txaking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Dates			
	March 7, 2018	February 10, 2015	November 19, 2013	October 5, 2012
Number of shares granted	16,054,873	7,281,647	6,627,100	4,772,414
Number of unsubscribed shares	5,161,140	884,873	351,680	460,000
Fair value of each option	₱5.74	₱11.58	₱10.58	₱11.76
Weighted average share price	₱26.55	₱21.35	₱23.00	₱26.24
Exercise price	₱27.31	₱26.00	₱22.92	₱24.07
Expected volatility	24.92%	26.53%	24.90%	30.66%
Dividend yield	2.80%	2.55%	3.47%	2.56%
Risk-free interest rate	3.43%	3.79%	2.99%	4.57%
Expected life of option	45 days	4 years	4 years	4 years

To enjoy the rights provided for in the ESOWN, the grantee should be with MWC at the time the holding period expires. The Holding Period of the ESOWN shares follows: 40%, 30% and 30% from one year, two years and three years from subscription date, respectively.

For the 2013 and previous years' grants, the ESOWN grantees were allowed to subscribe fully or partially to whatever allocation may have been granted to them. In case of partial subscriptions, the employees are still allowed to subscribe to the remaining unsubscribed shares granted to them provided that this would be made at the start of Year 5 from grant date up to the end of Year 6. Any additional subscription made by the employee (after the initial subscription) will be subjected to another three (3)-year holding period. For the 2018 and 2015 grants, unsubscribed shares were forfeited.

Movements in the number of stock options outstanding under ESOWN are as follows:

	2018	**Weighted average exercise price**	2017	Weighted average exercise price
At January 1	**231,980**	**₱23.49**	4,923,730	₱23.49
Cancelled	**(100,380)**	**–**	(4,691,750)	–
At December 31	**131,600**	**₱23.49**	231,980	₱23.49

Total expense arising from equity-settled share-based payment transactions of MWC (included under "General and administrative expenses") in the consolidated statements of income amounted to ₱24.0 million, ₱12.2 million and ₱33.2 million in 2018, 2017 and 2016, respectively.

On March 6, 2018, the Remuneration Committee of MWC's BOD approved the grants of ESOWN equivalent to 16,054,873 shares at the subscription price of ₱27.31 per share. The subscription price is equivalent to the average closing price of MWC's common shares at the PSE for twenty (20) consecutive trading days ending March 6, 2018.

The expected life of the options is based on management's estimate and is not necessarily indicative of exercise patterns that may occur. MWC's expected volatility was used as an input in the valuation of the outstanding options. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily reflect the actual outcome.

No other features of the options granted were incorporated into the measurement of fair value.

29. Operating Segment Information

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

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

- Real estate and hotels - planning and development of large-scale fully integrated mixed-used communities that become thriving economic centers in their respective regions. These include development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of high-end, upper middle-income and affordable and economic housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

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

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

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

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

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

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

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

For the years ended December 31, 2018, 2017 and 2016, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

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

The following tables regarding operating segments present assets and liabilities as of December 31, 2018 and 2017 and revenue and income information for each of the three years in the period ended December 31, 2018 (amounts in millions):

2018

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Water Infrastructure	Electronics	Power Generation	Automotive and Others	Intersegment Eliminations	Consolidated
Revenue										
Sales to external customers	₱243	₱155,892	₱–	₱–	₱17,990	₱69,731	₱3,778	₱27,247	₱–	₱274,881
Intersegment	174	63	–	–	837	–	695	413	(2,182)	–
Share in net profits of associates and joint ventures	51	740	10,906	5,646	700	–	2,730	(313)	–	20,460
Interest income	–	7,042	–	–	–	–	–	–	–	7,042
Dividend income	59	–	–	–	–	–	21	27	–	107
	527	163,737	10,906	5,646	19,527	69,731	7,224	27,374	(2,182)	302,490
Costs and expenses										
Costs of sales and services	–	100,879	–	–	7,697	62,617	3,627	23,773	(1,985)	196,608
General and administrative	3,940	9,367	–	–	3,877	5,416	1,623	6,848	(1,249)	29,822
	3,940	110,246	–	–	11,574	68,033	5,250	30,621	(3,234)	226,430
Other income (charges)										
Interest income	455	958	–	–	413	53	769	58	–	2,706
Other income	939	1,541	–	–	11,235	1,861	2,802	3,054	(1,250)	20,182
Interest and other financing charges	(5,226)	(10,799)	–	–	(1,722)	(672)	(397)	(308)	23	(19,101)
Other charges	–	–	–	–	(9,662)	–	–	–	–	(9,662)
	(3,832)	(8,300)	–	–	264	1,242	3,174	2,804	(1,227)	(5,875)
Net income (loss) before income tax	(7,245)	45,191	10,906	5,646	8,217	2,940	5,148	(443)	(175)	70,185
Provision for (benefit from) income tax	53	11,984	–	–	1,814	353	863	98	(45)	15,120
Net income (loss)	(₱7,298)	₱33,207	₱10,906	₱5,646	₱6,403	₱2,587	₱4,285	(₱541)	(₱130)	₱55,065
Other information										
Segment assets	₱46,267	₱632,398	₱–	₱–	₱120,272	₱56,109	₱79,120	₱36,128	(₱28,055)	₱942,239
Investments in associates and joint ventures	168,203	23,376	–	–	15,995	–	25,252	7,315	–	240,141
Deferred tax assets	80	13,041	–	–	1,364	166	41	387	467	15,546
Total assets	₱214,550	₱668,815	₱–	₱–	₱137,631	₱56,275	₱104,413	₱43,830	(₱27,588)	₱1,197,926
Segment liabilities	₱140,318	₱442,705	₱–	₱–	₱68,593	₱34,705	₱49,908	₱11,519	(₱29,930)	₱717,818
Deferred tax liabilities	80	5,895	–	–	3,842	207	757	172	46	10,999
Total liabilities	₱140,398	₱448,600	₱–	₱–	₱72,435	₱34,912	₱50,665	₱11,691	(₱29,884)	₱728,817
Segment additions to property, plant and equipment and investment properties	₱189	₱123,364	₱–	₱–	₱–	₱–	₱–	₱1,521	(₱73,781)	₱51,293
Depreciation and amortization	₱304	7,446	₱–	₱–	₱3,363	₱2,311	₱394	₱319	(₱576)	₱13,561
Non-cash expenses other than depreciation and amortization	–	₱66	₱–	₱–	₱328	₱499	₱20	₱153	(₱1)	₱1,065
Cash flows provided by (used in):										
Operating activities	(₱5,811)	₱11,767	₱–	₱–	₱3,298	(₱701)	(₱5,034)	(₱795)	₱49,852	₱52,576
Investing activities	₱15,296	(₱2,978)	₱–	₱–	(₱8,859)	(₱4,373)	(₱23,925)	(₱8,233)	(₱74,920)	(₱107,992)
Financing activities	(₱164)	(₱6,264)	₱–	₱–	₱5,931	₱6,026	₱23,674	₱10,585	₱11,992	₱51,780

2017

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Water Infrastructure	Electronics	Power Generation	Automotive and Others	Intersegment Eliminations	Consolidated
Revenue										
Sales to external customers	₱254	₱133,161	₱–	₱–	₱16,659	₱ 55,029	₱2,155	₱34,970	₱–	₱242,228
Intersegment	266	(63)	–	–	547	–	262	845	(1,857)	–
Share in net profits of associates and joint ventures	–	861	10,772	4,559	304	–	1,778	220	–	18,494
Interest income	–	5,410	–	–	–	–	–	–	–	5,410
Dividend income	61	2	–	–	–	–	390	201	–	654
	581	139,371	10,772	4,559	17,510	55,029	4,585	36,236	(1,857)	266,786
Costs and expenses										
Costs of sales and services	26	87,921	–	–	7,299	48,405	1,563	31,885	(1,425)	175,674
General and administrative	3,255	7,315	–	–	3,558	4,618	1,313	5,355	(201)	25,213
	3,281	95,236	–	–	10,857	53,023	2,876	37,240	(1,626)	200,887
Other income (charges)										
Interest income	449	578	–	–	358	6	81	36	(105)	1,403
Other income	1,055	2,344	–	–	13,122	437	2,050	2,463	(533)	20,938
Interest and other financing charges	(3,838)	(9,070)	–	–	(1,361)	(345)	(305)	(205)	683	(14,441)
Other charges	–	–	–	–	(11,672)	–	–	–	–	(11,672)
	(2,334)	(6,148)	–	–	447	98	1,826	2,294	45	(3,772)
Net income (loss) before income tax	(5,034)	37,987	10,772	4,559	7,100	2,104	3,535	1,290	(186)	62,127
Provision for (benefit from) income tax	169	9,825	–	–	1,734	376	(56)	279	(68)	12,259
Net income (loss)	(₱5,203)	₱28,162	₱10,772	₱4,559	₱5,366	₱1,728	₱3,591	₱1,011	(₱118)	₱49,868
Other information										
Segment assets	₱47,213	₱536,543	₱–	₱–	₱110,892	₱45,906	₱54,506	₱32,857	(₱21,741)	₱806,176
Investments in associates and joint ventures	139,054	26,796	–	–	8,263	–	24,562	3,974	–	202,649
Deferred tax assets	98	10,649	–	–	1,203	60	116	176	419	12,721
Total assets	₱186,365	₱573,988	₱–	₱–	₱120,358	₱45,966	₱79,184	₱37,007	(₱21,322)	₱1,021,546
Segment liabilities	₱112,443	₱378,185	₱–	₱–	₱54,008	₱31,982	₱36,021	₱13,050	(₱23,344)	₱602,345
Deferred tax liabilities	102	3,544	–	–	4,060	127	170	105	–	8,108
Total liabilities	₱112,545	₱381,729	₱–	₱–	₱58,068	₱32,109	₱36,191	₱13,155	(₱23,344)	₱610,453
Segment additions to property, plant and equipment and investment properties	₱164	₱30,676	₱–	₱–	₱1,299	₱3,089	₱14,088	₱3,178	₱929	₱53,423
Depreciation and amortization	₱324	₱6,420	₱–	₱–	₱3,412	₱1,443	₱323	₱498	(₱122)	₱12,298
Non-cash expenses other than depreciation and amortization	₱207	₱612	₱–	₱–	₱586	₱24	₱54	₱271	₱48	₱1,802
Cash flows provided by (used in):										
Operating activities	(₱5,097)	₱25,641	₱–	₱–	₱129	(₱140)	(₱5,034)	(₱795)	₱10,797	₱25,501
Investing activities	₱7,951	(₱35,372)	₱–	₱–	(₱4,174)	(₱4,737)	(₱23,925)	(₱8,233)	₱4,704	(₱63,786)
Financing activities	(₱164)	₱9,801	₱–	₱–	₱8,940	₱4,986	₱23,674	₱10,585	(₱15,501)	₱42,321

2016

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Water Infrastructure	Electronics	Power Generation	Automotive and Others	Intersegment Eliminations	Consolidated
Income										
Sales to external customers	₱298	₱117,532	₱–	₱–	₱16,090	₱39,994	₱203	₱25,092	₱–	₱199,209
Intersegment	181	168	–	–	414	–	–	481	(1,244)	–
Share in net profits of associates and joint ventures	–	554	10,637	4,754	369	–	1,542	298	–	18,154
Interest income	656	5,614	–	–	258	14	56	80	99	6,777
Other income	1,104	660	–	–	8,077	(215)	2,174	2,006	(660)	13,146
Total income	2,239	124,528	10,637	4,754	25,208	39,793	3,975	27,957	(1,805)	237,286
Operating expenses	3,293	83,552	–	–	9,916	37,856	1,251	26,516	(1,622)	160,762
Operating profit (loss)	(1,054)	40,976	10,637	4,754	15,292	1,937	2,724	1,441	(183)	76,524
Interest and other financing charges and other charges	4,558	8,268	–	–	8,183	183	222	1,069	101	22,584
Provision for (benefit from) income tax	6	8,278	–	–	1,543	324	143	230	(17)	10,507
Net income (loss)	(₱5,618)	₱24,430	₱10,637	₱4,754	₱5,566	₱1,430	₱2,359	₱142	(₱267)	₱43,433
Other information										
Segment assets	₱49,110	₱501,579	₱–	₱–	₱95,040	₱31,540	₱43,067	₱26,245	(₱27,605)	₱718,976
Investments in associates and joint ventures	130,954	24,985	–	–	6,200	–	13,743	4,432	–	180,314
Deferred tax assets	280	9,869	–	–	1,656	77	1	137	395	12,415
Total assets	₱180,344	₱536,433	₱–	₱–	₱102,896	₱31,617	₱56,811	₱30,814	(₱27,210)	₱911,705
Segment liabilities	₱101,980	₱359,393	₱–	₱–	₱40,993	₱19,727	₱27,903	₱8,772	(₱27,603)	₱531,165
Deferred tax liabilities	97	4,357	–	–	4,728	63	203	96	–	9,544
Total liabilities	₱102,077	₱363,750	₱–	₱–	₱45,721	₱19,790	₱28,106	₱8,868	(₱27,603)	₱540,709
Segment additions to property, plant and equipment and investment properties	₱105	₱33,649	₱–	₱–	₱944	₱2,404	₱21,703	₱734	(₱6,746)	₱52,793
Depreciation and amortization	₱333	₱5,873	₱–	₱–	₱3,734	₱1,158	₱86	₱371	₱5	₱11,560
Non-cash expenses other than depreciation and amortization	₱388	₱434	₱–	₱–	₱46	(₱121)	₱488	₱971	₱–	₱2,206
Cash flows provided by (used in):										
Operating activities	(₱5,244)	₱12,807	₱–	₱–	₱1,256	₱2,441	₱7,166	(₱131)	₱16,922	₱35,217
Investing activities	(₱2,406)	(₱39,648)	₱–	₱–	(₱598)	(₱5,136)	(₱21,268)	₱626	(₱7,753)	(₱76,183)
Financing activities	(₱22,387)	₱28,683	₱–	₱–	(₱3,239)	₱2,220	₱22,757	₱170	(₱9,169)	₱19,035

Geographical Segments

	Income			Total Assets		Investment Properties and Property, Plant and Equipment Additions	
	2018	2017	2016	**2018**	2017	**2018**	2017
Philippines	**₱228,95**	₱205,230	₱194,219	**₱1,136,933**	₱947,944	**₱49,091**	₱47,982
Asia	**23,395**	21,292	16,982	**25,681**	52,914	**81**	1,011
USA	**16,813**	13,990	9,138	**18,536**	5,365	**249**	431
Europe	**33,330**	26,274	16,946	**16,776**	15,322	**1,872**	3,999
	₱302,490	₱266,786	₱237,285	**₱1,197,926**	₱1,021,545	**₱51,293**	₱53,423

30. Leases

Finance leases - as lessee

The Group has finance leases for various items of property, plant and equipment. These leases have lease terms of 3 to 10 years. Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments follow:

	2018		2017	
	Minimum Payments	**Present values of payments**	Minimum Payments	Present values of payments
	(In Thousands)			
Within one year	**₱33,143**	**₱33,143**	₱20,770	₱20,871
After one year but not more than five years	**34,965**	**34,760**	21,630	22,489
Total minimum lease payments	**68,108**	**67,903**	42,400	43,360
Less amounts representing finance charges	**273**	**248**	3,034	2,555
Present value of minimum lease payments	**₱67,835**	**₱67,655**	₱39,366	₱40,805

Operating lease commitments - as lessee

Parent Company

On December 15, 2014, Mermac, Inc. (the Lessor) and the Parent Company entered into a Contract of Lease. The Lessor leases, lets, and demises unto the Parent Company, an office space constituting the Leased Premises, located at the 35th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The term of the lease shall be five (5) years, commencing on November 15, 2014 and ending on November 14, 2019. The lease is subject to annual escalation clause of 5% for the first 2 years and 10% for the next 2 years.

Future minimum rentals payable under non-cancellable operating leases follow:

	2018	2017
	(In Thousands)	
Within one year	**₱7,424**	₱7,809
More than one (1) year but less than five (5) years	**–**	7,242
	₱7,424	₱15,051

ALI Group

ALI Group entered into lease agreements with third parties covering real estate properties. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals payable under noncancellable operating leases of ALI Group follows:

	2018	2017
	(In Thousands)	
Within one year	**₱969,402**	₱733,899
After one year but not more than five years	**3,214,368**	2,687,534
More than five years	**38,974,801**	18,594,127
	₱43,158,571	₱22,015,560

ALI
On September 2, 2014, ALI signed a Lease Agreement with D.M. Wenceslao & Associates Inc. for the lease of several parcels of land along Asean Avenue and Macapagal Boulevard, Aseana City, Paranaque City with an aggregate area of 92,317 sqm. ALI signed a 45-year lease contract with an option to renew for another 45 years subject to such terms and conditions as may be mutually agreed upon by the lessor and ALI.

On April 26, 2012, ALI signed a Lease Agreement with the Province of Negros Occidental for the lease of a parcel of land with an aggregate area of 40,481 sq. m. located along Gatuslao cor. North and South Capitol Roads, Bacolod City, registered in the name of the Province of Negros Occidental. ALI signed a 50-year lease contract with an option to renew as may be mutually agreed upon by the lessor and ALI.

Arvo Commercial Corporation (Arvo)
On December 4, 2013, Arvo entered an agreement with Liberty Commercial Center, Inc. (LCC) to construct a five-storey commercial mall building with an aggregate gross floor area of approximately 30,400 square meters on a 10,000 square meter portion of the land, and Arvo to act as coordinator for the construction and development of the building. Arvo assisted LCC in obtaining a loan from a local bank in the aggregate amount of approximately ₱1,325.00 million to fully fund the cost of the design and construction of the building. Upon completion of the construction of the building, Arvo shall lease the building from LCC under a building lease agreement.

On October 15, 2014, Arvo entered into a property lease agreement with Rotonda Development Corporation for the construction, development and operation of a commercial and mall center. The terms of the lease shall be 42 years, with an option to renew for another 40 years subject to mutual agreement of the parties. The lease agreement provided rent-free period of 2 years and lease payments shall commence thereafter. Lease payments shall be paid annually at ₱60.00 per sqm, subject to an annual escalation of 4%.

On March 5, 2015, Arvo entered into a building lease agreement with L.C. Lopez Resources, Inc. that has a lease term of 40 years with an option for renewal for another 10 years upon mutual agreement of the parties. Arvo shall have the right but not the obligation to retrofit the leased premises as may be deemed necessary. Arvo shall pay monthly rent equivalent of ₱170.00 per sqm with annual escalation of 5%.

Ayalaland MetroNorth, Inc. (AMNI)
On January 28, 2011, the Board of Regents of the University of the Philippines awarded to AMNI the ₱4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. AMNI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for another 25 years subject to mutual agreement of the parties. The lease payments shall commence as soon as sales are registered by the merchants.

A retail establishment with about 63,000 sqm of gross leasable area and an office/BPO building about 8,000 sqm of gross leasable area shall be constructed on the property.

Subic Bay Town Center, Inc. (SBTCI)
On October 16, 2009, ALI has executed a lease agreement with the Subic Bay Metropolitan Authority (SBMA), for the development of a 7.5-hectare property along Rizal Highway within the Subic Bay Freeport Zone, located between the two main gates linking the Freeport Zone to Olongapo City. The lease commitment is expected to be completed in 2060 after the 50-year lease term. The lease may be renewed for another 25 years upon mutual agreement of the parties. ALI offered to develop a mall with an estimated gross leasable area of 38,000 sqm. On March 25, 2010, ALI entered into an assignment of lease agreement whereby ALI assigned its rights and obligations granted to or imposed under the lease agreement to its subsidiary, SBTCI. The lease payments to SBMA started from the commencement of the commercial operation of the mall last April 26, 2012 which was completed during the same period.

Station Square East Commercial Corporation (SSECC)
ALI has an existing contract with Bases Conversion and Development Authority (BCDA) to develop, under a lease agreement signed on July 2000, a mall with an estimated gross leasable area of 152,000 sqm on a 9.8-hectare lot inside Fort Bonifacio. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues.

POPI
On August 28, 1990, POPI, through a Deed of Assignment, acquired all the rights, titles, interests and obligations of Gotesco Investment, Inc. in a contract of lease of the land owned by PNR for the Tutuban Terminal. The contract provided for a payment of a guaranteed minimum annual rental plus a certain percentage of gross sales. The lease covers a period of 25 years until 2014 and is automatically renewable for another 25 years, subject to compliance with the terms and conditions of the lease agreement. On December 22, 2009, ALI entered into an agreement with PNR for the renewal of its lease contract for another 25 years beginning September 5, 2014. Rent expense charged to operations amounted to ₱149.6 million for the year ended December 31, 2018.

IMI Group
IMI Group has various operating lease agreement in respect of plant facilities, office spaces and land. These lease agreements have terms ranging from 5 to 15 years, fixed payment subject to escalation clauses, renewal option and early termination penalties.

Future minimum rentals payable under operating leases of IMI Group as of December 31, 2018 and 2017 follow:

	2018	2017
	(In Thousands)	
Within one year	**₱321,019**	₱256,015
After one year but not more than five years	**977,865**	621,821
More than five years	**27,377**	122,525
	₱1,326,261	₱1,000,361

MWC Group
MWC Group leases office space and storage and plant facilities wherein it is the lessee. The terms of the lease range from one year or until the end of the concession period. As of December 31, 2018 and 2017, MWC Group's future minimum lease payments are as follows:

	2018	2017
Within one year	**₱54,395**	₱52,549
After one year but not more than five years	**101,974**	128,681
More than five years	**253,990**	266,646
	₱410,359	₱447,876

Operating leases - as lessor
Parent Company
The Parent Company is a party under various operating leases which have lease terms between one to thirty years with an annual escalation rate of 4.5% to 10%.

Future minimum rentals receivable under non-cancellable operating leases of the Parent Company follow:

	2018	2017
	(In Thousands)	
Within one year	**₱29,290**	₱28,079
More than one (1) year but less than five (5) years	**162,923**	157,285
More than five (5) years	**565,060**	599,989
	₱757,273	₱785,353

ALI Group
ALI Group have lease agreements with third parties covering their investment properties portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals receivable under noncancellable operating leases of ALI Group are as follows:

	2018	2017
	(In Thousands)	
Within one year	**₱8,300,061**	₱887,835
After one year but not more than five years	**27,223,203**	3,457,212
More than five years	**18,204,281**	21,121,236
	₱53,727,545	₱25,466,283

31. **Related Party Transactions**

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

The Group, in its regular conduct of business, has entered into transactions with associates, joint ventures and other related parties principally consisting of deposits/placements, advances, loans and reimbursement of expenses, purchase and sale of real estate properties, various guarantees, construction contracts, and development, management, underwriting, marketing and administrative service agreements. Sales and purchases of goods and services as well as other income and expense to and from related parties are made at normal commercial prices and terms.

The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an associate

   i. As of December 31, 2018 and 2017, the Group maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows (amounts in thousands):

	2018	2017
Cash in banks	**₱6,699,666**	₱5,955,749
Cash equivalents	**19,542,962**	26,226,780
Short-term investments	**2,838,388**	1,323,456
Financial assets at FVTPL	**85,724**	82,978
Other noncurrent assets - others (Note 15)	**2,365,311**	–

ii. From the Group's placements and short-term investments with BPI, the Group has accrued interest receivable amounting to ₱58.3 million and ₱28.1 million as of December 31, 2018 and 2017, respectively. Cash in banks earns interest at 0.01% to 0.75% per annum. Cash equivalents earn interest from 1.2% to 2.8% per annum. Investment in FVTPL pertain to MMF which earns interest depending on the duration of time invested in the fund with fair value of ₱85.7 million and ₱83.0 million, as of December 31, 2018 and 2017, respectively. Interest income earned from all the deposits, placements and investments amounted to ₱476.0 million in 2018, ₱248.0 million in 2017 and ₱511.8 million in 2016.

The Group also has short-term and long-term debt payable to BPI aggregating to ₱32.3 billion and ₱29.6 billion as of December 31, 2018 and 2017, respectively. These short-term and long-term debts are interest bearing with varying rates ranging from 3.92% to 4.70%, have various maturities starting 2019 and varying schedules of payments for interest. The Group has accrued interest payable pertaining to the outstanding balance of the short-term and long-term debt amounting to ₱51.1 million and ₱7.6 million as of December 31, 2018 and 2017, respectively. Interest expense incurred from the debt amounted to ₱785.2 million in 2018, ₱893.4 million in 2017 and ₱1.0 billion in 2016.

Transactions with BPI will be settled in cash.

b. Outstanding balances of related party transactions follow (amounts in thousands):

	Receivables		Payables	
	2018	2017	**2018**	2017
Associates:				
BPI	**₱719,177**	₱1,023,825	**₱129,211**	₱80,304
Alveo -Federal Land Communities, Inc. (Alveo-Federal Land)	**359,993**	166,887	**–**	–
Isuzu Philippines Corporation (IPC)	**183,968**	129,233	**131,844**	682,208
Honda Cars Philippines, Inc.(HCP)	**105,695**	117,366	**247,580**	616,974
CDPEI	**75,378**	416,352	**69**	69
Bonifacio Land Corp. (BLC)	**377**	375	**214,352**	212,696
BF Jade E-Services Philippines Inc.	**35,304**	–	**45,830**	–
	1,479,892	1,854,038	**768,886**	1,592,251
Joint ventures:				
UPC Renewables Asia III Limited	**1,149,829**	–	**–**	–
UPC Renewables Asia I Limited	**630,960**	–	**–**	–
Globe	**228,816**	249,802	**26,035**	17,362
	2,009,605	249,802	**26,035**	17,362
Other related parties:				
FBDC	**3,200,203**	573,421	**–**	10,348
ALI ETON Property Development	**2,190,605**	–	**–**	–
Others	**84,289**	392,994	**277,630**	253,900
	5,475,097	966,415	**277,630**	264,248
	₱8,964,594	₱3,070,255	**₱1,072,551**	₱1,873,861

i. Receivable from BPI includes trade receivables on vehicles sold and financing dealer incentives by AITHI group, dividends receivable and accrued interest receivables on short-term placements by the Group.
ii. Receivable from CDPEI pertains to development and construction related costs while accounts from Alveo-Federal Land mainly consist of marketing and management fees; and construction costs.
iii. Receivable from Globe includes trade receivables on vehicles sold and project management and professional fees.
iv. Receivable from FBDC largely pertains to management fees which are included under "Other income" and receivables of MDC Group for the construction of FBDC's projects.
v. Receivable from IPC and HCP pertains to marketing and sales incentives arising from the sale of vehicles.
vi. Receivable from UPC III relates to the contractual obligation of UPC Renewables Asia III to redeem the preferred shares owned by ACEI Group at a determined amount through cash payment at some future date.

vii. Receivable from FBDC mainly pertains to billed and unbilled receivables of Makati Development Corporation, a subsidiary of ALI, for the construction of FBDC's projects.
viii. Receivable from ALI-ETON pertains to the sale of land by Alveo to ALI-ETON.
ix. Other outstanding balances of receivable from related parties at year-end pertain mostly to advances, including those for project development, logistics and reimbursement of operating expenses.
x. All these are unsecured, interest free, will be settled in cash and are due and demandable, unless otherwise stated.
xi. Payable to Columbus represent non-interest bearing advances for stock redemption.
xii. Payable to IPC and HCP consist of purchased parts and accessories and vehicles that are trade in nature, interest-free, unsecured and are payable within 15 to 30 days.
xiii. Payable to BPI includes interest payable on Group's borrowings payable at various payment terms like monthly or quarterly and insurance premiums payable which are due in 30-60 days.
xiv. The other outstanding balances of payable to related parties at year-end consist of advances, including those for development costs and land acquisitions, and expenses incurred on utilities, professional services, logistics and other miscellaneous services.
xv. Unless otherwise stated, all these are unsecured, interest free, will be settled in cash and are due and demandable.
xvi. Allowance for doubtful accounts on amounts due from related parties amounted to ₱83.5 million and ₱33.1 million as of December 31, 2018 and 2017, respectively (see Note 7). Provision for doubtful accounts amounted to ₱50.4 million, ₱0.7 million and (₱0.6 million) in 2018, 2017 and 2016, respectively (see Note 23).

c. Dividends receivable from related parties pertain to accrued dividend declarations from associates and joint ventures. These are non-interest bearing and usually collectible within one year. This amounted to ₱1,334.9 million and ₱1,153.2 million as of December 31, 2018 and 2017, respectively (see Note 7).

d. Receivables from officers and employees amounting to ₱1,498.0 million and ₱1,479.5 million as of December 31, 2018 and 2017 pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction, are interest bearing ranging from 5.0% to 10.0% per annum and have various maturity dates ranging from 2019 to 2027 (see Note 7).

e. Revenue and expenses from related parties follow:

	Revenue			Costs and Expenses		
	2018	2017	2016	**2018**	2017	2016
	(In Thousands)					
Associates:						
BPI	**₱913,974**	₱525,772	₱757,791	**₱1,078,384**	₱915,015	₱1,082,322
BF Jade	**59,733**	–	–	**–**	–	–
Joint ventures:						
Globe	**355,957**	193,426	236,299	**233,742**	169,884	143,207
Alveo-Federal	**56,305**	–	–	**–**	–	–
	1,385,969	719,198	994,090	**1,312,126**	1,084,899	1,225,529
Other related parties:						
FBDC	**₱188,747**	₱–	₱–	**₱2,182**	₱–	₱–
Lagoon	**–**	42,737	–	**–**	828	–
Others	**20,148**	22,815	26,936	**21,321**	23,061	12,135
	208,895	65,552	26,936	**23,503**	23,889	12,135
	₱1,594,864	₱784,750	₱1,021,026	**₱1,335,629**	₱1,108,788	₱1,237,664

Revenue recognized from related parties includes:
i. Leasing and project development and management services rendered by ALI Group.
ii. Water and sewerage services rendered by MWC.
iii. Automotive sales and repair services rendered by AITHI Group.
iv. Interest and miscellaneous income from cash deposits and money market placement as well as financing dealer incentive from BPI and other entities.
v. Others include various income such as interest and management fees.

Expenses recognized from related parties include:
i. Interest expense from short-term and long-term debt and credit card and other bank charges payable to BPI.
ii. Purchases of communications software and billings for mobile phone charges and internet connections with Globe.
iii. Building rental, leased lines, internet connections and ATM connections with Innove, subsidiary of Globe.
iv. Others include miscellaneous operating expenses such as professional and management services.

f. The Group's compensation of key management personnel by benefit type follows:

	2018	2017	2016
		(In Thousands)	
Short-term employee benefits	**₱1,905,957**	₱1,812,104	₱1,709,872
Post-employment benefits (Note 26)	**93,987**	114,237	156,923
Share-based payments (Note 27)	**17,665**	20,956	65,893
	₱2,017,609	₱1,947,297	₱1,932,688

Key management personnel of the Group include all officers with position of vice president and up.

32. Financial Instruments

Financial Risk Management

General

Like any other risks, financial risks are inherent in the business activities and are typical of any large holding company. The financial risk management of the Parent Company seeks to effectively contribute to better decision making, enhance performance, and satisfy compliance demands.

The Parent Company defines financial risks as risk that relates to the Parent Company's ability to meet financial obligations and mitigate funding risk, credit risk and exposure to broad market risks, including volatility in foreign currency exchange rates and interest rates. Funding risk refers to the potential inability to meet contractual or contingent financial obligations as they arise and could potentially impact the Parent Company's financial condition or overall financial position. Credit risk is the risk of financial loss arising from a counterparty's failure to meet its contractual obligations or non-payment of an investment. These exposures may result in unexpected losses and volatilities in the Parent Company's profit and loss accounts.

The Parent Company maintains a strong focus on its funding strategy to help provide access to sufficient funding to meet its business needs and financial obligations throughout business cycles. The Parent Company's plans are established within the context of our annual strategic and financial planning processes. The Parent Company also take into account capital allocations and growth objectives, including dividend pay-out. As a holding company, the Parent Company generates cash primarily on dividend payments of its subsidiaries, associates and joint ventures and other sources of funding.

The Parent Company also establishes credit policies in setting up limits for counterparties that are reviewed quarterly and monitoring of any changes in credit standing of counterparties.

The Parent Company has a formal foreign exchange and interest rate risk management policy. The Parent Company actively monitors foreign exchange exposure and interest rate changes. And in addition, the Parent Company ensures that all loan covenants and regulatory requirements are complied with.

The Ayala Group continues to monitor and manage its financial risk exposures in accordance with Board approved policies. The succeeding discussion focuses on Ayala Group's financial risk management.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise financial assets at FVTPL and FVOCI, AFS financial assets, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, short-term investments, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The Group's main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, price risk, liquidity risk, and credit risk.

The Group also uses hedging instruments, the purpose of which is to manage the currency and interest rate risks arising from its financial instruments.

The Group's risk management policies relevant to financial risks are summarized below:

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Parent Company's and its subsidiaries' obligations. The policy is to keep a certain level of the total obligations as fixed to minimize earnings volatility due to fluctuation in interest rates.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates as of December 31, 2018 and 2017, with all variables held constant.

Cash flow interest rate risk

	Change in basis points	Effect on profit before tax **2018**	2017
		(In Thousands)	
Parent Company -			
Floating rate			
Borrowings	+100	**(₱275,133)**	(₱69,169)
	-100	**275,133**	69,169
Subsidiaries -			
Floating rate			
Borrowings	+100	**(₱338,336)**	(₱563,358)
	-100	**338,336**	563,358

There is no other impact on the Group's equity other than those already affecting the net income.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with its corresponding nominal amounts and carrying values follows: (amounts in thousands):

December 31, 2018

	Interest terms (per annum)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱60,624,263	₱60,624,263	₱–	₱–	₱60,624,263
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	5,956,489	5,956,489	–	–	5,956,489
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	1,348,394	259,908	1,024,152	64,334	1,348,394
Financial assets at FVOCI - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	–	–	–	–	–
			₱67,929,146	₱134,769,806	₱1,024,152	₱64,334	₱67,929,146
Parent Company							
Long-term debt							
Fixed							
Peso	Fixed at 6.0043%	8 years	₱11,000,000	₱–	₱875,760	₱10,071,238	₱10,946,998
Peso	Fixed at 3.92%	7 years	10,000,000	–	9,927,904	–	9,927,904
Peso	Fixed at 4.82%	8 years	10,000,000	–	–	9,918,003	9,918,003
Peso	Fixed at 6.80%	10 years	10,000,000	–	9,970,466	–	9,970,466
Peso	Fixed at 6.875%	15 years	10,000,000	–	–	9,946,221	9,946,221
Peso	Fixed at 5.2883%	7 years	2,970,000	29,916	2,931,726	–	2,961,642
Peso	Fixed at 6.0043	5 years	2,000,000	–	2,017,241	–	2,017,241
Floating							
Peso	Variable at 0.60% to 0.70% over 3-month PDST R2 or 0.45% over 28-day BSP TDF Rate	3 months	11,543,250	492,212	8,563,559	2,423,735	11,479,506
Subsidiaries							
Short-term debt	Ranging from 2.50% to 6.04%	Monthly, quarterly	21,397,698	21,397,698	–	–	21,397,698
	Ranging from 4.38% to 7.03%	Monthly, quarterly	18,120,547	18,120,547	–	–	18,120,547
Exchangeable bond	Fixed at 0.50%	5 years	15,285,934	15,285,934	–	–	15,285,934
Long-term debt							
Fixed							
Peso and foreign currency Dollar	Fixed at 1.86% to 9.00%	3,4,5,7,10 and 15 years	288,655,774	29,800,309	59,370,346	186,146,450	275,317,105
Floating							
	Variable at 0.75% over 91-day PDST-R2	3 months, semi-annual	14,972,366	2,872,188	7,193,900	4,906,279	14,972,367
			₱425,945,569	₱87,998,804	₱100,850,902	₱223,411,926	₱412,261,632

December 31, 2017

	Interest terms (per annum)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱64,218,644	₱64,218,644	₱–	₱–	₱64,218,644
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	5,400,239	5,400,239	–	–	5,400,239
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	1,023,623	93,431	842,510	87,682	1,023,623
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	–	–	–	–	–
			₱70,642,506	₱69,712,314	₱842,510	₱87,682	₱70,642,506
Parent Company							
Long-term debt							
Fixed							
	Fixed at 3.92%	7 years	₱10,000,000	₱–	₱–	₱9,913,730	₱9,913,730
	Fixed at 6.80%	10 years	10,000,000	–	9,959,350	–	9,959,350
	Fixed at 4.82%	8 years	10,000,000	–	–	9,906,788	9,906,788
	Fixed at 6.875%	15 years	10,000,000	–	–	9,939,791	9,939,791
Floating							
	Variable at 0.30% to 1% over 3-month PDST R2 or 0% to 0.95% over BSP RRP	3 months	9,222,500	1,875,500	7,323,322	–	9,198,822
Subsidiaries							
Short-term debt	Ranging from 1.82% to 4.31%	Monthly, quarterly	6,979,123	6,979,123	–	–	6,979,123
	Ranging from 2.64% to 7.00%	Monthly, quarterly	22,925,600	22,925,600	–	–	22,925,600
Long-term debt							
Fixed							
Peso and foreign currency	Fixed at 1.86% to 9.00%	3,4,5,7,10 and 15 years	243,199,395	8,017,262	89,391,352	144,630,783	242,039,397
Dollar *Exchangeable bond*	Fixed at 0.50%	5 years	14,551,428	–	14,551,428	–	14,551,428
Floating							
	Variable at 0.75% over 91-day PDST-R2	3 months, semi-annual	15,207,006	3,839,205	7,315,153	4,043,565	15,197,923
			₱352,085,052	₱43,636,690	₱128,540,605	₱178,434,657	₱350,611,952

Foreign exchange risk
The Group's foreign exchange risk results primarily from movements of the PHP against other currencies. The Group's consolidated statements of income can be affected significantly by movements in the USD and other currencies versus the PHP. In 2018 and 2017, the Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

IMI Group
The IMI Group's foreign exchange risk results primarily from movements of the functional currency of each legal entity against other currencies. As a result of significant transactions denominated in RMB, PHP and EUR the consolidated statements of income can be affected significantly by movements in the USD versus these currencies. In 2018 and 2017, IMI entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

IMI Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than IMI's functional currency. Approximately 60% and 48% of IMI Group's sales for the years ended December 31, 2018 and 2017, respectively, and 51% and 44% of costs for the years ended December 31, 2018 and 2017, respectively, are denominated in currencies other than IMI's functional currency.

IMI Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider hedging any material exposure where appropriate.

MWC Group
The MWC Group's foreign exchange risk results primarily from movements of the PHP against the US$ and JPY. Majority of revenues are generated in PHP, and substantially all capital expenditures are also in PHP. Approximately 53.81% and 44.01% of debt as of December 31, 2018 and 2017, respectively, was denominated in foreign currency.

Information on the Group's significant foreign currency-denominated monetary assets and liabilities and their Php equivalent follows:

	December 31, 2018		December 31, 2017	
	US$	**Php Equivalent***	US$	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**US$171,367**	**₱9,010,477**	US$217,021	₱10,835,871
Short-term investments	**34,860**	**1,832,939**	–	–
Accounts and notes receivables	**–**	**–**	14,434	720,708
Other current assets	**–**	**–**	590	29,439
Other noncurrent assets	**–**	**–**	104	5,193
Total assets	**206,227**	**10,843,416**	232,149	11,591,211
Liabilities				
Accounts payable and accrued expenses	**1,034**	**54,368**	12,044	601,340
Other current liabilities	**–**	**–**	224	11,169
Short-term debt	**–**	**–**	–	–
Long-term debt	**193,842**	**10,192,212**	147,482	7,363,775
Other noncurrent liabilities	**64,859**	**3,410,286**	63,757	3,183,403
Total liabilities	**259,735**	**13,656,866**	223,507	11,159,687
Net foreign currency denominated assets (liabilities)	**(US$53,508)**	**(₱2,813,450)**	US$8,462	₱431,524

**Translated using the exchange rate at the reporting date (US$1:₱52.58 on December 31, 2018 and US$1:₱49.93 on December 31, 2017).*

	December 31, 2018		December 31, 2017	
	JPY	Php Equivalent*	JPY	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**JPY465,744**	**₱221,899**	JPY46,451	₱20,598
Accounts and notes receivable	**26,380**	**12,569**	41,761	18,518
Other noncurrent assets	**2,675**	**1,274**	3,139	1,392
Total assets	**494,799**	**235,742**	91,351	40,508
Liabilities				
Accounts payable and accrued expenses	**583,933**	**278,209**	397,399	176,218
Other current liabilities	**75,861**	**36,042**	–	–
Long-term debt	**28,402,974**	**13,494,253**	35,575,756	15,735,157
Other noncurrent liabilities	**527,061**	**250,407**	752,817	332,971
Total liabilities	**29,589,829**	**14,058,911**	36,725,972	16,244,346
Net foreign currency denominated liabilities	**(JPY29,095,030)**	**(₱13,823,169)**	(JPY36,634,621)	(₱16,203,838)

**Translated using the exchange rate at the reporting date (JPY1:₱0.4738 on December 31, 2018 and JPY1:₱0.4423 on December 31, 2017).*

	December 31, 2018		December 31, 2017	
	RMB	Php Equivalent*	RMB	Php Equivalent*
		(In Thousands)		
Assets				
Cash and cash equivalents	**RMB154,278**	**₱1,181,951**	RMB151,171	₱1,155,146
Accounts and notes receivables	**665,668**	**5,099,778**	516,348	3,945,590
Other current assets	**7,038**	**53,923**	–	–
Total assets	**826,984**	**6,335,652**	667,519	5,100,736
Liabilities				
Accounts payable and accrued expenses	**478,697**	**3,667,373**	555,768	4,246,808
Short-term debt	**113,245**	**867,591**	–	–
	591,942	**4,534,964**	555,768	4,246,808
Net foreign currency denominated assets	**RMB235,042**	**₱1,800,690**	RMB111,751	₱853,928

**Translated using the exchange rate at the reporting date RMB1: ₱7.66 on December 31, 2018 and RMB1: ₱7.64 on December 31, 2017).*

	December 31, 2018		December 31, 2017	
	EUR	Php Equivalent*	EUR	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**EUR21,745**	**₱1,310,743**	EUR14,893	₱889,971
Receivables	**68,957**	**4,156,544**	65,048	3,886,393
Other current and noncurrent assets	**424**	**25,567**	13	791
Total assets	**91,126**	**5,492,854**	79,954	4,777,155
Liabilities				
Accounts payable and accrued expenses	**45,110**	**2,719,101**	26,448	1,579,577
Other current liabilities	**13,715**	**826,678**	–	–
Short term debt	**13,212**	**796,393**	4,997	298,568
Long-term debt	**1,933**	**116,538**	3,112	185,942
Other noncurrent liabilities	**7,999**	**482,179**	1,019	60,898
Total liabilities	**81,969**	**4,940,889**	35,576	2,124,985
Net foreign currency denominated assets	**EUR9,157**	**₱551,965**	EUR44,378	₱2,652,170

**Translated using the exchange rate at the reporting date (EUR1: ₱60.15 on December 31, 2018 and EUR1: ₱59.61 on December 31, 2017)*

	December 31, 2018		December 31, 2017	
	VND	**Php Equivalent***	VND	Php Equivalent
		(In Thousands)		
Assets				
Cash and cash equivalents	**VND1,121,738**	₱2,566	VND22,817,184	₱50,162
Accounts and notes receivable	**–**	–	1,008,650	2,254
Total assets	**1,121,738**	2,566	23,825,834	52,416
Liabilities				
Accounts payable and accrued expenses	**1,401,336**	3,177	454,437	653
Net foreign currency denominated assets	**(VND279,598)**	(₱611)	VND23,371,397	₱51,763

**Translated using the exchange rate at the reporting date (VND1:₱0.0023 on December 31, 2018 and VND1:₱0.0022 on December 31, 2017.*

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (amounts in thousands).

Currency	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax	
		2018	2017
US$	₱1.00	**(₱53,508)**	₱8,642
	(1.00)	**53,508**	(8,642)
JPY	1.00	**(29,095,030)**	(36,634,621)
	(1.00)	**29,095,030**	36,634,621
RMB	1.00	**235,042**	111,751
	(1.00)	**(235,042)**	(111,751)
EUR	1.00	**411,893**	44,378
	(1.00)	**(411,893)**	(44,378)
VND	1.00	**(279,598)**	23,371,397
	(1.00)	**279,958**	(23,371,397)

There is no other impact on the Group's equity other than those already affecting net income.

Equity price risk

AFS financial assets and financial assets at FVTPL and FVOCI are acquired at certain prices in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers, or factors affecting all instruments traded in the market. Depending on several factors such as interest rate movements, the country's economic performance, political stability, and domestic inflation rates, these prices change, reflecting how market participants view the developments. The Group's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each sector and market.

The analysis below demonstrates the sensitivity to a reasonably possible change of market index with all other variables held constant, of the Group's equity arising from fair valuation of quoted AFS financial assets and financial assets at FVTPL and FVOCI (amounts in thousands):

	Market Index	**Change in Variables**	**Effect on Equity Increase (decrease)**
			(In Thousands)
2018	PSEi	5%	**₱307,695**
		(5%)	**(307,695)**
2017	PSEi	5%	₱354,563
		(5%)	(354,563)

Liquidity risk
Liquidity risk is defined by the Group as the risk of losses arising from funding difficulties due to deterioration in market conditions and/or the financial position of the Group that make it difficult to raise the necessary funds or that forces the Group to raise funds at significantly higher interest rates than usual.

This is also the possibility of experiencing losses due to the inability to sell or convert marketable securities into cash immediately or in instances where conversion to cash is possible but at loss due to wider than normal bid-offer spreads.

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues, both on-shore and off-shore.

ALI Group
ALI Group employs scenario analysis and contingency planning to actively manage its liquidity position and guarantee that all operating, investing and financing needs are met. ALI Group has come up with a three-layered approach to liquidity through the prudent management of sufficient cash and cash equivalents, the potential sale of accounts receivables and the maintenance of short-term revolving credit facilities.

Cash and cash equivalents are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise. Management develops viable funding alternatives through a continuous program for the sale of its receivables and ensures the availability of ample unused short-term revolving credit facilities from both local and foreign banks as back-up liquidity.

IMI Group
IMI Group's exposure to liquidity risk relates primarily to its short-term and long-term obligations. IMI Group seeks to manage its liquidity profile to be able to finance its capital expenditures and operations. IMI Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, IMI Group regularly evaluates its projected and actual cash flows. To cover financing requirements, IMI Group intends to use internally-generated funds and loan facilities with local and foreign banks. Surplus funds are placed with reputable banks.

MWC Group
MWC Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and debentures. MWC Group's policy is to maintain a level of cash that is sufficient to fund its operating cash requirements for the next four (4) to six (6) months and any claim for refund of customers' guaranty deposits. Capital expenditures are funded through long-term debt, while operating expenses and working capital requirements are sufficiently funded through internal cash generation.

The table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2018 and 2017, based on contractual undiscounted payments.

	December 31, 2018				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱120,312,117	₱–	₱–	₱–	₱120,312,117
Project costs	18,641,346	–	–	–	18,641,346
Accrued expenses	17,153,646	–	–	–	17,153,646
Personnel costs	9,078,336	–	–	–	9,078,336
Dividends payable	4,131,317	–	–	–	4,131,317
Retentions payable	6,762,286	5,721,123	–	–	12,483,409
Related parties	1,072,551	–	–	–	1,072,551
Contractors payable	–	–	–	7,264,642	7,264,642
DRP obligation	236,362	–	–	1,001,146	1,237,508
Nontrade Payable	1,490,379		–	–	1,490,379
Subscription payable	–	802,702	–	–	802,702
Liability for purchased land	2,544,623	–	–	5,021,034	7,565,657
Derivative liability	15,700	–	–	–	15,700
Service concession obligation	820,802	–	–	7,018,211	7,838,913
Customers' deposits	7,169,097	–	–	22,995,791	30,164,888
Short-term debt	39,518,245	–	–	–	39,518,245
Long-term debt	48,480,559	97,363,916	65,333,808	161,565,104	372,743,387
Other liabilities	1,082,832	585,489	–	1,837,598	3,505,919
Interest payable	12,141,391	26,940,306	3,124,796	18,209,755	60,416,248
	₱290,651,589	₱131,413,536	₱68,458,604	₱224,913,281	₱715,436,910

	December 31, 2017				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
			(In Thousands)		
Accounts payable and accrued expenses					
Accounts payable	₱90,750,983	₱–	₱–	₱–	₱90,750,983
Project costs	15,946,912	–	–	–	15,946,912
Accrued expenses	15,839,590	–	–	–	15,839,590
Personnel costs	8,368,005	–	–	–	8,368,005
Dividends payable	3,618,606	–	–	–	3,618,606
Retentions payable	4,924,173	8,374,648	–	–	13,298,821
Related parties	1,873,861	–	–	–	1,873,861
Contractors payable	–	–	–	7,955,096	7,955,096
DRP obligation	230,103	–	–	728,390	958,493
Subscription payable	–	481,675	–	19,424	501,099
Liability for purchased land	3,710,462	–	–	2,303,140	6,013,602
Derivative liability	1,095,584	–	–	–	1,095,584
Service concession obligation	803,898	32,888	866,146	6,849,022	8,551,954
Customers' deposits	23,722,969	13,436,009	6,827,379	987,277	44,973,634
Short–term debt	29,904,723	–	–	–	29,904,723
Long–term debt	13,731,967	27,715,554	49,161,741	230,097,967	320,707,229
Other liabilities	1,165,241	516,695	–	1,604,083	3,286,019
Interest payable	9,699,654	25,155,368	2,134,659	18,645,827	55,635,508
	₱225,386,731	₱75,712,837	₱58,989,925	₱269,190,226	₱629,279,719

Cash and cash equivalents, short–term investments and financial assets at FVTPL are used for the Group's liquidity requirements. Please refer to the terms and maturity profile of these financial assets under the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section.

Credit risk

Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's holding of cash and cash equivalents and short-term investments and receivables from customers and other third parties exposes the Group to credit risk of the counterparty. Credit risk management involves dealing with institutions for which credit limits have been established. The Treasury and Financial Policies of the individual subsidiaries set credit limits for their counterparty. The Group trades only with recognized, creditworthy third parties and has a well-defined credit policy and established credit procedures.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 90 days when they fall due, which are derived based on the Group's historical information.

The Group considers "low risk" to be an investment grade credit rating with at least one major rating agency for those investments with credit rating. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition.

Given the Group's diverse base of counterparties, the Group is not exposed to large concentrations of credit risk.

The maximum exposure to credit risk for the components of the consolidated statement of financial position is equal to the carrying values.

Part of the policies is the performance of impairment analysis for the credit accounts (see Note 3).

ALI Group
ALI Group's credit risks are primarily attributable to installments receivable, rental receivables and other financial assets. To manage credit risks, ALI Group maintains defined credit policies and monitors its exposure to credit risks on a continuous basis.

In respect of installments receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. ALI Group also undertakes supplemental credit review procedures for certain installment payment structures. ALI Group's stringent customer requirements and policies in place contribute to lower customer default than its competitors. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements. Exposure to bad debts is not significant as title to real estate properties are not transferred to the buyers until full payment has been made and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with ALI Group security deposits and advance rentals which helps reduce ALI Group's credit risk exposure in case of defaults by the tenants. For existing tenants, ALI Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

Other financial assets are comprised of cash and cash equivalents excluding cash on hand, short-term investments, financial assets at FVPL and financial assets at FVOCI. ALI Group adheres to fixed limits and guidelines in its dealings with counterparty banks and its investment in financial instruments. Bank limits are established on the basis of an internal rating system that principally covers the areas of liquidity, capital adequacy and financial stability. The rating system likewise makes use of available international credit ratings. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations. Nevertheless, ALI Group closely monitors developments over counterparty banks and adjusts its exposure accordingly while adhering to pre-set limits.

ALI Group's maximum exposure to credit risk as of December 31, 2018 and 2017 is equal to the carrying values of its financial assets.

Given ALI Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rate is based on days past due of all customers as they have similar loss patterns. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. The security deposits and advance rental are considered in the calculation of impairment as recoveries. As of December 31, 2018 and 2017, the exposure at default amounts to ₱24,674.0 million and ₱73,948.2 million, respectively. The expected credit loss rate is 3.5% and 1.0% that resulted in the ECL of ₱872.3 million and ₱725.9 million as of December 31, 2018 and December 31, 2017, respectively.

IMI Group

The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that IMI Group's exposure to bad debts is not significant.

MWC Group

MWC Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by MWC Group's established policy, procedures and control relating to customer credit risk management. Credit risk for receivables from customers is managed primarily through credit reviews and an analysis of receivables on a continuous basis. MWC Group has no significant concentration of credit risk. Outstanding customer receivables and contract assets are regularly monitored and customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customer segments with similar loss patterns (i.e., by geographical region, and product type). The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on MWC Group's historical observed default rates. MWC Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Generally, trade receivables are written-off when deemed unrecoverable and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

The aging analysis of accounts and notes receivables that are past due but not impaired follows:

December 31, 2018

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	31-60 days	61-90 days	91-120 days	>120 days	Total		
				(In Thousands)					
Trade:									
Real estate	₱44,932,109	₱2,559,105	₱1,405,219	₱885,261	₱505,299	₱3,231,656	₱8,586,540	₱872,268	₱54,390,917
Electronics manufacturing	13,258,437	1,954,513	278,346	246,423	101,179	257,591	2,838,052	105,908	16,202,397
Automotive	1,085,224	612,365	355,860	247,375	146,904	371,005	1,733,509	77,783	2,896,516
Water infrastructure	1,374,283	–	–	–	–	–	–	1,239,761	2,614,044
Power generation	611,919	–	–	–	–	–	–	460,426	1,072,345
Information technology and BPO	84,460	–	–	–	–	–	–	176,552	261,012
International and others	46,639	709	–	–	–	–	709	–	47,348
Receivable from related parties	8,459,392	176,443	7,331	5,215	59,313	173,361	421,663	83,541	8,964,596
Dividend receivable	1,334,894	–	–	–	–	–	–	–	1,334,894
Receivable from officers and employees	1,217,341	27,992	10,726	15,198	15,112	211,628	280,656	–	1,497,997
Concession financial receivable	1,046,534	–	–	–	–	–	–	–	1,046,534
Receivable from BWC	388,411	–	–	–	–	–	–	–	388,411
Others	388,518	–	–	–	–	–	–	–	388,518
Total	₱74,228,161	₱5,331,127	₱2,057,482	₱1,399,472	₱827,807	₱4,245,241	₱13,861,129	₱3,016,239	₱91,105,529

December 31, 2017

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	31-60 days	61-90 days	91-120 days	>120 days	Total		
	(In Thousands)								
Trade:									
Real estate	₱86,262,330	₱2,560,363	₱2,100,803	₱2,312,607	₱2,216,421	₱4,882,663	₱14,072,857	₱550,660	₱100,885,847
Electronics manufacturing	11,344,745	1,010,669	219,026	103,419	108,508	136,166	1,577,788	100,373	13,022,906
Automotive	3,142,350	1,005,980	494,173	319,579	190,426	349,775	2,359,933	29,903	5,532,186
Water infrastructure	2,167,886	–	–	–	–	–	–	67,074	2,234,960
Power generation	1,151,909	–	–	–	–	–	–	–	1,151,909
Information technology and BPO	119,569	–	–	–	–	–	–	171,346	290,915
International and others	16,723	1,352	1,201	1,932	652	658	5,795	–	22,518
Receivable from related parties	2,848,376	97,195	9,413	17,449	50,581	47,241	221,879	–	3,070,255
Receivable from officers and employees	1,432,504	18,032	5,138	5,903	3,865	14,090	47,028	–	1,479,532
Concession financial receivable	1,384,551	–	–	–	–	–	–	–	1,384,551
Dividend receivable	1,153,206	–	–	–	–	–	–	–	1,153,206
Receivable from BWC	501,014	–	–	–	–	–	–	–	501,014
Others	300,693	–	–	–	–	–	–	–	300,693
Total	₱111,825,856	₱4,693,591	₱2,829,754	₱2,760,889	₱2,570,453	₱5,430,593	₱18,285,280	₱919,356	₱131,030,492

The table below shows the credit quality of the Group's financial assets as of December 31, 2018 and 2017 (amounts in thousands):

December 31, 2018

	Neither past due nor impaired				Past due but		
	High Grade	**Medium Grade**	**Low Grade**	**Total**	**not impaired**	**Impaired**	**Total**
Cash and cash equivalents excluding cash on hand	₱60,583,510	₱–	₱–	₱60,583,510	₱–	₱–	₱60,583,510
Short–term investments	5,956,489	–	–	5,956,489	–	–	5,956,489
Other current assets							
FVTPL financial assets	–	9,236,804	–	9,236,804	–	–	9,236,804
Deposits in escrow	322,666	–	–	322,666	–	–	322,666
Derivative assets	65,788	–	–	65,788	–	–	65,788
Other noncurrent assets							
Deposits -others	2,478,582	–	–	2,478,582	–	–	2,478,582
Others	2,365,311	–	–	2,365,311	–	–	2,365,311
Accounts and notes receivables							
Trade							
Real estate	38,204,360	3,670,685	3,057,064	44,932,109	8,586,540	872,268	54,390,917
Electronics manufacturing	333,809	12,924,628	–	13,258,437	2,838,052	105,908	16,202,397
Automotive	63,965	1,011,595	9,664	1,085,224	1,733,509	77,783	2,896,516
Water infrastructure	666,684	707,599	–	1,374,283	–	1,239,761	2,614,044
Power generation	611,919	–	–	611,919	–	460,426	1,072,345
Information technology and BPO	84,460	–	–	84,460	–	176,552	261,012
International and others	45,510	1,129	–	46,639	709	–	47,348
Receivable from related parties	6,137,662	2,011,628	310,102	8,459,392	421,663	83,541	8,964,596
Receivable from officers employees	1,045,275	157,637	14,429	1,217,341	280,656	–	1,497,997
Concession financial receivable	1,046,534	–	–	1,046,534	–	–	1,046,534
Dividend receivable	1,334,894	–	–	1,334,894	–	–	1,334,894
Receivable from BWC	–	388,411	–	388,411	–	–	388,411
Other receivable	388,518	–	–	388,518	–	–	388,518
Financial assets at FVOCI							
Quoted shares of stocks	2,058,460	–	–	2,058,460	–	–	2,058,460
Unquoted shares of stocks	–	975,785	–	975,785	–	–	975,785
	₱123,794,396	₱31,085,901	₱3,391,259	₱158,271,556	₱13,861,129	₱3,016,239	₱175,148,924

December 31, 2017

	Neither past due nor impaired				Past due but	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents excluding cash on hand	₱64,218,644	₱–	₱–	₱64,218,644	₱–	₱–	₱64,218,644
Short–term investments	5,400,239	–	–	5,400,239	–	–	5,400,239
Other current assets							
FVTPL financial assets	–	6,063,585	–	6,063,585	–	–	6,063,585
Deposits in escrow	259,898	–	–	259,898	–	–	259,898
Derivative assets	85,347	–	–	85,347	–	–	85,347
Other noncurrent assets							
Deposits - others	4,239,797	–	–	4,239,797	–	–	4,239,797
Others	291,968	–	–	291,968	–	–	291,968
Accounts and notes receivables							
Trade							
Real estate	77,306,224	4,711,851	4,244,255	86,262,330	14,072,857	550,660	100,885,847
Electronics manufacturing	739,414	10,605,331	–	11,344,745	1,577,788	100,373	13,022,906
Automotive	–	2,957,709	184,641	3,142,350	2,359,933	29,903	5,532,186
Water infrastructure	1,299,516	868,370	–	2,167,886	–	67,074	2,234,960
Power generation	1,151,909	–	–	1,151,909	–	–	1,151,909
Information technology and BPO	–	119,569	–	119,569	–	171,346	290,915
International and others	14,137	2,586	–	16,723	5,795	–	22,518
Receivable from related parties	2,460,841	387,535	–	2,848,376	221,879	–	3,070,255
Dividend receivable	1,153,206	–	–	1,153,206	–	–	1,153,206
Receivable from BWC	–	501,014	–	501,014	–	–	501,014
Concession financial receivable	1,384,551	–	–	1,384,551	–	–	1,384,551
Receivable from officers employees	1,365,525	57,419	9,560	1,432,504	47,028	–	1,479,532
Other receivable	300,693	–	–	300,693	–	–	300,693
AFS Investments							
Quoted shares of stocks	2,072,962	–	–	2,072,962	–	–	2,072,962
Unquoted shares of stocks	–	2,393,405	–	2,393,405	–	–	2,393,405
Quoted debt investments	–	–	–	–	–	–	–
	₱163,744,871	₱28,668,374	₱4,438,456	₱196,851,701	₱18,285,280	₱919,356	₱216,056,337

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, short–term investments, FVTPL financial assets, quoted financial assets at FVOCI and AFS financial assets, investment in bonds classified as loans and receivable, advances to other companies and related party receivables
High grade pertains to cash and cash equivalents and short-term investments, quoted financial assets, investment in bonds classified as loans and receivable, related party transactions and receivables with high probability of collection.

Medium grade pertains to unquoted financial assets other than cash and cash equivalents and short–term investments with nonrelated counterparties and receivables from counterparties with average capacity to meet their obligation.

Low grade pertains to financial assets with the probability to be impaired based on the nature of the counterparty.

Trade receivables
Real estate, information technology and BPO and international and others - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment in the past; and low grade pertains to receivables with more than 3 defaults in payment.

Electronics manufacturing - high grade pertains to receivable with favorable credit terms and can be offered with a credit term of 15 to 45 days; medium grade pertains to receivable with normal credit terms and can be offered with a credit term of 15 to 30 days; and low grade pertains to receivables under advance payment or confirmed irrevocable Stand-by Letter of Credit and subjected to semi-annual or quarterly review for possible upgrade or transaction should be under advance payment or confirmed and irrevocable Stand-By Letters of credit; subject to quarterly review for possible upgrade after one year.

Water infrastructure – high grade pertains to receivables that are collectible within 7 days from bill delivery; medium grade pertains to receivables that are collectible from 11 to 30 days from bill delivery.

Automotive – high grade pertains to receivables from corporate accounts and medium grade for receivables from noncorporate accounts.

Unquoted financial assets at FVOCI – the unquoted investments are unrated.

33. Fair Value Measurement and Derivative Instruments

Fair Value of Financial and Nonfinancial Instruments
The carrying amounts approximate fair values for the Group's financial assets and liabilities due to its short–term maturities except for the following financial instruments as of December 31, 2018 and 2017 (amounts in thousands):

	2018		2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS AT FVTPL				
Held for trading	**₱9,236,804**	**₱9,236,804**	₱6,063,585	₱6,063,585
Derivative assets				
Embedded	**65,324**	**65,324**	83,785	83,785
Freestanding	**464**	**464**	1,562	1,562
Total financial assets at FVTPL	**9,302,592**	**9,302,592**	6,148,932	6,148,932

(Forward)

	2018		2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
AT AMORTIZED COST				
Accounts and notes receivables				
Trade receivables				
Real estate	**₱54,390,916**	**₱54,548,005**	₱100,885,847	₱101,042,936
Nontrade receivables				
Receivable from officers and employees	**1,497,998**	**1,488,987**	1,479,532	1,470,522
Concession financial receivable	**1,517,892**	**2,358,369**	1,384,552	3,188,264
Total loans and receivables	**57,406,806**	**58,395,361**	103,749,931	105,701,722
FINANCIAL ASSETS AT FVOCI / AFS FINANCIAL ASSETS				
Quoted equity investments	**2,058,460**	**2,058,460**	2,072,962	2,072,962
Unquoted equity investments	**975,785**	**975,785**	2,393,405	2,393,405
Total Financial assets at FVOCI / AFS financial assets	**3,034,245**	**3,034,245**	4,466,367	4,466,367
OTHER FINANCIAL ASSETS				
Deposits	**2,801,248**	**2,801,248**	4,499,695	4,499,695
Total Other Financial Assets	**2,801,248**	**2,801,248**	4,499,695	4,499,695
Total financial assets	**₱72,544,891**	**₱73,533,446**	₱118,864,925	₱120,816,716
FINANCIAL LIABILITIES AT FVTPL				
Other noncurrent liabilities –Contingent consideration	**₱195,920**	**₱195,920**	₱1,247,052	₱1,247,052
Financial liabilities on put option	**1,371,226**	**1,371,226**	1,094,079	1,094,079
Derivative liabilities				
Freestanding	**–**	**–**	1,505	1,505
	1,567,146	**1,567,146**	2,342,636	2,342,636
OTHER FINANCIAL LIABILITIES				
Long–term debt	**372,743,387**	**360,945,172**	320,707,229	312,309,608
Service concession obligation	**7,839,013**	**8,693,080**	8,551,954	8,627,085
Deposits and other noncurrent liabilities	**35,141,427**	**31,241,007**	38,052,071	34,694,619
Total other financial liabilities	**415,723,827**	**400,879,259**	367,311,254	355,631,312
Total financial liabilities	**₱425,793,063**	**₱411,042,930**	₱369,653,890	₱369,653,948

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

Financial assets at FVTPL – Fair values of investment securities are based on quoted prices as of the reporting date. For other investment securities such as FVTPL with no reliable measure of fair value, these are carried at its last transaction price.

The fair value of the investment in UITF is based on net asset values as of reporting dates.

The fair value of the investment in ARCH Capital Fund is determined using the discounted cash flow (DCF) method. Under the DCF method in fund fair valuation, it is estimated using assumptions regarding the benefits and liabilities of ownership over the underlying asset’s life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream, associated with the underlying asset. The exit yield is normally separately determined and differs from the discount rate. Significant inputs considered were rental, growth and discount rates. The higher the rental and growth rates, the higher the fair value. The higher the discount rates, the lower the fair value.

The fair value of other unquoted financial assets at FVTPL is determined using Weighted Average Cost of Capital using market comparable. The rate used is 5% in 2018 and 2017.

Derivative instrument – The fair value of the freestanding currency forwards is based on counterparty valuation. Derivative asset – The fair value is estimated using a modified stock price binomial tree model for convertible callable bonds.

Noncurrent trade and nontrade receivables – The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 2.90% to 6.37% and 4.53% to 7.20% as of December 31, 2018 and 2017.

Financial assets at FVOCI and AFS quoted equity securities – fair values are based on quoted prices published in markets.

Financial assets at FVOCI unquoted equity securities – fair values are based on the latest selling price available.

AFS unquoted equity securities – These are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value.

Financial liabilities on put options – These pertain to the liabilities of IMI Group arising from the written put options over the non-controlling interest of VIA and STI. The fair value of the financial liabilities is estimated using the discounted, probability-weighted cash flow method. The future cash flows were projected using the equity forward pricing formula with reference to the current equity value of the acquiree and the forecasted interest rate which is the risk-free rate in Germany and UK. The risk-free rate used is 0.26% for VIA and 0.91% for STI. Management applied weights on the estimated future cash flows, based on management's judgment on the chance that the trigger events for the put option will occur.

The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

For STI, management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronics services solutions to derive its current equity value. Management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization.

Other financial liabilities - noncurrent – The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. This also include the contingent consideration related to the acquisition of STI determined based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital. The discount rate is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital. The discount rates used for Peso-denominated loans were 7.28% to 8.79% in 2018 and 3.93% to 7.20% in 2017 while the discount rates used for the foreign currency-denominated loans ranged 5.22% to 7.53% in 2018 and 2.50% to 9.58% in 2017.

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

The following table shows the fair value hierarchy of the Group's assets and liabilities as at December 31, 2018 and 2017 (amounts in thousands):

2018

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVTPL	₱–	₱85,724	₱9,151,080	₱9,236,804
Derivative assets				
Embedded	–	–	65,324	65,324
Freestanding	–	–	464	464
Total Financial assets at FVPL		85,724	9,216,868	9,302,592
Financial assets at FVOCI				
Quoted equity investments	2,058,460	–	–	2,058,460
Unquoted equity investments	–	–	975,785	975,785
	₱2,058,460	₱85,724	₱10,192,653	₱12,336,837
Recurring financial assets for which fair values are disclosed:				
Trade and nontrade receivables	₱–	₱–	₱56,036,992	₱56,036,992
Concession financial receivable	–	–	2,358,369	2,358,369
Deposits	–	–	2,801,248	2,801,248
	₱–	₱–	₱61,196,609	₱61,196,609
Recurring financial liabilities measured at fair value				
Financial liabilities on put option	₱–	₱–	₱,371,226	₱1,371,226
Contingent consideration (noncurrent liability)	–	–	195,920	195,920
Derivative liabilities				
Freestanding	–	–	–	–
	₱–	–	₱1,567,146	₱1,567,146
Recurring financial liabilities for which fair values are disclosed:				
Long–term debt	–	–	₱360,945,172	₱360,945,172
Service concession obligation	–	–	8,693,080	8,693,080
Deposits and other noncurrent liabilities	–	–	31,241,007	31,241,007
	₱–	₱–	₱400,879,259	₱400,879,259
Nonfinancial assets for which fair values are disclosed:				
Investment properties	₱–	₱–	₱338,357,200	₱338,357,200
Investments in associates and joint ventures*	320,407,782	–	–	320,407,782
	₱320,407,782	₱–	₱338,357,200	₱658,764,982

**Fair value of investments in listed associates and joint ventures for which there are published price quotations*

2017

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVTPL	₱–	₱82,978	₱5,980,607	₱6,063,585
Derivative assets				
Embedded	–	–	83,785	83,785
Freestanding	–	–	1,562	1,562
Financial assets at FVOCI				
Quoted equity investments	1,161,169	911,793	–	2,072,962
Unquoted equity investments	–	–	2,393,405	2,393,405
	1,161,169	994,771	8,459,359	₱10,615,299
Recurring financial assets for which fair values are disclosed:				
Trade and nontrade receivables	₱–	₱–	₱102,513,458	₱102,513,458
Concession financial receivable	–	–	3,188,264	3,188,264
Deposits	–	–	4,499,695	4,499,695
	₱–	₱–	₱110,201,417	₱110,201,417

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial liabilities measured at fair value				
Financial liabilities on put option	₱–	₱–	₱1,094,079	₱1,094,079
Contingent consideration (noncurrent liability)	–	–	1,247,052	1,247,052
Derivative liabilities				
Freestanding	–	1,505	–	1,505
	₱–	₱1,505	₱2,341,131	₱2,342,636
Recurring financial liabilities for which fair values are disclosed:				
Long–term debt	–	–	312,309,608	312,309,608
Service concession obligation	–	–	8,627,085	8,627,085
Deposits and other noncurrent liabilities	–	–	34,694,619	34,694,619
	₱–	₱–	₱355,631,312	₱355,631,312
Nonfinancial assets for which fair values are disclosed:				
Investment properties	₱–	₱–	₱334,437,827	₱334,437,827
Investments in associates and joint ventures*	216,671,968	–	–	216,671,968
	₱216,671,968	₱–	₱334,437,827	₱551,109,795

**Fair value of investments in listed associates and joint ventures for which there are published price quotations*

There was no change in the valuation techniques used by the Group in determining the fair market value of the assets and liabilities.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table presents the valuation techniques and unobservable key inputs used to value the Group's financial assets and liabilities categorized as Level 3:

	Valuation Technique	Unobservable inputs	Range of unobservable inputs	Sensitivity of the input to the fair value
Financial assets at FVTPL	Market comparable	Weighted average cost of capital (WACC)	5% to 10%	5% increase / (decrease) in WACC would result in increase / (decrease) in fair value by US$5,200,723/ (US$5,200,723)
				10% increase / (decrease) in WACC would result in increase / (decrease) in fair value by US$10,401,445/ (US$10,401,445)
Financial liabilities on put options	Discounted, probability-weighted cash flow method	Growth rate	0% - 2% (1%)	1% increase in growth rate would result in an increase in fair value by US$1.78 million. Decrease in growth rate by 1% would result in a fair value decrease of US$1.40 million.
		Discount rate	10% - 12% (11%)	1% increase in discount rate would result in a decrease in fair value by US$1.82 million. Decrease in discount rate by 1% would result in a fair value increase of US$2.32 million.
		Probability of trigger events occurring	1% - 10% (5%)	Increase in the probability to 10% would result in an increase in fair value by US$0.71 million. Decrease in the probability to 1% would result in a decrease in fair value by US$1.08 million.
Other noncurrent liabilities (contingent consideration)	Discounted, probability-weighted payout	Discount rate	7% - 9% (8%)	1% increase in growth rate for the remaining period of the contingent consideration would result in an increase in contingent liability of US$1.87 million. Decrease in growth rate by 1% would result to a decrease in contingent liability of US$0.01 million.
		Probability of pay-out	£0 to £23.3 million ($0 to $30.20 million)	£0 to £2.9 million (US$0 to US$3.7 million)

ALI Group categorizes trade receivable, receivable from employees, long-term debt and deposits and other noncurrent liabilities under Level 3. The fair value of these financial instruments is determined by discounting future cash flows using the applicable rates of similar types of instruments plus a certain spread. This spread is the unobservable input and the effect of changes to this is that the higher the spread, the lower the fair value.

A reconciliation of the beginning and closing balances of Level 3 financial assets and liabilities at FVTPL are summarized below:

Financial Assets at FVTPL	**2018**	2017
At January 1	**₱5,980,607**	₱4,927,256
Adoption of PFRS 9	**1,087,593**	–
Additions	**4,939,944**	1,071,109
Disposals/redemptions/return of capital	**(3,253,958)**	(410,580)
Recognized in consolidated statement of income	**996,170**	276,392
Exchange difference	**(513,552)**	116,430
At December 31	**₱9,236,804**	₱5,980,607

Financial Liabilities at FVTPL	**2018**	2017
At January 1	**₱2,341,131**	₱563,541
Additions	**–**	1,889,943
Recognized in consolidated statement of income	**(837,144)**	(115,859)
Exchange Difference	**63,159**	3,506
At December 31	**₱1,567,146**	₱2,341,131

Derivatives

	2018	2017
Derivative Assets		
Prepayment option of ACEI	**₱65,788**	₱83,785
Currency forward of AIVPL	**–**	1,562
	₱65,788	₱85,347
Derivative Liabilities		
Forward contract of ACEI	**₱15,700**	₱–
Conversion option of AIVPL	**–**	1,505
	₱15,700	₱1,505

Financial liabilities on put options
The acquisition of VIA in 2016 and STI in 2017 included call and put options over the non-controlling interests. The put options resulted in a financial liability of US$26.1 million and US$21.9 million as of December 31, 2018 and 2017, respectively.

Free standing derivatives
IMI Group entered into various short-term currency forwards with an aggregate notional amount of nil in 2018 and US$5.85 million in 2017. As of December 31, 2018 and 2017, the outstanding forward contracts have a net negative fair value of US$0.03 million. The changes in fair value of currency forwards recognized in 2018 and 2017 amounted to nil and US$0.03 million gain, respectively.

Embedded derivatives

BHL

Convertible bonds

In June 2014, BHL invested VND113 billion (equivalent to USD5.3 million) in CII convertible bonds through its wholly owned subsidiary, VIP. These bonds have a maturity of 5 years, and a coupon rate of 5% per annum

On June 23, 2016, the third bond conversion exercise, BHL Group converted 69,235 bonds into 6,293,461 shares at a closing price of VND 26,500 per share. Based on the initial bond offering submission made by CII, the conversion ratio would be 90.9:1 (1 convertible bond to 90.9 shares), where the number of converted shares will be rounded down to the next last whole number. This conversion increased the investment in CII shares by VND 166.6 billion (equivalent to US$7.5 million).

BHL Group recognized a total gain of VND 37.9 million (US$1.7 million) on the conversion exercise, out of which VND 28.3 million (US$1.3 million) was the gain on the difference between the CII share price on the date of conversion and the carrying amount of convertible bond, and VND 9.6 million (US$ 0.4 million) was the gain on the realization of the valuation reserve previously recorded on the convertible bonds (see Note 24).

In 2017, the last bond conversion exercise, BHL Group converted 43,755 bonds into 3,977,329 shares at a closing price of VND 37,250 per share. Based on the initial bond offering submission made by CII, the conversion ratio would be 90.9:1 (1 convertible bond to 90.9 shares), where the number of converted shares will be rounded down to the next last whole number. This conversion increased the investment in CII shares by VND 148.2 billion (equivalent to US$6.7 million). BHL Group recognized a total gain of VND91.4 billion (US$4.0 million) on the conversion exercise, out of which VND 35.7 billion (US$1.6 million) was the gain on the difference between the CII share price on the date of conversion and the carrying amount of convertible bond, and VND 55.7 million (US$ 2.4 million) was the gain on the realization of the valuation reserve previously recorded on the convertible bonds (see Note 24).

ACEI

On June 26, 2017, ACEI entered into a three (3) year contract with DirectPower Services Inc. ("DPSI") (an affiliate) effective from June 26, 2017 up to June 25, 2020. The contract enables DPSI to meet the electricity requirements of its customers. Under the contract, the Parent Company or DPSI, as the case may be has the obligation to pay the Exposure Fee in accordance with the fee computation formula agreed to by both parties.

The contracts with SLPGC and DPSI resulted to a fair value losses in 2018 and 2017 amounting to ₱15.7 million and nil, respectively. The fair value of derivative liability as of December 31, 2018 and 2017 amounted to ₱15.70 million and nil, respectively.

Fair Value Changes on Derivatives

The net movements in fair values of the Group's derivative instruments as of December 31, 2018 and 2017 follow (amounts in thousands):

Derivative Assets

	2018	2017
Balance at beginning of year	**₱85,347**	₱245,887
Fair value of currency forwards	**–**	797
Net changes in fair value of derivatives	**45,035**	(22,832)
	130,382	223,852
Fair value of settled instruments	**(65,058)**	(138,505)
Balance at end of year	**₱65,324**	₱85,347

Derivative Liabilities

	2018	2017
Balance at beginning of year	**₱7,328**	₱5,809
Fair value of currency forwards	**–**	1,505
Net changes in fair value of derivatives	**15,700**	14
	23,028	7,328
Fair value of settled instruments	**(7,328)**	(5,823)
Balance at end of year	**₱15,700**	₱1,505

No other financial assets or liabilities are carried at fair value as of December 31, 2018 and 2017.

Net changes in fair value of derivative asets and liabilities was recognized in the consolidated statement of income under “Other Income”. However, the net changes in fair value of IMI Group’s freestanding currency forward are recognized in the consolidated income under “Foreign exchange gains (losses)” (see Note 23).

34. Notes to Consolidated Statements of Cash Flows

Changes in liabilities arising from financing activities follow:

	January 1, 2018	**Cash Flows**	**Non-cash Changes**	**Foreign Exchange Movement**	**December 31, 2018**
Short-term debt and Long-term debt	₱350,611,952	₱51,310,587	₱4,318,490	₱6,020,603	₱412,261,632
Dividends payable	3,618,607	(10,769,923)	11,282,633*	–	4,131,317
Other noncurrent liabilities	43,233,816	3,572,007	(1,591,894)	–	45,213,929
Service concession obligation	7,447,677	(955,120)	1,386,684	49,286	7,928,527
Total liabilities from financing activities	₱404,912,052	₱43,157,551	₱15,395,913	₱6,069,889	₱469,535,405

**This amount pertains to dividends declared by the Parent Company and by the subsidiaries to the non-controlling shareholders during the year.*

	January 1, 2017	**Cash Flows**	**Non-cash Changes**	**Foreign Exchange Movement**	**December 31, 2017**
Short-term debt and Long-term debt	₱295,853,951	₱53,771,118	₱392,311	₱594,572	₱350,611,952
Dividends payable	3,503,405	(10,864,490)	10,979,692*	–	3,618,607
Other noncurrent liabilities	40,870,522	1,181,104	1,182,190	–	43,233,816
Service concession obligation	7,699,645	(778,819)	587,455	59,541	7,447,677
Total liabilities from financing activities	₱347,927,523	₱43,308,913	₱2,161,956	₱654,113	₱404,912,052

**This amount pertains to dividends declared by the Parent Company and by the subsidiaries to the non-controlling shareholders during the year.*

The Group’s noncash investing and financing activities are as follows:

2018

- Transfer from investment properties to inventories amounting to ₱7,446.2 million.
- Transfer from inventories to investment properties amounting to ₱116.4 million.
- Transfer from investment properties to property and equipment amounting to ₱4,900.6 million.
- Transfer from investment properties to other noncurrent assets amounting to ₱60.0 million.
- Acquisitions of property, plant and equipment amounting to ₱346.2 million
- Acquisitions of SCA amounting to ₱20.8 million.
- Capitalization of depreciation related to the development phase of certain projects amounting to ₱80.4 million.
- Consolidation of previously held interest in MCT amounting to ₱6.9 billion.
- Reclassification of investments in GMCP and GNPD to noncurrent asset held for sale amounting to ₱5.6 billion.

2017
- Tansfer from land and improvements to inventories amounting to ₱10,908.5 million.
- Transfer from inventories to investment properties amounting to ₱2,454.9 million.
- Transfer from land and improvements to investment properties amounting to ₱1,905.0 million.
- Transfer from investment properties to land and improvements amounting to ₱646.2 million.
- Transfer from investment properties to property and equipment amounting to ₱1,764.6 million.
- Transfer from investment properties to other current and noncurrent assets amounting to ₱86.3 million and ₱62.1 million, respectively.
- Transfer from advances to contractors to land and improvements amounting to ₱1,581.2 million
- Capitalization of depreciation related to the development phase of certain projects amounting to ₱57.4 million.
- Transfer from other noncurrent assets to intangible assets mounting to ₱1,195.4 million.
- Conversion of BHL's 69,235 investment in CII bonds to 6,293,461 shares.

2016
- Transfers from land and improvements to inventories amounted to ₱4,795.5 million.
- Transfer from land and improvements to investment properties amounted to ₱426.1 million.
- Transfer from land and improvements to other assets amounted to ₱174.3 million.
- Transfers from inventories to investment properties amounted to ₱1,065.3 million.
- Transfer from investment properties to property and equipment amounted to ₱16.7 million.
- Conversion of BHL's 69,235 investment in CII bonds to 6,293,461 shares.
- Sale of ACEI's 70% ownership interest in Quadriver, Hydro Power and PhilnewRiver to Sta. Clara Power Corporation for a total selling price of ₱350.0 million collectible in four (4) years.
- Sale of Integreon of which US$10.5 million will be due in four (4) years.

35. Commitments

Parent Company
The Parent Company acted as guarantor to AYCFL's term loans and credit facilities as follows:

Description of Facility	Date Contracted	Amount drawn as of December 31, 2018	2018	2017
			Outstanding balance	
				(In Thousands)
US$200 million term loan facility	May 9, 2014	**US$10,000**	**US$10,000**	US$–
US$200 million transferable term loan facility	March 18, 2016	**–**	–	–
US$200 million revolving credit facility	March 18, 2016	**10,000**	**10,000**	–
		US$20,000	**US$20,000**	US$–

On February 1, 2018, AYCFL entered a US$200.0 million revolving credit facility with an availability period of up to one (1) month prior to February 1, 2023. The first drawdown of the credit facility amounted to US$10.0 million on September 6, 2018 with a quarterly repricing rate.

On September 6, 2018, AYCFL drew down US$10.0 million with a quarterly repricing rate from its US$200 million revolving credit facility contracted on March 18, 2016.

The Parent Company unconditionally guarantees the due and punctual payment of these loan drawdowns if, for any reason AYCFL does not make timely payment of the amount due. The Parent Company waived all rights of subrogation, contribution, and claims of prior exhaustion of remedies. The Parent Company's obligation as guarantor will remain in full force until no sum remains to be lent by the lenders, and the lenders recover the outstanding loan drawdowns.

On May 2, 2014, AYCFL issued at face US$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.50% per annum, payable semi-annually. The Bonds are guaranteed by the Parent Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds were listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options. The Bondholders have the right to exchange their Bonds for shares at any time during the exchange period. AYCFL shall lodge sufficient shares in its securities account to service Exchange Rights. In consideration for the reservation of the shares and by way of deposit for the exercise by the Bondholders of the Exchange Right, AYCFL shall remit to the Parent Company from time to time such amount as may be agreed between them, as defined in the Exchange Protocol agreed between AC and AYCFL.

On September 7, 2017, the Parent Company announced that AYCFL had successfully set the terms of a US dollar-denominated fixed-for-life senior perpetual issuance at an aggregate principal amount of US$400 million with an annual coupon of 5.125% for life with no reset and step-up. The issuer, AYCFL, may redeem the Notes in whole but not in part on September 13, 2022 (first redemption date) or any interest payment date falling after the first redemption date at 100% of the principal amount of the Notes plus any accrued but unpaid interest. The Parent Company unconditionally guarantees the due and punctual payment of this note if, for any reason AYCFL does not make timely payment of the amount due.

ALI Group
<u>ALI-NTDCC</u>
On December 8, 2017, ALI assigned to NTDCC development rights on certain portions of the North Triangle lot pads covered by a Deed of Assignment and Encroachment Settlement Agreement amounting to ₱631.2 million.

<u>ALI-LT Group</u>
ALI and LT Group, Inc. (LTG) entered into an agreement on January 21, 2016 to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portions of Pasig City and Quezon City. A new company named, ALI-ETON Property Development Corporation (ALI-ETON), was incorporated on March 13, 2016.

<u>ITS South Project</u>
On August 11, 2015, ALI won the bid for the Integrated Transport System Project - South Terminal (the ITS South Project). ALI was awarded by the Department of Transportation and Communications (DOTC) with a 35-year concession agreement to build and operate the ITS South Project and will likewise have the right to develop and operate commercial leasing facilities on the same 5.57 hectare Food Terminal Inc. property on which the future transport terminal will be built. The site of the ITS South Project is right next to ARCA South, where ALI is developing an integrated mixed-use estate. It is estimated that up to 4,000 buses and 160,000 passengers will feed into ITS South from SLEX every day. Full blast construction of the terminal started in the 2nd half of 2018 and targeted to be operational by 1st half of 2020.

<u>SM-ALI Group Consortium</u>
On June 30, 2015, ALI, through SM-ALI Group consortium (the Consortium), participated and won in the bidding for Lot No. 8-B-1, containing an area of 263,384 square meters, which is portion of Cebu City-owned lot located at the South Road Properties, Cebu City covered by Transfer Certificate of Title No. 107-2011000963. The Consortium is a consortium among SM Prime Holdings, Inc. (SMPHI), ALI and CHI (collectively referred to as the ALI Group). The SM-ALI Group has finished with the joint masterplan and is now securing permits to commence development. Consistent with

the agreed payment schedule in the Deed of Absolute Sale, the ALI Group has paid ₱3.8 billion, excluding taxes, as of August 1, 2017.

Assignment Agreement between Metro Rail Transit Corporation (Metro Rail) and MRTDC
On August 8, 1997, an Assignment Agreement was executed between Metro Rail whereby MRTDC agreed to be bound by all obligations in respect of the Development Rights and make payments to DOTC.

Assignment Agreement between MRTDC and NTDCC
On February 21, 2002, MRTDC and NTDCC entered into an assignment agreement wherein the development rights of MRTDC over an 8.3 hectare portion of the MRT Depot (inclusive of project development costs incurred in relation thereto) was assigned to NTDCC in exchange for 32,600,000 shares of stock to be issued out of the increase in the authorized capital stock of NTDCC, each share with a par value of ₱10, or an aggregate par value of ₱326.0 million. The amount of development rights in excess of the aggregate par value of the shares subscribed was credited to additional paid-in capital.

On January 13, 2006, the deed of assignment between MRTDC and NTDCC was acknowledged by DOTC making MRTDC and NTDCC jointly and severally liable for the DRP and all other obligations attached thereto. NTDCC has been paying rent to DOTC in behalf of MRTDC since January 1, 2006. The DRP obligation is payable annually for 42 years from the date of assumption, renewable upon expiration. As of December 31, 2018 and 2017, the DRP obligation amounted to ₱1,001.1 million and ₱958.8 million, respectively (see Notes 17 and 21).Total DRP obligation paid amounted to ₱229.8 million and ₱223.1 million in 2018 and 2017, respectively. Total rent expense recognized in the statements of comprehensive income under the “Cost of sales” account included in direct operating expenses amounted to ₱318.0 million and ₱344.8 million in 2018 and 2017, respectively.

Memorandum of Agreement between DOTC, NHA, MRTDC, NTDCC
On March 21, 2007, DOTC, National Housing Authority (NHA), MRTDC, and NTDCC entered into a MOA whereby DOTC assigns, transfers and conveys to NHA, its successors or assigns, the right to demand and collect the Depot DRP Payable and Depot DRP. In the MOA, DOTC authorizes MRTDC/NTDCC to remit the Depot DRP Payable and the Depot DRP to NHA directly which shall be credited by DOTC in favour of MRTDC/ NTDCC as payment for the DRP.

Funding and Repayment Agreement between NTDCC, MRTDC and MRTDC Shareholders
On December 17, 2014, NTDCC, MRTDC and MRTDC shareholders executed a “Funding and Repayment Agreement” wherein the latter agrees to repay NTDCC, for the account of MRTDC, its respective pro rata share in the Total Depot DRP Advances (the Pre-2006 DRP Payables and the Residual Depot DRP, including 15% interest rate accrued on such DRP payables).

Long-term Management Agreement between AHRC and Mandarin Oriental Hotel Group
On June 4, 2014, AHRC, a wholly owned subsidiary of ALI has signed a long-term management agreement with the Mandarin Oriental Hotel Group to develop and operate luxury hotel in Makati City. Set to open its doors by 2020, the new Mandarin Oriental Manila will be featuring 275 spacious rooms complemented by an extensive range of modern amenities including premium selection of restaurants and a signature spa. ALI Group is committed to pay US$5 million (₱223.6 million) to Manila Mandarin Hotel, Inc. upon the opening of the New Hotel or June 30, 2017, whichever is earlier. In 2017, ALI fully paid the said amount.

ALI-SPI
On May 12, 2014, ALI has signed the terms of reference with Sureste Properties, Inc. (SPI), a wholly owned subsidiary of Bloomberry Resorts Corp. (BLOOM) for the retail area to be opened in the new Phase 1-A of Solaire Resort & Casino. ALI will be the leasing and marketing agent of the said area with gross leasable area of more than 5,000 sqm.

Concession Agreement between ASITI and DOTr
On January 26, 2016, ALI Group through ASITI entered into a Concession Agreement (CA) with the Department of Transportation (DOTr). The CA sets forth the rights and obligations of ASITI as concessionaire, including the construction and operation of the South Integrated Transport System Project (the Project) of DOTr. During the concession period, DOTr will monitor and review the performance of the concessionaire.

The concession will run for a period of 35 years from the start of the construction of the Project. Under the terms of the concession agreement, ASITI will design, engineer, construct, operate and maintain a mass transportation intermodal terminal at the outskirts of Metro Manila. The operation of the Project includes the collection and remittance of terminal fees to DOTr of the concessionaire during the concession period. In addition, ASITI will be permitted to develop and operate commercial leasing facilities.

Upon the start of the construction the Project, DOTr will give to ASITI the full, exclusive and uninterrupted use and possession of a 5.57 hectare property known as the Project Land. Ownership of the Project Land shall remain with DOTr at all times while the possession, custody and risk of loss or deterioration of the Project and commercial assets shall vest in the concessionaire during the concession period. ASITI shall transfer the Project and the related assets, free from any liens or encumbrances, to DOTr at the end of the concession period. ASITI will be entitled to annual payments from DOTr amounting to ₱277.9 million during the 35-year concession period, subject to meeting benchmarks set for certain key performance indicators enumerated in the CA.

As of December 31, 2018, construction of the Project has not yet commenced.

Parent Company's Concession Agreement
In 2012, the Parent Company entered into a concession agreement with the DPWH to finance, design, construct, operate and maintain the Daang Hari - SLEX Link Road, now known as the Muntinlupa-Cavite Expressway(MCX) [the Project]. Under the concession agreement, the Parent Company will:
a. Purchase the advance works on Segment I of the Project and finance and construct the remaining works thereof;
b. Finance, design, and construct Segment II of the Project;
c. Undertake the operations and maintenance of the Project;
d. Impose and collect tolls from the users of the Project; and
e. Grant business concessions and charge and collect fees for non-toll user related facilities and toll user related facilities situated in the Project.

The Parent Company is authorized to adjust the toll rates once every two years in accordance with a prescribed computation as set out in the concession agreement and upon compliance with the rules and regulations on toll rate implementation as issued or may be issued by the Toll Regulatory Board.

In the event that the Parent Company is disallowed from charging and collecting the authorized amounts of the toll rates as prescribed in the concession agreement from the users of the Project, the Parent Company shall be entitled to either of the following:

a. Compensation from the DPWH of the toll income forgone by the Parent Company which shall be calculated based on a prescribed computation under the concession agreement.
b. Extension of the concession period to compensate the Parent Company for the forgone toll income which shall be mutually agreed by the Parent Company and the DPWH.

The Parent Company shall pay the DPWH an amount equal to 5% of all gross revenues arising from non-toll user and toll user related facilities situated within the Project.

The concession period shall commence on the date of the issuance of the Notice to Proceed with Segment II and shall end on the date that is 30 years thereafter, unless otherwise extended or terminated in accordance with the concession agreement. Any extension of the concession period shall in no event be beyond 50 years after the date of the issuance of the Notice to Proceed with Segment II.

At the end of the Concession Period, the Project shall be turned over by the Parent Company to the DPWH in the condition required for turnover under the Concession Agreement.

On July 24, 2015, MCX was opened to the public.

In accordance with the Concession Agreement, the Parent Company shall have the right to impose and collect toll fees (inclusive of value-added tax) from the users of the MCX at the following rates:

Vehicle Class	Initial Toll Rate (flat rate)
Class 1: Light vehicles	₱17.00
Class 2: Medium-weight vehicles	34.00
Class 3: Heavy vehicles	51.00

Periodic Toll Adjustment
On September 27, 2016, the Parent Company has filed for a Petition for Approval of Periodic Toll Adjustment. Under Section 13.2 of the Concession Agreement, Concessionaire is authorized to adjust the Toll Rate every two years. Since MCX commercially operated on July 24, 2015, the Parent Company is entitled to adjust its toll for MCX effective July 24, 2017. However, under Section 3 of the 2013 Revised Rules of Procedure of the Toll Regulatory Board (TRB), the petition has to be filed on or before 30 September. Thus, the Petition was filed knowing fully well that the effectivity of the adjusted toll rate will still be on July 24, 2017.

On June 19, 2017, TRB sent an order directing the publication of the full petition in a newspaper of general circulation, along with the notice to expressway users that they may file an opposition within the period provided for under the Rules. Accordingly, the full petition was published on July 25, 2017. On November 8, 2017, all TRB requirements for the approval of the toll rate increase were submitted.

On September 28, 2018, the second toll rate increase petition has been submitted to the TRB and the order directing the publication of the full petition in a newspaper of general circulation, along with the notice to expressway users that they may file an opposition within the period provided for under the Rules, was sent by TRB on October 26, 2018. Accordingly, the petition was published on November 13, 2018. No opposition has been reported until the prescribed filing period.

Interoperability Agreement
On July 21, 2015, the Parent Company, MCX Tollway, Inc. (MCXI) (an 80% owned subsidiary of AC Infra), South Luzon Tollway Corporation (SLTC), and Manila Toll Expressway Systems, Inc. (MATES) signed a Memorandum of Agreement on the Interoperability together with an Addendum thereto ("MOA on Interoperability") of the Project and the SLEX. The MOA on Interoperability provides the framework that will govern the interface and integration of the technical operations and toll collection systems between the Project and SLEX, and to ensure seamless travel for road users.

On the same date, MATES and MCXI also executed a Toll Collection Services Agreement, under which, MATES was appointed as sub-contractor of MCXI for the provision of toll collection services for the MCX toll plaza.

The Parent Company shall have the exclusive right and corresponding obligation to undertake the O&M of the Project. As such, on December 19, 2014, the Parent Company entered into an Operations and Maintenance Agreement (OMA) with MCXI for the operations and maintenance of the Project. The OMA has a term of seven (7) years, renewable for another seven (7) years, with the right of first offer in favor of MCXI. As compensation, the Parent Company shall pay an annual recurring fee of ₱77.6 million, exclusive of VAT, subject to yearly escalation using the Consumer Price Indexation formula.

On September 15, 2017, the Parent Company and MCXI together with San Miguel Holdings Corporation, Private Infra Development Corporation, Citra Metro Manila Tollways Corporation, Skyway O&M Corporation, Citra Central Expressway Corporation, Vertex Tollways Development Incorporated, SLTC, MATES, Star Infrastructure Development Corporation, Star Tollway Corporation, Metro Pacific Tollways Corporation, NLEX Corporation, Cavitex Infrastructure Corporation, MPCala Holdings Inc., Bases and Conversion Development Authority, Department of Transportation, Department of Public Works and Highways, Land Transportation Office and Toll Regulatory Board signed the Memorandum of Agreement for Toll Collection Interoperability (MOA). The MOA aims for a timely, smoothly, and fairly implementation of the ETC Systems and Cash Payment Systems' interoperability of the covered expressways. As of December 31, 2018, discussions are ongoing among and between the parties for the implementation of the MOA.

Operations and Maintenance Contracts
The Parent Company shall have the exclusive right and corresponding obligation to undertake the O&M of the Project. As such, on December 19, 2014, the Parent Company entered into an Operations and Maintenance Agreement (OMA) with MCXI for the operations and maintenance of the Project. The OMA has a term of seven (7) years, renewable for another seven (7) years, with the right of first offer in favor of MCXI. As compensation, the Parent Company shall pay an annual recurring fee of ₱77.6 million, exclusive of VAT, subject to yearly escalation using the Consumer Price Indexation formula.

On the same date, MCXI signed two contracts with EGIS Projects Philippines, Inc. (Egis):

a. Operations Advisory Contract – to provide advice, among others, on the establishment and implementation of procedures to enforce traffic regulations and safety measures in MCX; and
b. Maintenance Contract – to provide cleaning, inspection, repairs and maintenance on all parts of MCX, its landscaping, traffic signs and others.

Both contracts have a term of seven (7) years and renewable for another seven (7) years. The annual recurring fee for both contracts is ₱18.2 million, exclusive of VAT, and ₱40.9 million, exclusive for VAT, respectively and subject to yearly escalation to the effect of changes in labor index rates and consumer price index as provided by the Department of Labor and Employment.

In 2016, the Parent Company amended its existing O&M agreement with MCXI reducing the annual fee to ₱29.52 million and novated the existing agreement among MCXI and Egis to include the Parent Company as another party to the Operation Advisory Contract and Maintenance contract.

Non-Toll User Related Facilities
On October 24, 2016, the Parent Company entered into an agreement with Isuzu Automotive Dealership, Inc. (the Lessee) for the lease of 15,000 square meters of the concession area. The lease term is 20 years from October 1, 2016 to September 30, 2036, renewable for another period not exceeding June 28, 2045 upon mutual agreement. The fixed initial basic rent of the leased concession area shall be ₱1,275,000, exclusive of VAT, per month. Basic rent shall escalate by 5% at the start of the third year and every two years thereafter. The Lessee shall be given a rent free construction period of 3 months from October 1, 2016 to December 31, 2016.

The leased concession area shall be used by the Lessee for the purpose of developing and operating a dealership showroom and service center and to carry out other related retail, services and support activities incidental and complementary to its business and may be customary to the trade.

On February 2, 2017, the Parent Company entered into a lease agreement with Premier Petrol Distributors, Inc. (the Lessee) for the lease of an approximately 10,667 square meters of the concession area. The lease term is 20 years from September 1, 2017 to August 31, 2037, renewable for another period not exceeding June 28, 2045 upon mutual agreement. The fixed initial basic rent of the leased concession area shall be ₱1.1 million, exclusive of VAT, per month. Basic rent shall escalate by 5% at the start of the second year and every year thereafter. As of December 31, 2018, the lease terms are being re-negotiated.

On July 6, 2017, the Parent Company signed the contract of lease with Globe Telecom, Inc. (the Lessee) for the use of the following locations:

a. Macro Site – 64 square meters of land within the concession area
b. Small Cell (Easy Macro) Site – 7 lamp posts locations
c. Atom Cells' Site – 4 locations in the tunnel underneath SLEX

The lease term shall be twenty-eight (28) years and eleven (11) months, commencing on August 1, 2016 and continuing until June 28, 2045. The fixed initial basic rent of the leased concession area shall be ₱31,400 per month, exclusive of VAT, subject to annual escalation of 4.5% starting at the beginning of the second year.

On November 13, 2018, the Parent Company and Pilipinas Shell Petroleum Corporation executed a twenty (20) years lease contract for an approximate area of 9,689 square meters. The lease contract was effective July 15, 2018 and ending on July 14, 2038, renewable for another period not exceeding December 28, 2044 upon mutual agreement. The fixed initial monthly basic rent of the leased concession area shall be ₱823,565, exclusive of VAT. Basic rent shall escalate by 5% at the start of the third year and every year thereafter.

For all non-toll user related agreements, including short-term advertising leases, concerning the concession area, the Parent Company will remit, to the DPWH, 5% of its share on the gross revenues in accordance with Section 12.6.b of the Concession Agreement.

<u>MWC's Concession Agreement (the "Agreement")</u>
On February 21, 1997, MWC entered into a Concession Agreement (the Concession Agreement) with MWSS, a government corporation organized and existing pursuant to Republic Act (RA) No. 6234, as amended, with respect to the MWSS East Zone (East Zone). The Concession Agreement sets forth the rights and obligations of MWC throughout a 25-year concession period. The MWSS Regulatory Office (MWSS-RO) monitors and reviews the performance of each of the Concessionaires - MWC and Maynilad Water Services, Inc. (Maynilad), the West Zone Concessionaire.

Under the Concession Agreement, MWSS grants MWC (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone for a period of 25 years commencing on August 1, 1997 (the Commencement Date) up to May 6, 2022 (the Expiration Date) or the early termination date as the case may be. While MWC has the right to manage, operate, repair and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to the existing MWSS system by MWC during the Concession remains with MWC until the Expiration Date (or until the early termination date) at which time all rights, titles and interest in such assets will automatically vest in MWSS.

On Commencement Date, MWC officially took over the operations of the East Zone and rehabilitation works for the service area commenced immediately thereafter. As provided in MWC's project plans, operational commercial capacity will be attained upon substantial completion of the rehabilitation work.

Under the Agreement, MWC is entitled to the following rate adjustments:

a. Annual standard rate adjustment to compensate for increases in the consumer price index (CPI);
b. Extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the Concession Agreement;
c. Foreign Currency Differential Adjustment (FCDA) to recover foreign exchange losses including accruals and carrying costs thereof arising from MWSS loans and any Concessionaire loans used for capital expenditures and concession fee payments, in accordance with the provisions set forth in Amendment No. 1 of the Concession Agreement dated October 12; and

d. Rebasing Convergence Adjustment for the purposes of calculating the Rates Adjustment Limit for each of the five Charging Years of the Rebasing Period determined based on the following:
   i. where the Rebasing Adjustment is found to be positive, the Rebasing Convergence Adjustment for the first Charging Year of the Rate Rebasing Period shall be equal to the Rebasing Adjustment, and the Rebasing Convergence Adjustment for each of the following four Charging Years shall be zero; and

   ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five.

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence Adjustment as defined in the Concession Agreement. The Concession Agreement also provides a general rate setting policy for rates chargeable by MWC for water and sewerage services as follows:

1. For the period through the second Rate Rebasing date (January 1, 2008), the maximum rates chargeable by MWC (subject to interim adjustments) are set out in the Concession Agreement.
2. From and after the second Rate Rebasing date, the rates for water and sewerage services shall be set at a level that will permit MWC to recover, over the 25-year term of the concession, its investment including operating, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on MWSS loans and MWC's loans incurred to finance such expenditures, and to earn a rate of return equal to the appropriate discount rate (ADR) on these expenditures for the remaining term of the concession.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second Rate Rebasing date, provided that the MWSS-RO may exercise its discretion to make a general adjustment of such rates.

On April 16, 2009, the MWSS Board of Trustees passed Resolution No. 2009-072 approving the 15-year extension of the Concession Agreement (the Extension) from May 7, 2022 to May 6, 2037. This resolution was confirmed by the Department of Finance (DOF), by authority from the office of the President of the Republic of the Philippines, on October 19, 2009. The significant commitments under the Extension follow:

a. To mitigate tariff increases such that there will be reduction of the balance of the approved 2008 rebased tariff by 66%, zero increase of the rebased tariff in 2009 and a ₱1.00 increase for years 2010 to 2016, subject to CPI and FCDA adjustments.
b. To increase the share in the current operating budget support to MWSS by 100% as part of the concession fees starting 2009.
c. To increase the total investments from the approved ₱187.00 billion for the periods 2008 to 2022 to ₱450.00 billion for 2008 to 2037.

With the approval of the Extension, the recovery period for MWC's investment is now extended by another 15 years from 2022 to 2037.

In March 2012, MWC submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The rate rebasing activity is done every five (5) years. The MWSS conducted a review of the proposal including MWC's last five (5) years' financial performance. The financial review process extended up to the third quarter of 2013. On September 10, 2013, the MWSS-RO issued Resolution No. 13-09-CA providing for a negative rate rebasing adjustment of 29.47% on MWC's 2012 average basic water rate of ₱24.57 per cubic meter shall be implemented in 5 equal tranches of negative 5.894% per charging year. MWC objected to the MWSS' Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process, as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).

On December 10, 2013, the MWSS Board of Trustees, through MWSS-RO Resolution No. 13-012 CA, approved the implementation of a status quo for MWC's Standard Rates including FCDA until such time that the Appeals Panel has rendered a final award on the 2013 Rate Rebasing determination.

On April 21, 2015, MWC received the final award of the Appeals Panel in the arbitration which final award included the following tariff component determination:

a. ₱28.1 billion Opening Cash Position (OCP) which restored ₱11.0 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
b. ₱199.6 billion capital expenditures and concession fees which restores ₱29.5 billion from the September 2013 future capital and concession fee expenditure of ₱170.1 billion;
c. 7.61% Appropriate Discount Rate (ADR) which was an improvement of 79 bps from the post-tax ADR of 6.82% in September 2013; and
d. Exclusion of corporate income tax from cash flows beginning January 1, 2013.

Consequently, the final award resulted in a rate rebasing adjustment for the period 2013 to 2017 of negative 11.05% on the 2012 basic average water charge of ₱25.07 per cubic meter. This adjustment translates to a decrease of ₱2.77 per cubic meter from the tariff during the intervening years before the 2018 rate rebasing. Annual CPI adjustments and the quarterly FCDA will continue to be made consistent with the MWC Group's Concession Agreement with MWSS.

On September 27, 2018, the MWSS BOT (MWSS Resolution No. 2018-145-RO) approved the MWC Group's Rebasing Adjustment for the Fifth Rate Rebasing Period (2018 to 2022) as recommended by the MWSS-RO (MWSS-RO Resolution No. 2018-10-CA). To mitigate the impact on the tariff of its customers, the MWC Group shall stagger its implementation over a five-year period. The first tranche took effect on October 16, 2018.

On December 13, 2018, the MWSS BOT (MWSS Resolution No. 2018-190-RO) approved the MWC Group's implementation of the 5.70% CPI Adjustment to be applied to the 2018 average basic charge of ₱26.98 per cubic meter and the 2.62% FCDA to be applied to the 2019 average basic charge. These adjustments are recommended by the MWSS-RO (MWSS-RO Resolution No. 2018-12-CA) and shall take effect on January 1, 2019.

Arbitration under the United Nations Commission on International Trade Law (UNCITRAL) Rules (1976)
On April 23, 2015, the Parent Company served on the Republic of the Philippines (the "Republic"), through the Department of Finance, its Notice of Claim of even date demanding that the Republic indemnify the Parent Company in accordance with the indemnity clauses in the Republic's Letter Undertaking dated July 31, 1997 and Letter Undertaking dated October 19, 2009. At present, the arbitration case remains pending.

The MWSS Board of Trustees approves the FCDA adjustment quarterly. The FCDA has no impact on the net income of MWC, as the same is a recovery or refund mechanism of foreign exchange losses or gains. During 2017 and 2016, the following FCDA adjustments and their related foreign exchange basis took effect in 2016 to 2018.

Approval Date	Effective Date	FCDA	Foreign Exchange Rate Basis
March 10, 2016	April 1, 2016	₱0.26 per cubic meter	USD1: ₱47.51 / JPY1: ₱0.40
June 14, 2016	July 1, 2016	₱0.25 per cubic meter	USD1: ₱46.29 / JPY1: ₱0.42
April 5, 2017	April 22, 2017	₱0.69 per cubic meter	USD1: ₱49.74 / JPY1: ₱0.37
July 27, 2017	August 13, 2017	₱0.97 per cubic meter	USD1: ₱49.86 / JPY1: ₱0.45
September 14, 2017	October 1, 2017	₱1.21 per cubic meter	USD1: ₱50.64 / JPY1: ₱0.45
December 13, 2017	January 1, 2018	₱0.63 per cubic meter	USD1: ₱51.34 / JPY1: ₱0.45
March 13, 2018	April 1, 2018	₱0.59 per cubic meter	USD1: ₱50.51 / JPY1: ₱0.46
June 14, 2018	July 1, 2018	₱1.58 per cubic meter	USD1: ₱52.10 / JPY1: ₱0.48
September 14, 2018	October 1, 2018	₱1.56 per cubic meter	USD1: ₱53.43 / JPY1: ₱0.48
December 14, 2018	January 1, 2019	₱0.75 per cubic meter	USD1: ₱53.94 / JPY1: ₱0.48

There were no FCDA adjustments for the third and fourth quarters of 2016 and for the first quarter of 2017 due to the vacancies in the MWSS BOT resulting in a lack of quorum necessary for the approval of any MWSS-RO resolution, including the FCDA.

The significant commitments of MWC under the Concession Agreement and Extension are as follows:

a. To pay MWSS concession fees;

b. To post a performance bond, bank guarantee or other security acceptable to MWSS in favor of MWSS as a bond for the full and prompt performance of the MWC Group's obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

Rate Rebasing Period	Aggregate amount drawable under performance bond (in US$ millions)
First (August 1, 1997 - December 31, 2002)	US$70.00
Second (January 1, 2003 - December 31, 2007)	70.00
Third (January 1, 2008 - December 31, 2012)	60.00
Fourth (January 1, 2013 - December 31, 2017)	60.00
Fifth (January 1, 2018 - December 31, 2022)	50.00
Sixth (January 1, 2023 - December 31, 2027)	50.00
Seventh (January 1, 2028 - December 31, 2032)	50.00
Eighth (January 1, 2033 - May 6, 2037)	50.00

Within 30 days from the commencement of each renewal date, MWC Company shall cause the performance bond to be reinstated in the full amount set forth above as applicable for that year. With a minimum of 10-day written notice to MWC, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS by MWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid;

c. With the Extension, MWC agreed to increase its annual share in MWSS operating budget by 100% from ₱100.0 million to ₱395.0 million, subject to annual CPI;

d. To meet certain specific commitments in respect of the provision of water and sewerage services in the East Zone, unless deferred by MWSS-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;

e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the East Zone is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with MWC);

f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property;

g. To ensure that at all times, MWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and

h. To ensure that no debt or liability that would mature after the life of the Agreement will be incurred unless with the approval of MWSS.

MWC is committed to perform its obligations under the Concession Agreement and Extension to safeguard its continued right to operate the Concession.

LAWC's Concession Agreement
On April 9, 2002, LAWC entered into a concession agreement (as amended on March 31, 2004, July 22, 2009, and June 30, 2015) with PGL, a local government unit organized and existing under Philippine Laws.

Under the terms of the concession agreement, the PGL grants LAWC (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services to specific areas for an operational period of 25 years which commenced on October 20, 2004.

While LAWC has the right to manage, occupy, operate, repair, maintain, decommission and refurbish specified PGL facilities, legal title to these assets remains with PGL. Legal title to all assets procured by LAWC in the performance of its obligations under the agreement remains with LAWC and shall not pass to PGL until the end of the concession period at which time, LAWC will transfer, or if the ownership is vested in another person, cause the transfer to PGL. LAWC has the exclusive rights to provide water services in the service areas specified in the concession agreement. Concession fees set forth in the concession agreement are computed as a percentage of revenue from water services.

Seventy percent (70%) of the concession fees are applied against any advances made by LAWC to PGL. The remaining thirty percent (30%) of the concession fees are payable annually 30 days after the submission of the audited financial statements by LAWC, from the start of the operational period.

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

In connection with the amendment to the concession agreement, the Sangguniang Bayan of the municipality of Calauan, Laguna approved the resolution allowing LAWC to provide water and wastewater services to the municipality of Calauan. The provision of services by LAWC in the municipality of Calauan is being implemented in phases, with full coverage of the area targeted by the first quarter of 2020.

Furthermore, the concession period's commencement date was amended to mean the later of either: (i) three (3) years from the takeover date (i.e., October 20, 2004); or (ii) availment by at least 25,000 customers of the services (i.e., September 30, 2010). The concession period is deemed to have commenced on September 30, 2010 and shall end on September 30, 2035.

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

On May 3, 2018, the concession agreement was amended to include the approval of Environmental Charge amounting to twenty percent (20%) of the water tariff for wastewater services, desludging services, and other environmental-related costs which was implemented on September 22, 2018.

Laguna Water implemented a tariff adjustment of 10% on December 1, 2018.

The significant commitments of LAWC under its concession agreement with PGL are as follows:

a. To pay PGL concession fees;

b. To manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;

c. To design, construct and commission the new facilities during the cooperation period;

d. To provide and manage the services;

e. To bill and collect payment from the customer for all services;

f. To extract raw water exclusively from all sources of raw water; and

g. To negotiate in good faith with PGL any amendment or supplement to the concession agreement to establish, operate and maintain wastewater facilities if doing such is financially and economically feasible.

Simultaneous to the signing of the amendment to the joint venture agreement between PGL and MWPVI on June 30, 2015, and consequent to the amendment of the joint venture agreement of LAWC, LAWC signed an amendment to its concession agreement with the PGL which includes the following:

a) Expansion of its concession area to cover all cities and municipalities in the PGL; and

b) Inclusion in the service obligations of LAWC the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

BIWC's Concession Agreement

On December 17, 2009, BIWC entered into a concession agreement with TIEZA, formerly Philippine Tourism Authority (PTA). The concession agreement sets forth the rights and obligations of BIWC as concessionaire throughout the 25-year concession period. The TIEZA Regulatory Office will monitor and review the performance of the concessionaire throughout the concession period.

Under the concession agreement, TIEZA grants BIWC the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the entire Boracay Island. The legal title to all fixed assets contributed to the existing TIEZA system by BIWC during the concession remains with BIWC until the expiration date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in TIEZA.

On January 1, 2010, BIWC officially took over the operations of the service area. Rehabilitation works for the service area commenced immediately thereafter. As provided in BIWC's project plans, operational commercial capacity will be attained upon completion of the rehabilitation works.

Under its concession agreement, BIWC is entitled to the following rate adjustments:

a. Annual standard rate adjustment to compensate for increases in the consumer CPI;
b. EPA to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the concession agreement; and
c. FCDA to recover foreign exchange losses including accruals and carrying costs thereof arising from TIEZA loans and any loans used for capital expenditures and concession fee payments.

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence adjustment as defined in BIWC's concession agreement.

The rate rebasing date is set every 5 years starting January 1, 2011. Hence, the first rate rebasing period commenced on January 1, 2010 and ended on December 31, 2010 and, in the case of subsequent rate rebasing periods, the period commencing on the last rate rebasing date and ending on December 31 of the fifth year thereafter.

In January 2016, BIWC implemented an increase of 8.18% comprising of rate rebasing adjustment of 6.97% and CPI of 1.21%. The downward FCDA adjustment of 14.34% was continuously implemented throughout the year.

On June 7, 2017, TIEZA approved the new water rates of BIWC which is equivalent to an increase of 57.83% from its existing rate to be implemented on a staggered basis for a period of three (3) years with an increase of 30.14%, 11.99% and 10.79% in 2017, 2018 and 2019, respectively. The first tranche of tariff increase was implemented on July 1, 2017.

On December 15, 2017, TIEZA approved Boracay Water's implementation of the second tranche of tariff increase of 15.53% effective January 1, 2018.

On August 1, 2018, TIEZA-RO approved the suspension of the 14.34% downward adjustment, which resulted to the implementation of 0.00% FCDA effective August 17, 2018.

On December 4, 2018, TIEZA approved Boracay Water's implementation of the third tranche of tariff increase equivalent to 18.08% of the basic water and sewer charge, inclusive of CPI, arising from its 2017 rate rebasing. Furthermore, a 3.00% increase shall be applied to the basic water and sewer charge to account for FCDA. The new rates shall take effect on January 1, 2019.

BIWC's concession agreement also provides a general rate setting policy for rates chargeable by BIWC for water and sewerage services as follows:

a. For the period through the second rate rebasing date (January 1, 2016), the maximum rates chargeable by BIWC (subject to interim adjustments) are set out in the Agreement; and

b. From and after the second rate rebasing date, the rates for water and sewerage services shall be set at a level that will permit BIWC to recover, over the 25-year term of its concession, its investment including operating expenses, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on the TIEZA loans incurred to finance such expenditures, and to earn a rate of return on these expenditures for the remaining term of the concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second rate rebasing date, provided that the TIEZA may exercise its discretion to make a general adjustment of such rates.

Also part of the concession agreement, BIWC assumed certain property and equipment of BIWC Sewerage System (BWSS), as well as its outstanding loan from Japan International Cooperation Agency (JICA), considered as part of its TIEZA loans under the concession agreement, and regulatory costs.

As a result of the above terms of the concession agreement, BIWC recognized a total of ₱986.9 million service concession assets on commencement date. It includes the JICA loan assumed by BIWC, regulatory costs, construction costs for the improvement and expansion of the water and wastewater facilities and the advanced concession fees.

The significant commitments of BIWC under its concession agreement with TIEZA are as follows:

a. To meet certain specific commitments in respect of the provision of water and sewerage services in the service area, unless deferred by the TIEZA Regulatory Office (TIEZA-RO) due to unforeseen circumstances or modified as a result of rate rebasing exercise;

b. To pay concession fees, subject to the following provisions:

   i. Assumption of all liabilities of the BWSS as of commencement date and service such liabilities as they fall due. BWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Boracay Island prior to commencement date. The servicing of such liabilities shall be applied to the concession fees;

   ii. Payment of an amount equivalent to 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes. Such payments shall be subject to adjustment based on the gross revenue of BIWC as reflected in its separate financial statements;

   iii. Provision of the amount of the TIEZA BOD's approved budget in 2012, payable semi-annually and not exceeding:

Month	Maximum Amount
January	₱10,000,000
July	10,000,000

   iv. Provision of the annual operating budget of the TIEZA-RO, payable in 2 equal tranches in January and July and not exceeding:

Year	Maximum Amount
2011	₱15,000,000
2012	20,000,000
2013 and beyond	20,000,000, subject to annual CPI adjustment

c. To establish, at Boracay Island, a TIEZA-RO building with staff house, the cost of which should be reasonable and prudent;

d. To pay an incentive fee pegged at ₱1.00 per tourist, local and foreign, entering the service area;

e. To raise financing for the improvement and expansion of the BWSS water and wastewater facilities;

f. To operate, maintain, repair, improve, renew and, as appropriate, decommission facilities, as well as to operate and maintain the drainage system upon its completion, in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the service area is capable of meeting the service obligations (as such obligations may be revised from time to time by the TIEZA-RO following consultation with BIWC);

g. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property; and

h. To ensure that at all times, BIWC has sufficient financial, material and personnel resources available to meet its obligations under the concession agreement.

In addition, MWC, as the main proponent of BIWC shall post a bank security in the amount of US$2.50 million to secure MWC's and BIWC's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by MWC following the schedule below:

Rate Rebasing Period	Amount of Performance Security (in US$ millions)
First	US$2.50
Second	2.50
Third	1.10
Fourth	1.10
Fifth	1.10

On or before the start of each year, BIWC shall cause the performance security to be reinstated in the full amount set forth as applicable for that year.

With a minimum of ten (10) days written notice period to BIWC, TIEZA may take one or more drawings under the performance security relating to a Rate Rebasing Period to cover amounts due to TIEZA during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Arbitration Panel for adjudication until the Arbitration Panel has handed its decision on the matter.

In the event that any amount payable to TIEZA by BIWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid.

Failure of BIWC to perform any of its obligations that is deemed material by TIEZA-RO may cause the concession agreement to be terminated.

CWC's Concession Agreement
On March 16, 2000, Vivendi Water Philippines, Inc., which subsequently changed its name to Veolia Water Philippines, Inc (VWPI), entered into a concession agreement with CDC, a government corporation organized and existing under Executive Order No. 80, series of 1993. The concession agreement sets out the terms and conditions under which VWPI will finance, design, construct, operate and maintain the water and sewerage system inside the Clark Freeport Zone (CFZ) commencing on October 1, 2000 and ending on the date falling 25 years thereafter or as may be extended by the terms of the concession agreement. As the implementing arm of the Bases Conversion Development Authority and the regulatory and development body for the CFZ, CDC has the power and authority to regulate and monitor the performance and compliance of VWPI, or its assignee, with its obligations under the concession agreement.

On September 1, 2000, in accordance with the terms of the concession agreement, VWPI assigned its rights and obligations under the concession agreement to CWC by virtue of an assignment and assumption agreement between VWPI and CWC. As consideration for the grant of the concession and franchise to develop, operate and maintain the water and sewerage system within the CFZ, CWC pays CDC an annual franchise fee of ₱1.50 million. Any new construction, change, alteration, addition or improvement on the facilities is permitted to the extent allowed under the agreement with CDC or with the prior written consent of CDC. Legal title, free of all liens and encumbrances, to improvements made or introduced by CWC on the facilities as well as title to new facilities procured by CWC in the performance of its obligations under the concession agreement shall automatically pass to CDC on the date when the concession period expires or the date of receipt of a validly served termination notice, in the latter case, subject to payment of the amount due as termination payments as defined in the concession agreement.

On September 29, 2000, CDC leased in favor of CWC the existing facilities in compliance with the condition precedent to the effectivity of and the respective obligations of CWC and CDC under the concession agreement. Under the lease agreement, CWC was required to make a rental deposit amounting to ₱2.8 million equivalent to six months lease rental and a performance security amounting to ₱6.7 million to ensure the faithful compliance of CWC with the terms and conditions of the lease agreement. CWC pays semi-annual rental fees of ₱2.8 million amounting to a total of ₱138.3 million for the entire concession period. The lease term shall be co-terminus with the concession period unless sooner terminated for any of the reasons specified in the concession agreement.

On August 15, 2014, the CWC and CDC signed an amendment agreement to the concession agreement dated March 16, 2000. The Amendment provides for the following:

a. Extension of the original concession period for another 15 years up to October 1, 2040;

b. Additional investment of ₱4.0 billion provided under the amended concession agreement to be spent for further improvement and expansion water and waste water services in the area. Investment requirement under the original concession agreement amounted to ₱3.0 billion and the amended concession agreement required an additional investment of ₱2.0 billion. Total investment prior to the amendment of the concession agreement amounted to ₱1.0 billion;

c. Introduction of rate rebasing mechanism for every four years starting 2014;

d. Reduction in tariff rates by 3.9% (from ₱25.63/m^3 to ₱24.63/m^3) effective September 1, 2014, subject to the Extraordinary Price Adjustment; and

e. Increase in tariff rates by:
   - ₱0.41/m3 (from ₱24.63/m^3 to ₱25.04/m^3) in 2018
   - ₱0.42/m3 (from ₱25.04/m^3 to ₱25.45/m^3) in 2019
   - ₱0.42/m3 (from ₱25.45/m^3 to ₱25.87/m^3) in 2020
   - ₱0.43/m3 (from ₱25.87/m^3 to ₱26.30/ m^3) in 2021

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.6 million. Further, the recovery period of the CWC's investment is now extended by another 15 years from 2025 to 2040.

On May 26, 2017, CWC submitted its proposed 2018 rate rebasing plan following the four (4)-year rebasing period stated in the concession agreement. As of December 31, 2018, the rate rebasing is still ongoing.

The significant commitments of CWC under its concession agreement with CDC are follows:

a. To pay franchise and rental fees of CDC;

b. Finance, design, and construct new facilities - defined as any improvement and extension works to (i) all existing facilities - defined as all fixed and movable assets specifically listed in the concession agreement; (ii) construction work - defined as the scope of construction work set out in the concession agreement; and (iii) other new works that do not constitute refurbishment or repair of existing facilities undertaken after commencement date;

c. Manage, exclusively possess, occupy, operate, repair, maintain, decommission and refurbish the existing facilities, except for the private deep wells set out in the concession agreement, the negotiations for the acquisition and control of which shall be the sole responsibility and for the account of the CWC; and manage, own, operate, repair, maintain, decommission and refurbish the new facilities;

d. Treat raw water and wastewater in CSEZ;

e. Provide and manage all water and wastewater related services like assisting locator of relocating of pipes and assess internal leaks;

f. Bill and collect payment from the customers for the services (with the exception of SM City Clark). SM City Clark has been carved out by virtue of Republic Act 9400 effective 2007 even if it is located within the franchise area; and

g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in CFZ free of charge by CDC.

<u>MW Consortium Agreement with PGC</u>
On March 21, 2012, MW Consortium signed a joint investment agreement with the PGC for the formation of a joint venture company with 51% and 49% equity participation for MW Consortium and the PGC, respectively. Under the joint investment agreement, the parties agreed to develop and operate a bulk water supply system that will supply 35.0 million liters of water per day to target areas in the province of Cebu with the joint venture company serving as a bulk water supplier. The term of the agreement is 30 years starting March 2012 and renewable for another 25 years. MW Consortium and the PGC incorporated Cebu Manila Water Development, Inc. (CMWDI), with an ownership of 51% and 49%, respectively, pursuant to the joint investment agreement.

On December 13, 2013, CMWDI received a Notice of Award for the bulk supply of water to the MCWD. On December 18, 2013, CMWDI and MCWD signed a 20-year Bulk Water Supply Contract for the supply of 18.0 million liters per day of water for the first year and 35.00 million liters per day of water for years 2 up to 20. CMWDI delivered its initial 18.0 million liters per day bulk water supply to MCWD on January 5, 2015. CMWDI will increase its bulk water delivery to 35.0 million liters per day in 2016.

<u>Bulk Water Supply Agreement with MCWD</u>
On December 18, 2013, CMWD entered into a bulk water supply agreement with MCWD. The significant commitments of CMWD under its agreement with MCWD are as follows:

a. Provide potable and treated water at an aggregate volume of 18,000 cubic meters per day for the first year and 35,000 cubic meters per day for the succeeding years up to 20 years at ₱24.59 per cubic meter;

b. Ensure that the source shall be sustainable and 100% reliable at any day the duration of the agreement; and

c. Construct a facility capable of delivering a production capacity of 35,000 cubic meters per day and maintain the same on its account.

<u>ZWC's Concession Arrangement</u>
On December 19, 2014, the MWC Group received a notice from the ZCWD awarding the project for NRW reduction in Zamboanga City, Zamboanga. On January 30, 2015, the MWC Group and ZCWD signed and executed a JVA in relation to the NRW reduction project in Zamboanga City. On April 10, 2015, the MWC Group and ZCWD incorporated ZWC to implement the NRW project.

On June 2, 2015, ZWC entered into a NRWSA with ZCWD. Under the NRWSA, ZCWD grants ZWC the right to implement Network Restructuring and NRW Reduction Programs for ZCWD's water distribution system.

The NRWSA sets forth the rights and obligations of the ZWC throughout the ten (10)-year period. The significant provisions under the agreement with ZCWD consist of:

a. ZWC is required to implement Network Restructuring and NRW Reduction Programs for ZCWD's water distribution system; and

b. ZWC has the right to restructure and maintain the facilities in the ZCWD service area but legal title to these assets remains with ZCWD. The legal title to all fixed assets contributed to the existing ZCWD system by ZWC during the project tenure remains with ZWC until the expiration date (or an early termination date) at which time all rights, titles and interest in such assets will automatically vest in ZCWD.

Bulk Water Supply Agreements between Davao Water and Tagum Water District (TWD)
On July 28, 2015, the TWD awarded the Tagum City Bulk Water Supply Project to Davao del Norte Water Infrastructure Company, Inc. (Davao Water), the joint venture company of MWC and iWater, Inc.

On October 15, 2015, Davao Water has signed and executed a Joint Venture Agreement (JVA) with TWD. The JVA governs the relationship of Davao Water and TWD as joint venture partners in the Tagum Bulk Water Project. Pursuant to the JVA, Davao Water and the TWD caused the incorporation of a joint venture company, namely, TWC, which shall implement the Tagum Bulk Water Project for fifteen (15) years from the Operations Start Date as defined in the JVA.

The consortium of Davao Water owns 90.00%, while TWD owns 10.00% of TWC's outstanding capital stock. TWC was registered with the SEC on December 15, 2015 and its primary purpose is to develop, construct, operate and maintain the bulk water supply facilities, including the development of raw surface water sources, water treatment, delivery and sale of treated bulk water exclusively to TWD.

On February 26, 2016, TWC and TWD signed and executed a Bulk Water Sales and Purchase Agreement for the supply of bulk water to TWD for a period of fifteen (15) years from the Operations Start Date.

TWC will have the sole and exclusive right and responsibility during the term of the agreement to:

a. Develop raw surface water sources in Hijo River;

b. Plan, develop, design, build and test the facilities;

c. Implement the Project;

d. Manage, use, occupy, operate, repair, maintain, upgrade and develop the facilities; and

e. Supply treated water to TWD for distribution to its network.

Facilities and any and all assets, equipment and properties used by TWC to implement the bulk water project will be owned by TWC even after the expiration of the BWSPA.

MWPVI's Memorandum of Agreement (MOA) with ALI Group
On January 15, 2016, MWPVI entered into a MOA with ALI Group, whereby MWPVI shall exclusively provide water and used water services and facilities to all property development projects of the ALI Group.

Memorandum of Understanding (MOU) with Yangon City Development Committee (YCDC)
On March 17, 2014, MWC and Mitsubishi Corporation, signed a MOU with the YCDC in Yangon City, Myanmar for the development of a proposed NRW project for Yangon City. YCDC is an administrative body of the city government in Yangon in charge of the water, infrastructure, business licenses and city property management, among others.

In 2017, MWAP successfully completed its pilot NRW reduction project in Yangon, significantly reducing levels of water system loss. In partnership with Mitsubishi Corporation and the Yangon City Development Committee, MWAP fulfilled its promise to demonstrate its technical capabilities undertaking a pilot project and improving the waterways in selected areas.

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

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

On December 28, 2017, MWPVI entered into a Novation Agreement with the SM Group and Aqua Centro to transfer its rights, duties and obligations to provide water and/or used water services and facilities to the property development projects of the SM Group to Aqua Centro, effective from the inception of the MOA.

As of December 31, 2018 and 2017, Aqua Centro has six (6) and four (4) signed MOAs with the SM Group, respectively. MWPVI has one (1) signed MOA with SM Group as of December 31, 2018 and 2017.

Calasiao Water's Concession Agreement with CWD
On December 9, 2016, MWC received a Notice of Award from the CWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system of the CWD in Calasiao, Pangasinan.

On June 19, 2017, MWC signed a JVA with CWD which will govern the relationship of the two in undertaking the joint venture project. Under the JVA, MWC and CWD shall cause the incorporation of a joint venture company where MWC and CWD shall own 90.00% and 10.00%, respectively, of the outstanding capital stock. The joint venture company will then enter into a concession agreement with CWD for the implementation of the joint venture project for twenty-five (25) years from the commencement date, as defined in the concession agreement.

On August 2, 2017, the SEC approved the incorporation of Calasiao Water Company, Inc.

On October 23, 2017, Calasiao Water and CWD signed and executed a concession agreement. Under the concession agreement, the CWD grants Calasiao Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564) the sole right to develop, manage, operate, maintain, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery in the entire Municipality of Calasiao for a period of twenty five (25) years commencing on December 29, 2017 (the Commencement Date) until December 29, 2042 (the Expiration Date) or the early termination date as the case may be. While Calasiao Water has the right to manage, operate, repair, and refurbish specified CWD facilities in the service area, legal title to these assets remains with the CWD. The legal title to all fixed assets contributed to the existing CWD system by Calasiao Water during the concession remains with Calasiao Water until the Expiration Date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in CWD.

Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by the CWD.

The ground for EPA means any of the following circumstances:

a. change in law or change in the interpretation of the terms of the concession agreement;
b. extraordinary cost incurred due to prolonged force majeure;
c. a material change has been made to the basis of calculation or definition of the CPI or replacement index agreed; or
d. the concessionaire has incurred significant additional costs as a result of an event of force majeure which are not covered by insurance.

The significant commitments of Calasiao Water under its concession agreement with CWD are as follows:

a. To finance, design, engineer, and construct new facilities for water and sanitation;
b. To upgrade existing water and sanitation facilities;
c. To operate, manage, and maintain water and sanitation facilities and services; and
d. To bill and collect tariff for water and sanitation services.

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

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

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

Obando Water's Concession Agreement with the OWD
On January 24, 2017, the consortium of MWC and MWPVI received the Notice of Award from the OWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of the OWD in Obando, Bulacan.

On February 2, 2017, Obando Water Consortium_Holdings Corp. was registered with the SEC. Obando Water Holdings is the consortium between MWC and MWPVI with an equity share of 49.00% and 51.00%, respectively. The primary purpose of Obando Water Holdings is to engage in the business of a holding company without acting as stockbroker or dealer in securities.

On July 26, 2017, Filipinas Water signed and executed a JVA with OWD. The JVA governs the relationship of Filipinas Water and OWD as joint venture partners in the Obando Water Concession Project (the "Obando Concession Project"). On October 10, 2017, Obando Water was incorporated. Obando Water is 90% and 10% owned by Filipinas Water and OWD, respectively.

For the implementation of the Obando Concession Project, OWD and the joint venture company shall execute a concession agreement. On October 10, 2017, the SEC approved the incorporation Obando Water Company, Inc.

On October 12, 2017, Obando Water and OWD signed and executed a concession agreement without the necessity for another bidding and subject to mutual agreement by Obando Water and the OWD. Under the concession agreement, OWD grants Obando Water, (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under Presidential Decree No. 564), the sole right to manage, operate, maintain, repair, refurbish, and expand the fixed and movable assets required to provide water and sanitation services in the entire Municipality of Obando for a period of twenty five (25) years commencing on
January 1, 2018 (the Commencement Date) until January 1, 2043 (the Expiration Date) or the early termination date, as the case may be.

The initial water tariff, exclusive of value-added tax (VAT) and/or any applicable tax, to be charged to the customers for the first three (3) years of the concession agreeement shall be based on the 2005 Local Water Utilities Administration (LWUA) approved tariff table of OWD. Under the concession agreement, in the event that one or more grounds for EPA has occurred or is expected to occur, an appropriate price adjustment to be applied to the tariff or an appropriate adjustment to the service obligations of the concessionaire will be determined by OWD.

The grounds for EPA means any of the following circumstances:

a. change in law or change in the interpretation of the terms of the concession agreement;
b. extraordinary cost incurred due to prolonged force majeure;
c. a material change has been made to the basis of calculation or definition of the CPI or replacement index agreed;
d. change in assumptions at the time of the execution of the concession agreement; or
e. the concessionaire has incurred significant additional costs as a result of an event of force majeure which are not covered by insurance.

The significant commitments of Obando Water under its concession agreement with OWD are as follows:

a. To finance, design, engineer, and construct new facilities for water and sanitation;
b. To upgrade existing water and sanitation facilities;
c. To operate, manage, and maintain water and sanitation facilities and services; and
d. To bill and collect tariff for water and sanitation services.

<u>BMDC APA with Solar Resources</u>
On July 26, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter’s assets used in the water business operations in Solar Resources developments in the province of Bulacan.

On the same day, Solar Resources executed a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC.

<u>BMDC APA with Borland</u>
On December 14, 2017, BMDC and Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale between the parties for the sale, assignment, transfer, and conveyance of Borland’s assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan (.

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

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

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

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

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

On February 20, 2018, the BOD of MWPVI approved the creation of a SPV for this project.

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

MWPVI Lease Agreement with the Philippine Economic Zone Authority (PEZA)
On December 18, 2017, MWPVI signed a twenty five (25) year Lease Agreement with PEZA. Pursuant to the agreement, MWPVI will lease, operate, and manage the water and used water facilities of PEZA in the Cavite Special Economic Zone for the provision of water and used water services to the locators therein. MWPVI shall apply its expertise in the industrial zones operations and shall provide capital expenditures for the duration of the agreement. The Cavite Special Economic Zone is a 275-hectare industrial estate with 297 locators consuming approximately 350,000 cubic meters per month or 12.0 million liters per day.

MWPVI's MOA with Laguna Technopark, Inc. (LTI)
On April 16, 2016, the MWPVI entered into a MOA with LTI, whereby through its division, Estate Water, MWPVI shall exclusively provide water and used water services to LTI's Cavite Technopark to be located in Barangay Sabang, Naic, Cavite, and in pursuit of this objective, to construct, develop, finance, and own the water facilities and used water facilities under the terms and conditions set out in the MOA.

Asset Purchase Agreement with LTI
On December 23, 2013, LAWC entered into an asset purchase agreement with LTI to acquire and operate its water operations division in Laguna. The significant commitments of LAWC under its agreement with LTI follow:

a. Offer water supply and sewerage services to all current or future locators in the Laguna Technopark, including future area(s) of expansion;

b. Ensure the availability of an uninterrupted 24-hour supply of water to all current and future locators, subject to interruptions resulting from the temporary failure of items of the Water Facilities (where LAWC acts promptly to remedy such failure) or required for the repair of the construction of the Water Facilities where such repairs or construction cannot be performed without interruption to the supply of water;

c. Upon request from a current or future locator in the LTI for a connection to a water main, make such a connection as soon as reasonably practicable, upon payment of reasonable connection fees as determined by LAWC;

d. Ensure at all times that the water supplied to current and future locators in LTI complies with Philippine National Standards for Drinking Water as published by the Department of Health (or successor entity responsible for such standards) and prevailing at such time and shall observe any requirement regarding sampling, record keeping or reporting as may be specified by law;

e. Make available an adequate supply of water for firefighting and other public purposes as the municipality and/or barangay in which LTI may reasonably request. LAWC shall not assess for such water used for firefighting purposes but may charge for all other water used for public purposes; and

f. LAWC shall make a supply of water available to current and future locators in LTI, including the areas of expansion in the future.

Notice of Award from Ilagan City Water District (ICWD) and JVA with ICWD
On January 26, 2018, the MWC Group and MWPVI (collectively the "Consortium") received the Notice of Award from ICWD for the implementation of the joint venture project for the development, financing, operation and management of a raw water source, provision of bulk water supply with system expansion, and the development of septage management in Ilagan City, Isabela (the “Ilagan Project”).

On November 16, 2018, the Consortium signed and executed a JVA with the ICWD. Under the JVA, the Consortium and ICWD shall incorporate a joint venture company, with 90.00% and 10.00% ownership, respectively, which shall implement the Ilagan Project.

Upon completion of conditions precedent set out in the JVA, the joint venture company will consequently enter into a Bulk Water Sales and Purchase Agreement and Septage Management Agreement with ICWD for the implementation of the Ilagan Project for twenty five (25) years from the commencement date.

Notice of Award from Balagtas Water District (BWD)
On April 25, 2018, the MWC Group and MWPVI (collectively the "Consortium") received the Notice of Award from BWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of BWD in the municipality of Balagtas, Bulacan.

Notice of Award from Bulacan Water District (BuWD) and JVA with BuWD
On April 30, 2018, the MWC Group and MWPVI (collectively the "Consortium") received the Notice of Award from BuWD for the implementation of a joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system and sanitation facilities of the BuWD in the Municipality of Bulacan in Bulacan.

On August 16, 2018, Filipinas Water signed and executed a JVA with the BuWD. Under the JVA, Filipinas Water and BuWD shall incorporate a joint venture company, with 90.00% and 10% ownership, respectively, which shall be granted a concession by BuWD for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of the BuWD in the municipality of Bulacan. On October 16, 2018, the joint venture company was incorporated and was registered with the SEC under the name of Bulakan Water Company, Inc.

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

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

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

Incorporation of EcoWater
On July 27, 2018, MWPVI incorporated EcoWater MWPV Corp. which will eventually handle the Lease Agreement for the Operations and Management of the Water and Used Water Facilities of PEZA in Cavite Economic Zone (CEZ) (see Note 20). Out of 75 million subscribed shares, 25 million shares at ₱1.00 par value or ₱25 million was initially paid by MWPVI for the 100% equity interest.

Notice of Award from Tanauan Water District
On October 12, 2018, MWPVI received the Notice of Award from Tanauan Water District for the implementation of the joint venture project for the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities including the financing and construction of such facilities and infrastructure in the service area of Tanauan Water District, and the management, operation, and maintenance of such water supply and sanitation facilities and the provision of the services necessary or incidental thereto in Tanauan Water District's service area.

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

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

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

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

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

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

Aqua Centro and Laguna Water APAs with Extraordinary Development Corporate Group (EDCG)
On December 11, 2018, Aqua Centro entered into seven (7) APAs with EDCG's subsidiaries to acquire the subsidiaries' assets related to the provision of water service in ten (10) subdivisions in Imus, General Trias, and Naic in the province of Cavite. These subsidiaries are Earth Aspire Corporation, First Advance Development Corporation, Ambition Land Inc., Prosperity Builders Resources Inc., Tahanang Yaman Homes Corporation, Extraordinary Development Corp., and Earth + Style Corporation.

As of December 31, 2018, Aqua Centro has already started operations in six (6) out of the ten (10) subdivisions. Aqua Centro shall operate in the remaining subdivisions once all the conditions precedent under the APAs have been fulfilled.

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

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

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

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

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

ACEI
On July 24, 2017, ACEI SG entered into a development funding arrangement with UPC Renewables Asia Pacific Holdings Ltd. and UPC Renewables Asia I Limited for the development of small island projects in Indonesia. Under the terms of the agreement, ACEI SG agreed to provide funding for the development of power generation projects with sub-50MW capacities. ACEI will also have accompanying rights to participate in further construction funding of other Indonesian renewable energy projects. As of December 31, 2018 and 2017, ACEI's total capital funding amounted to US$9.0 million.

On February 29, 2016, GNPK and Meralco Industrial Engineering Services Corp. (MEISCOR) executed the Supply, Delivery and Construction contract for the Kauswagan-Balo-I 230kV Double Circuit Line Transmission Line Project. The Notice to Proceed was also issued during the Contract signing. Construction cost amounted to ₱153.1 million where ₱87.3 million was paid in 2016. Supply cost is priced at US$3.9 million of which US$2.1 million was paid as of December 31, 2016.

On August 11, 2016, ACEI and ACEI SG, a Singapore private limited company and a wholly-owned subsidiary of ACEI, executed a Fee Agreement with Blackstone Capital Partners (Cayman) VI L.P. (Blackstone) whereby ACEI and ACEI SG agreed to perform certain services and undertake certain obligations in favor of Blackstone in relation to Blackstone's investments in the Philippines.

On December 22, 2016, ACEI SG and AC Energy Cayman, a wholly-owned subsidiary of ACEI through AC Energy HK Limited, executed an Assignment Agreement whereby the former assigned all its rights, titles and interest under the Fee Agreement to the latter. Since the assignment was made in relation to the GNPD project, where Blackstone was an investor, ACEI SG and AC Energy Cayman agreed that the release of the fee (under the Fee Agreement) to AC Energy Cayman shall be made based on the agreed milestone.

ACEI SG and AC Energy Cayman also agreed to cause Blackstone to deposit the fee to a trust account with a trust bank that would administer the release of the fee.

On December 23, 2016, ACEI SG entered into a Trust Agreement with BPI Trust. As the trustee, BPI Trust has the sole power and authority to manage the fund and operate the trust account (i.e. invest, reinvest or lend the fund). The amount deposited in the trust account amounted to US$41.7 million as of December 31, 2016.

On September 15, 2017, ACEI SG signed an Amended and Restated Trust Agreement with BPI to revise the mechanics for the release of the fee.

On September 18, 2017 and December 22, 2017, BPI Trust, as Trustee under the Trust Agreement, released a total of US$14.1 million to AC Energy Cayman in consideration for the achievement of the GNPD loan drawdown milestone per the Trust Agreement. Consequently, AC Energy Cayman recognized income of the same amount equivalent to ₱1.5 billion.

On June 18, 2018 and December 20, 2018, the Trustee released a total of US$10.8 million (₱579.0 million) and US$4.7 million (₱248.2 million), respectively to AC Energy Cayman in consideration for the achievement of the GNPD loan drawdown milestone per the Trust Agreement (see Note 19).

On December 22, 2016, ACEI, as part of an Indonesian and a Philippine consortium, signed the share Sale and Purchase Agreements with Chevron Group for the purchase of its geothermal operations in Indonesia and Philippines. The Indonesian consortium consists of ACEI, Star Energy Group Holdings Pte. Ltd. Star, Star Energy Geothermal Pte. Ltd. and Electricity Generating Public Co. Ltd. The acquisition of the geothermal assets in Indonesia will be made through the joint venture company, Star Energy Geothermal (Salak-Darajat) B.V., which is 19.8%-owned by ACEI. The geothermal assets in the Philippines will be acquired through the joint venture company, ACEI-Star Holdings, Inc., formed by the Philippine consortium of ACEI and Star Energy Group Holdings Pte.

Ltd. The closing of the transaction is subject to the satisfaction of certain agreed conditions particularly to the consents and approvals of PCC. As of December 31, 2016, total bid deposits amounted to US$52.03 million (₱2.6 billion). In 2017, this amount formed part of ACEI Group's investment in associates and joint ventures (see Note 10).

On July 24, 2017, ACEI together with Star Energy Geothermal Holdings Pte. Ltd., entered into definitive agreements for the transfer of 99% of their consortium interests in ACEI-STAR Holdings, Inc. to AllFirst Equity Hodings, Inc. (AllFirst). AllFirst is Chevron's current partner, and directly holds a 60% ownership interest in Philippine Geothermal Production Company.

On various dates in 2017 and 2016, ACEI purchased certain parcels of land in Kauswagan, Lanao Del Norte. These parcels of land are used as project site for the construction and operations of the Kauswagan Power Plant Project. Portion of the land will also be donated to the local government of Kauswagan to be used for the relocation of informal settlers. The total land area acquired measures 719,600 square meters, for a total acquisition cost of ₱395.0 million.

On June 20, 2016, the EPC contract of GNPK was amended to reflect the exercise of the option to add a fourth generation unit to the Project. As of December 31, 2016, onshore EPC for the construction and supply and offshore EPC for the engineering, design and procurement amounted to US$98.4 million and US$267.8 million, respectively. In 2016, GNPK paid the onshore and offshore EPC amounting to US$94.8 million and US$265.2 million, respectively.

AC Infra
On September 12, 2015, LRMC took over the operations of LRT Line 1. In December 2015, LRMC started its rehabilitation of certain LRT 1 stations. As of December 31, 2017, LRT 1 stations are still undergoing rehabilitation of certain LRT 1 stations. Construction of the Cavite extension is expected to commence once right of way is delivered by the Grantors and is targeted to complete four years thereafter. The EPC Agreement with Bouygues Travaux Publics Philippines Inc., Alstom Transport S.A and Alstom Transport Construction Philippines Inc., for the Cavite extension, was signed on February 11, 2016. The Notice to Proceed (NTP) was issued by LRMC on August 31, 2017 for the authorization and direction to perform the Existing System and Cavite Extension Works.

As of December 31, 2018, the Existing System Works and Cavite Extension Works are 34.59% and 9.01% complete, respectively.

LRMC entered a two (2) year agreement with First Balfour, Inc. for its structural restoration project, which includes the parapets, faulty concrete and repair of river bridges, in the existing LRT 1 line. The notice to proceed was signed and issued on March 17, 2017.

LRMC signed an Independent Contractor Agreement with ESCA Incorporated for the expertise and services necessary in managing the structural restoration project.

As of December 31, 2018, the structural restoration project is 89.72% complete.

On January 12, 2018, LRMC entered into an agreement with Voith Digital Solutions Austria GmBH and Co KG for the rehabilitation and upgrade of propulsion, train control and management systems of the LRT-1 generation 2 (Adtranz) trains. As of December 31, 2018, the re-engineering project is 53.74% complete.

On October 24, 2018, LRMC entered into an agreement with First Balfour, Inc. and Mrail, Inc. for the rehabilitation of eleven (11) rectifier sub-stations (RSS) of the LRT 1 line. On the same date, LRMC signed a contract with Commsec Inc. for the design, supply, and installation of CCTV, access control, and security network systems of the LRT 1 line. Both projects are at the design and planning or mobilization phase as at December 31, 2018.

On February 12, 2018, the NAIA Consortium composed of Aboitiz InfraCapital, Inc., AC Infrastructure Holdings Corporation, Alliance Global Group Inc., Asia's Emerging Dragon Corporation, Filinvest Development Corporation, JG Summit Holdings, Inc. and Metro Pacific Investments Corporation submitted its unsolicited proposal for the rehabilitation, upgrade, expansion, operation, and maintenance of the Ninoy Aquino International Airport.

The consortium has engaged Changi Airports Consultants Pte. Ltd., a wholly-owned subsidiary of Changi Airports International Pte. Ltd. (and its affiliates, together "CAI Group") and a leading airport consultant and manager in the global aviation market, to provide technical support in the areas of master planning, operations optimization, and commercial development.

On September 13, 2018, the NAIA Consortium has been granted Original Proponent Status from the Department of Transportation and the Manila International Airport Authority for its unsolicited proposal to rehabilitate, upgrade, expand, operate, and maintain the Ninoy Aquino International Airport for a period of 15 years.

Following the grant of Original Proponent Status, the NAIA Consortium's proposal shall be subject to review and approval by the NEDA Board and to a Swiss Challenge in accordance with the requirements of Republic Act No. 7718 or the Build-Operate-Transfer Law.

AITHI Group
On December 5, 2018, AITHI signed a Distributorship Agreement with Kia Motors Corporation (KMC) to distribute the Kia brand in the Philippines. A joint venture company, with AITHI as majority stockholder, will be established in collaboration with Columbian Autocar Corporation (CAC) to undertake this new business and re-establish the Kia brand in the Philippines. A comprehensive transition is currently ongoing in line with a targeted relaunch under AITHI by January 2019.

On September 28, 2018, SAIC MAXUS Automotive Co., Ltd. (Maxus) has appointed AITHI as the official distributor of Maxus vehicles in the Philippines. Maxus is a wholly-owned subsidiary of SAIC Motor Corporation Limited, with an emerging portfolio focused on light commercial vehicles.

36. **Contingencies**

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of the Group's management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations.

MWC
On October 13, 2005, the Municipality of Norzagaray, Bulacan assessed MWC and Maynilad Water Services, Inc. (jointly, the Concessionaires) real property taxes on certain common purpose facilities registered in the name of and owned by MWSS purportedly due from 1998 to 2005 amounting to ₱357.1 million. On November 15, 2010, the local government of Quezon City demanded the payment of ₱302.7 million for deficiency real property taxes from MWSS on MWSS properties within its territorial jurisdiction. The assessments from the municipality of Norzagaray and Quezon City have been questioned by the Concessionaires and MWSS, and are pending resolution before the Central Board of Assessment Appeals and Supreme Court, respectively. On January 26, 2011, the Supreme Court issued a Temporary Restraining Order enjoining the local government of Quezon City from levying the real properties, machineries and equipment of MWSS. Total provision for these assessments amounted to ₱416.2 million as of December 31, 2018 and 2017 (see Note 13).

37. **Assets Held in Trust**

MWSS

MWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or MWC.

The Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both East and West Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to MWC on Commencement Date based on MWSS' closing audit report amounted to ₱4.6 billion with a sound value of ₱10.4 billion.

In 2015, MWC engaged the services of Royal Asia Appraisal Corporation to conduct a re-appraisal of the assets managed by MWC as of 2015, based on the asset registry as of December 31, 2014. Total reproduction cost as of December 31, 2015 amounted to ₱123.5 billion, respectively with a sound value of ₱69.1 billion.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. On October 27, 2006, MWC has renewed the lease for 5 years, with expiry of October 27, 2011. Rent expense amounted to ₱32.2 million, ₱27.8 million and ₱18.5 million in 2018, 2017 and 2016, respectively. These are included under "Rental and utilities" in the consolidated statement of income.

In March 2015, MWC and MWSS entered into an agreement for the lease of a portion of the San Juan Reservoir and Aqueduct Complex being utilized by MWC as stockyard for its pipes and other materials. The lease agreement shall continue to be in effect until the termination of the Concession Agreement. Rent expense recognized in 2018 and 2017 amounted to ₱16.2 million.

PGL

LAWC is granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with PGL. The legal title of all property in existence at the commencement date shall be retained by PGL. Upon expiration of the useful life of any such property as may be determined by LAWC, such property shall be returned to PGL in its then condition at no charge to PGL or LAWC.

In 2014, LAWC engaged the services of Cuervo Appraisers to conduct a re-appraisal of PGL assets on record as of December 31, 2013. Total replacement cost as of December 31, 2013 amounted to ₱2.1 billion with a sound value of ₱1.6 billion.

TIEZA

BIWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to TIEZA in its then-current condition at no charge to TIEZA or MWC.

The net book value of the facilities transferred to MWC on commencement date based on TIEZA's closing audit report amounted to ₱618.2 million.

In 2015, BIWC engaged the services of Cuervo Appraisers, Inc. to conduct an appraisal of its assets as of August 18 to 20, 2015. Total replacement cost as of December 31, 2015 amounted to ₱1.1 billion with a sound value of ₱793. 4 million.

OWD
On October 12, 2017, Obando Water is granted the right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Obando. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Obando Water, shall remain with OWD.

CWD
On October 23, 2017, Calasiao is granted the right to develop, manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Calasiao. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Calasiao Water, shall remain with CWD.

38. Renewable Energy Act of 2008

Republic Act No. 9513, *An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes*, which shall be known as the “Renewable Energy Act of 2008” (the Act), became effective on January 30, 2009. The Act aims to: (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country’s dependence on fossil fuels and thereby minimize the country’s exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems,and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, Renewable Energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the Board of Investments, shall be entitled to the following incentives, among others:

i. Income Tax Holiday (ITH) – For the first seven (7) years of its commercial operations, the duly registered RE developer shall be exempt from income taxes levied by the National Government;

ii. Duty-free Importation of RE Machinery, Equipment and Materials – Within the first ten (10) years upon issuance of a certification of an RE developer, the importation of machinery and equipment, and materials and parts thereof, including control and communication equipment, shall not be subject to tariff duties;

iii. Special Realty Tax Rates on Equipment and Machinery – Any law to the contrary notwithstanding, realty and other taxes on civil works, equipment, machinery, and other improvements of a registered RE developer actually and exclusively used for RE facilities shall not exceed 1.5% of their original cost less accumulated normal depreciation or net book value;

iv. NOLCO – the NOLCO of the RE developer during the first three (3) years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss;

v. Corporate Tax Rate – After seven (7) years of ITH, all RE developers shall pay a corporate tax of 10% on its net taxable income as defined in the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337;

vi. Accelerated Depreciation – If, and only if, an RE project fails to receive an ITH before full operation, it may apply for accelerated depreciation in its tax books and be taxed based on such;

vii. Zero Percent VAT Rate – The sale of fuel or power generated from renewable sources of energy shall be subject to 0% VAT;

viii. Cash Incentive of RE Developers for Missionary Electrification – An RE developer, established after the effectivity of the Act, shall be entitled to a cash generation-based incentive per kilowatt-hour rate generated, equivalent to 50% of the universal charge for power needed to service missionary areas where it operates the same;

ix. Tax Exemption of Carbon Credits – All proceeds from the sale of carbon emission credits shall be exempt from any and all taxes; and

Tax Credit on Domestic Capital Equipment and Services – A tax credit equivalent to 100% of the value of the value-added tax and customs duties that would have been paid on the RE machinery, equipment, materials and parts had these items been imported shall be given to an RE operating contract holder who purchases machinery, equipment, materials, and parts from a domestic manufacturer for purposes set forth in the Act.

In addition, to accelerate the development of emerging renewable energy resources, a feed-in tariff system for electricity produced from wind, solar, ocean, run-of-river hydropower and biomass will be promulgated which shall include, but not limited to, the following:

a. Priority connections to the grid for electricity generated from emerging renewable energy resources;
b. The priority purchase and transmission of, and payment for, such electricity by the grid system operators; and
c. Determine the fixed tariff to be paid to electricity produced from each type of emerging renewable energy and the mandated number of years for the application of these rates, which shall not be less than twelve (12) years.

The feed-in tariff to be set shall be applied to the emerging renewable energy to be used in compliance with the renewable portfolio standard as provided for in the Act and in accordance with the feed-in-tariff rules to be promulgated by the Energy Regulatory Commission (ERC) in consultations with the National Renewable Energy Board. On July 27, 2012, ERC approved the feed-in tariff of 8.53 kilowatt per hour (kWh) for wind renewable energy resource. The approved subsidy will be reviewed and readjusted, if necessary, after its three-year initial implementation or when the target installed capacity for each renewable resource set by the DOE has been met.

RE developers and local manufacturers, fabricators and suppliers of locally-produced RE equipment shall register with the DOE, through the Renewable Energy Management Bureau (REMB). Upon registration, a certification shall be issued to each RE developer and local manufacturer, fabricator and supplier of locally-produced renewable energy equipment to serve as the basis of their entitlement to the incentives provided for in the Act. All certifications required to qualify RE developers to avail of the incentives provided for under the Act shall be issued by the DOE through the REMB.

Within six (6) months from the effectivity of the Act, the DOE shall, in consultation with the Senate and House of Representatives Committee on Energy, relevant government agencies and RE stakeholders, promulgate the Implementing Rules and Regulations of the Act. On May 25, 2009, the DOE issued the Implementing Rules and Regulations of the Act which became effective on June 12, 2009.

ACEI and its subsidiaries expect that the Act will impact their future operations and financial results. The impact of the Act will be disclosed as the need arises.

Northwind
On January 18, 2010, Northwind filed its intent with the REMB for the conversion of its Negotiated Commercial Contract into Wind Energy Service Contract and Registration as RE Developer as provided for under the Act. On November 9, 2010, the DOE issued a Provisional Certificate of Registration as an RE Developer in favor of Northwind, subject to negotiation and execution of a Wind Energy Service Contract to replace the Negotiated Commercial Contract.

On April 6, 2011, Northwind filed with the ERC an application for a Feed-In Tariff (FiT). The FiT will provide for a fixed rate per kilowatt of electricity produced over a period of fifteen years. On June 6, 2011, the ERC granted Northwind a provisional FiT rate of ₱9.30 per kilowatt hour which shall be effective and collected only upon the final approval of the FiT for emerging renewable energy technologies, specifically for wind energy.

On October 10, 2014, the DOE granted Northwind a Certificate of Endorsement for Feed-In Tariff (FIT) Eligibility (COE-FIT No. 2014-10-001) for its Phase III expansion project. The endorsement qualifies the Phase III expansion under the FIT System and accordingly, will be granted the national FIT for wind projects amounting to 8.53/kWh. The endorsement shall be the basis for the Energy Regulatory Commission (ERC) to issue a FIT Certificate of Compliance.

On November 11, 2014, commercial operations of the wind farm projects started in accordance with the COE. On April 13, 2015, the FIT COC was subsequently issued for both the 19-MW wind farm expansion in Bangui under Northwind and the 81-MW wind farm in Caparispisan, Pagudpud under NLREC for a period of 20 years. The FIT rate covers the period October 10, 2014 to October 9, 2034 for Northwind's 19MW Phase III wind farm and November 11, 2014 to November 10, 2034 for NLREC's 81MW project.

For the period from November 11, 2014 to December 31, 2014, the Northwind generated 30.07 million kilowatt-hours of electricity from the Wind Farm Project which was entirely sold to WESM. Such generation resulted to revenue (earned from WESM) amounting to ₱75.21 million (Ph2.50/kWh) from November 11 to December 31, 2014. The Actual FIT Differential amounted to ₱183.02 million.

On June 5, 2015, Northwind and NLREC collected the first FIT differential payment from Transco.

Monte Solar
On June 13, 2016, the DOE, through its issuance of the Certificate of Endorsement, certified the Montesolar's Solar Farm Project as an eligible project under the FiT system. On July 4, 2016, the ERC issued a provisional authority to operate until January 31, 2017. On December 28, 2016, Montesolar received another provisional authority to operate by the ERC dated December 8, 2016 but this time, as a renewable energy generation company, which allows Monte Solar to be entitled to a FiT rate of ₱8.69/Kwh for a period of twenty (20) years from March 13, 2016.

On August 8, 2017, Montesolar collected the first FIT differential payment from Transco.

As of December 31, 2017, Montesolar recognized FIT differential totalling ₱233.3 million covering the period March to August 2016 and January to September 2017.

Last February 2018, Northwind received FIT adjustment from ₱5.76 to ₱5.96 applied from billing periods July 25, 2015 to January 25, 2018.

39. Events after the Reporting Period

Parent Company

a) On various dates in 2019, the Parent Company infused additional capital to the following subsidiaries: AC Infra amounting to ₱1,268.0 million for LRT1 project (Cavite extension); AITHI amounting to ₱60.3 million for operating expenses and US$6.0 million, through ACIFL, for Merlin Solar projects; and AC Health amounting to ₱226.8 million for certain capital expenditure, clinic expansion and new business development.

b) The holders of the remaining AYCFL US$292.8 million guaranteed exchangeable bonds as of December 31, 2018 claimed the option to convert $75.4 million bonds into 96.4 million ALI ordinary shares, bringing the balance of the guaranteed exchangeable bonds to US$217.4 million as of March 12, 2019.

   The Group's effective ownership in ALI was reduced by 0.65% after this exchange.

c) On March 12, 2019, the BOD approved the amendment to the Parent Company's primary purpose under the Second Article of its Articles of Incorporation to expressly include, as part of the acts which the Parent Company may perform in furtherance of its primary purpose, its acting as guarantor or surety for the loans and obligations of its affiliates or associates, as may be authorized by the BOD.

d) On March 12, 2019, the BOD approved the amendments of Sections 5, 6 and 8 of Article III of the Parent Company's By-Laws to allow the shareholders to vote through remote communication or in absentia, subject to the rules and regulations that may be issued by the SEC from time to time.

ALI Group

a) On February 4, 2019, the Executive Committee of ALI approved the exchange of the 20% equity interest acquired from Mitsubishi Corporation in Laguna Technopark, Inc. (LTI), equivalent to 8,051 common shares, with a total value of ₱800.0 million, for additional shares of stock in Prime Orion Philippines, Inc. (POPI), equivalent to 323,886,640 common shares, subject to conditions to be fulfilled by POPI.

b) On February 27, 2019, the BOD of ALI approved the declaration of cash dividends amounting to ₱0.26 per outstanding common share. These will be paid on March 29, 2019 to shareholders on record as of March 13, 2019.

c) On the same date, the BOD of ALI approved the filing with the SEC of a 3-year shelf registration of up to ₱50.0 billion of debt securities ('the Shelf Registration'). It also approved the raising of up to ₱45.0 billion through: (a) retail bonds of up to ₱16.0 billion under the Shelf Registration and listed on the Philippine Dealing and Exchange Corporation (PDEx), (b) SEC-exempt Qualified Buyer Notes of up to ₱4.0 billion for enrollment on the PDEx, and (c) bilateral term loans of up to ₱25.0 billion to partially finance general corporate requirements and to refinance maturing loans.

d) The BOD of ALI also approved ALI's 2019 stock option program pursuant to their Employee Stock Ownership Plan (the Plan). The program authorizes the grant to qualified executives, in accordance with the terms of the Plan, stock options covering up to a total of 14,430,750 common shares at a subscription price of ₱44.49 per share, which is the average price of our common shares at the Philippine Stock Exchange over the last 30-day trading as of February 26, 2019.

MWC Group

a) On January 21, 2019, LAWC signed and executed a contractual JVA with the PAGWAD. Under the agreement, LAWC shall serve as the contractor or agent of PAGWAD tasked with the operations, management, and maintenance as well as the design, improvement, upgrade, rehabilitation, and expansion of water supply and sanitation facilities within the service area of PAGWAD in Pagsanjan, Laguna.

Upon completion of conditions precedents in the agreement, LAWC and PAGWAD shall execute the project for a period of sixteen (16) years until September 30, 2035.

b) On January 25, 2019, MWPVI received a Notice to Proceed from the Municipality of Manaoag, Pangasinan, granting MWPVI a franchise for the provision and improvement of the water supply operation, maintenance, management, financing and expansion, and the provision of septage management in the Municipality of Manaoag. The franchise granted to MWPVI shall be for a term of twenty five (25) years, excluding two (2) years of construction.

c) On February 4, 2019, MWC Group and MWPVI (collectively, the “Consortium”) signed and executed a JVA with the Tanauan Water District for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of the Tanauan Water District in Tanauan City, Batangas (the Tanauan Project). Upon completion of the conditions precedent set out in the JVA, the Consortium, through a SPV, and the Tanauan Water District shall execute the Tanauan Project for a period of twenty-five (25) years from the commencement date.

d) On February 26, 2019, the BOD of MWC approved the declaration of cash dividends of ₱0.4551 per share on outstanding common shares and ₱0.0455 per share on outstanding participating preferred shares with date of record on March 14, 2019 and payment date of March 28, 2019.

ACEI

a) On January 9, 2019, Phinma Corporation approved and signed the Heads of Agreement for the sale of its 1,283,422,198 shares in Phinma Energy Corporation (PHEN) representing 26.25% ownership interest to ACEI subject to the execution of the appropriate definitive agreements.

   Further to the transaction, ACEI will acquire Phinma Corporation’s and Phinma Inc.’s combined 51.48% stake in PHEN via a secondary share sale for approximately ₱3.4 billion, based on the valuation date of December 31, 2018, and is subject to adjustments. ACEI will also subscribe to approximately 2.632 billion PHEN primary shares at par value.

   On February 8, 2019, ACEI, Phinma Corporation and Phinma, Inc. signed the Investment Agreement.

   Disclosures on the acquisition date fair value and carrying value of the assets acquired and liabilities assumed of PHEN and any goodwill or gain from bargain purchase are not yet available as of the report date.

b) On January 23, 2019, ACEI, through its wholly-owned subsidiary AC Energy Finance International Limited, launched its US dollar-denominated senior Green Bond issuance at an aggregate principal amount of US$225 million with a 5-year tenor and a coupon of 4.75% per annum, priced at 99.451. The green bonds were successfully listed in the Singapore Exchange on January 30, 2019.

c) On February 28, 2019, the PCC approved the acquisition of shares of stocks in AA Thermal by Aboitiz Power. The remaining conditions precedent are the approval of AA Thermal’s application for capital increase with SEC and other deliverables customary for transactions of a similar nature (see Note 10).

AITHI

a) On January 17, 2019, KP Motor Corporations (KPMC), a wholly-owned subsidiary of AITHI, was incorporated. KPMC is primarily engaged to assemble, manufacture, construct, purchase, import, sell on wholesale basis, distribute, export, exchange, mortgage, pledge and otherwise dispose of, and generally to deal in or engage in any commerce relating to automobiles, cars, automobile products, and all kinds of component parts of Kia brand.

b) On January 30, 2019, AITHI relaunched the Kia brand in the Philippines wherein 3 new vehicle models were introduced.

AEI

a) On January 31, 2019, AEI and IPO executed the Plan and Articles of Merger, as approved by the companies' respective boards of directors and stockholders. Subsequently on February 8, 2019, the merger has been submitted for approval with the SEC. Post-SEC approval, the merger shall be cleared with the BIR.

40. Approval of the Consolidated Financial Statements

The consolidated financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were endorsed for approval by the Audit Committee on March 7, 2019 and authorized for issue by the BOD on March 12, 2019.

II. 2018 Supplementary Schedules

SGV
Building a better working world

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1226 Makati City
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Fax: (632) 819 0872
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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Ayala Corporation
32F-35F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Ayala Corporation and its subsidiaries as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 and have issued our report thereon dated March 12, 2019. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Schedules A to L listed in the Index to the Consolidated Financial Statements are the responsibility of the Company's management. These schedules are presented for purposes of complying with the requirements of the Securities and Exchange Commission and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-5 (Group A),
November 16, 2018, valid until November 15, 2021
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332535, January 3, 2019, Makati City

March 12, 2019

AYALA CORPORATION AND SUBSIDIARIES
Schedule A.1. – Financial Assets (Current Marketable Equity Securities and Other Short-Term Cash Investments)
As of December 31, 2018
(In Thousand Pesos)

Name of Issuing Entity & Association of Each Issue	Amount Shown in the Balance Sheet	Income Received & Accrued
A. OTHER SHORT-TERM CASH INVESTMENTS [1/]		
Time Deposits (FX)		
BPI	5,938,624	
Others	1,252,611	
Sub-Total	**7,191,235**	
Time Deposits (Peso)		
BPI	4,371,819	
Others	4,105,364	
Sub-Total	**8,477,183**	
Money Market Placements (FX)		
BPI	2,547,977	
DBS Hongkong	1,279,064	
Security Bank	456,922	
CTBC Bank Corp	235,256	
Others	3,666,176	
Sub-Total	**8,185,395**	
Money Market Placements (Peso)		
BPI	6,684,542	
Security Bank	323,700	
Maybank	307,400	
Metropolitan Bank	174,000	
Others	2,820,161	
Sub-Total	**10,309,803**	
Others	**247,567**	
Total	**34,411,183**	**813,636**
B. SHORT-TERM INVESMENTS [2/]	**NOT APPLICABLE**	
C. CURRENT MARKETABLE SECURITIES [3/]	**NOT APPLICABLE**	

[1/] *Short-term highly liquid investments with varying periods up to three months shown as part of the Cash and Cash Equivalents account in the Balance Sheet. Cash Equivalents is 2.9% of the P1,197,925,619k Total Assets as of December 31, 2018.*

[2/] *Money Market Placements with varying maturity periods of more than three months and up to six months amounting to P5,956,489k is 0.5% of the P1,197,925,619k Total Assets as of December 31, 2018. This is booked under the Short-term Investments account.*

[3/] *Current marketable securities are composed of Financial Assets at FVTPL amounting to P9,236,804k. An amount of P85,724k is placed under BPI's UITF. The total FVTPL account is shown under the Other Current Assets account and is 0.8% of the P1,197,925,619k Total Assets as of December 31, 2018.*

AYALA CORPORATION AND SUBSIDIARIES
Schedule A.2. – Non-Current Marketable Equity Securities, Other Long-term Investment in Stocks and Other Investments (Non-Current Investments) (part 1)
As of December 31, 2018
(In Thousand Pesos)

NAME OF COMPANY	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE	
	Effective % of Ownership	Amount in Pesos	Equity in Earnings (Losses) of Investees for the period	Others (Cost, Equity Adj. & OCI gain-net)	Distribution of Earnings by Investees	Others (Cost, Equity Adj. , OCI loss-net, & Reclassifications)	Effective % of Ownership	Amount in Pesos
INVESTMENTS IN ASSOCIATES & JOINT VENTURES								
Domestic:								
Bank of the Philippine Islands	32.5%	77,494,700	7,623,024	19,264,671	(2,669,790)	(21,345)	32.9%	101,691,260
Liontide Holdings, Inc.	78.1%	41,854,513	3,334,608	504,721	(392,706)	(10,304)	78.1%	45,290,832
Globe Telecom, Inc.	31.0%	21,193,953	5,595,740	387,449	(3,745,312)	(217,025)	30.9%	23,214,805
OCLP Holdings, Inc.	21.0%	7,737,712	379,680	27,308	(27,308)	-	21.0%	8,117,392
Emerging City Holdings, Inc.	50.0%	3,916,374	194,975	-	(200,000)	-	50.0%	3,911,349
Light Rail Manila Holdings, Inc.	50.0%	1,825,205	225,674	1,365,790	-	-	50.0%	3,416,669
South Luzon Thermal Energy Corp.	35.0%	2,703,920	337,885	-	-	-	35.0%	3,041,805
GNPower Mariveles Coal Plant Ltd. Co.	20.4%	8,005,672	1,149,129	-	-	(6,373,601)	20.4%	2,781,200
ALI-ETON Property Development Corporation	50.0%	603,719	(29,051)	1,534,000	-	-	50.0%	2,108,668
GNPower Dinginin Ltd. Co.	50.0%	2,265,535	109,568	-	-	(352,161)	50.0%	2,022,942
AKL Properties, Inc.	-	-	(14,554)	1,957,176	-	-	50.0%	1,942,622
Berkshires Holdings, Inc.	50.0%	1,910,360	82,953	-	-	(60,000)	50.0%	1,933,313
Cebu District Property Enterprise, Inc.	42.0%	1,476,052	(14,531)	2,911	-	-	35.0%	1,464,432
Bonifacio Land Corporation	10.0%	1,395,035	103,251	-	(70,731)	-	10.0%	1,427,555
Philippine Wind Holdings Corporation	42.9%	1,005,986	413,552	-	-	-	42.9%	1,419,538
Asiacom Philippines, Inc.	60.0%	1,302,476	50,747	-	-	(45,687)	60.0%	1,307,536
BF Jade E-Services Philippines, Inc.	44.2%	1,050,675	(223,984)	151,900	-	(49,072)	44.7%	929,519
Rize-Ayalaland (Kingsway) GP Inc.	49.0%	673,768	(2,236)	439,392	-	(316,979)	49.0%	793,945
Alveo-Federal Land Communities, Inc.	50.0%	661,202	128,012	-	-	(50)	50.0%	789,164
Generika Group	50.0%	500,000	(17,089)		-	(9,116)	50.0%	473,795
Globe Fintech Innovations, Inc. (Mynt)	10.0%	460,994	(268,841)	-	-	-	10.0%	192,153
Foreign:								
Star Energy Salak-Darajat B.V.	19.8%	9,044,936	858,768	376,059	-	-	19.8%	10,279,763
Eastern Water Resources Development and Management Public Company Limited	-	-	262,719	8,834,042	(223,449)	(250,707)	20.0%	8,622,605
Thu Duc Water B.O.O. Corporation	49.0%	2,725,230	257,304	218,830	(127,678)	-	49.0%	3,073,686
Kenh Dong Water Supply Joint Stock Company	47.4%	2,574,359	150,247	59,404	(62,692)	-	47.4%	2,721,318
BIM Renewable/Energy Joint Stock Co.	-	-	1,952	2,239,039	-	-	30.0%	2,240,991
UPC Renewables Australia	-	-	(115,100)	1,577,400	-	-	50.0%	1,462,300
Saigon Water Infrastructure Joint Stock Company	38.0%	1,150,546	27,469	-	-	(5,675)	38.0%	1,172,340
New Energy Investments Corporation	-	-	(11,006)	1,142,925	-	(1,098)	50.0%	1,130,821
UPC Sidrap HK Ltd.	11.0%	320,653	(3,525)	16,677	-	-	11.0%	333,805
UPC Renewables Asia III Ltd.	51.0%	1,180,053	-	10,481	-	(1,087,039)	51.0%	103,495
MCT Berhard (MCT)	33.0%	7,471,438	-	-	-	(7,471,438)	-	-
Others	various	144,234	(127,536)	642,847	(33,422)	102,817	various	728,940
TOTAL INVESTMENTS IN ASSOCIATES & JOINT VENTURES		**202,649,300**	**20,459,804**	**40,753,022**	**(7,553,088)**	**(16,168,480)**		**240,140,558**

AYALA CORPORATION AND SUBSIDIARIES
Schedule A.2. – Non-Current Marketable Equity Securities, Other Long-term Investment in Stocks and Other Investments (Non-Current Investments) (part 2)
As of December 31, 2018
(In Thousand Pesos)

NAME OF COMPANY	BEGINNING BALANCE	ADDITIONS	DEDUCTIONS	ENDING BALANCE
	Amount in Pesos	Others (Cost & Equity Adj)	Others*	Amount in Pesos
INVESTMENTS IN BONDS & OTHER SECURITIES				
Financial Assets at FVOCI:				
Quoted equity investments:				
Club Shares	1,016,497	299,461		1,315,958
Cyber Bay Corporation	655,025		(106,725)	548,300
CII	308,641		(71,313)	237,328
Others	92,799	6,062		98,861
	2,072,962	305,523	(178,038)	2,200,447
Unquoted equity investments:				
Sacasol/Islasol	-	597,443		597,443
Tech Ventures	35,752	10,962		46,714
Sares Regis fund	947,503		(947,503)	-
Wave Computing	110,512		(110,512)	-
Milestone Group Pty. Ltd.	291,109		(291,109)	-
ACI Solar Holdings NA (RPS)	228,080		(228,080)	-
AF Payments, Inc.	50,000		(50,000)	-
Glory High	29,578		(29,578)	-
Others	700,871		(511,230)	189,641
	2,393,405	608,405	(2,168,012)	833,798
TOTAL INVESTMENTS IN BONDS & OTHER SECURITIES	**4,466,367**	**913,928**	**(2,346,050)**	**3,034,245**

** Reclassifications/ adjustments pertaining to Cost, Equity and PFRS 9 implementation.*

Schedule B – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
As of December 31, 2018
(In Thousand Pesos)

Account Type	Beginning Balance	Additions	Deductions	Ending Balance	Current	Non-current	Payment Period
Advances to Employees	757,494	1,814,991	(2,254,978)	317,507	304,750	12,757	30 days to 1 year
Housing and Related Loan	416,099	242,246	(151,656)	506,689	315,012	191,677	1 year to 15 years
Car and Related Loan	144,656	168,541	(128,199)	184,997	112,884	72,113	1 year to 5 years
Others	161,283	511,452	(183,931)	488,804	335,523	153,281	6 months to 1 year
TOTAL*	**1,479,532**	**2,737,230**	**(2,718,764)**	**1,497,997**	**1,068,169**	**429,828**	

** Please refer to Notes 7 and 32 in the 2018 Consolidated Audited Financial Statements for detailed account analysis and discussion.*

AYALA CORPORATION AND SUBSIDIARIES
Schedule C.1. – Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
As of December 31, 2018
(In Thousand Pesos)

Creditor	Creditor's Relationship to the Reporting Co.	Account Type	Beginning Balance	Movement	Ending Balance	Nature of Accounts
AC	Parent	Dividends receivable	44,800	(14,800)	30,000	Dividends from AGCC and DADC
AC	Parent	Other receivable	43,283	79,966	123,249	Rental fees, with interest on overdue accounts; other receivables
ACIFL	Subsidiary	Other receivable	111,463	(78,212)	33,251	Other receivables from AIVPL
AC Ventures	Subsidiary	Subscription receivable	568,825	(471,935)	96,889	Deposits on subscriptions, non-interest bearing
AGCC	Subsidiary	Trade receivable	30,101	1,784	31,884	Legal fees
AIVPL	Subsidiary	Other receivable	77,530	(77,530)	-	Other receivables from BHL
ALI	Subsidiary	Accounts receivable	149,675	82,044	231,720	Advances, non-interest bearing and retention accounts for construction projects
AYC	Subsidiary	Other receivable	20,226,561	7,259,502	27,486,063	Mainly non-interest bearing receivable from ACIFL (for various investment initiatives)
IMI	Subsidiary	Other receivable	15,897	53,747	69,644	Advances, non-interest bearing
PFIL	Subsidiary	Other receivable	76,879	4,080	80,959	Other receivables from ACIFL
Others	Subsidiary	Other receivable	82,160	1,960	84,120	Reimbursement of expenses, etc.
TOTAL			**21,427,174**	**6,840,606**	**28,267,781**	

Schedule C.2. – Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
As of December 31, 2018
(In Thousand Pesos)

Debtor	Debtor's Relationship to the Reporting Co.	Account Type	Beginning Balance	Movement	Ending Balance	Nature of Accounts
AC	Parent	Accounts payable	1,197,465	(279,581)	917,884	Advances, non-interest bearing
AC	Parent	Subscription payable	568,825	(471,935)	96,889	Deposits on subscriptions, non-interest bearing
ACI	Subsidiary	Accounts payable	57,033	19,415	76,448	Rental fees, with interest on overdue accounts
AC Energy	Subsidiary	Accounts payable	-	7,674	7,674	Other payables to IMI
AC Health	Subsidiary	Accounts payable	-	30,643	30,643	Other payables to AC
ACIFL	Subsidiary	Accounts payable	19,176,667	7,551,264	26,727,931	Non-interest bearing payable to AYC (for various investment initiatives)
ACIFL	Subsidiary	Accounts payable	76,879	4,080	80,959	Other payables to PFIL
AGCC	Subsidiary	Accounts payable	23,587	463	24,050	Rental fees, with interest on overdue accounts
AGCC	Subsidiary	Dividends payable	35,000	(5,000)	30,000	Dividends
AIVPL	Subsidiary	Other payables	111,463	(78,212)	33,251	Other payables to ACIFL
ALI	Subsidiary	Other payables	10,694	9,160	19,854	Advances, non-interest bearing
BHL	Subsidiary	Accounts payable	77,530	(77,530)	-	Other payables to AIVPL
DADC	Subsidiary	Dividends payable	9,800	(9,800)	-	Dividends
IMI	Subsidiary	Accounts payable	-	75,677	75,677	Other payables to AC
MWCI	Subsidiary	Retention payable	2,354	65,176	67,530	Retention accounts for construction projects
Others	Subsidiary	Other payables	79,876	(887)	78,989	Reimbursement of expenses, etc.
TOTAL			**21,427,174**	**6,840,606**	**28,267,781**	

AYALA CORPORATION AND SUBSIDIARIES
Schedule D – Intangible Assets and Other Assets (Deferred Charges)
As of December 31, 2018
(In Thousand Pesos)

DESCRIPTION	CAFS Notes*	BEGINNING BALANCE	RESTATEMENTS**	BEGINNING BALANCE, AS RESTATED	ADDITIONS AT COST	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	OTHER CHANGES ADD/(DED)	ENDING BALANCE
INTANGIBLE ASSETS	14	16,705,000	-	16,705,000	2,147,575	(1,493,614)	299,578	(1,105,170)	16,553,369
OTHER ASSETS - DEFERRED CHARGES	3, 15	7,757,572	(2,403,553)	5,354,019	4,295,982	-	-	-	9,650,001

*Please refer to respective notes in the 2018 Consolidated Audited Financial Statements (CAFS) for detailed account analysis and discussion.

**Pertains to restatements relating to PFRS 15 PIC Q&A on Real Estate Inventories and Advances to Contractors.

Schedule E – Long-term Debt
As of December 31, 2018
(In Thousand Pesos)

TITLE OF ISSUE & TYPE OF OBLIGATION	CURRENT	NON-CURRENT	TOTAL
PARENT COMPANY:			
Bank loans - with fixed interest rates ranging from 5.3% to 6.0% and floating interest rates based on applicable benchmark plus credit spread ranging from 0.5% to 0.70% with varying maturity dates up to 2028	525,500	26,879,887	27,405,387
Bonds	-	39,762,594	39,762,594
	525,500	66,642,481	67,167,981
SUBSIDIARIES:			
Loans from banks and other institutions:			
Foreign currency - with interest rates ranging from 1.39% to 5% in 2018	8,449,697	59,914,841	68,364,538
ACEI	-	34,856,583	34,856,583
MWC	4,283,425	14,909,161	19,192,586
IMI	3,550,251	6,332,781	9,883,032
ALI	616,021	2,769,565	3,385,586
AYCFL	-	1,046,751	1,046,751
Philippine peso - with interest rates ranging from 2.85% to 9.00% in 2018	11,858,003	64,700,053	76,558,056
ALI	10,316,622	39,395,406	49,712,028
MWC	1,068,221	17,951,043	19,019,264
ACEI	420,487	7,035,761	7,456,248
Others	52,673	317,843	370,516
	20,307,700	124,614,894	144,922,594
Bonds:			
Fixed for life bonds	-	20,918,114	20,918,114
Exchangeable bonds due 2019	15,285,934	-	15,285,934
Due 2019	12,313,125	-	12,313,125
Due 2020	19,405	3,970,141	3,989,546
Due 2021	-	5,000,000	5,000,000
Due 2022	-	12,605,471	12,605,471
Due 2023	-	14,861,918	14,861,918
Due 2024	-	14,923,051	14,923,051
Due 2025	-	14,895,124	14,895,124
Due 2026	-	7,939,468	7,939,468
Due 2027	-	6,969,630	6,969,630
Due 2028	-	9,886,828	9,886,828
Due 2033	-	1,984,613	1,984,613
	27,618,464	113,954,358	141,572,822
Fixed Rate Corporate Notes (FXCNs)	28,895	11,957,720	11,986,615
Short-dated notes	-	7,093,375	7,093,375
TOTAL	**48,480,559**	**324,262,828**	**372,743,387**

AYALA CORPORATION AND SUBSIDIARIES
Schedule F – Indebtedness to Related Parties (Long-term Loans from Related Parties)
As of December 31, 2018
(In Thousand Pesos)

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
Bank of the Philippine Islands*	29,591,410	32,336,623
*The Group also has ₱1.1B in payables to unconsolidated subsidiaries and related parties**		

**Please refer to Note 31 of the 2018 Consolidated Audited Financial Statements for detailed account analysis and discussion.*

Schedule G – Guarantees of Securities of Other Issuers
As of December 31, 2018
(In Thousand Pesos)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guaranty
AYC Finance Limited *	Various *	Various *	None	The Parent Company unconditionally guarantees the due and punctual payment of the loan drawdowns if, for any reason AYCFL does not make timely payment of the amount due. The Parent Company waived all rights of subrogation, contribution and claims of prior exhaustion of remedies. The Parent Company's obligation as guarantor will remain in full force until no sum remains to be lent by the lenders, and the lenders recover the outstanding loan drawdowns.*

** Please refer to Note 35 of the 2018 Consolidated Audited Financial Statements for the detailed discussion.*

AYALA CORPORATION AND SUBSIDIARIES
Schedule H – Capital Stock*
As of December 31, 2018
(In Thousand Pesos)

TITLE OF ISSUE	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED AND OUTSTANDING	NUMBER OF SHARES RESERVED FOR OPTIONS, WARRANTS, CONVERSION & OTHER RIGHTS	NUMBER OF SHARES HELD BY RELATED PARTIES	DIRECTORS, OFFICERS & EMPLOYEES
Common Stock issued & subscribed [a/]	900,000,000	629,034,590	*Refer to "Warrants and options outstanding; repricing" portion of Item 10 of the SEC17A report.*	*Refer to "Security ownership of certain record and beneficial owners" portion of Item 11 of the SEC17A report.*	
Issued and subscribed on exercise of share options		1,592,892			
Common shares outstanding	**900,000,000**	**630,627,482**			**3,841,172**
Preferred A shares [b/]	**12,000,000**	**-**			
Preferred B shares [c/]	**58,000,000**	**47,000,000**			**420,000**
Preferred C shares	**40,000,000**	**-**			
Voting Preferred shares [d/]	**200,000,000**	**200,000,000**			**1,481,472**

[a/] Ayala Corporation has stock option plans for the key officers (Executive Stock Option Plan-ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 3% of the Company's capital stock.

[b/] Cumulative, nonvoting and redeemable with a par value of P100 per share and is listed and traded at the Philippine Stock Exchange. It may be redeemed at the option of Ayala Corporation starting in the fifth year. The offering price is P500 per share with a dividend rate of 8.88% per annum. This security was redeemed on Nov. 25, 2013.

[c/] Cumulative, nonvoting and redeemable with a par value of P100 per share. It is listed and traded at the Philippine Stock Exchange and may be redeemed at the option of Ayala Corporation starting on the fifth year of issue date. The offering price is P500 per share with a fixed quarterly dividend rate of 5.25% per annum for the Preferred B Series 1 and 5.575% per annum for the Preferred B Series 2.

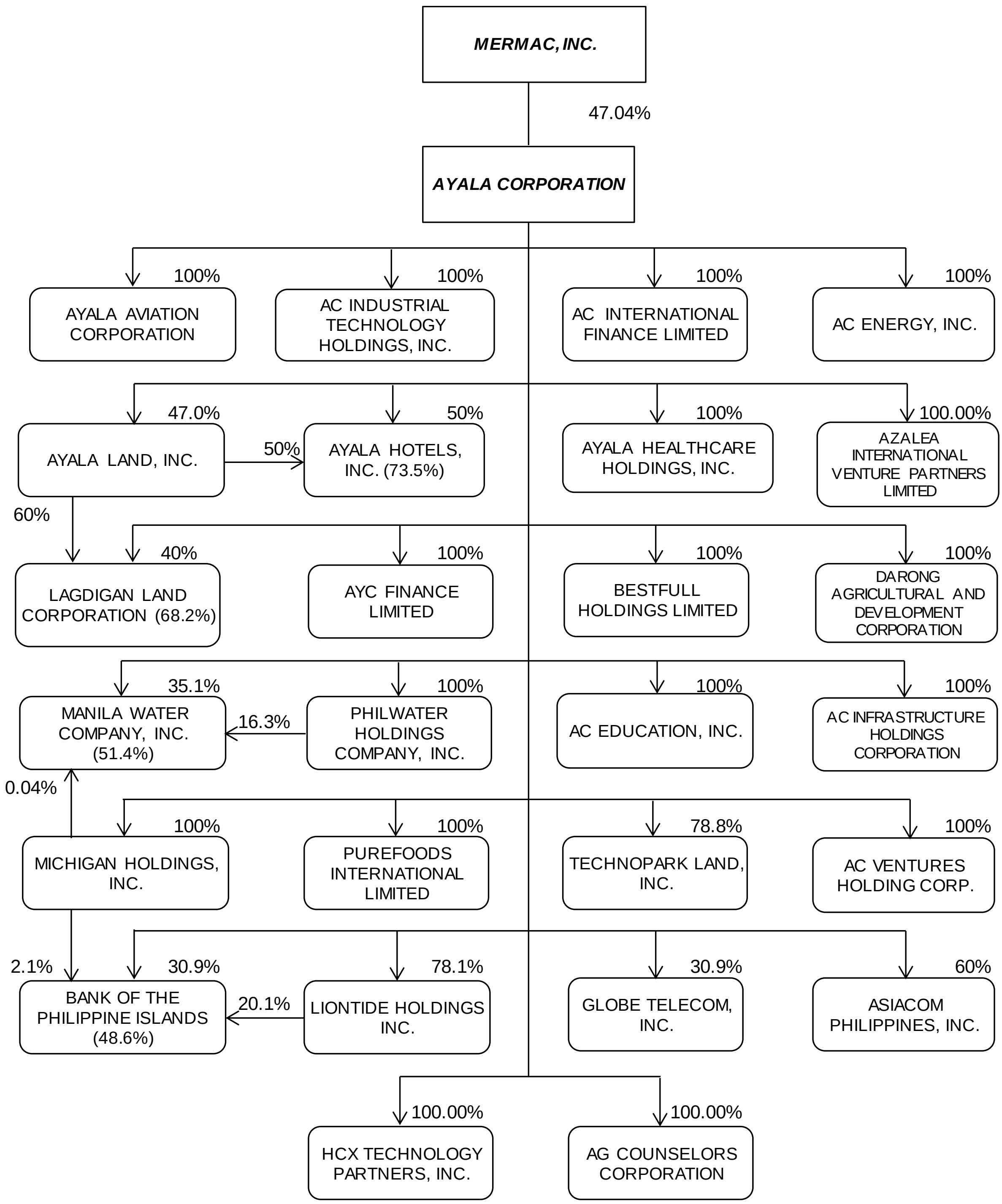
[d/] Cumulative, voting and redeemable at the option of Ayala Corporation with a par value of P1 per share and dividend rate of 3.6950% per annum.

** Please refer to Note 21 of the 2018 Consolidated Audited Financial Statements for the related discussion.*

Schedule I – Reconciliation of Retained Earnings Available for Dividend Declaration
As of December 31, 2018
(In Thousand Pesos)

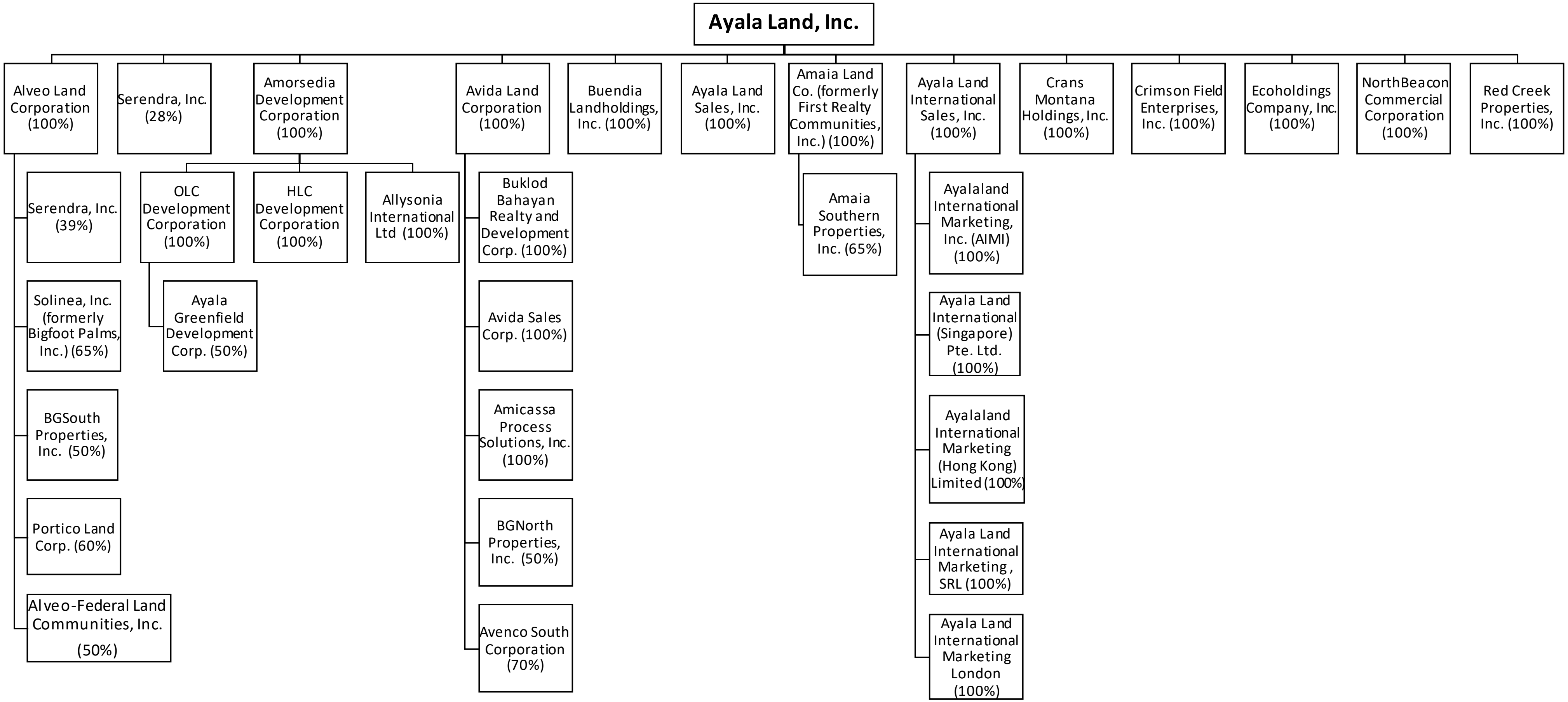
	December 31, 2018		December 31, 2017	
Unappropriated retained earnings, *as adjusted to available for dividend distribution, beginning* *****		₱ **33,179,220**		₱ 30,518,035
Add: Net income actually earned/realized during the period - Parent co.		**6,321,047**		8,061,091
Add (Less):				
Dividend declarations during the period	₱ **(5,618,475)**		₱ (5,584,124)	
PFRS 9/15 adjustment in retained earnings	**141,513**		-	
Other adjustments	**11,546**		-	
Deferred tax asset during the period	**-**		184,218	
		(5,465,416)		(5,399,906)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND*		₱ **34,034,851**		₱ 33,179,220
**Reconciliation of consolidated retained earnings to retained earnings available for dividend follows:*	January 1, 2018	**December 31, 2018**	January 1, 2017	December 31, 2017
Consolidated retained earnings balance	₱ 170,302,028	₱ **196,914,989**	₱ 145,622,311	₱ 170,302,028
Accumulated equity in net earnings of subsidiaries, associates and joint ventures	(134,822,808)	**(160,580,138)**	(112,620,058)	(134,822,808)
Deferred tax	-	**-**	(184,218)	-
Treasury shares balance	(2,300,000)	**(2,300,000)**	(2,300,000)	(2,300,000)
Retained Earnings available for dividends	₱ 33,179,220	₱ **34,034,851**	₱ 30,518,035	₱ 33,179,220

AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Map of the Relationships of the Companies within the Group
As of December 31, 2018



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

AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Map of the Relationships of the Companies within the Group
As of December 31, 2018



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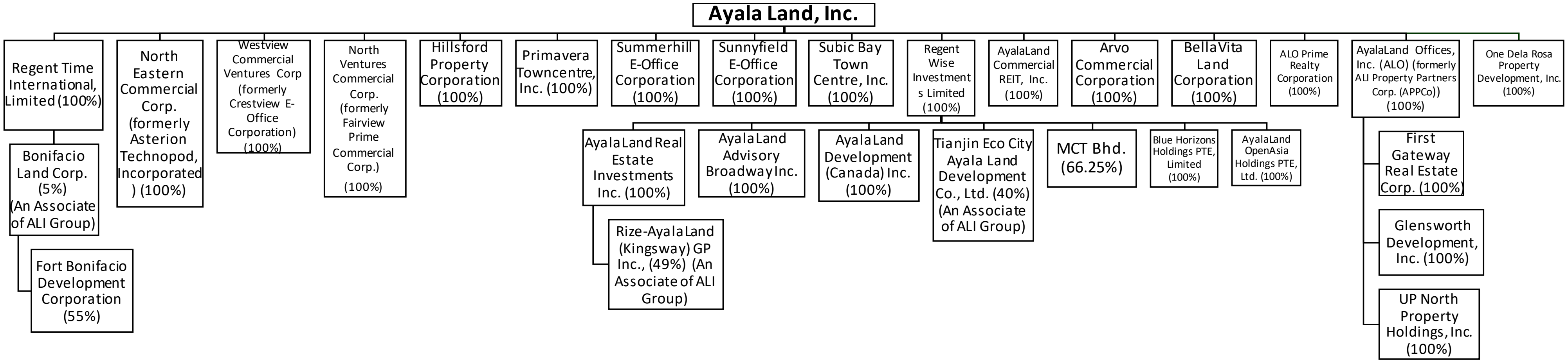
Schedule J – Map of the Relationships of the Companies within the Group
As of December 31, 2018



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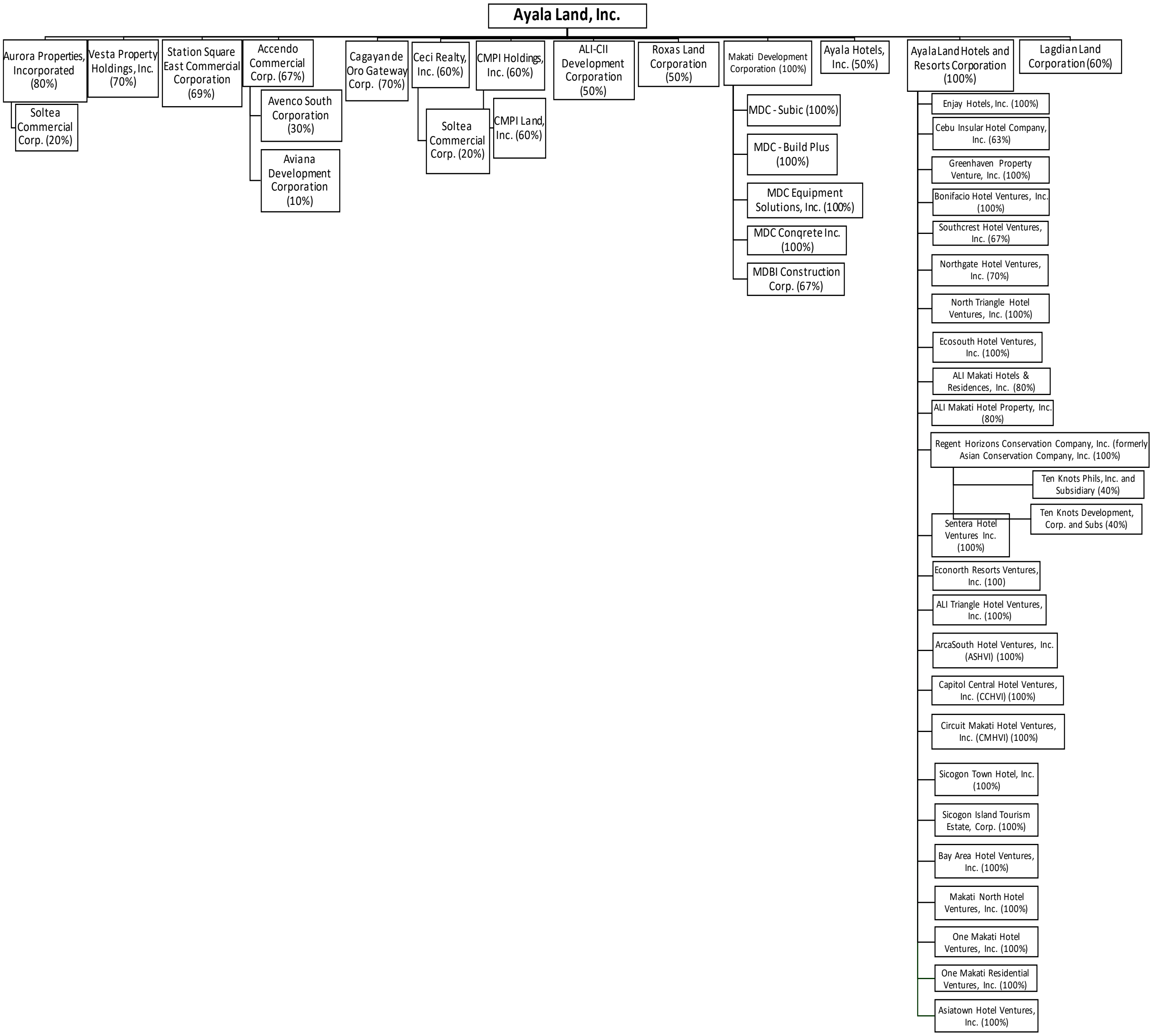
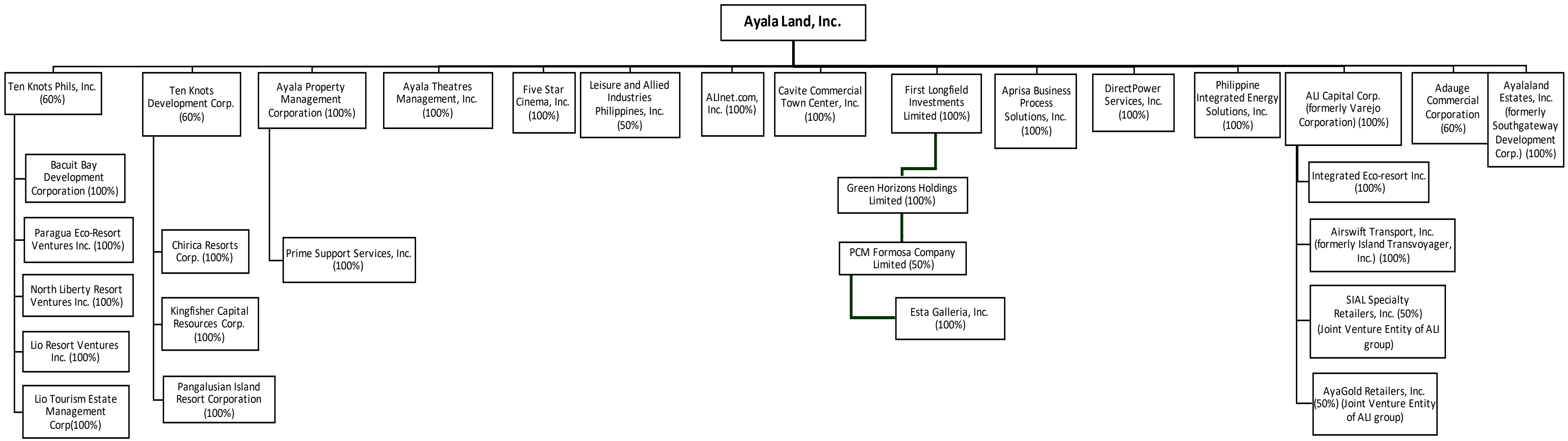
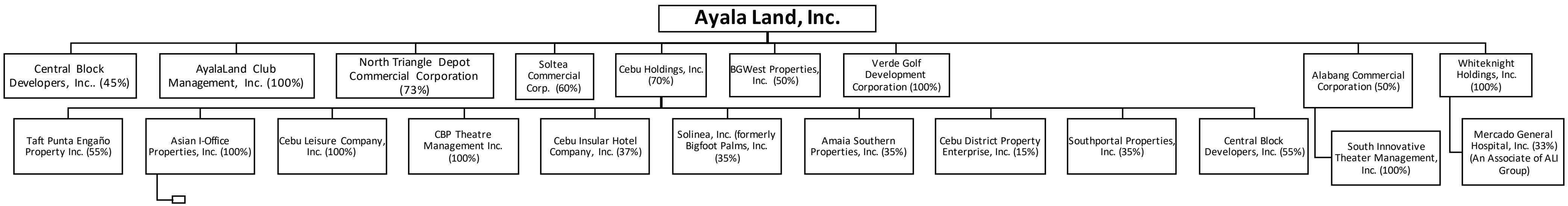
Schedule J – Map of the Relationships of the Companies within the Group
As of December 31, 2018

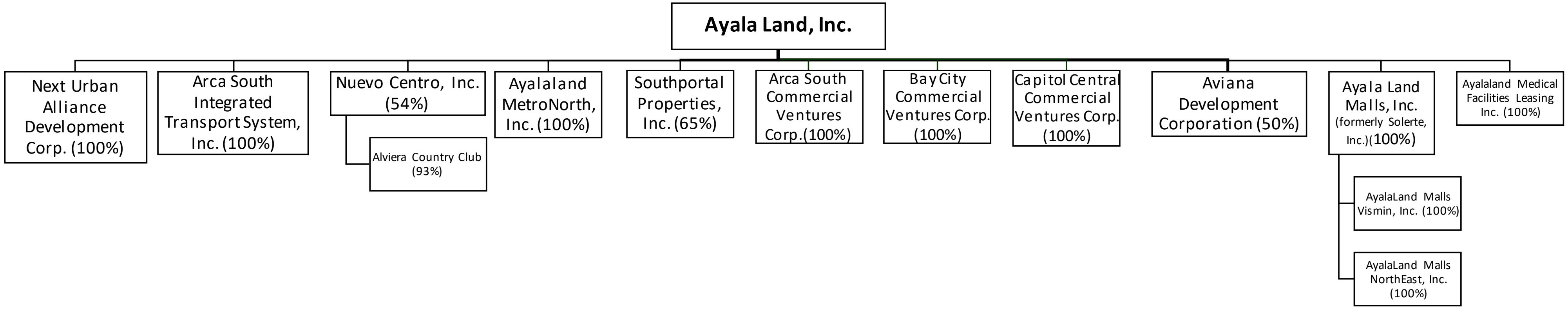


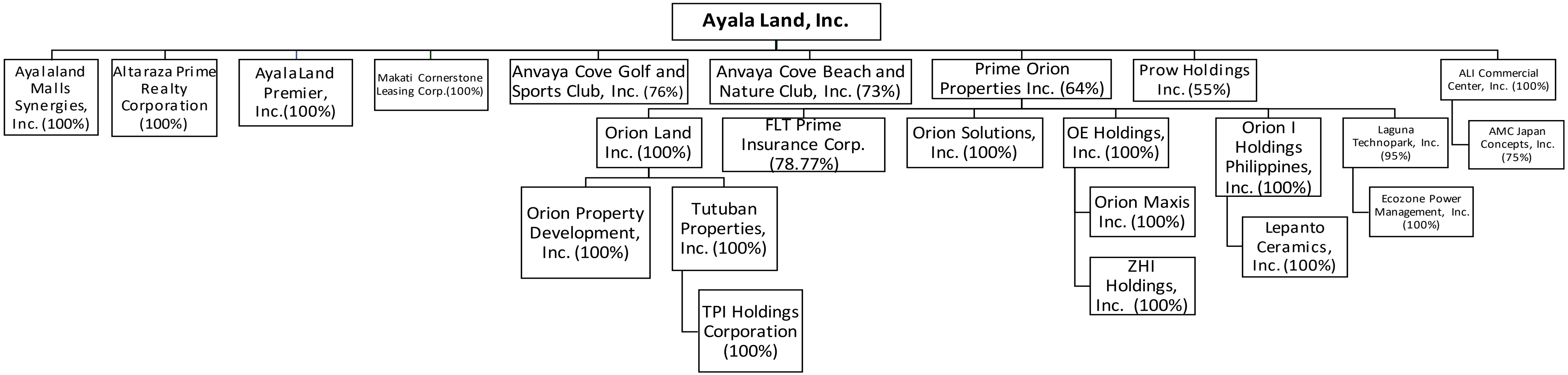
AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Map of the Relationships of the Companies within the Group
As of December 31, 2018





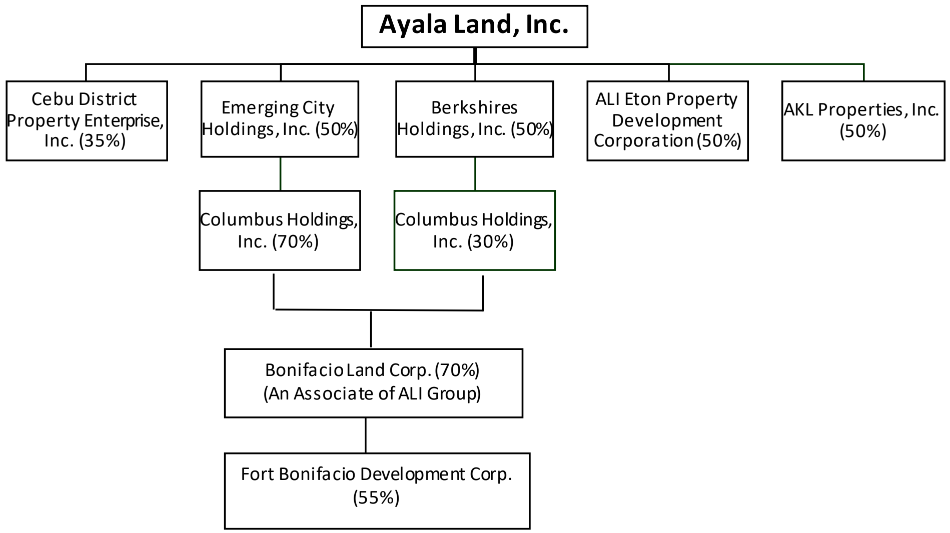
AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Map of the Relationships of the Companies within the Group
As of December 31, 2018



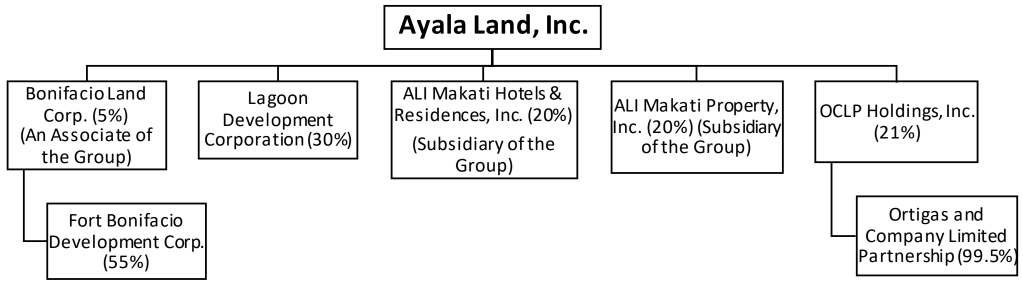


AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Map of the Relationships of the Companies within the Group
As of December 31, 2018

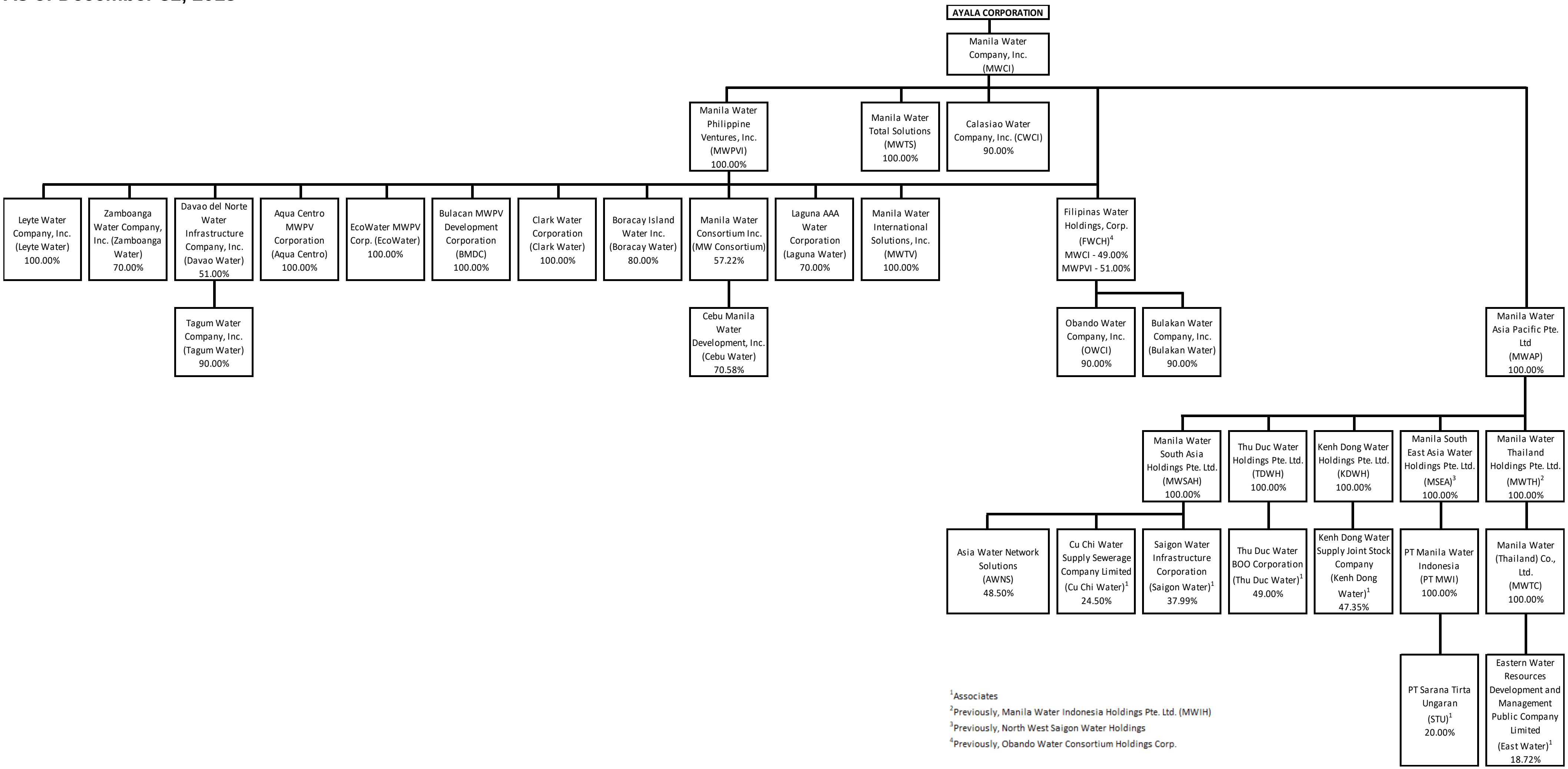
Direct Investments in Joint Ventures



Direct Investments in Associates

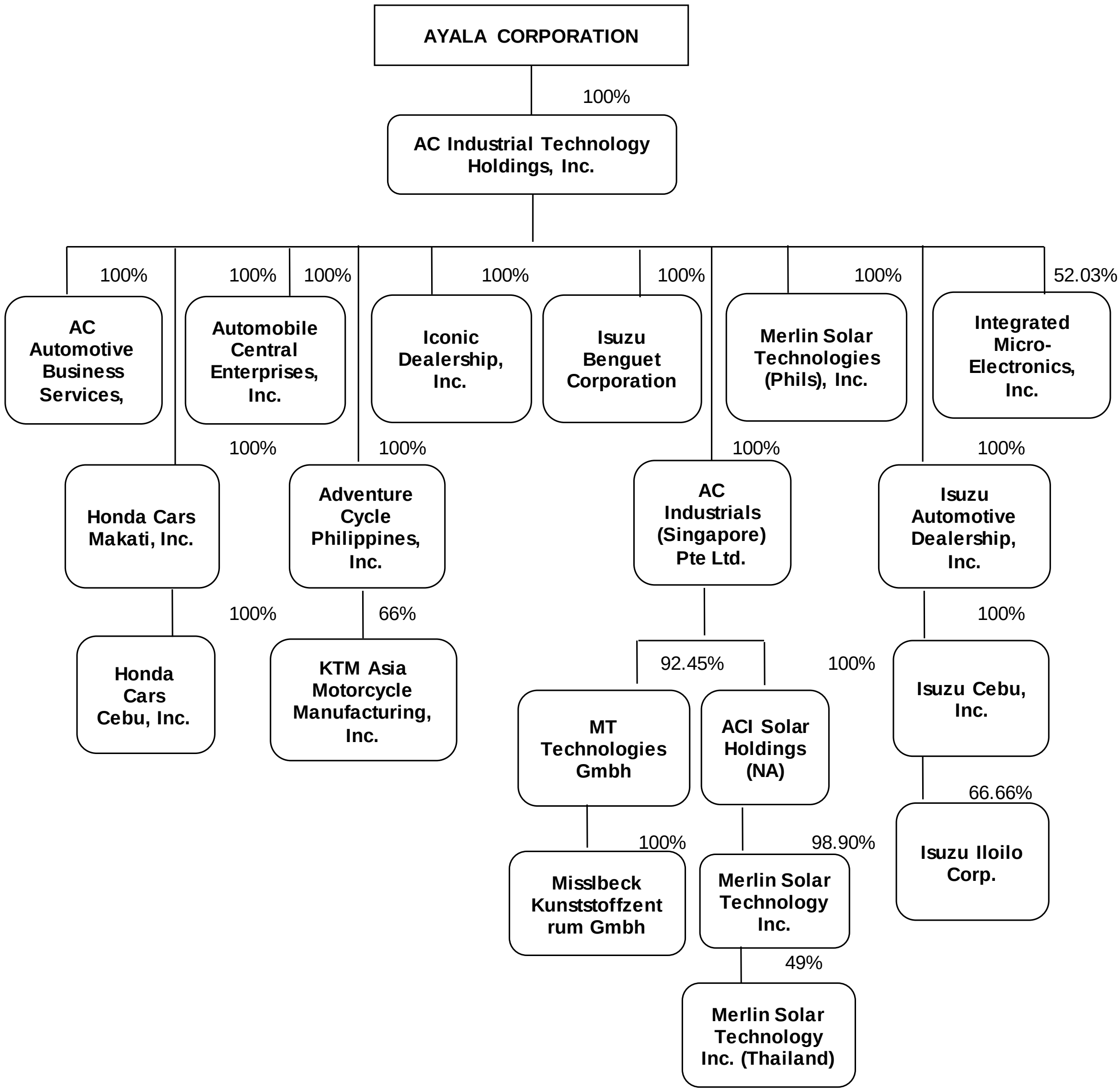


AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Map of the Relationships of the Companies within the Group
As of December 31, 2018



[1] Associates
[2] Previously, Manila Water Indonesia Holdings Pte. Ltd. (MWIH)
[3] Previously, North West Saigon Water Holdings
[4] Previously, Obando Water Consortium Holdings Corp.

AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Map of the Relationships of the Companies within the Group
As of December 31, 2018



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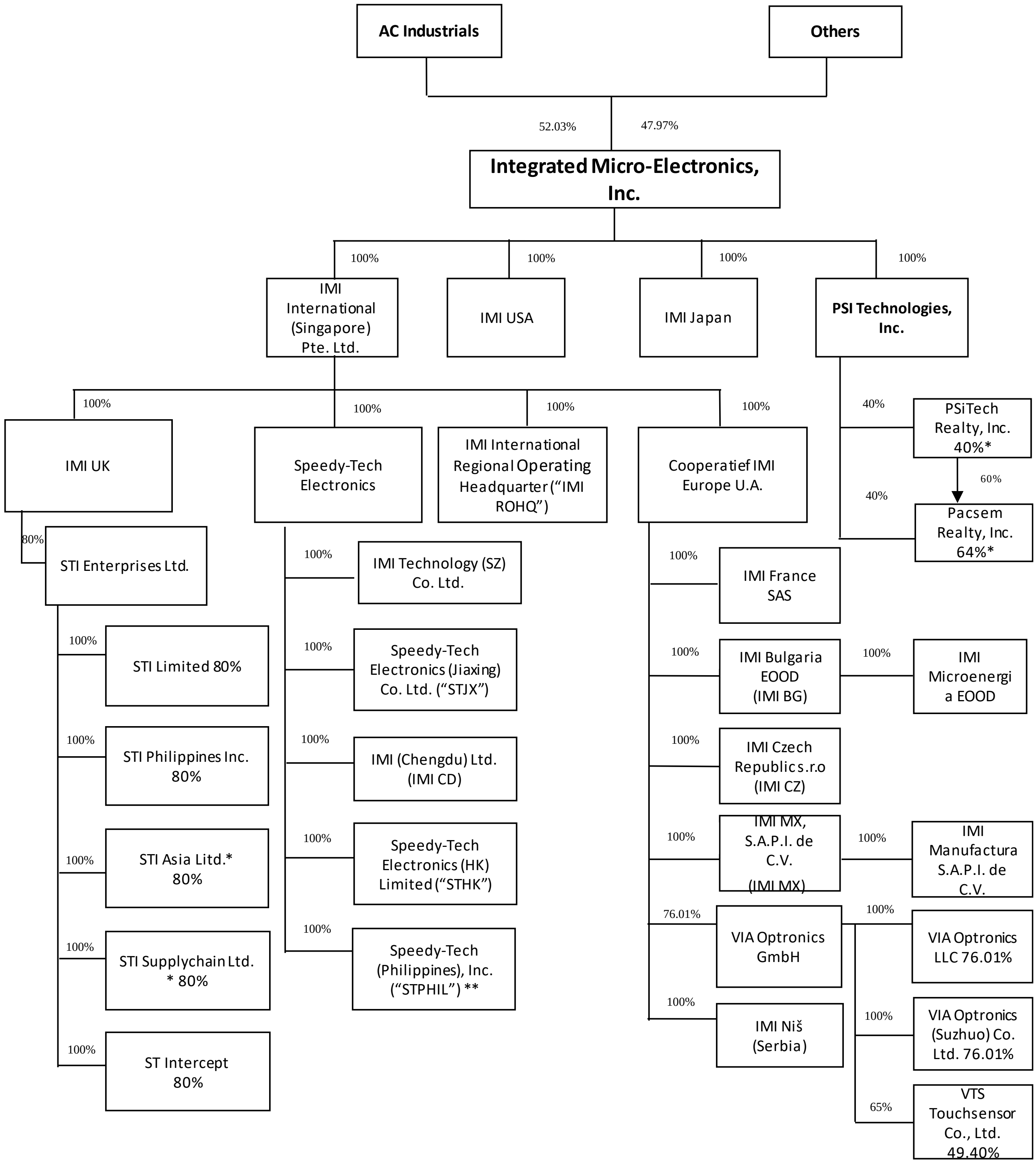
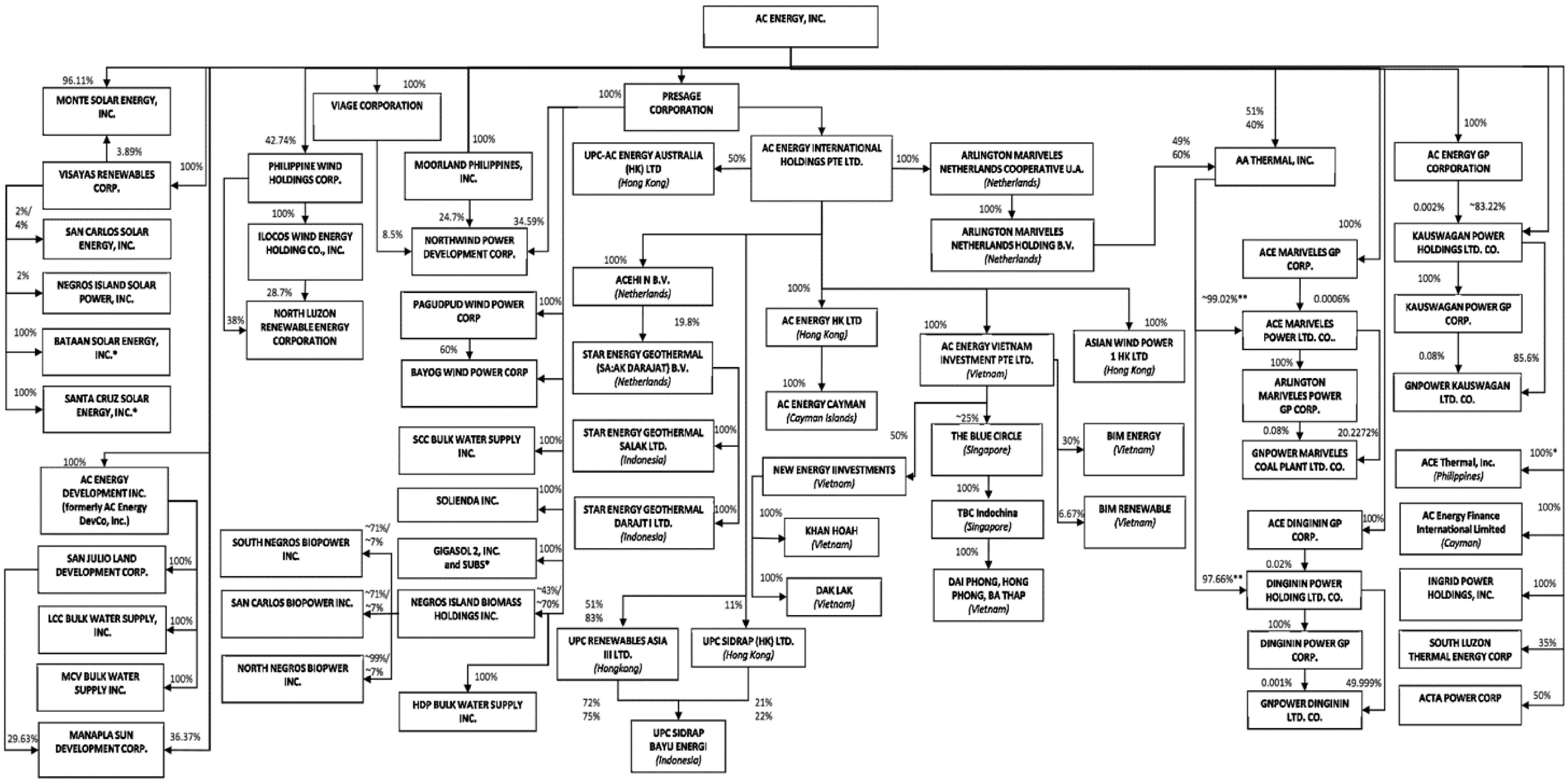


* In the process of liquidation.

** Dormant

AYALA CORPORATION AND SUBSIDIARIES
Schedule J – Map of the Relationships of the Companies within the Group
As of December 31, 2018



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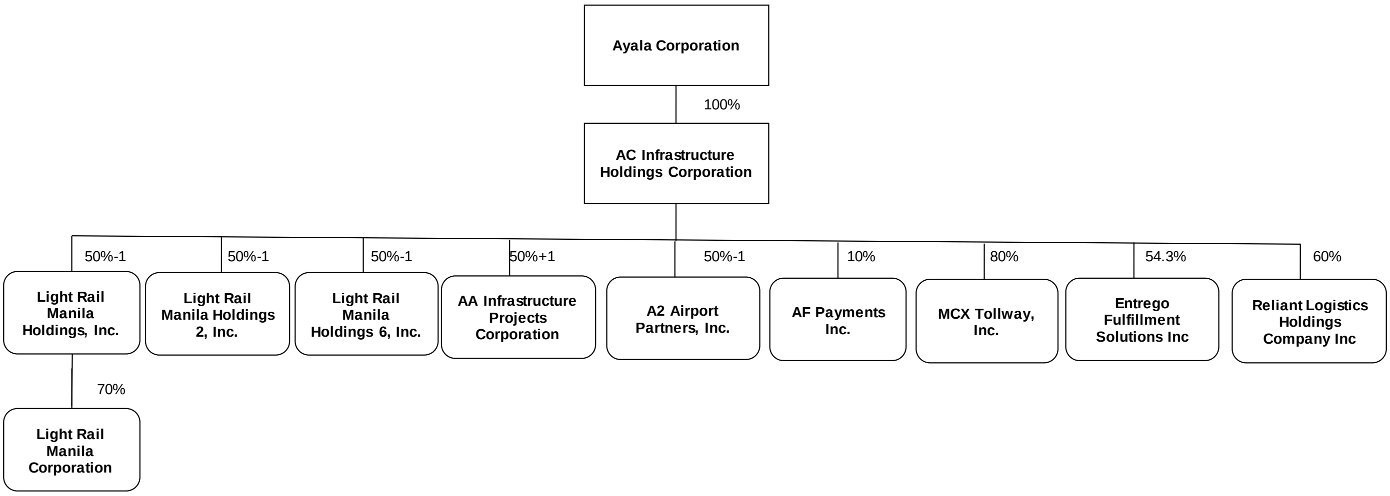
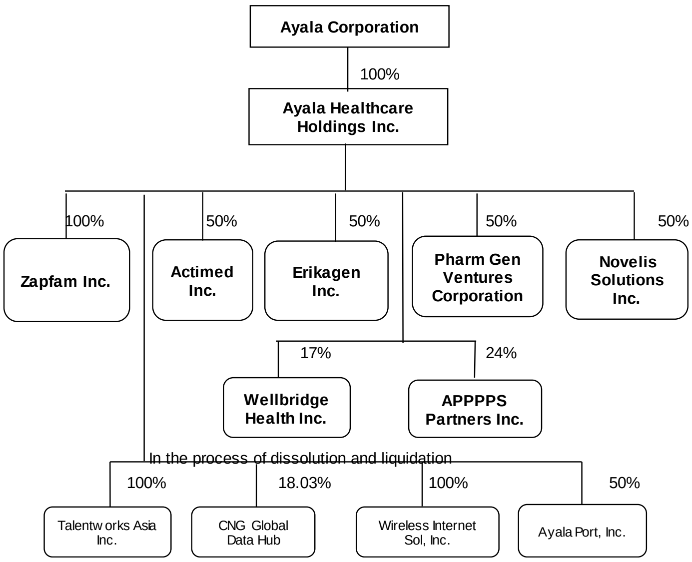
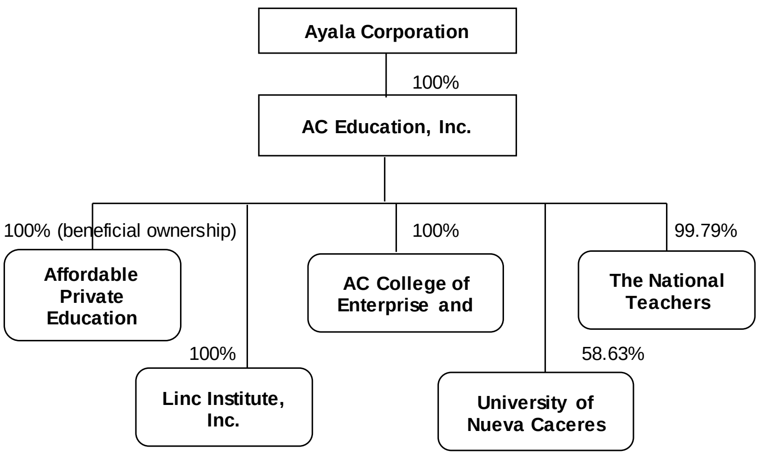
As of December 31, 2018







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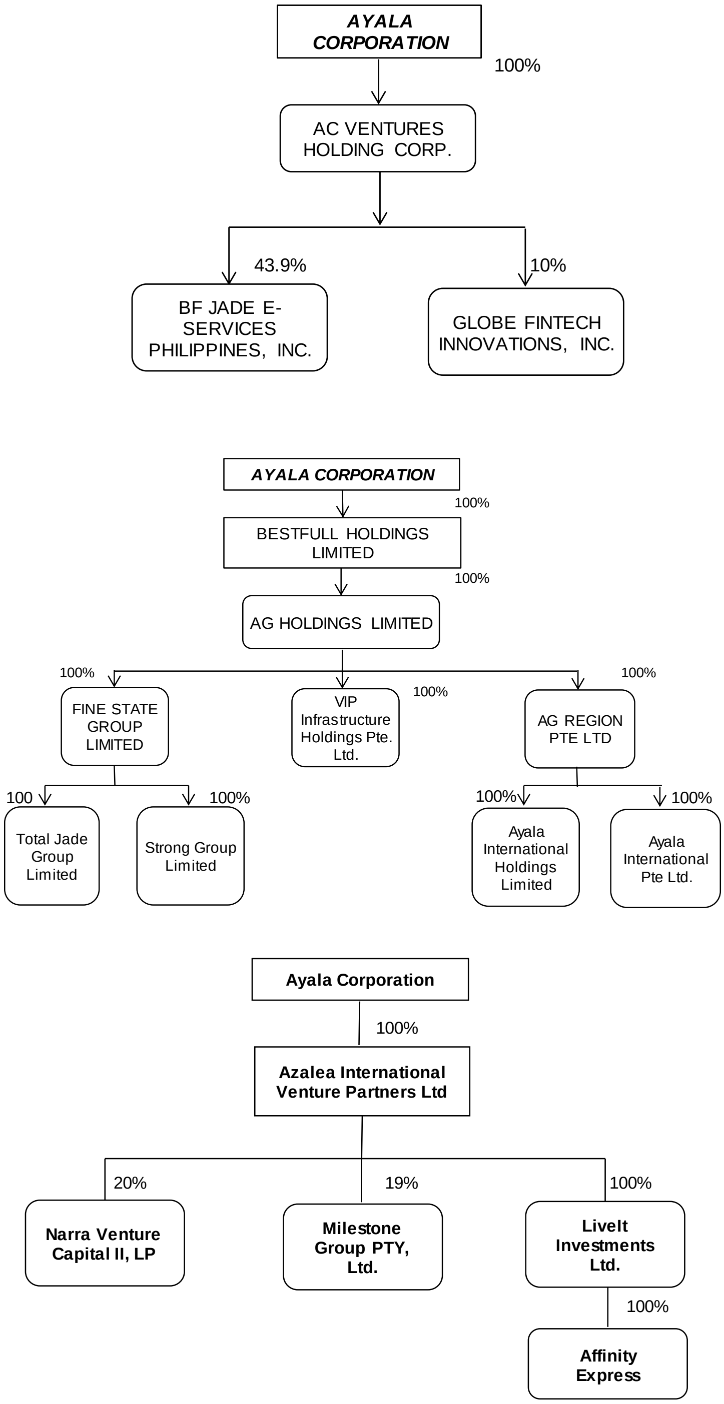
As of December 31, 2018



AYALA CORPORATION AND SUBSIDIARIES
Schedule K – Schedule of All the Effective Standards and Interpretations Under Philippine Financial Reporting Standards (PFRS)
As of December 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		**Adopted**	**Not Adopted**	**Not Applicable**
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies	✓		
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property	✓		
PAS 41	Agriculture			
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-12	Service Concession Arrangements	✓		
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives	✓		
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures	✓		
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

AYALA CORPORATION AND SUBSIDIARIES
Schedule L – Indebtedness of Unconsolidated Subsidiaries and Related Parties
As of December 31, 2018

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
The Group has ₱9.0B in receivables or indebtedness of unconsolidated subsidiaries and related parties. Please refer to Note 31 of the 2018 Consolidated Audited Financial Statements for detailed account analysis and discussion.		

Schedule M – Financial Ratios
As of December 31, 2018

Ratio	Formula	December 2018	December 2017
Liquidity Ratio	Cash/ Cash equivalents + Short-term cash investments / Current Liabilities	**0.20**	0.29
Current ratio	Current assets / Current liabilities	**1.25**	1.39
Solvency Ratio	After-Tax Net Profit + (Depreciation + Amortization)+ Provision for Bad Debts / Total Liabilities	**0.06**	0.07
Debt-to-Equity Ratio	Long-term Loans + Short Term Loans / Total Stockholders' Equity	**0.88**	0.85
Assets- to-Equity Ratio	Total Assets / Equity Attributable to Owners of the Parent	**4.12**	3.98
Interest Expense Coverage Ratio	EBITDA / Interest Expense	**5.41**	6.16
Return on Equity	Net Income to Owners of the Parent / Equity Attributable to Owners of the Parent (Average)	**11.6%**	12.4%
Return on Common Equity	Net Income to Owners of the Parent Less Dividends on Preferred Shares / Common Equity Attributable to Owners of the Parent (Average)	**12.2%**	13.2%
Return on Assets	Net Income / Total Assets	**4.6%**	4.9%

III. 2018 Consolidated Financial Statements of Associate and Joint Venture

Bank of the Philippine Islands

Financial Statements
As at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018

pwc

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
BPI Building, Ayala Avenue
Makati City

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying consolidated financial statements of the Bank of the Philippine Islands and Subsidiaries (the "BPI Group") and the parent financial statements of the Bank of the Philippine Islands (the "Parent Bank") present fairly, in all material respects, the financial position of the BPI Group and of the Parent Bank as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards.

What we have audited

The financial statements comprise:

- the consolidated and parent statements of condition as at December 31, 2018 and 2017;
- the consolidated and parent statements of income for each of the three years in the period ended December 31, 2018;
- the consolidated and parent statements of comprehensive income for each of the three years in the period ended December 31, 2018;
- the consolidated and parent statements of changes in capital funds for each of the three years in the period ended December 31, 2018;
- the consolidated and parent statements of cash flows for each of the three years in the period ended December 31, 2018; and
- the notes to the consolidated and parent financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the BPI Group and the Parent Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the consolidated and parent financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Our Audit Approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and parent financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and parent financial statements as a whole, taking into account the structure of the BPI Group and the Parent Bank, the accounting processes and controls, and the industry in which the BPI Group and the Parent Bank operate.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit pertains to the impairment losses on loans and advances, which applies to both the BPI Group's and the Parent Bank's financial statements.

Key Audit Matters	How our audit addressed the Key Audit Matters
Impairment losses on loans and advances	
We focused on this account because of the complexity involved in the estimation process, and the significant judgments that management make in ascertaining the provision for loan impairment. The calculation of impairment losses is inherently judgmental for any bank. As of December 31, 2018, the total allowance for impairment for loans and advances amounted to PHP22,902 million for the BPI Group and PHP15,967 million for the Parent Bank while provision for loan losses recognized in profit or loss for the year then ended amounted to PHP4,504 million for the BPI Group and PHP3,666 million for the Parent Bank. Refer to Notes 10 and 28 of the financial statements for the details of the impairment losses on loans and advances. Provisions for impairment losses on loans that exceed specific thresholds are individually assessed by the BPI Group and Parent Bank with reference to the estimated future cash repayments and proceeds from the realization of collateral held by the BPI Group and Parent Bank in respect of those loans. If an individually assessed loan is not impaired, it is included in a group of loans with similar risk characteristics and, along with those loans below the specific thresholds noted above, is collectively assessed on a portfolio basis using internal models developed by the BPI Group and Parent Bank.	We assessed the design and tested the operating effectiveness of key controls over loan loss provisioning. These key controls included: • governance over the development, validation and approval of the BPI Group's ECL models to assess compliance with PFRS 9; including continuous re-assessment by the BPI Group that the impairment models are operating in a way which is appropriate for the credit risks in the BPI Group and Parent Bank's loan portfolios; • review and approval of key judgments, assumptions and forward-looking information used in the ECL models; • reconciliations of data from source systems to the detailed ECL model analyses; • controls over the timely identification of deterioration in credit quality of individual loans and advances; and • the review and approval process for the outputs of the impairment models. Our work over the impairment of loans and advances included: • assessment of the methodology applied by the BPI Group and Parent Bank in the development of the ECL models vis-a-vis the requirements of PFRS 9; • testing of key assumptions in the ECL models such as PD, LGD, EAD built from historical data. Our assessment included the involvement of our internal specialist;

Key Audit Matters	How our audit addressed the Key Audit Matters
(cont'd.) Key elements in the impairment of loans and advances include: • the identification of credit-impaired loans, and estimation of cash flows (including the expected realizable value of any collateral held) supporting the calculation of individually assessed provisions; and • the application of appropriate impairment models for the collectively assessed accounts. This include the use of key assumptions in the impairment models (i.e., staging of accounts, significant increase in credit risk, forward-looking information), the exposure at default (EAD), the probability of default (PD) and the loss given default (LGD). The BPI Group and Parent Bank adopted on January 1, 2018 the Philippine Financial Reporting Standard (PFRS) 9, *Financial Instruments*, which changed the methodology for loan loss provisioning from incurred loss model to expected credit loss (ECL) model. The estimation of loan loss allowance using the ECL methodology is a more complex process that takes into account forward-looking information reflecting the BPI Group and Parent Bank's view on potential future economic events.	• assessment of the appropriateness of the BPI Group's and Parent Bank's definition of significant increase in credit risk and staging of accounts through analysis of historical trends and past credit behavior of loan portfolios; • independent comparison of economic information used within, and weightings applied to, forward-looking scenarios in the ECL models against available macro-economic data; • testing of the accuracy and completeness of data in the ECL models by comparing them with information obtained from source systems; • recalculation of the collective loan loss allowance for selected portfolios at transition date and end of reporting period using the ECL models adopted by the BPI Group and Parent Bank; • for a sample of individually assessed loans not identified as credit-impaired, performed credit review to test the appropriateness of assigned credit risk ratings using the latest information about the borrowers as obtained by the BPI Group and Parent Bank; and • for a sample of individually assessed loans identified as credit-impaired, examined relevant supporting documents such as the latest financial information of the borrower or valuation of collateral used as a basis in estimating the recoverable amount and measuring the loan loss allowance.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report, but does not include the consolidated and parent financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and parent financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated and parent financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and parent financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

In preparing the consolidated and parent financial statements, management is responsible for assessing the ability of each entity within the BPI Group and of the Parent Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entities within the BPI Group and the Parent Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the BPI Group's and the Parent Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 32 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Zaldy D. Aguirre.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 8, 2019, Makati City
SEC A.N. (individual) as general auditors 1176-AR-2, Category A; effective until June 20, 2021
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
TIN 221-755-698
BIR A.N. 08-000745-77-2018, issued on January 29, 2018; effective until January 28, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
February 22, 2019

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2018 and 2017
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2018	2017	**2018**	2017
RESOURCES					
CASH AND OTHER CASH ITEMS	4	**43,536**	35,132	**42,419**	34,160
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	**225,907**	255,948	**202,487**	227,122
DUE FROM OTHER BANKS	4	**12,477**	14,406	**8,615**	10,894
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	**34,323**	18,586	**22,659**	10,504
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	6,7	**16,721**	10,313	**10,346**	8,781
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8	**37,206**	**-**	**30,583**	**-**
INVESTMENT SECURITIES AT AMORTIZED COST, net	9	**287,571**	**-**	**267,497**	**-**
AVAILABLE-FOR-SALE SECURITIES, net	8	**-**	23,313	**-**	10,139
HELD-TO-MATURITY SECURITIES	9	**-**	277,472	**-**	255,382
LOANS AND ADVANCES, net	10	**1,354,896**	1,202,338	**1,125,956**	986,869
ASSETS HELD FOR SALE, net		**3,363**	3,578	**455**	609
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	**16,252**	15,056	**10,146**	9,905
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	12	**5,659**	6,386	**9,942**	9,043
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2,4	**16,582**	17,406	**-**	-
DEFERRED INCOME TAX ASSETS, net	13	**8,536**	8,091	**5,723**	5,180
OTHER ASSETS, net	14	**22,199**	15,880	**16,313**	14,160
Total assets		**2,085,228**	1,903,905	**1,753,141**	1,582,748

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2018 and 2017
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2018	2017	**2018**	2017
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	15	**1,585,746**	1,562,200	**1,347,207**	1,323,963
DERIVATIVE FINANCIAL LIABILITIES	7	**3,891**	4,788	**3,888**	4,788
BILLS PAYABLE AND OTHER BORROWED FUNDS	16	**166,901**	83,517	**150,880**	70,722
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**3,988**	1,218	**3,988**	1,218
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**6,931**	7,022	**5,354**	5,762
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**9,057**	7,117	**6,875**	4,851
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	**14,056**	14,513	**-**	-
DEFERRED CREDITS AND OTHER LIABILITIES	17	**43,120**	39,979	**35,793**	33,212
Total liabilities		**1,833,690**	1,720,354	**1,553,985**	1,444,516
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	18				
Share capital		**44,961**	39,336	**44,961**	39,336
Share premium		**74,181**	29,771	**74,181**	29,771
Reserves		**4,096**	254	**3,977**	142
Surplus		**127,459**	116,415	**76,958**	73,679
Accumulated other comprehensive loss		**(2,176)**	(5,088)	**(921)**	(4,696)
		248,521	180,688	**199,156**	138,232
NON-CONTROLLING INTERESTS		**3,017**	2,863	**-**	-
Total capital funds		**251,538**	183,551	**199,156**	138,232
Total liabilities and capital funds		**2,085,228**	1,903,905	**1,753,141**	1,582,748

(The notes on pages 1 to 114 are an integral part of these financial statements)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos, Except Per Share Amounts)

		Consolidated			Parent		
	Notes	**2018**	2017	2016	**2018**	2017	2016
INTEREST INCOME							
On loans and advances		**69,401**	54,615	47,132	**51,901**	38,752	31,285
On investment securities		**9,616**	9,185	9,220	**8,942**	8,403	8,424
On deposits with BSP and other banks		**1,173**	2,049	1,960	**548**	977	886
		80,190	65,849	58,312	**61,391**	48,132	40,595
INTEREST EXPENSE							
On deposits	15	**21,255**	16,660	15,301	**15,645**	11,413	9,616
On bills payable and other borrowed funds	16	**3,092**	1,150	634	**2,588**	885	406
		24,347	17,810	15,935	**18,233**	12,298	10,022
NET INTEREST INCOME		**55,843**	48,039	42,377	**43,158**	35,834	30,573
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	5,9,10,14	**4,923**	3,795	4,800	**4,279**	3,519	2,930
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		**50,920**	44,244	37,577	**38,879**	32,315	27,643
OTHER INCOME							
Fees and commissions		**8,224**	7,716	7,425	**7,219**	6,224	5,683
Income from foreign exchange trading		**2,128**	2,136	1,748	**1,831**	1,798	1,406
Income attributable to insurance operations	2	**1,223**	1,413	1,360	**-**	-	-
Trading gain on securities		**719**	923	5,192	**258**	754	5,192
Other operating income	19	**10,387**	10,793	8,449	**5,919**	14,171	11,332
		22,681	22,981	24,174	**15,227**	22,947	23,613
OTHER EXPENSES							
Compensation and fringe benefits	21	**15,315**	13,897	13,463	**11,834**	10,691	10,713
Occupancy and equipment-related expenses	11,20	**13,146**	11,344	10,156	**10,570**	9,062	8,172
Other operating expenses	21	**15,141**	13,292	11,322	**11,257**	9,626	8,148
		43,602	38,533	34,941	**33,661**	29,379	27,033
PROFIT BEFORE INCOME TAX		**29,999**	28,692	26,810	**20,445**	25,883	24,223
INCOME TAX EXPENSE	22						
Current		**7,404**	6,418	5,419	**5,793**	4,248	3,777
Deferred	13	**(734)**	(462)	(884)	**(776)**	(462)	(439)
		6,670	5,956	4,535	**5,017**	3,786	3,338
NET INCOME FOR THE YEAR		**23,329**	22,736	22,275	**15,428**	22,097	20,885
Attributable to:							
Equity holders of BPI		**23,078**	22,416	22,050	**15,428**	22,097	20,885
Non-controlling interests		**251**	320	225	**-**	-	-
		23,329	22,736	22,275	**15,428**	22,097	20,885
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	18	**5.35**	5.69	5.60	**3.57**	5.61	5.30

(The notes on pages 1 to 114 are an integral part of these financial statements)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos)

		Consolidated			Parent		
	Note	**2018**	2017	2016	**2018**	2017	2016
NET INCOME FOR THE YEAR		**23,329**	22,736	22,275	**15,428**	22,097	20,885
OTHER COMPREHENSIVE (LOSS) INCOME	18						
Items that may be subsequently reclassified to profit or loss							
Share in other comprehensive loss of associates		**(1,281)**	(252)	(74)	**-**	-	-
Net change in fair value reserve on investments in debt instruments measured at FVOCI, net of tax effect		**(771)**	-	-	**(461)**	-	-
Fair value reserve on investments of insurance subsidiaries, net of tax effect		**(400)**	196	(131)	**-**	-	-
Currency translation differences		**(26)**	126	(113)	**-**	-	-
Net change in fair value reserve on AFS, net of tax effect		**-**	713	543	**-**	449	502
Items that will not be reclassified to profit or loss							
Remeasurements of defined benefit obligation		**612**	(272)	(579)	**431**	(338)	(429)
Share in other comprehensive income (loss) of associates		**596**	(528)	-	**-**	-	-
Net change in fair value reserve on investments in equity instruments measured at FVOCI, net of tax effect		**(19)**	-	-	**320**	-	-
Total other comprehensive (loss) income, net of tax effect		**(1,289)**	(17)	(354)	**290**	111	73
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**22,040**	22,719	21,921	**15,718**	22,208	20,958
Attributable to:							
Equity holders of BPI		**21,878**	22,406	21,736	**15,718**	22,208	20,958
Non-controlling interests		**162**	313	185	**-**	-	-
		22,040	22,719	21,921	**15,718**	22,208	20,958

(The notes on pages 1 to 114 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos)

	Consolidated							
	Attributable to equity holders of BPI (Note 18)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total equity
Balance, January 1, 2016	**39,285**	**29,439**	**2,563**	**83,761**	**(4,764)**	**150,284**	**2,446**	**152,730**
Comprehensive income								
Net income for the year	-	-	-	22,050	-	22,050	225	22,275
Other comprehensive loss for the year	-	-	-	-	(314)	(314)	(40)	(354)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**22,050**	**(314)**	**21,736**	**185**	**21,921**
Transactions with owners								
Exercise of stock option plans	23	152	45	-	-	220	-	220
Cash dividends	-	-	-	(7,087)	-	(7,087)	-	(7,087)
Change in ownership interest in a subsidiary	-	-	-	(19)	-	(19)	(10)	(29)
Other changes in non-controlling interests	-	-	-	-	-	-	(71)	(71)
Total transactions with owners	**23**	**152**	**45**	**(7,106)**	**-**	**(6,886)**	**(81)**	**(6,967)**
Other movement								
Transfer from surplus to reserves	-	-	103	(103)	-	-	-	-
Total other movement	**-**	**-**	**103**	**(103)**	**-**	**-**	-	-
Balance, December 31, 2016	**39,308**	**29,591**	**2,711**	**98,602**	**(5,078)**	**165,134**	**2,550**	**167,684**
Comprehensive income								
Net income for the year	-	-	-	22,416	-	22,416	320	22,736
Other comprehensive loss for the year	-	-	-	-	(10)	(10)	(7)	(17)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**22,416**	**(10)**	**22,406**	**313**	**22,719**
Transactions with owners								
Exercise of stock option plans	28	180	31	-	-	239	-	239
Cash dividends	-	-	-	(7,091)	-	(7,091)	-	(7,091)
Total transactions with owners	**28**	**180**	**31**	**(7,091)**	**-**	**(6,852)**	**-**	**(6,852)**
Other movements								
Transfer from surplus to reserves	-	-	90	(90)	-	-	-	-
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-	-	-
Total other movements	**-**	**-**	**(2,488)**	**2,488**	**-**	**-**	**-**	**-**
Balance, December 31, 2017	**39,336**	**29,771**	**254**	**116,415**	**(5,088)**	**180,688**	**2,863**	**183,551**
Impact of PFRS 9 adoption (Note 31)	-	-	-	(62)	4,111	4,049	(8)	4,041
Restated balance, January 1, 2018	**39,336**	**29,771**	**254**	**116,353**	**(977)**	**184,737**	**2,855**	**187,592**
Comprehensive income								
Net income for the year	-	-	-	23,078	-	23,078	251	23,329
Other comprehensive loss for the year	-	-	-	-	(1,200)	(1,200)	(89)	(1,289)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**23,078**	**(1,200)**	**21,878**	**162**	**22,040**
Transactions with owners								
Proceeds from stock rights offering	5,587	44,120	-	-	-	49,707	-	49,707
Exercise of stock option plans	38	290	(25)	-	-	303	-	303
Cash dividends	-	-	-	(8,104)	-	(8,104)	-	(8,104)
Total transactions with owners	**5,625**	**44,410**	**(25)**	**(8,104)**	**-**	**41,906**	**-**	**41,906**
Other movements								
Transfer from surplus to reserves (Note 18)	-	-	3,867	(3,867)	-	-	-	-
Others	-	-	-	(1)	1	-	-	-
Total other movements	**-**	**-**	**3,867**	**(3,868)**	**1**	**-**	**-**	**-**
Balance, December 31, 2018	**44,961**	**74,181**	**4,096**	**127,459**	**(2,176)**	**248,521**	**3,017**	**251,538**

(The notes on pages 1 to 114 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos)

	Parent (Note 18)					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2016	**39,285**	**29,439**	**2,555**	**42,401**	**(4,880)**	**108,800**
Comprehensive income						
Net income for the year	-	-	-	20,885	-	20,885
Other comprehensive income for the year	-	-	-	-	73	73
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**20,885**	**73**	**20,958**
Transactions with owners						
Exercise of stock option plans	23	152	37	-	-	212
Cash dividends	-	-	-	(7,087)	-	(7,087)
Total transactions with owners	**23**	**152**	**37**	**(7,087)**	**-**	**(6,875)**
Other movements						
Transfer from surplus to reserves	-	-	103	(103)	-	-
Others	-	-	-	(1)	-	(1)
Total other movements	**-**	**-**	**103**	**(104)**	**-**	**(1)**
Balance, December 31, 2016	**39,308**	**29,591**	**2,695**	**56,095**	**(4,807)**	**122,882**
Comprehensive income						
Net income for the year	-	-	-	22,097	-	22,097
Other comprehensive income for the year	-	-	-	-	111	111
Total comprehensive income for the year	**-**	**-**	**-**	**22,097**	**111**	**22,208**
Transactions with owners						
Exercise of stock option plans	28	180	25	-	-	233
Cash dividends	-	-	-	(7,091)	-	(7,091)
Total transactions with owners	**28**	**180**	**25**	**(7,091)**	**-**	**(6,858)**
Other movement						
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-
Balance, December 31, 2017	**39,336**	**29,771**	**142**	**73,679**	**(4,696)**	**138,232**
Impact of PFRS 9 adoption (Note 31)	-	-	-	(178)	3,485	3,307
Restated balance, January 1, 2018	**39,336**	**29,771**	**142**	**73,501**	**(1,211)**	**141,539**
Comprehensive income						
Net income for the year	-	-	-	15,428	-	15,428
Other comprehensive income for the year	-	-	-	-	290	290
Total comprehensive income for the year	**-**	**-**	**-**	**15,428**	**290**	**15,718**
Transactions with owners						
Proceeds from stock rights offering	5,587	44,120	-	-	-	49,707
Exercise of stock option plans	38	290	(32)	-	-	296
Cash dividends	-	-	-	(8,104)	-	(8,104)
Total transactions with owners	**5,625**	**44,410**	**(32)**	**(8,104)**	**-**	**41,899**
Other movement						
Transfer from surplus to reserves (Note 18)	-	-	3,867	(3,867)	-	-
Total other movement	**-**	**-**	**3,867**	**(3,867)**	**-**	**-**
Balance, December 31, 2018	**44,961**	**74,181**	**3,977**	**76,958**	**(921)**	**199,156**

(The notes on pages 1 to 114 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2018**	2017	2016	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before income tax		**29,999**	28,692	26,810	**20,445**	25,883	24,223
Adjustments for:							
Impairment losses	5,9,10,14	**4,923**	3,795	4,800	**4,271**	3,519	2,930
Depreciation and amortization	11,14	**4,797**	4,255	3,878	**2,916**	2,783	2,541
Share in net income of associates	12	**(700)**	(772)	(814)	**-**	-	-
Dividend and other income	19	**(76)**	(68)	(56)	**(904)**	(9,492)	(6,083)
Share-based compensation	18	**(25)**	31	45	**(32)**	25	37
Interest income		**(80,190)**	(68,053)	(60,297)	**(61,391)**	(49,783)	(42,030)
Interest received		**77,715**	66,816	59,447	**59,960**	48,753	41,369
Interest expense		**24,347**	17,810	15,935	**18,233**	12,298	10,022
Interest paid		**(23,440)**	(17,495)	(15,716)	**(17,494)**	(11,901)	(9,920)
(Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		**(821)**	595	1,316	**(966)**	(353)	2,381
Trading securities		**(2,257)**	9,272	(6,507)	**(236)**	6,498	(4,861)
Loans and advances, net		**(154,077)**	(164,957)	(171,462)	**(140,860)**	(168,485)	(159,101)
Assets held for sale		**655**	313	1,007	**509**	447	1,119
Assets attributable to insurance operations		**465**	(944)	(54)	**-**	-	-
Other assets		**(8,096)**	(3,940)	(2,269)	**(3,761)**	(6,745)	(2,056)
Increase (decrease) in:							
Deposit liabilities		**23,546**	130,900	155,601	**23,244**	139,485	151,093
Due to Bangko Sentral ng Pilipinas and other banks		**2,770**	548	239	**2,770**	548	239
Manager's checks and demand drafts outstanding		**(91)**	(557)	(729)	**(408)**	(131)	(800)
Accrued taxes, interest and other expenses		**1,033**	(51)	947	**562**	(252)	579
Liabilities attributable to insurance operations		**(457)**	146	(281)	**-**	-	-
Derivative financial instruments		**52**	(311)	1,432	**45**	(306)	1,433
Deferred credits and other liabilities		**2,493**	7,550	(3,122)	**2,506**	6,037	(2,692)
Net cash (used in) from operations		**(97,435)**	13,575	10,150	**(90,591)**	(1,172)	10,423
Income taxes paid		**(7,115)**	(6,505)	(5,645)	**(5,560)**	(4,395)	(3,974)
Net cash (used in) from operating activities		**(104,550)**	7,070	4,505	**(96,151)**	(5,567)	6,449

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2018
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2018**	2017	2016	**2018**	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Investment securities, net	8,9	**(25,828)**	(7,029)	(5,439)	**(31,400)**	727	(3,559)
Bank premises, furniture, fixtures and equipment, net	11	**(5,048)**	(4,191)	(4,109)	**(2,518)**	(2,018)	(2,543)
Investment properties, net	14	**1**	-	(35)	**12**	-	-
Investment in subsidiaries and associates, net	12	**305**	745	28	**(899)**	(95)	(880)
Assets attributable to insurance operations		**364**	58	(136)	**-**	-	-
Dividends received	18	**76**	68	56	**904**	9,492	6,084
Net cash (used in) from investing activities		**(30,130)**	(10,349)	(9,635)	**(33,901)**	8,106	(898)
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid	17,18	**(7,598)**	(7,089)	(7,082)	**(7,598)**	(7,089)	(7,082)
Proceeds from share issuance	18	**50,035**	207	175	**50,035**	207	175
Increase in bills payable and other borrowed funds	16	**83,384**	21,544	41,032	**80,158**	18,466	39,431
Net cash from financing activities		**125,821**	14,662	34,125	**122,595**	11,584	32,524
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(8,859)**	11,383	28,995	**(7,457)**	14,123	38,075
CASH AND CASH EQUIVALENTS							
January 1	4,5	**322,129**	310,746	281,751	**280,579**	266,456	228,381
December 31		**313,270**	322,129	310,746	**273,122**	280,579	266,456

(The notes on pages 1 to 114 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2018 and 2017 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2018

Note 1 - General Information

Bank of the Philippine Islands ("BPI" or the "Parent Bank") is a domestic commercial bank with an expanded banking license and has its registered office address, which is also its principal place of business, at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. BPI and its subsidiaries (collectively referred to as the "BPI Group") offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At December 31, 2018, the BPI Group has 18,909 employees (2017 - 17,047 employees) and operates 1,056 branches and 3,034 ATMs (2017 - 839 branches and 3,105 ATMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

The Parent Bank is considered a public company under Rule 3.1 of Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public company as any corporation with a class of equity securities listed on an exchange, or with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities.

These financial statements have been approved and authorized for issuance by the Board of Directors (BOD) of the Parent Bank on February 20, 2019. There are no material events that occurred subsequent to February 20, 2019 until February 22, 2019.

The consolidated financial statements comprise the financial statements of the Parent Bank and the following subsidiaries:

Subsidiaries	Country of incorporation	Principal activities	% of ownership 2018	2017
BPI Family Savings Bank, Inc.	Philippines	Banking	**100**	100
BPI Capital Corporation	Philippines	Investment house	**100**	100
BPI Direct BanKo, Inc., A Savings Bank	Philippines	Banking	**100**	100
BPI Asset Management and Trust Corporation	Philippines	Trust	**100**	100
BPI International Finance Limited	Hong Kong	Financing	**100**	100
BPI Europe Plc.	England and Wales	Banking (deposit)	**100**	100
BPI Securities Corp.	Philippines	Securities dealer	**100**	100
BPI Payments Holdings Inc.	Philippines	Financing	**100**	100
Filinvest Algo Financial Corp.	Philippines	Financing	**100**	100
BPI Investment Management, Inc.	Philippines	Investment management	**100**	100
Santiago Land Development Corporation	Philippines	Land holding	**100**	100
BPI Operations Management Corp.	Philippines	Operations management	**100**	100
BPI Computer Systems Corp.	Philippines	Business systems service	**100**	100
BPI Forex Corp.	Philippines	Foreign exchange	**100**	100
BPI Express Remittance Corp. USA	USA	Remittance	**100**	100
BPI Remittance Centre (HK) Ltd.	Hong Kong	Remittance	**100**	100
Green Enterprises S. R. L. in Liquidation	Italy	Remittance	**100**	100
First Far - East Development Corporation	Philippines	Real estate	**100**	100
FEB Stock Brokers, Inc.	Philippines	Securities dealer	**100**	100
BPI Express Remittance Spain S.A	Spain	Remittance	**100**	100
FEB Speed International	Philippines	Remittance	**100**	100
AF Holdings & Management Corp.	Philippines	Financial management consultancy	**100**	100
Ayala Plans, Inc.	Philippines	Pre-need	**98.67**	98.67
FGU Insurance Corporation	Philippines	Non-life insurance	**94.62**	94.62
BPI Century Tokyo Lease and Finance Corporation	Philippines	Leasing	**51**	51
BPI Century Tokyo Rental Corporation	Philippines	Rental	**51**	51
CityTrust Securities Corporation	Philippines	Securities dealer	**51**	51
BPI/MS Insurance Corporation	Philippines	Non-life insurance	**50.85**	50.85

Note 2 - Assets and Liabilities Attributable to Insurance Operations

Details of assets and liabilities attributable to insurance operations at December 31 are as follows:

	2018	2017
	(In Millions of Pesos)	
Assets		
Cash and cash equivalents (Note 4)	**89**	316
Insurance balances receivable, net	**5,596**	5,849
Investment securities		
Financial assets at fair value through profit or loss	**1,788**	-
Financial assets at fair value through OCI	**6,522**	-
Financial assets at amortized cost	**202**	-
Available-for-sale securities	**-**	5,970
Held-to-maturity securities	**-**	2,674
Investment in associates	**167**	167
Accounts receivable and other assets, net	**2,106**	2,286
Land, building and equipment	**112**	144
	16,582	17,406

	2018	2017
	(In Millions of Pesos)	
Liabilities		
Reserves and other balances	**12,909**	13,416
Accounts payable, accrued expenses and other payables	**1,147**	1,097
	14,056	14,513

Details of income attributable to insurance operations before income tax and minority interest for the years ended December 31 are as follows:

	2018	2017	2016
	(In Millions of Pesos)		
Premiums earned and related income	**3,750**	3,624	3,356
Investment and other income	**755**	864	959
	4,505	4,488	4,315
Benefits, claims and maturities	**2,049**	2,006	2,025
Decrease in actuarial reserve liabilities	**(379)**	(524)	(462)
Commissions	**800**	789	726
Management and general expenses	**799**	791	656
Other expenses	**13**	13	10
	3,282	3,075	2,955
Income before income tax and minority interest	**1,223**	1,413	1,360

Note 3 - Business Segments

Operating segments are reported in accordance with the internal reporting provided to the chief executive officer, who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the BPI Group meet the definition of a reportable segment under Philippine Financial Reporting Standards (PFRS) 8, *Operating Segments*.

The BPI Group has determined the operating segments based on the nature of the services provided and the different clients/markets served representing a strategic business unit.

The BPI Group's main operating business segments follow:

- Consumer banking - this segment addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. It includes the entire transaction processing and service delivery infrastructure consisting of the BPI, BPI Family Savings Bank and BPI Direct BanKo, Inc., A Savings Bank network of branches and ATMs as well as phone and internet-based banking platforms.

- Corporate banking - this segment addresses both high-end corporations as well as middle market clients. It covers deposit taking and servicing, the entire lending, leasing, trade and cash management services provided by the BPI Group to corporate and institutional customers.

- Investment banking - this segment includes the various business groups operating in the investment markets and dealing in activities other than lending and deposit taking. These services cover corporate finance, securities distribution, asset management, trust and fiduciary services as well as proprietary trading and investment activities.

The performance of the Parent Bank is assessed as a single unit using financial information presented in the separate or Parent only financial statements. Likewise, the chief executive officer assesses the performance of its insurance business as a separate segment from its banking and allied financial undertakings. Information on the assets, liabilities and results of operations of the insurance business is fully disclosed in Note 2.

The BPI Group and the Parent Bank mainly derive revenue (more than 90%) within the Philippines, accordingly, no geographical segment is presented.

The segment report forms part of management's assessment of the performance of the segment, among other performance indicators.

There were no changes in the reportable segments during the year. Transactions between the business segments are carried out at arm's length. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the BPI Group's cost of capital.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis. Inter-segment revenues however, are deemed insignificant for financial reporting purposes, thus, not reported in segment analysis below.

The BPI Group's management reporting is based on a measure of operating profit comprising net interest income, impairment charge, fees and commission income, other income and operating expenses.

Segment assets and liabilities comprise majority of operating assets and liabilities, measured in a manner consistent with that shown in the statements of condition, but exclude items such as taxation.

The segment assets, liabilities and results of operations of the reportable segments of the BPI Group as at and for the years ended December 31 are as follows:

	2018			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
	(In Millions of Pesos)			
Net interest income	33,973	11,019	16,148	**61,140**
Impairment charge	1,712	3,206	6	**4,924**
Net interest income after impairment charge	32,261	7,813	16,142	**56,216**
Fees, commissions and other income, net	12,292	3,260	5,280	**20,832**
Total income	44,553	11,073	21,422	**77,048**
Compensation and fringe benefits	12,554	2,132	1,002	**15,688**
Occupancy and equipment - related expenses	8,570	1,977	231	**10,778**
Other operating expenses	14,484	3,006	1,716	**19,206**
Total operating expenses	35,608	7,115	2,949	**45,672**
Operating profit	8,945	3,958	18,473	**31,376**
Share in net income of associates				**700**
Income tax expense				**6,670**
Total assets	534,234	1,113,367	409,797	**2,057,398**
Total liabilities	1,124,800	552,969	137,872	**1,815,641**

	2017			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	28,083	10,195	13,384	51,662
Impairment charge	2,085	1,710	5	3,800
Net interest income after impairment charge	25,998	8,485	13,379	47,862
Fees, commissions and other income, net	12,148	2,657	6,694	21,499
Total income	38,146	11,142	20,073	69,361
Compensation and fringe benefits	9,311	1,335	1,020	11,666
Occupancy and equipment - related expenses	4,242	1,210	125	5,577
Other operating expenses	13,512	2,706	1,652	17,870
Total operating expenses	27,065	5,251	2,797	35,113
Operating profit	11,081	5,891	17,276	34,248
Share in net income of associates				772
Income tax expense				5,956
Total assets	476,749	1,007,058	389,085	1,872,892
Total liabilities	1,063,069	550,367	85,946	1,699,382

	2016			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	29,225	9,724	6,374	45,323
Impairment charge	3,072	1,692	7	4,771
Net interest income after impairment charge	26,153	8,032	6,367	40,552
Fees, commissions and other income, net	10,334	2,446	10,119	22,899
Total income	36,487	10,478	16,486	63,451
Compensation and fringe benefits	9,133	1,279	1,035	11,447
Occupancy and equipment - related expenses	4,146	1,135	55	5,336
Other operating expenses	12,056	1,535	1,477	15,068
Total operating expenses	25,335	3,949	2,567	31,851
Operating profit	11,152	6,529	13,919	31,600
Share in net income of associates				814
Income tax expense				4,535
Total assets	536,231	770,413	386,550	1,693,194
Total liabilities	1,459,741	14,587	61,326	1,535,654

Reconciliation of segment results to consolidated results of operations:

	2018		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
	(In Millions of Pesos)		
Net interest income	**61,140**	(5,297)	**55,843**
Impairment charge	**4,924**	(1)	**4,923**
Net interest income after impairment charge	**56,216**	(5,296)	**50,920**
Fees, commissions and other income, net	**20,832**	1,849	**22,681**
Total income	**77,048**	(3,447)	**73,601**
Compensation and fringe benefits	**15,688**	(373)	**15,315**
Occupancy and equipment - related expenses	**10,778**	2,368	**13,146**
Other operating expenses	**19,206**	(4,065)	**15,141**
Total operating expenses	**45,672**	(2,070)	**43,602**
Operating profit	**31,376**	(1,377)	**29,999**
Share in net income of associates (included in Other income)	**700**	-	**700**
Income tax expense	**6,670**	-	**6,670**
Total assets	**2,057,398**	27,830	**2,085,228**
Total liabilities	**1,815,641**	18,049	**1,833,690**

	2017		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	51,662	(3,623)	48,039
Impairment charge	3,800	(5)	3,795
Net interest income after impairment charge	47,862	(3,618)	44,244
Fees, commissions and other income, net	21,499	1,482	22,981
Total income	69,361	(2,136)	67,225
Compensation and fringe benefits	11,666	2,231	13,897
Occupancy and equipment - related expenses	5,577	5,767	11,344
Other operating expenses	17,870	(4,578)	13,292
Total operating expenses	35,113	3,420	38,533
Operating profit	34,248	(5,556)	28,692
Share in net income of associates (included in Other income)	772	-	772
Income tax expense	5,956	-	5,956
Total assets	1,872,892	31,013	1,903,905
Total liabilities	1,699,382	20,972	1,720,354

	2016		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	45,323	(2,946)	42,377
Impairment charge	4,771	29	4,800
Net interest income after impairment charge	40,552	(2,975)	37,577
Fees, commissions and other income, net	22,899	1,275	24,174
Total income	63,451	(1,700)	61,751
Compensation and fringe benefits	11,447	2,016	13,463
Occupancy and equipment - related expenses	5,336	4,820	10,156
Other operating expenses	15,068	(3,746)	11,322
Total operating expenses	31,851	3,090	34,941
Operating profit	31,600	(4,790)	26,810
Share in net income of associates (included in Other income)	814	-	814
Income tax expense	4,535	-	4,535
Total assets	1,693,194	32,502	1,725,696
Total liabilities	1,535,654	22,358	1,558,012

"Consolidation adjustments/Others" pertain to balances of insurance operations, support units and inter-segment elimination in accordance with the BPI Group's internal reporting.

Note 4 - Cash and Cash Equivalents

The account at December 31 consists of:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Cash and other cash items	**43,536**	35,132	**42,419**	34,160
Due from Bangko Sentral ng Pilipinas (BSP)	**225,907**	255,948	**202,487**	227,122
Due from other banks	**12,477**	14,406	**8,615**	10,894
Interbank loans receivable and securities purchased under agreements to resell (Note 5)	**31,261**	16,327	**19,601**	8,403
Cash and cash equivalents attributable to insurance operations (Note 2)	**89**	316	**-**	-
	313,270	322,129	**273,122**	280,579

Note 5 - Interbank Loans Receivable and Securities Purchased under Agreements to Resell (SPAR)

The account at December 31 consists of transactions with:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
BSP	**24,791**	7,297	**14,000**	-
Other banks	**9,552**	11,309	**8,686**	10,535
	34,343	18,606	**22,686**	10,535
Accrued interest receivable	**30**	21	**23**	10
	34,373	18,627	**22,709**	10,545
Allowance for impairment	**(50)**	(41)	**(50)**	(41)
	34,323	18,586	**22,659**	10,504

As at December 31, 2018, Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P31,261 million (2017 - P16,327 million) for BPI Group and P19,601 million (2017 - P8,403 million) for the Parent Bank are classified as cash equivalents in the statements of cash flows (Note 4).

This account is expected to be realized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**34,253**	18,164	**22,589**	10,082
Non-current (over 12 months)	**120**	463	**120**	463
	34,373	18,627	**22,709**	10,545

Government bonds are pledged by the BSP as collateral under reverse repurchase agreements. The aggregate face value of securities pledged is equivalent to the total balance of outstanding placements as at reporting date.

The range of average interest rates (%) of interbank loans receivable and SPAR for the years ended December 31 are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Peso-denominated	**2.65 - 5.40**	2.96 - 3.07	**3.12 - 7.37**	3.04 - 3.35
US dollar-denominated	**1.50 - 2.34**	0.73 - 1.04	**1.50 - 2.34**	0.73 - 1.04

Note 6 - Financial Assets at Fair Value through Profit or Loss (FVTPL)

The account at December 31 consists of:

		Consolidated		Parent	
	Note	**2018**	2017	**2018**	2017
		(In Millions of Pesos)			
Debt securities					
Government securities		**8,953**	4,973	**5,515**	3,806
Commercial papers of private companies		**3,497**	29	**800**	-
Listed equity securities		**238**	330	**-**	-
Derivative financial assets	7	**4,033**	4,981	**4,031**	4,975
		16,721	10,313	**10,346**	8,781

Financial assets at FVTPL are classified as current as of December 31, 2018 and 2017.

Note 7 - Derivative Financial Instruments

Derivatives held by the BPI Group for non-hedging purposes mainly consist of the following:

- Foreign exchange forwards represent commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlement can be made via full delivery of forward proceeds or via payment of the difference (non-deliverable forward) between the contracted forward rate and the prevailing market rate on maturity.

- Foreign exchange swaps refer to spot purchase or sale of one currency against another with an offsetting agreement to sell or purchase the same currency at an agreed forward rate in the future.

- Interest rate swaps refer to agreement to exchange fixed rate versus floating interest payments (or vice versa) on a reference notional amount over an agreed period of time.

- Cross currency swaps refer to an exchange of notional amounts on two currencies at a given exchange rate where the parties on the transaction agree to pay a stated interest rate on the received notional amount and accept a stated interest rate on the delivered notional amount, payable and receivable or net settled (non-deliverable swaps) periodically over the term of the transaction.

The BPI Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the BPI Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statements of condition. They do not necessarily represent the amounts of future cash flows involved or the current fair values of the instruments and therefore are not indicative of the BPI Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The contract/notional amount and fair values of derivative financial instruments held for trading as at December 31 are set out below:

Consolidated

	Contract/ Notional Amount		Fair Values			
			Assets		Liabilities	
	2018	2017	**2018**	2017	**2018**	2017
			(In Millions of Pesos)			
Foreign exchange derivatives						
Currency swaps	**100,711**	153,784	**1,077**	2,312	**830**	2,117
Currency forwards	**72,917**	179,999	**250**	1,153	**219**	1,290
Interest rate derivatives						
Interest rate swap	**244,715**	206,493	**2,702**	1,478	**2,839**	1,377
Interest rate futures	**554**	-	**-**	-	**3**	-
Warrants	**9,149**	-	**4**	-	**-**	-
Credit default swaps	**-**	499	**-**	-	**-**	4
Embedded credit derivatives (PAS 39)	**-**	8,688	**-**	38	**-**	-
	428,046	549,463	**4,033**	4,981	**3,891**	4,788

Parent

	Contract/ Notional Amount		Fair Values			
			Assets		Liabilities	
	2018	2017	**2018**	2017	**2018**	2017
			(In Millions of Pesos)			
Foreign exchange derivatives						
Currency swaps	**100,711**	153,784	**1,077**	2,312	**827**	2,117
Currency forwards	**72,917**	179,999	**250**	1,153	**219**	1,290
Interest rate derivatives						
Interest rate swap	**244,715**	206,493	**2,702**	1,478	**2,839**	1,377
Interest rate futures	**554**	-	**-**	-	**3**	-
Warrants	**9,149**	-	**2**	-	**-**	-
Credit default swaps	**-**	499	**-**	-	**-**	4
Embedded credit derivatives (PAS 39)	**-**	8,688	**-**	32	**-**	-
	428,046	549,463	**4,031**	4,975	**3,888**	4,788

Note 8 - Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

Details of the account at December 31, 2018 are as follows:

PFRS 9		
	Consolidated	**Parent**
	(In Millions of Pesos)	
Debt securities		
Government securities	**32,718**	**27,814**
Commercial papers of private companies	**2,695**	**2,090**
	35,413	**29,904**
Accrued interest receivable	**118**	**89**
	35,531	**29,993**
Equity securities		
Listed	**1,129**	**406**
Unlisted	**546**	**184**
	1,675	**590**
	37,206	**30,583**

Financial assets previously classified as available-for-sale (AFS) as at December 31, 2017 are as follows:

PAS 39		
	Consolidated	Parent
	(In Millions of Pesos)	
Debt securities		
Government securities	14,406	5,420
Commercial papers of private companies	4,742	4,193
	19,148	9,613
Accrued interest receivable	70	56
	19,218	9,669
Equity securities		
Listed	3,755	447
Unlisted	661	232
	4,416	679
Allowance for impairment	(321)	(209)
	23,313	10,139

In previous years, the BPI Group reclassified certain available-for-sale securities to held-to-maturity category. The reclassification was triggered by management's change in intention over the securities in light of volatile market prices due to rising interest rates. Until December 31, 2017, under PAS 39, fair value losses recognized in other comprehensive income at the dates of reclassification were amortized over the remaining lives of the instruments using the effective interest rate method.

The relevant balances relating to the reclassified available-for-sale securities as at December 31, 2017 are summarized as follows:

Date of reclassification	Amount reclassified	Fair value loss at reclassification date	Unamortized fair value loss
		(In Millions of Pesos)	
November 11, 2015	P6.9 billion	505	468
January 9, 2014	P63.5 billion	4,534	3,064
November 12, 2008	P9.2 billion	1,757	13

The net change in fair value reserve that would have been recognized in other comprehensive income if the available-for-sale securities had not been reclassified amounts to P759 million net loss for the year ended December 31, 2017. There are no other gains or losses recognized in profit or loss apart from the amortization of fair value loss on securities.

Upon adoption of PFRS 9, these securities are carried at amortized cost consistent with the business model of the BPI Group. Consequently, the cumulative loss previously recognized in other comprehensive income is adjusted against the carrying amount of the securities to establish their amortized cost on January 1, 2018 (transition date).

The account is expected to be realized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**27,910**	13,288	**23,074**	1,991
Non-current (over 12 months)	**9,296**	10,346	**7,509**	8,357
	37,206	23,634	**30,583**	10,348

The range of average effective interest rates (%) of financial assets at FVOCI (2017 - AFS) for the years ended December 31 follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Peso-denominated	**1.18 - 4.20**	0.53 - 0.85	**1.65 - 5.43**	1.15 - 2.28
Foreign currency-denominated	**2.09 - 2.85**	2.10 - 2.26	**2.33 - 2.85**	2.10 - 2.31

Interest income from debt instruments recognized in the statements of income for the year ended December 31, 2018 amounts to P278 million (2017 - P200 million; 2016 - P467 million) and P160 million (2017 - P323 million; 2016 - P442 million) for the BPI Group and Parent Bank, respectively.

Dividend income from equity instruments recognized in the statements of income for the year ended December 31, 2018 amounts to P64 million (2017 - P53 million; 2016 - P55 million) and P41 million (2017 - P26 million; 2016 - P17 million) for the BPI Group and Parent Bank, respectively.

Note 9 - Investment Securities at Amortized cost, net

Details of the account as at December 31, 2018 are as follows:

PFRS 9		
	Consolidated	**Parent**
	(In Millions of Pesos)	
Government securities	**196,957**	**180,044**
Commercial papers of private companies	**86,826**	**83,964**
	283,783	**264,008**
Accrued interest receivable	**3,790**	**3,491**
	287,573	**267,499**
Allowance for impairment	**(2)**	**(2)**
	287,571	**267,497**

Investment securities previously classified as held-to-maturity (HTM) as at December 31, 2017 are as follows:

PAS 39		
	Consolidated	Parent
	(In Millions of Pesos)	
Government securities	206,098	186,816
Commercial papers of private companies	67,584	65,138
	273,682	251,954
Accrued interest receivable	3,790	3,428
	277,472	255,382

HTM investments were neither past due nor impaired as at December 31, 2017.

The account is expected to be realized as follows (amounts gross of allowance for impairment):

	Consolidated		Parent	
	2018	2017	**2018**	2017
		(In Millions of Pesos)		
Current (within 12 months)	**30,159**	13,182	**28,038**	11,849
Non-current (over 12 months)	**257,414**	264,290	**239,461**	243,533
	287,573	277,472	**267,499**	255,382

The range of average effective interest rates (%)for the years ended December 31 follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Peso-denominated	**3.53 - 3.90**	3.46 - 3.65	**3.55 - 3.93**	3.42 - 3.61
Foreign currency-denominated	**2.80 - 3.16**	2.78 - 2.93	**2.84 - 3.19**	2.80 - 2.96

Interest income from these investment securities recognized in the statements of income for the year ended December 31, 2018 amounts to P9,035 million (2017 - P8,631 million; 2016 - P8,576 million) and P8,514 million (2017 - P7,912 million; 2016 - P7,830 million) for the BPI Group and Parent Bank, respectively.

Note 10 - Loans and Advances, net

Details of this account at December 31 are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Corporate loans		(In Millions of Pesos)		
Large corporate customers	**1,043,855**	913,529	**1,019,626**	891,551
Small and medium enterprise	**87,998**	85,324	**62,058**	56,358
Retail loans				
Credit cards	**60,843**	49,142	**59,228**	47,829
Real estate mortgages	**126,088**	115,772	**12**	22
Auto loans	**51,845**	53,343	**-**	-
Others	**5,145**	4,707	**14**	4,106
	1,375,774	1,221,817	**1,140,938**	999,866
Accrued interest receivable	**8,454**	5,458	**5,963**	4,070
Unearned discount/income	**(6,430)**	(4,274)	**(4,978)**	(3,154)
	1,377,798	1,223,001	**1,141,923**	1,000,782
Allowance for impairment	**(22,902)**	(20,663)	**(15,967)**	(13,913)
	1,354,896	1,202,338	**1,125,956**	986,869

There were no changes in the classification and measurement of loans and advances from PAS 39 to PFRS 9.

Loans and advances aggregating P31,520 million (2017 - P280 million) are used as security for bills payable (Note 16) of the Parent Bank.

Loans and advances include amounts due from related parties (Note 26).

Following the adoption of PFRS 9 on January 1, 2018, the BPI Group has recognized expected credit loss (ECL) provisions (included in Miscellaneous liabilities in Note 17) on undrawn loan commitments. Details are shown below:

	Consolidated			Parent		
	Corporate	Retail	**Total**	Corporate	Retail	**Total**
	(In Millions of Pesos)					
Undrawn committed credit facility	117,640	118,264	**235,904**	117,640	115,841	**233,481**
ECL provisions	(65)	(688)	**(753)**	(65)	(658)	**(723)**
	117,575	117,576	**235,151**	117,575	115,183	**232,758**

Loans and advances are expected to be realized as follows:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**554,183**	521,688	**515,723**	489,240
Non-current (over 12 months)	**823,615**	701,313	**626,200**	511,542
	1,377,798	1,223,001	**1,141,923**	1,000,782

The BPI Group, through BPI Century Tokyo Lease and Finance Corporation, mainly leases out vehicle and equipment under various finance lease agreements which typically run for a non-cancellable period of two to five years. The lease contracts generally include a lessee's option to purchase the leased asset after the lease period at a price that generally lies between 5% to 20% of the fair value of the asset at the inception of the lease. In the event that the residual value of the leased asset exceeds the guaranteed deposit liability at the end of the lease term, the BPI Group receives additional payment from the lessee prior to the transfer of the leased asset. On the other hand, the BPI Group sets up a liability to the lessee for any excess of the guaranteed deposit liability over residual value of the leased asset.

Details of finance lease receivables (included in "Corporate loans" category above) arising from lease contracts are as follows:

	Consolidated	
	2018	2017
	(In Millions of Pesos)	
Total future minimum lease collections	**11,203**	9,102
Unearned finance income	**(1,321)**	(1,003)
Present value of future minimum lease collections	**9,882**	8,099
Allowance for impairment	**(304)**	(251)
	9,578	7,848

Details of future gross minimum lease payments receivable follow:

	Consolidated	
	2018	2017
	(In Millions of Pesos)	
Not later than one year	**4,299**	3,371
Later than one year but not later than five years	**6,270**	5,323
More than five years	**634**	408
	11,203	9,102
Unearned finance income	**(1,321)**	(1,003)
	9,882	8,099

There are no contingent rents arising from lease contracts outstanding at December 31, 2018 and 2017.

The range of average interest rates (%) of loans and advances for the years ended December 31 follows:

	Consolidated		Parent	
	2018	2017	2018	2017
Commercial loans				
Peso-denominated loans	**4.11 - 5.52**	3.97 - 4.19	**3.98 - 5.44**	3.76 - 4.02
Foreign currency-denominated loans	**3.61 - 4.86**	2.94 - 3.36	**3.61 - 4.86**	2.94 - 3.36
Real estate mortgages	**6.61 - 6.97**	6.60 - 7.09	**7.04 - 8.00**	6.67 - 8.00
Auto loans	**7.46 - 10.93**	9.27 - 9.41	**-**	-

<u>Relevant information for BSP prudential reporting</u>

Details of the loans and advances portfolio of the BPI Group at December 31 are as follows:

a) Concentration as to industry/economic sector (in %)

	Consolidated		Parent	
	2018	2017	2018	2017
Real estate, renting and other related activities	**23.08**	22.59	**16.00**	15.46
Manufacturing	**16.28**	16.23	**19.26**	19.41
Wholesale and retail trade	**12.56**	11.50	**14.16**	12.96
Consumer	**8.16**	8.78	**5.08**	5.30
Financial institutions	**6.09**	7.56	**7.28**	9.11
Agriculture and forestry	**2.74**	3.31	**3.26**	3.98
Others	**31.09**	30.03	**34.96**	33.78
	100.00	100.00	**100.00**	100.00

b) As to collateral

	Consolidated		Parent	
	2018	2017	2018	2017
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**220,587**	195,432	**97,170**	79,768
Chattel mortgage	**54,731**	64,420	**9**	168
Others	**172,503**	313,441	**168,260**	305,296
	447,821	573,293	**265,439**	385,232
Unsecured loans	**921,523**	644,250	**870,521**	611,480
	1,369,344	1,217,543	**1,135,960**	996,712

Other collaterals include hold-out deposits, mortgage trust indentures, government and corporate securities and bonds, quedan/warehouse receipts, standby letters of credit, trust receipts, and deposit substitutes.

Non-performing loans net of allowance for credit losses are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Non-performing loans (NPL)	**25,391**	16,255	**12,985**	8,038
Accounts with specific allowance for credit losses	**(12,597)**	(10,479)	**(8,861)**	(5,395)
Net NPL	**12,794**	5,776	**4,124**	2,643

BSP Circular 941 *Amendments to Regulations on Past Due and Non-Performing Loans* states that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Note 11 - Bank Premises, Furniture, Fixtures and Equipment, net

The movement analysis of the account is shown below:

Consolidated

	2018				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2018	3,023	9,591	15,278	5,502	**33,394**
Additions	-	1,443	2,052	1,875	**5,370**
Disposals	(1)	(145)	(840)	(1,765)	**(2,751)**
Transfers	6	-	6	(32)	**(20)**
December 31, 2018	**3,028**	**10,889**	**16,496**	**5,580**	**35,993**
Accumulated depreciation					
January 1, 2018	-	4,849	11,749	1,739	**18,337**
Depreciation	-	479	1,831	1,269	**3,579**
Amortization	-	276	-	-	**276**
Disposals	-	(93)	(541)	(1,800)	**(2,434)**
Transfers	-	-	1	(18)	**(17)**
December 31, 2018	**-**	**5,511**	**13,040**	**1,190**	**19,741**
Net book value, December 31, 2018	**3,028**	**5,378**	**3,456**	**4,390**	**16,252**

	2017				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2017	3,075	6,910	14,357	4,852	29,194
Additions	-	1,354	1,770	2,387	5,511
Disposals	(65)	(189)	(848)	(1,734)	(2,836)
Transfers	13	1,798	(2)	-	1,809
December 31, 2017	3,023	9,873	15,277	5,505	33,678
Accumulated depreciation					
January 1, 2017	-	3,110	10,687	1,588	15,385
Depreciation	-	309	1,600	1,125	3,034
Amortization	-	284	-	-	284
Disposals	-	(111)	(537)	(971)	(1,619)
Transfers	-	1,540	(2)	-	1,538
December 31, 2017	-	5,132	11,748	1,742	18,622
Net book value, December 31, 2017	3,023	4,741	3,529	3,763	15,056

Parent

	2018			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2018	2,661	8,582	13,850	**25,093**
Additions	(1)	1,178	1,590	**2,767**
Disposals	-	(145)	(732)	**(877)**
Transfers	17	-	-	**17**
December 31, 2018	**2,677**	**9,615**	**14,708**	**27,000**
Accumulated depreciation				
January 1, 2018	-	4,492	10,696	**15,188**
Depreciation	-	439	1,634	**2,073**
Amortization	-	203	-	**203**
Disposals	-	(94)	(516)	**(610)**
December 31, 2018	**-**	**5,040**	**11,814**	**16,854**
Net book value, December 31, 2018	**2,677**	**4,575**	**2,894**	**10,146**

	2017			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2017	2,660	6,047	13,156	21,863
Additions	-	1,023	1,452	2,475
Disposals	-	(78)	(757)	(835)
Transfers	-	1,823	-	1,823
December 31, 2017	2,660	8,815	13,851	25,326
Accumulated depreciation				
January 1, 2017	-	2,722	9,746	12,468
Depreciation	-	270	1,437	1,707
Amortization	-	233	-	233
Disposals	-	(41)	(487)	(528)
Transfers	-	1,541	-	1,541
December 31, 2017	-	4,725	10,696	15,421
Net book value, December 31, 2017	2,660	4,090	3,155	9,905

Depreciation is included in “Occupancy and equipment-related expenses” category in the statements of income.

In 2018, the Parent Bank realized a gain of P969 million (Note 19) from the disposal of certain properties.

Note 12 - Investments in Subsidiaries and Associates, net

This account at December 31 consists of investments in shares of stock:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	**5,659**	6,386	**-**	-
Investments at cost method	**-**	-	**9,942**	9,043
	5,659	6,386	**9,942**	9,043

Investments in associates accounted for using the equity method in the consolidated statements of condition follow:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest **2018**	Percentage of ownership interest 2017	Acquisition cost **2018**	Acquisition cost 2017
		(in %)		(In Millions of Pesos)	
BPI-Philamlife Assurance Corporation	Philippines	**47.67**	47.67	**371**	371
AF Payments, Inc. (AFPI)	Philippines	**20.00**	20.00	**750**	690
National Reinsurance Corporation of the Philippines*	Philippines	**13.69**	13.69	**204**	204
Beacon Property Ventures, Inc.	Philippines	**20.00**	20.00	**72**	72
CityTrust Realty Corporation	Philippines	**40.00**	40.00	**2**	2
Global Payments Asia-Pacific Philippines, Incorporated	Philippines	**49.00**	49.00	**1,342**	1,342
				2,741	2,681

**The Parent Bank has a significant influence due to its representation on the governing body of National Reinsurance Corporation of the Philippines*

Details and movements of investments in associates accounted for using the equity method in the consolidated financial statements follow:

	2018	2017
	(In Millions of Pesos)	
Acquisition cost		
At January 1	**2,681**	2,589
Additions	**60**	100
Return of capital	**-**	(8)
At December 31	**2,741**	2,681
Accumulated equity in net income		
At January 1	**3,239**	2,989
Share in net income for the year	**700**	772
Dividends received	**(675)**	(522)
At December 31	**3,264**	3,239
Accumulated share in other comprehensive income (loss)		
At January 1	**466**	1,240
Share in other comprehensive loss for the year	**(672)**	(774)
At December 31	**(206)**	466
Allowance for impairment	**(140)**	-
	5,659	6,386

AFPI is an associate of BPI Payments Holdings Inc., a subsidiary of the Parent Bank. In 2018, the BPI Group recognized an allowance for impairment on its investment in AFPI in view of the latter's recurring losses.

No associate is deemed individually significant for financial reporting purposes. Accordingly, the relevant unaudited financial information of associates as at and for the years ended December 31 has been aggregated as follows:

	2018	2017
	(In Millions of Pesos)	
Total assets	**122,616**	125,471
Total liabilities	**105,960**	107,209
Total revenues	**18,618**	33,538
Total net income	**1,425**	1,486

The details of equity investments accounted for using the cost method in the separate financial statements of the Parent Bank follow:

	Acquisition cost		Allowance for impairment		Carrying value	
	2018	2017	**2018**	2017	**2018**	2017
	(In Millions of Pesos)					
Subsidiaries						
BPI Europe Plc.	**1,910**	1,910	**-**	-	**1,910**	1,910
BPI Asset Management and Trust Corporation (BPI AMTC)	**1,502**	600	**-**	-	**1,502**	600
BPI Direct BanKo, Inc., A Savings Bank	**1,009**	1,009	**-**	-	**1,009**	1,009
Ayala Plans, Inc.	**863**	863	**-**	-	**863**	863
BPI Capital Corporation	**623**	623	**-**	-	**623**	623
BPI Payments Holdings Inc. (BPHI)	**503**	443	**(299)**	-	**204**	443
BPI Century Tokyo Lease and Finance Corporation	**329**	329	**-**	-	**329**	329
FGU Insurance Corporation	**303**	303	**-**	-	**303**	303
BPI Forex Corp.	**195**	195	**-**	-	**195**	195
BPI Express Remittance Corp. USA	**191**	191	**-**	-	**191**	191
BPI Family Savings Bank, Inc.	**150**	150	**-**	-	**150**	150
BPI Remittance Centre (HK) Ltd. (BERK HK)	**132**	-	**-**	-	**132**	-
First Far-East Development Corporation	**91**	91	**-**	-	**91**	91
Green Enterprises S.R.L. in Liquidation	**54**	54	**-**	-	**54**	54
FEB Stock Brokers, Inc.	**25**	25	**-**	-	**25**	25
BPI Computer Systems Corp.	**23**	23	**-**	-	**23**	23
BPI Express Remittance Spain S.A	**26**	26	**-**	-	**26**	26
Others	**321**	321	**-**	(104)	**321**	217
Associates	**1,991**	1,991	**-**	-	**1,991**	1,991
	10,241	9,147	**(299)**	(104)	**9,942**	9,043

No non-controlling interest arising from investments in subsidiaries is deemed material to the BPI Group.

In 2018, the Parent Bank made an additional capital infusion to BPHI amounting to P60 million (2017 - P103 million). Likewise, the Parent Bank in 2018, recognized impairment loss of P299 million on its investment in BPHI due financial losses incurred by BPHI's associate, AFPI, as disclosed above.

On October 17, 2018, the Parent Bank made additional investment to BPI AMTC via transfer of contractual customer relationships (included in "Intangible assets" in Note 14) valued at P902 million.

On November 21, 2018, BPI International Finance Limited (included in "Others" subsidiaries in the table above) distributed its shares in BERC HK valued at P132 million as a property dividend to the Parent Bank. BERK HK became an immediate subsidiary of the Parent Bank following the property dividend declaration.

The Parent Bank reversed in 2018 previously recognized impairment loss of P104 million on its investments in other smaller subsidiaries due to improvement in the investees' operations.

Note 13 - Deferred Income Taxes

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for credit and impairment losses	**7,833**	7,286	**5,329**	4,736
Pension liability	**661**	738	**454**	683
Provisions	**329**	328	**248**	254
Net operating loss carry over (NOLCO)	**-**	129	**-**	-
Others	**225**	160	**195**	34
Total deferred income tax assets	**9,048**	8,641	**6,226**	5,707
Deferred income tax liabilities				
Unrealized gain on property appraisal	**(491)**	(507)	**(491)**	(507)
Others	**(21)**	(43)	**(12)**	(20)
Total deferred income tax liabilities	**(512)**	(550)	**(503)**	(527)
Deferred income tax assets, net	**8,536**	8,091	**5,723**	5,180

Movements in net deferred income tax assets are summarized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**8,091**	7,543	**5,180**	4,571
Amounts recognized in statements of income	**734**	462	**776**	462
Amounts recognized in other comprehensive income	**(289)**	86	**(233)**	147
At December 31	**8,536**	8,091	**5,723**	5,180

Details of deferred income tax items recognized in the statements of income are as follows:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Allowance for impairment	**(547)**	(443)	(377)	**(593)**	(563)	(57)
Provisions	**(1)**	(27)	(301)	**6**	(9)	(245)
Pension	**68**	174	(52)	**9**	(65)	36
NOLCO	**129**	(66)	-	**-**	-	-
Others	**(383)**	(100)	(154)	**(198)**	175	(173)
	(734)	(462)	(884)	**(776)**	(462)	(439)

Details of the outstanding NOLCO at December 31 are as follows:

Year of Incurrence	Year of Expiration	Consolidated 2018	Consolidated 2017	Parent 2018	Parent 2017
		(In Millions of Pesos)			
2017	2020	**69**	69	**-**	-
2016	2019	**202**	202	**-**	-
2015	2018	**197**	197	**-**	-
2014	2017	**-**	361	**-**	-
		468	829	**-**	-
Used portion/ expired during the year		**(468)**	(361)	**-**	-
NOLCO not recognized		**-**	(37)	**-**	-
		-	431	**-**	-
Tax rate		**30%**	30%	**30%**	30%
Deferred income tax asset on NOLCO		**-**	129	**-**	-

Note 14 - Other Assets, net

The account at December 31 consists of the following:

	Consolidated 2018	Consolidated 2017	Parent 2018	Parent 2017
	(In Millions of Pesos)			
Sundry debits	**3,392**	945	**3,292**	939
Intangible assets	**3,070**	2,454	**2,416**	2,413
Accounts receivable	**2,761**	2,781	**2,509**	5,233
Residual value of equipment for lease	**2,601**	2,242	**-**	-
Prepaid expenses	**1,343**	1,530	**1,007**	1,166
Rental deposits	**671**	563	**573**	484
Accrued trust and other fees	**540**	1,158	**131**	726
Creditable withholding tax	**408**	416	**79**	92
Investment properties	**129**	135	**118**	135
Miscellaneous assets	**8,108**	4,504	**6,853**	3,673
	23,023	16,728	**16,978**	14,861
Allowance for impairment	**(824)**	(848)	**(665)**	(701)
	22,199	15,880	**16,313**	14,160

Sundry debits pertain to float items arising from timing differences in recording transactions which are expected to clear within seven days.

Investment properties have aggregate fair value of P1,786 million as at December 31, 2018 (2017 - P1,281 million). The fair value of investment property is determined on the basis of valuation performed by duly accredited appraisers. The property valuation was determined mainly using the market data approach (Level 2).

All investment properties generate rental income. Income from investment properties (included in "Rental income" in Note 19) recognized in the statements of income amounts to P83 million in 2018 (2017 - P16 million; 2016 - P243 million). Direct operating expenses (including repairs and maintenance) arising from these investment properties amount to P6 million in 2018 (2017 - P12 million; 2016 - P190 million).

The allowance for impairment as at December 31, 2018 and 2017 mainly pertains to accounts receivable. The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**848**	1,190	**701**	990
Provision for (reversal of) impairment losses	**89**	(295)	**(69)**	(240)
Transfer/reallocation	**(34)**	-	**110**	-
Write-off	**(79)**	(47)	**(77)**	(49)
At December 31	**824**	848	**665**	701

Other assets are expected to be realized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**17,143**	11,524	**14,434**	11,996
Non-current (over 12 months)	**5,880**	5,204	**2,544**	2,865
	23,023	16,728	**16,978**	14,861

Note 15 - Deposit Liabilities

The account at December 31 consists of:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Demand	**256,279**	252,238	**245,620**	241,100
Savings	**883,650**	860,612	**778,246**	751,351
Time	**445,817**	449,350	**323,341**	331,512
	1,585,746	1,562,200	**1,347,207**	1,323,963

Deposit liabilities include amounts due to related parties (Note 26).

Deposit liabilities are expected to be settled as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**602,031**	818,811	**534,119**	726,560
Non-current (over 12 months)	**983,715**	743,389	**813,088**	597,403
	1,585,746	1,562,200	**1,347,207**	1,323,963

In 2017, the Parent Bank issued the first tranche of long-term negotiable certificates of deposit (LTNCD) amounting to P12.2 billion from the P30-billion facility approved by the BSP. The LTNCDs pay interest on a quarterly basis at a rate 3.7% per annum and carry a tenor of 5.5 years maturing on May 24, 2023. The proceeds from the LTNCD issuance is included in "Time deposits" category.

Related interest expense on deposit liabilities is presented below:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
			(In Millions of Pesos)			
Demand	**687**	616	557	**630**	557	514
Savings	**7,384**	6,723	6,774	**6,061**	5,489	5,497
Time	**13,184**	9,321	7,970	**8,954**	5,367	3,605
	21,255	16,660	15,301	**15,645**	11,413	9,616

Under existing BSP regulations, the BPI Group should comply with a simplified minimum reserve requirement on statutory/legal and liquidity reserves. Further, BSP requires all reserves be kept at the central bank. The reserve requirement ratio imposed on universal and commercial banks decreased to 18% from 20% effective June 1, 2018 under BSP Circular No. 1004. The BPI Group is in full compliance with the simplified reserve requirement as at December 31, 2018 and 2017.

The required statutory/legal and liquidity reserves as reported to BSP at December 31 follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
		(In Millions of Pesos)		
Required reserves (included in Due from BSP)	**214,196**	233,509	**195,883**	215,088

Note 16 - Bills Payable and Other Borrowed Funds

The account at December 31 consists of:

	Consolidated		Parent	
	2018	2017	**2018**	2017
		(In Millions of Pesos)		
Bills payable				
Local banks	**58,810**	37,064	**46,761**	25,810
Foreign banks	**51,813**	46,453	**47,841**	44,912
Other borrowed funds	**56,278**	-	**56,278**	-
	166,901	83,517	**150,880**	70,722

Bills payable

Bills payable include funds borrowed from Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and BSP which were relent to customers of the BPI Group in accordance with the financing programs of LBP, DBP and BSP and credit balances of settlement bank accounts. The average payment term of these bills payable is 0.39 years and 0.95 years for 2018 and 2017, respectively. Loans and advances of the BPI Group arising from these financing programs serve as security for the related bills payable (Note 10).

The range of average interest rates (%) of bills payable for the years ended December 31 follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Private firms and local banks - Peso-denominated	**2.75 - 7.35**	3.22 - 4.10	**2.75 - 5.06**	4.26 - 4.66
Foreign banks - Foreign currency-denominated	**1.32 - 4.20**	1.69 - 1.82	**1.32 - 3.26**	1.69 - 1.82

Other borrowed funds

On September 19, 2018, the BOD of the Parent Bank approved the establishment of a Peso Bond and Commercial Paper Program in the aggregate amount of up to P50,000 million. On December 6, 2018, the Parent Bank issued P25,000 million with a coupon of 6.7970% per annum, payable quarterly to mature on March 6, 2020.

Likewise on June 21, 2018, the Parent Bank has established a Medium Term Note Programme in the aggregate amount of up to US$2,000 million. Under this Programme, the Parent Bank issued on September 4, 2018 US$600 million in 5-year Senior Unsecured Fixed Rate Reg S Notes with a coupon of 4.25% to mature on September 4, 2023.

The proceeds from the above debt issuances are presented above as "Other borrowed funds".

Interest expense for the years ended December 31 is summarized as follows:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Bills payable	**2,517**	1,150	634	**2,013**	885	406
Other borrowed funds	**575**	-	-	**575**	-	-
	3,092	1,150	634	**2,588**	885	406

Bills payable and other borrowed funds are expected to be settled as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(in millions of pesos)			
Current (within 12 months)	**99,381**	63,671	**84,086**	50,877
Non-current (over 12 months)	**67,520**	19,846	**66,794**	19,845
	166,901	83,517	**150,880**	70,722

The movement in bills payable and other borrowed funds is summarized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**83,517**	61,973	**70,722**	52,257
Additions	**706,779**	365,417	**651,065**	331,286
Maturities	**(623,196)**	(344,043)	**(570,594)**	(313,005)
Amortization of discount	**121**	71	**120**	71
Exchange differences	**(320)**	99	**(433)**	113
At December 31	**166,901**	83,517	**150,880**	70,722

Note 17 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Bills purchased - contra	**12,872**	12,505	**12,862**	12,499
Accounts payable	**8,096**	5,534	**5,635**	3,339
Dividends payable	**4,053**	3,546	**4,052**	3,545
Deposits on lease contracts	**2,438**	2,136	**-**	-
Outstanding acceptances	**2,394**	2,992	**2,394**	2,992
Withholding tax payable	**674**	599	**514**	459
Due to the Treasurer of the Philippines	**650**	636	**575**	562
Other deferred credits	**810**	418	**67**	83
Miscellaneous liabilities	**11,133**	11,613	**9,694**	9,733
	43,120	39,979	**35,793**	33,212

Bills purchased - contra represents liabilities arising from the outright purchases of checks due for clearing as a means of immediate financing offered by the BPI Group to its clients.

Miscellaneous liabilities include pension liability, insurance, allowance for impairment of undrawn committed credit facilities and other employee-related payables.

The account is expected to be settled as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Current (within 12 months)	**41,343**	36,192	**34,753**	31,375
Non-current (over 12 months)	**1,777**	3,787	**1,040**	1,837
	43,120	39,979	**35,793**	33,212

Note 18 - Capital Funds

a) *Share capital*

Details of authorized share capital of the Parent Bank follow:

	2018	2017	2016
	(In Millions of Pesos, except par value per share)		
Authorized capital (at P10 par value per share)			
Common shares	**49,000**	49,000	49,000
Preferred A shares	**600**	600	600
	49,600	49,600	49,600

Details of outstanding common shares follow:

	2018	2017	2016
	(In Number of Shares)		
Issued common shares			
At January 1	**3,939,412,661**	3,937,043,603	3,932,220,179
Issuance of shares during the year	**563,036,840**	2,369,058	4,823,424
At December 31	**4,502,449,501**	3,939,412,661	3,937,043,603
Subscribed common shares	**6,341,738**	5,785,721	6,213,433

On April 25, 2018, BPI completed its P50 billion stock rights offer, which paved the way for the issuance of 558,659,210 new common shares at P89.50 per share. The new shares were issued to shareholders as of record date April 6, 2018, at a ratio of 1:7.0594, or 1 new common share for every 7 shares held, or 14.2% of BPI's outstanding common shares. These new shares were listed on the Philippine Stock Exchange (PSE) on May 4, 2018.

BPI's shares are listed and traded in the PSE since October 12, 1971. On February 10, 2014, additional 370,370,370 common shares were listed as a result of the stock rights offer.

As at December 31, 2018, 2017 and 2016, the Parent Bank has 12,588, 11,488, and 11,596 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2018, 2017 and 2016.

b) Reserves

The account consists of:

	Consolidated			**Parent**		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
General loan loss provision (GLLP)	**3,867**	-	-	**3,867**	-	-
Executive stock option plan amortization	**105**	130	100	**76**	108	84
Reserve for trust business	**90**	90	2,577	**-**	-	2,577
Reserve for self-insurance	**34**	34	34	**34**	34	34
	4,096	254	2,711	**3,977**	142	2,695

In 2018, the BSP issued Circular 1011 which mandates among others, banks to set up GLLP equal to 1% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Under the said Circular, if the PFRS 9 loan loss provision is lower than the required GLLP, the deficiency shall be recognized as an appropriation of retained earnings or surplus. Accordingly, the BPI Group appropriated P3,867 million representing the excess of GLLP over PFRS 9 loan loss provision out of surplus earnings to meet the requirement of the BSP.

In compliance with existing BSP regulations, 10% of the Parent Bank's income from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business reaches 20% of the Parent Bank's regulatory net worth. Starting 2017, the 10% appropriation is based on the income of BPI AMTC following its spin-off.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of personnel and third parties.

Details of and movements in reserves for the years ended December 31 follow:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Surplus reserves						
At January 1	**254**	2,711	2,563	**142**	2,695	2,555
Transfer from surplus to reserves	**3,867**	90	103	**3,867**	-	-
Stock option plan	**(25)**	31	45	**(32)**	25	37
Transfer from reserves to surplus	**-**	(2,578)	-	**-**	(2,578)	103
At December 31	**4,096**	254	2,711	**3,977**	142	2,695

The BOD of the Parent Bank approved to grant the Executive Stock Option Plan (ESOP) and Executive Stock Purchase Plan (ESPP) to qualified beneficiaries/participants up to the following number of shares for future distribution:

Date	Approved ESOP shares	Approved ESPP shares
December 11, 2018	4,168,000	11,500,000
December 13, 2017	3,560,000	7,500,000
December 14, 2016	3,560,000	4,500,000
December 18, 2015	3,575,000	8,000,000

The ESOP has a three-year vesting period from grant date while the ESPP has a five-year payment period.

The exercise price for ESOP is equal to the volume weighted average of BPI share price for the 30-trading days immediately prior to the grant date. The weighted average fair value of options granted determined using the Black-Scholes valuation model was P6.50, P17.41 and P13.83 for the years ended December 31, 2018, 2017 and 2016, respectively.

Movements in the number of share options under the ESOP are summarized as follows:

	2018	2017	2016
At January 1	**11,338,333**	9,100,000	9,225,000
Granted	**3,480,000**	3,485,000	-
Exercised	**(2,786,665)**	(746,667)	(16,667)
Cancelled	**(258,334)**	(500,000)	(108,333)
At December 31	**11,773,334**	11,338,333	9,100,000
Exercisable	**5,120,000**	6,745,000	3,033,333

The impact of ESOP is not considered material to the financial statements, thus, the disclosures were limited only to the information mentioned above.

The subscription price for ESPP is equivalent to 15% below the volume weighted average of BPI share price for the 30-trading days immediately prior to the grant date. The subscription dates for ESPP were on January 7, 2019, February 15, 2017, and January 25, 2016.

c) Accumulated other comprehensive loss

Details of and movements in the account follow:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
			(In Millions of Pesos)			
Fair value reserve on available-for-sale securities						
At January 1	**(3,125)**	(3,838)	(4,381)	**(3,275)**	(3,724)	(4,226)
Effect of PFRS 9 adoption	**3, 125**	-	-	**3,275**		
Unrealized fair value loss before tax	**-**	264	(507)	**-**	23	(133)
Amount recycled to profit or loss	**-**	447	1,072	**-**	424	623
Deferred income tax effect	**-**	2	(22)	**-**	2	12
At December 31	**-**	(3,125)	(3,838)	**-**	(3,275)	(3,724)
Fair value reserve on financial assets at FVOCI						
Effect of PFRS 9 adoption	**757**	-	-	**210**	-	-
Unrealized fair value loss before tax	**(364)**	-	-	**(12)**	-	-
Amount recycled to profit or loss	**(390)**	-	-	**(128)**	-	-
Deferred income tax effect	**(36)**	-	-	**(1)**	-	-
At December 31	**(33)**	-	-	**69**	-	-
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	**45**	(158)	(67)	**-**	-	-
Effect of PFRS 9 adoption	**229**	-	-	**-**		
Share in other comprehensive income (loss) for the year, before tax	**(316)**	175	(108)	**-**	-	-
Deferred income tax effect	**6**	28	17	**-**	-	-
At December 31	**(36)**	45	(158)	**-**	-	-
Share in other comprehensive income of associates						
At January 1	**479**	1,259	1,333	**-**	-	-
Share in other comprehensive loss for the year	**(685)**	(780)	(74)	**-**	-	-
At December 31	**(206)**	479	1,259	**-**	-	-
Translation adjustment on foreign operations						
At January 1	**(678)**	(804)	(691)	**-**	-	-
Translation differences	**(26)**	126	(113)	**-**	-	-
At December 31	**(704)**	(678)	(804)	**-**	-	-
Remeasurements of defined benefit obligation, net						
At January 1	**(1,809)**	(1,537)	(958)	**(1,421)**	(1,083)	(654)
Actuarial gains (losses) for the year	**877**	(387)	(827)	**616**	(358)	(613)
Deferred income tax effect	**(265)**	115	248	**(185)**	20	184
At December 31	**(1,197)**	(1,809)	(1,537)	**(990)**	(1,421)	(1,083)
	(2,176)	(5,088)	(5,078)	**(921)**	(4,696)	(4,807)

d) Dividend declarations

Cash dividends declared by the BOD of the Parent Bank in the years 2016 to 2018 follow:

	Amount of dividends	
Date declared	Per share	Total (in millions of pesos)
June 15, 2016	0.90	3,543
December 14, 2016	0.90	3,543
June 15, 2017	0.90	3,545
December 15, 2017	0.90	3,546
June 20, 2018	0.90	4,052
December 19, 2018	0.90	4,052

e) Earnings per share (EPS)

The calculation of EPS is shown below:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos, except earnings per share amounts)					
a) Net income attributable to equity holders of the Parent Bank	**23,078**	22,416	22,050	**15,428**	22,097	20,885
b) Weighted average number of common shares outstanding during the year	**4,316**	3,939	3,937	**4,316**	3,939	3,937
c) Basic EPS (a/b)	**5.35**	5.69	5.60	**3.57**	5.61	5.30

The basic and diluted EPS are the same for the years presented as the impact of stock options outstanding is not significant to the calculation of weighted average number of common shares.

Note 19 - Other Operating Income

Details of other operating income follow:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Credit card income	**3,197**	2,953	1,423	**3,126**	2,894	1,412
Trust and asset management fees	**2,818**	3,516	3,376	**-**	190	2,202
Rental income	**1,898**	1,672	1,660	**254**	219	328
Gain on sale of assets	**1,243**	1,204	668	**658**	302	299
Dividend income	**76**	68	56	**904**	9,492	6,083
Others	**1,155**	1,380	1,266	**977**	1,074	1,008
	10,387	10,793	8,449	**5,919**	14,171	11,332

Dividend income recognized by the Parent Bank substantially pertains to dividend distributions of subsidiaries.

Other income includes recoveries on charged-off assets and revenues from service arrangements with customers and related parties.

Note 20 - Leases

The BPI Group and the Parent Bank (as lessee) have various lease agreements which mainly pertain to branch premises that are renewable under certain terms and conditions. The rentals (included in Occupancy and equipment-related expenses) under these lease contracts are as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
2018	**1,809**	**1,503**
2017	1,495	1,211
2016	1,337	1,097

The future minimum lease payments under non-cancellable operating leases of the BPI Group are as follows:

	2018	2017
	(In Millions of Pesos)	
No later than 1 year	**107**	90
Later than 1 year but no later than 5 years	**214**	186
More than 5 years	**57**	69
	378	345

Note 21 - Operating Expenses

Details of compensation and fringe benefits expenses follow:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
			(In Millions of Pesos)			
Salaries and wages	**12,624**	11,642	11,332	**9,702**	8,891	8,998
Retirement expense (Note 24)	**755**	720	755	**608**	574	602
Other employee benefit expenses	**1,936**	1,535	1,376	**1,524**	1,226	1,113
	15,315	13,897	13,463	**11,834**	10,691	10,713

Details of other operating expenses follow:

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
			(In Millions of Pesos)			
Insurance	**4,105**	3,940	3,426	**2,789**	2,448	2,160
Advertising	**1,310**	1,215	1,144	**1,123**	1,002	955
Travel and communication	**1,002**	902	812	**825**	748	687
Taxes and licenses	**791**	714	620	**539**	491	369
Management and other professional fees	**606**	501	495	**626**	419	424
Office supplies	**592**	328	324	**490**	267	271
Supervision and examination fees	**587**	542	606	**441**	401	526
Litigation expenses	**526**	598	512	**255**	348	279
Amortization expense	**293**	296	312	**11**	289	308
Shared expenses	**-**	-	-	**26**	16	12
Others	**5,329**	4,256	3,071	**4,132**	3,197	2,157
	15,141	13,292	11,322	**11,257**	9,626	8,148

Other expenses mainly include fees and incentives paid to agents, outsourcing fees, freight charges and other business expense such as those incurred in staff meetings, donations, periodicals and magazines.

Note 22 - Income Taxes

A reconciliation between the income tax expense at the statutory tax rate and the effective income tax for the years ended December 31 follows:

	Consolidated					
	2018		2017		2016	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**9,000**	**30.00**	8,608	30.00	8,043	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(517)**	**(1.72)**	(696)	(2.42)	(764)	(2.85)
Tax-exempt income	**(1,582)**	**(5.27)**	(4,350)	(15.16)	(3,942)	(14.70)
Others, net	**(231)**	**(0.77)**	2,394	8.34	1,198	4.47
Effective income tax	**6,670**	**22.24**	5,956	20.76	4,535	16.92

	Parent					
	2018		2017		2016	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**6,134**	**30.00**	7,765	30.00	7,267	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(519)**	**(2.54)**	(606)	(2.34)	(669)	(2.76)
Tax-exempt income	**(495)**	**(2.42)**	(2,907)	(11.23)	(2,577)	(10.64)
Others, net	**(103)**	**(0.50)**	(466)	(1.80)	(683)	(2.82)
Effective income tax	**5,017**	**24.54**	3,786	14.63	3,338	13.78

Note 23 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2018	2017	**2018**	2017
Return on average equity	**10.21**	12.75	**8.50**	16.81
Return on average assets	**1.20**	1.27	**0.96**	1.54
Net interest margin	**3.11**	2.91	**2.87**	2.65

Note 24 - Retirement Plans

The BPI Group maintains both defined benefit and defined contribution retirement plans. Assets of both retirement plans are held in trust and governed by local regulations and practices in the Philippines. The key terms of these pension plans are discussed below.

a) Defined benefit retirement plan

BPI Group (excluding insurance operations)

BPI has a unified plan which covers all subsidiaries except insurance entities. Under this plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

The net defined benefit cost and contributions to be paid by the entities within the BPI Group are determined by an independent actuary.

Non-life insurance subsidiary

BPI/MS has a separate trusteed defined benefit plan. Under the plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 175% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered as least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service.

Death or disability benefit for all employees of the non-life insurance subsidiary shall be determined on the same basis as in normal or voluntary retirement as the case may be.

Following are the amounts recognized based on recent actuarial valuations:

(a) Pension liability as at December 31 recognized in the statements of condition

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Present value of defined benefit obligation	**10,892**	12,718	**9,171**	10,508
Fair value of plan assets	**(9,851)**	(10,710)	**(8,195)**	(9,003)
Pension liability recognized in the statements of condition	**1,041**	2,008	**976**	1,505

Pension liability is shown as part of "Miscellaneous liabilities" within Deferred credits and other liabilities (Note 17).

The movements in plan assets are summarized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**10,710**	10,084	**9,003**	8,543
Contributions	**781**	685	**627**	542
Interest income	**616**	525	**513**	445
Benefit payments	**(1,206)**	(1,051)	**(1,072)**	(840)
Remeasurement - return on plan assets	**(1,050)**	467	**(876)**	443
Transfer to defined contribution plan	**-**	-	**-**	(130)
At December 31	**9,851**	10,710	**8,195**	9,003

The carrying values of the plan assets represent their fair value as at December 31, 2018 and 2017.

The plan assets are comprised of the following:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Debt securities	**3,054**	3,786	**2,540**	3,183
Equity securities	**4,630**	4,763	**3,852**	4,003
Others	**2,167**	2,161	**1,803**	1,817
	9,851	10,710	**8,195**	9,003

The plan assets of the unified retirement plan include investment in BPI's common shares with aggregate fair value of P451 million at December 31, 2018 (2017 - P510 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

The movements in the present value of defined benefit obligation are summarized as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**12,718**	11,952	**10,508**	9,905
Interest cost	**712**	607	**582**	501
Current service cost	**659**	619	**539**	507
Remeasurement - change in assumptions and experience adjustment	**(1,991)**	587	**(1,386)**	561
Benefit payments	**(1,206)**	(1,051)	**(1,072)**	(840)
Transfers to defined contribution plan	**-**	-	**-**	(130)
Other movements	**-**	4	**-**	4
At December 31	**10,892**	12,718	**9,171**	10,508

The BPI Group has no other transactions with the plan other than the regular funding contributions.

(b) Expense recognized in the statements of income

	Consolidated			Parent		
	2018	2017	2016	**2018**	2017	2016
	(In Millions of Pesos)					
Current service cost	**659**	619	649	**539**	507	535
Net interest cost	**96**	82	76	**69**	56	53
Settlement loss	**-**	9	163	**-**	9	123
Past service cost	**-**	(5)	(197)	**-**	(5)	(162)
	755	705	691	**608**	567	549

The principal assumptions used for the actuarial valuations of the unified plan are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
Discount rate	**8.66%**	5.87%	**8.66%**	5.84%
Future salary increases	**5.00%**	5.00%	**5.00%**	5.00%

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the BPI Group to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the BPI Group. However, the BPI Group believes that due to the long-term nature of the pension liability and the strength of the BPI Group itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the BPI Group's long term strategy to manage the plan efficiently.

The BPI Group ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The BPI Group's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustor, as necessary to better ensure the appropriate asset-liability matching.

The BPI Group contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary engaged by management. The expected contributions for the year ending December 31, 2019 for the BPI Group and the Parent Bank amount to P659 million and P539 million, respectively. The weighted average duration of the defined benefit obligation under the BPI unified retirement plan as at December 31, 2018 is 8 years (2017 - 8 years).

The projected maturity analysis of retirement benefit payments as at December 31 are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Up to one year	**1,310**	383	**1,076**	317
More than 1 year to 5 years	**3,632**	4,905	**3,036**	3,863
More than 5 years to 10 years	**7,437**	6,398	**6,388**	5,531
More than 10 years to 15 years	**11,116**	8,844	**9,310**	7,333
More than 15 years to 20 years	**8,014**	7,507	**6,869**	6,189
Over 20 years	**27,103**	16,150	**21,193**	12,326

The sensitivity of the defined benefit obligation as at December 31 to changes in the weighted principal assumptions follows:

Consolidated

2018

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 3.34%	Increase by 3.57%
Salary growth rate	1.0%	Increase by 7.59%	Decrease by 6.73%

2017

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 3.90%	Increase by 4.18%
Salary growth rate	1.0%	Increase by 7.66%	Decrease by 6.81%

Parent

2018

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 3.90%	Increase by 4.17%
Salary growth rate	1.0%	Increase by 8.86%	Decrease by 7.86%

2017

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 3.92%	Increase by 4.21%
Salary growth rate	1.0%	Increase by 7.71%	Decrease by 6.86%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the statements of condition.

b) Defined contribution retirement plan

All non-unionized employees hired on or after the January 1, 2016 are automatically under the new defined contribution plan. Employees hired prior to the effective date shall have the option to elect to become members of the new defined contribution plan.

Under the normal or late retirement, employees are entitled to a benefit equal to the total of the following amounts:

- The higher between (a) cumulative fund balance equivalent to 8% of the basic monthly salary and (b) the minimum legal retirement benefit under the Labor Code
- Employee contributions fund

The defined contribution retirement plan has a defined benefit minimum guarantee equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of Republic Act ("RA") No. 7641.

Accordingly, the liability for the defined benefit minimum guarantee is actuarially calculated similar to the defined benefit plan.

The funding status of the defined contribution plan is shown below:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Fair value of plan assets	**1,254**	916	**930**	707
Present value of defined benefit obligation	**(298)**	(239)	**(219)**	(172)
	956	677	**711**	535
Effect of asset ceiling	**956**	677	**711**	535
	-	-	**-**	-

The movements in the present value of the defined benefit obligation follow:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**239**	235	**172**	192
Interest cost	**15**	12	**10**	10
Current service cost	**48**	43	**31**	29
Benefit payments	**(20)**	3	**(18)**	-
Transfer to the Plan	**-**	-	**-**	(36)
Remeasurement - change in assumptions and experience adjustment	**16**	(54)	**24**	(23)
At December 31	**298**	239	**219**	172

The movements in the fair value of plan assets follow:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
At January 1	**916**	660	**707**	536
Contribution paid by employer	**183**	152	**139**	116
Interest income	**62**	40	**48**	32
Benefit payments	**(20)**	-	**(18)**	-
Transfer to the plan	**-**	-	**54**	(36)
Remeasurement - return on plan assets	**113**	64	**-**	59
At December 31	**1,254**	916	**930**	707

Total retirement expense for the year ended December 31, 2018 under the defined contribution plan for the BPI Group and Parent Bank is P43 million (2017 - P39 million) and P27 million (2017 - P26 million).
The components of plan assets of the defined contributions as at December 31, 2018 are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Debt securities	**966**	707	**716**	545
Equity securities	**213**	155	**214**	120
Others	**75**	54	**-**	42
	1,254	916	**930**	707

The weighted average duration of the defined contribution retirement plan for the BPI Group and Parent Bank is 19 years (2017 - 20 years).

Note 25 - Asset Management Business

At December 31, 2018, the net asset value of trust and fund assets managed by the BPI Group through BPI AMTC amounts to P591 billion (2017 - P591 billion).

As required by the General Banking Act, BPI AMTC has deposited government securities with the BSP valued at P349 million (2017 - P306 million).

Note 26 - Related Party Transactions

In the normal course of business, the Parent Bank transacts with related parties consisting of its subsidiaries and associates. Likewise, the BPI Group has transactions with Ayala Corporation (AC) and subsidiaries (Ayala Group), on an arm's length basis. AC is a significant stockholder of BPI as at reporting date.

The Parent Bank has a Board-level Related Party Transaction Committee that vets and endorses all significant related party transactions, including those involving directors, officers, stockholders and their related interests (DOSRI), for which the latter shall require final Board approval. The Committee consists of three directors, majority of whom are independent directors including the Chairman, and two non-voting members from management, namely, the Chief Audit Executive and the Chief Compliance Officer.

Transactions with related parties have terms and conditions that are generally comparable to those offered to non-related parties or to similar transactions in the market.

A summary of significant related party transactions and outstanding balances as at and for the years ended December 31 is shown below (transactions with subsidiaries have been eliminated in the consolidated financial statements):

Consolidated

	2018		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**(81)**	**53**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 3.87% to 8.25% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	**190**	**387**	
Ayala Group	**5,026**	**32,579**	
Other related parties	**159**	**461**	
	5,294	**33,480**	
Deposits from:			
Subsidiaries	**373**	**8,722**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.31% Savings - 0.62% to 0.68% Time - 2.61% to 4.37%
Associates	**38**	**417**	
Ayala Group	**12,263**	**16,804**	
Key management personnel	**162**	**543**	
	12,836	**26,486**	

	2017		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	59	134	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	152	197	
Ayala Group	(609)	27,553	
Key management personnel	-	-	
Other related parties	(592)	302	
	(990)	28,186	
Deposits from:			
Subsidiaries	1,111	8,349	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.25% Savings - 0.70% to 0.79% Time - 2.15% to 2.22%
Associates	(469)	379	
Ayala Group	(7,665)	4,541	
Key management personnel	(959)	381	
	(7,982)	13,650	

	2016		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	3	75	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.63% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	45	45	
Ayala Group	(1,034)	28,162	
Key management personnel	-	-	
Other related parties	(552)	894	
	(1,538)	29,176	
Deposits from:			
Subsidiaries	146	7,238	These are demand, savings and time deposits bearing the following average interest rates:
Associates	135	848	Demand - 0.23% to 0.27%
Ayala Group	845	12,206	Savings - 0.81%
Key management personnel	(545)	1,340	Time - 2.13% to 2.26%
	581	21,632	

Parent

	2018		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**(81)**	**53**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 3.87% to 8.25% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 15 years. Additional information on DOSRI loans are discussed below.
Associates	**190**	**387**	
Ayala Group	**5,026**	**32,579**	
Key management personnel	**-**	**-**	
Other related parties	**159**	**461**	
	5,294	**33,480**	
Deposits from:			
Subsidiaries	**388**	**8,631**	These are demand, savings and time deposits bearing the following average interest rates:
Associates	**55**	**414**	Demand - 0.21% to 0.30%
Ayala Group	**10,446**	**14,974**	Savings - 0.58% to 0.64%
Key management personnel	**103**	**463**	Time - 2.33 to 4.67%
	10,992	**24,482**	

	2017		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	59	134	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	152	197	
Ayala Group	(609)	27,553	
Key management personnel	-	-	
Other related parties	(592)	302	
	(990)	28,186	
Deposits from:			
Subsidiaries	1,098	8,243	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.24% Savings - 0.66% to 0.75% Time - 1.68% to 1.80%
Associates	(482)	359	
Ayala Group	(7,452)	4,528	
Key management personnel	(772)	360	
	(7,608)	13,490	

	2016		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	3	75	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.63% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	45	45	
Ayala Group	(1,034)	28,162	
Key management personnel	-	-	
Other related parties	(552)	894	
	(1,538)	29,176	
Deposits from:			
Subsidiaries	141	7,145	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.25% Savings - 0.76% to 0.77% Time - 1.43% to 1.48%
Associates	130	841	
Ayala Group	1,231	11,980	
Key management personnel	(641)	1,132	
	861	21,098	

The aggregate amounts included in the determination of income before income tax (prior to elimination) that resulted from transactions with each class of related parties are as follows:

Consolidated

	2018	2017	2016
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**84**	39	43
Associates	**14**	-	-
Ayala Group	**1,346**	966	790
Other related parties	**20**	15	31
	1,464	1,020	864
Other income			
Subsidiaries	**1,801**	1,485	946
Associates	**1,222**	977	885
Ayala Group	**203**	247	66
	3,226	2,709	1,897
Interest expense			
Subsidiaries	**84**	38	41
Associates	**2**	1	8
Ayala Group	**119**	21	74
Key management personnel	**3**	1	15
	208	61	138
Other expenses			
Subsidiaries	**1,698**	1,371	836
Associates	**51**	34	36
Ayala Group	**501**	319	269
	2,250	1,724	1,141
Retirement benefits			
Key management personnel	**47**	44	44
Salaries, allowances and other short-term benefits			
Key management personnel	**800**	744	749
Directors' remuneration	**93**	87	77

Parent

	2018	2017	2016
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**1**	3	2
Associates	**14**	-	-
Ayala Group	**1,346**	966	790
Other related parties	**20**	15	31
	1,381	984	823
Other income			
Subsidiaries	**1,620**	1,433	893
Associates	**1,035**	977	777
Ayala Group	**137**	155	-
	2,792	2,565	1,670
Interest expense			
Subsidiaries	**84**	34	39
Associates	**2**	1	8
Ayala Group	**98**	20	65
Key management personnel	**3**	1	14
	187	56	126
Other expenses			
Subsidiaries	**145**	27	21
Ayala Group	**501**	319	259
	646	346	280
Retirement benefits			
Key management personnel	**40**	37	37
Salaries, allowances and other short-term benefits			
Key management personnel	**697**	629	604
Directors' remuneration	**77**	73	67

Other income mainly consists of rental income and revenue from service arrangements with related parties.

Other expenses mainly consist of rental expenses and management fees.

Details of DOSRI loans are as follows:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
		(In Millions of Pesos)		
Outstanding DOSRI loans	**8,248**	4,376	**8,248**	4,335

	In percentages (%)			
	Consolidated		**Parent**	
	2018	2017	**2018**	2017
% to total outstanding loans and advances	**0.60**	0.36	**0.73**	0.44
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	**21.51**	29.63	**21.51**	29.85
Past due DOSRI loans	**-**	0.03	**-**	0.03
Non-performing DOSRI loans	**-**	0.02	**-**	0.02

The BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans. At December 31, 2018 and 2017.

As at December 31, 2018, allowance for credit losses amounting to P40 million (2017 - P139 million) have been recognized against receivables from related parties.

Note 27 - Critical Accounting Estimates and Judgments

The BPI Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets or liabilities.

A. Critical accounting estimates

(i) Measurement of the expected credit loss for loans and advances under PFRS 9

The measurement of the expected credit loss (ECL) for loans and advances is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Forward-looking scenarios

Three distinct macroeconomic scenarios (baseline, upside and downside) are considered in the BPI Group's estimation of expected credit losses in Stage 1 and Stage 2. These scenarios are based on assumptions supported by economic theories and historical experience. The downside scenario reflects a negative macroeconomic event occurring within the first 12 months, with conditions deteriorating for up to two years, followed by a recovery for the remainder of the period. This scenario is grounded in historical experience and assumes a monetary policy response that returns the economy to a long-run, sustainable growth rate within the forecast period. The probability of each scenario is determined using expert judgment and recession probability tools provided by reputable external service providers. The baseline case incorporates the BPI Group's outlook for the domestic and global economy. The best and worst case scenarios take into account certain adjustments that will lead to a more positive or negative economic outcome.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes is likewise considered, if material.

The most significant period-end assumptions used for the ECL estimate are set out below. The scenarios “base”, “upside” and “downside” were used for all portfolios.

At December 31, 2018

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	7.0	6.4	7.3	7.3	4.1	-1.2
Inflation Rate (%)	4.1	3.2	3.5	2.7	6.1	8.8
PDST-R2 5Y (%)	7.0	6.7	6.7	6.4	8.1	10.7
US Treasury 5Y (%)	3.2	2.4	2.7	2.2	6.0	3.7
Exchange Rate	54.638	57.796	53.620	52.812	55.829	66.661

At January 1, 2018

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	6.5	6.7	7.7	7.9	2.0	-6.4
Inflation Rate (%)	2.8	2.6	2.1	2.0	9.6	23.6
PDST-R2 5Y (%)	5.0	6.7	4.9	6.2	18.5	36.2
US Treasury 5Y (%)	2.7	4.3	2.5	3.8	8.1	8.2
Exchange Rate	53.231	53.861	48.831	48.133	65.470	146.286

Sensitivity analysis

The loan portfolios have different sensitivities to movements in macroeconomic variables, so the above three scenarios have varying impact on the expected credit losses of BPI Group’s portfolios. The allowance for impairment is calculated as the weighted average of expected credit losses under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was an increase in the allowance for impairment by P1,850 million from the baseline scenario as of December 31, 2018.

Transfers between stages

Transfers from Stage 1 and Stage 2 are based on the assessment of significant increase in credit risk (‘SICR’) from initial recognition, as described in Note 31.3.2.2. The impact of moving from 12 months expected credit losses to lifetime expected credit losses, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in expected credit losses. Assuming all Stage 2 accounts are considered as Stage 1, allowance for impairment would have decreased by P1,436 million as at December 31, 2018.

(ii) Impairment of loans and advances under PAS 39

The BPI Group reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, the BPI Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows of individually impaired accounts and the estimated impairment for collectively assessed accounts differs by +/- 5%, impairment provision for the year ended December 31, 2017 would be an estimated P466 million higher or lower.

(iii) Fair value of derivatives and other financial instruments (Notes 7 and 28.4)

The fair values of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, discounted cash flow models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Inputs used in these models are from observable data and quoted market prices in respect of similar financial instruments.

All models are approved by the BOD before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect reported fair value of financial instruments. The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

(iv) Pension liability on defined benefit plan (Note 24)

The BPI Group estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, the discount rate and future salary increases. The BPI Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. The present value of the defined benefit obligations of the BPI Group at December 31, 2018 and 2017 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the BPI Group's assumptions are reflected as remeasurements in other comprehensive income. The BPI Group's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. The sensitivity analysis on key assumptions is disclosed in Note 24.

(v) Useful lives of bank premises, furniture, fixtures and equipment (Note 11)

The BPI Group determines the estimated useful lives of its bank premises, furniture, fixtures and equipment based on the period over which the assets are expected to be available for use. The BPI Group annually reviews the estimated useful lives of bank premises, furniture, fixtures and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the carrying values of bank premises, furniture, fixtures and equipment.

(vi) Impairment of investments subsidiaries and associates (Note 12)

Impairment assessment on investments in subsidiaries (at the Parent Bank's level) and associates (at the BPI Group level) is performed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment loss is recognized whenever the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is computed based on the higher of the asset's fair value less cost to sell or value-in-use. Recoverable amounts are estimated for individual nonfinancial assets or, if it is not possible, for the cash-generating unit to which the nonfinancial asset belongs.

The carrying values of its investments in subsidiaries and associates and the related allowance for impairment losses are disclosed in Note 12.

B. Critical accounting judgments

(i) Classification of investment securities (Note 9)

The BPI Group follows the guidance of PFRS 9 starting January 1, 2018 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. The BPI Group determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The BPI Group determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

Prior to January 1, 2018, the BPI Group followed the guidance of PAS 39 in classifying its financial assets. Key judgment was applied particularly in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity at amortized cost. In making this judgment, the BPI Group has assessed its intention and ability to hold such investments to maturity.

(ii) Realization of deferred income tax assets (Note 13)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax assets will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Note 28 - Financial Risk Management

The BOD carries out its risk management function through the Risk Management Committee (RMC) of the BOD. The RMC is tasked with nurturing a culture of risk management across the enterprise. The RMC sets the risk appetite; proposes and approves risk management policies, frameworks, and guidelines; and regularly reviews risk management structures, metrics, limits, and issues across the BPI Group, in order to meet and comply with regulatory and international standards on risk measurement and management.

At the management level, the Risk Management Office (RMO) is headed by the Chief Risk Officer (CRO). The CRO is ultimately responsible in leading the formulation of risk management policies and methodologies in alignment with the overall business strategy of BPI, ensuring that risks are prudently and rationally undertaken and within its risk appetite, as well as commensurate and disciplined to maximize returns on shareholders' capital. Risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience. BPI's risk managers regularly monitor key risk indicators and report exposures against carefully established financial and business risk metrics and limits approved by the RMC. Finally, independent reviews are regularly conducted by the Internal Audit group and regulatory examiners to ensure that risk controls and mitigants are in place and functioning effectively as intended.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely negative to be avoided. Risk-taking actions present opportunities if risks are fully identified and accounted, deliberately taken, and are kept within prudent and rationalized limits.

The most important financial risks that the BPI Group manages are credit risk, liquidity risk and market risk.

28.1 Credit risk

The BPI Group takes on exposure to credit risk, which is the risk that may arise if a borrower or counterparty fails to meet its obligations in accordance with agreed terms. Credit risk is the single largest risk for the BPI Group's business; management therefore carefully manages its exposure to credit risk as governed by relevant regulatory requirements and international benchmarks.

Credit risk may also arise due to substantial exposures to a particular counterparty which the BPI Group manages by adopting proper risk controls and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The most evident source of credit risk is loans and advances; however, other sources of credit risk exist throughout the activities of the BPI Group, including in credit-related activities recorded in the banking, investment securities in the trading books and off-balance sheet transactions.

28.1.1 Credit risk management

The Credit Policy and Risk Management division supports the Credit Committees in coordination with various business lending and operations units in managing credit risk, and reports are regularly provided to Senior Management and the Board of Directors. A rigorous control framework is applied in the determination of ECL models. The BPI Group has policies and procedures that govern the calculation of ECL. All ECL models are regularly reviewed by the Risk Management Office to ensure that necessary controls are in place and the models are applied accordingly.

The review and validation are performed by groups that are independent of the team that prepares the calculations, e.g., Risk Models Validation and Internal Auditors. Expert judgements on measurement methodologies and assumptions are reviewed by a group of internal experts from various functions.

The BPI Group employs a range of policies and practices to mitigate credit risk. The BPI Group monitors its portfolio based on different segmentation to reflect the acceptable level of diversification and concentration. Credit concentration arises from substantial exposures to particular counterparties. Concentration risk in credit portfolios is inherent in banking and cannot be totally eliminated. However, said risk may be reduced by adopting proper risk control and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The BPI Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when deemed necessary. Limits on large exposures and credit concentration are approved by the BOD through the RMC.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly.

Settlement risk arises in any situation where a payment in cash, securities, foreign exchange currencies, or equities is made in the expectation of a corresponding receipt in cash, securities, foreign exchange currencies, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the BPI Group's market transactions on any single day. For certain securities, the introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

The BPI Group employs a range of policies and practices to mitigate credit risk. Some of these specific control and risk mitigation measures are outlined below:

(a) Collateral or guarantees

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The BPI Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The BPI Group assesses the valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The common collateral types for loans and advances are:

- Mortgages over physical properties (e.g., real estate and personal);
- Mortgages over financial assets (e.g., guarantees); and
- Margin agreement for derivatives, for which the BPI Group has also entered into master netting agreements

In order to minimize credit loss, the BPI Group seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

The BPI Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collaterals held by the BPI Group since the prior period.

(b) Derivatives

The BPI Group maintains market limits on net open derivative positions (i.e., the difference between purchase and sale contracts). Credit risk is limited to the net current fair value of instruments, which in relation to derivatives is only a portion of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments (except where the BPI Group requires margin deposits from counterparties).

(c) Master netting arrangements

The BPI Group further restricts its exposure to credit losses by entering into master netting arrangements with certain counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts (asset position) is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The BPI Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(d) Credit-related commitments

Documentary and commercial letters of credit - which are written undertakings by the BPI Group on behalf of a customer authorizing a third party to draw drafts on the BPI Group up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

28.1.2 Credit risk rating

The BPI Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The BPI Group use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. In addition, the models enable expert judgement from the Credit Review Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The BPI Group has put in place a credit classification system to promptly identify deteriorating exposures and to determine the appropriate credit losses. Classification is being done on the basis of BPI Group's existing internal credit risk rating system, credit models or determined using reputable external rating agencies. The following are the considerations observed by the BPI Group in classifying its exposures:

- *Standard monitoring* refers to accounts which do not have a greater-than-normal risk and do not possess the characteristics of special monitoring and defaulted loans. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.
- *Special monitoring* are accounts which need closer and frequent monitoring to prevent any further deterioration of the credit. The counterparty is assessed to be vulnerable to highly vulnerable and its capacity to meet its financial obligations is dependent upon favorable business, financial, and economic conditions.
- *Default* refers to accounts which exhibit probable to severe weaknesses wherein possibility of non-repayment of loan obligation is ranging from high to extremely high severity.

The mapping of internal credit risk ratings (CRRs) with the BPI Group's standard account classification is shown below:

i. Corporate (including cross-border loans) and SMEs loans

The BPI Group's internal credit risk rating system comprises a 30-scale rating with eighteen (18) 'pass' rating levels for large corporate accounts; 14-scale rating system with ten (10) 'pass' rating grades for SME; and 26-scale rating system with thirteen (13) pass ratings for cross-border accounts mapped based on reputable external rating agency.

The BPI Group uses the following set of classification:

Classifications	Large Corporate loans	Cross-Border Loans	SME Loans
Standard monitoring	AAA to B- or unrated and based on prescribed days past due (dpd) threshold	Investment Grade (IG) or Non-IG with no SICR; or based on prescribed dpd threshold	AAA to B- or unrated and based on prescribed dpd threshold
Special monitoring	CCC to C or based on prescribed dpd threshold	Non-IG with SICR but assessed to be non-impaired; based on prescribed dpd threshold	CCC to C or based on prescribed dpd threshold
Default	Adversely Classified Accounts (ACA) or based on prescribed dpd threshold or Item in Litigation (IL)	Default, with objective evidence of impairment; or based on prescribed dpd threshold	ACA or based on prescribed dpd threshold or IL

ii. Retail loans

The BPI Group uses automated scoring models to assess the level of risk for retail accounts. Behavioral indicators are considered in conjunction with other forward-looking information (e.g., industry forecast) to assess the level of risk of a loan. After the date of initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score which is mapped to a PD.

Classifications	**Credit cards**	**Personal, auto and housing loans**	**SEME**
Standard monitoring	Current to 29 dpd	Current to 30 dpd	Current to 7 dpd
Special monitoring	30 to 89 dpd	31 to 90 dpd	Not applicable
Default	90 dpd and up or IL	>90, IL, Loss	8 dpd and up

iii. Treasury and other investment debt securities

Investments in high grade securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements. The level of credit risk for treasury and other investment debt securities and their associated probability of default (PD) are determined using reputable external ratings and/or available and reliable qualitative and quantitative information. In the absence of credit ratings, a comparable issuer or guarantor rating is used. Should there be a change in the credit rating of the chosen comparable, evaluation is made to ascertain whether the rating change is applicable to the security being assessed for impairment.

Classifications	**Credit Risk Grade following S&P or its equivalent**
Standard monitoring	IG (AAA to BBB-)
Special monitoring	Non-IG (BB+ to C)
Default	Default (D)

iv. Other financial assets at amortized cost

For other financial assets (accounts receivable, accrued interest and fees receivable, sales contract receivable, rental deposits), the BPI Group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss methodology. These financial assets are grouped based on shared risk characteristics and aging profile. For some of these, impairment is assessed individually at a counterparty level.

28.1.3 Maximum exposure to credit risk

Credit risk exposures relating to loans and advances are as follows:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Corporate and SME loans, net	**1,122,610**	986,332	**1,074,782**	938,337
Retail loans, net	**232,286**	216,006	**51,174**	48,532
	1,354,896	1,202,338	**1,125,956**	986,869

The carrying amount of loans and advances above also represents the BPI Group's maximum exposure to credit risk. The following tables contain an analysis of the credit risk exposure of each financial instrument for which an ECL allowance is recognized.

Credit quality of loans and advances, net

Consolidated

Corporate and SME loans

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
	(In Millions of Pesos)				
Credit grade					
Standard monitoring	1,034,673	23,243	-	1,057,916	937,103
Special monitoring	48,392	16,077	-	64,469	52,765
Default	-	-	13,564	13,564	8,877
Gross carrying amount	**1,083,065**	**39,320**	**13,564**	**1,135,949**	998,745
Loss allowance	(5,768)	(1,843)	(5,728)	(13,339)	(12,413)
Carrying amount	**1,077,297**	**37,477**	**7,836**	**1,122,610**	986,332

Retail loans

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
	(In Millions of Pesos)				
Credit grade					
Standard monitoring	217,645	8,531	-	226,176	209,621
Special monitoring	1,002	5,727	-	6,729	6,598
Default	-	-	8,944	8,944	8,037
Gross carrying amount	**218,647**	**14,258**	**8,944**	**241,849**	224,256
Loss allowance	(4,114)	(1,405)	(4,044)	(9,563)	(8,250)
Carrying amount	**214,533**	**12,853**	**4,900**	**232,286**	216,006

Undrawn committed credit facilities

	2018			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	(In Millions of Pesos)			
Credit grade				
Standard monitoring	232,257	74	-	232,331
Special monitoring	3,246	264	-	3,510
Default	-	-	63	63
Gross carrying amount	**235,503**	**338**	**63**	**235,904**
Loss allowance	(710)	(30)	(13)	(753)
Carrying amount	**234,793**	**308**	**50**	**235,151**

Parent

Corporate and SME loans

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	**Total**	**Total**
	(In Millions of Pesos)				
Credit grade					
Standard monitoring	995,540	22,727	-	1,018,267	896,166
Special monitoring	43,147	14,737	-	57,884	46,122
Default	-	-	9,772	9,772	6,538
Gross carrying amount	**1,038,687**	**37,464**	**9,772**	**1,085,923**	948,826
Loss allowance	(5,108)	(1,734)	(4,299)	(11,141)	(10,489)
Carrying amount	**1,033,579**	**35,730**	**5,473**	**1,074,782**	938,337

Retail loans

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	**Total**	**Total**
	(In Millions of Pesos)				
Credit grade					
Standard monitoring	51,886	338	-	52,224	48,223
Special monitoring	203	935	-	1,138	1,089
Default	-	-	2,638	2,638	2,645
Gross carrying amount	**52,089**	**1,273**	**2,638**	**56,000**	51,956
Loss allowance	(1,839)	(482)	(2,505)	(4,826)	(3,424)
Carrying amount	**50,250**	**791**	**133**	**51,174**	48,532

Undrawn committed credit facilities

	2018			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	**Total**
	(In Millions of Pesos)			
Credit grade				
Standard monitoring	229,849	69	-	229,918
Special monitoring	3,242	258	-	3,500
Default	-	-	63	63
Gross carrying amount	**233,091**	**327**	**63**	**233,481**
Loss allowance	(682)	(28)	(13)	(723)
Carrying amount	**232,409**	**299**	**50**	**232,758**

The tables below present the gross amount of loans and advances that were Stage 2 accounts (PFRS 9) and past due but not impaired (PAS 39).

Consolidated

	2018 (PFRS 9)			2017 (PAS 39)		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			In Millions of Pesos)		
Current	35,632	5,697	**41,329**	-	-	-
Past due up to 30 days	175	2,834	**3,009**	645	507	1,152
Past due 31 - 90 days	3,513	5,727	**9,240**	348	1,446	1,794
Past due 91 - 180 days	-	-	**-**	913	7	920
Over 180 days	-	-	**-**	375	-	1,475
	39,320	**14,258**	**53,578**	2,281	1,960	5,341

Parent

	2018 (PFRS 9)			2017 (PAS 39)		
	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			(In Millions of Pesos)		
Current	34,696	241	**34,937**	-	-	-
Past due up to 30 days	47	97	**144**	392	63	455
Past due 31 - 90 days	2,721	935	**3,656**	149	1,006	1,155
Past due 91 - 180 days	-	-	**-**	391	-	391
Over 180 days	-	-	**-**	118	-	118
	37,464	**1,273**	**38,737**	1,050	1,069	2,119

Treasury and other investment securities

Credit risk exposures relating to treasury and other investment securities are as follows:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Due from BSP	**225,907**	255,948	**202,487**	227,122
Due from other banks	**12,477**	14,406	**8,615**	10,894
Interbank loans receivable and SPAR	**34,323**	18,586	**22,659**	10,504
Financial assets at FVTPL	**16,483**	9,983	**10,346**	8,781
Financial assets at FVOCI	**35,531**	-	**29,993**	-
Investment securities at amortized cost	**287,571**	-	**267,497**	-
Available-for-sale - debt securities	**-**	19,218	**-**	9,669
Held-to-maturity securities	**-**	277,472	**-**	255,382
	612,292	595,613	**541,597**	522,352

Credit quality of treasury and other investment securities

Consolidated

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	(In Millions of Pesos)				
Credit grade					
Standard monitoring					
Due from BSP	225,907	-	-	225,907	255,948
Due from other banks	12,480	-	-	12,480	14,406
Interbank loans receivable and SPAR	34,306	-	-	34,306	18,627
Financial assets at FVTPL	16,483	-	-	16,483	9,983
Financial assets at FVOCI	35,531	-	-	35,531	-
Investment securities at amortized cost	287,573	-	-	287,573	-
Available-for-sale - debt securities	-	-	-	-	19,218
Held-to-maturity securities	-	-	-	-	277,472
Default					
Interbank loans receivable and SPAR	-	-	67	67	-
Gross carrying amount	**612,280**	**-**	**67**	**612,347**	595,654
Loss allowance	(5)	-	(50)	(55)	(41)
Carrying amount	**612,275**	**-**	**17**	**612,292**	595,613

Parent

	2018				2017
	ECL Staging				
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	(In Millions of Pesos)				
Credit grade					
Standard monitoring					
Due from BSP	202,487	-	-	202,487	227,122
Due from other banks	8,615	-	-	8,615	10,894
Interbank loans receivable and SPAR	22,642	-	-	22,642	10,545
Financial assets at FVTPL	10,346	-	-	10,346	8,781
Financial assets at FVOCI	29,993	-	-	29,993	-
Investment securities at amortized cost	267,499	-	-	267,499	-
Available-for-sale - debt securities	-	-	-	-	9,669
Held-to-maturity securities	-	-	-	-	255,382
Default					
Interbank loans receivable and SPAR	-	-	67	67	-
Gross carrying amount	**541,582**	**-**	**67**	**541,649**	522,393
Loss allowance	(2)	-	(50)	**(52)**	(41)
Carrying amount	**541,580**	**-**	**17**	**541,597**	522,352

Other financial assets

Other financial assets that are exposed to credit risk are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Other financial assets				
Accounts receivable, net	**1,916**	2,030	**1,315**	4,618
Other accrued interest and fees receivable	**671**	634	**573**	598
Sales contracts receivable, net	**541**	279	**360**	279
Rental deposits	**360**	563	**131**	484
Others, net	**2,179**	1,170	**2,047**	1,172
	5,667	4,676	**4,426**	7,151

The carrying amounts of the above financial assets represent the BPI Group's maximum exposure to credit risk.

The BPI Group's other financial assets (shown under Other assets, net) generally arise from transactions with various unrated counterparties with good credit standing. The BPI Group the applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss methodology for other financial assets.

To measure the expected credit losses, other financial assets 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 receivables over a period of 36 month before December 31, 2018 or January 1, 2018 and corresponding historical credit losses experienced within these periods. The impact of forward-looking variables on macroeconomic factors is considered insignificant in calculating ECL provisions for other financial assets.

Off-balance sheet items

Credit risk exposures relating to off-balance sheet items are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Undrawn loan commitments	**300,721**	160,030	**295,744**	157,338
Unused letters of credit	**22,064**	17,971	**22,064**	17,971
Others	**685**	1,189	**685**	1,189
	323,470	179,190	**318,493**	176,498

28.1.4 Credit impaired loans and advances

The BPI Group closely monitors collaterals held for financial assets considered to be credit-impaired, as it becomes more likely that the BPI Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Consolidated

	2018 (PFRS 9)			2017 (PAS 39)
	Gross exposure	Impairment allowance	Carrying amount	Gross exposure
		(In Millions of Pesos)		
Credit-impaired assets				
Corporate and SME loans	13,564	5,728	7,836	9,191
Retail loans	8,944	4,044	4,900	2,040
Total credit-impaired assets	**22,508**	**9,772**	**12,736**	11,231
Fair value of collateral	**12,611**			6,444

Parent

	2018 (PFRS 9)			2017 (PAS 39)
	Gross exposure	Impairment allowance	Carrying amount	Gross exposure
		(In Millions of Pesos)		
Credit-impaired assets				
Corporate and SME loans	9,772	4,299	5,473	6,630
Retail loans	2,638	2,505	133	1,936
Total credit-impaired assets	**12,410**	**6,804**	**5,606**	8,566
Fair value of collateral	**7,704**			6,252

The BPI Group acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2018, the BPI Group's foreclosed collaterals have carrying amount of P3,363 million (2017 - P3,578 million). The related foreclosed collaterals have aggregate fair value of P9,859 million (2017 - P9,864 million). Foreclosed collaterals include real estate (land, building, and improvements), auto and chattel. Repossessed properties are sold as soon as practicable and are classified as Assets held for sale in the statements of condition.

28.1.5 Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Foreign exchange translations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following tables summarize the changes in the loss allowance for loans and advances between the beginning and the end of the annual period:

Consolidated

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	6,905	1,136	4,372	12,413
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(1,344)	1,661	1,701	2,018
Transfer in (out of) Stage 2	161	(661)	161	(339)
Transfer in (out of) Stage 3	-	-	(3)	(3)
New financial assets originated	3,761	-	-	3,761
Financial assets derecognized during the period	(1,951)	(250)	(515)	(2,716)
Changes in model assumptions	(1,782)	(49)	331	(1,500)
	(1,155)	701	1,675	1,221
Write-offs and other movements	18	6	(319)	(295)
Loss allowance, at December 31, 2018	5,768	1,843	5,728	13,339

Retail loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	3,148	1,188	3,925	8,261
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(686)	983	1,866	2,163
Transfer in (out of) Stage 2	36	(509)	392	(81)
Transfer in (out of) Stage 3	18	42	(337)	(277)
New financial assets originated	861	-	-	861
Financial assets derecognized during the period	(145)	(95)	(661)	(901)
Changes in model assumptions	1,085	(210)	643	1,518
	1,169	211	1,903	3,283
Write-offs and other movements	(203)	6	(1,784)	(1,981)
Loss allowance, at December 31, 2018	4,114	1,405	4,044	9,563

Parent

Corporate and SME loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	6,332	1,029	3,128	10,489
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(1,053)	1,575	1,223	1,745
Transfer in (out of) Stage 2	133	(621)	104	(384)
Transfer in (out of) Stage 3	-	-	-	-
New financial assets originated	3,286	-	-	3,286
Financial assets derecognized during the period	(1,824)	(213)	(311)	(2,348)
Changes in models assumptions	(1,783)	(42)	388	(1,437)
	(1,241)	699	1,404	862
Write-offs and other movements	17	6	(233)	(210)
Loss allowance, at December 31, 2018	5,108	1,734	4,299	11,141

Retail loans	**Stage 1** **12-month ECL**	**Stage 2** **Lifetime ECL**	**Stage 3** **Lifetime ECL**	**Total**
		(In Millions of Pesos)		
Loss allowance, at January 1, 2018	929	205	2,290	3,424
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(309)	413	1,255	1,359
Transfer in (out of) Stage 2	16	(119)	194	91
Transfer in (out of) Stage 3	1	1	(22)	(20)
New financial assets originated	137	-	-	137
Financial assets derecognized during the period	(41)	(20)	(496)	(557)
Changes in models assumptions	1,106	2	686	1,794
	910	277	1,617	2,804
Write-offs and other movements	-	-	(1,402)	(1,402)
Loss allowance, at December 31, 2018	1,839	482	2,505	4,826

In 2018, the BPI Group's corporate loan portfolio expanded by 15% consistent with its organic loan growth strategy resulting to an increase in loss allowance.

The reconciliation of allowance for impairment by class at December 31, 2017 follows:

	Consolidated			Parent		
PAS 39	Corporate and SME loans	Retail loans	Total	Corporate and SME loans	Retail loans	Total
	(In Millions of Pesos)			In Millions of Pesos)		
At January 1	10,968	7,708	18,676	8,890	2,838	11,728
Provision for (reversal of) impairment losses	1,765	2,552	4,317	1,896	1,984	3,880
Write-off and other movements	(320)	(2,010)	(2,330)	(297)	(1,398)	(1,695)
	12,413	8,250	20,663	10,489	3,424	13,913

No movement analysis of allowance for impairment for treasury and other investment debt securities and other financial assets subject to impairment as the related loss allowance is deemed insignificant for financial reporting purposes.

Write-off policy

The BPI Group writes off financial assets when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the BPI Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The BPI Group may write-off financial assets that are still subject to enforcement activity. The write-off of loans is approved by the BOD in compliance with the BSP requirements. Loans written-off in 2018 are fully covered with allowance.

28.1.6 Concentrations of risks of financial assets with credit risk exposure

The BPI Group's main credit exposure at their carrying amounts, as categorized by industry sectors follow:

Consolidated

PFRS 9	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	225,907	-	-	-	-	-	**225,907**
Due from other banks	12,480	-	-	-	-	(3)	**12,477**
Interbank loans receivable and SPAR	34,373	-	-	-	-	(50)	**34,323**
Financial assets at FVTPL	4,682	99	3	3	11,696	-	**16,483**
Financial assets at FVOCI	2,411	-	52	-	33,068	-	**35,531**
Investment securities at amortized cost, net	65,164	680	4,714	1,777	215,238	(2)	**287,571**
Loans and advances, net	85,441	110,627	226,604	317,595	637,531	(22,902)	**1,354,896**
Other financial assets	-	-	-	-	6,225	(558)	**5,667**
At December 31, 2018	**430,458**	**111,406**	**231,373**	**319,375**	**903,758**	**(23,515)**	**1,972,855**

PAS 39	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	255,948	-	-	-	-	-	255,948
Due from other banks	14,406	-	-	-	-	-	14,406
Interbank loans receivable and SPAR	18,586	-	-	-	-	-	18,586
Financial assets at FVTPL							
Derivative financial assets	4,786	10	155	-	24	-	4,975
Trading securities - debt securities	-	-	1	28	4,973		5,002
Available-for-sale securities	4,672	-	90	103	14,353	-	19,218
Held-to-maturity securities	52,583	704	3,911	1,657	218,617	-	277,472
Loans and advances, net	92,472	107,355	198,550	276,262	548,362	(20,663)	1,202,338
Other financial assets	-	-	-	-	5,233	(557)	4,676
At December 31, 2017	443,453	108,069	202,707	278,050	791,562	(21,220)	1,802,621

Parent

PFRS 9	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	202,487	-	-	-	-	-	**202,487**
Due from other banks	8,615	-	-	-	-	-	**8,615**
Interbank loans receivable and SPAR	22,709	-	-	-	-	(50)	**22,659**
Financial assets at FVTPL	4,679	99	2	-	5,566	-	**10,346**
Financial assets at FVOCI	1,952	-	52	-	27,989	-	**29,993**
Investment securities at amortized cost, net	63,541	-	4,487	1,777	197,694	(2)	**267,497**
Loans and advances, net	83,098	57,991	219,927	182,685	598,222	(15,967)	**1,125,956**
Other financial assets	-	-	-	-	4,816	(390)	**4,426**
At December 31, 2018	**387,081**	**58,090**	**224,468**	**184,462**	**834,287**	**(16,409)**	**1,671,979**

PAS 39	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	227,122	-	-	-	-	-	227,122
Due from other banks	10,894	-	-	-	-	-	10,894
Interbank loans receivable and SPAR	10,504	-	-	-	-	-	10,504
Financial assets at FVTPL							
Derivative financial assets	4,786	10	155	-	24	-	4,975
Trading securities - debt securities	-	-	-	-	3,806	-	3,806
Available-for-sale securities	4,157	-	50	-	5,462	-	9,669
Held-to-maturity securities	50,717	-	3,838	1,657	199,170	-	255,382
Loans and advances, net	91,123	52,184	194,294	154,682	508,499	(13,913)	986,869
Other financial assets	-	-	-	-	7,563	(412)	7,151
At December 31, 2017	399,303	52,194	198,337	156,339	724,524	(14,325)	1,516,372

Financial assets at FVTPL, financial assets at FVOCI (2017 - available-for-sale) and investments securities at amortized cost (2017 - held-to-maturity securities) under "Others" category include local and US treasury bills. Likewise, Loans and advances under the same category pertain to loans granted to borrowers belonging to various industry sectors.

28.2 Market risk

The BPI Group is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is managed by the RMO guided by policies and procedures approved by the RMC and confirmed by the Executive Committee/BOD.

Market risk management

Market risk management is incumbent on the BOD through the RMC. Market risk management in BPI covers managing exposures to trading risk, foreign exchange risk, counterparty credit risk, interest rate risk of the banking book and liquidity risk. At the management level, the BPI Group's market risk exposures are managed by the RMO, headed by the Parent Bank's CRO who reports directly to the RMC. In addition, the Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

The BPI Group reviews and controls market risk exposures of both its trading and non-trading portfolios. Trading portfolios include those positions arising from the BPI Group's market-making transactions. Non-trading portfolios primarily arise from the interest rate management of the BPI Group's retail and commercial banking assets and liabilities.

The BPI Group has exposures in interest rate swaps, currency swaps and structured notes as part of its trading and position taking activities. Derivatives while used to hedge open exposures to mitigate price risk inherent in the BPI Group's portfolios do not qualify as accounting hedges.

Value-at-Risk (VaR) measurement is an integral part of the BPI Group's market risk control system. This metric estimates, at 99% confidence level, the maximum loss that a trading portfolio may incur over a trading day. This metric indicates as well that there is 1% statistical probability that the trading portfolios' actual loss would be greater than the computed VaR. In order to ensure model soundness, the VaR is periodically subject to model validation and back testing. VaR is supplemented by other risk metrics and measurements that would provide preliminary signals to Treasury and to the management to assess the vulnerability of Bank's positions. To control the risk, the RMC sets risk limits for trading portfolios which are consistent with the BPI Group's goals, objectives, risk appetite, and strategies.

Stress tests indicate the potential losses that could arise in extreme conditions that would have detrimental effect to the Bank's positions. The Bank periodically performs stress testing (price risk and liquidity risk) to assess the Bank's condition on assumed stress scenarios. Contingency plans are frequently reviewed to ensure the Bank's preparedness in the event of real stress. Results of stress tests are reviewed by Senior Management and by the RMC.

The average daily VaR for the trading portfolios are as follows:

	Consolidated		**Parent**	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Local fixed-income	**33**	48	**25**	38
Foreign fixed-income	**168**	47	**154**	37
Foreign exchange	**44**	51	**9**	11
Derivatives	**95**	67	**95**	67
Equity securities	**28**	14	**-**	-
Mutual fund	**7**	3	**-**	-
	375	230	**283**	153

28.2.1 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in foreign exchange rates. It arises on financial instruments that are denominated in a foreign currency.

As at reporting date, the BPI Group is mainly exposed to movements of US Dollar (USD) against the Philippine Peso.

The table below summarizes the BPI Group's exposure to foreign currency exchange rate risk at December 31.

Consolidated

	2018 (PFRS 9)			2017 (PAS 39)		
	USD	Others*	Total	USD	Others*	Total
			(In Millions of Pesos)			
As at December 31, 2018						
Financial Assets						
Cash and other cash items	2,742	752	**3,494**	2,328	304	2,632
Due from other banks	6,749	2,620	**9,369**	9,620	2,496	12,116
Interbank loans receivable and SPAR	6,639	146	**6,785**	10,047	175	10,222
Financial assets at FVTPL	8,491	119	**8,610**	2,687	383	3,070
Financial assets at FVOCI - debt securities	25,385	172	**25,557**	-	-	-
Investment securities at amortized cost	127,260	1,507	**128,767**	-	-	-
Available-for-sale - debt securities	-	-	**-**	7,933	827	8,760
Held-to-maturity securities	-	-	**-**	109,117	1,702	110,819
Loans and advances, net	145,995	4,970	**150,965**	136,100	4,431	140,531
Others financial assets	1,230	106	**1,336**	504	105	609
Total financial assets	**324,491**	**10,392**	**334,883**	278,336	10,423	288,759
Financial Liabilities						
Deposit liabilities	241,547	6,692	**248,239**	238,610	6,892	245,502
Derivative financial liabilities	1,967	118	**2,085**	1,429	285	1,714
Bills payable	82,692	458	**83,150**	46,820	585	47,405
Due to BSP and other banks	1,250	-	**1,250**	578	-	578
Manager's checks and demand drafts outstanding	87	61	**148**	469	5	474
Other financial liabilities Accounts payable	119	3	**122**	201	1	202
Total financial liabilities	**327,662**	**7,332**	**334,994**	288,107	7,768	295,875
Net on-balance sheet position	**(3,171)**	**3,060**	**(111)**	(9,771)	2,655	(7,116)

"Others" category includes financial instruments denominated in JPY, EUR and GBP.

Parent

	2018 (PFRS 9)			2017 (PAS 39)		
	USD	Others*	Total	USD	Others*	Total
			(In Millions of Pesos)			
As at December 31, 2018						
Financial Assets						
Cash and other cash items	2,552	751	**3,303**	2,128	299	2,427
Due from other banks	4,874	2,269	**7,143**	7,238	-	7,238
Interbank loans receivable and SPAR	5,260	-	**5,260**	8,240	-	8,240
Financial assets at FVTPL	5,144	119	**5,263**	2,687	383	3,070
Financial assets at FVOCI - debt securities	25,132	172	**25,304**	-	-	-
Investment securities at amortized cost	117,143	220	**117,363**	-	-	-
Available-for-sale - debt securities	-	-	**-**	5,250	827	6,077
Held-to-maturity securities	-	-	**-**	99,360	412	99,772
Loans and advances, net	144,486	4,787	**149,273**	134,977	3,841	138,818
Others financial assets	1,220	90	**1,310**	491	79	570
Total financial assets	**305,811**	**8,408**	**314,219**	260,371	5,841	266,212
Financial Liabilities						
Deposit liabilities	227,621	6,442	**234,063**	225,244	6,637	231,881
Derivative financial liabilities	1,967	115	**2,082**	1,429	285	1,714
Bills payable	79,178	-	**79,178**	43,562	-	43,562
Due to BSP and other banks	1,250	-	**1,250**	578	-	578
Manager's checks and demand drafts outstanding	81	61	**142**	461	5	466
Other financial liabilities	20,947	1,500	**22,447**			
Accounts payable	117	2	**119**	198	1	199
Total financial liabilities	**331,161**	**8,120**	**339,281**	271,472	6,928	278,400
Net on-balance sheet position	**(25,350)**	**288**	**(25,062)**	(11,101)	(1,087)	(12,188)

"Others" category includes financial instruments denominated in JPY, EUR and GBP.

Presented below is a sensitivity analysis demonstrating the impact on pre-tax income of reasonably possible change in the exchange rate between US Dollar and Philippine Peso. The fluctuation rate is based on the historical movement of US Dollar year on year.

		Effect on pre-tax income (in millions of pesos)	
Year	Change in currency	Consolidated	Parent
2018	**+/- 1.92%**	**-/+ 71**	**-/+ 95**
2017	+/- 1.17%	-/+ 114	-/+ 130

28.2.2 Interest rate risk

Interest rate risk is the risk that cash flows or fair value of a financial instruments will fluctuate due to movements in market interest rates. Interest rate risk in the banking book arises from the BPI Group's core banking activities. The BPI Group is subject to re-pricing risk arising from financial assets and liabilities that have different maturities and are re-priced taking into account the prevailing market interest rates.

The BPI Group employs two methods to measure the potential impact of interest rate risk in Group's financial positions - (i) one that focuses on the economic value of the banking book, and (ii) one that focuses on net interest earnings. The RMC sets limits on the two interest rate risk metrics which are monitored monthly by the Market Risk Division of the RMO.

Balance Sheet Value-at-Risk (BSVaR)

The BSVaR is a metric to measure the impact of interest rate movements on the economic value of banking book. The BSVaR is founded on re-pricing gaps, or the difference between the amounts of rate-sensitive financial assets and liabilities. The BSVaR, therefore, estimates the "riskiness of the balance sheet" and compares the degree of risk taking activity in the banking books from one period to the next. The BSVaR assumes a static balance sheet, i.e., there will be no new transactions moving forward and no portfolio rebalancing will be undertaken in response to future changes in market rates. In consideration of the static framework and the fact that incomes from the banking book is accrued rather than generated from marking-to-market, the probable loss that is estimated by the BSVaR is not realized in accounting income.

Prescribed limits for the BPI Group and each legal entity are based on estimated equity duration, assumed movement of market rates (in basis points) and estimated equity value. As at December 31, the average BSVaR, computed on a monthly basis, for the banking or non-trading book are as follows:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
BSVaR	**15,507**	10,586	**13,483**	9,310

Earnings-at-Risk (EaR)

The EaR is a metric that measures the potential deterioration in the BPI Group's net interest income due to changes in interest rates. The BPI Group's earnings are affected when movements in borrowing and lending rates are not perfectly synchronized, which create a gap due to such mismatch. Based on the banking book positions as at particular valuation dates, the BPI Group projects interest inflows from its financial assets, and interest outflows on its financial liabilities, in the next 12 months. Net interest income - the difference between interest receipts and payments - is projected in this exercise. On a group level, the BPI Group is positively gapped hence increase in rates becomes beneficial to the BPI Group. As of December 31, 2018, the net interest income impact of movement in interest rates amounts to P806 million (2017 - P406 million).

The table below summarizes the BPI Group's exposure to interest rate risk, categorized by the earlier of contractual repricing or maturity dates.

Consolidated

PFRS 9	Repricing: Up to 1 year	Repricing: Over 1 up to 3 years	Repricing: Over 3 years	Non-repricing	Total
	(In Millions of Pesos)				
As at December 31, 2018					
Financial Assets					
Cash and other cash items	-	-	-	43,536	**43,536**
Due from BSP	-	-	-	225,907	**225,907**
Due from other banks	-	-	-	12,477	**12,477**
Interbank loans receivable and SPAR	-	-	-	34,323	**34,323**
Financial assets at FVTPL	70	1,172	1,125	14,116	**16,483**
Financial assets at FVOCI	-	-	-	35,531	**35,531**
Investment securities at amortized cost	-	1	-	287,570	**287,571**
Loans and advances, net	828,847	130,082	270,105	125,862	**1,354,896**
Other financial assets	-	-	-	5,667	**5,667**
Total financial assets	**828,917**	**131,255**	**271,230**	**784,989**	**2,016,391**
Financial Liabilities					
Deposit liabilities	602,032	831,505	152,209	-	**1,585,746**
Derivative financial liabilities	43	1,204	1,279	1,365	**3,891**
Bills payable and other borrowed funds	20,915	10,516	-	135,470	**166,901**
Due to BSP and other banks	-	-	-	3,988	**3,988**
Manager's checks and demand drafts outstanding	-	-	-	6,931	**6,931**
Other financial liabilities	-	-	-	19,313	**19,313**
Total financial liabilities	**622,990**	**843,225**	**153,488**	**167,067**	**1,786,770**
Total interest gap	**205,927**	**(711,970)**	**117,742**	**617,922**	**229,661**

PAS 39	Repricing Up to 1 year	Repricing Over 1 up to 3 years	Repricing Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2017					
Financial Assets					
Cash and other cash items	-	-	-	35,132	35,132
Due from BSP	-	-	-	255,948	255,948
Due from other banks	-	-	-	14,406	14,406
Interbank loans receivable and SPAR	-	-	-	18,586	18,586
Financial assets at FVTPL					
Derivative financial assets	73	327	1,110	3,465	4,975
Trading securities - debt securities	-	-	-	5,002	5,002
Available-for-sale - debt securities	1,991	245	-	16,982	19,218
Held-to-maturity securities	-	1	-	277,471	277,472
Loans and advances, net	744,317	79,649	267,120	111,252	1,202,338
Other financial assets	-	-	-	4,676	4,676
Total financial assets	746,381	80,222	268,230	742,920	1,837,753
Financial Liabilities					
Deposit liabilities	818,811	556,700	186,689	-	1,562,200
Derivative financial liabilities	46	263	1,072	3,407	4,788
Bills payable	-	19,846	-	63,671	83,517
Due to BSP and other banks	-	-	-	1,218	1,218
Manager's checks and demand drafts outstanding	-	-	-	7,022	7,022
Other financial liabilities	-	-	-	15,461	15,461
Total financial liabilities	818,857	576,809	187,761	90,779	1,674,206
Total interest gap	(72,476)	(496,587)	80,469	652,141	163,547

Parent

PFRS 9	Repricing: Up to 1 year	Repricing: Over 1 up to 3 years	Repricing: Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2018					
Financial Assets					
Cash and other cash items	-	-	-	42,419	**42,419**
Due from BSP	-	-	-	202,487	**202,487**
Due from other banks	-	-	-	8,615	**8,615**
Interbank loans receivable and SPAR	-	-	-	22,659	**22,659**
Financial assets at FVTPL	70	1,172	1,125	7,979	**10,346**
Financial assets at FVOCI	-	-	-	29,993	**29,993**
Investment securities at amortized cost	-	1	-	267,496	**267,497**
Loans and advances, net	757,320	81,133	224,477	63,026	**1,125,956**
Other financial assets	-	-	-	4,426	**4,426**
Total financial assets	**757,390**	**82,306**	**225,602**	**649,100**	**1,714,398**
Financial Liabilities					
Deposit liabilities	534,119	708,636	104,452	-	**1,347,207**
Derivative financial liabilities	43	1,204	1,279	1,362	**3,888**
Bills payable and other borrowed funds	20,915	10,516	-	119,449	**150,880**
Due to BSP and other banks	-	-	-	3,988	**3,988**
Manager's checks and demand drafts outstanding	-	-	-	5,354	**5,354**
Other financial liabilities	-	-	-	13,408	**13,408**
Total financial liabilities	**555,077**	**720,356**	**105,731**	**143,561**	**1,524,725**
Total interest gap	**202,313**	**(638,050)**	**119,871**	**505,539**	**189,673**

PAS 39	Repricing Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2017					
Financial Assets					
Cash and other cash items	-	-	-	34,160	34,160
Due from BSP	-	-	-	227,122	227,122
Due from other banks	-	-	-	10,894	10,894
Interbank loans receivable and SPAR	-	-	-	10,504	10,504
Financial assets at FVTPL					
Derivative financial assets	73	327	1,110	3,465	4,975
Trading securities - debt securities	-	-	-	3,806	3,806
Available-for-sale - debt securities	1,991	245	-	7,433	9,669
Held-to-maturity securities	-	1	-	255,381	255,382
Loans and advances, net	679,036	37,490	216,993	53,350	986,869
Other financial assets	-	-	-	7,151	7,151
Total financial assets	681,100	38,063	218,103	613,266	1,550,532
Financial Liabilities					
Deposit liabilities	726,560	494,304	103,099	-	1,323,963
Derivative financial liabilities	46	263	1,072	3,407	4,788
Bills payable	-	19,846	-	50,876	70,722
Due to BSP and other banks	-	-	-	1,218	1,218
Manager's checks and demand drafts outstanding	-	-	-	5,762	5,762
Other financial liabilities	-	-	-	11,118	11,118
Total financial liabilities	726,606	514,413	104,171	72,381	1,417,571
Total interest gap	(45,506)	(476,350)	113,932	540,885	132,961

28.3 Liquidity risk

Liquidity risk is the risk that the BPI Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The BPI Group's liquidity profile is observed and monitored through its metric, the Minimum Cumulative Liquidity Gap (MCLG). The MCLG is the smallest net cumulative cash inflow (if positive) or the largest net cumulative cash outflow (if negative) over the next three (3) months. The MCLG indicates the biggest funding requirement in the short term and the degree of liquidity risk present in the current cash flow profile of the BPI Group. A red flag is immediately raised and reported to management and the RMC when the MCLG level projected over the next 3 months is about to breach the RMC-prescribed MCLG limit.

28.3.1 Liquidity risk management process

The BPI Group's liquidity management process, as carried out within the BPI Group and monitored by the RMC includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or as borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity gaps against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Performing periodic liquidity stress testing on the BPI Group's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities (Notes 28.3.3 and 28.3.4) and the expected collection date of the financial assets.

The BPI Group also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit.

28.3.2 Funding approach

Sources of liquidity are regularly reviewed by the BPI Group to maintain a wide diversification by currency, geography, counterparty, product and term.

28.3.3 Non-derivative cash flows

The tables below present the maturity profile of non-derivative financial instruments based on undiscounted cash flows, including interest, which the BPI Group uses to manage the inherent liquidity risk. The maturity analysis is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized or the financial liability will be settled.

Consolidated

PFRS 9	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2018				
Financial Assets				
Cash and other cash items	43,536	-	-	**43,536**
Due from BSP	225,923	-	-	**225,923**
Due from other banks	12,477	-	-	**12,477**
Interbank loans receivable and SPAR	35,028	12	135	**35,175**
Financial assets at FVTPL	8,740	1,231	4,170	**14,141**
Financial assets at FVOCI	29,154	1,601	7,730	**38,485**
Investment securities at amortized cost	42,442	59,550	251,643	**353,635**
Loans and advances, net	580,825	205,331	604,684	**1,390,840**
Other financial assets	5,667	-	-	**5,667**
Total financial assets	**983,792**	**267,725**	**868,362**	**2,119,879**
Financial Liabilities				
Deposit liabilities	923,895	878,739	195,585	**1,998,219**
Bills payable and other borrowed funds	97,507	77,117	475	**175,099**
Due to BSP and other banks	3,988	-	-	**3,988**
Manager's checks and demand drafts outstanding	6,931	-	-	**6,931**
Other financial liabilities	19,313	-	-	**19,313**
Total financial liabilities	**1,051,634**	**955,856**	**196,060**	**2,203,550**
Total maturity gap	**(67,842)**	**(688,131)**	**672,302**	**(83,671)**

PAS 39	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2017				
Financial Assets				
Cash and other cash items	35,132	-	-	35,132
Due from BSP	255,965	-	-	255,965
Due from other banks	14,406	-	-	14,406
Interbank loans receivable and SPAR	19,457	217	306	19,980
Financial assets at FVTPL				
Trading securities - debt securities	1,959	601	3,140	5,700
Available-for-sale - debt securities	10,489	2,931	7,734	21,154
Held-to-maturity securities	29,157	58,551	260,276	347,984
Loans and advances, net	661,461	179,426	532,172	1,373,059
Other financial assets	4,676	-	-	4,676
Total financial assets	1,032,702	241,726	803,628	2,078,056
Financial Liabilities				
Deposit liabilities	714,564	733,100	142,546	1,590,210
Bills payable	64,511	20,207	-	84,718
Due to BSP and other banks	1,218	-	-	1,218
Manager's checks and demand drafts outstanding	7,022	-	-	7,022
Other financial liabilities	15,461	-	-	15,461
Total financial liabilities	802,776	753,307	142,546	1,698,629
Total maturity gap	229,926	(511,581)	661,082	379,427

Parent

PFRS 9	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2018				
Financial Assets				
Cash and other cash items	42,419	-	-	**42,419**
Due from BSP	202,487	-	-	**202,487**
Due from other banks	8,615	-	-	**8,615**
Interbank loans receivable and SPAR	22,705	12	135	**22,852**
Financial assets at FVTPL	2,530	1,229	4,169	**7,928**
Financial assets at FVOCI	23,926	1,392	7,390	**32,708**
Investment securities at amortized cost	39,473	50,821	239,775	**330,069**
Loans and advances, net	520,744	145,807	479,908	**1,146,459**
Other financial assets, net	4,426	-	-	**4,426**
Total financial assets	**867,325**	**199,261**	**731,377**	**1,797,963**
Financial Liabilities				
Deposit liabilities	814,358	726,595	116,373	**1,657,326**
Bills payable and other borrowed funds	85,037	76,747	-	**161,784**
Due to BSP and other banks	3,988	-	-	**3,988**
Manager's checks and demand drafts outstanding	5,354	-	-	**5,354**
Other financial liabilities	13,408	-	-	**13,408**
Total financial liabilities	**922,145**	**803,342**	**116,373**	**1,841,860**
Total maturity gap	**(54,820)**	**(604,081)**	**615,004**	**(43,897)**

PAS 39	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2017				
Financial Assets				
Cash and other cash items	34,160	-	-	34,160
Due from BSP	227,122	-	-	227,122
Due from other banks	10,894	-	-	10,894
Interbank loans receivable and SPAR	10,140	217	306	10,663
Financial assets at FVTPL				
Trading securities - debt securities	1,697	197	2,449	4,343
Available-for-sale - debt securities	2,344	2,400	6,538	11,282
Held-to-maturity securities	26,387	52,523	242,121	321,031
Loans and advances, net	604,818	129,349	415,758	1,149,925
Other financial assets, net	7,151	-	-	7,151
Total financial assets	924,713	184,686	667,172	1,776,571
Financial Liabilities				
Deposit liabilities	607,581	626,359	105,246	1,339,186
Bills payable	51,553	20,207	-	71,760
Due to BSP and other banks	1,218	-	-	1,218
Manager’s checks and demand drafts outstanding	5,762	-	-	5,762
Other financial liabilities	11,118	-	-	11,118
Total financial liabilities	677,232	646,566	105,246	1,429,044
Total maturity gap	247,481	(461,880)	561,926	347,527

28.3.4 Derivative cash flows

(a) Derivatives settled on a net basis

The BPI Group’s derivatives that are settled on a net basis consist of interest rate swaps, non-deliverable forwards and non-deliverable swaps. The table below presents the contractual undiscounted cash flows of interest rate swaps based on the remaining period from December 31 to the contractual maturity dates that are subject to offsetting, enforceable master netting arrangements and similar agreements.

Consolidated and Parent

PFRS 9	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2018		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	99	1,285	1,317	**2,701**
- Outflow	(59)	(1,296)	(1,485)	**(2,840)**
- Net inflow	**40**	**(11)**	**(168)**	**(139)**
Non-deliverable forwards and swaps - held for trading				
- Inflow	36,071	2,103	3,680	**41,854**
- Outflow	(35,972)	(2,120)	(3,680)	**(41,772)**
- Net outflow	**99**	**(17)**	**-**	**82**

PAS 39	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2017		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	73	319	1,114	1,506
- Outflow	(46)	(245)	(1,090)	(1,381)
- Net inflow	27	74	24	125
Non-deliverable forwards and swaps - held for trading				
- Inflow	30,387	-	-	30,387
- Outflow	(30,661)	-	-	(30,661)
- Net outflow	(274)	-	-	(274)

(b) Derivatives settled on a gross basis

The BPI Group's derivatives that are settled on a gross basis include foreign exchange derivatives mainly currency forwards and currency swaps. The table below presents the contractual undiscounted cash flows of foreign exchange derivatives based on the remaining period from reporting date to the contractual maturity dates.

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
Foreign exchange derivatives - held for trading				
2018 (PFRS 9)				
- Inflow	127,002	4,184	-	**131,186**
- Outflow	(127,082)	(4,136)	-	**(131,218)**
- **Net inflow (outflow)**	**(80)**	**48**	**-**	**(32)**
2017 (PAS 39)				
- Inflow	178,511	99	-	178,610
- Outflow	(178,183)	(100)	-	(178,283)
- Net inflow (outflow)	328	(1)	-	327

28.4 Fair value of financial assets and liabilities

The following tables present the carrying value and fair value hierarchy of the BPI Group's assets and liabilities at December 31:

Consolidated

2018 (PFRS 9)	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,033	-	4,033	**4,033**
Trading assets				
- Debt securities	12,450	11,656	794	**12,450**
- Equity securities	238	238	-	**238**
Financial assets at FVOCI				**-**
- Debt securities	35,531	35,089	442	**35,531**
- Equity securities	1,675	1,129	546	**1,675**
	53,927	48,112	5,815	**53,927**
Financial liabilities				
Derivative financial liabilities	3,891	-	3,891	**3,891**
Non-recurring measurements				
Assets held for sale, net	3,363	-	9,859	**9,859**

2018 (PFRS 9)	Carrying Amount	Fair value Level 1	Level 2	Total
Fair values disclosed			(In Millions of Pesos)	
Financial assets				
Cash and other cash items	43,536	-	43,536	**43,536**
Due from BSP	225,907	-	225,907	**225,907**
Due from other banks	12,477	-	12,480	**12,480**
Interbank loans receivable and SPAR	34,323	-	34,373	**34,373**
Investment securities at amortized cost	287,571	254,850	3,802	**258,652**
Loans and advances, net	1,354,896	-	1,362,803	**1,362,803**
Other financial assets	5,667	-	5,667	**5,667**
Financial liabilities				
Deposit liabilities	1,585,746	-	1,585,746	**1,585,746**
Bills payable and other borrowed funds	166,901	-	163,545	**163,545**
Due to BSP and other banks	3,988	-	3,988	**3,988**
Manager's checks and demand drafts outstanding	6,931	-	6,931	**6,931**
Other financial liabilities	19,313	-	-	**19,313**
Non-financial assets				
Investment properties	129	-	1,786	**1,786**

2017 (PAS 39)	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements			(In Millions of Pesos)	
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,975	-	4,975	4,975
Trading securities				
- Debt securities	5,002	4,973	29	5,002
- Equity securities	330	330	-	330
Available-for-sale securities				
- Debt securities	19,218	16,981	2,237	19,218
- Equity securities	4,095	3,755	661	4,416
	33,620	26,039	7,908	33,941
Financial liabilities				
Derivative financial liabilities	4,788	-	4,788	4,788

Non-recurring measurements				
Assets held for sale, net	3,578	-	9,864	9,864

2017 (PAS 39)	Carrying Amount	Fair value Level 1	Level 2	Total
Fair values disclosed			(In Millions of Pesos)	
Financial assets				
Cash and other cash items	35,132	-	35,132	35,132
Due from BSP	255,948	-	255,948	255,948
Due from other banks	14,406	-	14,406	14,406
Interbank loans receivable and SPAR	18,586	-	18,586	18,586
Investment securities at amortized cost	277,472	264,379	3,922	268,301
Loans and advances, net	1,202,338	-	1,250,321	1,250,321
Other financial assets	4,676	-	4,676	4,676
Financial liabilities				
Deposit liabilities	1,562,200	-	1,562,200	1,562,200
Bills payable	83,517	-	83,154	83,154
Due to BSP and other banks	1,218	-	1,218	1,218
Manager's checks and demand drafts outstanding	7,022	-	7,022	7,022
Other financial liabilities	15,461	-	15,461	15,461
Non-financial assets				
Investment properties	135	-	1,281	1,281

Parent

2018	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements		(In Millions of Pesos)		
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,031	-	4,031	**4,031**
Trading securities - debt securities	6,315	5,528	787	**6,315**
Financial assets at FVOCI				
- Debt securities	29,993	29,838	155	**29,993**
- Equity securities	590	406	184	**590**
	40,929	35,772	5,157	**40,929**
Financial liabilities				
Derivative financial liabilities	3,888	-	3,888	**3,888**

Non-recurring measurements				
Assets held for sale, net	455	-	3,496	**3,496**

2018	Carrying Amount	Fair value Level 1	Level 2	Total
Fair values disclosed		(In Millions of Pesos)		
Financial assets				
Cash and other cash items	42,419	-	42,419	**42,419**
Due from BSP	202,487	-	202,487	**202,487**
Due from other banks	8,615	-	8,615	**8,615**
Interbank loans receivable and SPAR	22,659	-	22,709	**22,709**
Investment securities at amortized cost	267,497	236,113	3,775	**239,888**
Loans and advances, net	1,125,956	-	1,144,903	**1,144,903**
Other financial assets	4,426	-	4,426	**4,426**
Financial liabilities				
Deposit liabilities	1,347,207	-	1,347,207	**1,347,207**
Bills payable and other borrowed funds	150,880	-	150,533	**150,533**
Due to BSP and other banks	3,988	-	3,988	**3,988**
Manager's checks and demand drafts outstanding	5,354	-	5,354	**5,354**
Other financial liabilities	13,408	-	13,408	**13,408**
Non-financial assets				
Investment properties	118	-	1,786	**1,786**

2017	Carrying Amount	Fair value Level 1	Level 2	Total
Recurring measurements		(In Millions of Pesos)		
Financial assets				
Financial assets at FVTPL				
Derivative financial assets	4,975	-	4,975	4,975
Trading securities - debt securities	3,806	3,806	-	3,806
Available-for-sale securities				
- Debt securities	9,669	7,433	2,236	9,669
- Equity securities	470	447	232	679
	18,920	11,686	7,443	19,129
Financial liabilities				
Derivative financial liabilities	4,788	-	4,788	4,788

Non-recurring measurements				
Assets held for sale, net	609	-	656	656

2017	Carrying Amount	Fair value Level 1	Level 2	Total
Fair values disclosed		(In Millions of Pesos)		
Financial assets				
Cash and other cash items	34,160	-	34,160	34,160
Due from BSP	227,122	-	227,122	227,122
Due from other banks	10,894	-	10,894	10,894
Interbank loans receivable and SPAR	10,504	-	10,504	10,504
Held-to-maturity securities	255,382	242,297	3,922	246,219
Loans and advances, net	986,869	-	1,008,730	1,008,730
Other financial assets	7,151	-	7,151	7,151
Financial liabilities				
Deposit liabilities	1,323,963	-	1,323,963	1,323,963
Bills payable	70,722	-	70,284	70,284
Due to BSP and other banks	1,218	-	1,218	1,218
Manager's checks and demand drafts outstanding	5,762	-	5,762	5,762
Other financial liabilities	11,118	-	11,118	11,118
Non-financial assets				
Investment properties	135	-	1,281	1,281

The BPI Group has no financial instruments, other assets or liabilities with non-recurring fair value measurements or with fair values disclosed that fall under the Level 3 category as at December 31, 2018 and 2017. There were no transfers between Level 1 and Level 2 during the years ended December 31, 2018 and 2017.

28.5 Insurance risk management

The non-life insurance entities decide on the retention, or the absolute amount that they are ready to assume insurance risk from one event. The retention amount is a function of capital, experience, actuarial study and risk appetite or aversion.

In excess of the retention, these entities arrange reinsurances either thru treaties or facultative placements. They also accredit reinsurers based on certain criteria and set limits as to what can be reinsured. The reinsurance treaties and the accreditation of reinsurers require BOD's approval.

Note 29 - Capital management

Capital management is understood to be a facet of risk management. The primary objective of the BPI Group is the generation of recurring acceptable returns to shareholders' capital. To this end, the BPI Group's policies, business strategies and activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various funders and stakeholders.

Cognizant of its exposure to risks, the BPI Group understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The BPI Group further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required capital adequacy ratio remains at 10% which includes the capital conservation buffer.

Information on the regulatory capital is summarized below:

	Consolidated		Parent	
	2018	2017	**2018**	2017
	(In Millions of Pesos)			
Tier 1 capital	**244,276**	177,172	**243,519**	176,842
Tier 2 capital	**13,116**	11,682	**10,795**	10,180
Gross qualifying capital	**257,392**	188,854	**254,314**	187,022
Less: Regulatory adjustments/required deductions	**23,152**	22,371	**68,491**	59,246
Total qualifying capital	**234,240**	166,483	**185,823**	127,776
Risk weighted assets	**1,455,746**	1,306,907	**1,252,790**	1,122,119
CAR (%)	**16.09**	12.74	**14.83**	11.39
CET1 (%)	**15.19**	11.84	**13.97**	10.48

The BPI Group has fully complied with the CAR requirement of the BSP.

Likewise, the BPI Group manages the capital of its non-life insurance subsidiaries, pre-need subsidiary and securities dealer subsidiaries in accordance with the capital requirements of the relevant regulatory agency, such as Insurance Commission, Philippine SEC and PSE. These subsidiaries have fully complied with the relevant capital requirements.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE requires listed entities to maintain a minimum of ten percent (10%) of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Parent Bank has fully complied with this requirement.

Note 30 - Commitments and Contingencies

At present, there are lawsuits, claims and tax assessments pending against the BPI Group. In the opinion of management, after reviewing all actions and proceedings and court decisions with legal counsels, the aggregate liability or loss, if any, arising therefrom will not have a material effect on the BPI Group's financial position or financial performance.

BPI and some of its subsidiaries are defendants in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial statements.

In the normal course of business, the BPI Group makes various commitments that are not presented in the financial statements. The BPI Group does not anticipate any material losses from these commitments.

Note 31 - Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

31.1 Basis of preparation

The financial statements of the BPI Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

As allowed by the SEC, the pre-need subsidiary of the Parent Bank continues to follow the provisions of the Pre-Need Uniform Chart of Accounts (PNUCA) prescribed by the SEC and adopted by the Insurance Commission.

The financial statements comprise the statement of condition, statement of income and statement of comprehensive income shown as two statements, statement of changes in capital funds, statement of cash flows and the notes.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, financial assets at FVOCI (AFS in 2017), and plan assets of the BPI Group's defined benefit plans.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the BPI Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the BPI Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 27.

31.2 Changes in accounting policy and disclosures

(a) New standards adopted by the BPI Group

The BPI Group has adopted the following standards effective January 1, 2018:

- *PFRS 15, 'Revenue from contracts with customers'* replaces PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

  A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied.

  The adoption of PFRS 15 did not have a material impact on the financial statements of the BPI Group.

- *PFRS 9, 'Financial instruments'* replaces the provisions of PAS 39 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.

<u>PFRS 9 adoption</u>

The adoption of PFRS 9 resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The BPI Group did not early adopt any provisions of PFRS 9 in previous periods.

As permitted by the transitional provisions of PFRS 9, the BPI Group elected not to restate comparative figures. Resulting adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening balance of Surplus and Reserves as of January 1, 2018.

The adoption of PFRS 9 has resulted in changes mainly in the BPI Group's accounting policies for recognition, classification and measurement and impairment of financial assets. There were no changes in the classification of financial liabilities. PFRS 9 also significantly amends other standards dealing with financial instruments such as PFRS 7, *Financial Instruments: Disclosures.*

The BPI Group shifted from incurred loss model under PAS 39 to expected credit loss model in the determination of impairment provisions for financial assets not carried at fair value through profit or loss upon adoption of PFRS 9. The adoption did not result to significant adjustments on the level of allowance for credit losses recognized as at December 31, 2017.

Set out below are disclosures relating to the impact of the adoption of PFRS 9 on the BPI Group.

Classification and measurement of financial assets

The measurement category and the carrying amount of financial assets in accordance with PAS 39 and PFRS 9 at January 1, 2018 are as follows:

Consolidated

	PAS 39		PFRS 9	
	December 31, 2017		January 1, 2018	
Financial assets	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and other cash items	Amortized cost	35,132	Amortized cost	35,132
Due from Bangko Sentral ng Pilipinas	Amortized cost	255,948	Amortized cost	255,948
Due from other banks	Amortized cost	14,406	Amortized cost	14,406
Interbank loans receivable and securities purchased under agreements to resell	Amortized cost	18,586	Amortized cost	18,586
Derivative assets	FVTPL	4,981	FVTPL	4,981
Trading securities				
Equity	FVTPL	330	FVOCI	330
Debt	FVTPL	5,002	FVTPL	10,078
Investment securities				
Equity	FVOCI (AFS)	4,095	FVOCI	4,416
Debt	FVOCI (AFS)	19,218	FVOCI	21,893
	Amortized cost (HTM)	277,472	Amortized cost	273,386
Loans and advances, net	Amortized cost	1,202,338	Amortized cost	1,202,326
Other financial assets	Amortized cost	4,676	Amortized cost	4,676

Parent

	PAS 39		PFRS 9	
	December 31, 2017		January 1, 2018	
Financial assets	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and other cash items	Amortized cost	34,160	Amortized cost	34,160
Due from Bangko Sentral ng Pilipinas	Amortized cost	227,122	Amortized cost	227,122
Due from other banks	Amortized cost	10,894	Amortized cost	10,894
Interbank loans receivable and securities purchased under agreements to resell	Amortized cost	10,504	Amortized cost	10,504
Derivative assets	FVTPL	4,945	FVTPL	4,945
Trading securities - debt	FVTPL	3,806	FVTPL	6,041
Investment securities				
Equity	FVOCI (AFS)	470	FVOCI	679
Debt	FVOCI (AFS)	9,669	FVOCI	9,823
	Amortized cost (HTM)	255,382	Amortized cost	256,226
Loans and advances, net	Amortized cost	986,869	Amortized cost	986,869
Other financial assets	Amortized cost	7,151	Amortized cost	7,151

Reconciliation of statement of condition balances from PAS 39 to PFRS 9

On January 1, 2018, the BPI Group performed a detailed analysis of its business models for managing financial assets including their cash flow characteristics. Please refer to Note 31.3 for more detailed information regarding the new classification requirements of PFRS 9.

The financial assets affected by the adoption of the new standard are shown below. The reconciliation of the carrying amounts of these financial assets from their previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018 follow:

Consolidated

		FVTPL - Trading securities	Investment debt securities at FVOCI	Investment securities at amortized cost	Loans and advances, net
			(In Millions of Pesos)		
Closing balance, December 31, 2017 - PAS 39		**5,332**	**23,313**	**277,472**	**1,202,338**
Reclassifications from:					
AFS to FVTPL	a	5,076	(5,076)	-	-
AFS to amortized cost	b	-	(4,565)	7,910	-
HTM to FVOCI	c	-	12,637	(11,996)	-
ECL provision		-	-	-	(12)
		5,076	2,996	(4,086)	(12)
Opening balance, January 1, 2018 - PFRS 9		**10,408**	**26,309**	**273,386**	**1,202,326**

Parent

		FVTPL - Trading securities	Investment securities at FVOCI (Available-for-sale in 2017)	Investment securities at amortized cost (HTM in 2017)
			(In Millions of Pesos)	
Closing balance, December 31, 2017 - PAS 39		**3,806**	**10,139**	**255,382**
Reclassifications from:				
AFS to FVTPL	a	2,235	(2,235)	-
AFS to amortized cost	b	-	(4,515)	7,776
HTM to FVOCI	c	-	7,113	(6,932)
		2,235	363	844
Opening balance, January 1, 2018 - PFRS 9		**6,041**	**10,502**	**256,226**

The impact on the relevant equity items as at January 1, 2018 is as follows:

Consolidated

		Surplus	Accumulated other comprehensive loss
		(In Millions of Pesos)	
Closing balances, December 31, 2017 - PAS 39		116,415	(5,088)
Reclassifications from:			
AFS to FVTPL	a	30	(30)
AFS to amortized cost	b	(401)	3,592
HTM to FVOCI	c	-	641
HTM to FVOCI (attributable to insurance corporations)	c	-	229
Remeasurement of equity securities at FVOCI	d	321	(321)
ECL provision		(12)	-
Opening balances, January 1, 2018 - PFRS 9		**116,353**	**(977)**

Parent

		Surplus	Accumulated other comprehensive loss
		(In Millions of Pesos)	
Closing balances, December 31, 2017 - PAS 39		73,679	(4,696)
Reclassifications from:			
AFS to FVTPL	a	(12)	12
AFS to amortized cost	b	(375)	3,501
HTM to FVOCI	c	-	181
Remeasurement of equity securities at FVOCI	d	209	(209)
Opening balances, January 1, 2018 - PFRS 9		**73,501**	**(1,211)**

a. The BPI Group holds debt securities which were classified previously as AFS. In 2018, these securities were classified as financial assets at FVTPL consistent with the PFRS 9 business model of the BPI Group. Likewise, the BPI Group holds certain credit-linked notes where the host contracts were previously classified as AFS while the embedded derivative component was measured at fair value through profit or loss in 2017. Upon adoption of PFRS 9, these credit-linked notes are classified entirely at fair value through profit or loss as they failed to meet the “solely payments of principal and interest” requirements under PFRS 9.

b. The BPI Group holds securities which were classified previously as AFS. Consequently, these securities were classified as financial assets at amortized cost consistent with the PFRS 9 business model of the BPI Group. Likewise, the amount also includes adjustment to reinstate certain reclassified AFS securities (see Note 9) back to amortized cost using their original effective interest rates consistent with the business model of the BPI Group.

c. The BPI Group holds securities which were classified previously as HTM. Consequently, these securities were classified as financial assets at FVOCI consistent with the PFRS 9 business model of the BPI Group.

d. The BPI Group has elected to irrevocably designate strategic investments in a small portfolio of non-trading equity securities at FVOCI as permitted under PFRS 9. These securities were previously classified as AFS and carried at cost as allowed by PAS 39. Consequently, these unlisted equities are remeasured to fair value in accordance with PFRS 9. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

In addition to the above, the following debt instruments have been reclassified to new categories under PFRS 9, as their previous categories under PAS 39 were ‘retired’, with no changes to their measurement basis:

(i) Those previously classified as available-for-sale and now classified as measured at FVOCI; and
(ii) Those previously classified as held-to-maturity and now classified as measured at amortized cost.

For financial assets that have been reclassified to the amortized cost category, the table below shows their fair values as at December 31, 2018 and the fair value gain or loss that would have been recognized if these financial assets had not been reclassified as part of the transition to PFRS 9:

	Consolidated	Parent
	(In Millions of Pesos)	
Fair value as at December 31, 2018	4,396	4,448
Fair value loss that would have been recognized during the year if the financial asset had not been reclassified	(117)	(115)

In addition to PFRS 9 and 15, the following amendments have also been adopted by the BPI Group effective January 1, 2018:

- Amendments to PFRS 2, Share-based payments
- IFRIC 22, Foreign currency transactions and advance consideration

The adoption of the above amendments did not have a material impact on the financial statements of the BPI Group.

(b) New standards, amendments and interpretations not yet adopted

The following new accounting standards and interpretations are mandatory for annual periods after December 31, 2018 and have not been early adopted by the BPI Group:

PFRS 16, *Leases* (effective for annual periods beginning on or after January 1, 2019)

PFRS 16 will replace the current guidance in PAS 17, *Leases*. PFRS 16 which will become effective on January 1, 2019 will affect primarily the accounting by lessees and will result in the recognition of almost all leases in the balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right-of-use asset) and a lease liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An optional exemption exists for short-term and low-value leases.

The adoption of PFRS 16 will affect the accounting of certain assets currently held by the BPI Group under operating lease arrangements. The financial impact is yet to be determined by the BPI Group management.

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019)

It has been clarified previously that PAS 12, not PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The adoption of the above interpretation will not have a material impact on the financial statements of the BPI Group.

PFRS 17, Insurance Contracts (effective for annual periods beginning on or after January 1, 2022)

PFRS 17 was issued in May 2017 as replacement for PFRS 4, Insurance Contracts. PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Insurance Commission, in coordination with Philippine Insurers and Reinsurers Association, is currently reviewing the impact of PFRS 17 across the entire industry and has established a project team to manage the implementation approach. The BPI Group is assessing the quantitative impact of PFRS 17 as of reporting date.

Likewise, the following amendments are not mandatory for December 31, 2018 reporting period and have not been early adopted by the BPI Group:

- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to PFRS 9, Prepayment Features with Negative Compensation
- Amendments to PAS 9, Plan Amendment, Curtailment or Settlement

The adoption of the above amendments is not expected to have a material impact on the financial statements of the BPI Group.

31.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The BPI Group recognizes a financial instrument in the statements of condition when, and only when, the BPI Group becomes a party to the contractual provisions of the instrument.

31.3.1 Measurement methods

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired (see definition on Note 31.3.2.2) at initial recognition – the BPI Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the BPI Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the BPI Group commits to purchase or sell the asset.

At initial recognition, the BPI Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, as described in Note 31.3.2.1 below, which results in the loss provision being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the BPI Group recognizes the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Policies from January 1, 2018 (PFRS 9)

31.3.2 Financial assets

31.3.2.1 Classification and subsequent measurement

From January 1, 2018, the BPI Group has applied PFRS 9 and classifies its financial assets in the following measurement categories: at fair value through profit or loss, fair value through other comprehensive income and at amortized cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and advances, due from BSP and other banks, government and corporate bonds and other financial receivables.

Classification and subsequent measurement of debt instruments depend on the BPI Group's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the BPI Group classifies its debt instruments into one of the following three measurement categories:

- *Amortized cost*
  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Amortized cost financial assets include cash and other cash items, due from BSP, due from other banks, interbank loans receivables and SPAR, loans and advances, and other financial receivables.

- *Fair value through other comprehensive income (FVOCI)*
  Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in the statements of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- *Fair value through profit or loss (FVTPL)*
  Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statements of income within 'Trading gain on securities' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately.

Business model: The business model reflects how the BPI Group manages the assets in order to generate cash flows. That is, whether the BPI Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified and measured at fair value through profit or loss. Factors considered by the BPI Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the BPI Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the BPI Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The BPI Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The BPI Group subsequently measures all equity investments at fair value through profit or loss, except where the BPI Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The BPI Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as "Other operating income" when the BPI Group's right to receive payments is established. Gains and losses on equity investments at fair value through profit or loss are included in the "Trading gain on securities" in the statements of income.

31.3.2.2 Impairment of amortized cost and FVOCI financial assets

The BPI Group assesses impairment as follows:
- individually for loans that exceed specified thresholds. Where there is objective evidence of impairment, individually assessed provisions will be recognised; and
- collectively for loans below the specified thresholds noted above or if there is no objective evidence of impairment. These loans are included in a group of loans with similar risk characteristics and collectively assessed for impairment. If there is objective evidence that the group of loans is collectively impaired, collectively assessed provisions will be recognised.

Expected credit losses

The BPI Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The BPI Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:
- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

PFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:
- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the BPI Group.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. The BPI Group determines SICR based on prescribed benchmarks approved by the Board of the Directors.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 9 is that it should consider forward-looking information.
- POCI financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). There are no POCI as at December 31, 2018.

The following diagram summarizes the impairment requirements under PFRS 9 (other than purchased originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Determination of significant increase in credit risk (SICR)

The BPI Group compares the probabilities of default occurring over its expected life as at the reporting date with the probability of default occurring over its expected life on the date of initial recognition to determine significant increase in credit risk. Since comparison is made between forward-looking information at reporting date against initial recognition, the deterioration in credit risk may be triggered by the following factors:

- substantial deterioration in credit quality as measured by the applicable internal or external ratings, credit score or shift from investment grade category to non-investment grade category;
- adverse changes in business, financial and/or economic conditions of the borrower;
- early warning signs of worsening credit where the ability of the counterparty to honor his obligation is dependent upon favorable business or economic condition;
- the account has become past due beyond 30 days where an account is classified under special monitoring category (refer to Note 28.1.2 for the description of special monitoring); and
- expert judgment for the other quantitative and qualitative factors which may result to SICR as defined by the BPI Group.

Measuring ECL -Inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood that the borrower will default (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining life (lifetime PD) of the asset.

- EAD is based on the amounts the BPI Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining life (lifetime EAD). For example, for a revolving commitment, the BPI Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

  The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

  - For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
  - For committed credit lines, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default.

- LGD represents the BPI Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

  The LGDs are determined based on the factors which impact the recoveries made post-default.

  - For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
  - For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies and historical recoveries.

The ECL is determined by multiplying the PD, LGD and EAD together for each individual exposure or collective segment. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. These assumptions vary by product type.

The assumptions underlying the ECL calculation—such as how the maturity profile of the PDs and how collateral values change—are monitored and reviewed regularly.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period from the time of the adoption of PFRS 9 on January 1, 2018 to the reporting date.

Forward-looking information incorporated in the ECL models

The BPI Group incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and expected credit losses for each portfolio. Macroeconomic variables that affect a specific portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgement. The BPI Group's economics team establishes possible global and domestic economic scenarios. With the use of economic theories and conventions, expert judgement and external forecasts, the economics team develops assumptions to be used in forecasting variables in the next five (5) years, subsequently reverting to long run-averages. The probability-weighted ECL is calculated by running each scenario through the relevant ECL models and multiplying it by the appropriate scenario weighting.

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date. Information regarding the forward-looking economic variables and the relevant sensitivity analysis is disclosed in Note 27.

Financial assets with low credit risk

Loss allowance for financial assets at amortized cost and FVOCI that have low credit risk is limited to 12-month expected credit losses. Management considers "low credit risk" for listed government bonds to be an investment grade credit rating with at least one major rating agency. Other debt instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Definition of default and credit-impaired assets

The BPI Group considers a financial instrument in default or credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments (with the exception of credit cards and micro-finance loans where a borrower is required to be 90 days past due and over 7 days past due, respectively, to be considered in default).

Qualitative criteria

The counterparty is experiencing significant financial difficulty which may lead to non-payment of loan as may be indicated by any or combination of the following events:

- The counterparty is in long-term forbearance;
- The counterparty is insolvent;
- The counterparty is in breach of major financial covenant(s) which lead(s) to event of default;
- An active market for the security has disappeared;
- Granting of concession that would not be otherwise considered due to economic or contractual reasons relating to the counterparty's financial difficulty;
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the BPI Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the probability of default, exposure at default (EAD), and loss given default (LGD) throughout the BPI Group's expected credit loss calculations.

The BPI Group's definition of default is substantially consistent with non-performing loan definition of the BSP. For cross-border, treasury and debt securities, these are classified as defaulted based on combination of BSP and external credit rating agency definitions.

Policies applicable prior to January 1, 2018 (PAS 39)

31.3.3 Financial assets

31.3.3.1 Classification

The BPI Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity securities and available-for-sale securities. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held for trading (other than derivatives) are shown as "Trading securities" in the statements of condition.

Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the BPI Group's key management personnel. The BPI Group has no financial assets that are specifically designated at fair value through profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments: (i) that are not quoted in an active market, (ii) with no intention of being traded, and (iii) that are not designated as available-for-sale. Significant accounts falling under this category include loans and advances, cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under agreements to resell and accounts receivable included under other assets.

(c) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the BPI Group's management has the positive intention and ability to hold to maturity.

(d) Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

31.3.3.2 Subsequent measurement

Available-for-sale securities and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost. Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statements of condition. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statements of income (as "Trading gain/loss on securities") in the year in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative fair value adjustments previously recognized in other comprehensive income should be recognized in profit or loss. However, interest is calculated on these securities using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in profit or loss. Dividends on equity instruments are recognized in profit or loss when the BPI Group's right to receive payment is established.

31.3.3.3 Reclassification

The BPI Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the BPI Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the BPI Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Reclassification and sale of held-to-maturity securities other than an insignificant amount, would taint the entire portfolio and result in reclassification to available-for-sale category, except on sales and reclassifications that:

- are so close to maturity that changes in market interests rates would not significantly affect fair value;
- occur after the entity has collected substantially all of the asset's original principal; or
- are attributable to an isolated, non-recurring event that could not have been reasonably expected.

31.3.3.4 Impairment of financial assets

(*a*) *Assets carried at amortized cost*

The BPI Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the BPI Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The BPI Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the BPI Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial 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.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss.

For purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the BPI Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the BPI Group and historical loss experience for assets with credit risk characteristics similar to those in the BPI Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Subsequent recoveries of amounts previously written-off are credited to impairment loss in the statements of income.

(b) Assets classified as available-for-sale

The BPI Group assesses at each reporting date whether there is an objective evidence that a security classified as available-for-sale is impaired. For debt securities, the BPI Group uses the criteria mentioned in (a) above. For an equity security classified as available-for-sale, a significant or prolonged decline in the fair value below cost is considered in determining whether the securities are impaired. Generally, the BPI Group treats 'significant' as 20% or more and 'prolonged' as greater than six months. The cumulative loss (difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in profit or loss) is removed from other comprehensive income and recognized in profit or loss when the asset is determined to be impaired. If in a subsequent period, the fair value of a debt instrument previously impaired increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to other comprehensive income.

(c) Renegotiated loans

Loans that are either subject to individual or collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

31.3.4 Modification of loans (PFRS 9 and PAS 39)

The BPI Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the BPI Group assesses whether or not the new terms are substantially different to the original terms. The BPI Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the BPI Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the BPI Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in the statements of income as a gain or loss on derecognition.

31.3.5 Derecognition of financial assets other than modification (PFRS 9 and PAS 39)

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the BPI Group transfers substantially all the risks and rewards of ownership, or (ii) the BPI Group neither transfers nor retains substantially all the risks and rewards of ownership and the BPI Group has not retained control.

The BPI Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the BPI Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the BPI Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the BPI Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

31.3.6 Financial liabilities (PFRS 9 and PAS 39)

31.3.6.1 Classification

The BPI Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the BPI Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statements of income and are reported as "Trading gains/losses on securities". The BPI Group has no financial liabilities that are designated at fair value through profit loss.

(b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost include deposits from customers and banks, bills payable, amounts due to BSP and other banks, manager's checks and demand drafts outstanding, subordinated notes and other financial liabilities under deferred credits and other liabilities.

31.3.6.2 Subsequent measurement and derecognition

Financial liabilities at fair value through profit or loss are subsequently carried at fair value. Other liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired). Collateral (shares and bonds) furnished by the BPI Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the BPI Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

31.3.7 Loan commitments

Loan commitments are those contracts that the BPI Group is required to provide a loan with pre-specified terms to the customer. These contracts, which are not issued at below-market interest rate and are not settled net in cash or by delivering or issuing another financial instrument, are not recorded in the statement of financial position. Starting January 1, 2018, loss allowance is calculated on these commitments as described in Note 28.1.

31.3.8 Derivative financial instruments (PFRS 9 and PAS 39)

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques (for example for structured notes), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The BPI Group's derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that do not qualify for hedge accounting are recognized immediately in the statements of income under "Trading gain on securities".

31.3.8.1 Embedded derivatives

From January 1, 2018 (PFRS 9)

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the BPI Group assesses the entire contract for classification and measurement in accordance with the policy outlined in Note 31.3.2 above. Otherwise, the embedded derivatives are treated as separate derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in the statement of profit or loss unless the BPI Group chooses to designate the hybrid contracts at fair value through profit or loss.

Prior to January 1, 2018 (PAS 39)

When derivatives are embedded on other financial instruments or host contracts, such combinations are known as hybrid instruments with the effect that some of the cash flows of a hybrid instrument vary in a way similar to a stand-alone derivative. If the host contract is not carried at fair value with changed in fair value reported in the Consolidated Statements of Income, the embedded derivative is generally required to be separated from the host contract and accounted for separately as at FVTPL if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. All embedded derivatives are presented on a combined basis with the host contracts although they are separated for measurement purposes when conditions requiring separation are met.

31.3.9 Fair value measurement

The fair value measurement did not change on adoption of PFRS 9. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The BPI Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, PSE, Philippine Dealing and Exchange Corp., etc.).
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at December 31, 2018 and 2017.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

(a) Financial instruments

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, foreign exchange rates, volatilities and counterparty spreads) existing at reporting dates. The BPI Group uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable.

For more complex instruments, the BPI Group uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Valuation models are used primarily to value derivatives transacted in the OTC market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The fair value of OTC derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates, with the resulting value discounted back to present value.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, under PAS 39, the instruments are carried at cost less impairment. However, under PFRS 9, all investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

(b) Non-financial assets or liabilities

The BPI Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions. The fair values of BPI Group's investment properties and foreclosed assets (shown as Assets held for sale) fall under level 2 of the fair value hierarchy. The BPI Group has no non-financial assets or liabilities classified under Level 3 as at December 31, 2018 and 2017.

31.3.10 Interest income and expense

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the BPI Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

31.3.11 Dividend income

Dividend income is recognized in profit or loss when the BPI Group's right to receive payment is established.

31.3.12 Transaction costs

Transaction costs are expensed as incurred for financial instruments classified or designated as FVTPL. For other financial instruments, transaction costs are capitalized on initial recognition. For financial assets and financial liabilities measured at amortized cost, capitalized transaction costs are amortized through net income over the estiamted life of the instrument using the effective interest method. For financial assets measured at FVOCI (AFS financial assets under PAS 39) the do not have fixed or determinable payments and no fixed maturity, capitalized transaction costs are recognized in net income when the asset is derecognized or becomes impaired.

31.3.13 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

As at December 31, 2018 and 2017, there are no financial assets and liabilities that have been offset.

31.3.14 Cash and cash equivalents

Cash and cash equivalents consist of Cash and other cash items, Due from BSP, Due from other banks, and Interbank loans receivable and securities purchased under agreements to resell with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

31.3.15 Repurchase and reverse repurchase agreements (PFRS 9 and PAS 39)

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks and customers and included in the statements of condition under "Interbank loans receivable and securities purchased under agreements to resell". Securities lent to counterparties are also retained in the financial statements.

31.4 Consolidation

The subsidiaries financial statements are prepared for the same reporting year as the consolidated financial statements. Refer to Note 1 for the list of the Parent Bank's subsidiaries.

(a) Subsidiaries

Subsidiaries are all entities over which the BPI Group has control. The BPI Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The BPI Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the BPI Group's voting rights relative to the size and dispersion of holdings of other shareholders give the BPI Group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the BPI Group. They are de-consolidated from the date that control ceases.

The BPI Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the BPI Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the BPI Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the BPI Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PFRS 9 (PAS 39 in 2017) either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the BPI Group's share of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the BPI Group, except for the pre-need subsidiary which follows the provisions of the PNUCA as allowed by the SEC.

When the BPI Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the BPI Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(b) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the Parent Bank are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the statements of income as net income (loss) attributable to non-controlling interests.

(c) Associates

Associates are all entities over which the BPI Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the consolidated financial statements are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The BPI Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

If the ownership interest in an associate is reduced but significant influence is retained, a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The BPI Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in reserves is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the BPI Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the BPI Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The BPI Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the BPI Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit (loss) of an associate' in profit or loss.

Unrealized gains on transactions between the BPI Group and its associates are eliminated to the extent of the BPI Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

31.5 Investments in subsidiaries and associates

Investments in subsidiaries and associates in the Parent Bank's separate financial statements are accounted for using the cost method in accordance with PAS 27. Under this method, income from investment is recognized in profit or loss only to the extent that the investor receives distributions from accumulated profits of the investee arising after the acquisition date. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as reduction of the cost of the investment.

The Parent Bank recognizes a dividend from a subsidiary or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

The Parent Bank determines at each reporting date whether there is any indicator of impairment that the investment in the subsidiary or associate is impaired. If this is the case, the Parent Bank calculates the amount of impairment as the difference between the recoverable amount and carrying value and the difference is recognized in profit or loss.

Investments in subsidiaries and associates are derecognized upon disposal or when no future economic benefits are expected to be derived from the subsidiaries and associates at which time the cost and the related accumulated impairment loss are removed in the statements of condition. Any gains and losses on disposal is determined by comparing the proceeds with the carrying amount of the investment and recognized in profit or loss.

31.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer who allocates resources to, and assesses the performance of the operating segments of the BPI Group.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated upon consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with PFRS 8, the BPI Group has the following main banking business segments: consumer banking, corporate banking and investment banking. Its insurance business is assessed separately from these banking business segments (Note 3).

31.7 Bank premises, furniture, fixtures and equipment

Land and buildings comprise mainly of branches and offices. All bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of an asset which comprises its purchase price, import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the BPI Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Land is not depreciated. Depreciation for buildings and furniture and equipment is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets, as follows:

Building	25-50 years
Furniture and equipment	3-5 years
Equipment for lease	2-8 years

Leasehold improvements are depreciated over the shorter of the lease term (ranges from 5 to 10 years) and the useful life of the related improvement (ranges from 5 to 10 years). Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. There are no bank premises, furniture, fixtures and equipment that are fully impaired as at December 31, 2018 and 2017.

An item of Bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

31.8 Investment properties

Properties that are held either to earn rental income or for capital appreciation or both, and that are not significantly occupied by the BPI Group are classified as investment properties. Transfers to, and from, investment property are made when, and only when, there is a change in use, evidenced by:

(a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) Commencement of development with a view of sale, for a transfer from investment property to real properties held-for-sale and development;
(c) End of owner occupation, for a transfer from owner-occupied property to investment property; or
(d) Commencement of an operating lease to another party, for a transfer from real properties held-for-sale and development to investment property.

Transfers to and from investment property do not result in gain or loss.

Investment properties comprise land and building. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation on investment property is determined using the same policy as applied to Bank premises, furniture, fixtures, and equipment. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher of the property's fair value less costs to sell and value in use.

An item of investment property is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains and losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

31.9 Foreclosed assets

Assets foreclosed shown as Assets held for sale in the statements of condition are accounted for at the lower of cost and fair value less cost to sell similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

Foreclosed assets not classified as Assets held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:

(a) Investment property is accounted for using the cost model under PAS 40;
(b) Bank-occupied property is accounted for using the cost model under PAS 16; and
(c) Financial assets are accounted for under PFRS 9 starting January 1, 2018 (PAS 39 was applied until December 31, 2017).

31.10 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the BPI Group's share in the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included under Other assets, net in the statements of condition. Goodwill on acquisitions of associates is included in Investments in subsidiaries and associates. Separately recognized goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include carrying amount of goodwill relating to the subsidiary/associate sold.

Goodwill is an indefinite-lived intangible asset and hence not subject to amortization.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit is represented by each primary reporting segment.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relationships have finite useful lives of ten years and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship. Contractual customer relationships are included under Other assets, net in the statements of condition.

(c) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over the expected useful lives (three to five years). Computer software is included under Other assets, net in the statements of condition.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the BPI Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other assets to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

31.11 Impairment of non-financial assets

Assets that have indefinite useful lives - for example, goodwill or intangible assets not ready for use - are not subject to amortization and are tested annually for impairment and more frequently if there are indicators of impairment. Assets that have definite useful lives are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

31.12 Borrowings and borrowing costs

The BPI Group's borrowings consist mainly of bills payable and other borrowed funds. Borrowings are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The BPI Group has no qualifying asset as at December 31, 2018 and 2017.

Borrowings derecognized when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in te Statements of Income as other income.

31.13 Fees and commission income

Starting January 1, 2018, the BPI Group has applied PFRS 15 where revenue is recognized when (or as) The BPI Group satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

The recognition of revenue can be either over time or at a point in time depending on when the performance obligation is satisfied.

When control of a good or service is transferred over time, that is, when the customer simultaneously receives and consumes the benefits, the BPI Group satisfies the performance obligation and recognizes revenue over time. Otherwise, revenue is recognized at the point in time at the point of transfer control of the good or service to the customer.

Variable consideration is measured using either the expected value method or the most likely amount method depending on which method the BPI Group expects to better predict the amount of consideration to which it will be entitled. This is the estimated amount of variable consideration, or the portion, if any, of that amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Where there is a single performance obligation, the transaction price is allocated in its entirety to that performance obligation. Where there are multiple performance obligations, the transaction price is allocated to the performance obligation to which it relates based on stand-alone selling prices.

The BPI Group recognizes revenue based on the price specified in the contract, net of the estimated rebates/discounts and include variable consideration, if there is any. Accumulated experience is used to estimate and provide for the discounts and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

The BPI Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the BPI Group does not adjust any of the transaction prices for the time value of money.

There are no warranties and other similar obligation and refunds agreed with customers.

Until December 31, 2017, the BPI Group recognizes revenue under PAS 18. Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party (i.e. the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses) are recognized on completion of underlying transactions. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period in which the service is provided.

31.14 Credit card income

Credit card arrangements involve numerous contracts between various parties. The BPI Group has determined that the more significant contracts within the scope of PFRS 15 are (1) the contract between the BPI Group and the credit card holder ('Cardholder Agreement') under which the BPI Group earn miscellaneous fees (e.g., late payment fees, over-limit fees, foreign exchange fees, etc.) and (2) an implied contract between the BPI Group and merchants who accept the credit cards in connection with the purchase of their goods and/or services ('Merchant Agreement') under which the BPI Group earn interchange fees.

The Cardholder Agreement obligates the Bank, as the card issuer, to perform activities such as redeem loyalty points by providing goods, cash or services to the cardholder; provide ancillary services such as concierge services, travel insurance, airport lounge access and the like; process late payments; provide foreign exchange services and others. The amount of fees stated in the contract represents the transaction price for that performance obligation.

The implied contract between the BPI Group and the merchant results in the BPI Group receiving an interchange fee from the merchant. The interchange fee represents the transaction price associated with the implied contract between the BPI Group and the merchant because it represents the amount of consideration to which the BPI Group expects to be entitled in exchange for transferring the promised service (i.e., purchase approval and payment remittance) to the merchant. The performance obligation associated with the implied contract between the BPI Group and the merchant is satisfied upon performance and simultaneous consumption by the customer of the underlying service (i.e. purchase approval and payment remittance). Therefore, the interchange fee is recognized as revenue each time the BPI Group approves a purchase and remits payment to the merchant.

31.15 Foreign currency translation

(a) Functional and presentation currency

Items in the financial statements of each entity in the BPI Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Philippine Peso, which is the Parent Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated at exchange rates as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss recognized under "Trading gain/loss on securities" in the statements of income. Translation differences on non-monetary financial instruments, such as equities classified as financial assets at FVOCI, are included in Accumulated other comprehensive income (loss) in the capital funds.

(c) Foreign subsidiaries

The results and financial position of BPI's foreign subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at reporting date;
(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognized as a separate component (Currency translation differences) of Accumulated other comprehensive income (loss) in the capital funds. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

31.16 Accrued expenses and other liabilities

Accrued expenses and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the BPI Group is established.

31.17 Provisions for legal or contractual obligations

Provisions are recognized when all of the following conditions are met: (i) the BPI Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item is included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

31.18 Income taxes

(a) Current income tax

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense for the year except to the extent that current tax is related to items (for example, current tax on financial assets at FVOCI) that are charged or credited in other comprehensive income or directly to capital funds.

The BPI Group has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the final tax paid or withheld is included in Provision for income tax - Current.

(b) Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

The BPI Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, and associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, and associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the BPI Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the BPI Group is unable to control the reversal of the temporary difference for associates except when there is an agreement in place that gives the BPI Group the ability to control the reversal of the temporary difference.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

31.19 Employee benefits

(a) Short-term benefits

The BPI Group recognizes a liability net of amount already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by to its employees include salaries and wages, social security contributions, short-term compensated absences and bonuses, and non-monetary benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(b) Defined benefit retirement plan

The BPI Group has a defined benefit plan that shares risks among entities within the group. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statements of condition in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Defined benefit costs comprise of service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statements of income. Past service costs are recognized when the plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as interest income or expense in the statements of income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

For individual financial reporting purposes, the unified plan assets are allocated among the BPI Group entities based on the level of the defined benefit obligation attributable to each entity to arrive at the net liability or asset that should be recognized in the individual financial statements.

(c) Defined contribution retirement plan

The BPI Group also maintains a defined contribution plan that covers certain full-time employees. Under its defined contribution plan, the BPI Group pays fixed contributions based on the employees' monthly salaries. The BPI Group, however, is covered under RA No. 7641, otherwise known as The Philippine Retirement Pay Law, which provides for its qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641. Accordingly, the BPI Group accounts for its retirement obligation under the higher of the defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan.

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

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

Actuarial gains and losses arising from the remeasurements of the net defined contribution liability are recognized immediately in the other comprehensive income.

(d) Share-based compensation

The BPI Group engages in equity-settled share-based payment transactions in respect of services received from certain employees.

The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of employee services received in respect of the shares or share options granted is recognized in profit or loss (with a corresponding increase in reserve in capital funds) over the period that the services are received, which is the vesting period.

The fair value of the options granted is determined using option pricing models which take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

When the stock options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (par value) and share premium for the excess of exercise price over par value.

(e) Profit sharing and bonus plans

The BPI Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Parent Bank’s shareholders after certain adjustments. The BPI Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

31.20 Capital funds

Share capital, comprising common shares, is classified as equity.

Share premium includes any premiums or consideration received in excess of par value on the issuance of share capital.

Incremental costs directly attributable to the issue of new shares or options are shown in capital funds as a deduction from the proceeds, net of tax.

31.21 Earnings per share (EPS)

Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. In case of a rights issue, an adjustment factor is being considered for the weighted average number of shares outstanding for all periods before the rights issue. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

31.22 Dividends on common shares

Dividends on common shares are recognized as a liability in the BPI Group's financial statements in the period in which the dividends are approved by the BOD.

31.23 Fiduciary activities

The BPI Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the BPI Group (Note 25).

31.24 Leases

(a) BPI Group is the lessee

(i) Operating lease
Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to "Occupancy and equipment-related expenses" in the statements of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

(ii) Finance lease
Leases of assets, where the BPI Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(*b) BPI Group is the lessor*

(i) Operating lease
Properties (land and building) leased out under operating leases are included in "Investment properties" in the statements of condition. Rental income under operating leases is recognized in profit or loss on a straight-line basis over the period of the lease.

(ii) Finance lease
When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

Lease income under finance lease is recognized over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

31.25 Insurance and pre-need operations

(a) Non-life insurance

The more significant accounting policies observed by the non-life insurance subsidiaries follow: (a) gross premiums written from short-term insurance contracts are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method; (b) acquisition costs are deferred and charged to expense in proportion to the premium revenue recognized; reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs; (c) a liability adequacy test is performed which compares the subsidiaries' reported insurance contract liabilities against current best estimates of all contractual future cash flows and claims handling, and policy administration expenses as well as investment income backing up such liabilities, with any deficiency immediately charged to profit or loss; (d) amounts recoverable from reinsurers and loss adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts; and (e) financial assets and liabilities are measured following the classification and valuation provisions of PFRS 9.

(b) Pre-need

The more significant provisions of the PNUCA as applied by the pre-need subsidiary follow: (a) premium income from sale of pre-need plans is recognized as earned when collected; (b) costs of contracts issued and other direct costs and expenses are recognized as expense when incurred; (c) pre-need reserves which represent the accrued net liabilities of the subsidiary to its plan holders are actuarially computed based on standards and guidelines set forth by the Insurance Commission; the increase or decrease in the account is charged or credited to other costs of contracts issued in profit or loss; and (d) insurance premium reserves which represent the amount that must be set aside by the subsidiary to pay for premiums for insurance coverage of fully paid plan holders, are actuarially computed based on standards and guidelines set forth by the Insurance Commission.

31.26 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

31.27 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. There were no changes to the presentation made during the year.

31.28 Reclassification

Certain amounts have been reclassified in the statements of condition in the prior year to conform to the current year's presentation of other assets.

31.29 Subsequent events (or Events after the reporting date)

Post year-end events that provide additional information about the BPI Group's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Note 32 - Supplementary information required by the Bureau of Internal Revenue

On December 28, 2010, Revenue Regulations (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010 that is relevant to the Parent Bank. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

(i) Documentary stamp tax

Documentary stamp taxes paid through the Electronic Documentary Stamp Tax System for the year ended December 31, 2018 consist of:

(In Millions of Pesos)	Amount
Deposit and loan documents	6,990
Trade finance documents	639
Mortgage documents	467
Shares of stocks	56
Others	7
	8,159

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2018 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Income taxes withheld on compensation	1,566	177	**1,743**
Final income taxes withheld on interest on deposits and yield on deposit substitutes	2,178	244	**2,422**
Final income taxes withheld on income payment	643	29	**672**
Creditable income taxes withheld (expanded)	409	53	**462**
Fringe benefit tax	145	34	**179**
VAT withholding tax	47	12	**59**
	4,988	**549**	**5,537**

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2018 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Gross receipts tax	3,014	407	**3,421**
Real property tax	128	-	**128**
Municipal taxes	168	-	**168**
Others	6	-	**6**
	3,316	**407**	**3,723**

Local and national taxes imposed by the government which are incurred under the normal courses of business are part of "Taxes and Licenses" within Other Operating Expense (Note 21).

(iv) Tax cases and assessments

As at reporting date, the Parent Bank has pending cases filed in courts and with the tax authorities contesting certain tax assessments and for various claims for tax refund. Management is of the opinion that the ultimate outcome of the said cases will not have a material impact on the financial statements of the Parent Bank.

GLOBE TELECOM, INC.
AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2018, 2017 and 2016

Globe

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SEC Accreditation No. 0001-FR-4

SUPPLEMENTAL WRITTEN STATEMENT OF AUDITORS

The Stockholders and the Board of Directors
GLOBE TELECOM, INC.
The Globe Tower, 32nd Street corner 7th Avenue
Bonifacio Global City, Taguig City

Gentlemen:

In connection with our audit of the consolidated statement of financial position of Globe Telecom, Inc. and Subsidiaries as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for each of the three years in the period ended December 31, 2018, we wish to state that the Company is listed with the Philippine Stock Exchange.

Navarro Amper & Co.
BOA Registration No. 0004, valid from November 12, 2018 to July 16, 2021
SEC Accreditation No. 0001-FR-5, issued on January 15, 2019; effective until January 14, 2022, Group A
TIN 005299331

By:

Oliver C. Bucao
Partner
CPA License No. 0086699
SEC A.N. 1623-A, issued on March 23, 2017; effective until March 22, 2020, Group A
TIN 129433612
BIR A.N. 08-002552-47-2017, issued on June 8, 2017; effective until June 8, 2020
PTR No. A-4255727, issued on January 10, 2019, Taguig City

Taguig City, Philippines
February 11, 2019

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INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
GLOBE TELECOM, INC.
The Globe Tower, 32nd Street corner 7th Avenue
Bonifacio Gobal City, Taguig City

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Globe Telecom, Inc. and Subsidiaries (the "Globe Group") which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matter:

Revenue Recognition

Revenue recognition has been identified as a key audit matter primarily due to the significant volume of transactions, the complexity of the operation of billing systems used, determination of the accounting of new products introduced during the year and the implementation of the PFRS 15 "*Revenue from Contract with Customers*" effective 1 January 2018 which provided a single, principle based five-step model to be applied to all contracts with customers.

The Globe Group's disclosures on the accounting for revenue recognition are discussed in Note 2.15 to the consolidated financial statements.

How the matter was addressed in our audit

Our audit approach includes:

- We obtained thorough understanding of the revenue recognition policy and business process under the new standard including the key assumptions and judgments used by Management.
- We have tested the completeness and accuracy of the PFRS 15 transition adjustments and the completeness and proper presentation of disclosures.
- We involved our IT specialists in the evaluation of design and operating effectiveness of the automated controls over the capture, rating and recording of revenue transactions.
- We evaluated the business process controls in place over the initiation and authorization of rate changes, the introduction of new plans and input of this information into the billing systems.
- We performed test on the accuracy of customer bills on a sample basis for existing products as well as for new products introduced in the year.
- As part of the substantive tests, we tested key reconciliation used by management to assess the completeness and accuracy of revenue from business support systems to the general ledger
- We evaluated the business process controls in place over the authorization and initiation of rate changes, the introduction of new plans and promos and input of this information into the billing systems.
- We performed analytical review over prepaid and postpaid revenues based on underlying data and certain relationships as well as testing, on a sample basis, the accuracy of adjustments on revenues earned including those from carriers and content providers as a result of negotiations.
- We profiled the manual journal entries posted to revenue accounts and tested supporting evidence to identify any unusual items.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover this other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Globe Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Oliver C. Bucao.

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By:

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PTR No. A-3745354, issued on January 5, 2018, Taguig City

Taguig City, Philippines
February 11, 2019

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	December 31 2018	2017
		(In Thousand Pesos)	
ASSETS			
Current Assets			
Cash and cash equivalents	29.10, 31	**₱23,226,386**	₱11,222,220
Trade receivables – net	5, 29.10	**21,112,561**	27,304,288
Contract assets and deferred contract costs – net	6	**8,471,550**	-
Inventories and supplies – net	7	**4,854,939**	3,242,689
Derivative assets – current	29.3	**63,180**	15,043
Prepayments and other current assets	8	**15,794,767**	15,730,897
		73,523,383	57,515,137
Noncurrent Assets			
Property and equipment – net	9	**169,393,768**	162,602,646
Intangible assets and goodwill – net	10	**13,698,269**	14,883,706
Investments in associates and joint ventures	12	**34,426,776**	35,602,999
Deferred income tax assets – net	27	**2,075,065**	2,761,626
Derivative assets – net of current portion	29.3	**2,300,186**	911,358
Deferred contract costs – net of current portion	6	**315,673**	-
Other noncurrent assets	13	**3,764,989**	3,488,816
		225,974,726	220,251,151
TOTAL ASSETS		**₱299,498,109**	₱277,766,288
LIABILITIES AND EQUITY			
Current Liabilities			
Trade payables and accrued expenses	14	**₱56,219,366**	₱62,232,862
Contract liabilities and deferred revenues – current	6	**8,044,308**	5,509,773
Loans payable – current	16	**16,758,196**	8,278,222
Derivative liabilities – current	29.3	**285,751**	191,060
Provisions	15	**2,549,387**	1,890,415
Income tax payable	27	**1,608,646**	1,180,753
		85,465,654	79,283,085
Noncurrent Liabilities			
Loans payable – net of current portion	16	**131,523,701**	123,250,483
Contract liabilities – net of current portion	6	**53,642**	-
Deferred income tax liabilities – net	27	**3,918,493**	2,748,826
Derivative liabilities – net of current portion	29.3	**25,903**	-
Other long-term liabilities	17	**5,367,209**	5,926,157
		140,888,948	131,925,466
Total Liabilities		**226,354,602**	211,208,551
Equity			
Paid-up capital	19	**44,973,489**	44,757,853
Cost of share-based payments	26	**417,345**	401,543
Other reserves	19.6	**561,103**	(352,375)
Retained earnings	19.5	**27,167,398**	21,708,003
Equity attributable to equity holders of the Parent		**73,119,335**	66,515,024
Non-controlling interest		**24,172**	42,713
Total Equity		**73,143,507**	66,557,737
TOTAL LIABILITIES AND EQUITY		**₱299,498,109**	₱277,766,288

See accompanying Notes to Consolidated Financial Statements.

Globe

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the Years Ended December 31 2018	2017	2016
		(In Thousand Pesos, Except Per Share Figures)		
REVENUES				
Service revenues		**₱132,875,310**	₱127,905,853	₱120,588,003
Nonservice revenues		**18,297,496**	7,374,878	6,193,657
	30	**151,172,806**	135,280,731	126,781,660
INCOME (LOSSES)				
Equity in net losses of associates and joint ventures	12	**(1,249,603)**	(846,177)	(855,198)
Interest income	20	**391,030**	139,581	151,589
Gain on disposal of property and equipment – net		**73,088**	38,455	101,232
Gain on fair value of retained interest	12.4	**-**	1,889,901	-
Other income – net	21	**1,595,835**	701,653	983,186
		810,350	1,923,413	380,809
COSTS AND EXPENSES				
General, selling and administrative expenses	22,	**57,742,131**	56,608,922	52,471,053
Depreciation and amortization	23	**30,421,721**	27,512,689	23,848,646
Cost of sales	7, 30	**18,645,314**	13,013,437	11,914,114
Interconnect costs	30	**5,677,375**	7,852,336	9,623,127
Financing costs	24	**7,095,655**	5,251,692	4,096,826
Impairment and other losses	25	**4,787,644**	5,423,366	3,271,301
		124,369,840	115,662,442	105,225,067
INCOME BEFORE INCOME TAX		**27,613,316**	21,541,702	21,937,402
PROVISIONS FOR INCOME TAX				
Current	27	**7,259,985**	6,005,420	5,556,965
Deferred	27	**1,727,388**	452,069	491,938
		8,987,373	6,457,489	6,048,903
NET INCOME		**18,625,943**	15,084,213	15,888,499
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will be reclassified into profit or loss in subsequent periods:				
Transactions on cash flow hedges – net	19.6	**863,715**	139,412	(95,565)
Exchange differences arising from translations of foreign investments	19.6	**28,524**	(23,140)	23,205
Changes in fair value of available-for-sale investment in equity securities	19.6	**-**	26,000	13,440
		892,239	142,272	(58,920)
Item that will not be reclassified into profit or loss in subsequent periods:				
Changes in fair value of financial assets at fair value through other comprehensive income	19.6	**151,974**	-	-
Remeasurement gain on defined benefit plan	19.6, 26.2	**49,709**	399,993	197,508
		201,683	399,993	197,508
TOTAL OTHER COMPREHENSIVE INCOME		**1,093,922**	542,265	138,588
TOTAL COMPREHENSIVE INCOME		**₱19,719,865**	₱15,626,478	₱16,027,087

(Forward)

Globe

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the Years Ended December 31 2018	2017	2016
		(In Thousand Pesos, Except Per Share Figures)		
Total net income attributable to:				
Equity holders of the Parent		**₱18,640,740**	₱15,065,779	₱15,878,415
Non-controlling interest		**(14,797)**	18,434	10,084
		18,625,943	15,084,213	15,888,499
Total comprehensive income attributable to:				
Equity holders of the Parent		**19,734,662**	15,608,044	16,017,003
Non-controlling interest		**(14,797)**	18,434	10,084
		₱19,719,865	₱15,626,478	₱16,027,087
Earnings Per Share				
Basic	28	**₱135.91**	₱109.22	₱115.45
Diluted	28	**₱135.40**	₱109.01	₱115.27
Cash dividends declared per common share	19.3	**₱91.00**	₱91.00	₱88.00

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		For the Year Ended December 31, 2018							
	Notes	Capital Stock (Note 19)	Additional Paid-in Capital	Cost of Share-Based Payments	Other Reserves (Note 19)	Retained Earnings	Total Equity Attributable to Parent	Non-controlling Interest	Total
					(In Thousand Pesos)				
As of January 1, 2018, as previously stated		₱8,438,404	₱36,319,449	₱401,543	(₱352,375)	₱21,708,003	₱66,515,024	₱42,713	₱66,557,737
Adjustment on initial application of PFRS 15, net of tax	3	-	-	-	-	4,880,805	4,880,805	954	4,881,759
Adjustment on initial application of PFRS 9, net of tax	3	-	-	-	-	(5,581,683)	(5,581,683)	(4,843)	(5,586,526)
As of January 1, 2018, as restated		8,438,404	36,319,449	401,543	(352,375)	21,007,125	65,814,146	38,824	65,852,970
Total comprehensive income for the year		-	-	-	1,093,922	18,640,740	19,734,662	(14,797)	19,719,865
Dividends on:	19.3								
Common Stock		-	-	-	-	(12,104,579)	(12,104,579)		(12,104,579)
Preferred Stock – voting		-	-	-	-	(41,752)	(41,752)		(41,752)
Preferred Stock – non-voting		-	-	-	-	(520,060)	(520,060)		(520,060)
Cost of share-based payments	26	-	-	236,714	-	-	236,714	-	236,714
Issue of shares under share-based compensation plan	19.2	6,463	202,629	(208,221)	-		871	-	871
Exercise of stock options	19.2	371	6,173	(4,862)	-		1,682	-	1,682
Forfeiture of stock options		-	-	(7,829)	-	5,480	(2,349)	-	(2,349)
Reclassification remeasurement gains (losses) on defined benefit plans		-	-	-	(180,444)	180,444	-	-	-
Non-controlling interest arising from business combination		-	-	-	-	-	-	145	145
As of December 31, 2018		₱8,445,238	₱36,528,251	₱417,345	₱561,103	₱27,167,398	₱73,119,335	₱24,172	₱73,143,507

(Forward)

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Capital Stock (Note 19)	Additional Paid-in Capital	Cost of Share-Based Payments	Other Reserves (Note 19)	Retained Earnings	Total Equity Attributable to Parent	Non-controlling Interest	Total
		For the Year Ended December 31, 2017							
		(In Thousand Pesos)							
As of January 1, 2017		₱8,430,504	₱36,075,199	₱584,586	(₱1,072,925)	₱19,422,402	₱63,439,766	₱36,536	₱63,476,302
Total comprehensive income for the year		-	-	-	542,265	15,065,779	15,608,044	18,434	15,626,478
Dividends on:	19.3								
Common Stock		-	-	-	-	(12,091,736)	(12,091,736)	-	(12,091,736)
Preferred Stock – voting		-	-	-	-	(33,731)	(33,731)	-	(33,731)
Preferred Stock – non-voting		-	-	-	-	(520,060)	(520,060)	-	(520,060)
Cost of share-based payments	26	-	-	104,828	-	-	104,828	-	104,828
Issue of shares under share-based compensation plan	19.2	7,000	224,298	(231,298)	-	-	-	-	-
Exercise of stock options	19.2	900	19,952	(12,939)	-	-	7,913	-	7,913
Forfeiture of stock options		-	-	(43,634)	-	43,634	-	-	-
Reclassification remeasurement gains (losses) on defined benefit plans		-	-	-	178,285	(178,285)	-	-	-
Non-controlling interest adjustment arising from subscription		-	-	-	-	-	-	(223)	(223)
Non-controlling interest arising from business combination		-	-	-	-	-	-	(12,034)	(12,034)
As of December 31, 2017		₱8,438,404	₱36,319,449	₱401,543	(₱352,375)	₱21,708,003	₱ 66,515,024	₱42,713	₱66,557,737

(Forward)

Globe

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Capital Stock (Note 19)	Additional Paid-in Capital	Cost of Share-Based Payments	Other Reserves (Note 19)	Retained Earnings	Total Equity Attributable to Parent	Non-controlling Interest	Total
		For the Year Ended December 31, 2016							
		(In Thousand Pesos)							
As of January 1, 2016		₱8,429,713	₱36,057,263	₱338,008	(₱1,211,513)	₱15,778,557	₱59,392,028	₱5,754	₱59,397,782
Total comprehensive income for the year		-	-	-	138,588	15,878,415	16,017,003	10,084	16,027,087
Dividends on:	19.3								
Common Stock		-	-	-	-	(11,682,483)	(11,682,483)	-	(11,682,483)
Preferred Stock – voting		-	-	-	-	(32,027)	(32,027)	-	(32,027)
Preferred Stock – non-voting		-	-	-	-	(520,060)	(520,060)	-	(520,060)
Cost of share-based payments	26	-	-	260,269	-	-	260,269	-	260,269
Exercise of stock options	19.2	791	17,936	(13,691)	-	-	5,036	-	5,036
Non-controlling interest arising from business combination		-	-	-	-	-	-	20,698	20,698
As of December 31, 2016		₱8,430,504	₱36,075,199	₱584,586	(₱1,072,925)	₱19,422,402	₱63,439,766	₱36,536	₱63,476,302

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	2018	2017	2016
		For the Years Ended December 31		
CASH FLOWS FROM OPERATING ACTIVITIES		*(In Thousand Pesos)*		
Income before income tax		**₱27,613,316**	₱21,541,702	₱21,937,402
Adjustments for:				
Depreciation and amortization	23	**30,421,721**	27,512,689	23,848,646
Impairment and other losses	25	**4,787,644**	5,423,366	3,271,301
Interest expense – net	24	**5,975,164**	5,042,952	3,408,899
Equity in net losses of associates and joint ventures	12	**1,249,603**	846,177	855,198
Foreign exchange losses (gains) – net	24	**900,430**	(214,191)	525,024
Pension expense	26	**593,326**	621,316	594,557
Interest income	20	**(391,030)**	(139,581)	(151,589)
Cost of share-based payments	26	**236,714**	104,828	260,269
Unrealized (gain) loss on derivative instruments	21	**(82,491)**	181,340	116,960
Gain on disposal of property and equipment		**(73,088)**	(38,455)	(101,232)
(Gain) loss on settlement and remeasurement of ARO	17, 21	**(27,894)**	4,371	1,495
Gain on fair value of retained interest	12.4	**-**	(1,889,901)	-
Loss on previously held equity interest		**-**	9,103	30,186
Loss on disposal of associate		**-**	-	16,054
Operating income before working capital changes		**71,203,415**	59,005,716	54,613,170
Changes in operating assets and liabilities:				
Decrease (Increase) in:				
Trade Receivables		**(5,791,841)**	(4,865,124)	(8,210,048)
Inventories and supplies		**(1,990,025)**	914,923	(410,495)
Contract Assets		**(784,314)**	-	-
Prepayments and other current assets		**(2,327,349)**	(3,386,918)	(4,786,592)
Other noncurrent assets		**(147,569)**	(1,177,991)	754,355
Increase (Decrease) in:				
Trade payables and accrued expenses		**1,390,935**	6,711,102	478,914
Other long-term liabilities		**(1,127,092)**	(1,717,582)	448,385
Contract Liabilities and deferred revenues		**2,199,814**	419,351	152,189
Cash generated from operations		**62,625,974**	55,903,477	43,039,878
Income tax paid		**(4,775,445)**	(5,599,215)	(5,577,281)
Net cash flows from operating activities		**57,850,529**	50,304,262	37,462,597
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Property and equipment	9, 31, 17	**(42,768,194)**	(42,121,307)	(36,609,815)
Investment in joint ventures	12	**(111,200)**	(12,234,212)	(21,562,555)
Intangible assets	10	**(490,569)**	(419,920)	(135,273)
Proceeds from loans receivable		**180,000**	243,780	180,000
Proceeds from sale of property and equipment		**171,638**	118,117	170,116
Interest received		**352,302**	145,234	155,672
Dividends received		**13,852**	93,258	115,257
Proceeds from disposal of an investment in equity securities at FVOCI		**418**	-	-
Net cash outflow from deconsolidation		**-**	(1,246,965)	-
Proceeds from disposal of an investment in associate		**-**	-	16,120
Net cash inflow from acquisition of subsidiaries, net cash acquired	11	**-**	-	13,671
Net cash outflow from sale of controlling interest in subsidiary		**-**	-	(4,780)
Net cash flows used in investing activities		**(42,651,753)**	(55,422,015)	(57,661,587)

(Forward)

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the Years Ended December 31 2018	2017	2016
		(In Thousand Pesos)		
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings:				
Long-term		**₱24,156,000**	₱36,430,730	₱36,500,000
Short-term		**-**	4,600,000	21,600,000
Repayments of borrowings:				
Long-term		**(8,319,604)**	(5,953,717)	(7,993,304)
Short-term		**-**	(9,100,000)	(17,100,000)
Payments of dividends to stockholders:	19.3			
Common		**(12,104,579)**	(12,091,736)	(11,682,483)
Preferred		**(561,812)**	(553,791)	(552,087)
Exercise of stock options		**2,553**	7,913	5,036
Interest paid		**(6,607,604)**	(5,525,049)	(3,812,532)
Net cash provided by (used in) financing activities		**(3,435,046)**	7,814,350	16,964,630
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**11,763,730**	2,696,597	(3,234,360)
NET FOREIGN EXCHANGE DIFFERENCE ON CASH AND CASH EQUIVALENTS		**240,436**	(107,229)	52,833
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**11,222,220**	8,632,852	11,814,379
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	29.10, 31	**₱23,226,386**	₱11,222,220	₱8,632,852

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate Information

1.1 Globe Telecom, Inc.

Globe Telecom, Inc. (hereafter referred to as “Globe Telecom” or “The Parent Company”) is a stock corporation organized under the laws of the Philippines on January 16, 1935, and enfranchised under Republic Act (RA) No. 7229 and its related laws to render any and all types of domestic and international telecommunications services. Globe Telecom is one of the leading providers of digital wireless communications services in the Philippines under the Globe Postpaid and Prepaid, and Touch Mobile (TM) using a fully digital network. It also offers domestic and international long distance communication services or carrier services. Globe Telecom’s head office is located at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig, Metropolitan Manila, Philippines. Globe Telecom is listed in the Philippine Stock Exchange (PSE) and has been included in the PSE composite index since September 17, 2001. Major stockholders of Globe Telecom include Ayala Corporation (AC), Singapore Telecom International Pte Ltd. (Singtel) and Asiacom Philippines, Inc. None of these companies exercise control over Globe Telecom.

1.2 Innove Communications, Inc. (Innove)

Globe Telecom owns 100% of Innove, a stock corporation organized under the laws of the Philippines and enfranchised under RA No. 7372 and its related laws to render any and all types of domestic and international telecommunications services. Innove holds a license to provide digital wireless communication services in the Philippines. Innove also has a license to establish, install, operate and maintain a nationwide local exchange carrier (LEC) service, particularly integrated local telephone service with public payphone facilities and public calling stations, and to render and provide international and domestic carrier and leased line services.

On December 14, 2018, the President of the Philippines signed House Bill No. 5556 into RA No. 11151 entitled “*Act Renewing For Another Twenty Five (25) Years the Franchise Granted to Isla Communications Company, Inc. Presently* Known *as Innove Communications, Inc., Amending for the Purpose Republic Act No. 7372 entitled “An Act Granting the Isla Communications Co. a Franchise to Install, Operate and Maintain Telecommunications Services Within the Territory of the Republic of the Philippines and International Points and for Other Purposes”.* RA No. 11151 shall take effect 15 days after its publication in the Official Gazette or a newspaper of general circulation. RA No. 11151 was published in the Official Gazette and in a newspaper of general circulation on January 14, 2019.

On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal Data Center, Inc. (TechGlobal), a joint venture company formed for the purpose of operating and managing all kinds of data centers, and providing information technology-enabled, knowledge-based and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017.

1.3 GTI and Subsidiaries

Globe Telecom owns 100% of GTI. GTI was incorporated and registered under the laws of the Philippines, on November 25, 2008, as a holding company.

In July 2009, GTI incorporated a wholly owned subsidiary, GTI Corporation (GTIC), a company organized under the General Corporation Law of the United States of America, State of Delaware as a wireless and data communication services provider.

In December 2011, GTI incorporated a wholly owned subsidiary, Globe Telecom HK Limited (GTHK), a limited company organized under the Companies Ordinance of Hong Kong as a marketing and distribution company. On March 17, 2015, Globe Telecom HK Limited (GTHK) applied for a services-based operator license (SBO) with the Office of the Communications Authority in Hong Kong (OFCA) which was subsequently approved on May 7, 2015. GTHK is licensed to provide a public telecommunications service and establish and maintain a telecommunications system.

On May 10, 2013, GTI incorporated a wholly owned subsidiary, Globetel European Limited (GTEU) as holding company for the operating companies of Globe Group located in the United Kingdom, Spain and Italy.

In 2013, GTEU incorporated its wholly owned subsidiaries, UK Globetel Limited (UKGT), Globe Mobilé Italy S.r.l. (GMI), and Globetel Internacional European España, S.L. (GIEE), for the purpose of establishing operations in Europe by marketing and selling mobile telecommunications services to Filipino individuals and businesses located in the United Kingdom, Spain and Italy

On June 2, 2016, the BOD approved the cessation of the operations of UKGT, GMI and GIEE effective July 31, 2016. UKGT and GMI completed the liquidation process in 2018. The completion of the regulatory requirements on the liquidation of GIEE is still in process as of December 31, 2018.

On November 12, 2014, GTI incorporated Globetel Singapore Pte. Ltd. (GTSG), a wholly owned subsidiary, to provide international cable services that will help strengthen connectivity between Singapore and the Philippines, and for the purpose of offering full range of international data services in Singapore.

On November 25, 2014, GTSG applied for a facilities-based operations license (FBO) with Infocommunications Development Authority (IDA) in Singapore which was subsequently granted on January 7, 2015.

1.4 Kickstart and a Subsidiary

On March 28, 2012, Globe Telecom incorporated Kickstart, a stock corporation organized under the laws of the Philippines and formed for the purpose of investing in individual, corporate, or start-up businesses, and to do research, technology development and commercializing of new business ventures.

In February 2014, Kickstart acquired 40% equity interest in Flipside Publishing Services, Inc. (FPSI). Since Kickstart was able to demonstrate control over FPSI despite of less than 50% ownership interest, FPSI was assessed to be a subsidiary of Kickstart and is included in the consolidation of Globe Group. FPSI is engaged primarily to acquire publishing rights, produce, publish, market, and sell printed and electronic books (e-books) and other electronic documents and content for international and domestic sales. FPSI has ceased operations in July 2016. As of reporting date, completion of regulatory requirements on the liquidation of FPSI is still in process.

1.5 Asticom Technology, Inc. (Asticom)

On June 3, 2014, Globe Telecom signed an agreement with Azalea Technology Investments Inc. (ASTI) and SCS Computer Systems, Pte. Ltd. acquiring 100% ownership stake in Asticom. Asticom is primarily engaged in providing manpower, business process and shared service support.

1.6 Globe Capital Venture Holdings Inc. (GCVHI)

On June 29, 2015, Globe Telecom incorporated its wholly owned subsidiary, GCVHI. On July 8 and October 13, 2015, GCVHI incorporated its wholly owned subsidiaries, GFI and Adspark Holdings, Inc. (AHI), respectively. GCVHI, GFI and AHI (collectively referred here as "GCVHI Group") are holding companies for Globe Telecom's non-core businesses.

On August 5, 2016, GFI incorporated its wholly-owned subsidiary, Fuse Lending, Inc. (Fuse), to operate as a lending company.

On February 7, 2017, the ownership of GXI was transferred from Globe Telecom to Globe Fintech Innovations Inc. (GFI) /Mynt, a wholly owned subsidiary of GCVHI. (see Note 1.10)

On September 27, 2017, GFI/Mynt received the capital infusion from Alipay and Ayala in exchange for GFI/Mynt's common shares. The issuance of shares to Alipay and Ayala diluted GCVHI's ownership interest to 45% and resulted in a loss of control in GFI/Mynt. Thereafter, investment in GFI/Mynt was accounted for as a joint arrangement since no single party controls the arrangement and approvals of all parties are required for business decisions (see Note 12.4)

1.7 Bayan Telecommunications Inc. (BTI)

On July 2, 2015, BTI issued additional shares to Globe Telecom following the approval of National Telecommunications Commission (NTC) on the conversion of BTI's Tranche A convertible debt to equity. The conversion increased the ownership of Globe Telecom on BTI's outstanding shares from 38% to 54% controlling interest. On July 20, 2015, Globe Telecom acquired additional voting shares of BTI, which further increased its controlling interest to 99%. BTI is a facilities-based provider of data services and fixed-line telecommunications.

BTI's subsidiaries are: Radio Communications of the Philippines, Inc. (RCPI), Telecoms Infrastructure Corp. of the Philippines (Telicphil), Sky Internet, Incorporated (Sky Internet), GlobeTel Japan (formerly BTI Global Communications Japan, Inc.), BTI Global Communications Ltd. (BTI - UK), and NDTN Land, Inc. (NLI), (herein collectively referred to as "BTI Group"). On April 8, 2016, RCPI sold its 100% interest in Alarmnet Inc. to a third party amounting to ₱0.5 million. A Deed of Assignment was executed on March 31, 2016, assigning the receivables of RCPI from Alarmnet Inc. to the buyer amounting to ₱42.31 million.

In July 2016, BTI - UK ceased its operations. The formal notice on the final dissolution of BTI-UK effective March 14, 2017 was received from Companies House in UK. On May 30, 2017, the Management Committee, with representation of at least sixty-seven percent of the total voting interest, approved the termination of the Agreement on the Construction, Operation and Maintenance of the National Digital Transmission Network dated November 28, 1996, as well as the dissolution of Telicphil and NDTN Land, Inc.

1.8 TaoDharma Inc. (Tao)

In March 2013, Globe Telecom entered into a Shareholders' Agreement with four other entities to incorporate Tao. Globe Telecom subscribed to 25% preferred shares of Tao. Tao was established to operate and maintain retail stores in strategic locations within the Philippines that will sell telecommunications or internet-related services, and devices, gadgets and accessories.

On November 4, 2016, Globe Telecom increased its ownership interest on Tao from 25% to 67% controlling interest for a total consideration of ₱207.34 million. The transaction was accounted for as an acquisition of a subsidiary.

1.9 GTowers Inc (GTowers)

On August 17, 2018 GTowers was incorporated as a wholly owned subsidiary of Globe Telecom. As of December 31, 2018, GTowers is still under pre-operating stage.

1.10 G-Xchange, Inc. (GXI)

On August 23, 2004, Globe Telecom incorporated GXI, a wholly owned subsidiary. GXI is a stock corporation organized under the laws of the Philippines and formed for the purpose of developing, designing, administering, managing and operating software applications and systems, including systems designed for the operations of bill payment and money remittance, payment facilities through various telecommunications systems operated by telecommunications carriers in the Philippines and throughout the world and to supply software and hardware facilities for such purposes. GXI is registered with the Bangko Sentral ng Pilipinas (BSP) as a remittance agent and electronic money issuer. GXI handles the mobile payment and remittance service using Globe Telecom's network as transport channel under the GCash brand.

On February 7, 2017, pursuant to the approval of the Board of Directors (BOD) through its Executive Committee, the ownership of GXI was transferred from Globe Telecom to Globe Fintech Innovations Inc. (GFI) /Mynt, a wholly owned subsidiary of GCVHI.

On February 17, 2017, Globe Telecom and its wholly-owned subsidiaries, GFI and Globe Capital Venture Holdings Inc. (GCVHI) entered into an investment agreement with Alipay Singapore Holdings PTE. LTD. (Alipay) and Ayala Corporation (Ayala) for Alipay and Ayala to invest in the unissued common shares of GFI, subject to the fulfillment of certain conditions. On September 27, 2017, following the approval from PCC, GFI/Mynt received the capital infusion from Alipay and Ayala amounting to ₱2,784.60 million in exchange for GFI/Mynt's 513.00 million common shares. The issuance of shares to Alipay and Ayala diluted GCVHI's ownership interest to 45% and resulted in a loss of control in GFI/Mynt. Thereafter, investment in GFI/Mynt was accounted for as a joint arrangement since no single party controls the arrangement and approvals of all parties are required for business decisions (see Note 12.4).

2 Summary of Significant Accounting Policies

2.1 Basis of Preparation and Presentation

The consolidated financial statements of Globe Telecom, Inc. and its subsidiaries, collectively referred to as the "Globe Group", have been prepared under the historical cost convention method, except for:

- certain financial instruments carried at fair value
- certain financial instruments carried at amortized cost;
- inventories carried at net realizable value;
- investments in associates and joint ventures in which equity method of accounting is applied;
- retirement benefit obligation measured at the present value of the defined benefit obligation net of the fair value of the plan assets

The consolidated financial statements of the Globe Group are presented in Philippine Peso (₱), which is Globe Telecom's functional currency, and rounded to the nearest thousands, except when otherwise indicated.

On February 11, 2019, the BOD approved and authorized the release of the consolidated financial statements of Globe Telecom, Inc. and its subsidiaries as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018.

2.2 Statement of Compliance

The consolidated financial statements of the Globe Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC), and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and the Board of Accountancy, and adopted by the Securities and Exchange Commission (SEC).

2.3 Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Globe Telecom and the following subsidiaries:

Name of Subsidiary	Place of Incorporation	Principal Activity	Parent Company's Percentage of Ownership 2018	2017
Innove	Philippines	Wireline voice and data communication services	**100%**	100%
GTI	Philippines	Holding company	**100%**	100%
GTIC	United States	Wireless and data communication services	**100%**	100%
GTHK	Hong Kong	Marketing and distributing company	**100%**	100%
GTSG	Singapore	Wireless and data communication services	**100%**	100%
GTEU	United Kingdom	Holding company	**100%**	100%
UKGT[3]	United Kingdom	Wireless and data communication services	**-**	100%
GMI[3]	Italy	Wireless and data communication services	**100%**	100%
GIEE[1]	Spain	Wireless and data communication services	**100%**	100%
KVI	Philippines	Venture capital company	**100%**	100%
FPSI[1]	Philippines	E-book solutions	**40%**	40%
Asticom	Philippines	Support and shared services provider	**100%**	100%
GCVHI	Philippines	Holding Company	**100%**	100%
GFI[4]	Philippines	Holding company	**45%**	45%
Fuse[4]	Philippines	Lending company	**45%**	45%
GXI[4]	Philippines	Fintech Company	**45%**	45%
AHI	Philippines	Holding company	**100%**	100%
AI	Philippines	Advertising company	**100%**	100%
Socialytics	Philippines	Advertising company	**70%**	70%
BTI	Philippines	Wireline voice and data communication services	**99%**	99%
RCPI	Philippines	Wireline communication services	**91%**	91%
Telicphil[1]	Philippines	Telco equipment administration and maintenance	**58%**	58%
Sky Internet	Philippines	Data communication services	**100%**	100%
GlobeTel Japan	Japan	Wireless and data communication services	**100%**	100%
BTI – UK[2]	United Kingdom	Wireless and data communication services	**-**	-
NLI	Philippines	Land holding company	**70%**	70%
Tao	Philippines	Distributing company	**67%**	67%
G Towers, Inc.[5]	Philippines	Tower company	**100%**	-

[1] *Ceased operations*

[2] *Liquidated in 2017*

[3] *Liquidated in 2018*

[4] *Deconsolidated in 2017 due to loss of control*

[5] *Incorporated in 2018*

2.4 Business Combination and Goodwill

Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Globe Group, liabilities incurred by the Globe Group to the former owners of the acquiree and the equity interest issued by the Globe Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with PAS 12,Income Taxes and PAS 19, Employee Benefits, respectively;
- liabilities and equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangement of the Globe Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with PFRS 2, Share-based Payment, at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with PFRS 5 Non-current assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the consolidated profit or loss as bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in another PFRS.

When the consideration transferred by the Globe Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the changes in fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with PFRS 9, Financial Instruments, or PAS 37, Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Globe Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amount arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Globe Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2.4.1 Consolidation procedures

The assets, liabilities, income and expense of subsidiaries are consolidated from the date on which control is transferred to the Parent Company and ceases to be consolidated from the date on which control is transferred out of Parent Company.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company as well as accounting policies for like transactions and other events in similar circumstances. When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with the Globe Group's accounting policies.

All significant intercompany balances and transactions, including intercompany profits and losses, were eliminated in full during consolidation.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Globe Group's foreign operations are translated into Philippine Peso using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising from the translation, if any, are recognized in other comprehensive income and accumulated in equity reserves.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity reserves in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

2.4.2 Determination of control

The Parent Company controls an investee if and only if the Parent Company has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Parent Company's voting rights and potential voting rights.

The Globe Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

2.4.3 Non-controlling interest

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Globe Group. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly-owned and are presented in the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position, separately from the equity attributable to the Parent.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent and to the non-controlling interests, even if this results in the non-controlling interests having deficit balance.

2.4.4 Changes in ownership without loss of control

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The carrying amounts of the Globe Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Parent.

2.4.5 Changes in ownership with loss of control

If the Globe Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

2.5 Financial Instruments

2.5.1 Initial Recognition

Financial instruments are recognized in the Globe Group's consolidated statements of financial position when the Globe Group becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, i.e., the date that the Globe Group commits to purchase or sell the asset.

Financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of the Group's financial assets, except for financial instruments classified at fair value through profit or loss (FVPL).

2.5.2 Classification and Subsequent Measurement of Financial Assets

The Globe Group classifies its financial assets into the following categories: financial assets at FVPL, financial assets at amortized cost and financial assets at fair value through other comprehensive income.

2.5.2.1 Financial assets at FVPL

The Globe Group classifies the following investments as financial assets at FVPL:

- investments in equity securities unless irrevocably elected at initial recognition to be measured at FVOCI;
- investments in debt instruments held within a business model whose objective is to sell prior to maturity or has contractual terms that does not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, unless designated as effective hedging instruments under a cash flow hedge;
- investments that contain embedded derivatives; and
- investment in debt instruments designated as financial assets at FVPL at initial recognition;

Financial assets at FVPL are carried at fair value at the end of each reporting period with any resultant gain or loss recognized in profit or loss.

Financial assets classified under this category are disclosed in Note 29*.*

2.5.2.2 Financial assets at amortized cost

Investments in debt instrument, trade and other receivables that are held within a business model whose objective is to collect the contractual cash flows and has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are classified as financial assets at amortized cost, unless the asset is designated at fair value through profit or loss (FVPL) under the fair value option.

Subsequent to initial recognition, financial assets classified under this category are measured at amortized cost using effective interest method, less any impairment.
The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is not material.

Financial assets classified under this category are disclosed in *Note 29.*

2.5.3 Impairment of Financial Assets at amortized cost

The Globe Group assesses at end of the reporting date whether a financial asset or group of financial assets is impaired.

The Globe Group recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Globe Group applies the simplified ECL approach and always recognizes lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated based on the characteristics of the product and payment behavior of the subscriber at the reporting date.

For all other financial instruments, the Globe Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Globe Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Globe Group measures ECL on an individual basis, or on a collective basis for portfolios of receivables that share similar economic risk characteristics.

Significant increase in credit risk

In assessing whether the credit risk on non-trade receivables has increased significantly since initial recognition, the Globe Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Globe Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Globe Group presumes that the credit risk on non-trade receivables has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Globe Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Globe Group assumes that the credit risk on non-trade receivables has not increased significantly since initial recognition if the instrument is determined to have low credit risk at the reporting date. The Globe Group considers a financial asset to have low credit risk when the counterparty has a strong financial position and there is no past due amounts. An instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Globe Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For subscribers receivable and contract assets, the Globe Group considers that default has occurred when the subscriber has been permanently disconnected.

For all other receivables, The Globe Group considers the following as constituting an event of default as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Globe Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Globe Group considers that default has occurred when a financial asset is more than 90 days past due unless the Globe Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, (e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the Group has effectively exhausted all collection efforts). Financial assets written off may still be subject to enforcement activities under the Globe Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, this is represented by the assets' gross carrying amount at the reporting date.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Globe Group in accordance with the contract and all the cash flows that the Globe Group expects to receive, discounted at the original effective interest rate.

If the Globe Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Globe Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets such as trade receivables and contract assets for which simplified approach was used.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2.5.3.1 Financial assets at fair value through other comprehensive income

The Globe Group classifies the following investments as financial assets at FVOCI:

- Investments in debt instrument that is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, unless the asset is designated at FVPL under the fair value option;
- Investments in equity securities irrevocably elected to be measured at FVOCI; and
- Derivative designated as effective hedging instruments under cash flow hedges.

Financial assets at FVOCI are carried at fair value at the end of each reporting period. Changes in the carrying amount financial assets at FVOCI arising from movements in fair value are recognized in other comprehensive income and accumulated in other equity reserves. When the investment is disposed of, the cumulative gain or loss previously accumulated in equity reserves is reclassified directly to retained earnings.

Financial assets classified under this category are disclosed in *Notes 29.*

2.5.4 Classification of financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument.

2.5.4.1 Classification and Subsequent Measurement of Financial liabilities

The Globe Group further classifies its financial liabilities into financial liabilities at FVPL and financial liabilities at amortized cost. The classification depends on the nature and purpose of the financial liability and is determined at the time of initial recognition.

2.5.4.1.1 Financial Liabilities at FVPL

This category consists of financial liabilities that were designated by management as FVPL on initial recognition and derivative financial liabilities not designated as effective hedging instruments under cash flow hedges.

Financial liabilities at FVPL are carried in the consolidated statements of financial position at fair value, with changes in fair value recognized in profit or loss.

Financial liabilities classified under this category are disclosed in *Note 29*.

2.5.4.1.2 Financial Liabilities at Amortized Cost

Loans, trade and other payables which are not designated as financial liabilities at FVPL are classified as financial liabilities at amortized cost. Financial liabilities classified under this category are subsequently measured at amortized cost using the effective rate method (See *Note 2.5.2.2*). Financial liabilities classified under this category is disclosed in *Note 29*.

2.5.4.1.3 Equity instruments

Capital Stock

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of that transaction and are deducted from additional paid-in capital, net of related income tax benefits.

Additional Paid-in Capital

Additional paid-in capital includes any premium received in excess of par value on the issuance of capital stock.

Retained Earnings

Retained earnings represent accumulated profit attributable to equity holders of the Parent Company after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

2.5.5 Derivative Instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment. The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in the consolidated profit or loss. To qualify for hedge accounting, the hedging relationship must comply with requirements such as the designation of the derivative as a hedge of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment (both prospective and retrospective bases) and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments.

Upon inception of the hedge, the Globe Group documents the relationship between the hedging instrument and the hedged item, its risk management objective and strategy for undertaking various hedge transactions, and the details of the hedging instrument and the hedged item. The Globe Group also documents its hedge effectiveness assessment methodology, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge effectiveness is likewise measured, with any ineffectiveness being reported immediately in the consolidated profit or loss.

2.5.5.1 Types of Hedges

The Globe Group designates derivatives which qualify as accounting hedges as either:

- a hedge of the fair value of a recognized fixed rate asset, liability or unrecognized firm commitment (fair value hedge); or
- a hedge of the cash flow variability of recognized floating rate asset and liability or forecasted sales transaction (cash flow hedge).

Fair Value Hedges

Fair value hedges are hedges of the exposure to variability in the fair value of recognized assets, liabilities or unrecognized firm commitments. The gain or loss on a derivative instrument designated as a fair value hedge, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in the consolidated profit or loss in the same accounting period. Hedge effectiveness is determined based on the hedge ratio of the fair value changes of the hedging instrument and the underlying hedged item. When the hedge ceases to be highly effective, hedge accounting is discontinued.

Cash Flow Hedges

A cash flow hedge is a hedge of the exposure to variability in future cash flows related to a recognized asset, liability or a forecasted sales transaction. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and accumulated in equity reserves. Any hedge ineffectiveness is immediately recognized in the consolidated profit or loss.

If the hedged cash flow results in the recognition of a nonfinancial asset or liability, gains and losses previously recognized in other comprehensive income are transferred from equity and included in the initial measurement of the cost or carrying value of the asset or liability. Otherwise, for all other cash flow hedges, gains and losses initially recognized in equity are transferred to consolidated profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect earnings.

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been recognized in OCI is retained in equity reserves until the hedged transaction impacts consolidated profit or loss. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously recognized in equity reserves is immediately reclassified in the consolidated profit or loss.

2.5.6 Other Derivative Instruments Not Accounted for as Accounting Hedges

Certain freestanding derivative instruments that provide economic hedges under the Globe Group's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated profit or loss.

2.5.7 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.5.8 Derecognition of Financial Instruments

2.5.8.1 Financial Asset

The Globe Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when the Globe Group transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Globe Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Globe Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Globe Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Globe Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable are recognized in profit or loss.

2.5.8.2 Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. On derecognition of financial liabilities, the difference between the carrying amount of the financial liability derecognized and the sum of consideration paid and payable is recognized in profit or loss.

2.6 Inventories

Inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value. The costs of inventories are calculated using the moving average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

When the net realizable value of the inventories is lower than the cost, the Globe Group provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in the consolidated profit or loss. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

2.7 Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the consolidated statement of financial position as current assets when the cost of goods or services related to the prepayments are expected to be incurred within one year. Otherwise, prepayments are classified as non-current assets.

2.8 Value Added Tax (VAT)

Input VAT is recognized when the Globe Group purchases goods or services from a VAT registered supplier or vendor. This account is offset against any output VAT previously recognized. Input VAT on capital goods exceeding ₱1 million and input VAT from purchases of goods and services which remain unpaid at each reporting date are recognized as “Deferred input VAT” presented under “Prepayments and Other Current Assets”.

2.9 Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Major spare parts and stand-by equipment qualify as property and equipment when the Globe Group expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property and equipment, they are accounted for as property and equipment.

At the end of each reporting period, items of property and equipment are carried at cost less any subsequent accumulated depreciation and impairment losses.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Globe Group. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

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Depreciation is computed on the straight-line method based on the estimated useful lives (EUL) of the assets as follows:

	Years
Telecommunications equipment:	
Tower	20
Switch	7-10
Outside plant, cellsite structures and improvements	10-20
Distribution dropwires and other wireline asset	2-10
Cellular equipment and others	3-10
Buildings	20
Cable systems	5-20
Office equipment	3-7
Transportation equipment	3-5

Leasehold improvements are amortized over the shorter of their EUL of 5 years or the corresponding lease terms.

The EUL of property and equipment are reviewed annually based on expected asset utilization of expected future technological developments and market behavior.

Assets in the course of construction are carried at cost, less any recognized impairment loss. These are transferred to the related property and equipment account when the construction or installation and the related activities necessary to prepare the property and equipment for their intended use are complete, and the property and equipment are ready for service. Depreciation of these assets, on the same basis as other property assets, commences at the time the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.

2.10 Intangible Assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially recognized at cost. Subsequent to initial recognition, Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following conditions have been demonstrated:

- technical feasibility of completing the intangible asset so that it will be available for use or sale;
- intention to complete the intangible asset and use or sell it;
- ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are recognized initially at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortization of intangible asset is computed based on the EUL of the assets below:

	Years
Software	3-10
Spectrum and franchise	10
Customer contracts	4

Derecognition of Intangible assets

Intangible assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.

2.11 Investments in Associate and Joint Venture

An associate is an entity over which the Globe Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture (JV) is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associate or JV are measured initially at cost. Subsequent to initial recognition, the Globe Group's investments in its associate and JV are accounted for using the equity method. Under the equity method, the investments in an associate and JV are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Globe Group's share in net assets of the associate and JV, less any allowance for impairment losses. The profit or loss includes the Globe Group's share in the results of operations of its associate or JV. Any change in OCI of those investees is presented as part of the Globe Group's OCI. In addition, where there has been a change recognized directly in the equity of the associate or JV, the Globe Group recognizes its share of any changes and discloses this, when applicable, directly in equity.

When the share of losses recognized under the equity method has reduced the investment to zero, the Globe Group shall discontinue recognizing its share of further losses and apply it to other interests that, in substance, form part of the Globe Group's net investment in the associate or JV. If the associate or JV subsequently reports profits, the Globe Group will resume recognizing its share of those profits only after its share of the profits equal the share in losses not recognized.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Globe Group.

Upon loss of significant influence over the associate or joint control over the joint venture, the Globe Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated profit or loss.

2.12 Impairment of Nonfinancial Assets

At the end of each reporting period, the Globe Group assesses whether there is any indication that any of its tangible and intangible assets with definite life may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income. Impairment losses relating to goodwill cannot be reversed in future periods.

2.13 Provisions

Provisions are recognized when the Globe Group has a present obligation, either legal or constructive, as a result of a past event and it is probable that the Globe Group will be required to settle the obligation through an outflow of resources embodying economic benefits, and the amount of the obligation can be estimated reliably.

The amount of the provision recognized is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the cash flows estimated to settle the present obligation; its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at end of each reporting period and adjusted to reflect the current best estimate.

If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.

2.13.1 Asset Retirement Obligation (ARO)

The net present value of legal obligations associated with the retirement of an item of property and equipment that resulted from the acquisition, construction or development and the normal operation of property and equipment is recognized in the period in which it is incurred. The retirement obligation is initially measured at the present value of the estimated future dismantlement or restoration cost using current market borrowing rates. Subsequently, the discount is amortized as interest expense.

Changes in Existing Decommissioning, Restoration and Similar Liabilities

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, are accounted as follows;

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period, except that the amount deducted from the cost of the asset must not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss; and
- if the adjustment results in an addition to the cost of an asset, the entity should consider whether this may indicate that the new carrying amount of the asset may not be fully recoverable. If so, the asset should be tested for impairment.

2.14 Contingent liabilities and contingent assets

Contingent liabilities and assets are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Globe Group.

Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are disclosed only if an inflow of economic benefits is probable.

2.15 Revenue Recognition

Revenue is measured based on the consideration specified in an arrangement with the customer, net of any amounts collected on behalf of third parties. The Globe Group recognizes revenue upon transfer of control of a product or service to a customer.

In arrangements where another party is involved in providing the services, the Globe Group assesses whether the nature of its promise in the arrangement is to provide the specified services itself or arrange for those services to be provided by the other party. If the promise in an arrangement is to provide the services itself, the Globe Group recognizes the service revenue at gross amount of consideration, with the amount remitted to the other party being recognized as expense. However, if the promise is to simply arrange for those services to be provided by the other party, the Globe Group recognizes service revenues equivalent only to the extent of fees or commission to which it expects to be entitled in exchange for arranging the services.

The Globe Group recognizes revenues from the following sources:

- Mobile services provided to subscribers at prepaid or postpaid arrangements such as Short Messaging Services (SMS), voice, data communication, and other value added services (Note 2.15.1);
- Wireline services provided to subscribers under subscription arrangements such as, voice, corporate communication, and home broadband internet (Note 2.15.1);
- Inbound traffic originating from other telecommunications providers that terminates at Globe Group's network (Note 2.15.2);
- Inbound roaming due from foreign carriers (Note 2.15.3);
- Postpaid wireless communication services bundled with sale of handsets and other devices (Note 2.15.4);
- Postpaid wireline communication services bundled with equipment installation services (Note 2.15.5);
- Leases, interests and dividends (Note 2.15.7).

2.15.1 Mobile and wireline services

Monthly service fees from mobile and wireline services under postpaid subscriptions are recognized as service revenues throughout the subscription period.

Proceeds from over-the-air reloading channels and sale of prepaid cards are initially recognized as deferred revenues. These are eventually charged as service revenues upon actual usage of load value. Any unused remaining load value after the prescribed validity period are immediately recognized as service revenue.

Subscription to promotional offer of SMS, voice, data communication, broadband internet, and other services, are recognized as service revenue over the promotional period.

2.15.2 Inbound traffic

Inbound traffic originating from other telecommunications providers that terminates at the Globe Group's network are recognized as service revenues in the period the inbound traffic occurred based on agreed rates with the other telecommunication providers.

2.15.3 Inbound roaming services

Service revenues from foreign carriers for inbound roaming transactions at the Globe Group's network are recognized in the period the inbound roaming connection is provided.

2.15.4 Postpaid mobile services and sale of mobile handsets and other devices

The Globe Group provides postpaid wireless communication services which are bundled with sale of mobile handsets and other devices. The postpaid wireless communication services and the sale of devices are considered two separate performance obligations which are capable of being distinct and separately identifiable. The Globe Group allocates the contract consideration between the two performance obligations based on their corresponding relative stand-alone selling prices. The stand-alone selling prices are determined based on the expected cost plus margin approach. The amount allocated to the postpaid wireless communication service is recognized as service revenue over the period of subscription. Any amount allocated to the sale of device is immediately recognized as non-service revenue upon delivery of the item. Contract assets are recognized for the unbilled portion of the consideration allocated to the sale of devices which are subsequently amortized on a straight-line basis over the contract period.

The Globe Group does not make any adjustments for the significant financing component on contract assets since it expects that the period between the delivery of the handset up to the date of its full settlement will not exceed one year from the contract inception

2.15.5 Postpaid subscription to wireline services and equipment installation services

The Globe Group provides equipment installation services which are bundled with postpaid wireline services. The promise to install the equipment is not considered as a distinct service from the postpaid wireline service since the subscriber may not be able to benefit from the installation services without the availability of the postpaid wireline services. Accordingly, the two services are deemed as one performance obligation.

Service revenues from the equipment installation and postpaid wireline services are recognized over time throughout the period of subscription. Outright payments received from the installation services are initially recognized as contract liabilities and subsequently charged as service revenues over the period of subscription.

2.15.6 Globe Rewards

The Globe Group operates Globe Rewards Program through which subscribers accumulate points upon purchase of certain products and services. The Globe Rewards points may be redeemed in the form of mobile promos, bill rebates, gadgets and gift certificates, or use the earned points as cash at partner stores. The promise to provide free products and rebates to the subscribers give rise to a performance obligation that is distinct and separately identifiable. Accordingly, the Globe Group allocates a portion of the transaction price from its service revenues to Globe Rewards points awarded to subscribers based on its relative stand-alone selling price. The stand-alone selling price per point is estimated based on the discount or free products to be given when the points are redeemed by the subscriber. Amounts allocated to Globe Rewards points are initially recognized as deferred revenues and subsequently charged as service revenues either upon redemption of points or upon expiration.

2.15.7 Other income

2.15.7.1 Interest

Interest income is recognized as it accrues using the effective interest rate method

2.15.7.2 Lease

Lease income from operating lease is recognized on a straight-line basis over the lease term.

In a finance lease arrangement, the present value of the aggregate of the minimum lease receivable and any unguaranteed residual value accruing to the Globe Group are immediately recognized as income.

2.15.7.3 Dividend

Dividend income is recognized when the Globe Group's right to receive payment is established.

2.15.8 Deferred contract costs

Costs to obtain contracts with customers that would not have been incurred if the contracts were not obtained are recognized as deferred contract costs. Deferred contract costs are subsequently recognized as expense on a straight-line basis over the contract period.

Costs to obtain contracts with customers that would have been incurred irrespective of whether the contract were obtained are immediately recognized as expense.

Costs incurred to fulfill a contract are capitalized as deferred contract costs if all of the following conditions are met;

- The costs relate directly to a contract or to an anticipated contract that the Globe Group can specifically identify;
- The costs generate or enhance resources of the Globe Group that will be used in satisfying performance obligation in the future; and
- The costs are expected to be recovered.

2.16 Expense recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the consolidated profit or loss on the basis of: (i) a direct association between the costs incurred and the earning of specific items of income; (ii) systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or (iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Expenses in the statements of comprehensive income are presented using the nature of expense method.

2.17 Staff Costs

2.17.1 Short-term benefits

The Globe Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Globe Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

2.17.2 Post Employee benefits

The Globe Group has a funded non-contributory defined benefit retirement plan. For the defined benefit retirement plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurements, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statements of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- Net interest expense or income
- Remeasurement

The Globe Group presents service cost and interest in the consolidated profit or loss in the line item pension costs and finance cost, respectively. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the statements of financial position represents the present value of the defined benefit obligation as reduced by the fair value of plan assets.
Plan assets are assets held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Globe Group, nor can they be paid directly to the Globe Group. Fair value of plan assets is based on market price information.

2.18 Share-based Payment Transactions

The cost of equity-settled transactions with employees and directors is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will vest.

The cost of equity-settled transactions is recognized in the consolidated profit or loss, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the management of the Globe Group at that date, based on the best available estimate of the number of equity instruments, will ultimately vest. Costs of exercised awards plus the corresponding strike amount are reclassified to the appropriate capital accounts.

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

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (EPS).

2.19 Borrowing Costs

Borrowing costs are capitalized if these are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities for the asset's intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. Borrowing costs include interest charges and other related financing charges incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

Other borrowing costs are recognized as expense in the period in which these are incurred.

2.20 Leases

2.20.1 Globe Group as Lessee

Finance leases, which transfer to the Globe Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in the "Property and equipment" account with the corresponding liability to the lessor included in the "Other long-term liabilities" account in the consolidated statements of financial position. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly as "Interest expense" in the consolidated profit or loss.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated profit or loss on a straight-line basis over the lease term.

2.21 Foreign Currency Transactions

Transactions in currencies other than functional currency of the entities included in the Globe Group are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in currencies other than the functional currencies of the entities in the Globe Group are retranslated at the rates prevailing at the end of the reporting period. Gains and losses arising on retranslation are included in the consolidated profit or loss for the year. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

2.22 Income Tax

Income tax expense represents the sum of the current tax expense and deferred tax.

2.22.1 Current Income Tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

2.22.2 Deferred Income Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Current tax and deferred tax for the year are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination

2.23 Earnings per share (EPS)

Basic EPS is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period.

Diluted EPS is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period, and adjusted for the effect of dilutive options and dilutive convertible preferred shares. Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. If the required dividends to be declared on convertible preferred shares divided by the number of equivalent common shares, assuming such shares are converted, would decrease the basic EPS, then such convertible preferred shares would be deemed dilutive. Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have anti-dilutive effect, basic and diluted EPS are stated at the same amount.

2.24 Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible to the Globe Group.

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

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

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

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

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

For the purpose of fair value disclosures, the Globe Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.25 Operating Segment

The Globe Group's major operating business units are the basis upon which the Globe Group reports its primary segment information. The Globe Group's business segments consist of:
(1) mobile communication services; and

(2) wireline communication services.

All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Globe Group generally accounts for intersegment revenues and expenses at agreed transfer prices.

2.26 Events after the Reporting Period

Any post period-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Globe Group's position at the end of reporting period (adjusting event) is reflected in the consolidated financial statements. Any post period-end event that is not an adjusting event is disclosed in the consolidated financial statements when material.

3 Adoption of New Standards, Amendments to Standards and Interpretations

The following new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and issued by the FRSC in the Philippines were adopted by the Globe Group effective on January 1, 2018:

3.1 PFRS 15, Revenue from Contracts with Customers and PFRS 9, Financial Instruments

The following table shows the individual line items affected by the adjustments from the adoption of PFRS 15 and 9. Accounts not affected by the new standards are excluded in the presentation.

	December 31, 2017	Effect of PFRS 9	Effect of PFRS 15	January 1, 2018
ASSETS		*(In Thousand Pesos)*		
Trade receivables – net	₱27,304,288	(₱7,980,751)	(₱640,605)	₱18,682,932
Contract assets and deferred contract costs	-	-	8,002,909	8,002,909
Deferred income tax assets – net	2,761,626	390,432	(276,284)	2,875,774
LIABILITIES AND EQUITY				
Liabilities				
Unearned revenues	5,509,773	-	(5,509,773)	-
Contract liabilities and deferred revenues	-	-	5,898,136	5,898,136
Deferred income tax liabilities – net	2,748,826	(2,003,793)	1,815,898	2,560,931
Equity				
Retained earnings	21,708,003	(5,581,683)	4,880,805	21,007,125
Non-controlling interest	42,713	(4,843)	954	38,824

In adopting PFRS 15 and PFRS 9, the Globe Group used the modified retrospective approach wherein the cumulative effect of the initial application of the standards were recognized at January 1, 2018, and the comparative periods were not restated.

3.1.1 Impact of Adoption of PFRS 15

PFRS 15, Revenue from Contracts with Customers

The standard combines, enhances, and replaces specific guidance on recognizing revenue with a single standards. An entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

It defines a new five-step model to recognize revenue from customer contracts:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

Amendments to PFRS 15 - Clarifications to PFRS 15

The amendments in the standard addresses three topics namely identifying performance obligations, principal versus agent considerations, and licensing and provide some transition relief for modified contracts and completed contracts.

- Added a clarification that the objective of the assessment of a promise to transfer goods or services to a customer is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs.
- Clarification on how to assess control in in determining whether a party providing goods or services is a principal or an agent
- Clarification on when an entity's activities significantly affect the intellectual property by amending the application guidance.

3.1.1.1 Contract Assets

Globe Group provides wireless communication services to subscribers which are bundled with handset sales. Prior to adoption of PFRS 15, the Globe Group recognizes revenues from the bundled products based on billed amounts.

Under PFRS 15, the Globe Group assessed that the performance obligations from the wireless communication services and the sale of handsets are both capable of being distinct and separately identifiable. In compliance with the transaction price allocation requirements of PFRS 15, the Globe Group performed a re-allocation of contract consideration based on the relative stand-alone selling prices of each performance obligation (Note 2.15.4). This resulted a decrease in the amount of revenues previously allocated to wireless communication services and increase in the amount of revenues previously allocated to handset sales. Accordingly, the Globe Group recognized contract assets, which represent the unbilled portion of the consideration that was re-allocated to the handset sales, amounting to ₱6,389.04 million with a corresponding net of tax adjustments to retained earnings amounting to ₱4,023.90 million.

As a practical expedient provided by PFRS 15, the Globe Group did not make any adjustments for the significant financing component on contract assets since it expects that the period between the delivery of the handset up to the date of its full settlement will not exceed one year from the contract inception.

3.1.1.2 Deferred Contract Costs

In providing service revenues, the Globe Group incurs commissions and installation costs. Prior to the adoption of PFRS 15, these costs were recognized immediately as expense.

Under PFRS 15, the Globe Group assessed and concluded that certain commissions and installation costs are incremental costs incurred in obtaining and fulfilling its contracts with subscribers and should be capitalized and deferred over the contract period. Accordingly, the Globe Group recognized deferred contract costs of ₱1,613.87 million with corresponding adjustments to retained earnings and non-controlling interests amounting to ₱1,128.22 million, and ₱0.73 million, respectively. The deferred contract costs are subsequently recognized as expense on a straight-line basis over the period when the related performance obligations are satisfied.

3.1.1.3 Contract Liabilities and Deferred Revenues

The Globe Group provides equipment installation services bundled together with wireline communication services. Prior to adoption of PFRS 15, the Globe Group accounts for these transactions as two separate revenue streams. Revenues from equipment installation services are recognized upon completion of the installation work while revenue from wireline communication services are recognized over time as services are rendered over the period of subscription.

Upon adoption of PFRS 15, the Globe Group assessed that the installation services is not distinct from the wireline communication services and thus deemed as one performance obligation and that revenues from the installation and wireline communication services shall be recognized over time throughout the period of the subscription contract *(Note 2.15.5)*. Accordingly, Globe Group recognized contract liabilities representing payments received for the installation services amounting to ₱388.36 million with corresponding reduction to retained earnings and non-controlling interests amounting to ₱271.62 million and ₱0.23 million, respectively. The contract liability is recognized as revenue on a straight-line basis over the term of the subscription contract.

The adoption of PFRS 15 had no impact on unearned revenues from the prepaid segment already recognized prior to the date of initial application.

The contract liabilities from wireline services and unearned revenues from wireless subscribers under prepaid arrangements, advance monthly service fees and unredeemed customer award credit under customer loyalty program were presented together as a single item in the statements of financial position under contract liabilities and other deferred revenues account.

3.1.2 Impact of Adoption of PFRS 9

PFRS 9, Financial Instruments

This standard consists of the following three phases:

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement under this standard, all recognized financial assets that are currently within the scope of PAS 39 will be subsequently measured at either amortized cost or fair value. Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortized cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVPL) under the fair value option.
- A debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVOCI, unless the asset is designated at FVPL under the fair value option.
- All other debt instruments must be measured at FVPL.
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognized in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVOCI, with dividend income recognized in profit or loss.

This standard also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. Under this standard, changes in the fairvalue of a financial liability designated at FVPL attributable to changes in the credit risk shall be presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Phase 2: Impairment methodology

The impairment model under this standard reflects expected credit losses, as opposed to incurred credit losses under PAS 39. Under the impairment approach of this standard, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements for this standard retain the three types of hedge accounting mechanism in PAS 39. However, greater flexibility has been introduce to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of economic relationships. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

3.1.2.1 Impairment Model

Prior to the adoption of PFRS 9, the Globe Group recognizes impairment loss on receivables from subscribers only after an objective evidence of impairment has occurred.

Under PFRS 9, the Globe Group measures impairment loss at an amount equal to lifetime expected credit losses (ECL). Lifetime ECL are credit losses that result from all possible default events over the life of the receivable. ECL is a probability-weighted estimate of the credit loss. The Globe Group measures ECL as the difference between the cash flows due from subscribers and the cash flows that Globe Group expects to receive arising from the weighting of multiple scenarios which were formed based on historical experience and credit assessments including forward looking information that is available.

The adoption of the new impairment model resulted in the recognition of additional impairment losses on subscriber receivables amounting to ₱7,980.75 million with corresponding net of tax of adjustments to retained earnings and non-controlling interests amounting to ₱5,581.68 million and ₱4.84 million, respectively.

3.1.2.2 Classification and Measurement of Financial Instruments and Hedge Accounting

The adoption of the new requirements for hedge accounting, and classification and measurement of financial instruments did not result in any adjustments to the Globe Group's profit or loss and equity in the prior periods.

The assessment of the Globe Group's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows from financial assets are solely for payments of principal and interests are based on the facts and circumstances as at the initial recognition of the assets.

3.1.3 Amendments to PAS 40 – Transfers of Investment Property

The amendments to PAS 40 clarified that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterize the list of circumstances previously contained in the standards. This list was previously characterized as a definitive list of circumstances where it would be considered that there has been a change in use of a property. The amendments reposition the list as a non-exhaustive list of examples of evidence that a change in use has occurred. The amendments to the standards also clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.

The application of the amendments did not have an impact on the Globe Group's consolidated financial statements.

3.1.4 Amendments to PFRS 2 - Share-based Payment Transactions

The amendments introduced following changes to the classification and measurement of share-based payment transactions:

- The amendments clarified that the vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction should be accounted for consistently with equity-settled share-based payments in PFRS 2. This means that the fair value of cash-settled awards shall be measured by ignoring service and non-market performance conditions, but taking into account market and non-vesting conditions.
- Some share-based payments schemes require the entity to deduct the number of equity instruments needed to equal the monetary value of the employee's tax obligation from the number of equity instruments that would otherwise be issued to the employee (referred to as a 'net settlement' feature). The amendment adds guidance to the effect that a scheme with this type of compulsory net-settlement feature would be classified as equity-settled in its entirety.
- In cases when there is a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled, the share-based payment transaction shall be measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification
- the liability recognized in respect of the original cashsettled share-based payment shall be derecognized upon the modification, and the equity-settled share-based payment is recognized (in equity) to the extent that the services have been rendered up to the modification date; and
- the difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date is recorded in profit or loss immediately.

The application of the amendments did not have an impact on the Globe Group's consolidated financial statements.

3.1.5 IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarified that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

The application of the amendments did not have an impact on the Globe Group's consolidated financial statements.

3.2 Future Adoption of New Standards and Amendments to Standards

The Globe Group will adopt the following new standards when these become effective:

3.2.1 PFRS 16 - Leases

This standard specifies how an entity will recognize, measure, present and disclose leases. It provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with PFRS 16's approach to lessor accounting substantially unchanged from its predecessor, PAS 17.

The standard is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is not permitted, until PFRS 15, Revenue from Contracts with Customers, is adopted.

The management is still evaluating the impact of PFRS 16 on the Globe Group's consolidated financial liabilities as of the reporting period.

3.2.2 PFRS 9 - Prepayment Features with Negative Compensation

The amendments to PFRS 9 clarified that for the purpose of assessing whether a prepayment feature meets the Solely Payments of Principal and Interest (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of PFRS 9.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

3.2.3 PAS 28 - Long-term Interests in Associates and Joint Ventures

The amendment clarifies that PFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying PFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by PAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after January 1,2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of PFRS 9.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

3.2.4 PAS 19 - Employee Benefits, Plan Amendment, Curtailment or Settlement

The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for 'significant market fluctuations' in the absence of a plan amendment, curtailment or settlement.

The amendment is effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

3.2.5 PFRS 3 - Business Combinations

The amendments to PFRS 3 clarified that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

3.2.6 Amendments to PFRS 11 —Joint Arrangements

The amendments to PFRS 11 clarified that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

3.2.7 PAS 12 - Income Tax Consequences of Payments on Financial Instruments Classified as Equity

The amendments clarified that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

3.2.8 PAS 23 - Borrowing Costs Eligible for Capitalization

The amendments clarified that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The amendments are effective for annual periods beginning on or after January 1, 2019.

The application of the amendments in the future will not have an impact on the Globe Group's consolidated financial statements.

3.2.9 IFRIC 23 - Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The application of the interpretation in the future will not have an impact on the Globe Group's consolidated financial statements.

4 Management's Significant Accounting Judgments and Use of Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such judgments, estimates and assumptions.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical Accounting Judgments

4.1.1 Allocation of Goodwill and Investments in Joint Ventures to Cash-Generating Units

For the purpose of performing annual impairment review, the Globe Group allocates the carrying amount of goodwill from acquisition of BTI and investment in VTI, BAHC and BHC to cash-generating unit (CGU) of mobile communications services or wireless segment. The Globe Group believes that CGUs represent the lowest level within the Globe Group at which the goodwill is monitored for internal management reporting purposes; and not larger than an operating segment determined in accordance with PFRS 8.

4.1.2 Contact Assets on Bundled Products

The Globe Group provides wireless communication services to subscribers which are bundled with handset sales. Based on the Globe Group's assessment, the performance obligations from the wireless communication services and the sale of handsets are both capable of being distinct and separately identifiable. Accordingly, the Globe Group allocates the total contract consideration to the two performance obligations based on their corresponding relative stand-alone selling prices. Contract asset is recognized for any unbilled amount allocated to the revenue from handset sales.

4.1.3 Contract Liabilities on Installation Services

The Globe Group provides equipment installation services bundled together with wireline communication services. Based on the Globe Group's assessment, the installation services is not distinct from the wireline communication services and thus deemed as one performance obligation. Accordingly, revenues from the installation and wireline communication services are recognized over time throughout the period of the subscription contract.

4.1.4 Deferred Contract Costs

The Globe Group incurs certain commissions and installation costs in relation to the service provided to its subscribers. Based on the Globe Group's assessment, these costs are incremental in obtaining and fulfilling its performance obligations. Accordingly, the Globe Group recognizes deferred contracts costs which are amortized as expense throughout the period of the subscription contract.

4.1.5 Determination of SSP in arrangements with multiple performance obligations

In revenue arrangements involving multiple performance obligations, the transaction price are allocated to each separate performance obligation based on the relative standalone selling prices (SSP) of the goods or services being provided to the customer. The best evidence of SSP is the price an entity charges for that good or service when the entity sells it separately in similar circumstances to similar customers. However, goods or services are not always sold separately. In such case, the SSP need to be estimated or derived by other means.

The Globe Group maximized the use of all available observable inputs and applied the expected cost plus margin approach as the estimation method in determining the SSP of the goods and services in arrangements with multiple performance obligations.

4.1.6 Determination of Whether the Globe Group is Acting as a Principal or an Agent

The Globe Group's VAS offers a full range of downloadable content covering multiple topics including news, information, and entertainment wherein another party is involved in providing such services. In such case, the Globe Group assesses each arrangement and determines whether the nature of its promise is to provide the specified services itself or arrange for those services to be provided by the other party.

If the promise in an arrangement is to provide the services itself, the Globe Group recognizes the service revenue at gross amount of consideration. Otherwise, the Globe Group recognizes service revenues equivalent only to the extent of fees or commission to which it expects to be entitled in exchange for arranging the services.

4.1.7 Financial Asset Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Globe Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

Except for the derivative instruments, the Globe Group classified all of its financial assets as financial assets at amortized cost in accordance with the SPPI and business model test requirements of PFRS 9.

4.1.8 Finance Lease arrangements

The Globe Group has entered into finance lease agreements related to hardware infrastructure and information technology equipment. Management has determined based on the evaluation of the terms and conditions of the arrangements, that the Globe Group bear substantially all the risks and rewards incidental to ownership of the said machineries and equipment and so account for the contracts as finance leases (see Note 32.1.2).

4.1.9 Provisions and Contingencies

The Globe Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsel handling the Globe Group's defense in these matters and is based upon an analysis of potential results. The Globe Group currently does not believe that these proceedings will have a material adverse effect on the consolidated statements of financial position and financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Notes 15 and 33).

In 2016, The Globe Group is involved in discussions with creditor suppliers of VTI, BAHC and BHC in relation to the liabilities of the said entities discussed in Note 12.3. Management has assessed that such action has created a valid expectation from these creditor suppliers that the Globe Group will settle the liabilities or provide funds for the settlement of these liabilities considering that these entities do not have sufficient funds to date to settle these liabilities on their own. As such, the Globe Group concluded that it incurred a constructive obligation and met the requirements for recognizing a provision/liability as of December 31, 2016 (see Note 12.3).

4.2 Key Estimation Uncertainties

4.2.1 Deferred Revenues on Globe Rewards

The Globe Group allocates a portion of the transaction price of its service revenues to Globe Rewards points and recognizes the corresponding deferred revenues. The allocation is based on its relative stand-alone selling price per point which is determined based on the expected discount or free products that will be availed when the points are redeemed by the subscriber. The Globe Group uses historical data and trends in estimating the SSP of rewards points. The amounts and timing of recording revenues would be affected by changes in circumstances and trends. An increase in the estimated stand-alone selling price per point would increase the recognized deferred revenues and decrease the revenues for the period.

As of December 31, 2018 and 2017, the estimated liability for unredeemed points included in deferred revenues in the consolidated statements of financial position amounted to ₱1,542.58 million and ₱232.37 million, respectively. (See Note 6.2)

4.2.2 ECL Impairment on Subscribers Receivables and Contract Assets

When measuring ECL the Globe Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

An increase in ECL rates on subscribers receivables and contract assets would increase the loss allowance recognized in the consolidated profit or loss.

Impairment loss recognized in 2018 on subscribers receivables and contract assets using ECL method amounted to ₱3,430 million and ₱457.66 million, respectively,.

4.2.3 Inventory Obsolescence and Market Decline

The Globe Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally provided for nonmoving items after a certain period. The Globe Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect market decline in the value of the recorded inventories. The Globe Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

The amount and timing of recorded expenses for any period would differ if different estimates were utilized. An increase in allowance for inventory obsolescence and market decline would decrease the profit for the period, and decrease current assets.

Inventory obsolescence and market decline in 2018, 2017 and 2016 amounted to ₱377.78 million, ₱403.04 million, ₱341.76 million, respectively (see Note 7 and 25).

Inventories and supplies, net of allowances, amounted to ₱4,854.94 million and ₱3,242.69 million as of December 31, 2018 and 2017, respectively (see Note 7).

4.2.4 ARO

The Globe Group recognizes ARO in relation to its obligations to bear the costs of dismantling the constructed assets in leased properties and to restore such properties to the original condition at the end of the lease period. The recognition of ARO requires the Globe Group to estimate the future restoration and dismantling costs and determine the appropriate discount rate to be applied in the present value calculation. The amount and timing of recorded expenses for any period would differ if different inputs in the estimates were utilized. An increase in ARO would increase recorded expenses and increase noncurrent liabilities.

As of December 31, 2018 and 2017, ARO amounted to ₱2,523.94 million and ₱2,420.22 million, respectively (see Note 17).

4.2.5 EUL of Property and Equipment and Intangible Assets

The useful life of each of the item of property and equipment and intangible assets with finite useful lives is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets and expected asset utilization based on future technological developments and market behavior.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of property and equipment and intangible assets would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

The carrying amounts of property and equipment with finite useful lives amounted to ₱169,393.77 million and ₱162,602.65 million, as of December 31, 2018 and 2017, respectively (see Note 9).

The carrying amounts of intangible assets with finite useful lives amounted to ₱12,558.02 million and ₱13,600.67 million, as of December 31, 2018 and 2017, respectively (see Note 10).

4.2.6 Impairment of Nonfinancial Assets Other Than Goodwill

The Globe Group performs an impairment review when certain impairment indicators are present.

Determining the recoverable amounts of property and equipment, intangible asset, and investments in associates and joint ventures requires the Globe Group to make estimates and assumptions on the cash flows expected to be generated from those assets. While the Globe Group believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to impairment charges. Any resulting impairment loss could have a material adverse impact on the financial position and results of operations.

The aggregate carrying value of property and equipment, intangible assets (excluding goodwill) and investments amounted to ₱216,378.57 million and ₱211,806.31 million as of December 31, 2018 and 2017, respectively (see Notes 9, 10 and 12).

Impairment loss recognized on property and equipment amounted to ₱61.74 million, ₱28.32 million and ₱9.42 million in 2018, 2017 and 2016, respectively (see Note 25).

Impairment loss recognized on investment in associate amounted to nil, ₱286.04 million and nil in 2018, 2017 and 2016, respectively (Note 25).

4.2.7 Impairment of Goodwill

The Globe Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows of the CGU are derived from the business plan for the next five years and do not include restructuring activities that the Globe Group is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. As of December 31, 2018 and 2017, the carrying value of goodwill amounted to ₱1,140.25 million and ₱1,283.04 million, respectively (see Note 10).

In 2018, management determined that the recoverable amount of goodwill related to the acquisition of TAO and Socialytics are less than its carrying value. Accordingly, the Globe Group recognized impairment loss amounting to ₱140.40 million and ₱2.39 million, respectively (see Notes 10 and 25). No impairment loss on goodwill was recognized in 2017.

4.2.8 Deferred Income Tax Assets

The carrying amounts of deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

As of December 31, 2018 and 2017, the combined net deferred tax assets of the Globe Group amounted to ₱2,075.07 million and ₱2,761.63 million, respectively (see Note 27).

4.2.9 Pension Benefits

The determination of the retirement obligation cost and retirement benefits is dependent on the selection of certain assumptions used by independent actuaries in calculating such amounts. Those assumptions include among others, discount rates and rates of compensation increase. Actual results that differ from the assumptions are charged to other comprehensive income and therefore, generally affect the equity and recorded obligation. While the Globe Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

The net pension liability as of December 31, 2018 and 2017 amounted to ₱1,459.46 million and ₱2,101.31 million, respectively. Further details are provided in Note 26.2.

4.2.10 Share-based compensation

The Globe Group also determines the cost of equity-settled transactions using assumptions on the appropriate pricing model. Significant assumptions for the cost of share-based payments include, among others, share price, exercise price, option life, expected dividend and expected volatility rate. While the Globe Group believes that the assumptions are reasonable and appropriate, significant differences in the assumptions may materially affect the recognized expense and equity.

Cost of share-based payments in 2018, 2017 and 2016 amounted to ₱236.71 million, ₱104.83 million, and ₱260.27 million, respectively (see Notes 26).

4.2.11 Fair Values of Identifiable Assets and Liabilities in a Business Combination

When a business combination occurs, the fair values of the identifiable assets and liabilities assumed, including intangible assets, are recognized in the consolidated statement of financial position.

The determination of the fair values of acquired assets and liabilities is based, to a considerable extent, on management's judgment and estimates. The Globe Group selects the most appropriate valuation methodologies which may include the net present value techniques, comparison to similar assets for which market observable prices exist and other relevant valuation models. If the purchase consideration exceeds the fair value of the net assets acquired then the difference is recognized as goodwill. If the purchase price consideration is lower than the fair value of the assets acquired then a gain is recognized in the consolidated profit or loss.

The final fair values of the net liabilities of Vega Telecom Inc. (VTI), Bow Arken Holdings Company Inc. (BAHC), and Brightshare Holdings Corporation (BHC) at the time of acquisition amounted to ₱7,243.22 million (see Note 12.3).

The final fair values of the net assets of Tao at the time of acquisition amounted to ₱27,680 million (see Note 11.2).

The final fair values of the net assets of Socialytics at the time of acquisition amounted to ₱879 million (see Note 11.1).

4.2.12 Fair Values of Unquoted Equity Securities

When the fair value of an investment in equity security is required to be measured at fair value and the fair value cannot be derived from active markets, the Globe Group uses valuation techniques including the discounted cash flow analysis and other relevant valuation models to determine the fair value of the instrument. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Changes in assumptions about these factors could affect the reported fair value of the instrument and may also affect the consolidated profit or loss.

At the date the Globe Group lost its control over Mynt, the fair value of the Globe Group's retained interest in Mynt amounted to ₱2,278.30 million (Note 12.4)

The fair value of the Globe Group's investments in unquoted equity instruments classified as financial assets at FVOCI amounted to ₱1,442.94 million (Note 13)

5 Trade receivables - net

This account consists of receivables from:

	Notes	2018	2017
		(In Thousand Pesos)	
Subscribers		**₱27,798,284**	₱30,422,075
Traffic settlements - net	29.11	**2,868,396**	2,818,856
Dealers		**1,527,340**	1,053,473
Others		**1,441,428**	2,141,495
		₱33,635,448	36,435,899
Less allowance for impairment losses:			
Subscribers		**11,918,899**	8,504,349
Traffic settlements and others		**603,988**	627,262
		12,522,887	9,131,611
	29.2.2, 29.10	**₱21,112,561**	₱27,304,288

Trade receivables are noninterest-bearing and are generally due within twelve months.

Subscriber receivables arise from wireless and wireline voice, data communications and broadband internet services provided by the Globe Group under postpaid arrangements.

Traffic settlement receivables are presented net of traffic settlement payables from the same carrier (see Notes 29.11 and 32.2).

The following is a reconciliation of the changes in the allowance for impairment losses for trade receivables as of December 31 (see Note 25):

	Consumer	Key Corporate Accounts	Other Corporations and SME	Traffic Settlements and Others	Total
			(In Thousand Pesos)		
2018					
December 31, 2017	**₱6,890,074**	**₱1,252,265**	**₱362,010**	**₱627,262**	**₱9,131,611**
Transition adjustment (Note 3.1)	**6,085,336**	**990,360**	**905,055**	**-**	**7,980,751**
January 1, 2018	**12,975,410**	**2,242,625**	**1,267,065**	**627,262**	**17,112,362**
Charges for the period (Note 25)	**2,244,503**	**458,421**	**252,343**	**17,078**	**2,972,345**
Reversals /write-offs/ adjustments	**(6,512,932)**	**(121,898)**	**(886,638)**	**(40,352)**	**(7,561,820)**
At end of year	**8,706,981**	**2,579,148**	**632,770**	**603,988**	**12,522,887**
2017					
December 31, 2016	₱6,128,757	₱1,062,078	₱406,313	₱568,454	₱8,165,602
Charges for the period(Note 25)	3,465,499	287,024	283,687	5,300	4,041,510
Reversals/ write-offs/ adjustments	(2,704,182)	(96,837)	(327,990)	53,508	(3,075,501)
December 31, 2017	₱6,890,074	₱1,252,265	₱362,010	₱627,262	₱9,131,611

6 Contracts with Customers

6.1 Contract Assets and Deferred Contract Costs – net

The following table provides the components of contract assets and deferred contract costs as of December 31, 2018:

	2018
Contract assets	**₱7,124,332**
Deferred contract costs	**1,662,891**
	8,787,223
Less current portion of deferred contract costs	**8,471,550**
Noncurrent portion	**₱315,673**

6.1.1 Contract Assets

The following table provides information about contract assets with customers:

	Note	2018
		(In Thousand Pesos)
Contract assets		
Transition adjustment	3.1	**₱7,479,169**
Additions during the year		**9,273,004**
Charges during the year		**(8,080,052)**
Balance at end of year		**8,672,121**
Allowance for impairment loss		
Transition adjustment	3.1	**(1,090,132)**
Impairment loss	25	**(457,657)**
Balance at end of year		**(1,547,789)**
Contract assets - net		**₱7,124,332**

The Globe Group provides wireless communication services to subscribers which are bundled with sale of handsets and other devices. The Globe Group allocates the revenue based on the stand-alone selling price of each performance obligation. Contract assets are recognized for the unbilled portion of revenue allocated to the sale of handset and other devices which will be reduced as the monthly service fees are billed to the subscribers.

6.1.2 Deferred Contract Costs

Deferred contract costs pertain to incremental costs incurred in the effort to obtain and fulfill the contract with subscribers. Details are as follows:

	2018
	(In Thousand Pesos)
Cost to obtain contracts with customers:	
Commissions	**₱1,140,838**
Cost to fulfill contracts with customers	
Installation costs	**522,053**
	₱1,662,891

Deferred contract costs are capitalized and subsequently amortized on a straight-line basis over the term of the subscription contract. Movements in the deferred contract costs for the period are as follows:

	Note	2018
		(In Thousand Pesos)
Transition adjustment	3.1	**₱1,613,872**
Amounts capitalized during the period		**2,088,422**
Amounts recognized as expense		**(2,039,403)**
		₱1,662,891

6.2 Contract Liabilities and Other Deferred Revenues

The following table provides information about the contract liabilities and other deferred revenues:

	2018	2017
Current		
Deferred revenue from wireless subscribers under prepaid arrangements	**₱3,280,864**	₱2,617,189
Advance monthly service fees	**2,903,529**	2,562,874
Deferred revenue rewards	**1,542,584**	232,371
Contract liability from wireline services	**307,101**	-
Others	**10,230**	97,339
	8,044,308	5,509,773
Noncurrent		
Contract liability from wireline services	**53,642**	-
	₱8,097,950	₱5,509,773

The following table shows the roll forward analysis of contract liabilities:

	Note	2018
		(In Thousand Pesos)
Contract liabilites		
Transition adjustment	3.1	**₱388,363**
Additions during the year		**563,016**
Charges during the year		**(590,636)**
Balance at end of year		**₱360,743**

Deferred revenues from wireless subscribers under prepaid arrangements are recognized as revenues upon actual usage of airtime value, consumption of prepaid subscription fees or upon expiration of the unused load value prepaid credit.

Advance monthly service fees represent advance collections from postpaid subscribers.

Deferred revenue rewards represent unredeemed customer award credit under customer loyalty program.

Contract liability from wireline services represents collected upfront fees for equipment installation for which revenues are recognized over time.

7 Inventories and Supplies - net

This account consists of:

	2018	2017
	(In Thousand Pesos)	
Handsets, devices and accessories	**₱2,977,904**	₱1,931,997
Modem and accessories	**972,523**	533,947
Spare parts and supplies	**357,161**	287,714
Nomadic broadband device	**371,976**	270,571
SIM cards and SIM packs	**156,940**	203,241
Call cards and others	**18,435**	15,219
	₱4,854,939	₱3,242,689

Breakdown of cost of inventories recognized as expense are as follows:

	Note	**2018**	2017	2016
		(In Thousand Pesos)		
Cost of sales		**₱18,645,314**	₱13,013,437	₱11,914,114
Inventory obsolescence	25	**377,775**	403,037	341,759
		₱19,023,089	₱13,416,474	₱12,255,873

Cost of sales incurred consists of:

	2018	2017	2016
	(In Thousand Pesos)		
Handsets, devices and accessories	**₱16,132,844**	₱10,752,145	₱9,542,528
Nomadic broadband device	**1,686,459**	1,289,983	1,603,905
SIM cards and SIM packs	**651,342**	623,013	632,870
Call cards and others	**141,956**	162,897	116,892
Modems and accessories	**20,637**	13,787	14,362
Spare parts and supplies	**6,765**	4,858	3,557
Others	**5,311**	166,754	-
	₱18,645,314	₱13,013,437	₱11,914,114

8 Prepayment and Other Current Assets

This account consists of:

	Notes	**2018**	2017
		(In Thousand Pesos)	
Advance payments to suppliers and contractors	32.3	**₱9,459,239**	₱11,666,998
Prepayments		**2,209,300**	1,887,080
Non-trade receivables – net		**1,325,152**	868,913
Deferred input VAT		**937,233**	233,484
Creditable withholding tax		**888,971**	879,003
Input VAT – net		**517,810**	33,133
Others		**457,062**	162,286
		₱15,794,767	₱15,730,897

The "Prepayments" account includes prepaid insurance, rent, maintenance, and licenses fee among others.

Non trade receivable are net of allowance for impairment loss amounting to ₱131.08 million and ₱131.32 million as of December 31, 2018 and 2017, respectively. Impairment loss related to non – trade receivable amounted to nil and ₱37.47 million, ₱74.07 million in 2018, 2017 and 2016, respectively (see Note 25).

Deferred input VAT pertains to various purchases of goods and services which cannot be claimed yet as credits against output VAT liabilities, pursuant to the existing VAT rules and regulations. Deferred input VAT can be applied against future output VAT liabilities. Details are as follows:

	Note	2018	2017
		(In Thousand Pesos)	
Due for credits within 12 months		**₱937,233**	₱233,484
Due for credits beyond 12 months	13	**247,543**	212,567
		₱1,184,776	₱446,051

9 Property and Equipment – net

The rollforward analysis of this account follows:

2018

	Telecommunication Equipment	Buildings and Leasehold Improvement	Cable System	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
	(In Thousand Pesos)							
Cost								
At January 1	₱246,755,268	₱53,507,948	₱26,526,807	₱15,042,407	₱2,916,558	₱2,278,343	₱23,842,575	₱370,869,906
Additions	967,774	14,230	4,465	192,462	434,795	108	34,210,384	35,824,218
Retirements/disposals	(405,081)	(13,078)	(25,305)	(1,136,701)	(378,226)	(1,742)	-	(1,960,133)
Reclassifications/adjustments	24,378,811	3,914,128	176,250	1,656,403	2,360	-	(34,065,254)	(3,937,302)
At December 31	271,696,772	57,423,228	26,682,217	15,754,571	2,975,487	2,276,709	23,987,705	400,796,689
Accumulated Depreciation and Amortization								
At January 1	152,241,256	24,775,778	15,177,625	12,319,650	1,965,727	-	-	206,480,036
Depreciation and amortization (Note 23)	18,979,929	2,671,290	1,112,247	1,762,866	369,117	-	-	24,895,449
Retirements/disposals	(364,430)	(784)	(5,923)	(1,135,459)	(359,376)	-	-	(1,865,972)
Reclassifications/adjustments	(25,037)	20,819	-	55,218	-	-	-	51,000
At December 31	170,831,718	27,467,103	16,283,949	13,002,275	1,975,468	-	-	229,560,513
Impairment Losses								
At January 1	1,219,011	23,252	-	-	9,860	-	535,101	1,787,224
Additions (Note 25)	-	-	-	-	-	1,921	59,818	61,739
Write-off/adjustments	-	-	-	-	-	-	(6,555)	(6,555)
At December 31	1,219,011	23,252	-	-	9,860	1,921	588,364	1,842,408
Carrying amount at December 31	₱99,646,043	₱29,932,873	₱10,398,268	₱2,752,296	₱990,159	₱2,274,788	₱23,399,341	₱169,393,768

Globe

2017

	Telecommunication Equipment	Buildings and Leasehold Improvement	Cable System	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
			(In Thousand Pesos)					
Cost								
At January 1	₱223,570,596	₱46,414,056	₱22,926,569	₱14,458,134	₱2,767,427	₱3,048,654	₱21,441,248	₱334,626,684
Additions	1,663,928	8,730	2,973,019	202,472	398,574	31,454	45,596,957	50,875,134
Retirements/disposals	(6,802,900)	(53,795)	(2,215,051)	(565,621)	(237,357)	(3,750)	(61,671)	(9,940,145)
Reclassifications/adjustments	28,323,644	7,138,957	2,842,270	947,422	(12,086)	(798,015)	(43,133,959)	(4,691,767)
At December 31	246,755,268	53,507,948	26,526,807	15,042,407	2,916,558	2,278,343	23,842,575	370,869,906
Accumulated Depreciation and Amortization								
At January 1	140,960,791	22,538,532	14,004,555	11,228,421	1,856,868	-	-	190,589,167
Depreciation and amortization (Note 23)	17,338,960	2,274,855	1,173,150	1,683,650	354,434	-	-	22,825,049
Retirements/disposals	(6,117,645)	(39,005)	(43)	(426,532)	(219,141)	-	-	(6,802,366)
Reclassifications/adjustments	59,150	1,396	(37)	(165,889)	(26,434)	-	-	(131,814)
At December 31	152,241,256	24,775,778	15,177,625	12,319,650	1,965,727	-	-	206,480,036
Impairment Losses								
At January 1	1,231,614	23,252	-	-	9,860	-	520,810	1,785,536
Additions (Note 25)	11,916	-	-	-	-	-	16,403	28,319
Write-off/adjustments	(24,519)	-	-	-	-	-	(2,112)	(26,631)
At December 31	1,219,011	23,252	-	-	9,860	-	535,101	1,787,224
Carrying amount at December 31	₱ 93,295,001	₱28,708,918	₱11,349,182	₱2,722,757	₱940,971	₱2,278,343	₱23,307,474	₱162,602,646

Globe

Assets under construction include intangible components of a network system which are reclassified to depreciable intangible assets only when assets become available for use (see Note 10).

Investments in cable systems include the cost of the Globe Group's ownership share in the capacity of certain cable systems under a joint venture or a consortium or private cable set-up and indefeasible rights of use (IRUs) of circuits in various cable systems. It also includes the cost of cable landing station and transmission facilities where the Globe Group is the landing party.

The costs of fully depreciated property and equipment that are still being used as of December 31, 2018 and 2017 amounted to ₱105,431.91 million and ₱68,450.84 million, respectively.

The Globe Group uses its borrowed funds to finance the acquisition of self constructed property and equipment. Borrowing costs incurred relating to these acquisitions were included in the cost of property and equipment using 4.69% and 4.32% capitalization rates in 2018 and 2017, respectively. The Globe Group's total capitalized borrowing costs amounted to ₱846.92 million and ₱734.26 million in 2018 and 2017, respectively. (see Note16)

The carrying value of the hardware infrastructure and information equipment held under finance lease included under "Office Equipment" amounted to ₱75.48 million and ₱266.18 million as of December 31, 2018 and 2017, respectively. (Note 32.1.2)

Pursuant to the Amended Rehabilitation Plan (ARP) and Master Restructuring Agreement (MRA), the remaining outstanding restructured debt of BTI to creditors other than Globe Telecom amounting to USD2.13 million (Note 16.1) will be secured by a real estate mortgage on identified real property assets. The processing of the real properties to be mortgaged is still ongoing as of December 31, 2018.

10 Intangible Assets and Goodwill - net

The rollforward analysis of this account follows:

2018

	Application Software and Licenses	Goodwill	Other Intangible Assets	Total Intangible Assets and Goodwill
Cost				
At January 1	**₱31,128,938**	**₱1,283,042**	**₱2,324,649**	**₱34,736,629**
Additions	**490,569**	**-**	**-**	**490,569**
Retirements/disposals	**(5,100)**	**-**	**(150,324)**	**(155,424)**
Impairment (Note 25)		**(142,794)**	**-**	**(142,794)**
Reclassifications (Note 9)	**3,936,433**	**-**	**-**	**3,936,433**
At December 31	**₱35,550,840**	**1,140,248**	**2,174,325**	**₱38,865,413**
Accumulated Amortization				
At January 1	**19,022,609**	**-**	**830,314**	**19,852,923**
Amortization (Note 23)	**5,213,058**	**-**	**303,196**	**5,516,254**
Retirements/disposals	**(710)**	**-**	**(150,324)**	**(151,034)**
Reclassifications (Note 9)	**(50,999)**	**-**	**-**	**(50,999)**
At December 31	**24,183,958**	**-**	**983,186**	**25,167,144**
Carrying Amount at December 31	**₱11,366,882**	**₱1,140,248**	**₱1,191,139**	**₱13,698,269**

2017

	Application Software and Licenses	Goodwill	Other Intangible Assets	Total Intangible Assets and Goodwill
Cost				
At January 1	₱27,348,929	₱1,268,097	₱1,934,649	₱30,551,675
Additions	152,255	14,945	390,000	557,200
Retirements/disposals	(757,324)	-	-	(757,324)
Reclassifications (Note 9)	4,385,078	-	-	4,385,078
At December 31	31,128,938	1,283,042	2,324,649	34,736,629
Accumulated Amortization				
At January 1	15,137,202	-	581,254	15,718,456
Amortization (Note 23)	4,392,428	-	283,694	4,676,122
Retirements/disposals	(443,572)	-	-	(443,572)
Reclassifications (Note 9)	(63,449)	-	(34,634)	(98,083)
At December 31	19,022,609	-	830,314	19,852,923
Carrying Amount at December 31	₱12,106,329	₱1,283,042	₱1,494,335	₱14,883,706

The Globe Group's goodwill were recognized from the acquisition of BTI, TAO and Socialytics. Other intangible assets consist of customer contracts, franchise and spectrum.

The Globe Group conducts its annual impairment test of goodwill related to the acquisition of BTI in the third fiscal quarter of each year. The Globe Group considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment.

For impairment testing purposes, the Globe Group allocated the carrying amount of goodwill arising from the acquisition of BTI to CGU of mobile communications services or wireless segment. The recoverable amount of the CGU, which exceeds the carrying amount of the related goodwill by ₱177,534.05 million and ₱184,020.24 million in 2018 and 2017, respectively, has been determined based on value in use calculations using cash flow projections from business plans covering a five-year period. The pre-tax discount rate applied to cash flow projections was 8.7% in 2018 and 8.23% in 2017 and cash flows beyond the five-year period are extrapolated using a 2% long-term growth rate in 2018 and 2017. The most recent annual impairment test of goodwill was performed in the third quarter of the fiscal year of 2018.

The Globe Group has determined that the recoverable amount calculations are most sensitive to changes in assumptions on gross margins, discount rates, market share, and growth rates.

In 2018, management determined that the recoverable amount of goodwill related to the acquisition of TAO and Socialytics are less than its carrying value. Accordingly, the Globe Group recognized impairment loss amounting to ₱140.40 million and ₱2.39 million, respectively (see Note 10).

No impairment loss on intangible assets was recognized in 2017. The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

11 Business Combinations

11.1 Investment in Socialytics

On January 29, 2016, AI acquired 70% of the outstanding shares of Socialytics Inc. for a total amount of ₱3.01 million. Socialytics is a social media marketing firm founded in 2013. The transaction was accounted for as an acquisition of a subsidiary. The Globe Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's net assets acquired and liabilities assumed.

Globe Group's acquisition of Socialytics is in line with its strategy to expand its business operations in the advertising industry.

Details of the fair values upon acquisition of Socialytics in 2016 follows:

	Amount recognized on acquisition
	(In Thousand Pesos)
ASSETS	
Current assets	₱4,904
Other noncurrent assets	60
	4,964
LIABILITIES	
Current Liabilities	1,760
Other long term liabilities	2,325
	4,085
Net assets acquired and liabilities assumed	₱879
Purchase consideration transferred	₱3,006
Net assets acquired and liabilities assumed	(879)
Non-controlling interest measured at fair value	264
Goodwill arising on acquisition	₱2,391

Net cash outflow from the acquisition is as follows (in thousand pesos):

Total cash paid on acquisition	(₱3,006)
Cash and cash equivalents acquired from Socialytics	175
Net cash outflow on acquisition	(₱2,831)

11.2 Investment in Tao

In March 2013, Globe Telecom entered into a Shareholders Agreement with four other entities to incorporate Tao.

On November 4, 2016, the BOD of Globe Telecom increased its ownership interest in Tao from 25% to 67% controlling interest by converting certain advances to equity and purchasing incremental shares or advances from Tao for a total consideration of ₱207.34 million. The transaction was accounted for as an acquisition of a subsidiary. Globe Telecom's acquisition of Tao is intended to augment its existing stores retail network.

The Globe Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's net assets acquired and liabilities assumed.

The initial accounting for the acquisition of Tao as a subsidiary in 2016 was only provisionally determined pending the finalization of necessary market valuations and determined based on management's best estimate of the likely values. As allowed under the relevant standard, the Globe Group determined the final fair values of identifiable assets and liabilities within 12 months from the acquisition date and any adjustment to the provisional values were taken up as adjustments to goodwill.

In June 2017, the management completed the assessment of the fair values of the net assets of Tao and determined adjustments amounting ₱36.41 million decrease in its net assets. The adjustments to the provisional values likewise resulted to goodwill from acquisition amounting to ₱140.40 million.

The provisional and final fair values of the identifiable assets and liabilities of Tao as at the date of acquisition are shown in the following table:

	Final fair value	Provisional fair value
	(In Thousand Pesos)	
ASSETS		
Current assets	₱194,369	₱164,135
Property and equipment	14,680	51,306
Other noncurrent assets	6,634	6,634
	215,683	222,075
LIABILITIES		
Current Liabilities	188,003	140,402
Other long term liabilities	-	17,579
	188,003	157,981
Total net assets at fair value	27,680	64,094
Net assets acquired and liabilities assumed	₱27,680	₱64,094
Purchase consideration transferred	₱207,015	₱207,345
Net assets acquired and liabilities assumed	(27,680)	(64,094)
Non-controlling interest measured at fair value	9,148	21,182
Share in previously held equity interest	(48,080)	(38,976)
Goodwill arising on acquisition	₱140,403	₱125,457

Net cash inflow from the acquisition is as follows (in thousand pesos):

Total cash paid on acquisition	(₱207,015)
Cash and cash equivalents acquired from Tao	223,517
Net cash inflow on acquisition	₱16,502

12 Investments in associates and joint ventures

This account consists of the following as of December 31:

	2018	2017
	(In Thousand Pesos)	
Investments in associates:		
Yondu	**₱940,236**	₱941,887
AFPI	**-**	56,034
Investments in joint ventures:		
VTI, BAHC and BHC	**32,481,947**	32,411,987
GFI/Mynt	**862,130**	2,042,001
TechGlobal	**89,702**	93,180
Bridge Mobile Pte. Ltd (BMPL)	**50,440**	46,006
GTHI	**2,321**	11,904
	₱34,426,776	₱35,602,999

Details of the Globe Group's investments in associate and joint ventures and the related percentages of ownership as of December 31, 2018 and 2017 are shown below:

	Country of Incorporation	Principal Activities	% of ownership
Associates			
Yondu	Philippines	Mobile content and application development services	**49%**
AFPI	Philippines	Construction and establishment of systems, infrastructure	**20%**
Joint Ventures			
VTI	Philippines	Telecommunications	**50%**
BAHC	Philippines	Holding company	**50%**
BHC	Philippines	Holding company	**50%**
GTHI	Philippines	Health hotline facility	**50%**
TechGlobal	Philippines	Installation and management of data centers	**49%**
GFI/Mynt*	Philippines	Holding company	**45%**
BMPL	Singapore	Mobile technology infrastructure and common service	**10%**

**A subsidiary of Globe Telecom through GCVHI until September 2017 (see Note 12.4)*

Equity share in net loss from investment in associates and joint ventures are as follows:

	2018	2017
	(In Thousand Pesos)	
Investments in associates:		
AFPI	**(₱115,745)**	(₱129,495)
Yondu	**38,258**	56,238
Investments in joint ventures:		
GFI/Mynt	**(1,179,871)**	(236,304)
VTI, BAHC and BHC	**18,760**	(511,692)
GTHI	**(9,583)**	(9,570)
TechGlobal	**(3,478)**	(22,146)
BMPL	**2,056**	6,792
	(₱1,249,603)	(₱846,177)

The movement in investments in joint ventures and associates are as follows:

	Notes	2018	2017
		(In Thousand Pesos)	
Costs			
At January 1		**₱37,536,885**	₱34,983,996
Reclassification arising from loss of control over GFI/Mynt	12.4	**-**	2,278,305
Additional capital contributions during the year			
Investment in VTI	12.3	**51,200**	372,443
Investment in AFPI	12.2	**60,000**	100,000
Purchase price adjustment	12.3	**-**	(155,122)
Return on investment	12.1	**(39,909)**	(42,737)
At December 31		**₱37,608,176**	37,536,885
Accumulated Equity in Net Losses			
At January 1		**(1,672,094)**	(825,917)
Equity share in net losses		**(1,249,603)**	(846,177)
At December 31		**(2,921,697)**	(1,672,094)
Other Comprehensive Income			
At January 1		**24,244**	23,373
Equity share in currency translation adjustment		**2,089**	871
At December 31		**26,333**	24,244
Impairment Losses			
At January 1		**(286,036)**	-
Impairment losses	12.2, 25	**-**	(286,036)
At December 31		**(286,036)**	(286,036)
Carrying Value at December 31		**₱34,426,776**	₱35,602,999

The table below presents the summarized financial information lifted from the unaudited statutory financial statements of the Globe Group's investments in associate and joint ventures:

	Yondu	AFPI	VTI, BAHC and BHC	GFI/Mynt	TechGlobal	BMPL	GTHI
				(In Thousand Pesos)			
2018							
Statements of Financial Position:							
Current assets	**₱551,384**	**₱585,163**	**₱3,082,664**	**₱2,664,868**	**₱74,229**	**₱608,627**	**₱36,141**
Noncurrent assets	**71,581**	**1,450,681**	**4,050,389**	**931,800**	**217,996**	**22,076**	**517**
Current liabilities	**220,181**	**367,113**	**2,515,135**	**3,397,668**	**109,159**	**129,883**	**31,980**
Noncurrent liabilities	**5,871**	**267,042**	**659,097**	**173,057**	**-**	**-**	**38**
Equity	**396,913**	**1,401,689**	**3,958,821**	**25,943**	**183,066**	**500,820**	**4,640**
Statements of Comprehensive Income:							
Revenue	**821,322**	**52,558**	**2,754,717**	**1,134,839**	**43,407**	**316,640**	**58,274**
Costs and expenses	**(711,836)**	**(659,777)**	**(1,567,580)**	**(3,800,622)**	**(53,475)**	**(296,078)**	**(77,440)**
Income before tax	**109,486**	**(607,219)**	**1,187,137**	**(2,665,783)**	**(10,068)**	**20,562**	**(19,166)**
Income tax	**(31,409)**	**-**	**(367,505)**	**43,847**	**2,970**	**-**	**-**
Profit (Loss) for the period	**78,077**	**(607,219)**	**819,632**	**(2,621,936)**	**(7,098)**	**20,562**	**(19,166)**
2017							
Statements of Financial Position:							
Current assets	₱622,260	₱684,908	₱2,779,719	₱4,355,868	₱22,577	₱560,444	₱43,342
Noncurrent assets	89,801	1,689,353	3,725,832	542,833	242,253	24,824	1,197
Current liabilities	305,908	335,381	1,940,313	2,238,735	74,666	128,790	20,144
Noncurrent liabilities	5,871	328,527	396,311	12,087	-	-	589
Equity	400,282	1,710,353	4,168,927	2,647,879	190,164	456,478	23,806
Statements of Comprehensive Income:							
Revenue	834,624	48,184	2,352,260	189,317	4,911	232,335	35,822
Costs and expenses	(674,993)	(695,657)	(2,489,433)	(719,761)	(66,391)	(165,081)	(54,961)
Income before tax	159,631	(647,473)	(137,173)	(530,444)	(61,480)	67,254	(19,139)
Income tax	(44,860)	-	(201,541)	5,324	16,285	-	-
Profit (Loss) for the period	114,771	(647,473)	(338,714)	(525,120)	(45,195)	67,254	(19,139)

Investment in Associates

12.1 Investment in Yondu

Yondu is an associate of Globe Telecom and is engaged in the development and creation of wireless products and services accessible through mobile devices or other forms of communication devices. It also provides internet and mobile value added services, information technology and technical services including software development and related services. Yondu is registered with the Department of Transportation and Communication (DOTC) as a content provider.

Dividend from Yondu amounted to ₱39.90 million and ₱42.74 million in 2018 and 2017, respectively. Dividends receivable as of December 31, 2018 and 2017 amounted to ₱61.02 million and ₱34.96 million, respectively.

12.2 Investment in AFPI (formerly Automated Fare Collection Service Inc. (AFCS))

On January 30, 2014, following a competitive bidding process, the Department of Transportation and Communication awarded to AF Consortium, composed of AC Infrastructure Holdings Corp., BPI Card Finance Corp., Globe Telecom, Inc., Meralco Financial Services, Inc., Metro Pacific Investments Corp., and Smart Communications, Inc. the rights to design, build and operate the ₱1.72 billion automated fare collection system. This is a public-private partnership project intended to upgrade and consolidate the fare collection systems of the three urban rail transit systems which presently serve Metro Manila.

On February 10, 2014, AF Consortium incorporated AFCS, a special purpose company, which will assume the rights and obligations of the concessionaire. These rights and obligations include the construction and establishment of systems, infrastructure including implementation, test, acceptance and maintenance plans, and operate the urban transit system for a period of 10 years.

On March 11, 2015, AFCS amended its corporate name to AFPI.

In 2018 and 2017, Globe Telecom infused additional capital amounting to ₱60.00 million and ₱100.00 million, respectively.

In 2017, management determined that the recoverable amount of the investment in AFPI is less than the carrying value. Accordingly, the Globe Group recognized as impairment loss the difference in the investment's recoverable amount and carrying value amounting to ₱286.04 million. No impairment loss was recognized in 2018 (Note 25).

The Globe Group has no share in any contingent liabilities of any associates as of December 31, 2018 and 2017.

Investment in Joint Ventures

12.3 Investment in VTI, BAHC and BHC

On May 30, 2016, Globe Telecom's BOD, through its Executive Committee, approved the signing of a Sale and Purchase Agreement (SPA) and other related definitive agreements for acquisition of 50% equity interest in the telecommunications business of San Miguel Corporation (SMC), Schutzengel Telecom, Inc. and Grace Patricia W. Vilchez-Custodio (the "Sellers"; SMC being the major seller) through their respective subsidiaries namely, VTI, BAHC and BHC, respectively (the Acquirees). The preceding sentence is hereinafter referred to as "the Transaction".

VTI owns an equity stake in Liberty Telecom Holdings, Inc. (LIB), a publicly listed company in the Philippine Stock Exchange. It also owns, directly and indirectly, equity stakes in various enfranchised companies, including Bell Telecommunication Philippines, Inc. (Bell Tel), Eastern Telecom Philippines, Inc. (Eastern Telecom), Cobaltpoint Telecommunication, Inc (formerly Express Telecom, Inc.), and Tori Spectrum Telecom, Inc., among others. The remaining 50% equity stake in VTI, BAHC and BHC was acquired by Philippine Long Distance Telephone Company (PLDT) under similar definitive agreements.

Total consideration for the Transaction amounts to ₱52,847.82 million for the purchase of the equity interest and advances of the Acquirees, which translated to an agreed consideration of ₱26,423.91 million for Globe Telecom's 50% equity stakes in the Acquirees. The SPA also provided for the assumption of total liabilities of ₱17,151.18 million by Globe and PLDT from May 30, 2016 and a price adjustment mechanism based on the variance in the amount of assumed liabilities from April 30, 2016 to be agreed upon by Globe, PLDT and the Sellers at the end of the confirmatory due diligence period. Total price adjustment amounted to ₱2,564.28 million resulting to adjusted total consideration of ₱55,412.10 million. As of December 31, 2016 the negotiated assumed liabilities amounted to ₱10,782.50 million, of which, ₱5,391.25 million was attributed as Globe Telecom's share.

Acquisition-related costs amounting to ₱298.53 million were carried as part of the investment cost. The confirmatory due diligence was finalized as of June 30, 2017. The assumption of liabilities of VTI, BAHC and BHC by Globe Telecom and PLDT may give rise to claims that may not have been contemplated and agreed upon during the period set for confirmatory due diligence. The SPA provides for various indemnity claims expiring between 2 to 5 years from the end of the confirmatory due diligence period.

The consideration for the equity interest and advances was fully settled on a deferred basis as follows: 50% on May 30, 2016, 25% on December 1, 2016 and 25% on May 30, 2017.

The acquisition provided Globe Telecom an access to certain frequencies assigned to Bell Tel in the 700 Mhz, 900 Mhz, 1800 Mhz, 2300 Mhz and 2500 Mhz bands through a co-use arrangement approved by the NTC on May 27, 2016. NTC's approval is subject to the fulfillment of certain conditions including roll out of telecom infrastructure covering at least 90% of the cities and municipalities in three years to address the growing demand for broadband infrastructure and internet access.

The memorandum of agreement between Globe and PLDT provides for both parties to pool resources and share in the profits and losses of the companies on a 50%-50% basis with a view to being financially self-sufficient and able to operate or borrow funds without recourse to the parties. Globe extended advances to Vega Group amounting to ₱1,316.08 million for the period June 1, 2016 to December 31, 2016 which was carried as part of investment cost.

Of the various companies within the group, only Eastern Telecom and its subsidiary have commercial operations generating ₱2,752.26 million, ₱1,514.47 million and ₱875.27 million in revenues, EBITDA and net income for the year ended December 31, 2018, respectively and ₱2,350.17 million, ₱733.72 million and ₱708.67 million in revenues, EBITDA and net income for the year ended December 31, 2017, respectively. Globe Telecom has adjusted its share in the net assets of the Acquirees to reflect losses on fair value of assets and onerous contracts.

On June 21, 2016, Globe Telecom exercised its rights as holder of 50% equity interest of VTI to cause VTI to propose the conduct of a tender offer on the common shares of LIB held by minority shareholders as well as the voluntary delisting of LIB. At the completion of the tender offer and delisting of LIB, VTI's ownership on LIB is at 99.1%.

The net assets recognized in the December 31, 2016 consolidated financial statements were based on a provisional assessment of their fair values. On May 31, 2017, the management completed the assessment of the fair value of the identifiable assets of VTI group and determined a net increase in identifiable net assets of VTI amounting to ₱1,552.84 million. The Globe Group recognized the adjustment to the provisional values as an adjustment to goodwill upon determining the final fair values of identifiable assets and liabilities within 12 months from the acquisition date, as allowed by PFRS 3, Business Combinations. Goodwill from acquisition based on final fair values amounted to ₱18,012.26 million as of December 31, 2018.

The provisional and final fair value of the identifiable assets and liabilities of VTI Group as the date of acquisition are as follows:

		Final fair values		Provisional fair values
Assets		**₱6,487,084**		**₱8,857,921**
Liabilities		**(13,730,305)**		**(18,474,206)**
Total net liabilities at fair value		**(7,243,221)**		**(9,616,285)**
Intangible assets arising from the acquisition:				
Spectrum	**39,420,882**		**37,769,443**	
Trademark	**378,349**		**419,401**	
Customer contracts	**297,000**	**40,096,231**	**660,400**	**38,849,244**
Property and equipment appraisal increase		**1,160,045**		**1,049,964**
Deferred tax liabilities		**(12,376,883)**		**(11,969,762)**
Non-controlling interest measured at fair value		**(1,415,006)**		**(1,197,681)**
		₱20,221,166		**₱17,115,480**
Purchase consideration transferred		**₱28,122,847**		**₱26,562,192**
Share in identifiable assets and intangible assets (50%)		**(10,110,583)**		**(8,557,740)**
Goodwill arising on the acquisition		**₱18,012,264**		**₱18,004,452**

The fair value amounts of spectrum, trademark, customer contracts and property and equipment were determined by an independent appraiser using acceptable valuation techniques for the industry. However, these techniques make use of inputs which are not based on observable data. The fair values of intangible assets reflect the market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the assets will flow to the entity. The major market participants for the industry are Globe and PLDT.

Spectrum was valued using the greenfield approach where the Globe Group is deemed to have started with nothing but the spectrum and licenses, paid for all other assets and incurred the startup costs and losses during the ramp up period. The relief of royalty approach was applied for the valuation of trademark using a royalty charge derived from comparable transactions and applied against projected revenues. Customer contracts were valued using the multi-period excess earnings method (MEEM) which is the difference between after-tax operating cash flows attributable to the customer contracts following a certain percentage of attrition and the required cost of invested capital on contributory assets.
The goodwill comprises the fair value of the expected synergies arising from the acquisition. For goodwill impairment assessment, the cash generating unit is the mobile communications segment of Globe Group.

Management estimated the useful life of the spectrum to be 50 years, after considering the market forces and technological trends which will determine the economic life of the asset, over which period the Globe Group can continue generating optimum level of future cash flows.

On February 28, 2017, Globe and PLDT each subscribed to 2,760,000 new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of VTI, at a subscription price of ₱4,000 per subscribed shares (inclusive of a premium over par of ₱3,000 per subscribed share) or a total subscription price of ₱11,040 million (inclusive of a premium over par of ₱8,280 million). Globe and PLDT's assigned advances from SMC, which amounted to ₱11,040 million, were treated as deposit on future stock subscription by VTI and subsequently applied as full payment of the subscription price.

Also, on the same date, Globe and PLDT each subscribed to 800,000 new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of VTI, at a subscription price of ₱4,000 per subscribed share (inclusive of a premium over par of ₱3,000 per subscribed share), or a total subscription price of ₱3,200 million (inclusive of a premium over par of ₱2,400 million. Globe and PLDT each paid ₱148 million in cash for the subscribed shares. The remaining balance of the subscription price shall be paid by Globe and PLDT upon call of the VTI's BOD.

The Transaction has been the subject of review notice filed by the PCC against Globe Telecom, PLDT, SMC and VTI on June 7, 2016 where PCC claimed that the notice was deficient in form and substance and concluded that the acquisition cannot be claimed to be deemed approved. Globe Telecom has clarified that the supposed deficiency in form and substance is not a ground to prevent the transaction from being deemed approved. The petitions of both parties with the Court of Appeals have been subsequently consolidated and the parties were required to submit their respective memoranda after which the case shall be deemed submitted for resolution. The status of the petitions with the Court of Appeals are further disclosed in Note 33.

On November 7, 2017, the NTC approved the transfer of Certificate of Public Convenience and Necessities and Provisional Authorities issued to Telecommunications Technologies Philippines, Inc. (TTPI) to operate Local Exchange Carrier (LEC) service in Metro Manila and in Region II and Region 4A and Provision Authority to provide nationwide inter-exchange (IXC) and the outside plant facilities and other telecommunications assets of TTPI, in favor of ETPI. TTPI, a wholly owned subsidiary of ETPI, used to be the voice business arm of ETPI. The latter provides internet, data and voice products, and business-centric managed services, catering mostly to enterprise subscribers.

12.4 Investment in GFI/Mynt

Prior to September 27, 2017, GCVHI holds 100% ownership interest in GFI and accordingly, GFI's financial position and financial performance are included in the Globe Group's consolidated financial statements. GFI/Mynt is engaged in purchasing, subscribing, owning, holding and assigning real and personal property, shares of stock and other securities. GFI has a wholly-owned subsidiary, Fuse, which operates as a lending company.

Loss of control on investment in GFI/Mynt

As disclosed in Note 1, on February 17, 2017, Globe Telecom and its wholly-owned subsidiaries, GFI and GCVHI entered into an investment agreement with Alipay and Ayala for Alipay and Ayala to invest in the unissued common shares of GFI. PCC released through a memo its affirmative decision on the Alipay acquisition of GFI shares, resulting in the dilution of GCVHI ownership in GFI.

On September 27, 2017, following the approval from PCC, GFI/Mynt received the capital infusion from Alipay and Ayala amounting to ₱2,784.60 million in exchange for GFI/Mynt's 513.00 million common shares. The issuance of shares to Alipay and Ayala diluted GCVHI's ownership interest to 45% and resulted in a loss of control in GFI/Mynt. Thereafter, investment in GFI/Mynt was accounted for as a joint arrangement since no single party controls the arrangement and approvals of all parties are required for business decisions.

Total net assets of GFI/Mynt as of the date of loss of control amounted to ₱388.40 million. The fair value of the retained interest in GFI/Mynt held by GCVHI amounted to ₱2,278.30 million at the date of loss of control. The gain on fair value of retained equity interest in GFI/Mynt amounting to ₱1,889.90 million, was presented as "Gain on fair value of retained interest" in the consolidated profit or loss in 2017.

12.5 Investment in TechGlobal

On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal, a Joint Venture Company, formed to install, own, operate, maintain and manage all kinds of data centers and to provide information technology-enabled services and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017.

12.6 Investment in BMPL

Globe Telecom and other leading Asia Pacific mobile operators (JV partners) signed an Agreement in 2004 (JV Agreement) to form a regional mobile alliance, which will operate through a Singapore-incorporated company, BMPL. The JV company is a commercial vehicle for the JV partners to build and establish a regional mobile infrastructure and common service platform and deliver different regional mobile services to their subscribers.

12.7 Investment in GTHI

On October 23, 2014, Yondu and Salud Interactiva (SI) signed a shareholder's agreement to enter into a joint venture through a Philippine corporation. The Joint Venture (JV) Company was registered with the Securities and Exchange Commission on June 3, 2015 under the name GTHI as a stock corporation with 50% foreign equity formed to establish, operate, manage and provide a health hotline facility, including ancillary Information Technology services with intent to operate as a domestic market enterprise. GTHI started commercial operations in July 2015.

13 Other Noncurrent Assets

This account consists of:

	Notes	2018	2017
		(In Thousand Pesos)	
Investment in equity securities	29.10, 29.12	**₱1,442,940**	₱1,201,187
Security deposits		**1,113,465**	1,069,660
Loans receivable from related parties	18.3	**726,620**	846,620
Deferred input VAT	8	**247,543**	212,567
Others		**234,421**	158,782
		₱3,764,989	₱3,488,816

Others include investment properties with carrying amount of ₱25.8 million and ₱35.94 million as of December 31, 2018 and 2017, respectively. Investment properties consist of building and improvements which are held to earn rentals. Depreciation and amortization of investment properties amounted to ₱10.02 million, ₱11.52 million and ₱4.36 million in 2018, 2017 and 2016, respectively (see Note 23).

Fair value gain from investment in equity securities recognized in consolidated OCI amounted to ₱170.65 million, ₱36.08 million and ₱14.54 million in 2018, 2017 and 2016, respectively (see Note 19.6).

14 Trade Payables and Accrued Expenses

This account consists of:

	Notes	2018	2017
		(In Thousand Pesos)	
Accrued expenses		**₱22,370,377**	₱19,547,550
Accrued project costs	32.3	**19,172,960**	25,785,455
Trade payable		**5,595,929**	6,557,353
Taxes payable		**4,678,853**	5,322,423
Traffic settlements - net	29.11, 32.2	**1,102,411**	1,074,476
Dividends payable	19.3	**260,030**	260,030
Other creditors		**3,038,806**	3,685,575
		₱56,219,366	₱62,232,862

Traffic settlements payable are presented net of traffic settlements receivable from the same carrier (see Note 29.11).

Accrued expenses consists of the following:

	2018	2017
	(In Thousand Pesos)	
Services	**₱4,552,753**	₱4,353,493
Repairs and maintenance	**4,163,652**	4,310,915
Manpower	**3,456,156**	2,332,892
General, selling and administrative	**2,957,088**	2,033,922
Lease	**2,879,730**	2,796,454
Advertising	**2,459,640**	2,000,560
Utilities	**967,624**	1,009,463
Interest	**933,734**	709,851
	₱22,370,377	₱19,547,550

General, selling and administrative accrued expenses include travel, professional fees, supplies, commissions and miscellaneous, which are individually immaterial.

15 Provisions

The rollforward analysis of this account follows:

	Notes	2018	2017
		(In Thousand Pesos)	
At beginning of year		**₱1,890,415**	₱6,631,612
Provisions for claims	25	**806,084**	946,534
Payments and reversals for investments		**-**	(5,298,268)
Payments and reversals for claims	25	**(147,112)**	(389,463)
At end of year		**₱2,549,387**	₱1,890,415

Provisions pertain to assumed liabilities related to the acquired interest in VTI, BAHC and BHC and various pending unresolved claims over the Globe Group's businesses such as provision for taxes, employee benefits, onerous contracts and various labor cases. As of December 31, 2018 and 2017, Globe Telecom's share in the total assumed liabilities related to the acquired interest in VTI, BAHC and BHC amounts to ₱92.98 million.

The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of these on-going claims and assessments. As of February 11, 2019, the remaining claims are still being resolved.

16 Loans Payable

Loans payable consist of short-term unsecured peso-denominated promissory notes.

The Globe Group has available uncommitted short-term credit facilities of USD119 million and ₱14,000 million as of December 31, 2018 and USD118.90 million and ₱19,500 million, as of December 31, 2017.

The Globe Group also has available ₱3,000 million committed short-term credit facilities as of December 31, 2018 and 2017 and committed long term credit facilities amounting to nil and ₱5,000 million as of December 31, 2018 and 2017, respectively.

These short-term loans have maturities ranging from 1 to 3 months and bear interest ranging from 2.4% to 3.25%.

The Globe Group's long-term debt consists of the following:

	2018	2017
	(In Thousand Pesos)	
Term Loans:		
Peso	**₱112,287,753**	₱99,182,125
Dollar	**23,556,854**	19,905,492
	135,844,607	119,087,617
Retail bonds	**12,437,290**	12,441,088
	148,281,897	131,528,705
Less current portion	**(16,758,196)**	(8,278,222)
Net of current portion	**₱131,523,701**	₱123,250,483

The maturities of long-term debt at nominal values as of December 31, 2018 follow (in thousands):

Due in:	
2019	₱16,757,624
2020	13,179,881
2021	7,844,611
2022	15,003,454
2023 and thereafter	96,154,092
	₱148,939,662

The interest rates and maturities of the above debts are as follows:

	Maturities	Interest Rates
Term Loans:		
Peso	2019-2031	2.96% to 7.11% in 2018
	2018-2031	2.53% to 6.00% in 2017
Dollar	2019-2027	2.08% to 5.00% in 2018
	2018-2023	1.68% to 5.00% in 2017
Retail bonds	2019-2023	4.89% to 6.00% in 2018
	2017-2023	4.89% to 6.00% in 2017

Unamortized debt issuance costs included in the above long-term debt as of December 31, 2018 and 2017 amounted to ₱657.76 million and ₱526.72 million, respectively.

Total interest expense recognized in the consolidated profit or loss related to long-term debt amounted to ₱5,748.85 million, ₱4,776.24 million and ₱3,101.95 million in 2018, 2017 and 2016, respectively (see Note 24).

Total interest expenses capitalized as part of property and equipment amounted to ₱846.92 million and ₱734.26 million in 2018 and 2017, respectively (see Note 9).

16.1 Term Loans and Corporate Notes

Globe Telecom has unsecured term loans and corporate notes, which consist of fixed and floating rate notes and dollar and peso-denominated term loans. The term loans bear interest at stipulated and prevailing market rates. Globe Group also has a secured debt amounting to USD2.13 million as of December 31, 2018 arising from its acquisition of BTI (see Note 9).

The loan agreements with banks and other financial institutions provide for certain restrictions and requirements with respect to, among others, maintenance of financial ratios and percentage of ownership of specific shareholders, incurrence of additional long-term indebtedness or guarantees and creation of property encumbrances.

The financial tests under Globe Group's loan agreements include compliance with the following ratios:

- Total debt* to equity not exceeding 3.0:1,
- Total debt* to EBITDA not exceeding 3.5:1;
- Debt service coverage exceeding 1.3 times; and
- Secured debt ratio not exceeding 0.2 times.

**Composed of notes payable, current portion long term debt, long term debt and net derivative liabilities.*

In December 2018, the loan agreements with Non-bank Financial Institutions were amended to adjust the debt to equity ratio from 2.5:1 to 3:1 and adjust the debt to EBITDA ratio from 3:1 to 3.5:1.

In December 2018, the loan agreements with Financial Institutions were amended to adjust the debt to EBITDA ratio from 3:1 to 3.5:1.

As of December 31, 2018 and 2017, the Globe Group is not in breach of any loan covenants.

16.2 Retail Bonds

On June 1, 2012, Globe Telecom issued ₱10,000.00 million fixed rate bonds. The amount comprises ₱4,500.00 million and ₱5,500.00 million fixed rate bonds due in 2017 and 2019, with interest rate of 5.75% and 6.00%, respectively. The net proceeds of the issue were used to partially finance Globe Telecom's capital expenditure requirements in 2012.

The five-year and seven-year retail bonds may be redeemed in whole, but not in part only, starting two years before maturity date and on the anniversary thereafter at a price equal to 101.00% and 100.50%, respectively, of the principal amount of the bonds and all accrued interest to the date of the redemption. In 2017, Globe Telecom fully redeemed its ₱4,500.00 million retail bonds.

On July 17, 2013, Globe Telecom issued ₱7,000.00 million fixed rate bond. The amount comprises ₱4,000.00 million and ₱3,000.00 million bonds due in 2020 and 2023, with interest rate of 4.8875% and 5.2792%, respectively. The net proceeds of the issue were used to partially finance Globe Telecom's capital expenditure requirements in 2013.

The seven-year and ten-year retail bonds may be redeemed in whole, but not in part only, starting two years for the seven-year bonds and three years for the ten-year bonds before the maturity date and on the anniversary thereafter at a price ranging from 101.0% to 100.5% and 102.0% to 100.5%, respectively, of the principal amount of the bonds and all accrued interest depending on the year of redemption.

In August 2016, the Bond Trust Indentures were amended to adjust the maximum debt-to-equity ratio from 2:1 to 2.5:1.

In October 2018, the Bond Trust Indentures were amended to adjust the maximum debt to equity ratio from 2:5:1 to 3:0:1.

As of December 31, 2018, the Globe Group is not in breach of any bond covenants.

17 Other Long-term Liabilities

This account consists of:

	Notes	2018	2017
		(In Thousand Pesos)	
Asset retirement obligation (ARO)		**₱2,523,939**	₱2,420,224
Accrued pension	26	**1,459,463**	2,101,313
Accrued lease obligations		**518,453**	624,781
Others		**865,354**	779,839
		₱5,367,209	₱5,926,157

ARO represents Globe Group's obligation to restore leased properties to their original condition and estimated dismantling cost of property and equipment. The rollforward analysis of the Globe Group's ARO follows:

	Notes	2018	2017
		(In Thousand Pesos)	
At beginning of year		**₱2,420,224**	₱2,239,107
Accretion expense during the year	24	**140,457**	117,188
Capitalized to property and equipment during the year	31	**9,831**	97,079
Settlements and reversals		**(11,607)**	(7,744)
Remeasurements		**(34,966)**	(25,406)
At end of year		**₱2,523,939**	₱2,420,224

Details of gain (loss) on settlement and remeasurement of ARO recognized in consolidated profit or loss are as follows:

	Note	2018	2017	2016
			(In Thousand Pesos)	
Gain (loss) on remeasurement of ARO		**₱34,096**	(₱77)	₱2
Loss on ARO settlements		**(6,202)**	(4,294)	(1,497)
	21	**₱27,894**	(₱4,371)	(₱1,495)

18 Related Party Transactions

Parties are considered to be related to the Globe Group if they have the ability, directly or indirectly, to control the Globe Group or exercise significant influence over the Globe Group in making financial and operating decisions, or vice versa, or where the Globe Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are under the significant influence of related parties of the Globe Group where those parties are individuals, and post-employment benefit plan which are for the benefit of employees of the Globe Group or of any entity that is a related party of the Globe Group.

The Globe Group, in their regular conduct of business, enter into transactions with their major stockholders, AC and Singtel, associates, joint ventures and certain related parties.

The summary of balances arising from related party transactions for the relevant financial year follows (in thousands):

2018

		Amount of transaction			Outstanding Balance				
	Note	Revenue and Other Income	Costs and Expenses charged to Profit or Loss	Cost and Expenses capitalized as Asset	Cash and Cash Equivalents (Note 31)	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Entities with joint control over the Company									
Singtel	18.1	**₱639,399**	**₱348,836**	**₱-**	**₱-**	**₱255,535**	**₱123,518**	Interest-free, settlement in cash	Unsecured, no impairment
AC	18.1	**31,363**	**86,604**	**-**	**-**	**15,515**	**85**	Interest-free, settlement in cash	Unsecured, no impairment
Jointly controlled entities									
BMPL	18.2	**-**	**20,703**	**-**	**-**	**-**	**348**	Interest-free, settlement in cash	Unsecured, no impairment
GFI/Mynt	18.2	**51,786**	**432,145**			**511,632**	**52,413**	Interest-free, settlement in cash	Unsecured, no impairment
Associate									
Yondu	18.4	**46,340**	**438,368**	**90,181**	**-**	**68,867**	**255,343**	Interest-free, settlement in cash	Unsecured, no impairment
Other related parties									
GGRP	13	**36,366**	**-**	**-**	**-**	**598,000**	**-**	3 years, 5.5%, settlement in cash	Unsecured, no impairment
BHI	13	**7,498**	**-**	**-**	**-**	**128,620**	**-**	3 years, 5.75%, settlement in cash	The ₱250.00 million is covered by a pledge agreement while the ₱45.00 million is fully secured by chattel mortgage agreement.
BEAM	18.3	**-**	**190,000**	**-**	**-**	**-**	**-**	-	-
Altimax	18.3	**-**	**55,000**	**-**	**-**	**-**	**-**	-	-
Key management personnel	18.6		**375,200**					-	-
Others	18.5	**606,884**	**359,767**	**102,882**	**1,704,573**	**-**	**279,726**	Interest-free excluding cash and cash equivalents, settlement in cash	Unsecured, no impairment
		₱1,419,636	**₱2,306,623**	**₱193,063**	**1,704,573**	**₱1,578,169**	**₱711,433**		

2017

	Note	Amount of transaction: Revenue and other income	Amount of transaction: Costs and Expenses charged to Profit or Loss	Amount of transaction: Cost and Expenses capitalized as Asset	Outstanding Balance: Cash and Cash Equivalents (Note 31)	Outstanding Balance: Amounts Owed by Related Parties	Outstanding Balance: Amounts Owed to Related Parties	Terms	Conditions
Entities with joint control over the Company									
Singtel	18.1	₱695,985	₱458,408	₱-	₱-	₱92,732	₱132,319	Interest-free, settlement in cash	Unsecured, no impairment
AC	18.1	25,580	37,353	-	-	15,876	85	Interest-free, settlement in cash	Unsecured, no impairment
Jointly controlled entities									
BMPL	18.2	-	20,711	-	-	320	-	Interest-free, settlement in cash	Unsecured, no impairment
GFI/Mynt	18.2	12,946	208,206	-	-	262,460	101,476		
Associate									
Yondu	18.4	-	486,867	74,365	-	274,696	36,057	Interest-free, settlement in cash	Unsecured, no impairment
Other related parties									
GGRP	13	38,244	-	-	-	718,000	-	3 years, 5.5%, settlement in cash	Unsecured, no impairment
BHI	13	7,842	-	-	-	128,620	-	3 years, 5.75%, settlement in cash	The ₱250.00 million is covered by a pledge agreement while the ₱45.00 million is fully secured by chattel mortgage agreement.
BEAM	18.3	-	190,000	-	-	-	-	-	-
Altimax	18.3	-	55,000	-	-	-	-	-	-
Key management personnel	18.6		378,800					-	-
Others	18.5	574,314	381,289	192,933	1,020,445	261,332	64,292	Interest-free excluding cash and cash equivalents, settlement in cash	Unsecured, no impairment
		₱1,354,911	₱2,216,634	₱267,298	₱1,020,445	₱1,754,036	₱334,229		

18.1 Entities with Joint Control over Globe Group - AC and Singtel

Globe Telecom has interconnection agreements with Singtel. The related net traffic settlements receivable (included in "Trade receivables" account in the consolidated statements of financial position) and the interconnection revenues earned (included in "Service revenues" account in the consolidated statements of comprehensive income) are as follows:

	2018	2017	2016
		(In Thousand Pesos)	
Trade receivables – net	**₱255,535**	₱92,732	₱70,141
Service revenues	**639,399**	695,985	755,514
Interconnection costs	**61,423**	67,867	85,148

Globe Telecom and Singtel have a technical assistance agreement whereby Singtel will provide consultancy and advisory services, including those with respect to the construction and operation of Globe Telecom's networks and communication services, equipment procurement and personnel services. In addition, Globe Telecom has software development, supply, license and support arrangements, lease of cable facilities, maintenance and restoration costs and other transactions with Singtel.

The details of fees (included in repairs and maintenance under the "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) incurred under these agreements are as follows:

	2018	2017	2016
		(In Thousand Pesos)	
Maintenance and restoration costs and other transactions	**₱83,497**	₱150,521	₱126,148
Technical assistance fee	**158,117**	174,285	89,400
Software development, supply, license and support	**45,799**	65,735	28,342
	₱287,413	₱390,541	₱243,890

The outstanding balances due to Singtel (included in the "trade payables and accrued expenses" account in the consolidated statements of financial position) arising from these transactions are as follows:

	2018	2017	2016
		(In Thousand Pesos)	
Technical assistance fee	**₱53,759**	₱65,035	₱63,510
Maintenance and restoration costs and other transactions	**14,156**	23,559	22,695
Software development, supply, license and support	**55,603**	43,725	17,974
	₱123,518	₱132,319	₱104,179

Globe Telecom, Innove and BTI earn subscriber revenues from AC. The outstanding subscribers receivable from AC (included in "Trade receivables" account in the consolidated statements of financial position) and the amount earned as service revenue (included in the "Service revenues" account in the consolidated statements of comprehensive income) are as follows:

	2018	2017	2016
	(In Thousand Pesos)		
Subscriber receivables	**₱15,515**	₱15,876	₱11,463
Service revenues	**31,363**	25,580	24,112

Globe Telecom reimburses AC for certain operating expenses. The net outstanding liabilities (included in "Trade payables and accrued expenses" account in the consolidated statements of financial position) and the amount of expenses incurred (included in the "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) are as follows:

	2018	**2017**	2016
	(In Thousand Pesos)		
General, selling and administrative expenses	**₱86,604**	₱37,353	₱95,717
Trade payables and accrued expenses	**85**	85	24,653

18.2 Joint Ventures in which the Globe Group is a venturer

BMPL

Globe Telecom has preferred roaming service contract with BMPL. Under this contract, Globe Telecom will pay BMPL for services rendered by the latter which include, among others, coordination and facilitation of preferred roaming arrangement among JV partners, and procurement and maintenance of telecommunications equipment necessary for delivery of seamless roaming experience to customers. Globe Telecom also incurs commission from BMPL (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) for regional top-up service provided by the JV partners. The net outstanding liabilities to BMPL related to these transactions amounted to ₱0.35 million and ₱0.32 million as of December 31, 2018 and 2017, respectively. Total expenses recognized related to these transactions (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounted to ₱20.70 million, ₱20.71 million and ₱19.42 million in 2018, 2017 and 2016, respectively.

GFI/Mynt

The Globe Group renders certain management support services to GXI. The management services also includes the use of the Globe Group's network and facilities to conduct GXI's operations.

The Globe Group also has a VAS sharing agreement with GXI. Under the agreement, GXI shall perform the following services and shall be entitled to a certain percentage of data revenues arising from GCash transactions:

(1) provide an e-commerce system (the application that drives the service) through which mobile wallets get updated for each cash in and cash out transaction;

(2) provide cash in and cash out distribution channels for the remittance business through its partners (which may include Globe Stores); and

(3) provide customer support.

GXI is also entitled to a certain percentage share for the airtime load purchased by the Globe Group's subscribers and Application Processing Interface (API) fees for the usage of GCash system in continuing service of the various products and services of the Globe Group.

18.3 Transactions with the GGRP

The Globe Group granted various loans to the GGRP at an interest rate of 5% which matured on September 11, 2017. Upon maturity, the loan was extended until September 11, 2020 with the interest rate increased to 5.50% per annum. Interest income amounted to ₱36.37 million, ₱38.24 million and ₱44.33 million in 2018, 2017 and 2016, respectively (see Note 20). As of December 31, 2018 and 2017, the outstanding balance of loan receivable from GGRP amounted to ₱598.00 million and ₱718.00 million, respectively (see Note 13).

The retirement plan utilized the loan to fund its investments in BHI, a domestic corporation organized to invest in media ventures. BHI has controlling interest in Altimax Broadcasting Co., Inc. (Altimax) and Broadcast Enterprises and Affiliated Media Inc. (BEAM), respectively.

The Globe Group granted loans amounting to ₱250.00 million and ₱45.00 million to BHI at 5% interest which matured on August 14, 2017. The ₱250.00 million loan is covered by a pledge agreement whereby in the event of default, the Globe Group shall be entitled to offset whatever amount is due to BHI from any unpaid fees to BEAM from the Globe Group. The ₱45.00 million loan is fully secured by a chattel mortgage agreement dated December 21, 2009 between Globe Group and BEAM. Upon maturity, the loan was extended until August 14, 2020 with the interest rate increased to 5.75% per annum.

As of December 31, 2018 and 2017, the outstanding balance of loan receivable from BHI amounted to ₱128.62 million (Note 13). Interest income amounted to ₱7.50 million, ₱7.84 million and ₱8.06 million in 2018, 2017 and 2016, respectively (see Note 20).

On February 1, 2009, the Globe Group entered into a memorandum of agreement (MOA) with BEAM for the latter to render mobile television broadcast service to Globe subscribers using the mobile TV service. The Globe Group recognized an expense (included in "Professional and other contracted services") amounting to ₱190.00 million in 2018, 2017 and 2016.

On October 1, 2009, the Globe Group entered into a MOA with Altimax for the Globe Group's co-use of specific frequencies of Altimax's for the rollout of broadband wireless access to the Globe Group's subscribers. The Globe Group recognized an expense (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounting to ₱55.00 million in 2018 and 2017 and ₱32.49 million in 2016.

18.4 Transactions with Yondu

The Globe Group has a VAS sharing agreement with Yondu. Under the agreement, Yondu is entitled to a 30% share on revenue for providing mobile contents to Globe and TM subscribers. The Globe Group's payout to Yondu on mobile content transactions in 2018, 2017 and 2016 amounted to ₱46.34 million, ₱45.33 million and ₱264.30 million, respectively.

Globe

Yondu also provides various enterprise solutions-based services to the Globe Group for network, platform and applications development under its Business Process Outsourcing Unit (BPO) and mobile content. The Globe Group's related expenses in 2018, 2017 and 2016 amounted to ₱482.21 million, ₱441.54 million and ₱240.21 million, out of which ₱90.18 million, ₱74.36 million and ₱102.32 million were capitalized under "Asset Under Construction", respectively.

18.5 Transactions with other related parties

The Globe Group earns service revenues, maintains money market placements and cash in bank balances, acquires transportation equipment and incurs general, selling and administrative expenses such as rentals, utilities and customer contract services, from entities which are either controlled, jointly controlled or significantly influenced by AC.

18.6 Transactions with key management personnel of the Globe Group

The Globe Group's compensation of key management personnel by benefit type are as follows:

	Notes	2018	2017
		(In Thousand Pesos)	
Short-term employee benefits	22	**₱238,500**	₱204,000
Share-based payments	26.1	**120,200**	159,500
Post-employment benefits	26.2	**16,500**	15,300
		₱375,200	₱378,800

There are no agreements between the Globe Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Globe Group's retirement plans.

19 Equity and Other Comprehensive Income

Globe Telecom's authorized capital stock as of December 31, 2018 and 2017 consists of (amounts in thousands pesos and number of shares):

	Shares	Amount
Voting preferred stock - ₱5 per share	160,000	₱800,000
Non-voting preferred stock - ₱50 per share	40,000	2,000,000
Common stock - ₱50 per share	148,934	7,446,719

Globe Telecom's issued, subscribed and fully paid capital stock consists of:

	2018		2017	
	Shares	Amount	Shares	Amount
	(In Thousand Pesos and Number of Shares)			
Voting preferred stock	**158,515**	**₱792,575**	158,515	₱792,575
Non-voting preferred stock	**20,000**	**1,000,000**	20,000	1,000,000
Common stock	**133,053**	**6,652,663**	132,917	6,645,829
Total capital stock		**₱8,445,238**		₱8,438,404

Below is the summary of the Globe Telecom's track record of registration of securities:

	Number of shares registered	Issue/offer price	Date of approval
	(In Thousands, Except for Issue/Offer price)		
Voting preferred stock	158,515	₱5.00	June 2001
Non-voting preferred stock	20,000	500.00	August 11, 2014
Common stock*	30,000	0.50	August 11, 1975

**Initial number of registered shares only*

19.1 Preferred Stock

Non-Voting Preferred Stock

On February 10, 2014, Globe Telecom's BOD approved the amendment of Articles of Incorporation (AOI) to reclassify 31 million of unissued common shares with par value of ₱50 per share and 90 million of unissued voting preferred shares with par value of ₱5 per share into a new class of 40 million non-voting preferred shares with par value of ₱50 per share.

On April 8, 2014, the stockholders approved the issuance, offer and listing of up to 20 million non-voting preferred shares, with an issue volume of up to ₱10 billion. The preferred shares shall be redeemable, non-convertible, non-voting, cumulative and may be issued in series.

On June 5, 2014, the SEC approved the amendment of AOI to implement the foregoing reclassification of shares.

On August 8, 2014, the SEC approved the offer of non-voting preferred perpetual shares and on August 15, 2014, the 20 million non-voting preferred shares were fully subscribed and issued. Subsequently, the shares were listed at the Philippines Stock Exchange (PSE) on August 22, 2014.

Non-voting preferred stock has the following features:

- Issued at ₱50 par;
- Dividend rate to be determined by the BOD at the time of issue;
- Redemption - at Globe Telecom's option at such times and price(s) as may be determined by the BOD at the time of issue, which price may not be less than the par value thereof plus accrued dividends;
- Eligibility of investors - Any person, partnership, association or corporation regardless of nationality wherein at least 60% of the outstanding capital stock shall be owned by Filipino
- No voting rights;
- Cumulative and non-participating;
- No pre-emptive rights over any sale or issuance of any share in Globe Telecom's capital stock; and
- Stocks shall rank ahead of the common shares and equally with the voting preferred stocks in the event of liquidation.

Voting Preferred Stock

Voting preferred stock has the following features:

- Issued at ₱5 par;
- Dividend rate to be determined by the BOD at the time of issue;
- One preferred share is convertible to one common share starting at the end of the 10th year of the issue date at a price to be determined by Globe Telecom's BOD at the time of issue which shall not be less than the market price of the common share less the par value of the preferred share;
- Call option - Exercisable any time by Globe Telecom starting at the end of the 5th year from issue date at a price to be determined by the BOD at the time of issue;
- Eligibility of investors - Only Filipino citizens or corporations or partnerships wherein 60% of the voting stock or voting power is owned by Filipino;
- With voting rights;
- Cumulative and non-participating;
- Preference as to dividends and in the event of liquidation; and
- No preemptive right to any share issue of Globe Telecom, and subject to yield protection in case of change in tax laws.

The dividends for preferred stocks are declared upon the sole discretion of the Globe Telecom's BOD.

19.2 Common Stock

The rollforward of outstanding common shares follows:

	2018		2017	
	Shares	**Amount**	Shares	Amount
	(In Thousand Pesos and Number of Shares)			
At beginning of year	**132,917**	**₱6,645,829**	132,759	₱6,637,929
Exercise of stock options	**7**	**371**	18	900
Issuance of shares under share-based compensation plan and exercise of stock options	**129**	**6,463**	140	7,000
At end of year	**133,053**	**₱6,652,663**	132,917	₱6,645,829

Holders of fully paid common stock are entitled to voting and dividends rights.

19.3 Cash Dividends

Information on the Globe Telecom's BOD declaration of cash dividends follows:

			Date	
	Per Share	Amount	Record	Payment
	(In Thousand Pesos, Except Per Share Figures)			
Dividends on Voting Preferred stock:				
November 4, 2016	0.20	32,027	November 18, 2016	December 2, 2016
November 3, 2017	0.21	33,731	November 17, 2017	December 1, 2017
November 5, 2018	0.26	41,752	November 19, 2018	December 5, 2018
(forward)				

			Date	
	Per Share	Amount	Record	Payment
Dividends on Non-voting Preferred stock:				
May 4, 2016	13.00	260,030	August 10, 2016	August 22, 2016
December 7, 2016	13.00	260,030	January 27, 2017	February 22, 2017
May 9, 2017	13.00	260,030	August 10, 2017	August 22, 2017
December 5, 2017	13.00	260,030	January 26, 2018	February 22, 2018
May 4, 2018	13.00	260,030	August 10, 2018	August 22, 2018
December 6, 2018	13.00	260,030	January 28, 2019	February 22, 2019
Dividends on Common stock:				
February 5, 2016	22.00	2,920,444	February 22, 2016	March 4, 2016
May 4, 2016	22.00	2,920,661	May 19, 2016	June 3, 2016
August 2, 2016	22.00	2,920,689	August 16, 2016	September 1, 2016
November 4, 2016	22.00	2,920,689	November 18, 2016	December 2, 2016
February 7, 2017	22.75	3,020,280	February 21, 2017	March 8, 2017
May 9, 2017	22.75	3,023,806	May 23, 2017	June 7, 2017
August 7, 2017	22.75	3,023,806	August 22, 2017	September 6, 2017
November 3, 2017	22.75	3,023,844	November 17, 2017	December 1, 2017
February 5, 2018	22.75	3,023,852	February 20, 2018	March 5, 2018
May 7, 2018	22.75	3,026,804	May 21, 2018	June 1, 2018
August 7, 2018	22.75	3,026,962	August 24, 2018	September 6, 2018
November 5, 2018	22.75	3,026,961	November 19, 2018	December 5, 2018

Unpaid cash dividends declared related to non-voting preferred stock amounted to ₱260.03 million as of December 31, 2018 and 2017 (see Note 14).

19.4 Common Stock Dividend

The dividend policy of Globe Telecom as approved by the BOD is to declare cash dividends to its common stockholders on a regular basis as may be determined by the BOD. On November 8, 2011, the BOD approved the current dividend policy of Globe Telecom to distribute cash dividends at the rate of 75% to 90% of prior year's core net income. On August 6, 2013, the BOD further approved the change in distribution from semi-annual dividend payments to quarterly dividend distributions.

On November 5, 2018, the BOD approved the change in the dividend policy from 75% to 90% of prior year’s core net income to 60% to 75% of prior year’s core net income, to be applied to the 2019 dividend declaration.

The dividend distribution policy is reviewed annually and subsequently each quarter of the year, taking into account Globe Telecom's operating results, cash flows, debt covenants, capital expenditure levels and liquidity.

19.5 Retained Earnings Available for Dividend Declaration

The total unrestricted retained earnings available for dividend declaration amounted to ₱10,603.03 million as of December 31, 2018. This amount excludes the undistributed net earnings of consolidated subsidiaries, accumulated equity in net earnings of joint ventures accounted for under the equity method, and unrealized gains recognized on asset and liability, currency translations and unrealized gains on fair value adjustments. The Globe Group is also subject to loan covenants that restrict its ability to pay dividends (see Note 16).

19.6 Other Comprehensive Income

Other Reserves

2018

	Cash flow hedges	Investment in equity securities (Note 13)	Currency translation adjustment	Remeasurement on defined benefit plan (Note 26.2)	Total
			(In Thousand Pesos)		
As of January 1	**₱85,204**	**₱141,874**	**₱15,841**	**(₱595,294)**	**(₱352,375)**
Other comprehensive income for the year					
Fair value changes	**1,178,226**	**170,645**	**-**	**-**	**1,348,871**
Remeasurement gain on defined benefit plan	**-**	**-**	**-**	**71,013**	**71,013**
Transferred to profit or loss	**55,653**	**-**	**-**	**-**	**55,653**
Exchange differences	**-**	**-**	**40,150**	**-**	**40,150**
Income tax effect	**(370,164)**	**(18,671)**	**(11,626)**	**(21,304)**	**(421,765)**
	863,715	**151,974**	**28,524**	**49,709**	**1,093,922**
Reclassification remeasurement (losses) on defined benefit plans	**-**	**-**	**-**	**(180,444)**	**(180,444)**
As of December 31	**₱948,919**	**₱293,848**	**₱44,365**	**(₱726,029)**	**₱561,103**

2017

	Cash flow hedges	Investment in equity securities (Note 13)	Currency translation adjustment	Remeasurement on defined benefit plan (Note 26.2)	Total
			(In Thousand Pesos)		
As of January 1	(₱54,208)	₱115,874	₱38,981	(₱1,173,572)	(₱1,072,925)
Other comprehensive income for the year					
Fair value changes	(173,001)	36,076	-	-	(136,925)
Remeasurement gain on defined benefit plan	-	-	-	570,289	570,289
Transferred to profit or loss	372,161	-	-	-	372,161
Income tax effect	(59,748)	(10,076)	-	(171,087)	(240,911)
Share in other comprehensive income from investment in associate	-	-	80	791	871
Exchange differences	-	-	(23,220)	-	(23,220)
	139,412	26,000	(23,140)	399,993	542,265
Reclassification remeasurement (losses) on defined benefit plans	-	-	-	178,285	178,285
As of December 31	₱85,204	₱141,874	₱15,841	(₱595,294)	(₱352,375)

2016

	Cash flow hedges	Investment in equity securities (Note 13)	Currency translation adjustment	Remeasurement on defined benefit plan (Note 26.2)	Total
			(In Thousand Pesos)		
As of January 1	₱41,357	₱102,434	₱15,776	(₱1,371,080)	(₱1,211,513)
Other comprehensive income for the year					
Fair value changes	(457,499)	14,536	-	-	(442,963)
Remeasurement gain on defined benefit plan	-	-	-	279,966	279,966
Transferred to profit or loss	320,977	-	-	-	320,977
Income tax effect	40,957	(1,096)	-	(82,458)	(42,597)
Exchange differences	-	-	23,205	-	23,205
	(95,565)	13,440	23,205	197,508	138,588
As of December 31	(₱54,208)	₱115,874	₱38,981	(₱1,173,572)	(₱1,072,925)

20 Interest Income

Interest income is earned from the following sources:

	Notes	2018	2017	2016
			(In Thousand Pesos)	
Short-term placements		**₱332,525**	₱71,876	₱88,946
Cash in banks		**12,353**	18,007	8,900
Loans receivable:				
GGRP	18.3	**36,366**	38,244	44,334
BHI	18.3	**7,498**	7,842	8,063
TechGlobal and others		**2,288**	3,612	1,346
		₱391,030	₱139,581	₱151,589

21 Other Income - net

This account consists of:

	Notes	2018	2017	2016
			(In Thousand Pesos)	
Gain (loss) on derivatives instruments– net		**₱1,004,171**	(₱127,708)	₱469,884
Gain (loss) on settlement and remeasurement of ARO	17	**27,894**	(4,371)	(1,495)
Rent	32.1.1	**65,302**	52,511	83,609
Management fees		**51,786**	12,946	-
Loss on previously held in equity interest		**-**	(9,103)	(30,186)
Others		**446,682**	777,378	461,374
		₱1,595,835	₱701,653	₱983,186

Gain on derivatives instruments includes unrealized gain amounting to ₱82.49 million and unrealized loss amounting to ₱181.34 million and ₱116.96 million for the periods ended December 31, 2018, 2017 and 2016 respectively.

22 General, Selling and Administrative Expenses

This account consists of:

	Notes	2018	2017	2016
			(In Thousand Pesos)	
Staff costs	26	**₱13,271,175**	₱12,238,114	₱10,109,899
Professional and other contracted services		**11,028,251**	9,844,780	9,804,632
Selling, advertising and promotions		**5,620,077**	9,009,306	9,306,788
Repairs and maintenance		**7,944,057**	7,822,818	6,326,581
Rent	32.1.1	**6,535,147**	6,471,461	5,902,414
Utilities, supplies and other administrative expenses		**5,957,642**	5,215,693	5,000,691
Taxes and licenses		**3,106,915**	1,951,490	1,590,234
Courier, delivery and miscellaneous expenses		**1,684,540**	1,737,609	1,806,120
Insurance and security services		**1,607,072**	1,685,518	1,689,252
Others		**987,255**	632,133	934,442
		₱57,742,131	₱56,608,922	₱52,471,053

Globe Telecom is entitled to certain tax and nontax incentives and have availed of incentives for tax and duty-free importation of capital equipment for the services under its franchise.

23 Depreciation and amortization

The account consist of:

	Notes	2018	2017	2016
		(In Thousand Pesos)		
Property and equipment	9	**₱24,895,449**	₱22,825,049	₱20,264,995
Intangible assets	10	**5,516,254**	4,676,122	3,579,295
Investment properties	13	**10,018**	11,518	4,356
		₱30,421,721	₱27,512,689	₱23,848,646

24 Financing Costs

This account consists of:

	2018	2017	2016
	(In Thousand Pesos)		
Interest expense - net*	**₱5,975,164**	₱5,042,952	₱3,408,899
Foreign exchange loss - net	**900,430**	-	525,024
Swap and other financing costs	**220,061**	208,740	162,903
	₱7,095,655	₱5,251,692	₱4,096,826

**This account is net of the amount capitalized borrowing costs (see Notes 9 and 16).*

Interest expense - net is incurred on the following:

	Notes	2018	2017	2016
		(In Thousand Pesos)		
Loans payable	16	**₱5,748,853**	₱4,776,242	₱3,101,953
Pension cost	26.2	**84,837**	145,663	129,883
Accretion expense	17	**140,457**	117,188	167,742
Others		**1,017**	3,859	9,321
		₱5,975,164	₱5,042,952	₱3,408,899

25 Impairment and other losses

This account consists of:

	Notes	2018	2017	2016
		(In Thousand Pesos)		
Impairment loss on				
Trade receivables	5	**₱2,972,345**	₱4,041,510	₱2,860,238
Contract assets	6	**457,657**	-	-
Goodwill	10	**142,794**	-	-
Property and equipment	9	**61,739**	28,319	9,416
Non - trade receivables	8	**-**	37,467	74,072
Investment in associate	12.2	**-**	286,036	-
Other assets		**116,362**	69,926	-
Provisions for (reversal of):				
Inventory obsolescence	7	**377,775**	403,037	341,759
Other probable losses - net	15	**658,972**	557,071	(14,184)
		₱4,787,644	₱5,423,366	₱3,271,301

26 Staff Cost

This account consist of:

	2018	2017	2016
		(In Thousand Pesos)	
Short-term	**₱12,441,135**	₱11,511,970	₱9,255,073
Cost of share based payment	**236,714**	104,828	260,269
Pension	**593,326**	621,316	594,557
	₱13,271,175	₱12,238,114	₱10,109,899

26.1 Stock Plans

The Globe Telecom has stock plans for its employees. The number of shares allocated under these plans shall not exceed the aggregate equivalent of 6% of the authorized capital stock.

26.1.1 Executive Stock Option Plan

The following are the stock option grants to key executives and senior management personnel of the Globe Group under the ESOP from 2004 to 2017:

Date of Grant	Number of Options or Grants	Exercise Price	Exercise Dates	Fair Value of Each Option or Grants	Fair Value Measurement
March 24, 2006	749,500	854.75 per share	50% of the options become exercisable from March 24, 2008 to March 23, 2016; the remaining 50% become exercisable from March 24, 2009 to March 23, 2016	292.12	Trinomial option pricing model
May 17, 2007	604,000	1,270.50 per share	50% of the options become exercisable from May 17, 2009 to May 16, 2017, the remaining 50% become exercisable from May 17, 2010 to May 16, 2017	375.89	Trinomial option pricing model
August 1, 2008	635,750	1,064.00 per share	50% of the options become exercisable from August 1, 2010 to July 31, 2018, the remaining 50% become exercisable from August 1, 2011 to July 31, 2018	305.03	Trinomial option pricing model
October 1, 2009	298,950	993.75 per share	50% of the options become exercisable from October 1, 2011 to September 30, 2019, the remaining 50% become exercisable from October 1, 2012 to September 30, 2019	346.79	Trinomial option pricing model

The exercise price is based on the average quoted market price for the last 20 trading days preceding the approval date of the stock option grant.

A summary of the Globe Group's ESOP activity and related information follows:

	2018		2017	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
	(In Thousand Number of Shares Except per Share Figures)			
Outstanding, at beginning of year	**93**	**₱1,038.36**	205	₱1,157.45
Exercised	**(16)**	**993.75**	(35)	1,227.71
Expired/forfeited	**(44)**	**1,064.00**	(77)	1,270.50
Outstanding and exercisable, at end of year	**33**	**₱1,059.55**	93	₱1,038.36

The average share prices at dates of exercise of the stock options in 2018, 2017 and 2016 amounted to ₱1,704.96, ₱1,014.42 and ₱1,072.23 , respectively.

As of December 31, 2018 and 2017, the weighted average remaining contractual life of options outstanding is 0.75 year and 1.00 year, respectively.

The following assumptions were used to determine the fair value of the stock options at effective grant dates:

	October 1, 2009	August 1, 2008	May 17, 2007	March 24, 2006
Share price	₱995.00	₱1,130.00	₱1,340.00	₱895.00
Exercise price	₱993.75	₱1,064.00	₱1,270.50	₱854.75
Expected volatility	48.49%	31.73%	38.14%	26.97%
Option life	10 years	10 years	10 years	10 years
Expected dividends	6.43%	6.64%	4.93%	4.47%
Risk-free interest rate	8.08%	9.62%	7.04%	8.37%

The expected volatility measured at the standard deviation of expected share price returns was based on analysis of share prices for the past 365 days.

26.1.2 Long-Term Incentive Plan

In November 2014, the Globe Group obtained approval from the BOD to implement a Long-Term Incentive Plan (LTIP) also called a Performance Share Plan (PSP) covering key executives and senior management. Under the PSP, the grantees are awarded a specific number of shares at the start of the performance period which vest over a specified performance period and contingent upon the achievement of specified long-term goals.

The following are the stock grants to key executives and senior management personnel of the Globe Group under the LTIP:

Date of Grant	Number of Grants at Grant Date	Settlement Dates	Fair Value of Each Grants	Fair Value Measurement
January 1, 2014	106,293	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	₱1,630.35	Market price
January 1, 2015	114,392	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,738.30	Market price
January 1, 2016	107,365	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,904.95	Market price
January 1, 2017	158,687	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,428.85	Market price
January 1, 2018	146,040	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,782.80	Market price

The fair value is based on the average quoted market price for the last 20 trading days preceding the approval date of the stock option grant.

Cost of share-based payments in 2018, 2017 and 2016 amounted to ₱236.71 million, ₱104.83 million and ₱260.27 million, respectively.

26.2 Pension Plan

The Globe Group has a funded, noncontributory, defined benefit pension plans ("the Plan") covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

The group retirement plan covering Globe Telecom, and Innove is managed and administered by a Board of Trustees (BOT) whose members are unanimously appointed by the Globe Group acting through its BOD. The BOT are authorized to appoint one or more fund managers to hold, invest and reinvest the assets of the Plans and execute an Investment Agreement with the said fund managers.

The BOT sets the investment policies and limits of the Plan, and appoints fund managers to assist in the investment management of the Plan. The objective of the portfolio is capital preservation by earning higher than regular deposit rates over a long period given a small degree of risk on principal interest.

Asset –liability matching strategies

The investment policy in managing liquidity is to have sufficient liquidity at all times to meet the Plan's maturing liabilities, including benefit payments to qualified employees who are expected to avail of their retirement benefits when due, without incurring unnecessary funding costs. The investment policy is also geared towards maintaining highly saleable government securities as a significant part of the plan investment portfolio even as other private securities and unquoted securities provided higher yields.

The Plan's liquidity risk is managed on a daily basis by the Plan's investment managers in accordance with the policies and procedures duly approved by the BOT. The Plan's overall liquidity position for the year is monitored on a regular basis by the BOT.

Funding policy

The plan should have at least 100% solvency all levels at all times. If a solvency deficiency exists, the deficit must be immediately funded.

Risks associated with the Plan

The retirement plan typically expose the participants to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan asset is below this rate, it will create a plan deficit.

Interest risk

A decrease in the government bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at December 31, 2018 by an Independent Actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The components of pension expense (included in staff costs under "General, selling and administrative expenses" account) in the consolidated statements of comprehensive income are as follows:

	Note	2018	2017	2016
		(In Thousand Pesos)		
Current service cost		**₱593,326**	₱621,316	₱594,557
Net interest expense	24	**84,837**	145,663	129,883
Components of defined benefit costs recognized in profit or loss		**₱678,163**	766,979	724,440
Remeasurement on the net defined benefit liability:				
Return on plan assets (excluding amounts included in net interest expense)		**515,908**	2,337	196,969
Actuarial gains and losses:				
from changes in assumptions		**(892,818)**	(420,029)	(614,388)
from experience adjustments		**305,897**	(152,597)	137,453
Components of defined benefit costs recognized in other comprehensive income	19.6	**(71,013)**	(570,289)	(279,966)
		₱607,150	₱196,690	₱444,474

The accrued pension is as follows:

	Note	2018	2017
		(In Thousand Pesos)	
Present value of benefit obligation		**₱6,693,680**	₱6,635,721
Fair value of plan assets		**(5,234,217)**	(4,534,408)
Accrued pension	17	**₱1,459,463**	₱2,101,313

The following tables present the changes in the present value of defined benefit obligation and fair value of plan assets:

Present value of defined benefit obligation

	2018	2017
	(In Thousand Pesos)	
Balance at beginning of year	**₱6,635,721**	₱6,415,840
Current service cost	**593,326**	621,316
Interest cost	**369,988**	330,289
Benefits paid	**(318,434)**	(158,739)
Remeasurements in other comprehensive income:		
Actuarial gains and losses arising from changes in assumptions	**(892,818)**	(420,029)
Actuarial gains and losses arising from experience adjustments	**305,897**	(152,597)
Effects of business combinations	**-**	(359)
Balance at end of year	**₱6,693,680**	₱6,635,721

Fair value of plan assets

	2018	2017
	(In Thousand Pesos)	
Balance at beginning of year	**₱4,534,408**	₱3,314,288
Remeasurement (gains)/losses:		
Return on plan assets (excluding amounts included in net interest expense)	**(515,908)**	(2,337)
Contributions from the employer	**1,249,000**	1,190,000
Interest income	**285,151**	184,626
Benefits paid	**(318,434)**	(152,169)
Balance at end of year	**₱5,234,217**	₱4,534,408
Actual return on plan assets	**₱230,758**	₱182,289

The recommended contribution for the Globe Group retirement fund for the year 2019 amounted to ₱1,132.18 million. This amount is based on the Globe Group's actuarial valuation report as of December 31, 2018.

As of December 31, 2018 and 2017, the allocation of the fair value of the plan assets of the Globe Group follows:

	2018	2017
	(In Thousand Pesos)	
Cash and cash equivalents	**₱248,625**	₱598,996
Investment in debt securities	**1,725,721**	1,464,615
Investment quoted in equity shares	**2,259,612**	1,470,507
Investment in unquoted in equity shares	**1,000,259**	1,000,290
	₱5,234,217	₱4,534,408

The assumptions used to determine pension benefits for the Globe Group are as follows:

	2018	2017
Discount rate	**7.50%**	5.75%
Salary rate increase	**4.50%**	4.50%

The assumptions regarding future mortality rates which are based on the 1994 Group Annuity Mortality Table developed by the Society of Actuaries, which provides separate rate for males and females.

In 2018 and 2017, the Globe Group applied a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018 and 2017, assuming all other assumptions were held constant (in thousand pesos):

December 31, 2018

	Increase (decrease) in basis points	Increase (decrease) on defined benefit obligation
Discount rates	**+0.50%**	**(₱177,138)**
	-0.50%	**217,914**
Future salary increases	**+0.50%**	**223,930**
	-0.50%	**(182,486)**
Rate of return	**+10.00%**	**2,005**
	-10.00%	**(2,005)**

December 31, 2017

	Increase (decrease) in basis points	Increase (decrease) on defined benefit obligation
Discount rates	+0.50%	(₱383,590)
	-0.50%	420,102
Future salary increases	+0.50%	423,420
	-0.50%	(389,563)
Rate of return	+10.00%	1,326
	-10.00%	(1,326)

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The objective of the plan's portfolio is capital preservation by earning higher than regular deposit rates over a long period given a small degree of risk on principal and interest. Asset purchases and sales are determined by the plan's investment managers, who have been given discretionary authority to manage the distribution of assets to achieve the plan's investment objectives. The compliance with target asset allocations and composition of the investment portfolio is monitored by the BOT on a regular basis.

The plan contributions are based on the actuarial present value of accumulated plan benefits and fair value of plan assets are determined using an independent actuarial valuation.

The average duration of the defined benefit obligation at the end of the reporting period is 15.17 years and 15.51 years in 2018 and 2017, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018 and 2017:

	2018	2017
	(In Thousand Pesos)	
Within 1 year	**₱323,327**	₱399,664
More than 1 year to 5 years	**1,795,285**	1,540,651
More than 5 years	**3,521,929**	3,189,592
	₱5,640,541	₱5,129,907

27 Income Tax

Net deferred tax assets and liabilities presented in the consolidated statements of financial position on a net basis by entity are as follows:

	2018	2017
	(In Thousand Pesos)	
Net deferred income tax assets*	**₱2,075,065**	₱2,761,626
Net deferred income tax liabilities (Globe, GCVH, GTI and KVI)	**(3,918,493)**	(2,748,826)
Net deferred income tax (liabilities) assets	**(₱1,843,428)**	₱12,800

**2018 consist of Innove, BTI and Asticom*
**2017 consist of Innove, BTI , TAO, Asticom and GTI*

The significant components of the deferred income tax assets and liabilities of the Globe Group represent the deferred income tax effects of the following:

	2018					
			Movements			
	2018	2017	Profit or Loss	Other Comprehensive Income	Other equity item	Net
Deferred tax assets						
Allowance for impairment losses on receivables	**₱3,711,267**	₱2,718,940	**(₱1,401,898)**	**₱-**	**₱2,394,225**	**₱992,327**
Unearned revenues and advances already subjected to income tax	**1,967,076**	1,504,476	**462,600**	**-**	**-**	**462,600**
Accrued manpower cost	**1,123,845**	780,993	**342,852**	**-**	**-**	**342,852**
Accrued pension	**814,264**	845,211	**(9,643)**	**(21,304)**	**-**	**(30,947)**
Unrealized foreign exchange losses	**810,409**	541,975	**268,434**	**-**	**-**	**268,434**
ARO	**701,327**	661,388	**39,939**	**-**	**-**	**39,939**
Provision for claims and assessment	**505,719**	314,759	**190,960**	**-**	**-**	**190,960**
Cost of share-based payments	**174,360**	120,463	**56,246**	**-**	**(2,349)**	**53,897**
Accumulated impairment losses on property and Equipment	**159,442**	141,496	**17,946**	**-** **-**	**-** **-**	**17,946**
(forward)						

	2018					
			Movements			
	2018	2017	Profit or Loss	Other Comprehensive Income	Other equity item	Net
Deferred tax assets						
Inventory obsolescence and market decline	**₱158,722**	₱184,780	**(₱26,058)**	**₱-**	**₱-**	**(₱26,058)**
Accrued rent expense under PAS 17	**144,298**	158,915	**(14,617)**	**-**	**-**	**(14,617)**
Contract liabilities	**108,223**	-	**(8,286)**	**-**	**116,509**	**108,223**
MCIT	**21,258**	-	**21,258**	**-**	**-**	**21,258**
NOLCO	**556**	62,339	**(61,783)**	**-**	**-**	**(61,783)**
Others	**36,427**	74,686	**(31,490)**	**-**	**(6,769)**	**(38,259)**
	10,437,193	8,110,421	**(153,540)**	**(21,304)**	**2,501,616**	**2,326,772**
Deferred tax liabilities						
Excess of accumulated depreciation and amortization of Globe Telecom equipment for (a) tax reporting over (b) financial reporting	**(7,921,353)**	(6,478,641)	**(1,442,712)**	**-**	**-**	**(1,442,712)**
Undepreciated capitalized borrowing costs already claimed as deduction for tax reporting	**(1,076,544)**	(1,231,218)	**154,674**	**-**	**-**	**154,674**
Contract asset	**(2,330,482)**	-	**(121,791)**	**-**	**(2,208,691)**	**(2,330,482)**
Unrealized gain on derivative transaction	**(615,513)**	(220,602)	**(24,747)**	**(370,164)**	**-**	**(394,911)**
Unrealized foreign exchange gain	**(12,207)**	(7,329)	**(4,878)**	**-**	**-**	**(4,878)**
Unamortized discount on noninterest bearing liability	**(11,113)**	-	**(11,113)**	**-**	**-**	**(11,113)**
Others	**(313,409)**	(159,831)	**(123,281)**	**(30,297)**	**-**	**(153,578)**
	(12,280,621)	(8,097,621)	**(1,573,848)**	**(400,461)**	**(2,208,691)**	**(4,183,000)**
Deferred income tax expense			**(1,727,388)**	**(421,765)**	**292,925**	**(1,856,228)**
Net deferred income tax assets (liabilities)	**(₱1,843,428)**	₱12,800				

(a) *Sum-of-the-years digit method*
(b) *Straight-line method*

	2017				
			Movements		
	2017	2016	Profit or Loss	Other Comprehensive Income	Net
Deferred tax assets					
Allowance for impairment losses on receivables	₱2,718,940	₱2,503,807	₱215,133	₱-	₱215,133
Unearned revenues and advances already subjected to income tax	1,504,476	1,127,762	376,714	-	376,714
Accrued pension	845,211	979,943	36,355	(171,087)	(134,732)
Accrued manpower cost	780,993	462,183	318,810	-	318,810
ARO	661,388	622,390	38,998	-	38,998
Unrealized foreign exchange losses	541,975	642,829	(100,854)	-	(100,854)
Provision for claims and assessment	314,759	112,735	202,024	-	202,024
Inventory obsolescence and market decline	184,780	202,429	(17,649)	-	(17,649)
Accrued rent expense under PAS 17	158,915	162,920	(4,005)	-	(4,005)
Accumulated impairment losses on property and Equipment	141,496	144,564	(3,068)	-	(3,068)
Cost of share-based payments	120,463	31,014	89,449	-	89,449
Unrealized loss on derivative transactions	-	10,402	(10,402)	-	(10,402)
NOLCO	62,339	394,763	(332,424)	-	(332,424)
Others	74,686	251,649	(176,963)	-	(176,963)
	8,110,421	7,649,390	632,118	(171,087)	461,031
Deferred tax liabilities					
Excess of accumulated depreciation and amortization of Globe Telecom equipment for (a) tax reporting over (b) financial reporting	(6,478,641)	(5,654,854)	(823,787)	-	(823,787)
Undepreciated capitalized borrowing costs already claimed as deduction for tax reporting	(1,231,218)	(1,041,492)	(189,726)	-	(189,726)
Unrealized gain on derivative transaction	(220,602)	(225,658)	64,804	(59,748)	5,056
Unrealized foreign exchange gain	(7,329)	(15,776)	8,447	-	8,447
Unamortized discount on noninterest bearing liability	-	(3,034)	3,034	-	3,034
Others	(159,831)	(2,796)	(146,959)	(10,076)	(157,035)
	(8,097,621)	(6,943,610)	(1,084,187)	(69,824)	(1,154,011)
Deferred income tax expense			(₱452,069)	(₱240,911)	(₱692,980)
Net deferred income tax assets	₱12,800	₱705,780			

(a) *Sum-of-the-years digit method*
(b) *Straight-line method*

The reconciliation of the provision for income tax at statutory tax rate and the actual current and deferred provision for income tax follows:

	2018	2017	2016
	(In Thousand Pesos)		
Provision at statutory income tax rate	**₱8,283,995**	₱6,462,511	₱6,581,221
Add (deduct) tax effects of:			
Equity in net losses of associates and joint ventures	**374,881**	253,853	256,559
Impairment loss on goodwill	**42,838**	-	-
Deferred tax on unexercised stock options and basis differences on deductible and reported stock compensation expense	**(1,561)**	12,752	42,209
Recognition of deferred income tax asset	**78,586**	61,806	(902,205)
Income subjected to lower tax rates	**(71,985)**	(489,235)	(13,331)
Others	**280,619**	155,802	84,450
Actual provision for income tax	**₱8,987,373**	₱6,457,489	₱6,048,903

The current provision for income tax includes the following:

	2018	2017	2016
			(In Thousand Pesos)
RCIT or MCIT whichever is higher	**₱7,151,614**	₱5,942,221	₱5,494,883
Final tax	**108,371**	63,199	62,082
	₱7,259,985	₱6,005,420	₱5,556,965

Deferred tax assets of BTI on the following deductible temporary differences were not recognized since Management believes that it will not be utilized for future taxable income.

	2018	2017
		(In Thousand Pesos)
Deferred tax assets on:		
Allowance for impairment of assets	**₱684,445**	₱1,269,283
Provision for probable loss	**236,298**	993,532
NOLCO	**12,790**	159,735
Carryforward benefits of MCIT	**1,449**	67,209
Allowance for impairment losses on receivables	**-**	758,478
	₱934,982	₱3,248,237

28 Earnings Per Share

The Globe Group's earnings per share amounts were computed as follows:

	2018	2017	2016
	(In Thousand Pesos and Number of Shares Except per Share Figures)		
Net income attributable to common shareholders	**₱18,640,740**	₱15,065,779	₱15,878,415
Less dividends on preferred shares:			
Non-voting preferred shares	**520,060**	520,060	520,060
Convertible voting preferred shares	**41,752**	33,731	32,027
Net income attributable to common shareholders for basic earnings per share (a)	**18,078,928**	14,511,988	15,326,328
Add dividends on convertible voting preferred shares	**41,752**	33,731	32,027
Net income attributable to common shareholders for diluted earnings per share (b)	**18,120,680**	14,545,719	15,358,355
Common shares outstanding, beginning	**132,917**	132,759	132,743
Add Weighted average number of exercised shares for stock options	**101**	105	13
Weighted average number of shares for basic earnings per share (c)	**133,018**	132,864	132,756
Add Dilutive shares arising from:			
Convertible preferred shares	**431**	400	399
Share based compensation plans	**371**	103	-
Stock options	**15**	67	88
Adjusted weighted average number of common shares for diluted earnings per share (d)	**133,835**	133,434	133,243
Basic earnings per share (a/c)	**₱135.91**	₱109.22	₱115.45
Diluted earnings per share (b/d)	**₱135.40**	₱109.01	₱115.27

29 Capital and Financial Risk Management and Financial Instruments

The Globe Group adopts an expanded corporate governance approach in managing its business risks. An Enterprise Risk Management Policy was developed to systematically view the risks and to provide a better understanding of the different risks that could threaten the achievement of the Globe Group's mission, vision, strategies, and goals, and to provide emphasis on how management and employees play a vital role in achieving the Globe Group's mission of transforming and enriching lives through communications.

The policies are not intended to eliminate risk but to manage it in such a way that opportunities to create value for the stakeholders are achieved. The Globe Group risk management takes place in the context of the normal business processes such as strategic planning, business planning, operational and support processes.

The application of these policies is the responsibility of the BOD through the Chief Executive Officer. The Chief Finance Officer and concurrent Chief Risk Officer champion oversees the entire risk management function. Risk owners have been identified for each risk and they are responsible for coordinating and continuously improving risk strategies, processes and measures on an enterprise-wide basis in accordance with established business objectives.

The risks are managed through the delegation of management and financial authority and individual accountability as documented in employment contracts, consultancy contracts, letters of authority, letters of appointment, performance planning and evaluation forms, key result areas, terms of reference and other policies that provide guidelines for managing specific risks arising from the Globe Group's business operations and environment.

The Globe Group continues to monitor and manage its financial risk exposures according to its BOD approved policies.

The succeeding discussion focuses on Globe Group's capital and financial risk management.

29.1 Capital Risk Management Objectives and Policies

Capital represents equity attributable to equity holders of the Parent.

The primary objective of the Globe Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Globe Group monitors its use of capital using leverage ratios, such as debt to total capitalization and makes adjustments to it in light of changes in economic conditions and its financial position. The ratio of debt to total capitalization for the years ended December 31, 2018 and 2017 was at 67% and 66%, respectively.

The Globe Group is not subject to regulatory imposed capital requirements.

The Globe Group's loan agreements include compliance with certain ratios (see Note 16)

29.2 Financial Risk Management Objectives and Policies

The main purpose of the Globe Group's financial risk management is to fund its operations and capital expenditures. The main risks arising from the use of financial instruments are market risk, credit risk and liquidity risk. The Globe Group also enters into derivative transactions, the purpose of which is to manage the currency and interest rate risk arising from its financial instruments.

Globe Telecom's BOD reviews and approves the policies for managing each of these risks.
The Globe Group monitors market price risk arising from all financial instruments and regularly reports financial management activities and the results of these activities to the BOD.

The Globe Group's risk management policies are summarized below:

29.2.1 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Globe Group is mainly exposed to two types of market risk: interest rate risk and currency risk.

Financial instruments affected by market risk include loans and borrowings and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as of December 31, 2018 and 2017. The analyses exclude the impact of movements in market variables on the carrying value of pension, provisions and on the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as of December 31, 2018 and 2017 including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges for the effects of the assumed changes in the underlying.
- The assumed changes in market rates applied in the sensitivity analyses were based on historical information and may not necessarily reflect the actual movements that may occur in the future periods.

29.2.1.1 Interest Rate Risk

The Globe Group's exposure to market risk from changes in interest rates relates primarily to the Globe Group's long-term debt obligations.

Globe Group's policy is to manage its interest cost using a mix of fixed and variable rate debt, targeting a ratio of between 31%-62% fixed rate USD debt to total USD debt, and between 44%-88% fixed rate PHP debt to total PHP debt. To manage this mix in a cost-efficient manner, the Globe Group enters into interest rate swaps, in which Globe Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

After taking into account the effect of interest rate swaps, the ratio of loans with fixed interest rates to total loans are as follows:

	2018	2017
USD fixed rate loans	**42%**	41%
PHP fixed rate loans	**87%**	83%

The following tables demonstrate the sensitivity of income before tax to and equity a reasonably possible change in interest rates after the impact of hedge accounting, with all other variables held constant.

	Increase/ Decrease in basis Points	**Effect on income before income tax Increase (Decrease)**	**Effect on equity Increase (Decrease)**
		(In Thousand Pesos)	
2018			
USD	**+75bps**	**(₱24,787)**	**(₱731)**
	-75bps	**24,787**	**731**
PHP	**+150bps**	**11,130**	**9,821**
	-150bps	**(11,130)**	**(9,830)**
2017			
USD	+55bps	(₱8,759)	(₱565)
	-55bps	8,759	565
PHP	+200bps	(30,808)	14,758
	-200bps	30,808	(14,780)

29.2.1.2 Foreign Exchange Risk

The Globe Group's foreign exchange risk results primarily from movements of the PHP against the USD with respect to USD-denominated financial assets, USD-denominated financial liabilities and certain USD-denominated revenues. Majority of revenues are generated in PHP, while substantially all of capital expenditures are in USD. In addition, 16% and 15% of debt as of December 31, 2018 and 2017, respectively, are denominated in USD before taking into account any swap and hedges.

Information on the Globe Group's foreign currency-denominated monetary assets and liabilities and their PHP equivalents are as follows:

	2018		2017	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
		(In Thousand Pesos)		
Assets				
Cash and cash equivalents	**$95,989**	**₱5,045,457**	$148,412	₱7,414,343
Trade Receivables	**100,211**	**5,267,417**	87,696	4,381,132
	196,200	**10,312,874**	236,108	11,795,475
Liabilities				
Trade payable and accrued expenses	**413,556**	**21,737,770**	466,510	23,305,881
Loans payable	**442,569**	**23,262,732**	399,944	19,980,423
	856,125	**45,000,502**	866,454	43,286,304
Net foreign currency - denominated liabilities	**$659,925**	**₱34,687,628**	$630,346	₱31,490,829

The following tables demonstrate the sensitivity to a reasonably possible change in the PHP to USD exchange rate, with all other variables held constant, of the Globe Group's income before tax (due to changes in the fair value of foreign currency-denominated assets and liabilities).

	Increase/Decrease in Peso to US Dollar exchange rate	**Effect on income before income tax Increase (Decrease)**	**Effect on equity Increase (Decrease)**
		(In Thousand Pesos)	
2018			
	+.40	**(₱231,977)**	**₱157,469**
	-.40	**231,977**	**(157,469)**
2017			
	+.45	(₱283,656)	₱152,812
	-.45	283,656	(152,812)

The movement in equity arises from changes in the fair values of derivative financial instruments designated as cash flow hedges.

In addition, the consolidated expected future payments on foreign currency-denominated purchase orders related to capital projects amounted to USD886.95 million and USD809.03 million as of December 31, 2018 and 2017, respectively (see Note 32.3). The settlement of these liabilities is dependent on the achievement of project milestones and payment terms agreed with the suppliers and contractors. Foreign exchange exposure assuming a +/-40 centavos in 2018 and +/-45 centavos in 2017 movement in PHP to USD rate on commitments amounted to ₱354.78 million and ₱364.06 million gain or loss, respectively.

The Globe Group's foreign exchange risk management policy is to maintain a hedged financial position, after taking into account expected USD flows from operations and financing transactions. The Globe Group enters into short-term foreign currency forwards and long-term foreign currency swap contracts in order to achieve this target.

29.2.2 Credit Risk

The carrying amounts of financial assets recognized in the consolidated statements of financial position represent the Globe Group's maximum exposure to credit risk. The table below details the Globe Group's exposure to credit risk:

	2018	2017
	(In Thousand Pesos)	
Cash and cash equivalents	**₱23,226,386**	₱11,222,220
Trade receivables – net	**21,112,561**	27,304,888
Contract assets – net	**7,124,332**	-
Derivative assets	**2,363,366**	926,401
Loans receivable from related parties	**726,620**	846,620
	₱54,553,265	₱40,300,129

The Globe Group has not executed any credit guarantees in favor of other parties.

Credit exposures from subscribers and carrier partners continue to be managed closely for possible deterioration. When necessary, credit management measures are proactively implemented and identified collection risks are being provided for accordingly. Outstanding credit exposures from financial instruments are monitored daily and allowable exposures are reviewed quarterly.

Applications for postpaid service are subjected to standard credit evaluation and verification procedures. The Credit and Billing Management of the Globe Group continuously reviews credit policies and processes and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of postpaid subscribers are being monitored on a regular basis and appropriate credit treatments are applied at various stages of delinquency. Likewise, net receivable balances from carriers of traffic are also being monitored and subjected to appropriate actions to manage credit risk.

Subsequent to the adoption of PFRS 9, the Globe Group analyzes its subscribers' receivables and contract assets based on internal credit risk rating. The table below shows the analysis of the Globe Group's subscribers' receivables and contract assets as of December 31, 2018.

	High Quality	Medium Quality	Low Quality	Terminated Accounts	Total
			(In Thousand Pesos)		
2018					
Wireless subscribers receivables:					
Consumer	₱3,867,223	₱1,318,821	₱863,317	₱ 5,708,844	₱11,758,205
Key corporate accounts	398,964	145,801	13,828	457,431	1,016,024
Other corporations and SME	1,592,325	262,086	258,407	1,200,103	3,312,921
	5,858,512	1,726,708	1,135,552	7,366,378	16,087,150
Wireline subscribers receivables:					
Consumer	114,172	147,503	76,908	3,590,838	3,929,421
Key corporate accounts	3,847,729	608,622	321,906	1,866,643	6,644,900
Other corporations and SME	107,829	130,825	78,924	819,235	1,136,813
	4,069,730	886,950	477,738	6,276,716	11,711,134
Wireless contract assets					
Consumer	4,323,538	2,015,704	239,176	686,339	7,264,757
Key corporate accounts	669,418	137,343	15,574	16,542	838,877
Other corporations and SME	374,298	141,618	4,416	48,155	568,487
	5,367,254	2,294,665	259,166	751,036	8,672,121
Total wireless and wireline subscribers' receivables	₱9,928,242	₱2,613,658	₱1,613,290	₱13,643,094	₱27,798,284
Total wireless receivables and contract assets	₱11,225,766	₱4,021,373	₱1,394,718	₱8,117,414	₱24,759,271
Total subscribers' receivables and contracts assets	₱15,295,496	₱4,908,323	₱1,872,456	₱14,394,130	₱36,470,405

The Globe Group's credit risk rating comprises the following categories:

- High quality accounts are accounts considered to be of good quality, have consistently exhibited good paying habits, and are unlikely to miss payments. High quality accounts primarily include strong corporate and consumer accounts with whom the Globe Group has excellent payment experience.
- Medium quality accounts are accounts that exhibited good paying habits but may require minimal monitoring with the objective of moving accounts to high quality rating. Medium quality accounts primarily include subscribers whose creditworthiness can be moderately affected by adverse changes in economic and financial conditions, but will not necessarily, reduce the ability of the subscriber to fulfill its obligations. It includes customers with whom the Globe Group has limited experience and therefore, creditworthiness needs to be further established over time.

- Low quality accounts are accounts which exhibit characteristics that are identified to have increased likelihood to miss payments. Low quality accounts are subject to closer monitoring and scrutiny with the objective of managing risk and moving accounts to improved rating category. It primarily includes mass consumer, corporate and SME customers whose creditworthiness are easily affected by adverse changes in economic and financial conditions.
- Terminated accounts are accounts in cancelled status. Although there is a possibility that terminated accounts may still be collected by exhausting collection efforts, the probability of recovery has significantly deteriorated.

For traffic settlements and other trade receivables the Globe Group uses delinquency and past due information to analyze the credit risk. The table below shows the aging analysis of the Globe Group's traffic settlements and other trade receivables as of December 31, 2018.

	Current	Less than 30 days past due	31 to 60 days past due	61 to 90 days past due	Over 90 days past due	Total
			(In Thousand Pesos)			
Traffic receivables:						
Foreign	**₱1,141,976**	**₱28**	**₱206,240**	**₱320,262**	**₱764,916**	**₱2,433,422**
Local	**171,717**	**29,229**	**19,026**	**3,137**	**211,865**	**434,974**
	1,313,693	**29,257**	**225,266**	**323,399**	**976,781**	**2,868,396**
Other trade receivables	**1,744,398**	**187,629**	**197,197**	**92,384**	**747,160**	**2,968,768**
Total	**₱3,058,091**	**₱216,886**	**₱422,463**	**₱415,783**	**₱1,723,941**	**₱5,837,164**

Prior to the adoption of PFRS 9, the Globe Group analyzes its trade receivables based on delinquency and past due information. The table below shows the aging analysis of the Globe Group's receivables as of December 31, 2017.

	Neither Past Due Nor Impaired	Past Due But Not Impaired				Individually Impaired Financial Assets	Total
		Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days		
				(In Thousand Pesos)			
2017							
Wireless receivables:							
Consumer	₱864,514	₱1,292,975	₱431,734	₱281,336	₱7,653,190	₱2,016,130	₱12,539,879
Key corporate accounts	23,599	84,288	154,539	196,119	1,927,452	638,926	3,024,923
Other corporations and SME	109,533	157,433	57,348	40,519	1,140,087	101,954	1,606,874
	997,646	1,534,696	643,621	517,974	10,720,729	2,757,010	17,171,676
Wireline receivables:							
Consumer	479,124	439,673	149,616	84,894	503,897	4,010,811	5,668,015
Key corporate accounts	155,399	351,638	653,354	780,439	3,292,290	945,688	6,178,808
Other corporations and SME	119,633	109,511	68,445	45,173	351,923	708,891	1,403,576
	754,156	900,822	871,415	910,506	4,148,110	5,665,390	13,250,399
Traffic receivables:							
Foreign	2,265,459	-	-	-	-	309,654	2,575,113
Local	121,851	-	14,310	96	24,235	83,251	243,743
	2,387,310	-	14,310	96	24,235	392,905	2,818,856
Other receivables	2,881,118	18,747	42,532	26,038	226,533	-	3,194,968
Total	₱7,020,230	₱2,454,265	₱1,571,878	₱1,454,614	₱15,119,607	₱8,815,305	₱36,435,899

The individually impaired financial assets presented above does not include impairment losses arising from collective assessment.

Below is the analysis of the Globe Group's trade receivables as of December 31, 2017 that are neither past due nor impaired.

	Neither Past Due Nor Impaired			
	High Quality	Medium Quality	Low Quality	Total
			(In Thousand Pesos)	
2017				
Wireless receivables:				
Consumer	₱15,062	₱266,238	₱583,214	₱864,514
Key corporate accounts	462	17,465	5,672	23,599
Other corporations and SME	39,156	9,572	60,805	109,533
	54,680	293,275	649,691	997,646
Wireline receivables:				
Consumer	331,655	43,226	104,243	479,124
Key corporate accounts	135,488	7,148	12,763	155,399
Other corporations and SME	86,284	6,799	26,550	119,633
	553,427	57,173	143,556	754,156
Total	₱608,107	₱350,448	₱793,247	₱1,751,802

Other trade receivables that are neither past due nor impaired are considered high quality accounts as these are substantially from credit card companies and Globe Group dealers.

With respect to other financial assets of the Globe Group which comprise cash in banks, short-term investments loans to related parties and certain derivative instruments, the exposure to credit risk is managed on a Group basis.

For investments with banks and other counterparties, the Globe Group has a risk management policy which allocates investment limits based on counterparty credit rating and credit risk profile. The Globe Group makes a quarterly assessment of the credit standing of its investment counterparties, and allocates investment limits based on size, liquidity, profitability, and asset quality. The usage of limits is regularly monitored.

For its derivative counterparties, the Globe Group deals only with counterparty banks with investment grade ratings and large local banks. Credit ratings of derivative counterparties are reviewed quarterly.

Following are the Globe Group exposures with its investment counterparties for time deposits as of December 31:

	2018	2017	2016
Local bank deposits	**59%**	43%	52%
Onshore foreign bank	**31%**	47%	40%
Offshore bank deposit	**10%**	10%	8%

29.2.3 Liquidity Risk

The Globe Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Globe Group intends to use internally generated funds and available long-term and short-term credit facilities.

The following table shows the Globe Group's available credit facilities (in millions)

	2018	2017
Long-term committed	**₱-**	₱5,000
Short term		
Committed	**₱3,000**	₱3,000
Uncommitted		
USD	**$119**	$118.9
PHP	**₱14,000**	₱19,500

As part of its liquidity risk management, the Globe Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans, export credit agency facilities and capital market issues.

The following tables show comparative information about the Globe Group's financial instruments as of December 31 that are exposed to liquidity risk and interest rate risk and presented by maturity profile including forecasted interest payments for the next five years from December 31 figures (in thousands).

Loans Payable

2018

	Less than 1 year	1 to 3 years	Over 3 years
Loans Payable			
Fixed Rate			
USD notes	**$410**	**$1,493**	**$227**
Philippine peso	**₱11,110,000**	**₱22,922,500**	**₱72,427,500**
Floating rate			
USD notes	**$11,150**	**$235,850**	**$200,800**
Philippine peso	**₱5,040,000**	**₱630,000**	**₱13,160,000**
Interest payable*			
PHP debt	**₱6,523,381**	**₱16,834,502**	**₱18,179,506**
USD debt	**$16,484**	**$34,623.00**	**$18,914**

**Used month-end USD LIBOR and Philippine Dealing and Exchange Corporation (PDEX) rates.*

2017

	Less than 1 year	1 to 3 years	Over 3 years
Loans Payable			
Fixed Rate			
USD notes	$400	$1,377	$767
Philippine peso	₱805,000	₱22,397,500	₱68,062,500
Floating rate			
USD notes	$9,600	$146,250	$241,550
Philippine peso	₱6,980,000	₱5,360,000	₱8,470,000
Interest payable*			
PHP debt	₱5,126,322	₱13,024,999	₱17,917,015
USD debt	$9,737	$23,393	$15,062

Used month-end USD LIBOR and Philippine Dealing and Exchange Corporation (PDEX) rates.

The following tables present the maturity profile of the Globe Group's other liabilities and derivative instruments (undiscounted cash flows including swap costs payments/receipts except for other long-term liabilities) as of December 31, 2018 and 2017.

2018

Other Financial Liabilities

	Less than 1 year	1 to 5 years	Over 5 years	Total
Trade payables and accrued expenses*	₱51,540,513	₱-	₱-	₱51,540,513
Other long-term liabilities	-	-	865,354	865,354
	₱51,540,513	₱-	₱865,354	₱52,405,867

**Excludes taxes payable which is not a financial instrument.*

Derivative Instrument

	Less than 1 year		1 to 3 years		Over 3 years	
	Receive	Pay	Receive	Pay	Receive	Pay
Projected Swap Coupons:						
Interest Rate Swaps-USD	₱89,644	₱54,151	₱79,146	₱59,574	₱-	₱-
Cross Currency Swaps	₱583,720	₱808,957	₱1,103,598	₱1,742,079	₱953,765	₱1,324,365
Principal Only Swaps	₱-	₱73,732	₱-	₱93,982	₱-	₱-

	Less than 1 year		1 to 3 years		Over 3 years	
	Receive	Pay	Receive	Pay	Receive	Pay
Projected Principal Exchanges:						
FX Swap, Buys USD Forward	$80,000	₱4,283,050	$-	₱-	$-	₱-
Cross Currency Swaps- PHP	₱-	₱79,221	₱-	₱4,957,711	₱-	₱10,349,168
Cross Currency Swaps- USD	$1,550	$-	$97,650	$-	$200,800	$-
Principal Only Swaps- PHP	₱-	₱410,241	₱-	₱3,742,229	₱-	₱-
Principal Only Swaps- USD	$8,700	$-	$77,700	$-	$-	$-

**Projected principal exchanges represent commitments to purchase USD for payment of USD debts with the same maturities.*
***Deliverable and non-deliverable*
**Excludes taxes payable which is not a financial instrument.*

2017

Other Financial Liabilities

	Less than 1 year	1 to 5 years	Over 5 years	Total
Trade payables and accrued expenses*	₱56,910,439	₱-	₱-	₱56,910,439
Other long-term liabilities	-	-	779,839	779,839
	₱56,910,439	₱-	₱779,839	₱57,690,278

**Excludes taxes payable which is not a financial instrument.*

Derivative Instrument

	Less than 1 year		1 to 3 years		Over 3 years	
	Receive	**Pay**	**Receive**	**Pay**	**Receive**	**Pay**
Projected Swap Coupons:						
Interest Rate Swaps-USD	₱56,352	₱52,126	₱122,305	₱100,277	₱8,806	₱7,813
Cross Currency Swaps	₱323,194	₱508,771	₱857,751	₱1,280,248	₱981,314	₱1,455,755
Principal Only Swaps	₱-	₱80,900	₱-	₱153,289	₱-	₱14,425

	Less than 1 year		1 to 3 years		Over 3 years	
	Receive	**Pay**	**Receive**	**Pay**	**Receive**	**Pay**
Projected Principal Exchanges:						
Cross Currency Swaps- PHP	₱-	₱-	₱-	₱3,886,453	₱-	₱7,684,389
Cross Currency Swaps- USD	$-	$-	$89,650	$-	$150,350	$-
Principal Only Swaps- PHP	₱-	₱410,241	₱-	₱2,559,029	₱-	₱1,593,442
Principal Only Swaps- USD	$8,700	$-	$53,900	$-	$32,500	$-

**Projected principal exchanges represent commitments to purchase USD for payment of USD debts with the same maturities.*
***Deliverable and non-deliverable*

**Excludes taxes payable which is not a financial instrument.*

29.2.4 Hedging Objectives and Policies

The Globe Group uses a combination of natural hedges and derivative hedging to manage its foreign exchange exposure. It uses interest rate derivatives to reduce earnings volatility related to interest rate movements, and principal only swaps to hedge the foreign exchange risk exposure to principal repayments on USD debt.

It is the Globe Group's policy to ensure that capabilities exist for active but conservative management of its foreign exchange and interest rate risks. The Globe Group does not engage in any speculative derivative transactions. Authorized derivative instruments include currency forward contracts, currency swap contracts, interest rate swap contracts and currency option contracts.

29.3 Derivative Financial Instruments

The Globe Group's freestanding and embedded derivative financial instruments are accounted for as hedges or transactions not designated as hedges. The table below sets out information about the Globe Group's derivative financial instruments and the related fair values as of December 31:

<u>2018</u>

	USD Notional Amount	PHP Notional Amount	Derivative Assets	Derivative Liabilities
		(In Thousands)		
Derivative instruments designated as hedges				
Cash flow hedges				
Cross currency swaps	**$300,000**	**₱ -**	**₱1,787,777**	**₱203,983**
Principal only swaps	**86,400**	**-**	**528,297**	**32,010**
Interest rate swaps	**61,400**	**-**	**47,292**	**-**
Derivative instruments not designated as hedges				
Freestandng				
Deliverable forwards*	**80,000**	**-**	**-**	**75,661**
Net			**₱2,363,366**	**₱311,654**

2017

	USD Notional Amount	PHP Notional Amount	Derivative Assets	Derivative Liabilities
		(In Thousands)		
Derivative instruments designated as hedges				
Cash flow hedges				
Cross currency swaps	$240,000	₱ -	₱713,951	₱153,370
Principal only swaps	95,100	-	177,641	36,384
Interest rate swaps	62,600	-	28,553	1,306
Derivative instruments not designated as hedges				
Embedded				
Currency forwards*	6,345	-	6,256	-
Net			₱926,401	₱191,060

**The embedded currency forwards are at a net buy position.*

The table below also sets out information about the maturities of Globe Group's derivative instruments as of December 31 that were entered into to manage interest and foreign exchange risks related to the long-term debt (in thousands).

2018

	Less than 1 year	1 to 5 years	Over 5 years	Total
Derivatives				
Interest Rate Swaps				
Floating-Fixed				
Notional PHP	**₱-**	**₱-**	**₱-**	**₱-**
Notional USD	**$8,700**	**$52,700**	**$-**	**$61,400**
Cross Currency Swaps				
Floating-Fixed				
Notional PHP	**₱79,221**	**₱5,141,932**	**₱10,164,947**	**₱15,386,100**
Notional USD	**$1,550**	**$101,200**	**$197,250**	**$300,000**
Pay-fixed rate				**4.15%-6.68%**
Receive-floating rate				**USD LIBOR + (0.60%-1.0%)**
Principal Only Swaps				
Fixed-Fixed				
Notional PHP	**₱410,241**	**₱3,742,229**	**₱-**	**₱4,152,470**
Notional USD	**$8,700**	**$77,700**	**$-**	**$86,400**
Pay-fixed rate				**1.31%-2.3%**

2017

	Less than 1 year	1 to 5 years	Over 5 years	Total
Derivatives				
Interest Rate Swaps				
Floating-Fixed				
Notional PHP	₱-	₱-	₱-	₱-
Notional USD	$1,200	$61,400	$-	$62,600
Cross Currency Swaps				
Floating-Fixed				
Notional PHP	₱-	₱3,965,684	₱7,605,168	₱11,570,852
Notional USD	$-	$91,200	$148,800	$240,000
Pay-fixed rate				4.12%-4.69%
Receive-floating rate				USD LIBOR + (0.60%-1.0%)
Principal Only Swaps				
Fixed-Fixed				
Notional PHP	₱410,241	₱4,152,471	₱-	₱4,562,712
Notional USD	$8,700	$86,400	$-	$95,100
Pay-fixed rate				1.31%-2.3%

The Globe Group's other financial instruments that are exposed to interest rate risk are cash and cash equivalents. These mature in less than a year and are subject to market interest rate fluctuations.

The Globe Group's other financial instruments which are non-interest bearing and therefore not subject to interest rate risk are trade and other receivables, trade payables and accrued expenses and other long-term liabilities. Loans receivable are also not subject to interest rate risk due to fixed interest rates.

The subsequent sections will discuss the Globe Group's derivative financial instruments according to the type of financial risk being managed and the details of derivative financial instruments that are categorized into those accounted for as hedges and those that are not designated as hedges.

29.4 Derivative Instruments Accounted for as Hedges

The following sections discuss in detail the derivative instruments accounted for as cash flow hedges.

- *Currency Swaps and Cross Currency Swaps*

The Globe Group entered into cross currency swap contracts with maturities on April 2020, December 2023, August 2024, March 2025 and August 2027 and principal only swaps contracts with maturities on April 2020, April 2022 and October 2022 to hedge the foreign exchange and interest rate risk on dollar loans. The cross currency swaps have a notional amount of USD300.00million and USD240.00million as of December 31, 2018 and 2017, respectively. Principal only swaps have a notional amount of USD86.4 million and USD95.10 million as of December 31, 2018 and 2017, respectively. The fair values of the currency swaps as of December 31, 2018 and 2017 amounted to net asset of ₱2,080 million and ₱701.84 million, of which ₱915.81 million and ₱66.13 million (net of tax) is included in "Other reserves" in the equity section of the consolidated statements of financial position (see Note 19.6)

- *Interest Rate Swaps*

As of December 31, 2018 and 2017, the Globe Group has USD61.40 million and USD62.60 million in notional amount of USD interest rate swap that have been designated as cash flow hedge of interest rate risk from USD loans. The interest rate swap effectively fixed the benchmark rate of the hedged USD loan at 1.7% over the duration of the agreement, which involves quarterly and semi-annual payment intervals up to October 2022 and April 2020, respectively.

As of December 31, 2018 and 2017, the fair value of the outstanding swap amounted to a net asset of ₱47.29 million and ₱27.25 million, respectively, of which ₱33.10 million and ₱19.07 million (net of tax), respectively, is included in "Other reserves" in the equity section of the consolidated statements of financial position (see Note 19.6).

Accumulated swap cost for the years ended December 31, 2018, 2017 and 2016 amounted to ₱16.84 million, ₱7.04 million and ₱0.40 million, respectively.

29.5 Other Derivative Instruments Not Designated as Hedges

The Globe Group enters into certain derivatives as economic hedges of certain underlying exposures. Such derivatives, which include embedded and freestanding currency forwards, embedded call options, and certain currency and interest rate swaps with option combination or structured provisions, are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly in the consolidated profit or loss. This section consists of freestanding derivatives and embedded derivatives found in both financial and nonfinancial contracts.

29.6 Freestanding Derivatives

Freestanding derivatives that are not designated as hedges consist of currency forwards entered into by the Globe Group. Fair value changes on these instruments are accounted for directly in consolidated profit or loss.

29.7 Deliverable and Non-deliverable Forwards

As of December 31, 2018 and 2017, the Globe Group has USD80.00 million and nil deliverable and non-deliverable currency forward contracts not designated as hedges, respectively.

29.8 Embedded Derivatives and Other Financial Instruments

Prior to adoption of PFRS 9, the Globe Group instituted a process to identify any derivatives embedded in its financial or nonfinancial contracts. In accordance with PAS 39, the Globe Group assesses whether these derivatives are required to be bifurcated or are exempted based on the qualifications provided by the standard. The Globe Group's embedded derivatives include embedded currency derivatives noted in non-financial contracts.

Embedded Currency Forwards

As of December 31, 2018 and 2017, the total outstanding notional amount of currency forwards embedded in nonfinancial contracts amounted to nil and USD6.35 million, respectively. The nonfinancial contracts consist mainly of foreign currency-denominated maintenance and lease agreements and unbilled leased lines receivables denominated in foreign currency with domestic counterparties. The net fair value of the embedded currency forwards as of December 31, 2018 and 2017 amounted to nil and ₱6.26 million, respectively.

29.8 Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments are as follows:

	2018	2017
	(In Thousand Pesos)	
At beginning of year	**₱735,341**	₱717,520
Net changes in fair value of derivatives:		
Designated as cash flow hedges	**1,947,986**	(141,891)
Not designated as cash flow hedges	**70,003**	4,603
	₱2,753,330	580,232
Fair value of settled instruments	**(701,618)**	155,109
At end of period	**₱2,051,712**	₱735,341

29.9 Hedge Effectiveness Results

As of December 31, 2018 and 2017, the effective fair value changes on the Globe Group's cash flow hedges that were deferred in equity amounted to ₱948.92 million gains and ₱85.20 million gain, net of tax, respectively. Total ineffectiveness for the years ended December 31, 2018 and 2017 is immaterial.

The distinction of the results of hedge accounting into "Effective" or "Ineffective" represent designations based on PFRS 9 and PAS 39 and are not necessarily reflective of the economic effectiveness of the instruments.

29.10 Categories of Financial Assets and Financial Liabilities

The table below presents the carrying value of Globe Group's financial instruments by category as of December 31, 2018 and January 1, 2018 based on the classification requirements of PFRS 9 (in thousand pesos):

	December 31 2018	January 1 2018
	(In Thousand Pesos)	
Financial Assets		
Financial assets at FVPL:		
Derivative assets designated as cash flow hedges	**₱2,363,366**	₱920,145
Derivative assets not designated as hedges	**-**	6,256
Financial assets at FVOCI:		
Investment in equity securities - net	**1,442,940**	1,201,187
Financial assets at amortized cost		
Cash and cash equivalents	**23,226,386**	11,222,220
Trade receivables – net	**21,112,561**	18,682,932
Contract assets – net	**7,124,331**	6,389,037
Non-trade receivables	**1,325,152**	868,913
Loans receivable from related parties	**726,620**	846,620
	₱57,321,356	₱40,137,310
Financial Liabilities:		
Financial liabilities at FVPL:		
Derivative liabilities designated as cash flow hedges	**₱235,993**	₱191,060
Derivative liabilities not designated as hedges	**75,661**	-
Financial liabilities at amortized cost		
Trade payables and accrued expenses*	**51,540,513**	56,910,439
Loans payable	**148,281,897**	131,528,705
Other	**1,383,807**	1,404,620
	₱201,517,871	₱190,034,824

**Trade payables and accrued expenses .does not include taxes payables which are not considered financial liabilities*
***Other long term liabilities do not include ARO and accrued pension which are not considered financial liabilities*

The table below presents the carrying value of Globe Group's financial instruments by category as of December 31, 2017 based on the classification requirements of PAS 39.

	2017
	(In Thousand Pesos)
Financial Assets	
Financial assets at FVPL:	
Derivative assets designated as cash flow hedges	₱920,145
Derivative assets not designated as hedges	6,256
AFS financial assets	
Investment in equity securities	1,201,187
Loans and receivables - net	
Cash and cash equivalents	11,222,220
Trade receivables – net	27,304,288
Non-trade receivables	868,913
Loans from related parties	846,620
	₱42,369,629
Financial Liabilities	
Financial liabilities at FVPL:	
Derivative liabilities designated as cash flow hedges	₱191,060
Derivative liabilities not designated as hedges	-
Financial liabilities at amortized cost	
Trade payables and accrued expenses*	56,910,439
Loans payable	131,528,705
Other long term liabilities**	1,404,620
	₱190,034,824

**Trade payables and accrued expenses .do not include taxes payables which are not considered financial liabilities*
***Other long term liabilities do not include ARO and accrued pension which are not considered financial liabilities*

29.11 Offsetting Financial Assets and Financial Liabilities

The Globe Group has derivative financial instruments that have offsetting arrangements as follows:

	Gross amounts	Amounts offset under PAS 32	Reported amounts in the consolidated statements of financial position	Amounts offset under master netting arrangements or other similar contracts	Net exposure
			(In Thousand Pesos)		
December 31, 2018					
Derivative assets	**₱2,363,366**	**₱-**	**₱2,363,366**	**(₱204,606)**	**₱2,158,760**
Derivative liabilities	**311,654**	**-**	**311,654**	**(204,606)**	**107,048**
Traffic settlements receivable (Note 5)	**3,661,635**	**(793,239)**	**2,868,396**	**-**	**2,868,396**
Traffic settlements payable (Note 14)	**1,895,650**	**(793,239)**	**1,102,411**	**-**	**1,102,411**
December 31, 2017					
Derivative assets	₱926,401	₱-	₱926,401	(₱162,713)	₱763,688
Derivative liabilities	191,060	-	191,060	(162,713)	28,347
Traffic settlements receivable (Note 5)	5,953,035	(3,134,179)	2,818,856	-	2,818,856
Traffic settlements payable (Note 14)	4,208,655	(3,134,179)	1,074,476	-	1,074,476

The Globe Group makes use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Master netting arrangements do not normally result in an offset of balance sheet assets and liabilities unless certain conditions for offsetting under PAS 32 apply.

Although master netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realized; and
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement and fluctuations in market factors.

29.12 Fair Values of Financial Assets and Financial Liabilities

The table below presents a comparison of carrying amounts and estimated fair values of all the Globe Group's financial instruments as of December 31:

	2018		2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousand Pesos)		
Financial Assets				
Derivative assets[1]	**₱2,363,366**	**₱2,363,366**	₱926,401	₱926,401
Investment in equity securities[1]	**1,442,940**	**1,442,940**	1,201,187	1,201,187
	₱3,806,306	**₱3,806,306**	₱2,127,588	₱2,127,588
Financial Liabilities				
Derivative liabilities[1]	**₱311,654**	**₱311,654**	₱191,060	₱191,060
Loans payables [2]	**148,281,897**	**137,834,270**	131,528,705	138,812,508
	₱148,593,551	**₱138,145,924**	₱131,719,765	₱139,003,568

[1] *Measured at fair value on a recurring basis*
[2] *Fair value is disclosed only in the Notes to Financial Statements*

The following discussions are methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

29.12.1 Non-Derivative Financial Instrument

The fair value of loans receivable from related parties was estimated based on the present value of all future cash flows discounted using the prevailing market rate of interest for a similar instrument. The resulting fair value of loans receivable from related parties approximates the carrying amount.

The fair value of investments in equity securities are based on quoted prices of similar instruments.

For variable rate financial instruments that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate financial instruments that reprice every six months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date. The discount rates used range from 2.8084% to 2.8807% for USD floating loans.

For noninterest bearing obligations, the fair value was estimated as the present value of all future cash flows discounted using the prevailing market rate of interest for a similar instrument.

29.12.2 Derivative Instrument

The fair value of freestanding and embedded forward exchange contracts is calculated by using the interest rate parity concept.

The fair values of interest rate swaps and cross currency swap transactions are determined using valuation techniques with inputs and assumptions that are based on market observable data and conditions and reflect appropriate risk adjustments that market participants would make for credit and liquidity risks existing at the end each of reporting period. The fair value of interest rate swap transactions is the net present value of the estimated future cash flows. The fair values of currency and cross currency swap transactions are determined based on changes in the term structure of interest rates of each currency and the spot rate.

The fair values were tested to determine the impact of credit valuation adjustments. However, the impact is immaterial given that the Globe Group deals its derivatives with large foreign and local banks with very minimal risk of default.

29.12.3 Fair Value Hierarchy

The following tables provide the fair value measurement hierarchy of the Globe Group's assets and liabilities:

	Fair value measurement using			
	Level 11	Level 2	Level 3	Total
2018				
Financial Assets		*(In Thousand Pesos)*		
Derivative assets:				
Cross currency swaps	**₱-**	**₱1,787,777**	**₱-**	**₱1,787,777**
Principal only swaps	**-**	**528,297**	**-**	**528,297**
Interest rate swaps	**-**	**47,292**	**-**	**47,292**
Investment in equity securities	**357,200**	**1,085,740**	**-**	**1,442,940**
Financial Liabilities				
Derivative liabilities:				
Cross currency swaps	**-**	**203,983**	**-**	**203,983**
Principal only swaps	**-**	**32,010**	**-**	**32,010**
Deliverable forwards	**-**	**75,661**	**-**	**75,661**
Loans payable	**-**	**137,834,270**	**-**	**137,834,270**

	Fair value measurement using			
	Level 1	Level 2	Level 3	Total
2017				
Financial Assets		*(In Thousand Pesos)*		
Derivative assets:				
Cross currency swaps	₱-	₱713,951	₱-	₱713,951
Principal only swaps	-	177,641	-	177,641
Interest rate swaps	-	28,553	-	28,553
Embedded currency forwards	-	6,256	-	6,256
Investment in equity securities	249,200	951,987	-	1,201,187
Financial Liabilities:				
Derivative liabilities:				
Cross currency swaps	-	153,370	-	153,370
Principal only swaps	-	36,384	-	36,384
Interest rate swaps	-	1,306	-	1,306
Loans payable	-	138,812,508	-	138,812,508

There were no transfers from Level 1 and Level 2 fair value measurements for the years ended December 31, 2018 and 2017. The Globe Group has no financial instruments classified under Level 3.

30 Operating Segment Information

The Globe Group's reportable segments consist of: (1) mobile communications services; and (2) wireline communication services; which the Globe Group operates and manages as strategic business units and organize by products and services. The Globe Group presents its various operating segments based on segment net income.

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

Most of the Globe Group's revenues are derived from operations within the Philippines, hence, the Globe Group does not present geographical information required by PFRS 8, *Operating Segments*. The Globe Group does not have a single customer that will meet the 10% reporting criteria.

The Globe Group also presents the different product types that are included in the report that is regularly reviewed by the chief operating decision maker in assessing the operating segments performance.

Segment assets and liabilities are not measures used by the chief operating decision maker since the assets and liabilities are managed on a group basis.

The Globe Group's segment information is as follows (in thousand pesos):

	2018		
	Mobile Communications Services	Wireline Communications Services	Consolidated
		(In Thousand Pesos)	
REVENUES:			
Service revenues:			
External customers:			
Data	₱50,819,828	₱11,761,929	₱62,581,757
Voice	28,519,660	2,977,017	31,496,677
SMS	20,191,240	-	20,191,240
Broadband	-	18,605,636	18,605,636
Nonservice revenues:			
External customers	17,905,545	391,951	18,297,496
Segment revenues	117,436,273	33,736,533	151,172,806
EBITDA	54,813,431	10,313,684	65,127,115
Depreciation and amortization	(18,515,035)	(11,906,686)	(30,421,721)
EBIT	36,298,396	(1,593,002)	34,705,394
NET INCOME (LOSS) BEFORE TAX[2]	28,329,140	(715,824)	27,613,316
Provision for income tax	(6,105,079)	(2,882,294)	(8,987,373)
NET INCOME (LOSS)	₱22,224,061	(₱3,598,118)	₱18,625,943
Core net income after tax			₱18,734,587
Intersegment revenues	(₱3,151,866)	(₱1,464,068)	(₱4,615,934)
Subsidy[1]	(237,272)	(110,546)	(347,818)
Interest income	265,706	125,324	391,030
Interest expense	(5,958,866)	(16,298)	(5,975,164)
Equity in net losses of associates and joint ventures	(1,249,603)	-	(1,249,603)
Impairment losses and others	3,126,709	1,660,935	4,787,644
Total additions to property and equipment and intangible assets	26,601,407	9,713,380	36,314,787
Cost of sales	(18,142,817)	(502,497)	(18,645,314)
Operating expenses	(44,480,026)	(22,920,353)	(67,400,379)
Cash Flows			
Net cash from (used in):			
Operating activities	₱41,727,279	₱16,123,250	₱57,850,529
Investing activities	(33,616,425)	(9,035,328)	(42,651,753)
Financing activities	752,364	(4,187,410)	(3,435,046)

[1]*Computed as non-service revenues less cost of sales*

	2017		
	Mobile Communications Services	Wireline Communications Services	Consolidated
	(In Thousand Pesos)		
REVENUES:			
Service revenues:			
External customers:			
Data	₱43,058,894	₱10,287,868	₱53,346,762
Voice	32,274,474	3,490,350	35,764,824
SMS	23,149,293	-	23,149,293
Broadband	-	15,644,974	15,644,974
Nonservice revenues:			
External customers	7,103,490	271,388	7,374,878
Segment revenues	105,586,151	29,694,580	135,280,731
EBITDA	46,412,954	6,912,717	53,325,671
Depreciation and amortization	(14,719,797)	(12,792,892)	(27,512,689)
EBIT	31,693,157	(5,880,175)	25,812,982
NET INCOME (LOSS) BEFORE TAX[2]	27,495,220	(5,953,518)	21,541,702
Provision for income tax	(4,965,817)	(1,491,672)	(6,457,489)
NET INCOME (LOSS)	₱22,529,403	(₱7,445,190)	₱15,084,213
Core net income after tax			₱13,546,018
Intersegment revenues	(₱2,880,641)	(₱1,470,841)	(₱4,351,482)
Subsidy[1]	(5,522,391)	(116,168)	(5,638,559)
Interest income	112,222	27,359	139,581
Interest expense	(5,025,778)	(17,174)	(5,042,952)
Equity in net losses of associates and joint ventures[2]	(846,177)	-	(846,177)
Impairment losses and others	(5,326,363)	(97,003)	(5,423,366)
Total additions to property and equipment and intangible assets	39,553,734	11,878,600	51,432,334
Cost of sales	(12,625,881)	(387,556)	(13,013,437)
Operating expenses	(46,567,834)	(22,373,725)	(68,941,559)
Cash Flows			
Net cash from (used in):			
Operating activities	₱34,396,520	₱15,907,742	₱50,304,262
Investing activities	(55,344,717)	(77,298)	(55,422,015)
Financing activities	7,814,350	-	7,814,350

[1]*Computed as non-service revenues less cost of sales*

[2]*Starting June 2016, Globe Group presented equity in net losses as a non-operating income and expense below EBITDA, previously under other income above EBITDA. This change resulted to retroactive adjustments of 2015 and 2014 reported figures.*

	2016		
	Mobile Communications Services	Wireline Communications Services	Consolidated
	(In Thousand Pesos)		
REVENUES:			
Service revenues:			
External customers:			
Data	₱34,991,091	₱9,873,417	₱44,864,508
Voice	34,065,300	3,779,820	37,845,120
SMS	23,198,924	-	23,198,924
Broadband	-	14,679,451	14,679,451
Nonservice revenues:			
External customers	5,670,249	523,408	6,193,657
Segment revenues	97,925,564	28,856,096	126,781,660
EBITDA[3]	41,260,570	8,717,826	49,978,396
Depreciation and amortization	(10,978,984)	(12,869,662)	(23,848,646)
EBIT	30,281,586	(4,151,836)	26,129,750
NET INCOME (LOSS) BEFORE TAX[2]	26,090,530	(4,153,128)	21,937,402
Provision for income tax	(5,359,344)	(689,559)	(6,048,903)
NET INCOME (LOSS)	₱20,731,186	(₱4,842,687)	₱15,888,499
Core net income after tax			₱16,013,946
Intersegment revenues	(₱2,573,816)	(₱1,511,959)	(₱4,085,775)
Subsidy[1]	(5,476,822)	(243,635)	(5,720,457)
Interest income	105,834	45,755	151,589
Interest expense	(3,388,476)	(20,423)	(3,408,899)
Equity in net losses of associates and joint ventures[2]	(855,198)	-	(855,198)
Impairment losses and others	(2,420,759)	(850,542)	(3,271,301)
Total additions to property and equipment and intangible assets	32,328,400	6,762,791	39,091,191
Cost of sales	(11,147,071)	(767,043)	(11,914,114)
Operating expenses	(45,544,108)	(19,345,118)	(64,889,226)
Cash Flows			
Net cash from (used in):			
Operating activities	₱31,140,895	₱6,321,702	₱37,462,597
Investing activities	(51,644,709)	(6,016,878)	(57,661,587)
Financing activities	16,988,326	(23,696)	16,964,630

[1]Computed as non-service revenues less cost of sales

[2]Starting June 2016, Globe Group presented equity in net losses as a non-operating income and expense below EBITDA, previously under other income above EBITDA. This change resulted to retroactive adjustments of 2015 and 2014 reported figures.

A breakdown of gross revenues to net revenues and a reconciliation of segment revenues to the total revenues presented in the consolidated statements of comprehensive income are shown below:

	2018	2017	2016
	(In Thousand Pesos)		
Gross service revenues	**₱132,875,310**	₱127,905,853	₱120,588,003
Interconnection charges	**(5,677,375)**	(7,852,336)	(9,623,127)
Net service revenues	**127,197,935**	120,053,517	110,964,876
Nonservice revenues	**18,297,496**	7,374,878	6,193,657
Segment revenues	**145,495,431**	127,428,395	117,158,533
Interest income	**391,030**	139,581	151,589
Gain on fair value of retained interest	**-**	1,889,901	-
Other income - net	**1,595,835**	701,653	983,186
Total revenues	**₱147,482,296**	₱130,159,530	₱118,293,308

The reconciliation of the EBITDA to income before income tax presented in the consolidated statements of comprehensive income is shown below:

	2018	2017	2016
	(In Thousand Pesos)		
EBITDA	**₱65,127,115**	₱53,325,671	₱49,978,396
Depreciation and amortization	**(30,421,721)**	(27,512,689)	(23,848,646)
Financing costs	**(7,095,655)**	(5,251,692)	(4,096,826)
Equity in net losses of associates and joint ventures	**(1,249,603)**	(846,177)	(855,198)
Gain (loss) on derivative instruments (Note 21)	**1,004,171**	(127,708)	469,884
Interest income	**391,030**	139,581	151,589
Gain on disposal of property and equipment - net	**73,088**	38,455	101,232
Gain (loss) on previously held equity interest	**-**	(9,103)	(30,186)
Gain on fair value of retained interest	**-**	1,889,901	-
Other items	**(215,109)**	(104,537)	67,157
Income before income tax	**₱27,613,316**	₱21,541,702	₱21,937,402

The reconciliation of core net income after tax (core NIAT) to NIAT is shown below:

	2018	2017	2016
	(In Thousand Pesos)		
Core NIAT	**₱18,734,587**	₱13,546,018	₱16,013,946
Gain (loss) on derivatives instruments	**702,919**	(89,396)	328,919
Foreign exchange gains (losses)	**(630,301)**	149,934	(367,517)
Non-recurring items	**(181,262)**	(307,477)	(56,663)
Gain on previously held equity interest	**-**	(9,103)	(30,186)
Gain on fair value of retained interest	**-**	1,794,237	-
NIAT	**₱18,625,943**	₱15,084,213	₱15,888,499

30.1 Mobile Communications Services

This reporting segment is made up of digital cellular telecommunications services that allow subscribers to make and receive local, domestic long distance and international long distance calls, international roaming calls and other value added services (VAS) in any place within the coverage areas.

30.1.1 Mobile communication voice net service revenues include the following:

a) Pro-rated monthly service fees on postpaid plans;

b) Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments (CERA) net of loyalty discounts credited to subscriber billings;

c) Airtime fees for intra-network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs between 3 and 120 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts;

d) Revenues generated from inbound international and national long distance calls and international roaming calls; and

e) Mobile service revenues of GTI.

30.1.2 Mobile SMS service revenues consist of local and international revenues from value-added services such as inbound and outbound SMS and MMS, and infotext, subscription fees on unlimited and bucket prepaid SMS services, net of any payouts to content providers.

30.1.3 Mobile communication data net service revenues consist of local and international revenues from value-added services such as mobile internet browsing and content downloading, mobile commerce services, other add-on VAS and service revenues of GXI and Yondu, net of payouts to content providers.

30.1.4 Globe Telecom offers its wireless communications services to consumers, corporate and small and medium enterprise (SME) clients through the following three (3) brands: Globe Postpaid, Globe Prepaid and Touch Mobile.

The Globe Group also provides its subscribers with mobile payment and remittance services under the GCash brand.

30.2 Wireline Communications Services

This reporting segment is made up of fixed line telecommunications services which offer subscribers local, domestic long distance and international long distance voice services in addition to broadband and a number of VAS in various areas covered by the Certificate of Public Convenience and Necessity (CPCN) granted by the NTC.

30.2.1 Wireline voice service revenues consist of the following:

a) Monthly service fees including CERA of voice-only subscriptions;

b) Revenues from local, international and national long distance calls made by postpaid and prepaid wireline subscribers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid call card discounts;

c) Revenues from inbound local, international and national long distance calls from other carriers terminating on Globe's network;

d) Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features;

e) Installation charges and other one-time fees associated with the establishment of the service; and

f) Revenues from DUO and SUPERDUO (fixed line portion) service consisting of monthly service fees for postpaid and subscription fees for prepaid.

30.2.2 *Wireline data service revenues* consist of the following:

a) Monthly service fees from international and domestic leased lines;

b) Other wholesale transport services;

c) Revenues from value-added services; and

d) One-time connection charges associated with the establishment of service.

30.2.3 *Broadband service revenues* consist of the following:

a) Monthly service fees of wired, fixed wireless and bundled voice and data subscriptions;

b) Browsing revenues from all postpaid and prepaid wired, fixed wireless in excess of allocated free browsing minutes and expiration of unused value of prepaid load credits;

c) Value-added services such as games; and

d) Installation charges and other one-time fees associated with the service.

30.2.4 The Globe Group provides wireline voice communications (local, national and international long distance), data and broadband and data services to consumers, corporate and SME clients in the Philippines.

- *Consumers* - the Globe Group's postpaid voice service provides basic landline services including toll-free NDD calls to other Globe landline subscribers for a fixed monthly fee. For wired broadband, consumers can choose between broadband services bundled with a voice line, or a broadband data-only service. The Globe Group offers broadband packages bundled with voice, or broadband data-only service. For subscribers who require full mobility, Globe Broadband service come in postpaid and prepaid packages and allow them to access the internet via LTE, 3G with HSDPA, Enhanced Datarate for GSM Evolution (EDGE), General Packet Radio Service (GPRS) or WiFi at hotspots located nationwide.

- *Corporate/SME clients* - for corporate and SME enterprise clients wireline voice communication needs, the Globe Group offers postpaid service bundles which come with a business landline and unlimited dial-up internet access. The Globe Group also provides a *full* suite of telephony services from basic direct lines to Integrated Services Digital Network (ISDN) services, 1-800 numbers, International Direct Dialing (IDD) and National Direct Dialing (NDD) access as well as managed voice solutions such as Voice Over Internet Protocol (VOIP) and managed Internet Protocol (IP) communications. Value-priced, high speed data services, wholesale and corporate internet access, data center services and segment-specific solutions customized to the needs of vertical industries.

31 Notes to Consolidated Statements of Cash Flows

Cash equivalents are short term highly liquid investments with insignificant risk of changes in value. The cash and cash equivalents account consists of the following as of December 31:

	2018	2017
	(In Thousand Pesos)	
Cash on hand and in banks	**₱2,018,910**	₱1,930,219
Short-term money market placements	**21,207,476**	9,292,001
	₱23,226,386	₱11,222,220

Cash in banks earn interest at respective bank deposit rates.

The ranges of interest rates of the above placements are as follows:

	2018	2017	2016
Placements:			
PHP	**0.375% to 6.00%**	0.10% to 3.70%	0.05% to 1.75%
USD	**0.10% to 2.75%**	0.05% to 1.75%	0.25% to 2.70%

The principal noncash transactions are as follows:

	Notes	**2018**	2017	2016
		(In Thousand Pesos)		
Unpaid investments and advances		**₱97,426**	₱97,426	₱11,997,228
Increase in liabilities related to the acquisition of property and equipment		**(7,800,837)**	8,076,049	1,780,201
Unpaid dividends on preferred shares	14, 19.3	**260,030**	260,030	260,030
Capitalized ARO	17	**9,831**	97,079	23,210

Cash flows from financing activities include non-cash change arising from foreign exchange gains or losses and amortization of debt issue cost and others amounting to ₱926.20 million.

32 Agreements and Commitments

32.1 Lease Commitments

32.1.1 Operating lease commitments

Globe Group as lessee

The Globe Group leases certain premises for some of its telecommunication facilities and equipment and for most of its business centers and network sites. The operating lease agreements are for periods ranging from one (1) to ten (10) years from the date of the contracts and are renewable under certain terms and conditions. The agreements generally require certain amounts of deposit and advance rentals, which are included as part of the security deposits in the consolidated statements of financial position (see Notes 8 and 13).

The Globe Group also has short-term renewable leases on transmission cables and equipment. The Globe Group's rentals incurred on these various leases amounted to ₱6,535.15 million ₱6,471.46 million and ₱5,902.41 million in 2018, 2017 and 2016, respectively (See Note 22).

The future minimum lease payments under these operating leases are as follows:

	2018	2017
	(In Thousand Pesos)	
Not later than one year	**₱4,830,349**	₱3,718,794
After one year but not later than five years	**14,944,091**	13,697,922
After five years	**3,889,549**	6,226,088
	₱23,663,989	₱23,642,804

Globe Group as lessor

The Globe Group has certain short term lease agreements on equipment and of the open space. Total lease income amounted to ₱65.30 million, ₱52.51 million and ₱83.61 million in 2018, 2017 and 2016, respectively (see Note 21).

32.1.2 Finance lease commitments

Globe Group as lessee

Globe Telecom entered into an agreement with Huawei, for the upgrade of its billing and customer management system. The agreement covers the supply of hardware, application systems and software and software licenses including installation, as well as a managed services agreement with Amdocs Philippines Inc. and Amdocs Software Solution Limited Liability Company that covers a seven (7) year period.

The agreement includes a lease component for hardware infrastructure and information equipment valued at ₱893.48 million. The managed service engagement has terms of renewal and purchase options, among others.

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows:

	2017	
	(In Thousand Pesos)	
	Minimum Payments	Present Value of Payments
Within one year	₱130,866	₱95,045
After one year but not more than five years	-	-
More than five years	-	-
	₱130,866	₱95,045

In addition, total payments to service providers based on the seven-year agreement for the non - lease component which includes application development and maintenance, service design, managed network services, office automation or end-user computing, service desk services and business supports systems amounted to ₱1,999.97 million and ₱1,876.50 million in 2018 and 2017, respectively.

32.2 Agreements and Commitments with Other Carriers

Globe Telecom, Innove and BTI have existing international telecommunications service agreements with various foreign administrations and interconnection agreements with local telecommunications companies for their various services. Globe Telecom also has international roaming agreements with other foreign operators, which allow its subscribers access to foreign networks. The agreements provide for sharing of toll revenues derived from the mutual use of telecommunication networks.

The Interconnect costs for the period 2018, 2017 and 2016 amounted to ₱5,677 million ₱7,852 million and ₱9,623 million, respectively. (see Note 30)

Net traffic settlements receivables amounted to ₱2,868.40 million and ₱2,818.87 million while net traffic settlements payable amounted to ₱1,102.41 million and ₱1,074.48 million as of December 31, 2018 and 2017, respectively (see Note 5 and 14).

32.3 Arrangements and Commitments with Suppliers

The Globe Group has entered into agreements with various suppliers for the development or construction, delivery and installation of property and equipment. Under the terms of these agreements, advance payments and down payments are made to suppliers upon submission of required documentation. While the development or construction is in progress, project costs are accrued based on the project status. Billings are based on the progress of the development or construction and advance payments are being applied proportionately to the milestone billings. When development or construction and installation are completed and the property and equipment is ready for service, the value of unbilled but delivered goods or services from the related purchase orders is accrued.

The accrued project costs as of December 31, 2018 and 2017 included in the "Trade payables and accrued expenses" account in the consolidated statements of financial position amounted to ₱19,172.96 million and ₱25,785.46 million, respectively (see Note 14). As of December 31, 2018 and 2017, the consolidated expected future billings on the unaccrued portion of purchase orders issued amounted to ₱61,401.13 million and ₱50,062.36 million, respectively. The settlement of these liabilities is dependent on the payment terms and project milestones agreed with the suppliers and contractors. As of December 31, 2018 and 2017, the unapplied advances made to suppliers and contractors relating to purchase orders issued amounted to ₱9,459.24 million and ₱11,667.00 million, respectively (see Note 8).

32.4 Agreements with Pacnet Cable Ltd. (Pacnet), formerly C2C

In 2001, Globe Telecom signed a cable equipment supply agreement with Pacnet as the supplier. In March 2002, Globe Telecom as a lessor entered into an equipment lease agreement for the said equipment with GB21 Hong Kong Limited (GB21).

Subsequently, GB21, in consideration of Pacnet's agreement to assume all payment obligations pursuant to the lease agreement, assigned all its rights, obligations and interest in the equipment lease agreement to Pacnet. As a result of the said assignment of payables by GB21 to Pacnet, the Globe Telecom's liability arising from the cable equipment supply agreement with Pacnet was effectively converted into a noninterest bearing long-term obligation.

In January 2003, Globe Telecom received advance lease payments from Pacnet for its use of a portion of the Globe Telecom's cable landing station facilities.

On November 17, 2009, Globe Telecom and Pacnet, signed a memorandum of agreement (MOA) to terminate and unwind their Landing Party Agreement (LPA) dated August 15, 2000. The MOA further requires Globe Telecom, being duly licensed and authorized by the NTC to land the C2C Cable Network in the Philippines and operate the C2C Cable Landing Station (CLS) in Nasugbu, Batangas, Philippines, to transfer to Pacnet's designated qualified partner, the license of the C2C CLS, the CLS, a portion of the property on which the CLS is situated, certain equipment and associated facilities thereof.

In return, Pacnet will compensate Globe Telecom in cash and by way of Pacnet cable capacities deliverable upon completion of certain closing conditions. The MOA also provided for novation of abovementioned equipment supply and lease agreements and reciprocal options for Globe Telecom to purchase future capacities from Pacnet and Pacnet to purchase backhaul and ducts from Globe Telecom at agreed prices.

32.5 Network Sharing Arrangement with ABS-CBN Convergence Inc.

On May 27, 2013, Globe Telecom, Innove and ABS-CBN Convergence Inc. (ABS-C) entered into a network sharing arrangement to provide capacity and coverage for new mobile telephony, data and value-added services to be offered by ABS-C nationwide to its subscribers using shared network and interconnect assets of the parties.

This arrangement will enable Globe Telecom, Innove and ABS-C to improve public service by enhancing utility, capacity, inter-operability and quality of mobile and local exchange telephone and data services to the public and allow ABS-C to modernize its existing service and expand to a retail base on top of its existing subscriber base.

On May 31, 2013, NTC approved the network sharing agreement and co-use of the number blocks assigned to Globe Telecom.

On November 30, 2018, ABS-C discontinued its mobile phone services business and terminated the mobile network sharing arrangement with Globe Telecom.

32.6 Southeast Asia - United States (SEA - US) Project

Globe Telecom has joined a consortium of seven international telecommunication companies for the construction of a new submarine cable system directly connecting Southeast Asia and the United States. Other members of the consortium include PT Telekomunikasi Indonesia International (Telin), Telkom USA, RAM Telecom International (RTI), Hawaiian Telcom, and Teleguam Holdings (GTA). The 15,000-kilometer cable system will link Manado in Indonesia, Davao in the Philippines, Piti in Guam, Oahu in Hawaii, and Los Angeles in California, providing superior latency delivering additional 20 terabits per second (Tbps), utilizing 100 gigabits per second (Gbps) transmission equipment. Globe Telecom and GTIC US is spending more than USD80 million for the SEA-US undersea cable system.

On March 17, 2015, Globe Telecom provided a written guaranty to NEC Corporation (NEC) pursuant to the supply contract of the cable system between GTIC US and NEC. Globe Telecom unconditionally guarantees the full and punctual performance by GTIC US of its payment obligations up to an aggregate amount of USD46.23 million, less any payments made in accordance with the terms and conditions of the contract. A default by GTIC US to pay any guaranteed obligation under the contract is a condition that will render the guaranty exercisable.

SEA US cable was commercially launched on August 8, 2017. Accordingly, the Globe Group has been released from unconditional guarantee extended to NEC on behalf of GTIC as the latter has already been settled more than the guarantee value to NEC.

32.7 Agreements with Huawei International, Pte. Ltd., Huawei Technology Co. Ltd and Huawei Technology Phils.

In 2014, Globe Telecom and Innove engaged Huawei for a period of ten (10) years to perform the design, engineering, manufacture, assembly and delivery of certain equipment and all its ancillary equipment and related software and documentation, and to provide services, including subsequent training and technical support, in an end-to-end full-turn key outcome based technical solution. Globe Telecom's payments to Huawei as of December 31, 2018 totaled ₱29,565.37 million for the services and ₱1,214.57 million and USD1,005.04 million for the equipment.

32.8 Agreements with Premium Content Providers

The Globe Group has entered into various content and license distribution agreements with various developers for periods ranging from 2 to 5 years. Under the agreements, the developers granted the Globe Group the right to market, reproduce and distribute the premium content in the form of portable music streaming, videos, movies or other forms of content to its subscribers. The agreement also provides for the Globe Group to provide advertising and/or promotions support at certain agreed amounts.

In consideration of the agreements, Globe agreed to pay royalty or service fees based on its net revenues or active subscribers.

33 Contingencies

The Globe Group is contingently liable for various claims arising in the ordinary conduct of business and certain tax assessments which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and legal counsel, the possibility of outflow of economic resources to settle the contingent liability is remote.

Interconnection Charge for Short Messaging Service

On October 10, 2011, the NTC issued Memorandum Circular (MC) No. 02-10-2011 titled Interconnection Charge for Short Messaging Service requiring all public telecommunication entities to reduce their interconnection charge to each other from ₱0.35 to ₱0.15 per text, which Globe Telecom complied as early as November 2011. On December 11, 2011, the NTC One Stop Public Assistance Center (OSPAC) filed a complaint against Globe Telecom, Smart and Digitel alleging violation of the said MC No. 02-10-2011 and asking for the reduction of SMS off-net retail price from P1.00 to P0.80 per text. Globe Telecom filed its response maintaining the position that the reduction of the SMS interconnection charges does not automatically translate to a reduction in the SMS retail charge per text.

On November 20, 2012, the NTC rendered a decision directing Globe Telecom to:

- Reduce its regular SMS retail rate from P1.00 to not more than ₱0.80;
- Refund/reimburse its subscribers the excess charge of ₱0.20; and
- Pay a fine of ₱200.00 per day from December 1, 2011 until date of compliance.

On May 7, 2014, NTC denied the Motion for Reconsideration (MR) filed by Globe Telecom last December 5, 2012 in relation to the November 20, 2012 decision. Globe Telecom's assessment is that Globe Telecom is in compliance with the NTC Memorandum Circular No. 02-10-2011. On June 9, 2014, Globe Telecom filed petition for review of the NTC decision and resolution with the Court of Appeals (CA).

The CA granted the petition in a resolution dated September 3, 2014 by issuing a 60-day temporary restraining order on the implementation of Memorandum Circular 02-10-2011 by the NTC. On October 15, 2014, Globe Telecom posted a surety bond to compensate for possible damages as directed by the CA.

On June 27, 2016, the CA rendered a decision reversing the NTC's abovementioned decision and resolution requiring telecommunications companies to cut their SMS rates and return the excess amount paid by subscribers. The CA said that the NTC order was baseless as there is no showing that the reduction in the SMS rate is mandated under MC No. 02-10-2011; there is no showing, either that the present P1.00 per text rate is unreasonable and unjust, as this was not mandated under the memorandum. Moreover, under the NTC's own MC No. 02-05-2008, SMS is a value added service (VAS) whose rates are deregulated. The respective motions for reconsideration filed by NTC and that of intervenor Bayan Muna Party List (Bayan Muna) Representatives Neri Javier Colmenares and Carlos Isagani Zarate were both denied.

The NTC thus elevated the CA's ruling to the Supreme Court (SC) via a Petition for Review on Certiorari dated September 15, 2017.

For its part, Bayan Muna filed its own Petition for Review on Certiorari of the CA's Decision. On January 4, 2018, Globe received a copy of the SC's Resolution dated November 6, 2017, requiring it to comment on said petition of Bayan Muna. Subsequently, on February 21, 2018, Globe received a copy of the SC's Resolution dated December 13, 2017 consolidating the Petitions for Review filed by Bayan Muna and NTC, and requiring Globe to file its comment on the petition for review filed by NTC. Thus, on April 2, 2018, Globe filed its Consolidated Comment on both Bayan Muna and the NTC's petitions for review. On September 18, 2018, Globe received a copy of Bayan Muna's Consolidated Reply to Globe's Consolidated Comment and Digitel and Smart's Comment.

Globe Telecom believes that it did not violate NTC MC No. 02-10-2011 when it did not reduce its SMS retail rate from Php 1.00 to Php 0.80 per text, and hence, would not be obligated to refund its subscribers. However, if it is ultimately decided by the Supreme Court (in case an appeal is taken thereto by the NTC from the adverse resolution of the CA) that Globe Telecom is not compliant with said circular, Globe may be contingently liable to refund to its subscribers the ₱0.20 difference (between ₱1.00 and ₱0.80 per text) reckoned from November 20, 2012 until said decision by the SC becomes final and executory. Management does not have an estimate of the potential claims currently.

Guidelines on Unit of Billing of Mobile Voice Service

On July 23, 2009, the NTC issued NTC MC No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the Cellular Mobile Telephone System (CMTS) whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first two (2) pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme.

On December 28, 2010, the Court of Appeals (CA) rendered its decision declaring null and void and reversing the decisions of the NTC in the rates applications cases for having been issued in violation of Globe Telecom and the other carriers' constitutional and statutory right to due process. However, while the decision is in Globe Telecom's favor, there is a provision in the decision that NTC did not violate the right of petitioners to due process when it declared via circular that the per pulse billing scheme shall be the default.

On January 21, 2011, Globe Telecom and two other telecom carriers, filed their respective Motions for Partial Reconsideration (MR) on the pronouncement that "the Per Pulse Billing Scheme shall be the default". The petitioners and the NTC filed their respective Motion for Reconsideration, which were all denied by the CA on January 19, 2012.

On March 12, 2012, Globe and Innove elevated to the Supreme Court the questioned portions of the Decision and Resolution of the CA dated December 28, 2010 and its Resolution dated January 19, 2012. The other service providers, as well as the NTC, filed their own petitions for review. The adverse parties have filed their comments on each other's petitions, as well as their replies to each other's comments. Parties were required to file their respective Memoranda and Globe filed its Memorandum on May 25, 2018. The case is now submitted for resolution.

Right of Innove to Render Services and Build Telecommunications Infrastructure in BGC

- PLDT and its affiliate, Bonifacio Communications Corporation (BCC) and Innove and Globe Telecom are in litigation over the right of Innove to render services and build telecommunications infrastructure in the Bonifacio Global City (BGC). In the case filed by Innove before the NTC against BCC, PLDT and the Fort Bonifacio Development Corporation (FBDC), the NTC has issued a Cease and Desist Order preventing BCC from performing further acts to interfere with Innove's installations in the BGC.

  On January 21, 2011, BCC and PLDT filed with the CA a Petition for Certiorari and Prohibition against the NTC, et al. seeking to annul the Order of the NTC dated October 28, 2008 directing BCC, PLDT and FBDC to comply with the provisions of NTC MC 05-05-02 and to cease and desist from performing further acts that will prevent Innove from implementing and providing telecommunications services in the Fort Bonifacio Global City pursuant to the authorization granted by the NTC. On April 25, 2011, Innove Communications, filed its comment on the Petition.

  On August 16, 2011, the CA ruled that the petition against Innove and the NTC lacked merit, holding that neither BCC nor PLDT could claim the exclusive right to install telecommunications infrastructure and providing telecommunications services within the BGC. Thus, the CA denied the petition and dismissed the case. PLDT and BCC filed their motions for reconsideration thereto, which the CA denied.

  On July 6, 2012, PLDT and BCC assailed the CA's rulings via a petition for review on certiorari with the Supreme Court. Innove and Globe filed their comment on said petition on January 14, 2013, to which said petitioners filed their reply on May 21, 2013. The case remains pending with the SC.

- In a case filed by BCC against FBDC, Globe Telecom, and Innove before the RTC of Pasig, which case sought to enjoin Innove from making any further installations in the BGC and claimed damages from all the parties for the breach of the exclusivity of BCC in the area, the court did not issue a TRO and has instead scheduled several hearings on the case. The defendants filed their respective motions to dismiss the complaint on the grounds of forum shopping and lack of jurisdiction, among others. On March 30, 2012, the RTC of Pasig, as prayed for, dismissed the complaint on the aforesaid grounds. The motion for reconsideration filed by BCC on July 20, 2012 remains pending with the trial court.

Acquisition by Globe Telecom and PLDT of the Entire Issued and Outstanding Shares of VTI

In a letter dated June 7, 2016 issued by Philippine Competition Commission (PCC) to Globe Telecom, PLDT, SMC and VTI regarding the Joint Notice filed by the aforementioned parties on May 30, 2016, disclosing the acquisition by Globe Telecom and PLDT of the entire issued and outstanding shares of VTI, the PCC claims that the Notice was deficient in form and substance and concludes that the acquisition cannot be claimed to be deemed approved.

On June 10, 2016, Globe Telecom formally responded to the letter reiterating that the Notice, which sets forth the salient terms and conditions of the transaction, was filed pursuant to and in accordance with Memorandum Circular No. l6-002 (MC No. l6-002) issued by the PCC. MC No. 16-002 provides that before the implementing rules and regulations for Republic Act No. 10667 (the Philippine Competition Act of 2015) come into full force and effect, upon filing with the PCC of a notice in which the salient terms and conditions of an acquisition are set forth, the transaction is deemed approved by the PCC and as such, it may no longer be challenged. Further, Globe Telecom clarified in its letter that the supposed deficiency in form and substance of the Notice is not a ground to prevent the transaction from being deemed approved. The only exception to the rule that a transaction is deemed approved is when a notice contains false material information. In this regard, Globe Telecom stated that the Notice does not contain any false information.

On June 17, 2016, Globe Telecom received a copy of the second letter issued by PCC stating that notwithstanding the position of Globe Telecom, it was ruling that the transaction was still subject for review.

On July 12, 2016, Globe Telecom asked the CA to stop the government's anti-trust body from reviewing the acquisition of SMC's telecommunications business. Globe Telecom maintains the position that the deal was approved after Globe Telecom notified the PCC of the transaction and that the anti-trust body violated its own rules by insisting on a review. On the same day, Globe Telecom filed a Petition for Mandamus, Certiorari and Prohibition against the PCC, docketed as CA-G.R. SP No. 146538. On July 25, 2016, the CA, through its 6th Division issued a resolution denying Globe Telecom’s application for TRO and injunction against PCC’s review of the transaction. In the same resolution, however, the CA required the PCC to comment on Globe Telecom's petition for certiorari and mandamus within 10 days from receipt thereof. The PCC filed said comment on August 8, 2016. In said comment, the PCC prayed that the ₱70 billion deal between PLDT-Globe Telecom and San Miguel be declared void for PLDT and Globe Telecom’s alleged failure to comply with the requirements of the Philippine Competition Act of 2015. The PCC also prayed that the CA direct Globe Telecom to: cease and desist from further implementing its co-acquisition of the San Miguel telecommunications assets; undo all acts consummated pursuant to said acquisition; and pay the appropriate administrative penalties that may be imposed by the PCC under the Philippine Competition Act for the illegal consummation of the subject acquisition. The case remains pending with the CA.

Meanwhile, PLDT filed a similar petition with the CA, docketed as CA G.R. SP No. 146528, which was raffled off to its 12th Division. On August 26, 2016, PLDT secured a TRO from said court. Thereafter, Globe Telecom’s petition was consolidated with that of PLDT, before the 12th Division. The consolidation effectively extended the benefit of PLDT’s TRO to Globe Telecom. The parties were required to submit their respective Memoranda, after which, the case shall be deemed submitted for resolution.

On February 17, 2017, the CA issued a Resolution denying PCC’s Motion for Reconsideration dated September 14, 2016 for lack of merit. In the same Resolution, the Court granted PLDT’s Urgent Motion for the Issuance of a Gag Order and ordered the PCC to remove the offending publication from its website and also to obey the sub judice rule and refrain from making any further public pronouncements regarding the transaction while the case remains pending. The Court also reminded the other parties, PLDT and Globe, to likewise observe the sub judice rule. For this purpose, the Court issued its gag order admonishing all the parties “to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to Intervene, and Admit the Petition-in Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.

On April 18, 2017, PCC filed a petition before the SC docketed as G.R. No. 230798, to lift the CA's order that has prevented the review of the sale of San Miguel Corp.'s telecommunications unit to PLDT Inc. and Globe Telecom. On April 25, 2017, Globe filed before the SC a Motion for Intervention with Motion to Dismiss the petition filed by the PCC.

As of June 30, 2017, the SC did not issue any TRO on the PCC's petition to lift the injunction issued by the CA. Hence, the PCC remains barred from reviewing the SMC deal.

On July 26, 2017, Globe received the SC en banc Resolution granting Globe's Extremely Urgent Motion to Intervene. In the same Resolution, the Supreme Court treated as Comment, Globe's Motion to Dismiss with Opposition Ad Cautelam to PCC's Application for the Issuance of a Writ of Preliminary Injunction and/or TRO.

On August 31, 2017, Globe received another Resolution of the SC en banc, requiring the PCC to file a Consolidated Reply to the Comments respectively filed by Globe and PLDT, within ten (10) days from notice. Globe has yet to receive the Consolidated Reply of PCC since the latter requested for extension of time to file the same.

In the meantime, in a Decision dated October 18, 2017, the CA, in CA-G.R. SP No. 146528 and CA-G.R. SP No. 146538, granted Globe and PLDTs Petition to permanently enjoin and prohibiting PCC from reviewing the acquisition and compelling the PCC to recognize the same as deemed approved. PCC elevated the case to the SC via Petition for Review on Certiorari.

34 NTC Regulation

Effective January 5, 2018, all prepaid load with denomination of ₱300 and above will carry a one-year expiration period as mandated by the joint Memorandum Circular No. 05-12-2017 issued by the NTC, Department of Information and Communication Technology and Department of Trade and Industry.

On July 19, 2018, NTC released Memorandum Circular (MC) no. 05-07-2018 for the amendment of interconnect charge for voice from ₱2.50 per minute to ₱0.50 and text messaging rates from ₱0.15 per message to ₱0.05. This memorandum circular shall take effect fifteen days after publication.

35 Events After Reporting Period

On February 11, 2019, the BOD approved the declaration of the first quarter cash dividend of ₱22.75 per common share, payable to common stockholders of record as of February 26, 2019. Total dividends amounting to ₱3.00 billion will be payable on March 13, 2019.

On February 8, 2019, the RA 11202 or the “Mobile Number Portability Act” was signed into law. The act allows subscribers to change their subscription plans or service providers and still keep their current mobile numbers. Moreover, no interconnection fee or charge shall be imposed for domestic calls and SMS made by a subscriber. This act shall take effect fifteen days after its publication in the Official Gazette or in any newspaper of general circulation.

Within ninety (90) days from the effectivity of the act, NTC shall coordinate with the Department of Information and Communications Technology, The National Privacy Commission, the Philippine Competition Commission, and other concerned agencies, and promulgate rules and regulations and other issuances to ensure the effective implementation of the Act. Within six (6) months from the promulgation of the rules and regulations, service providers shall comply with the provisions of the act and set up a mechanism for the purpose of implementing nationwide.

IV. 2018 Original BIR/Bank Stamp "Received"

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Ayala Corporation
32F-35F Tower One, Ayala Triangle
Ayala Avenue, Makati City

Report on the Audit of the Parent Company Financial Statements

Opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 31 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic parent company financial statements. Such information is the responsibility of the management of Ayala Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic parent company financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic parent company financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Lucy L. Chan.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-5 (Group A),
November 16, 2018, valid until November 15, 2021
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332535, January 3, 2019, Makati City

March 12, 2019

AYALA CORPORATION

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 21 and 24)	**₱3,537,096**	₱3,812,835
Short-term investments (Notes 4, 21 and 24)	**25,844**	28,708
Accounts and notes receivable (Notes 5, 21 and 24)	**1,616,874**	1,302,454
Other current assets (Note 6)	**8,032**	7,369
Total Current Assets	**5,187,846**	5,151,366
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 5 and 24)	**411,435**	370,337
Investments in subsidiaries, associates and joint ventures (Note 7)	**183,652,654**	157,057,531
Investment properties (Note 8)	**1,130,861**	1,145,892
Available-for-sale (AFS) financial assets (Notes 9 and 24)	**–**	438,054
Financial assets at fair value through other comprehensive income (OCI) (Notes 9 and 24)	**508,211**	–
Service concession assets (Note 10)	**1,817,474**	1,936,533
Property and equipment (Note 11)	**352,760**	444,660
Other noncurrent assets (Note 6)	**718,507**	660,555
Total Noncurrent Assets	**188,591,902**	162,053,562
	₱193,779,748	₱167,204,928
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 13, 21 and 24)	**₱3,148,918**	₱3,604,319
Dividends payable (Notes 16 and 21)	**3,466,986**	3,256,309
Current portion of:		
Long-term debt (Notes 15, 21 and 24)	**525,500**	1,875,500
Provision for maintenance obligation (Note 12)	**11,396**	2,935
Income tax payable (Note 19)	**10,764**	11,342
Other current liabilities (Notes 14, 21 and 24)	**1,797,592**	2,400,776
Total Current Liabilities	**8,961,156**	11,151,181
Noncurrent Liabilities		
Long-term debt (Notes 15, 21 and 24)	**66,642,481**	47,042,981
Pension liability (Note 22)	**437,153**	161,292
Provision for maintenance obligation - net of current portion (Note 12)	**35,455**	27,014
Deferred tax liabilities (Note 19)	**–**	3,000
Total Noncurrent Liabilities	**67,115,089**	47,234,287
	76,076,245	58,385,468
Equity		
Paid-in capital (Note 16)	**83,361,675**	75,001,174
Share-based payments (Note 23)	**238,871**	248,212
Remeasurement gains and losses arising on defined benefit pension plan (Note 22)	**(214,619)**	36,883
Net unrealized gain on AFS financial assets (Note 9)	**–**	353,973
Fair value reserve of financial assets through OCI (Note 9)	**282,726**	–
Retained earnings (Note 16)	**36,334,850**	35,479,218
Treasury stock (Note 16)	**(2,300,000)**	(2,300,000)
Total Equity	**117,703,503**	108,819,460
	₱193,779,748	₱167,204,928

See accompanying Notes to Parent Company Financial Statements.

AYALA CORPORATION
PARENT COMPANY STATEMENTS OF INCOME
(Amounts in Thousands)

	Years Ended December 31	
	2018	2017
REVENUE		
Revenue from contracts with customers (Note 17)	**₱915,963**	₱893,947
Dividends (Note 21)	**11,621,993**	12,078,444
	12,537,956	12,972,391
COSTS AND EXPENSES		
General and administrative (Note 18)	**3,115,185**	2,746,824
Depreciation and amortization (Notes 8, 10 and 11)	**294,844**	316,702
	3,410,029	3,063,526
OTHER INCOME (EXPENSE)		
Interest and other financing charges (Notes 12, 15, 18 and 21)	**(3,663,101)**	(2,887,605)
Other income (Note 18)	**691,461**	1,090,066
Interest income (Notes 4, 5, 18 and 21)	**212,988**	157,934
Other expenses (Notes 7, 10 and 18)	**(6,931)**	(48,838)
	(2,765,583)	(1,688,443)
INCOME BEFORE INCOME TAX	**6,362,344**	8,220,422
PROVISION FOR INCOME TAX (Note 19)	**41,297**	159,331
NET INCOME	**₱6,321,047**	₱8,061,091
EARNINGS PER SHARE (Note 20)		
Basic	**₱8.05**	₱10.91
Diluted	**₱8.02**	₱10.87

See accompanying Notes to Parent Company Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
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AYALA CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31	
	2018	**2017**
NET INCOME	**₱6,321,047**	₱8,061,091
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss:		
Remeasurement gain (loss) arising on defined benefit pension plans (Note 22)	**(251,502)**	155,688
Unrealized fair value gains on financial assets at fair value through OCI (Note 9)	**81,812**	–
Income tax relating to items that will not be reclassified to profit or loss (Notes 9 and 19)	**–**	(64,365)
	(169,690)	91,323
Items that will be reclassified to profit or loss:		
Unrealized gains on AFS financial assets (Note 9)	**–**	172,283
Realized gain on AFS financial assets transferred to profit or loss (Note 9)	**–**	(173,484)
	–	(1,201)
Total other comprehensive gain (loss)	**(169,690)**	90,122
TOTAL COMPREHENSIVE INCOME	**₱6,151,357**	₱8,151,213

See accompanying Notes to Parent Company Financial Statements.

AYALA CORPORATION
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

	Paid-in Capital (Note 16)	Share-based Payments (Note 23)	Remeasurement Gains and Losses Arising on Defined Benefit Pension Plans (Note 22)	Net Unrealized Gain on AFS Financial Assets (Note 9)	Fair value Reserve of Financial Assets Through OCI (Note 9)	Retained Earnings (Note 16)	Treasury Stock (Note 16)	Total
				For the year ended December 31, 2018				
At January 1, 2018	₱75,001,174	₱248,212	₱36,883	₱353,973	₱–	₱35,479,218	(₱2,300,000)	₱108,819,460
Effect of adoption of new standards (Note 2)	–	–	–	(353,973)	212,460	141,513	–	–
As of January 1, 2018 (restated)	75,001,174	248,212	36,883	–	212,460	35,620,731	(2,300,000)	108,819,460
Net income	–	–	–	–	–	6,321,047	–	6,321,047
Other comprehensive income	–	–	(251,502)	–	81,812	–	–	(169,690)
Total comprehensive income	–	–	(251,502)	–	81,812	6,321,047	–	6,151,357
Issuance of new shares	8,056,257	–	–	–	–	–	–	8,056,257
Sale of Financial assets through OCI	–	–	–	–	(11,546)	11,546	–	–
Exercise/cancellation of Executive Stock Option Plan (ESOP)/Employee Stock Ownership Plan (ESOWN)	304,244	(340)	–	–	–	–	–	303,904
Cost of share-based payments	–	(9,001)	–	–	–	–	–	(9,001)
Cash dividends	–	–	–	–	–	(5,618,474)	–	(5,618,474)
At December 31, 2018	₱83,361,675	₱238,871	(₱214,619)	₱–	₱282,726	₱36,334,850	(₱2,300,000)	₱117,703,503

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
APR 10 2019
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RECEIVED
MELINA PRISCA S. RANJO

	Paid-in Capital (Note 16)	Share-based Payments (Note 23)	Remeasurement Gains and Losses Arising on Defined Benefit Pension Plans (Note 22)	Net Unrealized Gain on AFS Financial Assets (Note 9)	Retained Earnings (Note 16)	Treasury Stock (Note 16)	Total
			For the year ended December 31, 2017				
At January 1, 2017	₱74,379,760	₱495,759	(₱54,440)	₱355,174	₱33,002,251	(₱2,300,000)	₱105,878,504
Net income	–	–	–	–	8,061,091	–	8,061,091
Other comprehensive income	–	–	91,323	(1,201)	–	–	90,122
Total comprehensive income	–	–	91,323	(1,201)	8,061,091	–	8,151,213
Exercise/cancellation of Executive Stock Option Plan (ESOP)/Employee Stock Ownership Plan (ESOWN)	621,414	(247,043)	–	–	–	–	374,371
Cost of share-based payments	–	(504)	–	–	–	–	(504)
Cash dividends	–	–	–	–	(5,584,124)	–	(5,584,124)
At December 31, 2017	₱75,001,174	₱248,212	₱36,883	₱353,973	₱35,479,218	(₱2,300,000)	₱108,819,460

See accompanying Notes to Parent Company Financial Statements.

AYALA 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	**₱6,362,344**	₱8,220,422
Adjustments for:		
Dividend income (Note 21)	**(11,621,993)**	(12,078,444)
Interest expense (Note 18)	**3,654,648**	2,866,079
Depreciation and amortization (Notes 8, 10 and 11)	**294,844**	316,702
Pension expense (Note 22)	**224,557**	219,349
Provision for impairment of other assets (Note 6)	**–**	53,146
Expected maintenance expense on service concession (Note 12)	**15,139**	14,876
Reversal of impairment losses on subsidiaries, associates and joint ventures (Notes 7 and 18)	**–**	(586,000)
Interest income (Note 18)	**(212,988)**	(157,934)
Loss on retirement of property and equipment (Note 11)	**511**	–
Loss on retirement of service concession assets (Note 10)	**121**	–
Loss (gain) on sale/return of:		
Investments in subsidiaries, associates and joint venture - net (Notes 7 and 18)	**(386,088)**	11,894
AFS financial assets (Notes 9 and 18)	**–**	(173,484)
Investment properties (Notes 8 and 18)	**(100,940)**	(4,863)
Property and equipment (Notes 11 and 18)	**(4,793)**	(1,012)
Share-based payments (Notes 18, 21 and 23)	**126,324**	(504)
Operating loss before changes in working capital	**(1,648,314)**	(1,299,773)
Changes in working capital:		
Increase in:		
Accounts and notes receivable	**(196,994)**	(299,137)
Other current and noncurrent assets	**(58,615)**	(90,886)
Increase (decrease) in accounts and other payables	**(659,935)**	97,087
Net cash used in operations	**(2,563,858)**	(1,592,709)
Interest received	**211,283**	166,295
Interest paid	**(3,309,660)**	(2,868,850)
Income tax paid	**(44,876)**	(35,286)
Contribution to pension fund (Note 22)	**(174,086)**	(155,318)
Net cash used in operating activities	**(5,881,197)**	(4,485,868)
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from subsidiaries, associates and joint ventures	**11,465,173**	12,118,835
Proceeds from:		
Disposal of shares of subsidiaries (Note 7)	**392,832**	10,846
Sale of investment properties (Note 8)	**100,940**	4,883
Sale of property and equipment (Note 11)	**21,939**	19,319
Disposal of financial assets at FVOCI (Note 9)	**11,655**	-
Disposal of AFS financial assets (Note 9)	**–**	282,852
Short-term investments (Note 4)	**2,864**	–
Partial return of capital from subsidiaries (Note 7)	**–**	8,444,303
Deposits for exchangeable bonds	**–**	1,049,894

(Forward)

	Years Ended December 31	
	2018	2017
Additions to:		
Investments in subsidiaries, associates and joint ventures (Note 7)	**(₱27,205,052)**	(₱12,995,789)
Property and equipment (Note 11)	**(79,699)**	(67,004)
Service concession assets (Notes 10 and 28)	**(6,931)**	(26,290)
Investment properties (Note 8)	**–**	(44,643)
Short-term investments	**–**	(28,708)
AFS financial assets (Note 9)	**–**	(601)
Net cash provided (used in) by investing activities	**(15,296,279)**	8,767,897
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of long-term debt (Note 15)	**24,193,948**	10,189,623
Collections of subscription receivable (Note 16)	**168,579**	374,485
Issuance of common shares (Note 16)	**8,069,960**	–
Payment of long-term debt	**(6,109,250)**	(11,942,500)
Cash dividends paid	**(5,407,797)**	(5,399,077)
Costs of issuance of shares	**(13,703)**	(114)
Net cash provided by (used in) financing activities	**20,901,737**	(6,777,583)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(275,739)**	(2,495,554)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,812,835**	6,308,389
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,537,096**	₱3,812,835

See accompanying Notes to Parent Company Financial Statements.

V. 2018 Ayala Corporation and Subsidiaries Special Form for Financial Statements (SFFS)

Ayala

Ayala Corporation
Makati Central PO Box 1444
Makati City 1254 Philippines

Tel (632) 848 5643
Fax (632) 848 5768
www.ayala.com.ph

CERTIFICATION

This certifies that Ayala Corporation, with principal office at 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, and with Securities and Exchange Commission (SEC) Registration Number 34218, hereby submits to SEC the Ayala Corporation and Subsidiaries' (Ayala Group) Special Form for Financial Statements of Publicly-Held and Investment Companies in diskette form (SFFS Form) in compliance with Section 27 of RA 8792 otherwise known as the "Electronic Commerce Act" and Sec. 37 of its Implementing Rules and Regulations. The SFFS Form in the diskette contains the basic and material data in the financial statements submitted to the SEC for the calendar year 2018.

AYALA CORPORATION

By:

Jose Teodoro K. Limcaoco
Chief Finance Officer, Chief Risk Officer
Chief Sustainability Officer,
and Finance Group Head

Josephine G. de Asis
Comptroller

SUBSCRIBED AND SWORN to before me this APR 05 2019 at Makati City, affiants exhibiting to me their respective passports/driver's license, to wit:

Name	Passport No.	Date and Place of Issue
Jose Teodoro K. Limcaoco	P6682433A	April 5, 2018 - DFA Manila
Josephine G. De Asis	P0174919B	January 9, 2019 - DFA Manila

RIZZA ANNE O. SY
NOTARY PUBLIC
ROLL NO. 64676
MAKATI CITY, PHILIPPINES

RIZZA ANNE O. SY
Notary Public – Makati City
Appt. No. M-187 until December 31, 2020
Roll of Attorneys No. 64676
Lifetime IBP No. 019509 – 01/04/18 – Bulacan
PTR No. 7341734ME – 01/08/19 – Makati City
MCLE Compliance No. VI – 0009493-06/20/2018
27th Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

Doc. No. 3
Page No. 2
Book No. II
Series of 2019

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


Ayala Corporation and Subsidiaries
Registration No. 34218
Special Form for Financial Statements of
Publicly-held and Investment Companies
For the Year 2018 and 2017
SONY
CD-R
700MB
Ayala Corporation and Subsidiaries
Registration No. 34218
Special Form for Financial Statements of
Publicly-held and Investment Companies
For the Year 2018 and 2017

Control No.:
Form Type: *PHFS (rev 2006)*

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: **AYALA CORPORATION AND SUBSIDIARIES**

CURRENT ADDRESS: **32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City**

TEL. NO.: **(632) 908-3000** **FAX NO.:** **(632) 848-5846**

COMPANY TYPE : **Holding Company** **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

F I N A N C I A L D A T A	2018 (in P'000)	2017 (in P'000)
A. ASSETS (A.1 + A.2 + A.3 + A.4 + A.5 + A.6 + A.7 + A.8 + A.9 + A.10)	**1,197,925,619**	**1,021,545,752**
A.1 Current Assets (A.1.1 + A.1.2 + A.1.3 + A.1.4 + A.1.5)	412,759,422	336,952,442
A.1.1 Cash and cash equivalents (A.1.1.1 + A.1.1.2 + A.1.1.3)	60,624,263	64,259,279
A.1.1.1 On hand	98,645	120,822
A.1.1.2 In domestic entities	50,028,280	56,011,375
A.1.1.3 In foreign banks/entities	10,497,338	8,127,082
A.1.2 Trade and Other Receivables (A.1.2.1 + A.1.2.2)	157,728,030	100,242,845
A.1.2.1 Due from domestic entities (A.1.2.1.1 + A.1.2.1.2 + A.1.2.1.3 + A.1.2.1.4)	138,814,212	86,810,326
A.1.2.1.1 Due from customers (trade)	56,819,172	65,445,165
A.1.2.1.2 Due from related parties	6,322,396	3,016,309
A.1.2.1.3 Others	77,996,851	20,355,179
A.1.2.1.3. Contract assets	52,209,458	-
A.1.2.1.3. Advances, dividends and other receivable	25,787,393	20,355,179
A.1.2.1.4 Allowance for doubtful accounts (negative entry)	(2,324,207)	(2,006,327)
A.1.2.2 Due from foreign entities, specify (A.1.2.2.1 + A.1.2.2.2 + A.1.2.2.3 + A.1.2.2.4)	18,913,818	13,432,519
A.1.2.2.1 Due from customers (trade)	18,098,561	12,804,532
A.1.2.2.2 Due from related parties	5,288	53,946
A.1.2.2.3 Other receivables	915,876	677,828
A.1.2.2.4 Allowance for doubtful accounts (negative entry)	(105,907)	(103,787)
A.1.3 Inventories (A.1.3.1 + A.1.3.2 + A.1.3.3 + A.1.3.4 + A.1.3.5 + A.1.3.6)	120,560,493	105,195,768
A.1.3.1 Raw materials and supplies	11,141,270	7,441,182
A.1.3.2 Goods in process (including unfinished goods, growing crops, unfinished seeds)	681,059	1,367,598
A.1.3.3 Finished goods	108,929	1,891,097
A.1.3.4 Merchandise/Goods in transit	-	-
A.1.3.5 Unbilled Services (in case of service providers)	-	-
A.1.3.6 Others, specify (A.1.3.6.1 + A.1.3.6.2 + A.A.3.6.3)	108,629,235	94,495,891
A.1.3.6.1 Real Estate (Residential, commercial lots, condominium units and offices)	103,959,585	90,433,582
A.1.3.6.2 Vehicles, Parts and Accessories	4,669,650	4,062,309
A.1.3.6.3 Club shares - at cost	-	-
A.1.4 Financial Assets other than Cash/Receivables/Equity investments (A.1.4.1 + A.1.4.2 + A.1.4.3 + A.1.4.4 + A.1.4.5 + A.1.4.6)	5,956,489	5,400,239
A.1.4.1 Financial Assets at Fair Value through Profit or Loss - issued by domestic entities:	-	-
A.1.4.1.1 National Government		
A.1.4.1.2 Public Financial Institutions		
A.1.4.1.3 Public Non-Financial Institutions		
A.1.4.1.4 Private Financial Institutions	-	-
A.1.4.1.5 Private Non-Financial Institutions		
A.1.4.2 Held to Maturity Investments - issued by domestic entities: (A.1.4.2.1 + A.1.4.2.2 + A.1.4.2.3 + A.1.4.2.4 + A.1.4.2.5)	-	-
A.1.4.2.1 National Government	-	-
A.1.4.2.2 Public Financial Institutions		
A.1.4.2.3 Public Non-Financial Institutions		
A.1.4.2.4 Private Financial Institutions		
A.1.4.2.5 Private Non-Financial Institutions		

NOTE:

This special form is applicable to Investment Companies and Publicly-held Companies (enumerated in Section 17.2 of the Securities Regulation Code (SRC), except banks and insurance companies). As a supplemental form to PHFS, it shall be used for reporting Consolidated Financial Statements of Parent corporations and their subsidiaries.

Domestic corporations are those which are incorporated under Philippine laws or branches/subsidiaries of foreign corporations that are licensed to do business in the Philippines where the center of economic interest or activity is within the Philippines. On the other hand, foreign corporations are those that are incorporated abroad, including branches of Philippine corporations operating abroad.

Financial Institutions are corporations principally engaged in financial intermediation, facilitating financial intermediation, or auxiliary financial services. Non-Financial institutions refer to corporations that are primarily engaged in the production of market goods and non-financial services.

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 **FAX NO.:** (632) 848-5846
COMPANY TYPE : Holding Company **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)
A.1.4.3 Loans and Receivables - issued by domestic entities: (A.1.4.3.1 + A.1.4.3.2 + A.1.4.3.3 + A.1.4.3.4 + A.1.4.3.5)	5,956,489	5,400,239
A.1.4.3.1 National Government		
A.1.4.3.2 Public Financial Institutions		
A.1.4.3.3 Public Non-Financial Institutions		
A.1.4.3.4 Private Financial Institutions	5,956,489	5,400,239
A.1.4.3.5 Private Non-Financial Institutions		
A.1.4.4 Available-for-sale financial assets - issued by domestic entities: (A.1.4.4.1 + A.1.4.4.2 + A.1.4.4.3 + A.1.4.4.4 + A.1.4.4.5)		
A.1.4.4.1 National Government		
A.1.4.4.2 Public Financial Institutions		
A.1.4.4.3 Public Non-Financial Institutions		
A.1.4.4.4 Private Financial Institutions		
A.1.4.4.5 Private Non-Financial Institutions		
A.1.4.5 Financial Assets issued by foreign entities:	-	-
A.1.4.5.1 Financial Assets at fair value through profit or loss	-	-
A.1.4.5.2 Held-to-maturity investments		
A.1.4.5.3 Loans and Receivables		
A.1.4.5.4 Available-for-sale financial assets	-	-
A.1.4.6 Allowance for decline in market value (negative entry)		
A.1.5 Other Current Assets (state separately material items) (A.1.5.1 + A.1.5.2 + A.1.5.3)	67,890,147	61,854,311
A.1.5.1 Input VAT	15,694,759	20,403,191
A.1.5.2 Prepaid expenses	13,546,821	12,480,978
A.1.5.3 Advances to contractors	11,452,729	16,529,615
A.1.5.4 Noncurrent assets held for sale	10,162,121	1,821,049
A.1.5.5 Financial assets at FVTPL	9,236,804	6,063,585
A.1.5.6 Creditable withholding tax	4,771,550	3,671,713
A.1.5.7 Deposits in escrow	322,666	259,898
A.1.5.8 Others (including Concession financial rec. and derivative assets)	2,702,697	624,282
A.2 Property, plant, and equipment (A.2.1 + A.2.2 + A.2.3 + A.2.4 + A.2.5 + A.2.6 + A.2.7+ A.2.8)	104,492,357	85,430,631
A.2.1 Land	-	-
A.2.2 Land, buildings and improvements including leasehold improvement	27,212,611	17,578,981
A.2.3 Machinery and equipment (on hand and in transit)	29,176,676	27,105,172
A.2.4 Transportation/motor vehicles, automotive equipment, autos and trucks, and	6,005,215	6,062,370
A.2.5 Others, specify (A.2.5.1 + A.2.5.2 + A.2.5.3 + A.2.5.4 + A.2.5.5)	72,275,936	62,206,844
A..2.5.1 Construction in progress	44,914,550	36,707,006
A..2.5.2 Hotel property and equipment	14,441,262	14,093,725
A..2.5.3 Furniture and fixtures	12,920,124	11,406,113
A..2.5.4		
A..2.5.5		
A.2.6 Appraisal increase, specify (A.2.6.1 + A.2.6.2 + A.2.6.3 + A.2.6.4 + A.2.6.5)		
A..2.6.1		
A..2.6.2		
A..2.6.3		
A..2.6.4		
A..2.6.5		
A.2.7 Accumulated Depreciation (negative entry)	(30,178,081)	(27,522,736)
A.2.8 Impairment Loss or Reversal (if loss, negative entry)		
A.3 Investments accounted for using the equity method (A.3.1 + A.3.2 + A.3.3 + A.3.4)	240,140,558	202,649,300
A.3.1 Equity in domestic subsidiaries/affiliates	208,999,434	177,691,859
A.3.2 Equity in foreign subsidiaries/affiliates	31,141,124	24,957,441
A.3.3 Others, specify (A.3.3.1 + A.3.3.2 + A.3.3.3 + A.3.3.4 + A.3.3.5)		
A.3.3.1		
A.3.3.2		
A.3.3.3		
A.3.3.4		
A.3.3.5		
A.4 Investment in bonds and other securities	3,034,245	4,466,367
A.5 Investment Property and Land and Improvements	227,645,548	202,873,411
A.6 Intangible Assets	16,553,369	16,705,000
A.6.1 Major item/s, specify (A.6.1.1 + A.6.1.2)	16,193,031	16,569,012
A.6.1.1 Goodwill	9,026,238	10,695,762
A.6.1.2 Unpatented technology	1,261,058	334,021
A.6.1.3 Project Development Cost	1,011,341	782,916
A.6.1.4 Leasehold and other rights	4,590,933	4,523,929
A.6.1.5 Licenses	303,461	232,384
A.6.2 Others, specify (A.6.2.1 + A.6.2.2)	360,338	135,988
A.6.2.1 Developed software	123,708	67,687
A.6.2.2 Trademarks, customer relationships and others	236,630	68,301
A.7 Service Concession Assets	98,404,486	91,049,570
A.8 Assets included in Disposal Groups Classified as Held for Sale	-	-

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR CONSOLIDATED FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT

NAME OF CORPORATION: **AYALA CORPORATION AND SUBSIDIARIES**

CURRENT ADDRESS: **32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City**

TEL. NO.: **(632) 908-3000** **FAX NO.:** **(632) 848-5846**

COMPANY TYPE : **Holding Company** **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

F I N A N C I A L D A T A	2018 (in P'000)	2017 (in P'000)
A.9 Long-term receivables (net of current portion) (A.9.1 + A.9.2 + A.9.3)	42,296,240	45,774,058
A.9.1 From domestic/foreign entities, specify (A.9.1.1 + A.9.1.2 + A.9.1.3)	42,488,482	45,820,539
A.9.1.1 Trade Receivables	2,566,846	44,891,544
A.9.1.2 Noncurrent contract assets	35,929,990	-
A.9.1.3 Related parties and Other receivables	3,991,646	928,995
A.9.2 From foreign entities, specify (A.9.2.1 + A.9.2.2 + A.9.2.3)	393,881	488,568
A.9.2.1 Account receivable from directors and officers / Others	393,881	488,568
A.9.2.2		
A.9.2.3		
A.9.3 Allowance for doubtful accounts, net of current portion (negative entry)	(586,123)	(535,049)
A.10 Other Assets (A.10.1 + A.10.2 + A.10.3 + A.10.4 + A.10.5)	52,599,394	35,644,973
A.10.1 Deferred Tax Assets	15,546,040	12,720,910
A.10.2 Advances to contractors	10,272,615	7,336,662
A.10.3 Deferred charges	9,650,001	5,354,019
A.10.4 Others, specify (A.10.4.1 + A.10.4.2 + A.10.4.3 + A.10.4.4+A.10.4.5)	17,130,738	10,233,382
A.10.4.1 Deferred input VAT	6,907,123	2,403,553
A.10.4.2 Deferred FCDA	2,620,320	1,329,351
A.10.4.3 Deposits - others	2,478,582	4,239,797
A.10.4.4 Concession financial receivable (Note 9)	853,335	1,187,508
A.10.4.5 Others (including CWT, Pension assets and Leasehold rights-net)	4,271,378	1,073,173
A.10.5 Allowance for write-down of deferred charges/bad accounts (negative entry)		
B. LIABILITIES (B.1 + B.2 + B.3 + B.4 + B.5)	**728,817,264**	**610,453,364**
B.1 Current Liabilities (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5 + B.1.6 + B.1.7)	330,102,855	241,787,169
B.1.1 Trade and Other Payables to Domestic/Foreign Entities (B.1.1.1 + B.1.1.2 + B.1.1.3 + B.1.1.4 + B.1.1.5 + B.1.1.6)	184,125,450	154,229,359
B.1.1.1 Loans/Notes Payables		
B.1.1.2 Trade Payables	120,312,117	90,750,983
B.1.1.3 Payables to Related Parties	1,072,551	1,873,861
B.1.1.4 Advances from Directors, Officers, Employees and Principal Stockholders		
B.1.1.5 Accruals, specify material items (B.1.1.5.1 + B.1.1.5.2 + B.1.1.5.3)	31,152,836	32,290,510
B.1.1.5.1 Accrued expenses	28,371,851	28,349,945
B.1.1.5.2 Liability for purchase of land	2,544,623	3,710,462
B.1.1.5.3 DRP obligation	236,362	230,103
B.1.1.6 Others, specify (B.1.1.6.1 + B.1.1.6.2 + B.1.1.6.3)	31,587,946	29,314,005
B.1.1.6.1 Interest payable	4,137,612	3,682,835
B.1.1.6.2 Taxes payable	20,688,048	20,706,997
B.1.1.6.3 Retention payable	6,762,286	4,924,173
B.1.2 Trade and Other Payables to Foreign Entities (specify) (B.1.2.1 + B.1.2.2 + B.1.2.3)	16,501,477	11,804,562
B.1.2.1 Accounts payable and accrued expenses	16,501,477	11,804,562
B.1.2.2		
B.1.2.3		
B.1.3 Provisions		
B.1.4 Financial Liabilities (excluding Trade and Other Payables and Provisions) (B.1.4.1 + B.1.4.2 + B.1.4.3 + B.1.4.4 + B.1.4.5)	61,507,095	29,904,723
B.1.4.1 Short-term debt	39,518,245	29,904,723
B.1.4.2 Estimated liabilities for land and property development		
B.1.4.3 Cumulative redeembale preferred shares-current		
B.1.4.4 Unealized gain on real estate sales		
B.1.4.5 Contract liabilities	21,988,850	-
B.1.5 Income tax payable	3,406,921	1,710,260
B.1.6 Service concession obligation	820,802	803,898
B.1.7 Others, specify (If material, state separately; indicate if the item is payable to public/private or financial/non-financial institutions) (B.1.7.1 + B.1.7.2 +	63,741,110	43,334,367
B.1.7.1 Dividends declared and not paid at balance sheet date	4,131,317	3,618,606
B.1.7.2 Acceptances Payable	-	-
B.1.7.3 Liabilities under Trust Receipts	-	-
B.1.7.4 Portion of Long-term Debt Due within one year	48,480,559	13,731,967
B.1.7.5 Deferred Income	-	-
B.1.7.6 Any other current liability in excess of 5% of Total Current Liabiilities,	11,129,234	25,983,794
B.1.7.6.1 Customers' deposits	7,169,097	23,722,969
B.1.7.6.2 Financial liabilities on put option	1,371,226	1,094,079
B.1.7.6.3 Other liabilities	2,588,911	1,166,746

Control No.:
Form Type: *PHFS (rev 2006)*

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: **AYALA CORPORATION AND SUBSIDIARIES**
CURRENT ADDRESS: **32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City**
TEL. NO.: (632) 908-3000 **FAX NO.: (632) 848-5846**
COMPANY TYPE : Holding Company **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA		2018 (in P'000)	2017 (in P'000)
B.2 Long-term Debt - Non-current Interest-bearing Liabilities (B.2.1 + B.2.2 + B.2.3 + B.2.4 + B.2.5)		324,262,828	306,975,262
B.2.1 Domestic Public Financial Institutions			
B.2.2 Domestic Public Non-Financial Institutions (Cumulative Redeemable Preferred Shares)			
B.2.3 Domestic/Foreign Private/Public Financial/Non-Financial Institutions		305,807,467	287,776,411
B.2.4 Domestic Private Non-Financial Institutions			
B.2.5 Foreign Financial Institutions		18,455,361	19,198,851
B.3 Indebtedness to Affiliates and Related Parties (Non-Current)			
B.4 Liabilities Included in the Disposal Groups Classified as Held for Sale			
B.5 Service concession obligation - net of current portion		7,018,211	7,748,056
B.6 Other Liabilities (B.5.1 + B.5.2)		67,433,370	53,942,877
B.6.1 Deferred Tax Liabilities		10,999,354	8,108,305
B.6.2 Others, specify (B.5.2.1 + B.5.2.2 + B.5.2.3 + B.5.2.4 + B.5.2.5)		56,434,016	45,834,572
B.6.2.1 Pension liabilities		2,589,852	2,600,756
B.6.2.2 Deposits and deferred credits		22,995,791	21,250,665
B.6.2.3 Contractors payable		7,264,642	7,955,096
B.6.2.4 Contract liabilities - net of current portion		8,630,235	-
B.6.2.5 Other liabilities (including retentions payable, liability for purchase of land, DRP		14,953,496	14,028,055
EQUITY (C.3 + C.4 + C.5 + C.6 + C.7 + C.8 + C.9+C.10)		**469,108,355**	**411,092,388**
C.1 Authorized Capital Stock (no. of shares, par value and total value; show details) (C.1.1+C.1.2+C.1.3)			
C.1.1 Common shares	(900,000,000 x P50 par value in 2018 and 2017)	45,000,000	45,000,000
C.1.2 Preferred Shares A	(12,000,000 x P100 par value in 2018 and 2017)	1,200,000	1,200,000
C.1.3 Preferred Shares B	(58,000,000 x P100 par value in 2018 and 2017)	5,800,000	5,800,000
C.1.4 Preferred Shares C	(40,000,000 x P100 par value in 2018 and 2017)	4,000,000	4,000,000
C.1.5 Voting Preferred Shares	(200,000,000 x P1 par value in 2018 and 2017)	200,000	200,000
C.2 Subscribed Capital Stock (no. of shares, par value and total value) (C.2.1 + C.2.2 + C.2.3)		36,431,375	35,964,601
C.2.1 Common shares	(630,627,482 x P50 par value in 2018); (621,292,010 x P50 par value in 2017)	31,531,375	31,064,601
C.2.2 Preferred Shares A	(12,000,000* x P100 par value; *all are in Treasury shares)	-	-
C.2.3 Preferred Shares B	(58,000,000* x P100 par value; *11,000,000 shares are in Treasury shares - in 2018 and 201	4,700,000	4,700,000
C.2.4 Voting Preferred Shares	(200,000,000 x P1 par value in 2018 and 2017)	200,000	200,000
C.3 Paid-up Capital Stock (C.3.1 + C.3.2 + C.3.3 + C.3.4)		37,205,657	37,071,247
C.3.1 Common shares		30,005,657	29,871,247
C.3.2 Preferred Shares A		1,200,000	1,200,000
C.3.3 Preferred Shares B		5,800,000	5,800,000
C.3.4 Voting Preferred Shares		200,000	200,000
C.4 Additional Paid-in Capital / Capital in excess of par value / Paid-in Surplus		46,156,018	37,929,927
C.5 Minority Interest		178,500,886	154,744,637
C.6 Others, specify (C.6.1 + C.6.2 + C.6.3)		12,630,805	13,344,549
C.6.1 Cumulative translation adjustments		2,276,669	2,794,303
C.6.2 Share-based payments		238,871	248,212
C.6.3 Fair value reserve of financial assets at FVOCI/ Net Unrealized gain on AFS and Remeasurement		(1,843,874)	(2,411,250)
C.6.4 Equity reserve / Equity conversion option		11,959,139	12,713,284
C.7 Appraisal Surplus/Revaluation Increment in Property/Revaluation Surplus		-	-
C.8 Retained Earnings (C.8.1 + C.8.2)		196,914,989	170,302,028
C.8.1 Appropriated		-	-
C.8.2 Unappropriated		196,914,989	170,302,028
C.9 Head / Home Office Account (for Foreign Branches only)		-	-
C.10 Cost of Stocks Held in Treasury/Preferred shares held by a subsdiary (negative entry)		(2,300,000)	(2,300,000)
TOTAL LIABILITIES AND EQUITY (B + C)		**1,197,925,619**	**1,021,545,752**

Control No.: ______
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: **AYALA CORPORATION AND SUBSIDIARIES**
CURRENT ADDRESS: **32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City**
TEL. NO.: **(632) 908-3000** **FAX NO.:** **(632) 848-5846**
COMPANY TYPE : **Holding Company** **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 2. Income Statement

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)	2016 (in P'000)
A. REVENUE / INCOME (A.1 + A.2 + A.3)	325,377,512	289,127,574	237,285,789
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from Primary Activity)	241,299,566	213,596,324	175,989,304
A.2 Share in the Profit or Loss of Associates and Joint Ventures	20,459,804	18,494,458	18,153,893
A.3 Other Revenue (A.3.1 + A.3.2 + A.3.3 + A.3.4 + A.3.5)	40,730,801	34,694,981	28,801,043
A.3.1 Rental Income from Land and Buildings	33,581,920	28,631,316	23,219,595
A.3.2 Receipts from Sale of Merchandise (trading) (from Secondary Activity)	-	-	-
A.3.3 Sale of Real Estate or other Property and Equipment	-	-	-
A.3.4 Royalties, Franchise Fees, Copyrights (books, films,	-	-	-
A.3.5 Others, specify (A.3.5.1 + A.3.5.2 + A.3.5.3 + A.3.5.4 + A.3.5.5 + A.3.5.6 + A.3.5.7 + A.3.5.8)	7,148,881	6,063,665	5,581,448
A.3.5.1 Interest income from real estate	7,042,078	5,409,944	5,010,993
A.3.5.2 Dividend income	106,803	653,721	570,455
A.3.5.3			
A.3.5.4			
A.3.5.5			
A.3.5.6			
A.3.5.7			
A.3.5.8			
A.4 Other Income (non-operating) (A.4.1 + A.4.2 + A.4.3 + A.4.4)	22,887,341	22,341,811	14,341,549
A.4.1 Interest Income	2,705,648	1,403,537	1,765,943
A.4.2 Dividend Income			
A.4.3 Gain / (Loss) from selling of Assets, specify (A.4.3.1 + A.4.3.2 + A.4.3.3 + A.4.3.4)	1,576,902	1,520,897	2,143,802
A.4.3.1 Gain on sale of investments	1,514,439	1,394,560	2,138,620
A.4.3.2 Gain on sale of other assets	62,463	126,337	5,182
A.4.3.3			
A.4.3.4			
A.4.4 Others, specify (A.4.4.1 + A.4.4.2 + A.4.4.3 + A.4.4.4)	18,604,791	19,417,377	10,431,804
A.4.4.1 Gain / (Loss) on Foreign Exchange	(222,845)	(126,365)	(56,035)
A.4.4.2 Revenue from rehabilitation works	9,661,977	11,672,137	6,804,908
A.4.4.3 Revenue from management contracts	622,149	960,851	224,818
A.4.4.4 Others	8,543,510	6,910,754	3,458,113
B. COST OF GOODS SOLD (B.1 + B.2 + B.3)			
B.1 Cost of Goods Manufactured (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5)			
B.1.1 Direct Material Used	-	-	-
B.1.2 Direct Labor	-	-	-
B.1.3 Other Manufacturing Cost / Overhead	-	-	-
B.1.4 Goods in Process, Beginning	-	-	-
B.1.5 Goods in Process, End (negative entry)	-	-	-
B.2 Finished Goods, Beginning	-	-	-
B.3 Finished Goods, End (negative entry)	-	-	-
C. COST OF SALES (C.1 + C.2 + C.3)	196,607,561	175,674,469	141,350,400
C.1 Purchases/ Cost of sales and rendering of services	196,607,561	175,674,469	141,350,400
C.2 Merchandise Inventory, Beginning	-	-	-
C.3 Merchandise Inventory, End (negative entry)	-	-	-
D. GROSS PROFIT (A - B - C)	128,769,951	113,453,105	95,935,389

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 **FAX NO.: (632) 848-5846**
COMPANY TYPE : Holding Company **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 2. Income Statement

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)	2016 (in P'000)
E. OPERATING EXPENSES (E.1 + E.2 + E.3 + E.4)	**39,484,035**	**36,885,237**	**27,737,617**
E.1 Selling or Marketing Expenses			
E.2 Administrative Expenses			
E.3 General Expenses	29,822,058	25,213,100	20,932,709
E.4 Other Expenses, specify (E.4.1 + E.4.2 + E.4.3 + E.4.4 + E.4.5 + E.4.6 + E.4.7 + E.4.8 + E.4.9 + E.4.10)	9,661,977	11,672,137	6,804,908
E.4.1 Cost of rehabilitation works	9,661,977	11,672,137	6,804,908
E.4.2			
E.4.3			
E.4.4			
E.4.5			
E.4.6			
E.4.7			
E.4.8			
E.4.9			
E.4.10			
F. FINANCE COSTS (F.1 + F.2 + F.3 + F.4 + F.5)	**19,101,077**	**14,441,334**	**14,258,189**
F.1 Interest on Short-term Promissory Notes/Short-term debt	595,375	659,044	1,039,030
F.2 Interest on Long-term Promissory Notes/Long-term debt	17,010,015	12,575,158	11,337,401
F.3 Interest on bonds, mortgages and other long-term loans	-	-	-
F.4 Amortization of discount on long-term debt	146,151	511,623	592,811
F.5 Other interests, specify (F.5.1 + F.5.2 + F.5.3 + F.5.4 + F.5.5)	1,349,536	695,509	1,288,947
F.5.1 Amortization of service concession obligations and deposits	789,712	614,717	613,044
F.5.2 Others	559,824	80,792	675,903
F.5.3			
F.5.4			
G. NET INCOME (LOSS) BEFORE TAX (D - E - F)	**70,184,839**	**62,126,534**	**53,939,583**
H. INCOME TAX EXPENSE (negative entry)	**(15,119,725)**	**(12,259,759)**	**(10,506,974)**
I. INCOME(LOSS) AFTER TAX	**55,065,114**	**49,866,775**	**43,432,609**
J. Amount of (i) Post-Tax Profit or Loss of Discontinued Operations; and (ii) Post-Tax Gain or Loss Recognized on theMeasurement of Fair Value less Cost to Sell or on the Disposal of the Assets or Disposal Group(s) constituting the	**-**	**-**	**-**
J.1			
J.2			
K. PROFIT OR LOSS ATTRIBUTABLE TO MINORITY INTEREST	**23,247,393**	**19,602,933**	**17,421,346**
L PROFIT OR LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**31,817,721**	**30,263,842**	**26,011,263**
M. EARNINGS (LOSS) PER SHARE			
M.1 Basic	48.80	46.67	39.88
M.2 Diluted	48.21	45.99	39.31

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 FAX NO.: (632) 848-5846
COMPANY TYPE Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 3. Cash Flow Statements

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)	2016 (in P'000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) Before Tax and Extraordinary Items	70,184,839	62,126,534	53,939,583
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	13,561,593	12,297,860	11,560,471
Amortization, specify: Amortization of discount on long-term debt-net	-	-	-
Others, specify: Cost of share-based payments	(9,001)	(504)	248,006
Interest & other financing charges-net of amount capitalized	19,101,077	14,441,334	14,258,189
Provision for impairment/losses	1,021,709	973,626	1,482,591
Mark to market gain on financial assets at fair value through profit or loss (FVPL) and derivatives	(996,170)	(779,553)	(473,855)
Dividend income	(106,803)	(653,721)	(570,455)
Other income	(1,637,720)	18,528	(712,735)
Gain on sale of investments	(1,514,439)	(1,394,560)	(2,128,522)
Gain on sale of other assets	(62,463)	(126,337)	(5,182)
Interest Income	(9,747,726)	(6,813,481)	(6,776,936)
Share of profit of associates and joint ventures	(20,459,804)	(18,494,458)	(18,153,893)
Write-down of Property, Plant, and Equipment			
Changes in Assets and Liabilities:			
Decrease (Increase) in:			
Accounts and notes receivable – trade	(24,472,429)	(19,760,661)	(14,509,112)
Inventories	6,547,964	8,561,531	(5,676,226)
Service Concession Asset	(10,445,119)	(10,667,636)	(6,423,693)
Others, specify: Contract assets	(11,305,130)	-	-
Other current assets	2,733,232	(9,028,474)	(5,387,939)
Increase (Decrease) in:			
Accounts payable and accrued expenses	29,311,790	5,305,175	20,002,946
Income and Other Taxes Payable			
Others, specify: Contact liabilities	12,252,548	-	-
Net pension liabilities	(291,599)	462,117	(1,143,247)
Other current liabilities	3,511,976	7,857,053	12,834,529
Net cash provided by operating activities associated with noncurrent assets held for sale			
A. Net Cash Provided by (Used in) Operating Activities (sum of above rows)	**52,576,377**	**21,106,298**	**35,217,303**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of investments in bonds and other securities	23,447	1,834,186	1,659,387
Sale/maturities of financial assets at FVPL	71,690	3,408,555	2,948,650
Sale/redemptions of investments in associates and joint ventures and Sale of a subsidiary	1,106,080	944,104	3,782,496
Disposal of property and equipment and intangible assets	4,687,018	1,016,548	363,849
Disposal of investment properties	1,754,974	165	777,105
Maturities of (additions to) short-term investments	(556,250)	(4,391,533)	1,043,583
Additions to:			
Investments in associates and joint ventures	(37,633,169)	(11,779,429)	(13,422,670)
Property, plant and equipment	(14,006,370)	(25,189,980)	(24,344,093)
Investment properties	(37,287,003)	(30,430,200)	(33,577,877)
Accounts and notes receivable - nontrade	(11,265,591)	(1,336,144)	(11,274,562)
Financial assets at FVPL	(1,122,194)	(1,555,243)	(2,742,790)
Investments in bonds and other securities	(92,673)	(799,529)	(52,642)
Service concession assets	(10,725)	(26,290)	(110,383)
Intangible assets	(488,357)	(492,057)	(533,376)
Dividends received from associates and joint ventures	7,478,203	8,953,251	8,560,393
Acquisitions through business combinations - net of cash acquired	(6,831,376)	(5,322,990)	(2,551,035)
Decrease (increase) in other noncurrent assets	(13,819,311)	5,775,538	(6,709,456)
Net cash provided by (used in) investing activities associated with noncurrent assets held for sale, including cash balance			
B. Net Cash Provided by (Used in) Investing Activities (sum of above rows)	**(107,991,607)**	**(59,391,048)**	**(76,183,421)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Loans			
Long-term Debt/Short-term debt	188,614,111	225,841,869	97,216,392
Issuance of preferred shares	-	-	-
Issuance of common shares	8,069,960	-	-
Others, specify: Collections of (additions to) subscriptions receivable	303,904	374,371	139,344
Payments of:			
Dividends paid	(10,769,921)	(10,864,490)	(10,104,138)
Long-term Debt & Short-term debt	(137,303,524)	(172,070,751)	(68,047,835)
Cost of issuance of shares	(13,703)	-	-
Service concession obligation paid	(712,941)	(778,819)	(858,230)
Increase in:			
Other noncurrent liabilities	3,572,007	1,181,105	1,368,605
Non-controlling interests in consolidated subsidiaries	20,321	(1,362,580)	(679,238)
Net cash used in financing activities associated with noncurrent assets held for sale			
C. Net Cash Provided by (Used in) Financing Activities (sum of above rows)	**51,780,214**	**42,320,705**	**19,034,900**
NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)	(3,635,016)	4,035,955	(21,931,218)
Cash and Cash Equivalents			
Beginning of year	64,259,279	60,223,324	82,154,542
End of year	**60,624,263**	**64,259,279**	**60,223,324**

Control No.: ____________
Form Type: *GFFS (rev 2006)*

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: **AYALA CORPORATION AND SUBSIDIARIES**
CURRENT ADDRESS: **32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City**
TEL. NO.: **(632) 908-3000** **FAX NO.:** **(632) 848-5846**
COMPANY TYPE : **Holding Company** **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 4. Statement of Changes in Equity

(Amount in P'000)

FINANCIAL DATA	Capital Stock	Subscribed	Additional Paid-in Capital	Subscriptions receivable	Share-based Payments	Cumulative Translation Adj	Retained Earnings	Remeasurement Gain (Loss) on Defined Benefit Plans/Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets/Fair Value Reserve of Financial Assets at FVOCI	Other Reserves	Parent Company Preferred Shares Held by Subsidiary	Treasury Stock	Minority Interest	TOTAL
A. Balance, *At January 1, 2016*	**38,008,747**	**171,810**	**36,316,709**	**(577,944)**	**568,847**	**288,683**	**124,468,464**	**(1,804,013)**	**13,516,056**	**-**	**(2,300,000)**	**119,886,624**	**328,543,983**
A.1 Correction of Error(s)	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Effect of adoption of new and revised accounting standards	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Effect of adoption of Philippine Interpretation IFRIC 12	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Restated Balance	**38,008,747**	**171,810**	**36,316,709**	**(577,944)**	**568,847**	**288,683**	**124,468,464**	**(1,804,013)**	**13,516,056**	**-**	**(2,300,000)**	**119,886,624**	**328,543,983**
C. Surplus	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**
C.1 Surplus (Deficit) on Revaluation of Properties	-	-	-	-	-	-	-	-	-	-	-	-	-
C.2 Surplus (Deficit) on Revaluation of Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
C.3 Currency Translation Differences	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4 Other Surplus (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.1 Net unrealized gains for the year recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.2 Net Income	-	-	-	-	-	-	26,011,263	-	-	-	-	17,421,346	43,432,609
C.4.3 Other comprehensive income	-	-	-	-	-	1,125,867	-	(210,855)	-	-	-	624,140	1,539,152
C.4.4 Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.5 Changes in fair value of available-for-sale financial	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.6 Cost of share-based payments of Ayala Cororation	-	-	-	-	248,006	-	-	-	-	-	-	-	248,006
C.4.7 Equity-conversion option	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.8 Change in non-controlling interests	-	-	-	-	-	-	-	-	(191,036)	-	-	7,477,008	7,285,972
D. Dividends (negative entry)	-	-	-	-	-	-	(4,857,416)	-	-	-	-	(5,335,772)	(10,193,188)
E. Appropriation for (specify) others	-	-	-	-	-	-	-	-		-	-	-	-
E.1	-	-	-	-	-	-	-	-		-	-	-	-
E.2	-	-	-	-	-	-	-	-		-	-	-	-
E.3	-	-	-	-	-	-	-	-		-	-	-	-
E.4	-	-	-	-	-	-	-	-		-	-	-	-
E.5	-	-	-	-	-	-	-	-		-	-	-	-
F. Issuance of Capital Stock	-	-	-	-	-	-	-	-		-	-	-	-
F.1 Common Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
F.2 Preferred Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
F.3 Collection of subscription receivables	26,158	(26,158)	-	139,344	-	-	-	-	-	-	-	-	139,344
F.4 Exercise/cancellation of ESOP/ESOWN	4,116	26,557	611,617	(321,196)	(321,094)	-	-	-	-	-	-	-	-
F.5 Redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-
G. Balance, *At December 31, 2016*	**38,039,021**	**172,209**	**36,928,326**	**(759,796)**	**495,759**	**1,414,550**	**145,622,311**	**(2,014,868)**	**13,325,020**	**-**	**(2,300,000)**	**140,073,346**	**370,995,878**
G.1 Correction of Error (s)	-	-	-	-	-	-	-	-	-	-	-	-	-
G.2 Effect of adoption of Pre-need Rule 31	-	-	-	-	-	-	-	-	-	-	-	-	-
G.3 Effect of adoption of Philippine Interpretation IFRIC 12	-	-	-	-	-	-	-	-	-	-	-	-	-
H. Restated Balance	**38,039,021**	**172,209**	**36,928,326**	**(759,796)**	**495,759**	**1,414,550**	**145,622,311**	**(2,014,868)**	**13,325,020**	**-**	**(2,300,000)**	**140,073,346**	**370,995,878**
I. Surplus	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
I.1 Surplus (Deficit) on Revaluation of Properties	-	-	-	-	-	-	-	-	-	-	-	-	-
I.2 Surplus (Deficit) on Revaluation of Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
I.3 Currency Translation Differences	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4 Other Surplus (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.1 Net unrealized gains for the year recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.2 Net Income	-	-	-	-	-	-	30,263,842	-	-	-	-	19,602,933	49,866,775
I.4.3 Other comprehensive income	-	-	-	-	-	1,379,753	-	(396,382)	-	-	-	1,194,857	2,178,228
I.4.4 Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.5 Changes in fair value of available-for-sale financial	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.6 Cost of share-based payments	-	-	-	-	(504)	-	-	-	-	-	-	-	(504)
I.4.7 Equity-conversion option	-	-	-	-	-	-	-	-	7,864	-	-	2,048	9,912
I.4.8 Change in non-controlling interests	-	-	-	-	-	-	-	-	(619,600)	-	-	(732,980)	(1,352,580)
J. Dividends (negative entry)	-	-	-	-	-	-	(5,584,125)	-	-	-	-	(5,395,567)	(10,979,692)
K. Appropriation for (specify)	-	-	-	-	-	-	-	-		-	-	-	-
K.1	-	-	-	-	-	-	-	-		-	-	-	-
K.2	-	-	-	-	-	-	-	-		-	-	-	-
K.3	-	-	-	-	-	-	-	-		-	-	-	-
K.4	-	-	-	-	-	-	-	-		-	-	-	-
K.5	-	-	-	-	-	-	-	-		-	-	-	-
L. Issuance of Capital Stock		-	-	-	-	-	-	-		-	-	-	-
L.1 Common Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
L.2 Preferred Stock	-	-	-	-	-	-	-	-	-	-	-	-	-

Control No.:
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SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 **FAX NO.:** (632) 848-5846
COMPANY TYPE : Holding Company **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 4. Statement of Changes in Equity

F I N A N C I A L D A T A	(Amount in P'000)												
	Capital Stock	Subscribed	Additional Paid-in Capital	Subscriptions receivable	Share-based Payments	Cumulative Translation Adj	Retained Earnings	Remeasurement Gain (Loss) on Defined Benefit Plans/Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets/Fair Value Reserve of Financial Assets at FVOCI	Other Reserves	Parent Company Preferred Shares Held by Subsidiary	Treasury Stock	Minority Interest	TOTAL
L.3 Collection of subscription receivables	55,377	(55,377)	-	374,485	-	-	-	-	-	-	-	-	374,485
L.4 Exercise/cancellation of ESOP/ESOWN	5,479	47,893	1,001,601	(808,044)	(247,043)	-	-	-	-	-	-	-	(114)
L.5 Redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-
M. Balance, *At December 31, 2017*	**38,099,877**	**164,725**	**37,929,927**	**(1,193,355)**	**248,212**	**2,794,303**	**170,302,028**	**(2,411,250)**	**12,713,284**	**-**	**(2,300,000)**	**154,744,637**	**411,092,388**
M.1 Correction of Error (s)	-	-	-	-	-	-	-	-	-	-	-	-	-
M.2 Effect of adoption of Pre-need Rule 31	-	-	-	-	-	-	-	-	-	-	-	-	-
M.3 Effect of adoption of new accounting standards	-	-	-	-	-	-	413,714	1,261,195	-	-	-	227,531	1,902,440
N. Restated Balance	**38,099,877**	**164,725**	**37,929,927**	**(1,193,355)**	**248,212**	**2,794,303**	**170,715,742**	**(1,150,055)**	**12,713,284**	**-**	**(2,300,000)**	**154,972,168**	**412,994,828**
O. Surplus	-	-	-	-	-	-	-	-	-	-	-	-	-
O.1 Surplus (Deficit) on Revaluation of Properties	-	-	-	-	-	-	-	-	-	-	-	-	-
O.2 Surplus (Deficit) on Revaluation of Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
O.3 Currency Translation Differences	-	-	-	-	-	-	-	-	-	-	-	-	-
O.4 Other Surplus (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
O.5 O.4.1 Net unrealized gains for the year recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
O.4.3 Net Income	-	-	-	-	-	-	31,817,721	-	-	-	-	23,247,393	55,065,114
O.4.4 Other comprehensive income	-	-	-	-	-	(517,634)	-	(693,819)	-	-	-	(86,212)	(1,297,665)
O.4.5 Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-
O.4.6 Changes in fair value of available-for-sale financial	-	-	-	-	-	-	-	-	-	-	-	-	-
O.4.7 Cost of share-based payments	-	-	-	-	(9,001)	-	-	-	-	-	-	-	(9,001)
O.4.8 Equity-conversion option	-	-	-	-	-	-	-	-	262,173	-	-	77,840	340,013
O.4.9 Change in non-controlling interests	-	-	-	-	-	-	-	-	(1,016,318)	-	-	5,953,856	4,937,538
P. Dividends (negative entry)	-	-	-	-	-	-	(5,618,474)	-	-	-	-	(5,664,159)	(11,282,633)
Q. Appropriation for (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.5	-	-	-	-	-	-	-	-	-	-	-	-	-
R. Issuance of Capital Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
R.1 Issuance of common shares	8,056,257	-	-	-	-	-	-	-	-	-	-	-	8,056,257
R.2 Preferred Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
R.3 Collection of subscription receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
R.4 Exercise/cancellation of ESOP/ESOWN	304,244	-	-	-	(340)	-	-	-	-	-	-	-	303,904
R.5 Sale of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-
R.6 Redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-
S. Balance, *At December 31, 2018*	**46,460,378**	**164,725**	**37,929,927**	**(1,193,355)**	**238,871**	**2,276,669**	**196,914,989**	**(1,843,874)**	**11,959,139**	**-**	**(2,300,000)**	**178,500,886**	**469,108,355**

Control No.:
Form Type: *PHFS (rev 2006)*

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: **AYALA CORPORATION AND SUBSIDIARIES**
CURRENT ADDRESS: **32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City**
TEL. NO.: **(632) 908-3000** **FAX NO.:** **(632) 848-5846**
COMPANY TYPE : **Holding Compnay** **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 5. Details of Income and Expenses, by source
(applicable to corporations transacting with foreign corporations/entities)

FINANCIAL DATA	2018 (in P'000)	2017 (in P'000)	2016 (in P'000)
A. REVENUE / INCOME (A.1 + A.2)	**325,377,512**	**289,127,574**	**237,285,789**
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from	274,881,486	242,227,640	199,208,899
A.1.1 Domestic	205,713,638	183,212,838	159,577,817
A.1.2 Foreign	69,167,848	59,014,802	39,631,082
A.2 Other Revenue (A.2.1 +A.2.2)	50,496,026	46,899,934	38,076,890
A.2.1 Domestic	46,125,874	44,358,736	36,591,972
A.2.2 Foreign, specify (A.2.2.1+A.2.2.2+ A.2.2.3+ A.2.2.4+ A.2.2.5+ A.2.2.6+ A.2.2.7+ A.2.2.8+A.2.2.9+A.2.2.10)	4,370,152	2,541,198	1,484,918
A.2.2.1 Gain on sale of shares/assets	775,155	1,009,542	(7,928)
A.2.2.2 Share of profit (loss) of associates and joint ventures	699,142	457,208	413,335
A.2.2.3 Other income	826,768	372,432	151,066
A.2.2.4 Interest income	101,797	31,523	83,605
A.2.2.5 Mark to market gain on financial assets at FVPL	996,170	379,154	-
A.2.2.6 Gain on marked to market financial assets	482,282	316,435	997,706
A.2.2.7 Forex gain (loss)	(631,328)	(25,097)	(152,866)
A.2.2.8 Rental	1,120,166	-	-
A.2.2.9			
A.2.2.1			
B. EXPENSES (B.1 + B.2)	**255,192,673**	**227,001,040**	**183,346,206**
B.1 Domestic	178,587,344	172,406,804	140,486,573
B.2 Foreign, specify (B.2.1+B.2.2+B.2.3+B.2.4+B.2.5+B.2.6+B.2.7+B.2.8+B.2.9+B.2.1	76,605,329	54,594,236	42,859,633
B.2.1 Others	687,991	347,074	309,675
B.2.2 Cost of Sales	68,199,173	48,965,034	37,855,881
B.2.3 Selling/Marketing/Operating expenses	7,718,166	5,282,128	4,694,078
B.2.1			