# COVER SHEET

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SEC Registration Number

PRIME ORION PHILIPPINES, INC.

(Company's Full Name)

1

3rd Floor Glorietta 5
Ayala Center Makati City

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

**MS. FRANCIS M. MONTOJO**
(Contact Person)

**884-1106**
(Company Telephone Number)

SEC Form

| | | |
|---|---|---|
| 12 31 | 17-A | 04 |
| *Month* *Day* (Fiscal Year) | (Form Type) | *Month* *Day* (Annual Meeting) |

(Secondary License Type, If Applicable)

**MSRD**
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

**801**
Total No. of Stockholders

Domestic    Foreign

To be accomplished by SEC Personnel concerned

File Number    LCU

Document ID    Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A, *AS AMENDED***

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

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

2. SEC Identification Number : **163671** 3. BIR Tax Identification No.: **000-804-342-000**

4. Exact name of registrant : **PRIME ORION PHILIPPINES, INC.**

5. **Metro Manila, Philippines**
Province, Country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

7. **3RD Floor Glorietta 5, Ayala Center, Makati City** **1223**
Address of principal office Postal Code

8. **(632) 884-1106**
Registrant's telephone number, including area code

9. **N/A**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA
(As of 31 March 2019)

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| **Common** | **4,923,084,883 shares*** |
| **Consolidated Loans Payable** | **-0-** |

*excluding the 1,225,370,620 shares under the Deed of Exchange dated April 30, 2018; the Securities and Exchange Commission issued the confirmation of the valuation of the shares on March 6, 2019

11. Are any or all of these securities listed on a Stock Exchange.

Yes [ **X** ] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Name of Stock Exchange : **Philippine Stock Exchange**
Number and Class of Securities Listed : **2,389,654,698 Common Shares**

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: P4,816,717,207.90
(as of 31 March 2019)

**APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING 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 the court or the Commission.

    Yes [ ]    No [ ]    **Not Applicable**

**DOCUMENTS INCORPORATED BY REFERENCE**

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

    **Not Applicable**

**TABLE OF CONTENTS**

## PART I - BUSINESS AND GENERAL INFORMATION

### Item 1. Business

*A. Business Development*

**Prime Orion Philippines, Inc.** (POPI/Company/Issuer), formerly known as *Philippine Orion Properties, Inc.*, was incorporated in 1989 as an investment holding company. With the entry of Guoco Group of Hong Kong[1] [through its affiliate, Guoco Assets (Philippines), Inc. (GAPI)] as principal shareholder of the Company in 1994, the Company was renamed *Guoco Holdings (Philippines), Inc.* (GHPI).

GHPI changed its name to *Prime Orion Philippines, Inc.* effective 4 January 2002 as a result of the termination of the Management Contract between GHPI and GAPI in 2001.

On 24 February 2016, POPI entered into a Deed of Subscription with Ayala Land, Inc. (ALI) whereby ALI agreed to subscribe to 2.5 billion shares of stock of POPI (equivalent to 51.06% of the outstanding capital stock of the Company) at the price of P5.625 billion, from the increase in POPI's authorized capital stock from P2.4 billion to P7.5 billion, which increase was approved by the Securities and Exchange Commission (SEC) on 4 July 2016.

At present, POPI, a subsidiary of ALI, has interests in real estate and property development, leasing of warehouses and retail electricity supply, through the following subsidiaries:

(i) Orion Land Inc.
(ii) Tutuban Properties, Inc.
(iii) Orion Property Development, Inc.
(iv) LCI Commercial Ventures, Inc. (formerly Lepanto Ceramics, Inc.)
(v) Laguna Technopark, Inc. and
(vi) Ecozone Power Management, Inc.

The other subsidiaries of POPI whose operations are not related to real estate business activities which have been rationalized include Orion Maxis Inc., Orion Solutions, Inc., Orion I Holdings Philippines, Inc., OE Holdings, Inc., ZHI Holdings, Inc., Orion Beverage, Inc., Luck Hock Venture Holdings, Inc., TPI Holdings Corporation, and FLT Prime Insurance Corporation.

*B. Business of Issuer*

(i) <u>Principal Products and Services</u>

*Orion Land Inc. (OLI)*

- OLI was organized in 1996 with primary purpose as a holding company. On 29 November 2017, OLI expanded its activities into property development and leasing by acquiring the 5-storey Southpark mall and 6-storey BPO office (collectively, Southpark) located in Muntinlupa. Currently, it is converting certain areas to a mixed-use development and other better uses.

    - Tutuban Properties, Inc. (TPI), a wholly-owned subsidiary of OLI, organized in 1990, holds the lease and development rights over a 20-hectare market district in downtown Divisoria, the country's oldest and biggest trading district. On the property sits the Tutuban Center (the "Center"), an integrated wholesale and retail complex recognized as the premier shopper's bargain district in the Philippines. On 22 December 2009, TPI renewed its Contract of Lease with the Philippine National Railways (PNR) for another 25 years (5 September 2014 to 2039).

      On 1 April 2015, TPI entered into a Memorandum of Understanding with the Department of Transportation and Communications (DOTC) (now Department of Transportation or DOTr) and the PNR whereby the parties agreed to cooperate for the finalization and completion of the plans for DOTr's North South Railway Project (NSRP). To-date, the discussions on the NSRP among DOTr, PNR and TPI are ongoing.

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[1] Guoco Group is a regional conglomerate with operations in Singapore, Malaysia, Indonesia, Hong Kong and the United Kingdom, engaged in the businesses of real estate, manufacturing and financial services.

At present, TPI continues to revitalize the operations of the Center, with the upgrade of its buildings and facilities and new offerings that are firsts in Tutuban. The Center also carried out a rezoning program to improve navigation within the mall. Among TPI's latest offerings are the Fiesta Market, a 1,695-sqm leasable space for food and retail located along Mayhaligue side, and the 124 sqm. Recto food stalls along the parking area in front of Tutuban Center. TPI has converted the area of Orion Hotel at the 3rd floor of Prime Block Building into storage spaces for lease.

- TPI Holdings Corporation (THC), organized in 2005 as a wholly-owned subsidiary of TPI, holds the titles to certain parcels of land in Batangas. As part of the reorganization of the Group, the Board of Directors of THC has approved the dissolution of the company through shortening of its corporate term to until 31 December 2017.

• Orion Property Development, Inc. (OPDI), another wholly-owned subsidiary of OLI, organized in 1993, handles property acquisition and horizontal development. Its present landholdings include properties in Laguna, Batangas and San Vicente, Palawan.

  - LCI Commercial Ventures, Inc. (LCVI), a wholly-owned subsidiary of OPDI, organized in 1990, was previously into the manufacture of tiles. In June 2018, it amended its articles of incorporation to change its name to LCVI and has as new primary purpose to develop, sell, own, acquire, lease, hold, mortgage, or administer or otherwise invest, deal with lands, buildings, structures, or apertures and to invest in any other profitable business or enterprise except financial leasing.

*Laguna Technopark, Inc. (LTI)*

• On 30 April 2018, POPI entered into a Deed of Exchange with ALI whereby ALI agreed to subscribe to 1,225,370,620 additional shares in POPI in exchange for ALI's 30,186 shares in LTI, with a fair market value of P3,030,750,000.00. On 6 March 2019, POPI obtained the certificate of approval of confirmation of valuation from SEC, thus effecting the consolidation of LTI's results of operations for the period from 1 May 2018 to 31 December 2018 in POPI's financial reports.

  LTI was organized in 1990 for a primary purpose to engage in the business of real estate development. LTI started the development of Laguna Technopark with initial land area of 224 hectares in Biñan and Sta. Rosa, Laguna. To-date, the industrial estate now has eight (8) Phases which covers 470-hectare development that caters to light and medium, non-polluting enterprises, from both global and local markets. In the 2017, Philippine Economic Zone Authority reported that the locator-companies in Laguna Technopark generated over 120,000 in direct employment. In 2015, LTI developed Cavite Technopark, a 118-hectare property located in Naic, Cavite, which are also intended for light to medium, non-polluting enterprises. Subsequently, in 2017, additional 17-hectare were acquired as expansion in Cavite Technopark.

  - *Ecozone Power Management, Inc.* (EPMI) is a wholly-owned subsidiary of LTI, organized in 2010, with primary business engaged in retail electricity supply to locators within the industrial parks in the Laguna and Batangas as well as other commercial establishments like the Ayala malls in Makati, Manila and Cavite.

*FLT Prime Insurance Corporation (FPIC)*

• FPIC, a 78.77%-owned subsidiary of POPI, was incorporated in 1977, and operates as a non-life insurance company. Unable to comply with the paid-up capital requirement for non-life insurance companies and in line with the shift in focus to real estate as the core business of the POPI Group, FPIC applied for, and was granted in April 2017, a servicing license by the Insurance Commission. As a servicing company, its authority is limited to: (i) accepting contract price payment from the policyholders; (ii) paying or settling claims under its non-life coverage; and/or (iii) such other related services.

Based on the Company's Consolidated Statement of Income (Loss) for the past year, the contributions of the above subsidiaries (on a per type of business basis) to the Company's consolidated Net Income are as follows:

| | | |
|---|---|---|
| Parent Company (holding company) | - | (6.34 %) |
| Real estate – commercial leasing and industrial sales and development | - | 98.99 % |
| Retail electricity supply | - | 7.46 % |
| Others | - | (0.11 %) |
| Total | | 100.00 % |

(ii) Percentage of Sales Contributed by Foreign Sales

The target market for products of the Company and its subsidiaries is the domestic market. It has no foreign sales.

(iii) Distribution Methods

The POPI companies doing real estate related business market their products either through direct selling to individual or corporate buyers, or brokers.

(iv) New Products or Services

POPI expanded its real estate business with the acquisition of LTI equity and is engaged in industrial parks and standard factory buildings leasing, lot sales, and development.

(v) Competition

The Company competes with other investment holding companies in the Philippines in terms of investment prospects. The Company's core businesses continue to compete in their respective industries. However, competition is kept on a domestic level. The competition of Company's core businesses are as follows:

1. OLI operates mall and office in Southpark faces competition from other retail and office lessors.
2. TPI operates in Tutuban Center in Manila and competitors include retail operators in Divisoria and Manila area.
3. LTI competes with other industrial park and standard factory buildings developers.
4. LCVI faces competition from other warehouse lessors.
5. OPDI faces competition with other land developers.
6. EPMI faces competition from other retail electricity suppliers.

(vi) Purchases of Raw Materials and Supplies

The Company's supplies are purchased on a competitive basis from many different sources and are readily available locally.

(vii) Customers

POPI has a broad market base for its numerous product lines and is not dependent on a single customer or group of customers.

For malls leasing, customers include wholesalers, retailers, and mall shoppers. For office leasing, a number of locators occupy available spaces to date. For industrial parks and standard factory business, customers are both domestic and foreign locators. OPDI's customers include middle income home buyers as well as real estate investors and developers.

FPIC continues to service its existing clients but limited up to the activities and scope specified in the servicing license obtained from Insurance Commission.

(viii) Transactions with and/or Dependence on Related Parties

The Company has limited transactions and/or dependence on its shareholders and/or related parties in view of existing laws on disclosure and/or requirement for prior approval of appropriate government agencies.

(ix) Franchise

The Company's products are not covered by any franchise.

(x) Government Approvals for Principal Services

In April 2017, FPIC, a 78.77%-owned subsidiary, was granted a servicing license by the Insurance Commission. As such, its authority is currently limited to: (i) accepting contract price payment from the policyholders; (ii) paying or settling claims under its non-life coverage; and/or (iii) such other related services.

EPMI, a Retail Electricity Supplier, is registered with the Philippine Economic Zone Authority (PEZA).

(xi) Effect of Existing or Probable Governmental Regulations

Governmental regulations expected to materially affect the operations or business of POPI and certain of its subsidiaries are as follows:

a) Government approval of any increase in the prices of electricity and water may have a material adverse impact on the operations as it will directly increase utilities and overhead expenses (including common usage service area expenses). However, the improvements in the facilities of these malls are expected to temper the adverse impact of such increase in prices of electricity and water.

b) The hold off of PEZA Accreditation grants may affect interest of potential locators in the industrial park and standard factory buildings but other tax incentives by the government can manage the adverse impact.

(xii) Research and Development Activities

There are no research and development activities undertaken by the Company or its other subsidiaries.

(xiii) Costs and Effects of Compliance with Environmental Laws

Operations may be affected by the implementation of R.A. 8749 and other environmental laws. Compliance with such environmental laws will entail additional investments and/or upgrades in facilities which are being undertaken by the Group. The development of industrial parks and standard factory buildings comply with the requirements of the Department of Environment and Natural Resources and related agencies.

(xiv) Employees

As of 31 December 2018, the employees of POPI are as follows:

| | | |
|---|---|---|
| Executives* | - | 0 |
| Manager | - | 1 |
| Supervisor | - | 1 |
| Rank & File | - | 2 |
| Total | | 4 |

* The executives of POPI are employees of ALI.

The Company has no workers' union.

**Item 2. Properties**

The Company share a portion of leased office space with its subsidiaries at 3rd Floor Glorietta 5, Ayala Center, Makati City.

OLI's commercial buildings composed of a 5-storey shopping center and a 6-storey business processes outsourcing office are located along National Road, Alabang, Muntinlupa City.

TPI is the lessor of several retail spaces in Tutuban Center (comprised of Prime Block Mall, Cluster Building 2, Main Building I and II, Robinsons' Supermarket (2-storey building) and Parking Tower), with gross leasable area of about 60,000 square meters. The Tutuban Center sits on about 8.5 hectares out of about 20 hectares of real property owned by the PNR and covered by the lease of TPI. The area previously occupied by Cluster Building 1 which was gutted by fire in 2012, is presently being used as a parking area. TPI holds office at the 2nd Floor of Main Building of the Tutuban Center at C.M. Recto Ave., Manila.

The lease of TPI with the PNR was renewed last 22 December 2009 for another 25 years (5 September 2014 to 4 September 2039). The Renewal of Contract of Lease (starting 2014) provides for an expanded leased area (land use), which would include: (a) Phase I- existing 8.5 has.; (b) Phase IIA- approximately 5.8 has. (for land use); and (c) Phase IIB- approximately 5.8 has. (air rights). In 2016, PNR turned over to TPI the following additional areas: (1) about 3.8 hectares of Phase IIA (land use), and (2) about 5.7 hectares of Phase IIB (air rights).

LTI leases out industrial parks and standard factory buildings (SFBs) in Laguna Technopark in Biñan, Laguna. It has an on-going development project at Cavite Technopark, with about 43 hectares of land for sale and/or lease remaining. It also has SFBs for lease in Porac, Pampanga. LTI's main office is at 2nd floor Administration Building 1, North Main Avenue, Laguna Technopark, Biñan, Laguna.

LCI's warehouses are located in its 14-hectare property in Calamba, Laguna.

OPDI, which handles property acquisition and horizontal development, has the following properties/projects: (a) about 31 hectares raw land in Kay-Anlog, Laguna (including those with pending Contracts to Sell); (b) about 17 residential lots in The Homelands Subdivision in Calamba, Laguna, with a total area of about 2,682 sqm., and ridge area, with an area of 21,148 sqm.; (c) Trellis Pocket Centre, a 747-sqm.commercial project located along National Highway, Calamba; (d) additional 7,418 sqm. property known as the MARFA area at the back of The Homelands, marketed as the premier section of The Homelands Subdivision; (e) a 31,087 sqm. industrial lot at Phase III of The Homelands; and (g) a 58,800 sqm. beach property in San Vicente, Palawan.

In August 2015, OPDI and THC sold its 33-hectare property in Sto. Tomas, Batangas (including the portion subject of previous agreement with a third party). The transfer of the titles to the real properties to buyer is in process. THC's remaining property in Sto. Tomas, Batangas is a 1,095 sqm. property.

In May 2018, OPDI sold its 49.85 sqm. condominium unit at Makati Prime Tower (subject to notice of *lis pendens* registered by the property owner, Prime Tower Property Group, Inc., in connection with its case against its contractor, Titan-Ikeda Construction and Development Corporation).

FPIC leases a portion of the 16th floor of Pearlbank Centre located at 146 Valero St., Salcedo Village, Makati City.

**Item 3. Legal Proceedings**

a. *"Lavine Loungewear vs. First Lepanto-Taisho Insurance Corp. (now FPIC), et. al."*
Civil Case No. 68287
G.R. No. 197219 / CA GR CV No. 90499
For: Sum of Money

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A complaint for sum of money (representing insurance proceeds) with issuance of Temporary Restraining Order (TRO) and Injunction was filed on 24 January 2001 with the Pasig Regional Trial Court (RTC)-Branch 71, against the Company's subsidiary, FPIC, by its insured, Lavine Loungewear Mfg. Inc. (Lavine). Prior to the filing of the suit, there was an intra-corporate dispute between two groups of stockholders of Lavine, each group claiming to be the owner of Lavine and therefore entitled to receive the insurance proceeds. Since FPIC could not determine which group of Lavine stockholders to pay, FPIC only made partial payment on the claim.

On 2 April 2001, the RTC rendered a Decision finding FPIC liable to pay Lavine the amount of P18,250,000 with 29% interest per annum from October 1998 until full payment. A Special Order for Execution Pending Appeal was also issued by the Court. As a result, certain assets of FPIC were garnished/attached. FPIC then filed a Petition with prayers for TRO and Injunction with the Court of Appeals (CA)-10th Division, which reliefs were granted by the court.

On 29 May 2003, the CA-10th Division, in its Consolidated Decision, ruled as follows: (1) setting aside the RTC Decision dated 2 April 2001; (2) declaring null and void the Special Order dated 17 May 2002 and the Writ of Execution dated 20 May 2002; (3) remanding the case to the lower court for pre-trial conference on the Second Amended Answer-in-Intervention; and (4) payment of proceeds to Lavine (if adjudged entitled to said proceeds) be withheld until a decision on the rightful members of the Board of Directors of Lavine is issued by the intra-corporate court. The Intervenors Harish Ramnani (a party to the intra-corporate dispute) filed a Motion for Reconsideration (MR) with the CA-10th Division, to which FPIC filed its Opposition dated 15 July 2003 together with a Motion for Immediate Lifting of Garnishment.

On 20 April 2004, the CA resolved to lift the order of levy and notices of garnishment on the real and personal properties and bank deposits of FPIC which were made pursuant to the Special Order dated 17 May 2002 and Writ of Execution dated 20 May 2003 which were declared null and void by the CA.

A Petition for Review (PR) was filed by Intervenors with the Supreme Court (SC) to set aside the CA Decision of 29 May 2003. The SC, in its Decision dated 25 August 2005, affirmed the CA Decision dated 29 May 2003. Said SC Decision became final and executory.

Separately, FPIC filed an appeal with the CA of the RTC Decision dated 2 April 2001. The records of the case were forwarded to the CA on 28 January 2008. FPIC filed its Appellant's Brief with the CA on 6 November 2008. Intervenor-appellees Harish Ramnani, et.al filed an Amended Motion to Dismiss (MTD) Appeal of Defendant Equitable PCI-Bank dated 14 November 2008.

The CA, in its Resolution dated 8 May 2009, denied the MTD filed by Intervenor-appellees and admitted the Appellee's Brief filed by Lavine on 10 February 2009 (which was one day late), Reply Brief of defendant appellants Rizal Surety and Insurance Co., Tabacalera Insurance Co. and FPIC.

The CA issued a Decision dated 30 September 2010 which affirmed the RTC Decision dated 2 April 2001 in all respects except that it exempted BDO from paying 10% of the actual damages due and demandable as and by way of attorney's fees. Briefly, the Decision ruled relative to FPIC that:

(a) Intervention (by intervenors) was done and allowed so that the real representatives of party-plaintiff could sue on behalf of the latter;
(b) FPIC is liable for P18,250,000.00 because the insurance proceeds totaled P169,300,000.00 with interest per lead adjuster's valuation;
(c) FPIC must pay interest as it did not file an interpleader and consignation suit for this purpose;
(d) FPIC liable to pay 29% interest (i.e., twice the interest ceiling of 14.5%) as provided under Section 243 of the Insurance Code of 1978; and
(e) FPIC is liable for attorney's fees as it compelled plaintiff-appellee, through intervenors, to file the instant suit to collect money due from it.

On 5 November 2010, FPIC filed an MR of the CA Decision dated 30 September 2010. The CA issued a Resolution dated 9 June 2011 which affirmed the 30 September 2010 CA Decision subject to certain modifications. The modifications to the CA Decision which impact FPIC are as follows:

1. FPIC is liable for the sum of P10,145,760.11 with 6% interest p.a. from 26 November 2001 and 12% p.a. from finality of resolution until fully paid; and
2. Award of 10% attorney's fees is deleted.

Intervenors-Crossclaimants-Appellees filed a Motion for Partial Reconsideration (MPR) of the CA Resolution dated 9 June 2011, which was denied by the CA in its Resolution dated 5 September 2011 for lack of merit.

FPIC filed its PR on Certiorari with the SC on 29 July 2011.

The SC issued a Resolution dated 1 February 2012 which resolved, among others, to:
(1) note the comment of respondent FPIC re: petitioner's appeal by certiorari dated 30 June 2011;
(2) to require petitioner to file a Reply thereto within ten (10) days from notice hereof; and
(3) grant the motion of respondent FPIC to consolidate G.R. No. 197227 with G.R. Nos. 1977219, 197244 and 198481.

On 6 March 2013, petitioners Ashok C. Ramnani and Rolando M. Vaswani representing Lavine, filed a Supplement which prayed among others, for:
a) annulling of the portion of the assailed CA Decision dated 30 September 2010 and Resolution dated 9 June 2011 insofar as it awarded monetary judgment in favor of intervenors;
b) directing the RTC Pasig –Branch 158 to proceed with the trial of Civil Case no. 00-1554 and SEC Case No. 06-79 until finality to determine the legitimate representation of Lavine;
c) confirming overpayment made by Lavine in favor of Equitable-PCI Bank (BDO) and affirming the remand of the case for purposes of computing the amount overpaid to said Bank;
d) directing that any and all amounts determined after the computation, to be consigned to the lower court for safekeeping until and after the cases pending before Pasig RTC Br. 158 has been decided with finality; and
e) issuing a writ of preliminary injunction to restrain the execution of the CA Decision and Resolution.

Petitioner Lavine and Chandru Ramnani filed a Manifestation with Motion (to Supplement Appeal by Certiorari) dated 11 September 2013. An Additional Supplement (Appeal by Certiorari) dated 26 September 2013 was filed by petitioners Ashok C. Ramnani and Rolando M. Vaswani representing Lavine. The case is still pending resolution at the SC.

b. *FLT Prime Insurance Corporation vs. Solid Guaranty, Inc.*
Civil Case No. 14-381
(Makati RTC Branch 59)
CA G.R. CV No. 110458
For: Recovery of Sum of Money and Damages
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On 2 April 2014, a complaint for recovery of sum of money and damages was filed by FPIC against its reinsurer, Solid Guaranty, Inc. (SGI), in view of the latter's refusal to pay the amount of P10,721,938.50 representing SGI's 45% share in the final settlement amount paid by FPIC to its assured Top Forest Developers, Inc..

Defendant SGI filed its Answer with Counterclaim dated 21 May 2014, and a Motion to Set Case for Preliminary Hearing Based on Affirmative Defenses dated 21 May 2014, to which FPIC filed its Comment. The Court, in its Resolution dated 24 September 2014, denied the said motion for utter lack of merit.

Subsequently, Defendant filed a Motion to Dismiss (MTD) which was denied by the court in its Resolution dated 8 September 2014. Defendant filed an MR of the Resolution dated 24 September 2014, which was later denied by the court.

The case was referred to Judicial Dispute Resolution (JDR) hearing on 28 September 2015. Case was scheduled for JDR hearing on 6 January 2016. As the parties did not reach any settlement, the JDR proceedings were terminated and the case was re-raffled from Branch 143 to Branch 145.

A mid-trial JDR was set on 4 May 2016. On 11 July 2016, the JDR was terminated as the parties did not arrive at any amicable settlement. The case was set for preliminary conference before the Branch Clerk of Court on 26 July 2016. Pre-trial proper was set on 11 August 2016. Presentation of FPIC's evidence was set on 23 September 2016.

FPIC filed Motion for Inhibition of the Judge which was granted by the court on 2 November 2016. Case was re-raffled to RTC 59.

Defendant filed a MTD while FPIC filed a Motion for Summary Judgment. On 26 July 2017, the court issued a Resolution which denied Defendant's MTD and granted FPIC's Motion, and judgment was rendered in favor of plaintiff FPIC and ordered defendant to pay the amount of P10,721,938.50 with interest for the delay at the rate of 13.71% per annum commencing on 7 January 2011 or thirty days after the Advance Facultative Cash Call was made on the defendant on 8 December 2013 until fully paid, attorney's fees in the amount of P500,000.00, and costs of suit.

Defendant filed a Motion for Recusal and Motion for Partial Reconsideration (MPR) (Grant of Plaintiff's Motion for Summary Judgment) which were denied by the RTC in its Order dated 8 December 2017. Defendant filed a Notice of Appeal which was given due course.

In the CA, the case was set for mediation. As the parties failed to arrive at a settlement, case has been referred back to the Division handling the appeal. The case is now considered submitted for decision.

**Item 4. Submission of Matters to a Vote of Security Holders**

The following items were approved during the annual meeting of the stockholders held on 12 April 2018:

a. Minutes of the Annual Stockholders' Meeting held on 13 January 2017
b. Annual Report covering July to December 2016
c. Annual Report for Calendar Year 2017 (including the Consolidated Audited Financial Statements for the Calendar Year ended 31 December 2017)
d. Election of Directors (including the Independent Directors)
e. Appointment of External Auditor and Fixing of its Remuneration.

Except for above matters taken up during the annual stockholders' meeting, there was no other matter submitted to a vote of the security holders of the Company during the period covered by this report.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

A. Market Information

The Company's Common Shares are listed and principally traded in the PSE. The high and low sales prices* of the Company's securities for each quarter are indicated in the table below:

| | High | Low |
|---|---|---|
| Calendar Year 2019 (1 Jan. to 31 Dec. 2019) | | |
| 1st Quarter (Jan. – Mar. 2019) | ₱3.24 | ₱2.36 |
| | | |
| Calendar Year 2018 (1 Jan. to 31 Dec. 2018) | | |
| 1st Quarter (Jan. – Mar. 2018) | ₱4.10 | ₱2.04 |
| 2nd Quarter (Apr. – June 2018) | 3.64 | 2.58 |
| 3rd Quarter (Jul. – Sept. 2018) | 3.24 | 2.45 |
| 4th Quarter (Oct. – Dec. 2018) | 2.57 | 2.16 |
| | | |
| Fiscal Year 2017 (1 July 2016 to 31 Mar. 2017)** | | |
| 1st Quarter (Jul. 2016- Sept. 2016) | ₱2.16 | ₱1.81 |
| 2nd Quarter (Oct. 2016 to Dec. 2016) | 1.97 | 1.85 |
| 3rd Quarter (Jan. 2017 to Mar. 2017) | 2.17 | 1.91 |
| | | |
| 2nd Quarter (Apr. 2017 to June 2017) ** | 2.37 | 1.85 |
| 3rd Quarter (July 2017 to Sept. 2017) ** | 2.45 | 2.03 |
| 4th Quarter (Oct. 2017 to Dec. 2017) ** | 2.23 | 2.04 |
| | | |

*provided by PSE Corporate Planning and Research Department
** On 10 April 2017, the SEC approved the amendment of the Company's fiscal year from July to June, to 1 January to 31 December every year

Stock price as of latest practicable trading date of 12 April 2019 is ₱2.93 per share.

B. Holders

The number of shareholders of record as of 31 March 2019 was 801. The following are the top 20 stockholders of the Company (as of 31 March 2019) based on the list provided by the Company's Stock and Transfer Agent, BDO Unibank, Inc.-Trust and Investments Group:

| | Name | Number of Shares | Percentage (%) |
|---|---|---|---|
| 1 | Ayala Land, Inc. | 2,703,405,543 | 54.912 |
| 2 | PCD Nominee Corporation (Filipino) | 958,954,054 | 19.48 |
| 3 | Orion Land Inc. | 538,976,671^ | 10.95 |
| 4 | F. Yap Securities, Inc. | 215,539,100 | 4.378 |
| 5 | Lepanto Consolidated Mining Co. | 179,640,000 | 3.649 |
| 6 | PCD Nominee Corporation (non-Filipino) | 48,887,277 | 0.993 |
| 7 | ESOWN Administrator 2018 | 26,629,700 | 0.541 |
| 8 | YHS Holdings Corporation | 22,900,000 | 0.465 |
| 9 | Caridad Say | 22,370,000 | 0.454 |
| 10 | Victor Say | 21,500,000 | 0.437 |
| 11 | SEC Account FAO: Various Customers of Guoco Securities (Philippines), Inc. | 18,076,380 | 0.367 |
| 12 | David C. Go | 16,000,000 | 0.325 |
| 13 | David Go Securities Corp. A/C # 1085 | 11,816,000 | 0.240 |
| 14 | Vichelli Say | 10,000,000 | 0.203 |
| 15 | David Go Securities Corp. | 8,620,000 | 0.175 |
| 16 | Quality Investments & Securities Corp. | 8,010,000 | 0.163 |
| 17 | ESOWN Administrator 2015 | 6,800,485 | 0.138 |
| 18 | Coronet Property Holdings Corp. | 6,000,000 | 0.122 |

| | | | |
|---|---|---|---|
| 19 | Federal Homes, Inc. | 5,492,000 | 0.112 |
| 20 | Eleonor Go | 5,400,000 | 0.110 |

^ includes 26,496,000 POPI shares held through PCD

C. Dividends

There were no dividend declarations for the years 2016 to 2018.

*Dividend Policy*

Dividends declared by the Company on its shares of stock are payable in cash or shares of stock from the unissued stock of the Company. The payment of dividends depends on the earnings, financial condition and plans of the Company. No dividend shall be declared that will impair the capital of the Company.

Cash dividends are subject to the approval of the Board of Directors but no stockholder approval is required. For stock dividends, approval of the Board and the stockholders holding two-thirds of the capital stock of the Company are required.

D. Recent Sales of Unregistered Securities

The Company has not sold any unregistered securities within the past three fiscal years.

The Company issued common shares under its Employees Stock Ownership Plan which is discussed in Part III, Item 10 (B) below.

## Management's Discussion and Analysis or Plan of Operation

### *Calendar Year ended 31 December 2018*

### Consolidated Results of Operations

For the year ended 31 December 2018, Prime Orion Philippines, Inc. and its subsidiaries ("POPI" or "the Group") generated consolidated revenues and net income of P3,370.0 million and P554.7 million, which were higher than last year's consolidated revenue and net income by 452% and 2,890%, respectively. The significant growth was largely attributed to the industrial lot sales of (LTI, revenue from retail electricity supply and improved leasing income from commercial properties.

Total Cost and Expenses for the year increased by 300% on account of cost of sales and services of LTI, cost of retail electricity supply and operating expenses of Tutuban and Southpark.

**LTI**

From 1 May 2018 to 31 December 2018, LTI generated revenues of P882.6 million, with real estate expenses and cost of sales and services of P320.2 million.

**EPMI**

From 1 May 2018 to 31 December 2018, EPMI reported generation and service fees in the amount of P1,739.3 million and cost of purchased power and services in the amount of P1,689.3 million.

**TPI**

TPI registered a net income of P157.0 million for the year ended 31 December 2018, higher by 113% compared to net income of P73.6 million last year. For the year ended 31 December 2018, Revenues posted was P510.7 million or 13% higher than the same period last year while costs and expenses decreased by 2%.

**LCVI**

LCVI's revenues for 2018 posted at P62.9 million, 49% higher than last year's revenue of P42.2 million attributable to better occupancy from warehouse leasing. Net income for the year posted at P29.0 million or 32% lower than last year due to one-time income recognized from the disposal of certain assets.

**OLI**

OLI posted a net loss of P42.9 million, 341% higher compared to last year from impact of full year operational cost. Southpark mall is currently being converted to a mixed-use development.

**FPIC**

FPIC reported a net loss for the year of P0.04 million compared to P68.7 million last year as a result of lower underwriting costs and operating expenses due to non-renewal of policies. Expenses registered at P4.5 million was lower than last year's P191.1 million on account of lower claims and losses and lower personnel expenses.

**Financial Condition**

Total Assets of the Group registered at P12,974.4 million as of 31 December 2018, or a 45% improvement compared to P8,923.5 million as of 31 December 2018 due to the addition of the assets of LTI. Total Liabilities was P3,100.1 million, 86% higher than the P1,666.7 million liabilities as of 31 December 2017.

Total Equity registered at P9,874.3 million was 36% higher than the equity of P7,256.9 million as of 31 December 2017 due to the additional ALI subscription under the share exchange.

**Financing Through Loans**

As of 31 December 2018, the Group has no outstanding loans from any financial institution.

**Prospects for the future**

The Group envisions to become the leading real estate logistics and industrial estate developer and operator in the Philippines through LTI with plans to expand in Cavite and Misamis Oriental. Increase leasing business in Tutuban and Southpark by maximizing value through the transformation into a mixed-use development.

The short term plan involves increasing gross leasable area in warehousing with expansion in Laguna and Porac, Pampanga.

**Key Variable and Other Qualitative and Quantitative Factors**

| Ratio | Formula | 31 Dec- 2018 | 31-Dec-17 |
|---|---|---|---|
| Current Ratio | Current Assets<br>Current Liabilities | 2.35: 1<br>5,262,978/ 2,240,072 | 2.91: 1<br>2,373,733/ 816,981 |
| Debt to Equity Ratio | Total Liabilities<br>Equity | 0.31: 1<br>3,100,143/ 9,874,250 | 0.23: 1<br>1,666,689/ 7,256,856 |
| Capital Adequacy Ratio | Equity<br>Total Assets | 0.71: 1<br>9,274,250/ 12,974,393 | 0.81: 1<br>7,256,856/ 8,923,545 |
| Book Value per Share | Equity<br>Total # of Shares** | 1.50<br>9,274,250/ 6,148,456 | 1.48<br>7,256,856/ 4,896,455 |
| Income per Share | Net Income<br>Total # of Shares | 0.08<br>441,908/ 5,350,484 | 0.01<br>33,143/ 4,155,983 |

**includes the 1,225,370,620 additional subscription of ALI under the Deed of Exchange dated 30 April 2018; POPI obtained SEC certificate of approval of confirmation of valuation on 6 March 2019.

**Current ratio** shows the Group's ability to meet its short term financial obligation. As of 31 December 2018, the Group has P2.35 worth of current assets for every peso of current liabilities as compared to P2.91 as of 31 December 2017. The Group has sufficient current assets to support its current liabilities as of the period.

**Debt to Equity ratio** indicates the extent of the Group's debt which is covered by shareholders' fund. It reflects the relative position of the equity holders. The higher the ratio, the greater the risk being assumed by the creditors. A lower ratio generally indicates greater long term financial safety. Compared to 31 December 2017, debt-to-equity ratio was higher.

**Capital Adequacy Ratio** is computed by dividing the Total Stockholders' Equity (excluding non-controlling interests) over Total Assets. It measures the financial strength of the Company. As of 31 December 2018, the Group's Capital Adequacy Ratio is higher at 0.71 compared to same period last year's 0.81.

**Book value per share** measures the recoverable amount in the event of liquidation if assets are realized at book value. As of 31 December 2018, the Group's book value per share of P1.50 was 2% higher than as of 31 December 2017.

**Income per share** is calculated by dividing net income by the weighted average number of shares issued and outstanding. As of 31 December 2018, the Group reported a P0.08 income per share which was 936%, higher than same period of last year.

***(i) Any known trends, demands, commitments, events or uncertainties that will have a material impact on issuer's liability.***

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company and its subsidiaries' liquidity increasing or decreasing in any material way.

***(ii) Events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation***

There are no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

***(iii) Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.***

There are no known off-balance sheet transactions, arrangements, obligations (including contingent obligations), during the period.

***(iv) Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.***

For 2018, the Group budgeted total capital expenditures of P717.0 million for projects. This will be financed through internally generated funds and bank loans. A total of P279.2 million was already spent as of 31 December 2018.

***(v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales or revenues or income from continuing operations should be described.***

There are no known trends, events or uncertainties that have material impact on net sale/revenues/income from continuing operation.

***(vi) Any significant elements of income or loss that did not arise from the registrant's continuing operations.***

The Group did not recognize income or loss during the period that did not arise from continuing operations.

***(vii) Causes of Any Material Changes from Period to Period of FS which shall include vertical and horizontal analyses of any material item (5%).***

Significant changes mainly from consolidation of LTI and EPMI financials, unless otherwise stated are as follows:

a. Cash and cash equivalents stood at P220.1 million, 14% lower than the P255.0 million as of 31 December 2017.

b. Increase in Short term investments was due to additional placements made during varying periods to maximize cash management.

c. Receivables posted a 313% increase mainly due from receivables from industrial lot sales, LTI leasing and retail electricity customers.

d. Real estate inventories registered at P1.3 billion, 387% higher than the P264.5 million as of 31 December 2017.

e. Available for Sale (AFS) financial assets decreased by 100% as of 31 December 2018 due to the reclassification requirements based on the accounting standards to Financial assets at fair value through other comprehensive income.

f. Accounts owed by related parties increased to P936.5 million or 139% increase from P392.3 million as of 31 December 2017 due to increase in intercompany advances made to certain ALI subsidiaries made by the Company's subsidiaries.

g. FVPL Investments posted a P4.5 million increase due to unit investment trust fund in OLI and LTI.

h. Other current assets posted at P534.9 million, 49% higher due to consolidation of LTI other current assets.

i. Investment properties increased by 14% as an impact of facility upgrades in TPI and consolidating LTI warehouses.

j. Property and equipment_posted a 13% increase due to capital expenditures in TPI and LCI net of depreciation and amortization.

k. Software costs was reduced by 41% to P2.9 million due to depreciation during the year.

l. Other non-current assets also increased by 55% from P488.7 million as of 31 December 2017 to P756.7 million due to deposits, advances to suppliers and deferred input vat.

m. Accounts payable and accrued expenses increased by 150% or P891.2 million.

n. Amounts owed to related parties principally consisting of interest bearing and non-interest bearing advances, increased to P234.3 million from P19.4 million as of 31 December 2017.

o. Rental and other deposits registered at P664.9 million, 105% higher due to increase in rental, security, customer deposits and construction bonds paid by tenants to the Group on leased properties.

p. Capital stock and additional paid-in capital significantly increased as a result of additional equity stake by ALI in the Company.

q. Equity reserves decreased mainly as an effect of LTI shares swap.

r. Unrealized gain (loss) on AFS financial assets decreased due to reclassification requirements from retained earnings to other comprehensive income based on the new accounting standards amounting to P527 million loss.

s. Non-controlling Interests increased due to consolidation of LTI.

***(viii) Any seasonal aspects that had a material effect on the financial condition or results of operations.***

There are no known seasonal aspects that had a material effect on the financial condition or results of operations.

***Fiscal Year ended 31 December 2017****

**Consolidated Results of Operations**

The Group ended the year with a consolidated net income of P18.6 million. Last year, the Group reported a net loss of P414.9 million which includes provision for probable losses of P235 million.

Consolidated revenues amounted to P610.5 million, lower by 29% from the previous year's P860.1 million. Decrease in consolidated revenues was mainly attributable to lower insurance premiums due to non-issuance of policies effective 1 April 2017. Decline in revenue from FPIC was tempered by higher rental revenues from Tutuban Center and Lepanto warehouse.

Total cost and expenses at P693.0 million decreased by 43% compared to 2016 as a result of lower claims and losses and personnel cost. Underwriting Costs decreased due to non-renewal of policies. Personnel cost decreased on account of the implementation of redundancy program in 2016. Depreciation and amortization expenses decreased due to the write-off of certain plant property and equipment.

The Group also reported gain on sale of investment property located in Makati City.

**TPI**

TPI registered a net income of P73.6 million during the year compared to a net loss of P287.8 million last year. Revenues from mall operations increased from P439.9 million to P448.6 million, on account of better occupancy and higher parking income. Cost and expenses at P378.8 million significantly decreased from P781.5 million last year largely due to lower personnel cost as a result of the redundancy program implemented in 2016.

**LCI**

LCI posted a net income of P42.8 million compared to the net loss of P1.4 million last year due to better rental revenue, from sale of scraps and interest income.

Rental revenues grew by 58%, from P26.8 million last year to P42.2 million in 2017 as a result of better occupancy and higher rent per sqm

**FPIC**

FPIC posted a net loss of P68.7 million compared to last year's net loss of P43.8 million. This was due to the provision for impairment loss of the Accounts Receivable.

**Financial Condition**

Total Assets of the Group was recorded at P8.9 billion and P6.0 billion as of 31 December 2017 and 31 December 2016, respectively. Increase in Total Assets was due acquisition of Southpark Mall and Office last November 2017. Cash and cash equivalents, proceeds from disposal of Available-for-Sale (AFS) financial assets and collection of amounts owed by related parties were used to fund purchase of Southpark, building improvements and acquisition of POPI shares from existing shareholders. Accordingly, investment property Increased as a result of the purchase of Southpark Mall. Other noncurrent assets increased due to deferred input value added tax.

The increase in Total Liabilities was mainly due to additional rental and security deposits for Tutuban and Lepanto. Increase in Total Equity was due to full payment of the subscription of Ayala Land, Inc. (ALI) in POPI shares.

**Financing Through Loans**

As of 31 December 2017, the Group has no outstanding loan from any financial institution.

**Prospects for the future**

The Group will focus on maximizing value of the 20-hectare Tutuban property in Manila by turning around the profitability of Tutuban Center.

* On 10 April 2017, the SEC approved the change in the Company's fiscal year to 1 January to 31 December each year.

The short term plan involves major upgrade of facilities and improvement of mall operations which are now in full swing. The mid to long term development entails expanding the gross leasable areas of the mall and introducing complementary mixed-use components. In addition, the Group is in close coordination with government for the finalization of the North-South Commuter Rail masterplan whose terminal station shall be in Tutuban Center.

LCI's 14-hectare property in Calamba, Laguna will continue to serve as a warehouse facility for various locators.

**Key Variable and Other Qualitative and Quantitative Factors**

| Ratios | Formula | 31-December-17 | 31-December-16 | 30-June-2016 |
|---|---|---|---|---|
| Current Ratio | Current Assets<br>Current Liabilities | 2.91:1<br>2,373,733/ 816,981 | 5.28: 1<br>4,332,343/ 821,086 | 2.09:1<br>5,130,567 / 2,451,173 |
| Debt to Equity Ratio | Total Liabilities<br>Equity | 0.23:1<br>1,666,689/ 7,256,856 | 0.37: 1<br>1,606,651/ 4,355,679 | 1.09 :1<br>3,318.487/ 3,045,405 |
| Capital Adequacy Ratio | Equity<br>Total Assets | 0.81: 1<br>7,256,856/ 8,923,545 | 0.72: 1<br>4,355,679/ 6,014,700 | 0.48 :1<br>3,045,405 / 6,416,823 |
| Book Value per Share | Equity<br>Total # of Shares | 1.48<br>7,256,856/ 4,896,455 | 0.89<br>4,355,679/ 4,896,455 | 1.28<br>3,045,405 / 2,378,638 |
| Income per Share | Net Income<br>Total# of Shares | 0.01<br>33,143/ 4,155,983 | -0.0002<br>-1,055 / 4,896,455 | 0.004<br>11,638 / 2,378,638 |

**Current ratio** shows the Group's ability to meet its short term financial obligation. As of 31 December 2017, the Group has P2.91 worth of current assets for every peso of current liabilities as compared to P5.28 as of 31 December 2016. The Group has sufficient current assets to support its current liabilities as of the period.

**Debt to Equity ratio** indicates the extent of the Group's debt which is covered by shareholders' fund. It reflects the relative position of the equity holders. The higher the ratio, the greater the risk being assumed by the creditors. A lower ratio generally indicates greater long term financial safety. Compared to 31 December 2016, debt-to-equity ratio was 38% higher due to full payment of ALI subscription.

**Capital Adequacy Ratio** is computed by dividing the Total Stockholders' Equity over Total Assets. It measures the financial strength of the Group. As of 31 December 2017, the Group's Capital Adequacy Ratio is 0.81 slightly lower than 0.72 as of 31 December 2016.

**Book value per share** measures the recoverable amount in the event of liquidation if assets are realized at book value. As of 31 December 2017, the Group has book value per share of P1.48, 65% higher compared to 31 December 2016. The increase in book value was due to increase in capital stock.

**Income per share** is calculated by dividing net income by the weighted average number of shares issued and outstanding. As of 31 December 2017, the Group reported a P0.01 income per share as compared to net loss of P0.0002 last year.

*(i)* ***Any known trends, demands, commitments, events or uncertainties that will have a material impact on issuer's liability.***
There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company and its subsidiaries' liquidity increasing or decreasing in any material way.

*(ii)* ***Events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation***

There are no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

(iii) ***Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.***

There are no known off-balance sheet transactions, arrangements, obligations (including contingent obligations), during the period.

(iv) ***Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.***

The Group has not entered into any new commitments for capital expenditures.

(v) ***Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales or revenues or income from continuing operations should be described.***

There are no known trends, events or uncertainties that have material impact on net sale/revenues/income from continuing operation.

(vi) ***Any significant elements of income or loss that did not arise from the registrant's continuing operations.***

The Group did not recognize income or loss during the period that did not arise from continuing operations.

(vii) ***Causes of Any Material Changes from Period to Period of FS which shall include vertical and horizontal analyses of any material item (5%).***

Causes of any material changes from period to period of FS is included in the Financial Condition.

(viii) ***Any seasonal aspects that had a material effect on the financial condition or results of operations.***

There are no known seasonal aspects that had a material effect on the financial condition or results of operations.

***For the Period of July to December 2016***

**Consolidated Results of Operations**

For the six-month period of July to December 2016, Prime Orion Philippines, Inc. ("POPI" or "the Group") reported a consolidated net loss of P1.06 million compared to a net income of P11.64 million as of the fiscal year (FY) ended 30 June 2016.

Consolidated Revenues for the six-month period amounted to P372.54 million compared to P1.04 billion as of 30 June 2016 due to the sale of real property in FY 2016. Consolidated Revenues decreased due to discontinued operations of OMI, OSI, TPI hotel and café, and land title services in September 2016. Lower gain on sale of Available-for-Sale (AFS) financial assets further tempered Consolidated Revenues for the period. During the six-month period, Total Cost and Expenses was lower by 59% due to lower personnel cost as a result of the implementation of the redundancy program in October 2016 and decrease in commission and underwriting expense.

**TPI**

TPI registered a net income of P12.53 million during the six-month period ended 31 December 2016 compared to a net loss of P306.05 million as of FY ended 30 June 2016. Rental revenues for the six-month period was P208.79 million compared to the P414.97 million revenue for FY 2016, while income from parking was 29% higher than in FY 2016. Operating expenses was lower due to the implementation of the redundancy program.

**LCI**

For the six-month period ended 31 December 2016, LCI posted a net loss of P147,674.00, which was 99.52% lower than the net loss of P31.27 million as of the year ended 30 June 2016.

In terms of Revenue, LCI posted Revenue of P21.84 million for the six-month period compared to P35.63 million as of 30 June 2016 due to rental revenue from leasing warehouse spaces. Operating Expenses was lower at P25.07 million compared to P74.78 million as of 30 June 2016 due to lower personnel cost as a result of the redundancy program and lower expenses from its leasing operations.

**FPIC**

For the six-month period, FPIC recorded a positive bottom line of P3.40 million compared to a net loss of P20.5 million for the same period in 2015. This was on account of the 29% decrease in General and Administrative expenses.

**Financial Condition**

Total Assets of the Group recorded at P6.04 billion and P6.42 billion as of 31 December 2016 and 30 June 2016, respectively. Decrease in Cash and Cash equivalents was due to acquisition of property, plant and equipment and investment properties. Decrease in AFS Financial Assets was due to decline in market value of shares of stocks and redemption of investments in trust funds. Decrease in Receivables was due to collection of insurance receivables.

The decrease in Total Liabilities from P3.32 billion as of 30 June 2016 to P1.6 billion as of 31 December 2016 was mainly due to reclassification of Deposit for future stock subscription into Equity, and adjustment in net retirement benefit liability. Accounts Payable and Accrued Expenses decreased due to settlement of outstanding payables.

**Financing Through Loans**

As of 31 December 2016, the Group has no outstanding loan from any financial institution.

***Fiscal Year 2016 (As restated)***

**Consolidated Results of Operations**

The Group ended the fiscal year with a consolidated net income of P11.64 million. Last year, the Group reported a net loss of P262.2 million which includes an impairment loss of P236 million to account for the decline in value of 1.388 billion shares of Cyber Bay Corporation.

Consolidated revenues amounted to P1,037.1 million, higher by 50% from the previous year's P692.4 million. Increase in consolidated revenues was mainly attributable to the sale of land in Sto. Tomas and J.P. Rizal St., Makati City. Likewise, rental revenue improved by 13% compared to last year owing to the 4% improvement in overall occupancy for Tutuban Center and increase in rental rates.

Total cost and expenses increased by 81% attributable to the increase in cost of real estate sales coupled by higher operating expense and cost of goods and services. Increase in operating expenses was due to increase in personnel cost as a result of the implementation and grant of 29.3 million POPI shares under the Employee Stock Ownership Plan and higher professional fees. Likewise, general provisions for clean-up activities was also recognized during the year. Higher cost of goods and services was due to additional rental to PNR arising from the turnover of leasable land in Phase II with an area of 8.8 hectares.

The Group also reported gain on sale of investment property located in Mandaue, Cebu City and proportionate gain on sale of Sto. Tomas land in the amount of P584.9 million.

**TPI**

During the year, revenues from mall operations grew by 5%, from P408.7 million to P431.1 million driven by the growth in Night Market operations, parking income and improvement in rental rates and occupancy.

Excluding one-time adjustments, general and administrative expense ratio to revenue was higher by 1.6% compared to the same period last year mainly attributed to professional fees. Direct operating expenses also increased due to additional rental arising from the turnover by PNR of leasable land and air rights totaling 8.8 hectares. TPI registered a net loss of P306.05 million as against last year's net income of P14.9 million.

**LCI**

Since the shift of LCI business from manufacturing to leasing of industrial warehouses, rental revenue grew by 82%, to about P33.4 million during the year. Disposal of existing machineries and equipment is on-going, and renovation of existing structures will be implemented to increase leasable space. LCI posted a net loss of P28.7 million compared to P31 thousand last year. The net loss is attributable to cost of repair and renovations of existing facility and set-up of provision for impairment of plant and machineries used for tile manufacturing. Conversion of existing facilities into leasable industrial spaces is in progress. Renovation of existing structures and disposal of existing machineries and equipment is on-going to increase leasable space. The existing facility will be able to provide leasable space of about 80,000 square meters.

**FPIC**

Gross premiums written (GPW) for the fiscal year 2016 of P292.8 million has resulted to a 1% growth compared to the P290.6 million GPW last year. The motor car and property lines registered a combined growth of 1% compared to 2015 figures.

On the Underwriting cost, the total incurred expenses for the fiscal year 2016 is P198.4 million. This represented a 13% increase compared to last year of P173.7 million attributed to the increase in claims and losses. General and administrative expenses of P107.9 million registered an increase of P38.7 million, which is about 56% increase from last year. The increase was on account of provisions for doubtful accounts and share based expenses. FPIC posted a net loss of P59.5 this fiscal year.

**Financial Condition**

Total Assets of the Group stood at P6.4 billion compared to last year's P4.5 billion. Increase in Total Assets was primarily due to the payment of deposit for future stock subscription by Ayala Land, Inc. (ALI). Higher cash and cash equivalents were sourced from the proceeds of sale of real estate and investment property. Net decrease in available-for-sale (AFS) financial assets was due to redemption of Unit Investment Trust Funds (UITFs) negated by the improvement in market value of stocks during the period. Decrease inventories was due to disposal of the remaining stocks. Current Assets was higher than Total Current Liabilities, which stood at P5.2 billion and P1.0 billion, respectively. Real estate held for sale and development and investment property decreased by 38% and 12%, respectively. Decrease in property, plant and equipment and software costs represents depreciation and amortization during the period. Provision for impairment on machinery and equipment was recognized during the year. Noncurrent assets decreased due to reclassification of payment to PNR in prior years as expense.

Total Liabilities of the Group increased due to recording of deposit for future stock subscription by ALI. Accounts Payable and accrued expenses increased by 34% due to set-up of general provision for clean-up activities. Net decrease in Retirement benefits liability was due to contribution to the retirement fund as of the period. There was a decrease in Subscription Receivables as some shareholders fully paid their subscription to the Company. Unrealized valuation gain on AFS financial assets mainly due to higher market value as of the reporting period. In November 2015, the Company granted to qualified employees an Employee Stock Ownership Plan at an option price of P1.00 per share. Corresponding equity reserve was recorded under Equity section of the Statement of Financial Position amounting to P27.5 million.

**Financing Through Loans**

As of 30 June 2016, the Group has no outstanding loan from any financial institution.

**Prospects for the future**

The Group will focus on maximizing value of the 20-hectare Tutuban property in Manila by turning around the profitability of Tutuban Center.

The short term plan involves major upgrade of facilities and improvement of mall operations which are now in full swing. The mid to long term development entails expanding the gross leasable areas of the mall and introducing complementary mixed-use components. In addition, the Group is in close coordination with government for the finalization of the North-South Commuter Rail masterplan whose terminal station shall be in Tutuban Center.

LCI's 15-hectare property in Calamba, Laguna will continue to serve as a warehouse facility for various locators.

**Key Variable and Other Qualitative and Quantitative Factors**

| Ratios | Formula | 30-Jun-16 | 30-Jun-15 |
|---|---|---|---|
| Current Ratio | Current Assets / Current liabilities | 2.10:1<br>5,153,105 / 2,451,173 | 3.52:1<br>2,870 126 / 815,492 |
| Debt to Equity Ratio | Total Liabilities / Equity | 1.08 :1<br>3,318,487 / 3,067,943 | 0.64 : 1<br>1,714,830 / 2,673,903 |
| Capital Adequacy Ratio | Equity / Total Assets | 0.476 :1<br>3,067,943 / 6,439,361 | 0.599:1<br>2,673,903 / 4,461,073 |
| Book Value per Share | Equity / Total # of shares | 1.290<br>3,067,943 / 2,378,638 | 1.129<br>2,673,903 / 2,367,149 |
| Income per Share | Net Income / Total # of Shares | 0.005<br>11,638 / 2,378,638 | -0.111<br>-262,236 / 2,367,149 |

**Current ratio** shows the Group's ability to meet its short term financial obligation. As of 30 June 2016, the Group has P2.10 worth of current assets for every peso of current liabilities as compared to P3.52 as of June 30, 2015. The Group has sufficient current assets to support its current liabilities as of the period.

**Debt to Equity ratio** indicates the extent of the Group's debt which is covered by shareholder's fund. It reflects the relative position of the equity holders. The higher the ratio, the greater the risk being assumed by the creditors. A lower ratio generally indicates greater long term financial safety. Compared to 30 June 2015, debt to equity ratio increased by 68% as a result of the increase in total liabilities due to deposit of future stock subscription coupled by an income recognized during the period.

**Capital Adequacy Ratio** is computed by dividing the Total Stockholders' Equity over Total Assets. It measures the financial strength of the Group. As of 30 June 2016, the Group's Capital Adequacy Ratio is 0.476 compared to last year's 0.599. Decrease was attributable to higher Assets as of the period.

**Book value per share** measures the recoverable amount in the event of liquidation if assets are realized at book value. As of 30 June 2016, the Group has book value per share of P1.290 higher by 14% compared to 30 June 2015.

**Income per share** is calculated by dividing net income by the weighted average number of shares issued and outstanding. As of 30 June 2016, the Group reported a P0.005 income per share as compared to last year's P0.111 loss per share.

*(i)* ***Any known trends, demands, commitments, events or uncertainties that will have a material impact on issuer's liability.***

There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company and its subsidiaries liquidity increasing or decreasing in any material way.

*(ii)* ***Events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation***

There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

*(iii)* ***Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.***

There are no known off-balance sheet transactions, arrangements, obligations (including contingent obligations), during the period.

*(iv)* ***Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures.***

The Company has not entered into any material commitment for capital expenditure.

*(v)* ***Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales or revenues or income from continuing operations should be described.***

There are no known trends, events or uncertainties that have material impact on net sale/revenues/income from continuing operation.

*(vi)* ***Any significant elements of income or loss that did not arise from the registrant's continuing operations.***

The Group did not recognize income or loss during the period that did not arise from continuing operations.

*(vii)* ***Causes of Any Material Changes from Period to Period of FS which shall include vertical and horizontal analyses of any material item (5%).***

Causes of any material changes from period to period of FS is included in the Financial Condition.

*(viii)* ***Any seasonal aspects that had a material effect on the financial condition or results of operations.***
There are no known seasonal aspects that had a material effect on the financial condition or results of operations.

**Item 7. Financial Statements**

The 2018 audited consolidated financial statements and schedules are filed with this report as indicated in the Index to Exhibits.

**Item 8. Information on Independent Accountants and Other Related Matters**

1) <u>External Audit Fees and Services</u>

(a) *Audit and Audit-Related Fees*

(i) The aggregate fees billed by the auditors for CY 2018 amounted to about P1.88 million while the auditor's fee for CY 2017 was about P1.56 million.
(ii) There are no known assurance and related services rendered by the external auditor aside from the services stated below for CY 2018 and 2017.

(b) *Tax Fees*

There were no tax advisory services rendered by the auditor in 2018. Tax advisory services were secured from other entities.

(c) *All Other Fees*

Except for professional fees for review of the valuation for the Company's subsidiary, FPIC, and for the Agreed Upon Procedure (AUP) report for OLI as shown below, and the service fees for validation of votes during the 2018 ASM, there were no Other Services rendered by SGV for CY 2018.

The Company paid or accrued the following audit and non-audit fees for the past two years:

Audit and Audit-Related Fees (SGV):

| | CY 2018 | CY 2017 |
|---|---|---|
| Professional Fees | ₱1,684,422.50 | ₱1,397,500.00 |
| Value Added Tax | 202,130.70 | 167,700.00 |
| Total Audit Fees | ₱1,886,553.20 | ₱1,565,200.00 |

The non-audit services fees:

| | CY 2018 | CY 2017 |
|---|---|---|
| Valuation of LTI ^ | P640,000.00 | - |
| Professional fees – Review of valuation (FPIC) (SGV) | 15,000.00 | ₱75,000.00 |
| Professional fees- OLI Agreed Upon Procedure Report (SGV) | - | 60,000.00 |
| Other Fees* | 60,000.00 | 100,000.00 |
| Value Added Tax | 85,800.00 | 28,200.00 |
| Total Non-Audit Fees | ₱800,800.00 | ₱263,200.00 |

^ paid to PriceWaterhouse Coopers
* SGV fees for the validation of stockholders' votes during the ASM

(d) The Audit and Risk Committee ("Audit Committee") performs oversight functions over the Corporation's external auditors in accordance with the Company's Manual of Corporate Governance[1] ("Manual"). The Audit Committee is composed of Mr. Rex Ma. A. Mendoza- Chairman, Maria Rowena M. Tomeldan and Atty. Renato O, Marzan as members. It reviews and approves all reports of the external auditors prior to presentation to the Board of Directors for approval. The Audit and Risk Committee discusses with the external auditor the scope and expenses for the audit prior to conduct of the audit. It evaluates and recommends to the Board of Directors the external auditors of the Company for the ensuing fiscal year.

2) Pursuant to the General Requirements of SRC Rule 68 (3)(b)(iv)(ix) (Qualification and Reports of Independent Auditors), SyCip Gorres Velayo & Co. (SGV) has been re-appointed as the external auditor of the Company for 2018 by the Board of Directors of the Company, upon recommendation of the Audit Committee.

Mr. Carlo Paolo Manalang is the Partner-in-Charge assigned to handle the Company's audit for 2018. He took over Ms. Dhonabee Señeres who was the SGV partner-in-charge for the 2016 and 2017 audit. The change was due to the rotation of partner.

*Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

There has been no resignation, dismissal or change in the external auditor of the Company for the past two (2) FYs. There were no disagreements with external auditor on matters relating to accounting principles or practices or financial disclosures for the same period.

## PART III- CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Registrant

a) Directors and Officers

The incumbent directors of the Company are as follows:

Bernard Vincent O. Dy
Felipe U. Yap
Jose Emmanuel H. Jalandoni
Maria Rowena M. Tomeldan
Augusto D. Bengzon
Victor C. Say
Nathanael C. Go
Rex Ma. A. Mendoza - Independent director
Renato O. Marzan - Independent director

All the directors were elected on 12 April 2018 during the annual stockholders' meeting of the Company.

Under the Company's By-laws, the directors serve for a term of one year until the election and acceptance of their qualified successors.

All the above directors were nominated for re-election in 2019.

Below are the write-ups (including the position in the Company, nationality and age) and the directorships/officerships of the incumbent directors (as of 31 January 2019). Except as indicated, the directors have held their directorships/ officerships listed below for at least five (5) years to the present.

**Bernard Vincent O. Dy**, Filipino, 55, was the Chairman of the Board of Directors of the Company from 24 February 2016 to 12 April 2018. He is the President & Chief Executive Officer of ALI, a publicly listed company. He is also a Director of another publicly listed company, Cebu Holdings, Inc. 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..; Member of Ayala Foundation, Inc. and Ayala Group Club, Inc. In 2015, he was inducted as member of the Advisory Council of the National Advisory Group for the Police Transformation Development of the Philippine National Police. He earned a degree of B.B.A Accountancy from the University of Notre Dame in 1985. He also received his Master's Degree in Business Administration in 1989 and in International Relations in 1995, both at the University of Chicago.

**Felipe U. Yap,** Filipino, 81, has been Vice Chairman from February 2016. He was Chairman of the Board of Directors of the Company from 2000 to February 2016 and the Vice Chairman of the Board of Directors of the Company from1993 to 2000. His other significant positions include: Chairman of the Board and Chief Executive Officer of Lepanto Consolidated Mining Company (publicly listed company) and Manila Mining Corporation (publicly listed company), and Zeus Holdings, Inc. (since 1998), Lepanto Investment and Development Corporation, Diamant Manufacturing and Trading Corporation, Diamond Drilling Corporation of the Philippines, Far Southeast Gold Resources, Inc. and Shipside, Inc.; Chairman of the Board of Zeus Holdings, Inc. (publicly listed company), Kalayaan Copper-Gold Resources, Inc., and Yapster e-Conglomerate, Inc.; Director of Manila Peninsula Hotel, Inc., Philippine Associated Smelting & Refining Corp. (PASAR), FLT Prime Insurance Corporation, Orion Land Inc. and Tutuban Properties, Inc. He graduated with a degree in. B.A. Philosophy from the University of San Carlos in Cebu. He has extensive experience in the mining industry. He served as Chairman of the PSE Board of Governors from 2000 to 2002.

**Jose Emmanuel H. Jalandoni**, Filipino, 51, has served as the Chairman of the Company since April 12, 2018. He is a Senior Vice President and member of the Management Committee of Ayala Land, Inc. He is the Group Head of ALI's commercial businesses including malls, offices, hotels, resorts and ALI Capital. He is also a director of Cebu Holdings, Inc., a publicly listed company. His other significant positions include: Chairman of AyalaLand Offices, Inc., AyalaLand Hotels and Resorts Corp., ALI Capital Corp., ALI Makati Hotel and Residences, Inc., ALI Makati Hotel Property, Inc., ALI Triangle Hotel Ventures, Inc., Arcasouth Hotel Ventures, Inc., Ayala Hotels, Inc., Ayalaland Medical Facilities Leasing, Inc., Bay Area Hotel Ventures, Inc., Bonifacio Hotel Ventures, Inc., Capitol Central Hotel Ventures, Inc., Circuit Makati Hotel Ventures, Inc., Cebu Insular Hotel Company, Inc., Directpower Services, Inc., Econorth Resort Ventures, Inc., Ecosouth Hotel Ventures, Inc., Ecozone Power Management, Inc., Enjay Hotels, Inc., Greenhaven Property Ventures, Inc., Integrated Eco-resort, Inc., Makati North Hotel Ventures, Inc., North Triangle Hotel Ventures, Inc., Northgate Hotel Ventures, Inc., One Makati Hotel Ventures, Inc., Orion Land, Inc., Sentera Hotel Ventures, Inc., Sicogon Island Tourism Estate Corp., Laguna Technopark, Inc., Arca South Integrated Terminal Inc., ALI Commercial Center, Inc., Soltea Commercial Corp., Southcrest Hotel Ventures, Inc., Tutuban Properties, Inc., One Dela Rosa Property Development, Inc., One Makati Residential Ventures, Inc. and Whiteknight Holdings, Inc. He is also the Chairman and President of Alinet.com, Inc. and a director of OCLP Holdings, Inc., Alabang Commercial Corporation, Station Square East Commercial Corporation, Accendo Commercial Corporation, Philippine Integrated Energy Solutions, Inc., ALI Eton Property Development Corporation, Philippine Familymart CVS, Inc., Ayagold Retailers, Inc., Ayala Property Management Corporation, Ayalaland Commercial Reit, Inc., Bacuit Bay Development Corp., Berkshires Holdings, Inc., Bonifacio Land Corporation, Cagayan de Oro Gateway Corp., Chirica Resorts Corporation, Columbus Holdings, Inc., Ecoholdings, Inc., Emerging City Holdings, Inc., Fort Bonifacio Development Corporation, Lio Resort Ventures, Inc., Lio Tourism Estate Management Corp., Makati Cornerstone Leasing Corp., Makati Development Corporation, North Liberty Resort Ventures Inc., Pangulasian Island Resort Corp., Paragua Eco-Resort Ventures, Inc., Regent Horizons Conservation Company, Inc., North Eastern Commercial Corp., Sicogon Town Hotel, Inc., Ten Knots Development

Corporation and Ten Knots Phils., Inc. He joined ALI in 1996 and held various positions in the company. He graduated with a degree of Bachelor of Science in Legal Management from Ateneo de Manila University in 1989. He earned his Master's Degree in Business Administration from Asian Institute of Management in 1992. He is a Chartered Financial Analyst.

**Augusto D. Bengzon**, Filipino, 55, has served as director of the Company since July 18, 2017. He joined ALI in December 2004 and currently serves as its Senior Vice President, Chief Finance Officer, Chief Information Officer, Chief Compliance Officer & Treasurer. He is a Director of Cebu Holdings, Inc., another publicly listed company. His other significant positions include: Chairman of Aprisa Business Process Solutions Inc.; Vice Chairman of CMPI Holdings Inc.; Director, Treasurer & Compliance Officer of Anvaya Cove Golf and Sports Club Inc.; Director & President of CMPI Land Inc.; Director & Assistant Treasurer of Ayala Greenfield Development Corporation; Director and Treasurer of ALI Eton Property Development Corporation, Amaia Land Corp., Aurora Properties Inc., Avida Land Corp., Ayala Property Management Corporation, Bellavita Land Corp., BGNorth Properties Inc., BGSouth Properties Inc., BGWest Properties Inc., Ceci Realty Inc., Next Urban Alliance Development Corp., Philippine Integrated Energy Solutions Inc., Serendra, Inc. and Vesta Property Holdings Inc.; Director of AG Counselors Corporation, Alabang Commercial Corporation, ALINet.Com, Inc., Alviera Country Club, Inc., Alveo Land Corp., Ayalaland Commercial Reit, Inc., Ecozone Power Management Inc., Laguna Technopark Inc., Makati Development Corporation, Nuevocentro Inc., Northgate Hotel Ventures, Inc. Portico Land Corp., Station Square East Commercial Corp., and Southcrest Hotel Ventures, Inc.; Treasurer of AKL Properties, Inc., and Hero Foundation Incorporated; Assistant Treasurer of Ayala Greenfield Golf and Leisure Club. Prior to joining ALI, he was Vice President and Credit Officer at Citibank N.A. where he spent sixteen years in various line management roles covering Treasury, Corporate Finance and Relationship Management. He received his Bachelor of Science degree in Business Management from the Ateneo de Manila University and is a graduate of the Philippine Trust Institute. He was granted the Andres K. Roxas scholarship at the Asian Institute of Management where he received his Masters in Business Management degree.

**Maria Rowena Victoria M. Tomeldan**, Filipino, 57, has been a director of the Company since February 26, 2016 and was elected President of the Company on February 19, 2018. She is the President of Laguna TechnoPark, Inc (LTI), owned and operated by the Company* and Mitsubishi Corporation, presently in charge of all industrial park developments of Ayala Land. Her other significant positions include: Chairman and President of AMSI, Inc., Orion Property Development, Inc., LCI Commercial Ventures, Inc., FLT Prime Insurance Corporation and Bay City Commercial Ventures Corp.; Director of Ayalaland Commercial Reit, Inc.; and Governor of the Ayala Center Estate Association, Inc. Presently, she is a board member of the International Council of Shopping Centers (ICSC) - Asia Advisory Board and is a 2015 ICSC Trustees Distinguished Service Awardee. She was a cum laude graduate of Bachelor of Arts in Economics from the University of the Philippines in 1983 and earned her Master's degree in Business Administration (MBA) from the same university in 1988. She finished the Executive Development Program at the Aresty Institute of Executive Education in Wharton University, Pennsylvania, USA in 2005.

*ALI and POPI entered into a Deed of Exchange dated April 30, 2018 whereby ALI exchanged its 75% equity interest in LTI for POPI shares

**Victor C. Say**, Filipino, 73, has been a Director of the Company since 1989. He served as an independent director of the Company from 2009 to 24 February 2016. His other significant positions include: Chairman of the Board of Onetree Holdings, Inc.; Director of Kolin Philippines, Inc., Seven of Us Foods, Inc., Wimax Philippines, Inc. and Toaster Brainworks, Inc. He is a holder of a degree in Business Administration, major in Management from Mapua University. He has extensive business experience having worked in securities broker firms and many companies. He was a member of the Board of the then Manila Stock Exchange.

**Nathanael C. Go**, Filipino, 43, has been a director of the Company since January 13, 2017. He is President of United Harvest Corporation, Mighty and Strong (MAS) Food Corporation and United Chemicals Technology Corporation and United Sustainment Solutions Corporation. Mr. Go obtained his Bachelor of Science degree in Foreign Service, major in International Politics from Georgetown University, Washington D.C. and graduated magna cum laude, Phi Beta Kappa. He holds a Master of Arts in International Political Economy from the University of Warwick, Coventry, United Kingdom as a British Chevening scholar. He was a manager in the Public Affairs Practice of Burson-Marstellar at Beijing, China. He also worked in the Policy and Strategy Office of the National Security Council of the Republic of the Philippines.

**Rex Ma. A. Mendoza**, Filipino, 56, has been an Independent Director of the Company since February 26, 2016 and its Lead Independent Director since July 18, 2017. He is the President and CEO of Rampver Financials, a financial services firm and the leading non-bank mutual funds distributor in the country. He currently serves as an Independent Director of Globe Telecom, Inc. (publicly listed company), and a Director of Esquire Financing, Inc., TechnoMarine Philippines, Seven Tall Trees Events, Inc., Cullinan Group and Mobile Group, Inc. He was recently appointed as Independent Director of the Philippine Health Insurance Corporation, to serve as such until 30 June 2019. He was previously the Senior Adviser to the AIA Group CEO for Marketing and Distribution. AIA Group Limited is the leading Pan-Asian insurance company and is the parent firm of the Philippine American Life and General Insurance Company

(PhilamLife). Prior to this position, he was the President and Chief Executive Officer of Philam Life, Chairman of The Philam Foundation, Inc. and Vice Chairman of BPI Philam Life Assurance Company. Prior to rejoining Philam Life, he was Senior Vice President and Chief Marketing and Sales Officer of Ayala Land, Inc. He was also Chairman of Ayala Land International Sales, Inc., President of Ayala Land Sales, Inc., and Avida Sales Corporation. He earned his Master's Degree in Business Management with distinction from the Asian Institute of Management in 1986 and was one of the 10 Outstanding Graduates of his batch at the University of the Philippines where he obtained a BSBA degree with a double major in marketing and finance in 1983. He was awarded Most Distinguished Alumnus of the University of the Philippines' Cesar E.A. Virata School of Business last December 2013. He is also a fellow with distinction at the Life Management Institute of Atlanta, Georgia, USA, a Registered Financial Planner and a four-time member of the Million Dollar Round Table. Mr. Mendoza was a professor of Marketing and Computational Finance at the De La Salle University Graduate School of Business. He taught strategic marketing, services marketing and services strategy. He has served as Chairman of the Marketing Department and was awarded as one of the University's most outstanding professors. He is the author of the books "Trailblazing Success" and "Firing on all Cylinders" which are certified national bestsellers.

**Renato O. Marzan**, Filipino, 70, has been an Independent Director of the Company since January 13, 2017. He is currently the Chairman of the Board of Directors of UBS Securities Philippines, Inc. (USPI), a wholly-owned subsidiary of UBS AG. He has been an independent director of the USPI since May 2010. He is consultant to a number of private corporations. In 2011, he served as a member of the Board of Directors of the Zamboanga Economic Zone Authority. He was with the Ayala Group of Companies, from February 1978 to December 2008. At the time of his retirement from Ayala Corporation on December 31, 2008, he was the General Counsel, Managing Director and the Group Head of the Corporate Governance and Legal Affairs group. In such capacity, he exercised direct supervision and oversight over the Legal Division, Office of the Corporate Secretary, the Compliance Unit and the Internal Audit of the corporation. He played an important role in the adoption and implementation of the principles and best practices of good corporate governance in the Ayala group of companies. During his career in Ayala, he served as a director and corporate secretary of a number of companies within the Ayala Group. He graduated magna cum laude with a degree of Bachelor of Arts major in Philosophy in 1969, and cum laude with a degree of Bachelor of Laws in 1973, both from San Beda College. Prior to joining Ayala in 1978, he was in the active practice of law.

**Management/Key Executive Officers**

| | | |
|---|---|---|
| Maria Rowena M. Tomeldan* | - | President/ Chief Executive Officer |
| Francis M. Montojo | - | Treasurer/ Chief Finance Officer/ Compliance Officer |
| June Vee D. Monteclaro-Navarro | - | Corporate Secretary |
| Nimfa Ambrosia L. Perez-Paras | - | Assistant Corporate Secretary |
| Marthe Lois V. Cordia | - | Assistant Corporate Secretary |

*please refer to her profile above

The personal data and directorships/officerships of the officers of the Company as of 21 January 2019 are listed below:

**Francis M. Montojo**, Filipino, 36, has served as the Chief Finance Officer and Compliance Officer of the Company since 15 December 2018 and its Treasurer effective 1 January 2019. She joined Ayala Land, Inc. in July 2012 under the Strategic Landbank Management Group which is involved in Ayala's township developments as Controls and Analysis Head and Chief Accountant. In 2015, she was assigned to Ayala's Healthcare business and served as the Chief Finance Officer of Mercado General Hospital, Inc. and the Treasurer of QualiMed Physician Associates, Inc. from May 2016 to December 2018. She graduated with a degree in Bachelor of Science in Accountancy from St. Paul University Manila in 2003 and has eight years of public practice from 2004 to 2012 with PricewaterhouseCoopers Manila, focused on consumer, industrial products and services. She is a Certified Public Accountant.

**June Vee D. Monteclaro-Navarro**, Filipino, 47, has served as the Corporate Secretary of the Company since 24 February 2016. She is the General Counsel and Assistant Corporate Secretary of ALI and the Corporate Secretary of Cebu Holdings, Inc., both are publicly listed company. She also holds the following positions: Corporate Secretary of AG Counselors Corporation, Alveo Land Corp., Avida Land Corp., AKL Properties Inc., ALI Eton Property Development Corporation and Orion Land, Inc; Director of AyalaLand Commercial Reit, Inc.; and the Assistant Corporate Secretary of Alinet.com, Inc. Prior to joining ALI in 2007, she was a Senior Associate at SyCip Salazar Hernandez & Gatmaitan. She graduated from the University of St. La Salle in Bacolod with a Bachelor of Arts with a Major in Economics and a Bachelor of Commerce with a Major in Data Processing in 1993. She earned a Bachelor of Laws degree from the University of the Philippines in 1997.

**Nimfa Ambrosia L. Perez-Paras**, Filipino, 53, has served as the Assistant Corporate Secretary of the Company since 24 February 2016. She is a Senior Counsel 2 at the Ayala Group Legal. She is the Assistant Corporate Secretary of listed companies namely: ALI and Cebu Holdings, Inc. She handles various corporate secretarial functions for affiliates of the Company and for a number of companies within the Ayala Group. She was the Assistant Corporate Secretary of Integrated Micro-Electronics, Inc. from April 2014 to April 2015. Prior to joining Ayala Group Legal in February 2014, she was a State Counsel at the Department of Justice. She also worked at the Regional Trial Courts of Makati and Quezon City. In the private sector, she worked as Legal Counsel for Coca-Cola Bottlers Philippines, Inc., RFM Corporation, and Roasters Philippines, Inc. She graduated with a Bachelors of Law degree from Manuel L. Quezon School of Law in 1990.

**Marthe Lois V. Cordia**, Filipino, 36, served as Assistant Corporate Secretary of the Company since 13 January 2017. She is also the Assistant Corporate Secretary of Arca South Commercial Ventures Corp., Arvo Commercial Corporation, Cavite Commercial Towncenter, Inc., FLT Prime Insurance Corporation, North Triangle Depot Commercial Corporation, Northbeacon Commercial Corporation, Orion Land Inc., Orion Property Development, Inc., Soltea Commercial Corp., Subic Bay Town Center, Inc., Tutuban Properties, Inc. and other companies within the Ayala Group to which she also provides other legal services. She is a Senior Counsel at the Ayala Group Legal. Prior to joining Ayala Group Legal in October 2013, she was a Senior Associate at Divina Law. She earned her Bachelor of Laws degree from the University of Santo Tomas in 2007.

Below is the list of the directorships/officerships and personal data as of 31 December 2018 of the following former officers of the Company:

**Ruby P. Chiong,** Filipino, 52, was Treasurer of the Company from February 24, 2016 until December 31, 2018. She has served as Vice President of Ayala Land, Inc. since November 2016. She is the Chief Finance Officer of Ayala Land Inc.'s Commercial Business Group. Her other positions include: Directors of Ayala Land Malls, Inc. and Ayalaland Hotels and Resorts Corp; Director and Treasurer of ALI Commercial Center, Inc., Ayalaland Offices, Inc., North Triangle Depot Commercial Corporation, Leisure and Allied Philippines, Inc., Ten Knots Development Corporation, Ayala Theatres Management, Inc., Laguna Technopark, Inc., Direct Powers Services, Inc., Ecozone Power Management, Inc., Director and Vice President of ALI Capital Corp.; Treasurer of Alabang Commercial Corporation and Station Square East Commercial Corporation. Prior to being Chief Finance Officer in ALI, she was an Associate Director of Corporate Strategy at Ayala Corporation. She earned a degree of BS in Business Administration and Accountancy from the University of the Philippines, Diliman in 1987 and took her Master's Degree in Management at the Asian Institute of Management in 1996.

**Roann F. Hinolan-Batoon,** Filipino, 42, served as the Chief Operating Officer of the Company since her election on January 13, 2017 until 19 February 2018. Her other positions include: Senior Division Manager for Business Development, Ayala Land, Inc., Director of Ayalaland Metro North, Inc., Bay City Commercial ventures Corp., Lepanto Ceramics, Inc., North Triangle Depot Commercial Corporation, North Ventures Commercial Corp., Orion Land Inc., Orion Property Development, Inc., Summerhill Commercial Ventures, Inc., TPI Holdings Corporation, and Tutuban Properties, Inc.. She earned her Bachelor of Science degree in Accountancy from the University of St. La Salle, Bacolod City in 1998.

**Rhodora Estrella B. Revilla**, Filipino, 45, has served as the Chief Finance Officer and Compliance Officer of the Company since February 24, 2016 to 14 December 2018. She was a Chief Finance Officer of Ayala Land Inc.'s Ayala Malls Group. Her other positions were: Treasurer of Ayalaland Malls, Inc., Ayalaland Malls VisMin, Inc., Ayalaland Malls NorthEast, Inc. and Orion Land Inc.; Director and Chief Finance Officer of FLT Prime Insurance Corporation, Lepanto Ceramics Inc., Orion Property Development Inc., and TPI Holdings Corporation; and Chief Finance Officer of Bay City Commercial Ventures Corp., Cavite Commercial Towncenter Inc., North Ventures Commercial Corp., Subic Bay Town Center Inc., Westview Commercial Ventures Corp., Arvo Commercial Corporation, and Soltea Commercial Corp. and Tutuban Properties Inc. She joined ALI in 2007 and held various Finance positions in the company. She graduated with a degree in Bachelor of Science in Accountancy from Ateneo de Naga University in 1994. She is a Certified Public Accountant.

b) Significant Employees

The Company's entire work force is considered as significant employees. The entire work force is expected to work as a team to attain the Company's objectives. There is no employee who is expected to make individually on his own a significant contribution to the business of the Company.

c) Family Relationships

There are no family relationships (up to fourth civil degree) either by consanguinity or affinity among the abovenamed directors and executive officers.

d) Involvement in Certain Legal Proceedings

The abovementioned directors and executive officers have not been involved in any of the following events or legal proceedings that occurred during the past five (5) years up to this time which are material to an evaluation of the ability and integrity of the said directors and executive officers:

a. Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time;
b. Any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
c. Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
d. Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, to have violated a securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

The details of material pending legal proceedings for the past five (5) years to which the Company or any of its subsidiaries or affiliates is a party are discussed in Part 1, Item 3 above.

## Item 10. Executive Compensation

A. General

Directors. Article III Sections 7, 12 and 13 of the Company's By-laws provide:

> 7. Compensan of Directors – Each director shall receive, for his services as such director such amount as may be fixed by the stockholders for each regular or special meeting of the Board actually attended by him; provided, that nothing herein contained shall be construed to preclude any director from serving the company in any other capacity and receiving such compensation therefor as may be fixed from time to time by the Board of Directors.
>
> xxx
>
> 12. Per diems- subject to the approval of the stockholders, the Board of Directors shall be authorized to fix the per diems of directors attending board meetings, executive committee meetings, and other committee meetings. The amounts per diem shall however be guided by reasonableness and industry practice.
>
> 13. An amount equivalent to five percent (5%) of net income before tax in each year shall be paid and distributed at the Board's discretion, to the members of the Board of Directors and the Executive Committee and officers of the Corporation.

No director has been contracted and compensated by the Company for services other than as director.

Officers. Article III Section 8 of the Company's By-laws provide:

> 8. Officers of the Company, xxx The Board of Directors shall fix the compensation of the officers and agents of the Company.

Below is the summary of the aggregate compensation paid or accrued during the last two (2) years and the ensuing fiscal year to the Company's Chief Executive Officer and four (4) other most highly compensated executive officers.

**Summary Compensation Table**
Annual Compensation

| Name | Calendar Year | Salary (in ₱000s) | Bonus (in ₱000s) | Other Annual Compensation (in ₱000s) |
|---|---|---|---|---|
| Maria Rowena M. Tomeldan* (President/CEO) | 2017<br>2018<br>2019 | -<br>-<br>- | -<br>-<br>- | -<br>-<br>- |
| Ruby P. Chiong ** (Treasurer) | 2017<br>2018 | -<br>- | -<br>- | -<br>- |
| Rhodora Estrella B. Revilla *** (Chief Finance Officer/Compliance Officer) | 2017<br>2018 | -<br>- | -<br>- | -<br>- |
| Jose Emmanuel H. Jalandoni ^ | 2017<br>2018<br>2019 | -<br>-<br>- | -<br>-<br>- | -<br>- |
| Roann F. Hinolan-Batoon^^ (Chief Operating Officer) | 2017<br>2018 | -<br>- | -<br>- | -<br>- |
| Edwin M. Silang ^^^ (former AVP-Group HR) | 2017 | - | - | - |
| Francis M. Montojo ∞ (Chief Finance Officer/Compliance Officer and Treasurer) | 2019 | - | - | - |
| CEO and four most highly compensated Exec. Officers | 2017<br>2018<br>*2019 (projected)* | -<br>-<br>- | - | - |
| All other officers**** and directors^^^^ as a group unnamed √ | 2017<br>2018<br>*2019 (projected)* | 2,607.12<br>2,250.00<br>2,363.50 | 298.36<br>795.00<br>393.75 | 4,284.28<br>1,146.00<br>1,756.00 |

* elected as President of the Company on 19 February 2018 to present
** elected as Treasurer on 24 February 2016; resigned as Treasurer effective 31 December 2018
*** elected as Chief Finance Officer/ Compliance Officer on 24 February 2016; resigned as Chief Finance Officer/Compliance Officer effective 14 December 2018
^ elected as President on 24 February 2016 but resigned effective 19 February 2018; elected as Chairman of the Company on 12 April 2018
^^ elected as Chief Operating Officer on 13 January 2017 but resigned on 19 February 2018.
^^^ separated from the company on 7 March 2017
∞ elected as Chief Finance Officer/Compliance Officer effective 15 December 2018 and as Treasurer effective 1 January 2019
**** managers and up
^^^^ paid per diems
√ *exclusive of ESOWN*

The abovenamed current and former officers of the Company except for the former AVP-Group HR, are/were officers of ALI and they received no per diems, salaries or compensation from the Company from the time of their election to date.

(a) **Compensation of Directors**

Section 12 of Article III of the By-laws provides that subject to the approval of the stockholders, the Board of Directors shall be authorized to fix the per diems of directors attending board meetings, executive committee meetings and other committee meetings. The amounts per diem shall however be guided by reasonableness and industry practice.

Section 13 of Article III of the By-laws provides that an amount equivalent to five percent (5%) of net income before tax in each year shall be paid and distributed at the Board's discretion, to the members of the Board of Directors, the Executive Committee, and officers of the Corporation.

i. Standard Arrangement

Members of the Board of Directors receive no compensation except reasonable director's fee as fixed by the Board of Directors at the end of the year, subject to approval of the stockholders.
During the annual stockholders' meeting on 13 January 2017, the stockholders approved the resolution fixing the director's per diem of non-executive directors starting 2017 as follows:

| | |
|---|---|
| Board meeting fee per meeting attended | P40,000.00 |
| Committee meeting fee per meeting attended | P30,000.00 |

ii. Other Arrangement

None of the non-executive directors has been contracted and compensated by the Company for services other than those provided as a director. The Company has no arrangement with regard to the compensation of its non-executive directors other that the compensation received as herein stated.

The present members of the Board who are officers of ALI or are executive officers of the Company receive no compensation or per diems or ESOWN grants from the Company from the time of their election to date. However, two (2) of the Company's non-executive directors were granted and availed of, the stock grants under the Employees' Stock Ownership Plan (ESOWN) of the Company. The details of the ESOWN are discussed below.

(b) **Employment Contracts/Termination of Employment/Change-in Control Arrangements**

The present executive officers of the Company are regular employees of ALI and are covered by their respective engagement/ employment contracts with ALI which provide for their functions corresponding to their position/rank.

There are no special terms or compensatory plans or arrangements relative to the resignation, termination of employment of such executive officers other than the ESOWN. However, to date, no incumbent executive officer has been granted an ESOWN benefit by the Company.

Further, the Company has no change-in-control arrangements with its executive officers.

B. Options Outstanding

On 13 August 2015, the Board of Directors of the Company approved the Terms and Conditions of its ESOWN covering 250 million shares of the Company for its directors and employees. The ESOWN was to be issued in 2 tranches: (i) Tranche 1 – covering 32 million shares; and (ii) Tranche 2 – covering 218 million shares, to be issued as: First Availment - 43 million shares, and Second Availment- 175 million shares.

On 10 November 2015, the Company applied for, and was granted by the SEC, exemption from the registration requirements of the SRC of its ESOWN covering 32 million shares (ESOWN Tranche 1) of the Company (MSRD Resolution No. 22, Series of 2015). Of said offer, 29,305,800 shares were subscribed by its then employees and directors. At present, 22,505,140 fully paid ESOWN Shares were lodged with the Philippine Depository and Trust Corporation and approved for listing and trading by the PSE as of 29 December 2017. The exercise price for ESOWN Tranche 1 shares was P1.00 per share.

On 3 October 2017, the SEC (as per MSRD Resolution No. 23, Series of 2017) approved the Company's application for exemption from registration of the 218 million ESOWN shares under Tranche 2 - First and Second Availments. A total of 26,629,700 shares were subscribed under Tranche 2-First Availment by the grantees. For Tranche 2-Second Availment, 103,692,268 shares were subscribed. The exercise price for ESOWN Tranche 2 shares was P1.68 per share. Among the grantees-subscribers of the ESOWN are two (2) POPI directors. No other incumbent director or executive officer of the Company was granted any ESOWN shares. There were no further availments made under ESOWN Tranche 2-2nd availment after 31 December 2018. Total ESOWN subscription of the directors* of the Company for Tranches 1 and 2 is 52,000,000 shares.

*subscribed by two directors; these shares are partially paid, not listed

**Item 11. Security Ownership of Certain Beneficial Owners and Management**

i. Security Ownership of Record and Beneficial Owners of more than 5% as of 31 March 2019

| Title of Class | Name & address of record owner & relationship with issuer | Name of Beneficial Owner & relationship with record owner | Citizenship | No. of Shares Held | Percent (%) |
|---|---|---|---|---|---|
| Common | Ayala Land, Inc. (ALI) [2] 31/F Tower One and Exchange Plaza, Ayala Triangle, Makati City -Stockholder | ALI [1] | Filipino | 2,703,405,543 (direct) | 54.91 |
| Common | PCD Nominee Corporation (Filipino) G/F MSE Bldg., Ayala Ave., Makati City | PCD Participants acting for themselves or for their customers[4] | Filipino | 958,954,054 | 19.48 |
| Common | Orion Land Inc. (OLI) 3rd Floor Glorietta 5, Ayala Center, Makati City | OLI[5] | Filipino | 512,480,671 (direct) 26,496,000 (indirect/ held thru PCD) | 10.95 |

ii. Security Ownership of Directors and Management as of 31 March 2019

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial ownership | Citizenship | Percent of Class (%) |
|---|---|---|---|---|
| **Directors** | | | | |
| Common | Bernard Vincent O. Dy | 2 (direct) | Filipino | 0.00% |
| Common | Felipe U. Yap | 3,010,000 (direct) 8,400,000 (indirect)* | Filipino | 0.23% |
| Common | Jose Emmanuel H. Jalandoni | 2 (direct) | Filipino | 0.00% |
| Common | Maria Rowena M. Tomeldan | 2 (direct) 35,000 (indirect) | Filipino | 0.00% |
| Common | Augusto D. Bengzon | 1 (direct) | Filipino | 0.00% |
| Common | Victor C. Say | 21,500,000 (direct) 9,200,000 (indirect)** | Filipino | 0.62% |
| Common | Nathanael C. Go | 1,025,000 (direct) 24,375,000 (indirect) | Filipino | 0.52% |
| Common | Rex Ma. A Mendoza | 1 (direct) | Filipino | 0.00% |
| Common | Renato O. Marzan | 1 (direct) | Filipino | 0.00% |
| **Officers** | | | | |
| Common | Francis M. Montojo | 0 | Filipino | 0.00% |
| Common | June Vee D. Monteclaro-Navarro | 0 | Filipino | 0.00% |
| Common | Nimfa Ambrosia L. Perez-Paras | 0 | Filipino | 0.00% |
| Common | Marthe Lois V. Cordia | 0 | Filipino | 0.00% |
| | **Total** | **67,545,009** | | **1.37%** |

* includes subscriptions under the Employees Stock Ownership Plan (ESOWN)- Tranche 1 and Tranche 2-1st Availment
**includes shares held by broker and subscriptions under the ESOWN- Tranche 1 and Tranche 2-1st Availment

None of the Company's directors and management owns 2.0% or more of the outstanding capital stock of the Company.

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[2] Ayala Land, Inc. is the parent of the Company
[3] Under the By-Laws and the Corporation Code, the ALI Board has the power to decide how ALI's shares are to be voted.
[4] 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.
[5] OLI is a wholly-owned subsidiary of the Company. The OLI Board has the power to decide how these shares are to be voted.

iii. Voting Trust Holders of 5% or More

The Company knows of no persons holding more than 5% of common shares under a voting trust or similar agreement.

iv. Change in Control of Registrant

No change in control in the Company has occurred since the beginning of its last fiscal year.

**Item 12. Certain Relationships and Related Transactions**

(1) The Company and its subsidiaries in their normal course of business, have entered into transactions with related parties principally consisting of noninterest-bearing advances, reimbursement of expenses, management and administrative service agreements. As disclosed in Note 19 of the Notes to Consolidated Financial Statements, the Company and the related parties have common stockholders.

The Company negotiates terms of material transactions on an arm's length basis and at current market prices at the time of the transactions.

The Company's employees are required to disclose any business or family-related transactions to avoid potential conflicts of interest situations.

The Company and ALI executed a Deed of Exchange dated 30 April 2018 whereby the Company acquired shares of stock in Laguna Technopark, Inc. (LTI) owned by ALI; in turn, ALI will receive shares of stock of the Company. On 6 March 2019, the Company obtained the certificate of approval of confirmation of valuation from the SEC, thus effecting the consolidation of LTI's results of operations for the period from 1 May 2018 to 31 December 2018 in the Company's financial reports. A request for tax free exchange ruling on the transaction has been filed.

There was no other transaction during the last two (2) years, without proper disclosure, to which the Company was a party, in which any of the following persons had or is to have a direct or indirect material interest:

a. Any director or executive officer of the Company;
b. Any nominee for election as a director;
c. Any security holder named in Item 4 (d) (i) and (ii) above; and
d. Any member of the immediate family (including spouse, parents, children, siblings and in-laws) of any of the persons named in the immediately preceding subparagraphs (a) (b) and (c) hereof.

(2) **Ownership Structure and Parent Company**

As of 31 January 2019, ALI owns 54.91% of the total outstanding shares of the Company.

After the share exchange, ALI's equity in POPI will increase to 63.9%.

## PART IV- CORPORATE GOVERNANCE

**Item 13. Corporate Governance**

<u>Compliance with Corporate Governance</u>

The Company has two independent directors as provided in its Manual and has created the following Board committees: (1) Executive Committee, (2) Audit and Risk Committee, (3) Compensation and Remuneration Committee, (4) Corporate Governance and Nomination Committee, (5) Sustainability and (6) Inspectors of Proxies and Ballots Committee. The Board and the committees have their own Charters which may be accessed in the website of the Company.

The Manual provides for the qualifications and disqualifications of the Board as well as the duties and functions of the directors. In compliance with the requirements of the PSE, the Company established its official website, www.primeorion.com, on 16 June 2008. This website is updated regularly and contains all the corporate information on the business and management of the Group, corporate governance reports and disclosures made by the Company, as prescribed by SEC Memorandum Circular No. 11, Series of 2014.

The Company also submitted to the SEC the Certification of Qualification of its Independent Directors in 2018 as required by the SEC. All directors attended a corporate governance seminar in 2018 in compliance with SEC Memorandum Circular No. 20, Series of 2013. In compliance with SEC Memorandum Circular No. 15, series of 2017, the Company submitted its I-ACGR (for 2017) which is posted in the Company's website.

The Company has a written Code of Conduct/Policy Manual prepared by its Human Resources Department. Company policies on Code of Business Conduct and Ethics, Conflict of Interest, Related Party Transaction, Insider trading, Whistle Blowing, Management Succession and Health, Safety and Welfare may be accessed in the POPI website.

The Company and its operating subsidiaries prepare their respective business plans, budget and marketing plans in accordance with accounting standards and disclosure requirements. Management prepares and submits to the Board, on a regular basis, financial and operational reports which enable the Board and Management to assess the effectiveness and efficiency of the Company and its operating subsidiaries. The Audit and Risk Committee reviews the quarterly and annual financial statements before their submission to the Board.

There was no material deviation from the Company's Manual. The Company continues to work on its systems and procedures to improve compliance with the Manual.

## PART V - EXHIBITS AND SCHEDULES

### Item 14. Exhibits and Reports on SEC Form 17-C

(a) *Exhibits* - See accompanying Index to Exhibits.

The 2018 Audited Consolidated Financial Statements are filed with this report:

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

(b) *Reports on SEC Form 17-C*

During the period covered by this report, the reports on Form 17-C (Current Report) filed with the SEC are as follows:

| Date Reported | Subject of Disclosure |
|---|---|
| 26 January 2018 | Acquisition of 202,774,547 POPI shares by ALI from Genez Investments Corporation |
| 23 March 2018 | Approval of the Board of Directors of the acquisition of 75% equity interest in Laguna Technopark, Inc. (LTI) in exchange for additional POPI shares |
| 12 April 2018 | Matters Taken Up during the ASM and Organizational Meeting of the Board and results of voting |
| 30 April 2018 | Execution of Deed of Exchange between Ayala Land, Inc. and POPI re: acquisition of LTI shares in exchange for POPI shares |
| 14 December 2018 | Executive Committee's election and appointment of Francis M. Montojo as Chief Finance Officer, Compliance Officer and member of the Inspectors of Proxies and Ballots Committee effective 15 December 2018 vice Rhodora Estrella B. Revilla who resigned effective 14 December 2018 |
| 19 December 2018 | Results of the Board meeting which include:<br>a. Setting the date, venue and record date of the annual stockholders' meeting (ASM) on 12 April 2019 as well as the deadline for nomination and submission of proxies<br>b. amendment of Art. II, Sec. 5 of the By-laws (Proxies)<br>c. creation of Executive Committee Charter<br>d. election of Francis M. Montojo as Treasurer effective 1 January 2019 to replace Ruby Chiong who resigned effective 31 December 2018<br>e. ratification of the resolution on the election of Ms. Montojo as CFO, Compliance Officer and member of the proxies and Ballots Committee |

The Company also filed the following reports:

| Date Reported | Subject of Disclosure |
|---|---|
| 20 August 2018 | Press Release on the unaudited financial and operations results of POPI as of 30 June 2018 |
| 14 September 2018 | Attendance of directors and officers in corporate governance seminar on 10 September 2018 at Fairmont Hotel |
| 9 October 2018 | Attendance of directors and officer in corporate governance conference on 9 October 2018 at Dusit Thani Hotel |
| 9 November 2018 | Press Release on the unaudited financial and operations results of POPI as of 30 September 2018 |
| 21 November 2018 | Press Release on the launch of the latest logistics facilities at Biñan, Laguna by LTI (subsidiary of POPI) |
| 18 November 2018 | Attendance of director of corporate governance seminar on 13 November 2018 at 21/F BA-Lepanto Building |

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## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report to be signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on APR 12 2019

**PRIME ORION PHILIPPINES, INC.**
Issuer
By:

**MARIA ROWENA M. TOMELDAN**
President/Chief Executive Officer

**FRANCIS M. MONTOJO**
Chief Finance Officer
Treasurer and Compliance Officer

**JUNE VEE D. MONTECLARO-NAVARRO**
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this APR 12 2019 day of ________ 2019 at Makati City, affiants exhibited to me their passports as competent evidence of their identities, as follows:

| Names | Competent Evid. of Identity | Date/Place of Issue |
| --- | --- | --- |
| Maria Rowena M. Tomeldan | | |
| Francis M. Montojo | | |
| June Vee D. Monteclaro-Navarro | | |

Doc. No. 180;
Page No. 37;
Book No. XI;
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.
IBP No. – M
PTR No. – 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

**PRIME ORION PHILIPPINES, INC.**
**INDEX TO EXHIBITS**
Form 17 – A- Item 7

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* *These Exhibits are either not applicable to the Company or require no answer.*

**Exhibit (18)**
**Subsidiaries of the Registrant**

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As of 31 December 2018, POPI has the following wholly-owned subsidiaries:

| Name | Jurisdiction |
|---|---|
| Orion Land Inc. | Philippines |
| Tutuban Properties, Inc. | Philippines |
| TPI Holdings Corporation* | Philippines |
| Orion Property Development, Inc. | Philippines |
| Orion Beverage, Inc.* | Philippines |
| Orion I Holdings Philippines, Inc.* | Philippines |
| LCI Commercial Ventures, Inc. | Philippines |
| Orion Solutions, Inc.* | Philippines |
| OE Holdings, Inc.* | Philippines |
| Orion Maxis Inc.* | Philippines |

*for dissolution

**PRIME ORION PHILIPPINES, INC.**
Index to Consolidated Financial Statements and Supplementary Schedules
Form 17-A, Item 7

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**2018 Consolidated Financial Statements**



**Supplementary Schedules to 2018 Consolidated Financial Statements**

**PrimeOrion** Philippines, Inc.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Prime Orion Philippines, Inc. 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 subsidiary 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.

**JOSE EMMANUEL H. JALANDONI**
**Chairman, Board of Directors**

**MARIA ROWENA M. TOMELDAN**
**President and Chief Executive Officer**

**FRANCIS M. MONTOJO**
**Chief Finance Officer**

SUBSCRIBED AND SWORN to before me this MAR 14 2019 at MAKATI CITY, affiants exhibiting to me their respective Passports, to wit:

| Name | Passport No. | Date & Place of Issue |
|---|---|---|
| Jose Emmanuel H. Jalandoni | | |
| Maria Rowena M. Tomeldan | | |
| Francis M. Montojo | | |

Doc. No. 390 :
Page No 79 :
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.
IBP No. - 01/09/19 – Makati City
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MCLE Compliance No. VI – 0009490 -06/20/2018
27th Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

SGV
Building a better working world

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

# INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Prime Orion Philippines, Inc.

## Opinion

We have audited the consolidated financial statements of Prime Orion Philippines, Inc. (the Parent Company) and its subsidiaries (collectively referred to as "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 the years ended December 31, 2018 and 2017 and the six months ended December 31, 2016, 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 financial position of the Group as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and 2017 and the six months ended December 31, 2016 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 (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.

***Provisions and Contingencies***

The Group is involved in various legal proceedings and tax assessments. This matter is significant to our audit because the evaluation and estimation of the potential liability resulting from these proceedings and assessments require management to exercise significant judgment and estimation brought about by the differences in the interpretation and implementation of the laws and tax rulings.

The Group's disclosures about provisions and contingencies are included in Notes 3 and 30 to the consolidated financial statements.

*Audit Response*

We involved our internal specialist in the evaluation of management's assessment on whether any provision for contingencies should be recognized, and the estimation of such amount. We discussed with management the status of the assessments and obtained correspondences with the relevant authorities and opinion from the Group's legal counsel. We evaluated the position of the Group by considering the relevant laws, rulings and jurisprudence.

***Adoption of PFRS 9, Financial Instruments***

The Group's adoption of the expected credit loss (ECL) model under PFRS 9 is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; defining what comprises default; determining assumptions to be used in the ECL model such as timing and amounts of expected net recoveries from defaulted accounts; and incorporating forward-looking information in calculating ECL.

Refer to Note 2 to 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 Group's different credit 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 Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) compared the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (c) tested historical loss rates by inspecting historical recoveries and write-offs; (d) checked the classification of outstanding exposures to their corresponding aging buckets; and (e) evaluated the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's receivable portfolios and industry practices.

Further, we checked the data used in the ECL models, such as the historical aging analysis and default 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 test computed the transition adjustments and evaluated the disclosures made in the financial statements on allowance for credit losses using the ECL model.

**Other Information**

Management is responsible for Other Information. Other Information comprises the information included in 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 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 Other Information identified above when it becomes available and, in doing so, consider whether such 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 the 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.

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
Carlo Paolo V. Manalang

SYCIP GORRES VELAYO & CO.

Carlo Paolo V. Manalang

Carlo Paolo V. Manalang
Partner
CPA Certificate No. 111947
SEC Accreditation No. 1625-A (Group A),
March 28, 2017, valid until March 27, 2020
Tax Identification No. 210-730-804
BIR Accreditation No. 08-001998-127-2017,
February 9, 2017, valid until February 8, 2020
PTR No. 7332576, January 3, 2019, Makati City

March 14, 2019

## PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**(Amounts in Thousands)**

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 4 and 32) | **₱220,145** | ₱254,969 |
| Short-term investments (Notes 4 and 32) | **43,489** | – |
| Receivables - current (Notes 5 and 32) | **1,574,864** | 381,545 |
| Inventories (Note 6) | **7,343** | 7,380 |
| Real estate held for sale and development (Note 7) | **1,289,245** | 264,464 |
| Financial assets at fair value through other comprehensive income (Notes 8, 20 and 32) | **651,964** | – |
| Available-for-sale (AFS) financial assets (Notes 8, 20 and 32) | **–** | 710,454 |
| Amounts owed by related parties (Notes 19 and 32) | **936,548** | 392,319 |
| Financial assets at fair value through profit or loss (Notes 9 and 32) | **4,519** | 2,643 |
| Other current assets (Note 10) | **534,861** | 359,959 |
| Total Current Assets | **5,262,978** | 2,373,733 |
| **Noncurrent Assets** | | |
| Receivables - net of current portion (Notes 5 and 32) | **44,955** | – |
| Investment in an associate (Note 11) | **–** | 1,888 |
| Investment properties (Note 12) | **6,833,060** | 5,996,405 |
| Property and equipment (Note 13) | **42,249** | 37,249 |
| Software costs (Note 14) | **2,873** | 4,906 |
| Net pension assets (Note 25) | **17,390** | 20,667 |
| Deferred income tax assets - net (Note 26) | **14,197** | – |
| Other noncurrent assets (Notes 15 and 32) | **756,691** | 488,697 |
| Total Noncurrent Assets | **7,711,415** | 6,549,812 |
| | **₱12,974,393** | ₱8,923,545 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses (Notes 16, 30 and 32) | **₱1,484,416** | ₱593,228 |
| Current portion of: | | |
| Rental and other deposits (Notes 17 and 32) | **512,036** | 185,397 |
| Deferred rent income (Note 29) | **9,352** | 18,929 |
| Amounts owed to related parties (Notes 19 and 32) | **234,268** | 19,427 |
| Total Current Liabilities | **2,240,072** | 816,981 |
| **Noncurrent Liabilities** | | |
| Rental and other deposits - net of current portion (Notes 17 and 32) | **152,860** | 138,150 |
| Deferred rent income - net of current portion (Note 29) | **10,235** | 21,715 |
| Deferred income tax liabilities - net (Note 26) | **215,301** | 208,168 |
| Subscriptions payable (Notes 20 and 32) | **481,675** | 481,675 |
| Total Noncurrent Liabilities | **860,071** | 849,708 |
| Total Liabilities | **₱3,100,143** | ₱1,666,689 |

(Forward)

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **Equity** (Note 18) | | |
| Equity attributable to equity holders of the parent | | |
| Paid-in capital | **₱5,889,195** | ₱4,652,268 |
| Additional paid-in capital | **5,772,959** | 3,942,404 |
| Retained earnings (deficit) | **619,841** | (355,159) |
| Revaluation increment (Note 12) | **217,986** | 225,595 |
| Loss on remeasurement of retirement benefits (Note 25) | **(44,313)** | (46,259) |
| Unrealized gain (loss) on financial assets at fair value through other comprehensive income (Note 8) | **(579,379)** | 17,748 |
| Shares held by a subsidiary | **(1,279,026)** | (1,279,026) |
| Equity reserves (Notes 2 and 31) | **(1,351,940)** | 60,810 |
| | **9,245,323** | 7,218,381 |
| Non-controlling interests (Note 18) | **628,927** | 38,475 |
| Total Equity | **9,874,250** | 7,256,856 |
| | **₱12,974,393** | ₱8,923,545 |

*See accompanying Notes to Consolidated Financial Statements.*

# PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

**(Amounts in Thousands, Except Earnings Per Share)**

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| **REVENUE** | | | |
| Sale of electricity (Note 28) | **₱1,734,957** | ₱– | ₱– |
| Rental (Note 12) | **843,147** | 501,824 | 245,368 |
| Real estate sales (Note 28) | **785,828** | – | – |
| Insurance premiums and commissions - net | **1,633** | 108,656 | 112,703 |
| Others | **4,386** | – | 4,856 |
| | **3,369,951** | 610,480 | 362,927 |
| **COSTS AND EXPENSES** | | | |
| Cost of purchased power and services | **1,689,281** | – | – |
| Cost of rental services (Notes 12 and 23) | **615,841** | 351,728 | 176,272 |
| Cost of real estate sold (Notes 7 and 19) | **320,220** | – | – |
| Operating expenses (Note 21) | **154,040** | 248,721 | 291,890 |
| Commission and other underwriting expenses | **4,347** | 92,757 | 98,657 |
| | **2,783,729** | 693,206 | 566,819 |
| **OTHER INCOME (CHARGES)** | | | |
| Reversal of (provision for) probable losses (Note 30) | **59,070** | – | 106,470 |
| Interest income and bank charges - net (Note 24) | **31,572** | 37,414 | 18,435 |
| Interest income on financial assets at FVOCI and AFS financial assets (Note 8) | **3,405** | 9,416 | 6,794 |
| Gain on sale of financial assets at FVOCI and AFS financial assets (Note 8) | **1,993** | 8,647 | 1,708 |
| Reversal of impairment losses (Notes 8, 11 and 19) | **1,625** | (9,823) | (4,657) |
| Gain on sale of investment property (Note 12) | **722** | 16,400 | – |
| Dividend income (Notes 8 and 9) | **165** | 1,673 | 1,110 |
| Gain on sale of property and equipment (Note 13) | **3** | 31,741 | 2,090 |
| Unrealized gain (loss) on financial assets at FVPL (Note 9) | **(108)** | (460) | 400 |
| Equity in net loss of an associate (Note 11) | **–** | (43) | (11) |
| Others - net (Note 24) | **22,242** | 26,430 | 56,665 |
| | **120,689** | 121,395 | 189,004 |
| **INCOME (LOSS) BEFORE INCOME TAX** | **706,911** | 38,669 | (14,888) |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 26) | **152,195** | 20,118 | (13,833) |
| **NET INCOME (LOSS)** | **₱554,716** | ₱18,551 | (₱1,055) |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the Parent | **₱441,908** | ₱33,143 | (₱330) |
| Non-controlling interests | **112,808** | (14,592) | (725) |
| | **₱554,716** | ₱18,551 | (₱1,055) |
| **EARNINGS (LOSS) PER SHARE** (Note 27) | | | |
| Basic and diluted, for income for the year attributable to ordinary equity holders of the Parent | **₱0.08** | ₱0.01 | (₱0.00) |

*See accompanying Notes to Consolidated Financial Statements.*

## PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**(Amounts in Thousands)**

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| **NET INCOME (LOSS)** | **₱554,716** | ₱18,551 | (₱1,055) |
| **OTHER COMPREHENSIVE INCOME** | | | |
| *Items that will not to be reclassified to profit or loss in subsequent periods:* | | | |
| Gain (loss) on remeasurement on retirement benefits liability (Note 25) | **(50)** | 5,600 | 14,780 |
| Unrealized valuation loss on equity financial assets at fair value through other comprehensive income (Note 8) | **(63,242)** | – | – |
| Unrealized valuation loss on AFS financial assets (Note 8) | – | (150,621) | (112,484) |
| *Items that may be reclassified to profit or loss in subsequent years:* | | | |
| Unrealized valuation gain (loss) on debt financial assets at fair value through other comprehensive income (Note 8) | **(7,454)** | 3,561 | 6,908 |
| | **(70,746)** | (141,460) | (90,796) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **₱483,970** | (₱122,909) | (₱91,851) |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the Parent | **₱378,615** | (₱103,623) | (₱91,126) |
| Non-controlling interests | **105,355** | (19,286) | (725) |
| | **₱483,970** | (₱122,909) | (₱91,851) |

*See accompanying Notes to Consolidated Financial Statements.*

# PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**(Amounts in Thousands)**

| | Capital Stock | Additional Paid-in Capital | Shares Held by a Subsidiary (Note 18) | Equity Reserves | Revaluation Increment (Note 12) | Unrealized Valuation Gains (Losses) on Financial Assets at FVOCI (Note 8) | Losses on Remeasurement of Retirement Benefits Plan (Note 25) | Retained Earnings (Deficit) | Equity attributable to Equity Holders of Prime Orion Philippines, Inc. | Non-controlling Interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balances at January 1, 2018 | ₱4,652,268 | ₱3,942,404 | (₱1,279,026) | ₱60,810 | ₱225,595 | ₱17,748 | (₱46,259) | (₱355,159) | ₱7,218,381 | ₱38,475 | ₱7,256,856 |
| Effect of adoption of PFRS 9 (Note 2) | – | – | – | – | – | (527,479) | – | 527,479 | – | – | – |
| Balances at December 31, 2017, as restated | 4,652,268 | 3,942,404 | (1,279,026) | 60,810 | 225,595 | (509,731) | (46,259) | 172,320 | 7,218,381 | 38,475 | 7,256,856 |
| Net income | – | – | – | – | – | – | – | 441,908 | 441,908 | 112,808 | 554,716 |
| Other comprehensive income | | | | | | | | | | | |
| Losses remeasurement of retirement benefit plan (Note 25) | – | – | – | – | – | – | 1,946 | (1,996) | (50) | – | (50) |
| Unrealized valuation loss on financial assets at FVOCI (Note 8) | – | – | – | – | – | (69,648) | – | – | (69,648) | (1,048) | (70,696) |
| Total comprehensive income | – | – | – | – | – | (69,648) | 1,946 | 439,912 | 372,210 | 111,760 | 483,970 |
| Collection of subscription receivable (Note 18) | 4,643 | – | – | – | – | – | – | – | 4,643 | – | 4,643 |
| Stock subscriptions through business combination (Note 1) | 1,225,370 | 1,805,380 | – | – | – | – | – | – | 3,030,750 | – | 3,030,750 |
| Stock subscription through ESOWN availment (Note 31) | 6,914 | 4,473 | – | – | – | – | – | – | 11,387 | – | 11,387 |
| Equity reserves through business combination (Note 1) | – | – | – | (1,392,048) | – | – | – | – | (1,392,048) | – | (1,392,048) |
| Transfer of equity reserve due to ESOWN shares subscription (Note 31) | | 20,702 | | (20,702) | – | – | – | – | – | – | – |
| Transfer of realized valuation increment (Note 12) | – | – | – | – | (7,609) | – | – | 7,609 | – | – | – |
| Increase in NCI through business combination (Notes 1) | – | – | – | – | – | – | – | – | – | 498,440 | 498,440 |
| Cash dividends (Note 18) | – | – | – | – | – | – | – | – | – | (19,748) | (19,748) |
| Balances at December 31, 2018 | ₱5,889,195 | ₱5,772,959 | (₱1,279,026) | (₱1,351,940) | ₱217,986 | (₱579,379) | (₱44,313) | ₱619,841 | ₱9,245,323 | ₱628,927 | ₱9,874,250 |
| | | | | | | | | | | | |
| Balances at January 1, 2017 | ₱2,765,589 | ₱1,598,654 | (₱21,916) | ₱27,469 | ₱233,206 | ₱168,449 | (₱51,859) | (₱363,913) | ₱4,355,679 | ₱52,370 | ₱4,408,049 |
| Net income (loss) | – | – | – | – | – | – | – | 33,143 | 33,143 | (14,592) | 18,551 |
| Other comprehensive income | | | | | | | | | | | |
| Unrealized valuation loss on AFS financial assets (Note 8) | – | – | – | – | – | (147,060) | – | – | (147,060) | – | (147,060) |
| Actuarial gain recognized in OCI (Note 25) | – | – | – | – | – | – | 5,600 | – | 5,600 | – | 5,600 |
| Total comprehensive income | – | – | – | – | – | (147,060) | 5,600 | 33,143 | (108,317) | (14,592) | (122,909) |
| Collection of subscription receivable (Note 18) | 1,886,679 | 2,343,750 | – | – | – | – | – | – | 4,230,429 | – | 4,230,429 |
| Payment of stock subscription costs (Note 18) | – | – | – | – | – | – | – | (32,000) | (32,000) | – | (32,000) |
| Acquisition of own shares (Note 18) | – | – | (1,257,110) | – | – | – | – | – | (1,257,110) | – | (1,257,110) |
| Equity reserves (Note 2) | – | – | – | 33,341 | – | – | – | – | 33,341 | – | 33,341 |
| Transfer of realized valuation increment (Note 12) | – | – | – | – | (7,611) | – | – | 7,611 | – | – | – |
| Unrealized gain transferred from equity to consolidated statement of income | – | – | – | – | – | (3,641) | – | – | (3,641) | 697 | (2,944) |
| Balances at December 31, 2017 | ₱4,652,268 | ₱3,942,404 | (₱1,279,026) | ₱60,810 | ₱225,595 | ₱17,748 | (₱46,259) | (₱355,159) | ₱7,218,381 | ₱38,475 | ₱7,256,856 |

(Forward)

| | Capital Stock | Additional Paid-in Capital | Shares held by a Subsidiary | Equity Reserves | Revaluation Increment (Notes 12 and 13) | Unrealized Valuation Gains (Losses) on AFS Financial Assets (Note 8) | Losses on Remeasurement of Retirement Benefits Plan (Note 25) | Deficit | Equity attributable to Equity Holders of Prime Orion Philippines, Inc. | Non-controlling Interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balances at June 30, 2016 | ₱2,130,576 | ₱829,904 | (₱21,916) | ₱27,469 | ₱237,011 | ₱276,226 | (₱66,639) | (₱367,226) | ₱3,045,405 | ₱52,931 | ₱3,098,336 |
| Net loss | – | – | – | – | – | – | – | (492) | (492) | (561) | (1,053) |
| Other comprehensive income (loss) | | | | | | | | | | | |
| Unrealized valuation loss on AFS financial assets | – | – | – | – | – | (105,576) | – | – | (105,576) | – | (105,576) |
| Actuarial gain recognized in OCI (Note 24) | – | – | – | – | – | – | 14,780 | – | 14,780 | – | 14,780 |
| Total comprehensive income | – | – | – | – | – | (105,576) | 14,780 | (492) | (91,288) | (561) | (91,849) |
| Collection of subscription receivable | 10,013 | – | – | – | – | – | – | – | 10,013 | – | 10,013 |
| Stock subscriptions | 625,000 | 781,250 | – | – | – | – | – | – | 1,406,250 | – | 1,406,250 |
| Payment of stock subscription costs | – | (12,500) | – | – | – | – | – | – | (12,500) | – | (12,500) |
| Transfer of realized valuation increment | – | – | – | – | (3,805) | – | – | 3,805 | – | – | – |
| Unrealized gain transferred from equity to consolidated statement of income | – | – | – | – | – | (2,201) | – | – | (2,201) | – | (2,201) |
| Balances at December 31, 2016 | ₱2,765,589 | ₱1,598,654 | (₱21,916) | ₱27,469 | ₱233,206 | ₱168,449 | (₱51,859) | (₱363,913) | ₱4,355,679 | ₱52,370 | ₱4,408,049 |

*See accompanying Notes to Consolidated Financial Statement.*

## PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**(Amounts in Thousands)**

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income (loss) before income tax | **₱706,911** | ₱38,669 | (₱14,888) |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 12, 13, 14 and 21) | **248,887** | 100,974 | 36,819 |
| Retirement benefits expense (Note 25) | **4,177** | (2,518) | (58,943) |
| Provision for (reversal of) impairment losses on: | | | |
| Receivables (Note 5) | **(2,510)** | 60,340 | 897 |
| Inventories | **–** | 238 | 530 |
| Loss (gain) on valuation of financial assets at FVPL (Note 9) | **108** | 460 | (400) |
| Interest income (Note 24) | **(32,311)** | 907 | 2,147 |
| Gain on sale of: | | | |
| Property and equipment (Note 13) | **(3)** | (31,741) | (2,090) |
| Investment property (Note 12) | **(723)** | (16,401) | – |
| Financial assets at FVOCI and AFS financial assets (Note 8) | **(1,993)** | (8,647) | (1,708) |
| Interest expense and bank charges (Note 24) | **739** | (47,737) | (27,376) |
| Dividend income (Notes 8 and 9) | **165** | (1,673) | (1,110) |
| Equity in net loss of an associate (Note 11) | **–** | 43 | 11 |
| Accounts written-off | **–** | 12,811 | 217 |
| Unrealized foreign exchange gains - net | **–** | – | (1) |
| Provision for (reversal of) probable losses (Note 30) | **–** | 9,823 | (101,813) |
| Share-based expense (Note 31) | **–** | 33,340 | – |
| Operating income (loss) before working capital changes | **923,447** | 148,888 | (167,708) |
| Decrease (increase) in: | | | |
| Receivables | **11,809** | (186,117) | 1,638,982 |
| Inventories | **37** | (314) | 231 |
| Real estate held for sale and development | **(507,689)** | – | – |
| Amounts owed by related parties | **–** | – | (1,447,876) |
| Other current assets | **(138,816)** | (154,975) | 131,570 |
| Increase (decrease) in: | | | |
| Accounts payable and accrued expenses | **(137,955)** | (184,251) | (196,123) |
| Rental and other deposits | **267,607** | 171,686 | (48,638) |
| Net cash flows generated from (used in) operations | **418,440** | (205,083) | (89,562) |
| Interest received | **32,206** | 47,737 | 27,376 |
| Interest paid | **(739)** | (907) | (2,147) |
| Income tax paid | **(855)** | – | – |
| Net cash flows from (used in) operating activities | **449,052** | (158,253) | (64,333) |

(Forward)

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of: | | | |
| Investment properties | **₱1,700** | ₱20,000 | ₱– |
| Financial assets at FVOCI (Note 8) | **2,019** | 903,833 | 2,175 |
| Property, plant and equipment | **3** | 48,182 | 3,089 |
| FVPL investments (Note 9) | **–** | 10,200 | – |
| Investments in associate | **1,888** | – | – |
| Acquisition of: | | | |
| Investment properties (Note 12) | **(251,368)** | (4,589,666) | (357,409) |
| Short-term investments (Note 4) | **(43,489)** | – | – |
| Property, plant and equipment (Note 13) | **(16,458)** | (29,390) | (25,001) |
| Financial assets at FVOCI (Note 8) | **(6,385)** | – | (466,034) |
| FVPL investments | **–** | (118) | – |
| Software cost (Note 14) | **–** | (591) | (3,081) |
| Decrease (increase) in: | | | |
| Other noncurrent assets | **(213,061)** | (356,917) | (37,251) |
| Amounts owed by related parties | **(246,894)** | 1,055,609 | – |
| Dividends received (Note 8) | **(165)** | 1,673 | 1,110 |
| Acquisition of a subsidiary | **70,116** | – | – |
| Net cash flows used in investing activities | **(702,094)** | (2,937,185) | (882,402) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Collection of subscription receivables | **16,030** | 4,230,428 | 10,013 |
| Increase (decrease) in: | | | |
| Amounts owed to related parties (Notes 19 and 33) | **214,842** | 8,728 | 10,698 |
| Non-controlling interests | **(12,654)** | – | – |
| Payment of subscription cost | **–** | – | (12,500) |
| Acquisition of treasury shares (Note 18) | **–** | (1,257,109) | – |
| Net cash flows from financing activities | **218,218** | 2,982,047 | 8,211 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(34,824)** | (113,391) | (938,524) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **254,969** | 368,360 | 1,306,884 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱220,145** | ₱254,969 | ₱368,360 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate and Group Information

Corporate Information
Prime Orion Philippines, Inc. (POPI; the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 19, 1989 with a corporate life of 50 years. The Parent Company's registered office address is 3rd Floor Glorietta 5, Ayala Center, Makati City. The Parent Company is a subsidiary of Ayala Land, Inc. (ALI). ALI's parent company is Ayala Corporation (AC). AC is 47.04%-owned by Mermac, Inc. and the rest by the public as of December 31, 2018. Both ALI and AC are publicly-listed companies incorporated in the Philippines.

POPI and its subsidiaries, collectively referred to as "the Group", have principal business interests in holding companies, commercial leasing, industrial lot sales and development, and retail electricity supply (see Note 28).

On March 15, 2016, the Board of Directors (BOD) of POPI approved the change in the accounting period from fiscal year (July 1 to June 30) to calendar year (January 1 to December 31). The change in accounting period was approved by the SEC on April 10, 2017.

The accompanying consolidated financial statements of the Group as of December 31, 2018 and 2017, and for the years ended December 31, 2018 and 2017 and for the six months ended December 31, 2016 were approved by the Chief Finance Officer on March 14, 2019 through the delegated authority given by the Board of Directors in a meeting dated February 19, 2019.

Group Information
The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries of the Group:

| | | **Percentage of Ownership** | |
|---|---|---|---|
| **Subsidiaries** | **Nature of Business** | **2018** | 2017 |
| Laguna Technopark, Inc. (LTI) | Real Estate Development | **75%** | – |
| Ecozone Power Management, Inc. (EPMI) | Purchase, Supply and Delivery of Electricity | **75%** | – |
| Orion Land, Inc. (OLI) | Real Estate and Investment Holding Company | **100%** | 100% |
| Tutuban Properties, Inc. (TPI) | Real Estate, Mall Operations | **100%** | 100% |
| TPI Holdings Corporation (TPIHC) | Investment Holding Company | **100%** | 100% |
| Orion Property Developments, Inc. (OPDI) | Real Estate Development | **100%** | 100% |
| Orion Beverage, Inc. (OBI)* | Manufacturing | **100%** | 100% |
| LCI Commercial Ventures, Inc. (LCI) *(formerly Lepanto Ceramics, Inc.)* | Real Estate, Warehouse Leasing Operations | **100%** | 100% |
| Luck Hock Venture Holdings, Inc. (LHVHI)* | Other Business Activities | **60%** | 60% |
| OE Holdings, Inc. (OEHI)* | Wholesale and Trading | **100%** | 100% |

(Forward)

| Subsidiaries | Nature of Business | Percentage of Ownership 2018 | 2017 |
|---|---|---|---|
| Orion Maxis, Inc. (OMI)* | Marketing and Administrative Services | **100%** | 100% |
| ZHI Holdings, Inc. (ZHIHI)* | Financial Holding Company | **100%** | 100% |
| Orion I Holdings Philippines, Inc. (OIHPI)* | Financial Holding Company | **100%** | 100% |
| FLT Prime Insurance Corporation (FPIC) | Non-Life Insurance Company | **78.77%** | 78.77% |
| Orion Solutions, Inc. (OSI)* | Management Information Technology Consultancy Services | **100%** | 100% |

** Inactive companies approved by their respective BOD for liquidation*

All of the companies are incorporated in the Philippines.

*LTI*
LTI was incorporated on November 15, 1990 and is based in Laguna. LTI develops industrial parks and leases ready-built factory units and sells industrial lots to local and company locators.

On June 7, 2010, the BOD of LTI approved the setting up of a wholly owned subsidiary, EPMI, primarily to engage in the purchase, supply and delivery of electricity. EPMI was registered with the Securities and Exchange Commission (SEC) on August 20, 2010.

On December 19, 2018, the BOD of POPI approved the purchase of 20% interest in LTI equivalent to 8,051 common shares for a value of ₱800 million, subject to conditions to be fulfilled by POPI.

*OLI*
On November 29, 2017, OLI, acquired a commercial building composed of a 5-storey shopping center and a 6-storey business processing outsourcing office with a gross leasable area of 60,000 square meters located along National Road, Alabang, Muntinlupa City, from ALI, for a total consideration of ₱4,798.00 million, inclusive of VAT (see Note 12).

*TPI*
TPI operates the Tutuban Center, a commercial complex located in Manila City. The Tutuban Center, which sits on a 20-hectare property, will be the location of the North-South Railway Project (NSRP) Transfer Station which will interconnect with the LRT 2 West Station (see Note 12).

On September 5, 2016, the BOD of TPI approved the closure of TPI's hotel and café operations in Tutuban Center but was converted into storage facility for lease in November 2018.

On April 1, 2015, TPI signed a Memorandum of Understanding (MOU) with the Department of Transportation and Communication (DOTC) (now the Department of Transportation or DOTr) and Philippine National Railways (PNR) to formalize the agreement to cooperate in the finalization and implementation of plans of the North-South Railway Project (NSRP). As of December 31, 2018, discussions on the finalization and implementation of the plans of the NSRP is still on-going.

*OPDI*
As part of the rationalization of the Group's operations, on September 2, 2016, the BOD of OPDI, a wholly-owned subsidiary, approved the closure of its land title services division.

*LCI*
LCI was a top manufacturer of ceramic floor and wall tiles in the Philippines and has a manufacturing plant in Laguna. In 2012, LCI suspended its manufacturing operations and started renting out its warehouses in July 2014. On May 2, 2018, the BOD of LCI approved the amendment of LCI's Articles of Incorporation (AOI), specifically, to change its name to LCI Commercial Ventures, Inc. and to change its primary purpose from manufacturing to real estate warehouse leasing. On June 29, 2018, the SEC approved the change of corporate name and its primary purpose.

*FPIC*
In March 2017, FPIC surrendered its Certificate of Authority as it was no longer compliant with the net worth requirement of ₱550.0 million of the Insurance Commission (IC) as of December 31, 2016.

On April 20, 2017, the IC issued a Servicing License to FPIC, with authority limited to the following:

a. accepting contract price payments from the policyholders;
b. paying or settling claims arising under its non-life coverage; and/or,
c. such other related services.

On September 7, 2018, the Insurance Commission approved the Servicing Plan of FPIC. Based on the approved plan, FPIC has until April 19, 2019 to service policies expiring in 2019 and 2020 and to settle outstanding liabilities and obligations of FPIC.

On September 2, 2016, the BOD of OMI and OSI approved and authorized the dissolution and liquidation of OMI and OSI by shortening their corporate term up to December 31, 2016.

On October 20, 2017, the BOD of OIHPI, OEHI, ZHIHI, OBI, LHVHI and TPIHC approved and authorized the dissolution and liquidation of these companies by shortening their corporate term up to December 31, 2017.

*Business Combination*
On April 30, 2018, POPI entered into a Deed of Exchange with ALI whereby ALI agreed to subscribe to 1,225,370,620 additional shares in POPI in exchange for ALI's 30,186 shares in LTI, with a fair market value of ₱3,030.75 million.

The acquisition resulted to LTI becoming a subsidiary of POPI. Both POPI and LTI are under the common control of ALI. The acquisition was accounted for using the pooling of interests method.

The following were the carrying values of the identifiable assets and liabilities of LTI Group at the date of acquisition:

| | **As of April 30, 2018** |
|---|---|
| | ***(In Thousands)*** |
| **Assets** | |
| Cash and cash equivalents | **₱70,116** |
| Receivable | **1,583,059** |
| Real estate held for sale and development | **517,092** |
| Other current assets | **188,272** |
| Financial assets at fair value through profit or loss | **1,984** |
| Financial assets at fair value through other comprehensive income | **12,943** |
| Property and equipment | **1,145** |

(Forward)

| | As of April 30, 2018 |
|---|---|
| | *(In Thousands)* |
| Investment properties | **₱820,148** |
| Pension assets | **180** |
| Other noncurrent assets | **59,485** |
| Total assets | **3,254,424** |
| | |
| **Liabilities** | |
| Accounts and other payables | **₱1,023,608** |
| Income tax payable | **11,297** |
| Other current liabilities | **3,582** |
| Deposits | **64,165** |
| Deferred tax liabilities | **1,342** |
| Other noncurrent liabilities | **13,288** |
| Total liabilities | **1,074,888** |
| | **2,137,142** |
| Noncontrolling interest | **(498,440)** |
| Net assets attributable to the Group | **1,638,702** |
| Acquisition cost | **3,030,750** |
| Equity reserve | **₱1,392,048** |

The acquisition resulted to increase in Group's subscribed capital and additional paid-in capital of ₱1,225.37 million and ₱1,805.38 million, respectively.

From April 30, 2018 to December 31, 2018, the Group's share in LTI's revenue and net income amounted to ₱1,966.44 million and ₱219.27 million. If the combination had taken place at the beginning of 2018, the Group's share in LTI's revenue and net income would have been ₱2,836.76 million and ₱453.50 million, respectively.

## 2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for the debt and equity financial assets measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional currency. All amounts are rounded off to the nearest thousand (₱1,000), except when 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 Philippines 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 include the accounts of the Parent Company and its subsidiaries as at December 31, 2018 and 2017.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the group ceases control over a subsidiary.

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.

Generally, there is a presumption that a majority of voting rights result in control.

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; and
c. the Group's voting rights and potential voting rights.

The Group reassesses 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.

The financial statements of the subsidiaries are prepared for the same accounting period as the Parent Company using uniform accounting policies. All significant intercompany transactions and balances between and among the Group, including intercompany profits and unrealized profits, are eliminated in the consolidation.

Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity holders of the parent. If the Group losses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, noncontrolling interests and other components of equity, while the resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018:

- 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 has no cash-settled share-based payment transactions. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and has 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, *Financial Instruments* 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 adopted PFRS 9 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 components of equity.

  The effect of adopting PFRS 9 as at January 1, 2018 was, as follows (in thousands):

| | **As previously reported December 31, 2017** | **Reference** | **Adjustment** | **As restated January 1, 2018** |
|---|---|---|---|---|
| Available-for-sale financial assets | ₱710,454 | (a) | (₱710,454) | ₱– |
| Financial assets at fair value through other comprehensive income | – | (a) | 710,454 | 710,454 |
| Retained earnings (Deficit) | (355,159) | (a) | 527,479 | 172,320 |
| Net unrealized gain (loss) on financial assets at FVOCI | 17,748 | (a) | (527,479) | (509,731) |

The nature of these adjustments are described below:

(a) Classification and measurement
Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. 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 retrospectively 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 classification and measurement requirements of PFRS 9 did not have a significant impact to the Group. 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, receivables, amounts owed by related parties, and refundable deposits 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 unlisted companies and unquoted debt instruments previously classified as Available- for-sale (AFS) financial assets are now classified and measured as financial assets 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. Total impairment losses recognized in profit or loss for these investments in prior periods amounted to ₱527.48 million. As a result of the change in classification of the Group's AFS investments, the previously recognized impairment loss on these investments that were previously presented under retained earnings, was reclassified to fair value reserve of financial assets at FVOCI resulting in an increase in retained earnings of ₱527.48 million as at January 1, 2018.

The Group has not designated any financial liabilities as at fair value through profit or loss. 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 (in thousands).

| | | **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 | ₱254,969 | ₱– | ₱254,969 | ₱– |
| Receivables | 381,545 | – | 381,545 | – |
| Available-for-sale financial assets | 710,454 | – | – | 710,454 |
| Financial assets at FVPL | 2,643 | 2,643 | – | – |
| | ₱1,349,611 | ₱2,643 | ₱636,514 | ₱710,454 |

(b) 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 expected cash flows will include cash flows from lessee deposits or other credit enhancements that are integral to the contractual terms.

For trade receivables from real estate sales, the Group used the vintage analysis accounts for expected credit losses by calculating the cumulative loss rates of a given trade receivables from real estate sales. 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 of Default model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

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 a trade receivable from real estate sale in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a receivable 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.

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 the Group would expect to receive, including 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 type.

As these are future cash flows, these are discounted back to the reporting date using the appropriate effective interest rate, usually being the original EIR or an approximation thereof.

For other trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses.  Therefore, the Group does not track changes in credit risk, but instead recognized a loss allowance based on lifetime ECLs at each reporting date.  The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets such nontrade receivables, insurance receivables, receivable from related parties, refundable deposits 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 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 (i.e., no longer low credit risk). The probability of default and loss given defaults are publicly available and are used by the Group to estimate ECLs. 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.

There is no transition adjustment in relation to the impairment allowance as of January 1, 2018.

- 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.

  The amendments are not applicable to the Group since the Group's insurance entity is operating under servicing license only.

- 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 from contracts with its customers. PFRS 15 established a new five-step model that applies to revenue arising from the 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 service to a customer.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts sand 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 recognition and measurement requirements of PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business.

On February 14, 2018, the PIC issued PIC Q&A 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 until December 31, 2020:

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 to 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.

Effective January 1, 2021, 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.

Except for the CUSA charges discussed under PIC Q&A No. 2018-12-H which applies to leasing transactions, the above PIC Q&As do not impact the Group.

The Group availed of the deferral of adoption of the above specific provisions of PIC Q&A No. 2018-120-H (Accounting for CUSA). Had these provisions been adopted, it would have an impact on the consolidated financial statements since the Group is acting as a principal for the provision of air-conditioning services, common use service services and administration and handling services. This would have resulted to the gross presentation of the related revenue and the related expenses and costs. 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 for 2018.

PIC Q&A on Advances to Contractors and PIC Q&A on Land Classification

The Group adopted PIC Q&A 2018-11*, Classification of Land by Real Estate Developer* and PIC Q&A 2018-15, *PAS 1- Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current* starting January 1, 2018. These do not impact the Group as the Group's previous policy is in line with the PIC Q&A.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *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 are not applicable to the Group as the Group does not include an entity that is considered as a venture capital organization or other qualifying entity under the amendments.

- 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.

Future Changes in Accounting Policies

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

*Effective beginning on or after January 1, 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 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 amendment.

- 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 PFRS 16.

- 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. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

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

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

The interpretation specifically addresses the following:

a. Whether an entity considers uncertain tax treatments separately
b. The assumptions an entity makes about the examination of tax treatments by taxation authorities
c. How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
d. 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.

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with 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 the Group's insurance entity no longer issues 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.

Current versus Noncurrent Classification

The Group presents assets and liabilities in its statement of financial position based on a current and noncurrent classification. An asset is current when it is:

a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
b. Held primarily for the purpose of trading;
c. Expected to be realized within twelve months after the reporting period; or
d. 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 non-current.

A liability is current when:

a. It is expected to be settled in normal operating cycle;
b. It is held primarily for the purpose of trading;
c. It is due to be settled within twelve months after the reporting period; or
d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

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

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: (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to 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 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 financial 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 re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at each end of the reporting period.

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business at the end of the reporting period. Financial instruments for which the fair value cannot be reasonably determined are carried at cost less any impairment in value.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exist and discounted cash flow analysis or other valuation models.

For the purpose of fair value disclosures, the Group has determined the 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.

<u>Cash and Cash Equivalents</u>
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 (3) months or less from dates of placement and that are subject to an insignificant risk of change in value.

<u>Financial Instruments - initial recognition and subsequent measurement effective January 1, 2018</u>

<u>Financial Instruments</u>
*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.

*a. Financial assets*
*Initial recognition and measurement*
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. 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.

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

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

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

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

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

*Financial assets at amortized cost (debt instruments)*
This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

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

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

The Group's financial assets at amortized cost includes cash and cash equivalents, short-term investments and 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:

(a) The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and;

(b) 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 statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes government securities owned by the Group as at December 31, 2018.

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

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

The Group's financial assets at fair value through OCI includes investments in quoted and unquoted equity instruments.

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

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss.

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

- The rights to receive cash flows from the asset have expired, or,

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognized 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 lessee's deposit or other credit enhancements that are integral to the contractual terms.

The Group uses a provision matrix for receivables from tenants and receivables from sale of electricity, vintage approach for receivables from sale of real estate and simplified approach (low credit risk simplification) for treasury assets to calculate ECLs.

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

Vintage approach accounts for expected credit losses by calculating the cumulative loss rates of a given real estate receivable 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, but not limited to, forward-looking data on inflation rate was added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points.

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 the Group would expect to receive, including 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 the type of facility. In calculating the recovery rates, the 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 and refurbishment. 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 effective interest rate (EIR) or an approximation thereof.

The Group considers a financial asset in default generally when contractual payments are 30 days past due or when sales are cancelled supported by a notarized cancellation letter executed by the Group and customer. 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.

For other financial assets such nontrade receivables, insurance receivables, receivable from related parties, refundable deposits 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 debt instruments at FVOCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. The Group considers there to be a significant increase in credit risk when contractual payments become past due.

The Group's debt instruments at fair value through OCI comprise solely of government securities that are considered high graded 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.

*b. Financial liabilities*
*Initial recognition and measurement*
*Financial* liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include "Accounts payable and accrued expenses" (other than "Taxes payable" which is covered by other accounting standard), "Amounts owed to related parties", "Subscriptions payable" and "Rental and other deposits".

*Subsequent measurement*
The measurement of financial liabilities depends on their classification, as described below:

*Financial liabilities at fair value through profit or loss*
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

Gains or losses on liabilities held for trading are recognized in profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

*Loans and borrowings*
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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

This category generally applies to interest-bearing loans and borrowings.

*Other Financial Liabilities*
This is the category most relevant to the Group and includes liabilities arising from operations.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

The Group's accounts payable and accrued expenses and rental and others deposits are classified in this category.

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

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

Financial Instruments - initial recognition and subsequent measurement prior to January 1, 2018

Financial Instruments
*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.

*Initial Recognition of financial instruments*
Financial instruments within the scope of PAS 39 are classified as financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets and financial liabilities. The Group determines the classification of its financial instruments at initial recognition.

All financial instruments are recognized initially at fair value plus transaction costs, except in the case of financial instruments recorded at FVPL.

As at December 31, 2017, the Group's financial assets are in the nature of loans and receivables, financial assets at FVPL and AFS financial assets. The Group has no financial assets classified as HTM investments as at December 31, 2017.

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, as derivatives designated as hedging instruments in an effective hedge, or as other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition. As at December 31, 2017, the Group's financial liabilities are in the nature of other financial liabilities.

*Day 1 profit*
For transactions where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instruments 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' profit) in profit or loss under "Other income" 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 profit or loss 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' profit amount.

Financial Instruments - Subsequent Measurement

The subsequent measurement of financial instruments depends on their classification as follows:

*Loans and Receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest income in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are impaired or derecognized. Loans and receivables are included in current assets if maturity is within twelve (12) months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

The Group's loans and receivables include cash and cash equivalents, receivables, amounts owed by related parties and refundable deposits (included under "Other noncurrent assets"; see Notes 4, 5, 15 and 17).

*AFS Financial Assets*
AFS financial assets include equity and debt securities. AFS financial assets consist of investment in equity securities which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

Financial assets may be designated at initial recognition as AFS financial assets if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

AFS financial assets are included in current assets if it is expected to be realized or disposed of within twelve (12) months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

After initial recognition, AFS financial assets are subsequently measured at fair value with unrealized gains and losses recognized under Other Comprehensive Income (OCI) in the "Unrealized valuation gains on AFS financial assets" in the consolidated statement of changes in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from equity to the consolidated statement of income as impairment losses. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. Interest earned on holding AFS financial assets are reported as interest income using the EIR. Dividends on holding AFS financial assets are recognized in the consolidated statement of income when the right of payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of income.

The Group's listed and nonlisted equity securities and quoted and unquoted debt securities are classified under this category (see Note 8).

*Financial Assets at FVPL*
Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in the consolidated statement of financial position at fair value, with changes in fair value recognized in the consolidated statement of income.

The Group evaluated its financial assets at FVPL (held for trading) whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, AFS financial assets or HTM investments depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVPL using the fair value option at designation.

The Group's investment in redeemable preference shares are classified under this category (see Note 9).

*Other Financial Liabilities*
After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue cost, and any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

The Group's financial liabilities include accounts payable and accrued expenses, rental and other deposits, amounts owed to related parties and subscriptions (see Notes 1, 16, 17, 19 and 20).

Impairment of Financial Assets
The Group assesses at each end of the reporting period whether there is any objective evidence that a financial asset or a 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 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 debtors or a group of debtors 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial Assets Carried at Amortized Cost*
For financial assets 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 them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery. Interest income continues to be recognized based on the original EIR. If, in a subsequent year, 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 to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

*AFS Financial Assets*
In the case of quoted equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income in the "Others - net" account. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

In the case of debt instruments classified as AFS financial assets, 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 on AFS financial assets" account in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases 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.

Derecognition of Financial Instruments

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

- the rights to receive cash flows from the asset have expired;
- 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) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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 all 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 asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial Liabilities*
A financial liability is derecognized when the obligation under the liability is discharged, 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 of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in the consolidated statement of income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle, on a net basis, or to realize the asset and settle the liabilities simultaneously.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). The NRV of finished goods is the selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV of factory supplies and spare parts is the current replacement cost. In determining NRV, the Group considers any adjustment necessary for obsolescence.

The cost of raw materials includes all costs directly attributable to their acquisition. Finished goods include the cost of raw materials, direct labor, and a proportion of manufacturing overhead.

Real Estate Held for Sale and Development
Real estate held for sale and development is carried at the lower of cost and NRV. NRV is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost includes acquisition cost of the land plus development and improvement costs. Borrowing costs incurred on loans obtained to finance the improvements and developments of real estate held for sale and development are capitalized while development is in progress.

Other Current Assets
Other current assets are resources that the Group expects to consume or realize within its operating cycle. These are carried at cost, less any impairment in value. Included under these are creditable withholding taxes (CWTs), input value added tax (VAT), and prepayments.

*CWTs*
CWTs represent taxes withheld by the Group's customer on sale of goods and services which are claimed against income tax due. The excess over the income tax payable is either carried over in the succeeding period for the same purpose or claimed for refund.

*VAT*
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

The net amount of VAT recoverable from the taxation authority is included as part of "Other current assets" and Other noncurrent assets" in the consolidated statement of financial position.

*Prepayments*
Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepaid expenses are apportioned to expense over the period covered by the payment and charged to the appropriate expense accounts when incurred.

Investment in an Associate
The Group's investment in an associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate.

When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate 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 additional impairment loss on its investment in an associate. The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount in the "Equity in net income (loss) of an associate" in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Investment in an associate pertains to the Group's investment in BIB Aurora Insurance Brokers, Inc. (BAIBI) (see Note 11).

Investment Properties
The Group's investment properties include properties utilized in its mall operations, commercial building and certain land and land improvements which are held for rentals while the rest of the land is held for capital appreciation.

Investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Land is stated at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives of the investment properties as follows:

| | Useful life in years |
|---|---|
| Land improvements | 30 |
| Buildings and improvements | 7-40 |
| Machineries and equipment | 9-25 |

Leasehold improvements are amortized on a straight-line basis over the estimated useful lives or the term of the lease, whichever is shorter.

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.

Investment properties are derecognized when 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. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Constructions-in-progress

The Group's constructions-in-progress 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.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation, amortization and any impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefit expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful life of the property and equipment as follows:

| | Useful life in years |
|---|---|
| Leasehold improvements | 3-5 |
| Machinery and equipment | 5-10 |
| Transportation equipment | 5 |
| Furniture, fixtures and equipment | 3-5 |

Leasehold improvements are amortized on a straight-line basis over three (3) to five (5) years or the term of the lease, whichever is shorter.

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

The residual values, useful lives and depreciation and amortization method are reviewed and adjusted if appropriate, at each end of the reporting period.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are sold or retired, the cost and the related accumulated depreciation and amortization and any impairment in value are derecognized and any gain or loss resulting from their disposal is included in the consolidated statement of income.

Software Costs

Acquired software license is capitalized on the basis of costs incurred to acquire and bring to use the specific software. Software license is amortized on a straight-line basis over its estimated useful life of three (3) to four (4) years. Costs associated with the development or maintenance of computer software programs are recognized as expense when incurred in the consolidated statement of income.

An item of software license 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 de-recognition of the asset is included in the consolidated statement of income in the year the items is derecognized.

The Group's capitalized software costs includes purchase price payments for new software and other directly related costs necessary to bring the asset to its intended use.

Other Noncurrent Assets

Other noncurrent assets consist of advance rental, deferred acquisition cost, refundable deposits, deferred input VAT, spare parts and supplies and other prepayments that will be consumed twelve (12) months after each end of the reporting period.

*Deferred Acquisition Costs*

Costs incurred in relation to the acquisition of insurance contracts such as commissions are deferred and charged to commission expense in proportion to premium revenue recognized.

Subsequent to initial recognition, these costs are amortized using the 24th method where the deferred acquisition cost pertains to the commissions for the last two months of the year. Amortization is charged to the consolidated statement of income. The unamortized acquisition costs are shown as "Deferred acquisition cost" under "Other noncurrent assets".

*Advances to suppliers and contractors*
These are carried at cost less impairment losses, if any.

Impairment of Nonfinancial Assets
*Inventories and Real Estate Held for Sale and Development*
The Group recognizes provision for inventory losses when the net realizable values of inventory items become lower than the costs due to obsolescence or other causes. Obsolescence is based on the physical and internal condition of inventory items. Obsolescence is also established when inventory items are no longer marketable. Obsolete goods, when identified, are written down to their net realizable values.

*Investment in an Associate*
The Group assesses at each end of the reporting period whether there is any indication that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the investment and the acquisition cost and recognizes the amount in the consolidated statement of income.

An assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the investment is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

*Investment Properties, Property and Equipment and Software Costs*
The Group assesses at each end of the reporting period whether there is an indication that investment properties, property and equipment and software costs may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units (CGU) are written down to their estimated recoverable amounts. The estimated recoverable amount of an asset is the greater of fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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 an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. 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.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognized for that asset in prior years.

*Nonfinancial Other Current and Noncurrent Assets*
The Group first assesses whether there are indications of impairment on nonfinancial other current and noncurrent assets. When indicators exist, the Group estimates the recoverable amount of the asset and recognizes impairment loss in the consolidated statement of income to reduce the carrying amount to the recoverable value.

Insurance contracts
Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract, there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Group defines significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

*Recognition and Measurement*
a) Premium Revenue
Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relates to the unexpired periods of the policies at financial reporting dates is accounted for as “Reserve for unearned premiums” and shown as part of “Accounts payable and accrued expenses” in the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at financial reporting dates are accounted for as “Deferred reinsurance premiums” and shown under “Other noncurrent assets” in the consolidated statement of financial position. The net changes in these accounts between financial reporting dates are charged to or credited against profit or loss.

b) Insurance Contract Liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

*Reserve for Unearned Premiums*
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods is deferred as reserve for unearned premiums using the $24^{th}$ method. The change in the reserve for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk.

*Claims Provision and Incurred but not Reported (IBNR) losses*
Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the financial reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. Provision for IBNR losses is calculated based on standard actuarial projection techniques.

The liability is not discounted for the time value of money and includes IBNR losses. The liability is derecognized when the contract expires, is discharged or is cancelled.

*Liability Adequacy Test*
At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Any inadequacy is immediately charged to profit or loss by establishing an unexpired risk provision for losses arising from the liability adequacy tests.

c) Reinsurance Assets
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies for ceded insurance liabilities. Recoverable amounts are estimated in a manner consistent with the outstanding claims provisions and are in accordance with the reinsurance contract.

An impairment review is performed on all reinsurance assets when an indication of impairment arises during the financial reporting year.

Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognized as income and expense in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance commissions are deferred and subject to the same amortization method as the related acquisition costs; unamortized reinsurance commissions are shown as “Due to reinsurers and ceding companies” and shown as part of “Accounts payable and accrued expenses” in the statement of financial position.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or have expired or when the contract is transferred to another party.

*Short-term Insurance Contracts*
These contracts include the following:

- Fire insurance contracts cover loss or damage to the insured's properties caused by fire and/or natural calamities like typhoon, lightning, flood and earthquake.
- Motor insurance contracts provide financial protection to vehicle owners against physical loss of or damage to their vehicles and legal liability to third parties and/or passengers due to accident.
- Personal accident insurance contracts provide financial aid to either the insured or his beneficiaries in case of accidental death or disability.
- Marine insurance contracts indemnify the owner and/or assignee of a vessel, plane, goods and/or other transportable properties against sustained loss or damage on land, marine and aerial transit.

- Engineering insurance contracts provide complete protection against loss of or damage to plant, mechanical, electronic and other types of equipment used in construction and/or business operations.
- Extended perils or optional coverages are also available.
- Bonds/suretyship insurance contracts cover undertake to provide the needed guarantee to complete a contractual or civil engineering project.
- Liability insurance contracts indemnify the insured against the financial consequences of accidents to third parties for which he is legally responsible or liable.

Rental and Other Deposits
Customer rental and other deposits represent payments from tenants on leased properties which are refundable at the end of the lease contract. These are initially measured at fair value and subsequently measured at amortized cost.

Subscriptions Payable
Subscriptions payable pertains to the Group's unpaid subscription of shares of stock of other entities. These are recognized and carried in the books at the original subscription price in which shares of stock will be issued upon payment.

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 is generally considered to involve the following:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts as of date of acquisition. 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 financial information in the consolidated financial statements are not restated for periods prior to the combination of the entities under common control as allowed by the Philippine Interpretations Committee (PIC) Q&A No. 2012-01.

Capital Stock
Common shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to "Additional paid-in capital". Subscription receivables pertains to the uncollected portion of the subscribed shares and is presented net against capital stock.

Retained Earnings (Deficit)
Retained earnings (deficit) represent accumulated earnings (losses) of the Group.

Equity Reserves
Equity reserves pertain to the excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies.

Treasury Shares and Shares Held by Subsidiary

Treasury shares are own shares (POPI and subsidiaries) acquired by the Group. These are measured at acquisition cost and presented as deduction against equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issuance or cancellation of the company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

The Parent Company's shares acquired by a subsidiary is presented as "Shares held by a subsidiary" under the equity section.

Share-based Payments

The Group has equity-settled, share-based compensation plan with its employees. The Group has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Group's shares at a discounted price. The Group recognizes stock compensation expense over the holding period. These are accounted for as limited-recourse loan-type share plans. Dividends paid on the awards are treated as installment payment against the exercise price of the options. The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized, together with a corresponding increase in "Equity reserves" in equity, in "Personnel expense" account

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expense that are not recognized in the consolidated statement of income for the year in accordance with PFRS.

Revenue Recognition effective January 1, 2018

*Revenue from Contract with 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 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 judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

*Sale of Electricity Revenue*

The Group recognizes revenue from electricity services over time using the output method as the customer receives and consumes the benefit from the performance of the related utility service. As a practical expedient allowed under PFRS 15, the Group recognizes revenue in the amount to which the Group has a right to invoice since the Group bills a fixed amount for every kilowatt hour of electricity delivered. Electricity is billed every month according to the billing cycles of the customer.

*Rental*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

*Real estate sales*

The Group derives its real estate revenue from sale of industrial lots. Revenue from sale of industrial lots are recognized over time during the development period (or percentage of completion) since based on the terms and conditions of its contract with the customers, 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 based on 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 third-party surveyor as approved by the construction manager which integrates the surveys of performance to date of the construction activities for both sub-contracted and those that are fulfilled by the developer itself.

As of December 31, 2018, the Group's industrial lots being sold is 100% completed.

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 are recognized in the year in which the changes are determined.

*Insurance Premiums and Commissions - net*
Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, except for premiums arising from marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relates to the unexpired periods of the policies at financial reporting dates is accounted for as "Reserve for unearned premiums" and shown as part of "Accounts payable and accrued expenses" in the consolidated statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at financial reporting dates are accounted for as "Deferred reinsurance premiums" and shown under "Other noncurrent assets" in the consolidated statement of financial position. The net changes in these accounts between financial reporting dates are charged to or credited against income for the period.

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the deferred reinsurance commission pertains to the premiums for the last two months of the year.

The portion of the commissions that relates to the unexpired periods of the policies at the financial reporting date is accounted for as "Due to reinsurers and ceding companies" and shown as part of "Accounts payable and accrued expenses" in the consolidated statement of financial position.

*Gain on Sale of Financial Assets at Fair Value Through Other Comprehensive income*
Gain on sale of financial assets at fair value through OCI is recognized when the Group sold its financial assets at fair value through OCI higher than its carrying value at the time of sale.

*Interest Income*
For all financial instruments measured at amortized cost and interest-bearing financial assets classified as financial assets at FVOCI and AFS financial assets, interest income is recorded using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

*Dividend Income*
Dividend income is recognized when the Group's right to receive the payment is established.

Revenue Recognition prior to January 1, 2018

*Rental*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

*Insurance Premiums and Commissions - net*

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, except for premiums arising from marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relates to the unexpired periods of the policies at financial reporting dates is accounted for as “Reserve for unearned premiums” and shown as part of “Accounts payable and accrued expenses” in the consolidated statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at financial reporting dates are accounted for as “Deferred reinsurance premiums” and shown under “Other noncurrent assets” in the consolidated statement of financial position. The net changes in these accounts between financial reporting dates are charged to or credited against income for the period.

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the deferred reinsurance commission pertains to the premiums for the last two months of the year.

The portion of the commissions that relates to the unexpired periods of the policies at the financial reporting date is accounted for as “Due to reinsurers and ceding companies” and shown as part of “Accounts payable and accrued expenses” in the consolidated statement of financial position.

*Gain on Sale of Financial Assets at Fair Value Through Other Comprehensive income*

Gain on sale of financial assets at fair value through OCI is recognized when the Group sold its financial assets at fair value through OCI higher than its carrying value at the time of sale.

*Interest Income*

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as financial assets at FVOCI and AFS financial assets, interest income is recorded using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

*Dividend Income*

Dividend income is recognized when the Group’s right to receive the payment is established.

Cost and Expenses effective January 1, 2018

*Cost recognition for real estate sales*

The Group recognizes costs relating to satisfied performance obligations as these are incurred. These include costs of land, land development, 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.

*Cost of purchased power and services*

Purchased power represents the cost of electricity supplied to contestable customers. This includes generation charges, transmission line fees, capacity fees and systems losses which are recognized in profit or loss when the electricity purchased is consumed.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

*Cost of rental services*
Cost of rental services are direct costs incurred in the normal course of the business, are recognized when incurred and generally measured in the amount paid or payable. These comprise cost of rent, utilities, depreciation and others.

*Operating Expenses*
Operating expenses consist of all expenses associated with the development and execution of marketing and promotional activities and expenses incurred in the direction and general administration of day-to-day operations of the Group. These are generally recognized when the service is incurred or the expense arises.

*Commission Expense*
Commission expense is recognized as incurred. Commissions are paid to agents from selling insurance contracts. Rates applied on collected premiums vary depending on the type of insurance product. Subsequent to initial recognition, commission expense is amortized using the 24th method. The unamortized portion of commission expense represents DAC in the statement of financial position.

*Underwriting Expenses*
Underwriting expenses pertain to the Company's share in the underwriting expenses incurred by insurance pools in which the Company is a member. An insurance pool is a collective pool of assets from multiple insurance companies and used as a way of providing high risk insurance. Underwriting expenses are recognized by the Company as incurred.

Cost and Expenses prior January 1, 2018
*Cost of rental services*
Cost of rental services are direct costs incurred in the normal course of the business, are recognized when incurred and generally measured in the amount paid or payable. These comprise cost of rent, utilities, depreciation and others.

*Operating Expenses*
Operating expenses consist of all expenses associated with the development and execution of marketing and promotional activities and expenses incurred in the direction and general administration of day-to-day operations of the Group. These are generally recognized when the service is incurred or the expense arises.

*Commission Expense*
Commission expense is recognized as incurred. Commissions are paid to agents from selling insurance contracts. Rates applied on collected premiums vary depending on the type of insurance product. Subsequent to initial recognition, commission expense is amortized using the 24th method. The unamortized portion of commission expense represents DAC in the statement of financial position.

*Underwriting Expenses*
Underwriting expenses pertain to the Company's share in the underwriting expenses incurred by insurance pools in which the Company is a member. An insurance pool is a collective pool of assets from multiple insurance companies and used as a way of providing high risk insurance. Underwriting expenses are recognized by the Company as incurred.

Earnings Per Share
Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Parent Company (after adjusting for interest on any convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Income Taxes
*Current Income Tax*
Current income 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 income tax rates and income tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

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

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefits of unused net operating loss carryover (NOLCO) and unused tax credits from excess minimum corporate income tax (MCIT), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, and the carry forward of unused NOLCO and MCIT can be utilized, and except if it arises from initial recognition and those associated with the investments in subsidiaries, associates and joint ventures as discussed above.

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

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

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

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered. Subsidiaries operating in the Philippines file income tax returns on an individual basis. Thus, the deferred tax assets and deferred tax liabilities are offset on a per entity basis.

Retirement Benefits Costs
The Group has a funded, non-contributory defined benefit retirement 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 service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries.

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 retirement benefits costs under "Personnel expenses" in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as "Interest income (expense)" in the consolidated statement of income.

Remeasurements comprising actuarial gains and losses and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the 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.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

*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 (12) months after the end of the reporting period is recognized for services rendered by employees up to the end of the reporting period.

Leases
*Determination of Whether an Arrangement Contains a Lease*
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, whether 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, even if that right is not explicitly specified in an arrangement. A reassessment is made after the 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 give rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

*Operating Lease Commitments - Group as a Lessor*
Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Rent income from operating leases are recognized as income on a straight-line basis over the lease term or based on the terms of the lease, as applicable. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the basis as rental income. Variable are recognized as revenue in the period in which they are earned.

*Operating Lease Commitments - Group as a Lessee*
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease payments under non-cancellable operating leases are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Foreign Currency Translation
Transactions in foreign currencies are initially recorded in Philippine Peso based on the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Claims
The liabilities for unpaid claim costs (including incurred but not reported losses) and claim adjustment expenses relating to insurance contracts are accrued when insured events occur. The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves is continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense for the period in which the estimates are changed or payments are made. Estimated recoveries on settled and unsettled claims are evaluated in terms of the estimated realizable values of the salvaged recoverables and deducted from the liability for unpaid claims. The unpaid claim costs are accounted as “Claims payable” under “Accounts payable and accrued expenses” account in the consolidated statement of financial position.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

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 are disclosed when an inflow of economic benefit is probable.

Segment Reporting
The Group’s operating businesses are recognized and managed according to the nature of the products or services offered, with each segment representing a strategic business unit that serves different markets. The BOD is the chief operating decision maker of the Group. Segment assets and liabilities reported are those assets and liabilities included in measures that are used by the BOD.

Segment revenue, expenses and performance include transfers between business segments. The transfers are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

Events After the End of the Reporting Period
Post year-end events that provide additional information about the Group's financial position at the end of the reporting period (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.

## 3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures, at the end of the reporting period. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

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. However, actual outcome can differ from these 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:

*Determining Classification of Investment Properties*
The Group classifies its buildings and improvements and land and improvements either as investment property or owner-occupied property based on its current intentions where it will be used. When buildings and improvements as well as land and improvements are held for capital appreciation or when management is still undecided as to its future use, it is classified as investment property. Buildings and improvements and land and improvements which are held for rent are classified as investment properties.

*Assessment Whether an Agreement is a Finance or Operating Lease*
Management assesses at the inception of the lease whether an arrangement is a finance lease or operating lease based on who bears substantially all the risk and benefits incidental to the ownership of the leased item. Based on the management's assessment, the risk and rewards of owning the items leased by the Group are retained by the lessor and therefore accounts for such lease as operating lease.

*Assessing Operating Lease Commitments - Group as Lessor*
The Group has entered into commercial property leases on its investment properties portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

*Definition of default and credit-impaired financial assets*
The 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 criteria – for trade receivables from real estate sales, the customer receives a notice of cancellation and does not continue the payments. For rental receivables, the customers receive letter of collection.

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 the 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 the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently throughout the Group's expected loss calculation.

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

*Provision for expected credit losses of trade and other receivables*
The Group uses a provision matrix to calculate ECLs for trade receivables except for receivables from real estate. 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 such as Gross Domestic Product growth rate and inflation rate. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The Group uses vintage analysis approach to calculate ECLs for real estate receivable. 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 (gross domestic product and inflation rate) 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. The information about the ECLs on the Group's trade receivables is disclosed in Notes 5 and 32.

*Estimating Useful Lives of Depreciable Investment Properties and Property and Equipment*
The estimated useful lives used as bases for depreciating and amortizing the Group's investment properties and property and equipment were determined on the basis of management's assessment of the period within which the benefits of these asset items are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Group's assets. The Group estimates the useful lives of its investment properties and property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties and property and equipment are reviewed, at least, annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. 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 above. A reduction in the estimated useful lives of these assets increases depreciation and amortization and decreases the carrying value of investment properties and property and equipment.

The carrying value of property and equipment amounted to ₱42.25 million and ₱37.25 million as at December 31, 2018 and 2017, respectively, net of accumulated depreciation, amortization and impairment amounting to ₱50.00 million and ₱536.98 million as at December 31, 2018 and 2017, respectively (see Note 13).

The carrying value of investment properties amounted to ₱6,833.06 million and ₱5,996.41 million as at December 31, 2018 and 2017, respectively (see Note 12).

Information on the estimated useful life of investment properties and property and equipment is included in Note 2.

*Determining Retirement Benefits Liability*
The cost of defined retirement obligation as well as the present value of the defined benefit obligation is 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 retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligation are highly sensitive to changes in these assumptions. The assumptions are reviewed at each end of the reporting period.

Current service costs amounted to ₱1.10 million, ₱1.35 million and ₱6.29 million for the years ended December 31, 2018 and 2017 and six months ended December 31, 2016, respectively. As at December 31, 2018 and 2017, net pension assets of the Group amounted to ₱17.39 million and ₱20.67 million, respectively (see Note 25).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 25.

*Assessing Realizability of Deferred Income Tax Assets*
The Group reviews the carrying amounts of deferred income tax assets at each end of the reporting period and reduces it to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Judgments and estimation are required to determine the amount of deferred income tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable profits to allow all or part of its deferred income tax assets to be utilized.

Deferred income tax assets recognized in the books amounted to ₱72.09 million and ₱66.66 million as at December 31, 2018 and 2017, respectively (see Note 26).

The temporary differences, NOLCO and MCIT for which no deferred income tax assets were recognized, as the management has assessed that it is not probable that sufficient future taxable income will be available for which the benefit of the deferred income tax assets can be utilized, are disclosed in Note 26.

*Assessing and Estimating Contingencies and Provisions*
The Group is currently involved in various legal proceedings and assessments. The estimate of the probable costs for the resolution of these proceedings and assessments has been developed in consultation with internal and external legal counsel handling the defense in these matters and is based upon the analysis of potential results. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings (see Note 30).

Total reversal of provision for probable losses amounted to ₱59.07 million and ₱106.47 million for the years ended December 31, 2018 and for the six months ended December 31, 2016, respectively (nil or the year ended December 31, 2017, see Note 30).

*Estimating Fair Value of Options under the ESOWN*
The Group initially measures the cost of equity-settled transactions using Cox-Ross-Rubenstein option pricing model to determine the fair value of the option at date of grant. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the volatility and dividend yield and making assumptions about them. For the year ended December 31, 2017, personnel expense and the corresponding equity reserve recognized in relation to the ESOWN amounted to ₱33.34 million (nil for the year ended December 31, 2018 and the six months ended December 31, 2016).
See Note 31 for further details on the ESOWN, including the assumptions used in the valuation.

## 4. Cash and Cash Equivalents and Short-term Investments

*Cash and Cash Equivalents*
This account consists of:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Cash on hand and in banks | **₱192,597** | ₱79,033 |
| Cash equivalents | **27,548** | 175,936 |
| | **₱220,145** | ₱254,969 |

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term investments that are made for varying periods of up to three (3) months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

*Short-term Investments*
As of December 31, 2018, short-term investments amounted to ₱43.49 million, consist of money market placements made for varying periods of more than three (3) months and up to one (1) year and earn interest at the rate 2.66% to 4.50% (nil for the year ended December 31, 2017).

For the years ended December 31, 2018 and 2017 and six months ended December 31, 2016, the interest earned from cash and cash equivalents and short-term investments amounted to ₱2.04 million, ₱1.38 million, and ₱4.74 million, respectively (see Note 24).

5. **Receivables**

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Trade debtors | | |
| Land sales | **₱769,138** | ₱– |
| Retail electricity | **378,627** | – |
| Receivables from tenants | **364,192** | 350,265 |
| Insurance receivables | **91,100** | 128,550 |
| Nontrade receivables | **90,566** | – |
| Others | **224,976** | 202,464 |
| | **1,918,599** | 681,279 |
| Less allowance for expected credit losses | **298,780** | 299,734 |
| | **1,619,819** | 381,545 |
| Less noncurrent portion | **44,955** | – |
| | **₱1,574,864** | ₱381,545 |

Trade debtors are primarily noninterest-bearing and are generally collectible on thirty (30) days' term.

Receivables from land sales represent amounts arising from sale of industrial lots, which are collectible in monthly installments within one to two years from the date of sale. The corresponding titles to the sold lots are transferred to the buyer only upon full payment of the contract price and the transactional expenses.

Receivables from retail electricity consist of uncollected and unbilled electricity to customers which are consumed after meter reading cut-off dates. The credit term of these receivables is from 9 to 15 days from the date of billing. This account also consists of electricity sales made by the Group to customers traded through Wholesale Electricity Spot Market (WESM).

Receivables from tenants represent the outstanding receivables arising from the lease of retail mall and office spaces and are collectible within 30 days from billing date. These are covered by security deposit of tenants' equivalent to two-months rental and two-months advance rental paid by the lessees. This includes both the fixed and contingent portion of lease.

Insurance receivables consist of premium receivables from policyholders, insurance agents and reinsurance companies and reinsurance recoverable on paid and unpaid losses from facultative and treaty reinsurers. These accounts are generally on 90 days term.

Nontrade receivables consist mainly of receivables from the balance of the expropriation case against certain properties of the Group in Laguna. Nontrade receivables are noninterest-bearing and are due and demandable.

Other receivables include noninterest-bearing receivables of OLI from Cosco Land Corporation (CLC) which are due and demandable amounting to ₱160.45 million as at December 31, 2018 and 2017. These receivables are collateralized by the shares of stock of Cyber Bay owned by CLC. The receivables from CLC are fully provided with allowance.

The movements of allowance for expected credit losses on receivables follow:

| | Trade debtors | Insurance receivables | Others | Total |
|---|---|---|---|---|
| | | *(In Thousands)* | | |
| At December 31, 2016 | ₱66,867 | ₱44,896 | ₱204,120 | ₱315,883 |
| Provisions (Note 21) | 20,101 | 36,114 | 4,125 | 60,340 |
| Write-off | (39,570) | (32,598) | (4,321) | (76,489) |
| At December 31, 2017 | 47,398 | 48,412 | 203,924 | 299,734 |
| Addition through business combination (Note 1) | 1,555 | – | – | 1,555 |
| Provisions (reversal) (Note 21) | 6,812 | (9,321) | – | (2,509) |
| **At December 31, 2018** | **₱55,765** | **₱39,091** | **₱203,924** | **₱298,780** |

## 6. Inventories

This account pertains to finished goods inventory of OMI as at years ended December 31, 2018 and 2017 amounting to ₱7.34 million and ₱7.38 million, respectively, net of allowance for inventory losses amounting to ₱34.72 million.

Movements in the allowance for inventory losses follow:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Beginning balances | **₱34,719** | ₱67,921 |
| Write off | – | (33,440) |
| Provision | – | 1,009 |
| Recovery | – | (771) |
| | **₱34,719** | ₱34,719 |

Inventories charged to operations amounted to ₱0.25 million for the six months ended December 31, 2016 (nil for the years ended December 31, 2018 and 2017).

There are no inventories held as collateral as at December 31, 2018 and 2017.

## 7. Real Estate Held for Sale and Development

The details of this account follow:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Land | **₱1,316,812** | ₱280,506 |
| Less allowance for impairment losses | **27,567** | 16,042 |
| | **₱1,289,245** | ₱264,464 |

The cost of real estate inventories carried at NRV amounted to ₱35.20 million and ₱22.49 million as of December 31, 2018 and 2017, respectively.

Land consists of parcels of land located in Cavite, Misamis Oriental, Laguna, Batangas and Palawan.

The composition of costs as at December 31, 2018 and 2017 follows:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Land cost | **₱1,291,397** | ₱255,091 |
| Construction overhead and other related costs | **22,898** | 22,898 |
| Taxes | **2,517** | 2,517 |
| | **₱1,316,812** | ₱280,506 |

Movements in the allowance for impairment losses follow:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Beginning balances | **₱16,042** | ₱16,042 |
| Provision | **11,525** | – |
| | **₱27,567** | ₱16,042 |

Real estate sales recognized for the year ended December 31, 2018 amounted to ₱785.83 million (nil for the year ended December 31, 2017 and six months ended December 31, 2016).

Real estate inventories recognized as cost of real estate sales amounted to ₱320.22 million for the year ended December 31, 2018 (nil for the year ended December 31, 2017 and six months ended December 31, 2016).

There are no real estate inventories held as collateral as at December 31, 2018 and 2017.

## 8. Financial Assets at FVOCI and AFS Financial Assets

*Financial Assets at FVOCI*
As of December 31, 2018, this account consists of (in thousands):

| | |
|---|---|
| Listed equity securities (Note 20) | ₱551,668 |
| Nonlisted equity securities | 23,668 |
| Quoted debt securities | 76,628 |
| | ₱651,964 |

*AFS Financial Assets*
As of December 31, 2017, available-for-sale financial assets consist of investments in (in thousands):

| | |
|---|---|
| Listed equity securities (Note 20) | ₱632,739 |
| Nonlisted equity securities | 6,526 |
| Quoted debt securities | 71,189 |
| | ₱710,454 |

Listed equity securities include 1,388,101,405 shares of Cyber Bay valued at ₱548.30 million (see Note 20).

Quoted debt securities pertain to government securities owned by the Group. These are reserved investments in accordance with the provisions of the Insurance Commission in accordance with the provisions of the Insurance Code as security for the benefit of policy holders and creditors of FPIC.

There are no movements in the allowance for impairment losses in 2018 and 2017.

Financial assets at FVOCI pertain to investments in shares of stocks, club shares and debt instruments which are not held for trading and which the Group has irrevocably designated at FVOCI, as the Group considers these investments to be strategic in nature.

Movements of unrealized valuation gain (losses) on financial assets at FVOCI and AFS financial assets follows:

| | Equity Holders | Non-controlling Interests | Total |
|---|---|---|---|
| | | *(In Thousands)* | |
| At December 31, 2016 | ₱168,449 | (₱640) | ₱167,809 |
| Fair value changes | (147,060) | – | (147,060) |
| Gain transferred from equity to consolidated statement of income | (3,641) | 697 | (2,944) |
| At December 31, 2017 | 17,748 | 57 | 17,805 |
| Effect of adoption of PFRS 9 | (527,479) | – | (527,479) |
| At December 31, 2017, as restated | (509,731) | 57 | (509,674) |
| Fair value changes | (69,648) | (1,048) | (70,696) |
| **At December 31, 2018** | **(₱579,379)** | **(₱991)** | **(₱580,370)** |

Proceeds from the sale of financial assets at FVOCI amounted to ₱2.02 million, ₱903.83 million and ₱2.18 million for the years ended December 31, 2018 and 2017 and six months ended December 31, 2016, respectively, with a corresponding gain on sale of ₱1.99 million, ₱8.65 million and ₱1.71 million for the same periods, respectively.

Interest earned from financial assets at FVOCI amounted to ₱3.41 million, ₱9.42 million and ₱6.79 million for the years ended December 31, 2018 and 2017 and six months ended December 31, 2016, respectively.

Dividend income on financial assets at FVOCI amounted to ₱0.04 million, ₱1.41 million and ₱1.11 million for the years ended December 31, 2018 and 2017 and six months ended December 31, 2016, respectively.

## 9. **Financial Assets at FVPL**

This account pertains to redeemable preferred shares and investments in Unit Investment Trust Fund (UITF) designated as financial assets at FVPL. Fair value of financial assets at FVPL as at December 31, 2018 and 2017 amounted to ₱4.52 million and ₱2.64 million, respectively, resulting to an unrealized loss of ₱0.11 million, ₱0.46 million and unrealized gain ₱0.40 million for the years ended December 31, 2018 and 2017 and six months ended December 31, 2016, respectively.

In 2017, 10,000 shares were redeemed with an equivalent amount of ₱10.12 million.

Dividend income earned from these shares amounted to ₱0.13 million and ₱0.26 million for the years ended December 31, 2018 and 2017, respectively (nil for the six months ended December 31, 2016).

## 10. Other Current Assets

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| CWTs | **₱257,099** | ₱207,583 |
| Input VAT | **231,071** | 145,508 |
| Prepayments | **48,130** | 15,194 |
| | **536,300** | 368,285 |
| Less allowance for impairment losses | **1,439** | 8,326 |
| | **₱534,861** | ₱359,959 |

Creditable withholding taxes (CWTs) are available for offset against income tax payable in the future periods.

Input VAT pertains to VAT passed on from purchases of goods or services which is applied against output VAT.

Prepayments pertain to prepaid insurance, taxes and licenses and other prepaid expenses that are to be amortized over a period of one (1) year.

Movements in the allowance for impairment losses follows:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Balances at beginning of year | **₱8,326** | ₱2,636 |
| Provisions | **3** | 6,896 |
| Recovery | **(6,890)** | (418) |
| Write-off | – | (788) |
| Balances at end of year | **₱1,439** | ₱8,326 |

## 11. Investment in an Associate

This account consists of the 20% equity interest in BAIBI, a domestic insurance brokerage company. Movements in the carrying value of the investment is shown below.

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Acquisition cost: | | |
| Balances at end of year | **₱5,959** | ₱5,959 |
| Return of investment | **(5,959)** | – |
| | – | 5,959 |

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Accumulated equity in net losses: | | |
| Balances at beginning of year | **(3,461)** | (3,418) |
| Equity in net loss | – | (43) |
| Return of investment | **3,461** | – |
| Balances at end of year | – | (3,461) |
| Allowance for impairment loss | **(610)** | (610) |
| Reversal of allowance | **610** | – |
| | – | (610) |
| | **₱–** | ₱1,888 |

Summarized financial statement information of the associate follows:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Current assets | ₱– | ₱9,690 |
| Noncurrent assets | – | 21 |
| Total liabilities | – | 288 |
| Revenue | – | 1 |
| Costs and expenses | – | 57 |
| Net loss | – | (215) |

On July 24, 2018, the SEC approved the shortening of corporate term of BAIBI.

12. **Investment Properties**

The details of this account follow:

| | **2018** | | |
|---|---|---|---|
| | **Buildings and Improvements** | **Land and Improvements** | **Total** |
| | | ***(In Thousands)*** | |
| **Cost** | | | |
| At beginning of year | **₱7,872,770** | **₱345,627** | **₱8,218,397** |
| Additions through business combination (Note 1) | **861,229** | **67,006** | **928,235** |
| Additions | **250,433** | **1,425** | **251,858** |
| Disposals | **(2,069)** | – | **(2,069)** |
| At end of year | **8,982,363** | **414,058** | **9,396,421** |
| **Accumulated Depreciation and Amortization** | | | |
| At beginning of year | **2,190,613** | **21,889** | **2,212,502** |
| Additions through business combination (Note 1) | **108,087** | – | **108,087** |
| Depreciation and amortization (Note 23) | **231,709** | **2,665** | **234,374** |
| Disposals | **(1,092)** | – | **(1,092)** |

(Forward)

| | 2018 | | |
|---|---|---|---|
| | **Buildings and Improvements** | **Land and Improvements** | **Total** |
| At end of year | **₱2,529,317** | **₱24,554** | **₱2,553,871** |
| Balance before impairment | **6,453,046** | **389,504** | **6,842,550** |
| Less allowance for impairment losses | **6,281** | **3,209** | **9,490** |
| **Net book values** | **₱6,446,765** | **₱386,295** | **₱6,833,060** |

| | 2017 | | |
|---|---|---|---|
| | Buildings and Improvements | Land and Improvements | Total |
| | | *(In Thousands)* | |
| Cost | | | |
| At beginning of year | ₱3,296,028 | ₱345,627 | ₱3,641,655 |
| Additions | 4,575,003 | – | 4,575,003 |
| Disposals | (20,890) | – | (20,890) |
| Reclassification (Note 13) | 22,629 | – | 22,629 |
| At end of year | 7,872,770 | 345,627 | 8,218,397 |
| Accumulated Depreciation and Amortization | | | |
| At beginning of year | 2,115,347 | 21,175 | 2,136,522 |
| Depreciation and amortization (Note 23) | 84,580 | 714 | 85,294 |
| Disposals | (14,147) | – | (14,147) |
| Reclassification (Note 13) | 4,833 | – | 4,833 |
| At end of year | 2,190,613 | 21,889 | 2,212,502 |
| Balance before impairment | 5,682,157 | 323,738 | 6,005,895 |
| Less allowance for impairment losses | 6,281 | 3,209 | 9,490 |
| Net book values | ₱5,675,876 | ₱320,529 | ₱5,996,405 |

TPI
Investment properties of TPI substantially represent buildings and leasehold improvements on the land leased from PNR which are utilized in the Company's mall operations and held for rentals.

In accordance with PFRS 1, the Group closed out the "Revaluation increment" on TPI's investment properties amounting to ₱236.08 million to retained earnings which pertains to the remaining balance of the deemed cost adjustment on investment properties account which arose when it transitioned to PFRS.

LCI
On July 1, 2014, LCI transferred land and improvements and buildings and improvements from property and equipment to investment properties. Prior to the transfer, the land and improvements and building and improvements are stated at their revalued amounts. Upon transfer to investment property, the revalued amounts of the properties at the date of transfer were considered as its deemed costs in accordance with PAS 40, *Investment Property*.

The excess of appraised values over the acquisition costs of the properties is shown under the "Revaluation increment" account in the consolidated statement of financial position and in the consolidated statement of changes in equity. An amount corresponding to the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost is transferred annually from "Revaluation increment" to "Retained earnings (Deficit)" account in the consolidated statement of financial position.

OLI

On November 29, 2017, OLI acquired a commercial building composed of a 5-storey shopping center and a 6-storey business processing outsourcing office with a gross leasable area of 60,000 square meters located along National Road, Alabang, Muntinlupa City, from ALI.

Fair Value of Investment Properties

The aggregate fair value of the Group's investment properties amounted to ₱9,051.70 million and ₱8,494.19 million as of December 31, 2018 and 2017.

The fair values of the investment properties were determined by independent professionally qualified appraisers.

The following table provides the fair value hierarchy of the Group's investment properties as of December 31, 2018 and 2017:

**2018**

| | | | | | Fair value measurement using | | |
|---|---|---|---|---|---|---|---|
| | **Observable Inputs** | **Valuation Technique** | **Date of Valuation** | **Total** | **Quoted prices in active markets (Level1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| | | | | | | | (In Thousands) |
| **Land properties** | | | | | | | |
| **LCI** | **Comparable sales price** | **Sales Comparison approach** | **October 12, 2016** | **₱847,684** | **₱–** | **₱–** | **₱847,684** |
| **LTI** | **Expected rents and expenses** | **Income approach** | **March 5, 2018** | **976,900** | – | – | **976,900** |
| **Land improvements** | | | | | | | |
| **LCI** | **Current cost of replaceable items** | **Cost approach** | **October 12, 2016** | **13,146** | – | – | **13,146** |
| **Building** | | | | | | | |
| **OLI** | **Current cost of replaceable items** | **Cost approach** | **February 13, 2019** | **4,198,598** | – | – | **4,198,598** |
| **TPI** | **Cost of labor and materials** | **Cost approach** | **January 16, 2018** | **2,429,816** | – | – | **2,429,816** |
| **LCI** | **Current cost of replaceable items** | **Cost approach** | **October 12, 2016** | **585,556** | – | – | **585,556** |

2017

| | | | | | Fair value measurement using | | |
|---|---|---|---|---|---|---|---|
| | Observable Inputs | Valuation Technique | Date of Valuation | Total | Quoted prices in active markets (Level l) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | | | | | (In Thousands) | | |
| Land properties | | | | | | | |
| LCI | Comparable sales price | Sales Comparison approach | October 12, 2016 | ₱847,684 | ₱ | ₱– | ₱847,684 |
| Land improvements | | | | | | | |
| LCI | Current cost of replaceable items | Cost approach | October 12, 2016 | 13,146 | - | – | 13,146 |
| Building | | | | | | | |
| TPI | Comparable sales price | Sales approach | August 15, 2016 | 2,222,808 | - | – | 2,222,808 |
| LCI | Current cost of replaceable items | Cost approach | October 12, 2016 | 585,556 | - | – | 585,556 |

As of December 31, 2017, the fair value of OLI building acquired from ALI was determined to be equivalent with the recent acquisition cost paid to ALI.

The appraised value was estimated using the following approach:

Income Approach - the fair value of all investment properties has been determined to be the actual capital expenditures since it represents the reproduction cost.

Sales Comparison Approach - the value of the property that considers the sale of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

Cost Approach - a comparative approach to the value of the property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is replica of, or equivalent to the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction or replacement cost of the subject property or asset, less total accumulated depreciation.

Revaluation Increment

Movement of revaluation increment follows:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Beginning balance | **₱225,595** | ₱233,206 |
| Transfer of realized valuation increment | **(7,609)** | (7,611) |
| Balances at end of year | **₱217,986** | ₱225,595 |

Rental revenue from investment properties amounted to ₱843.15 million, ₱501.82 million and ₱245.37 million for the years ended December 31, 2018 and 2017 and six months ended December 31, 2016, respectively. Direct operating expenses incurred for investment properties amounted to ₱615.84 million, ₱351.73 million and ₱176.27 million for the years ended December 31, 2018 and 2017 and six months ended December 31, 2016, respectively, and include depreciation, real property taxes and repairs and maintenance (see Note 23).

In September 2017, POPI sold its condominium unit located at Leviste Street, Salcedo Village, Makati City for a total consideration of ₱20.0 million, exclusive of value added tax.

Gain on sale on investment properties recognized amounted to ₱0.72 million and ₱16.40 million for the year ended December 31, 2018 and 2017, respectively (nil for the six months ended December 31, 2016).

The Group's management believes that there were no conditions present in 2018 that would significantly reduce the fair value of the investment properties from that determined as stated in table above.

The Group has no restriction on the realizability of its investment properties and no obligation to either purchase, construct or develop or for repairs, maintenance and enhancements.

## 13. Property and Equipment

The details of this account follow:

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Leasehold Improvements | Machinery and Equipment | Transportation Equipment | Furniture, Fixtures and Equipment | Hotel Equipment | Total |
| **Cost** | | | | | | |
| At beginning of year | ₱5,762 | ₱516,344 | ₱2,847 | ₱49,274 | ₱– | ₱574,227 |
| Additions through business combinations (Note 1) | – | 5,085 | 6,087 | 8,160 | – | 19,332 |
| Additions | – | 14,014 | 2,121 | 323 | – | 16,458 |
| Disposals | (3,212) | (5,371) | (539) | (28,583) | – | (37,705) |
| Retirements | (71) | (479,161) | (778) | (54) | – | (480,064) |
| At end of year | 2,479 | 50,911 | 9,738 | 29,120 | – | 92,248 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| At beginning of year | 3,675 | 488,613 | 2,044 | 42,646 | – | 536,978 |
| Additions through business combinations (Note 1) | – | 5,085 | 5,613 | 7,489 | – | 18,187 |
| Depreciation and amortization (Notes 21 and 23) | 500 | 6,244 | 792 | 5,028 | – | 12,564 |
| Disposals | (3,212) | (5,371) | (539) | (28,544) | – | (37,666) |
| Retirements | (71) | (479,161) | (778) | (54) | – | (480,064) |
| At end of year | 892 | 15,410 | 7,132 | 26,565 | – | 49,999 |
| **Net Book Values** | ₱1,587 | ₱35,501 | ₱2,606 | ₱2,555 | – | ₱42,249 |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Leasehold Improvements | Machinery and Equipment | Transportation Equipment | Furniture, Fixtures and Equipment | Hotel Equipment | Total |
| | | | (In Thousands) | | | |
| Cost | | | | | | |
| At beginning of year | ₱7,227 | ₱2,032,920 | ₱19,483 | ₱83,662 | ₱8,588 | ₱2,151,880 |
| Additions | 2,201 | 24,990 | – | 2,199 | – | 29,390 |
| Disposals | – | (1,294,134) | (13,665) | (12,201) | (8,588) | (1,328,588) |
| Retirements | (3,666) | (239,466) | (2,971) | (24,386) | – | (270,489) |
| Reclassification (Note 12) | – | (7,966) | – | – | – | (7,966) |
| At end of year | 5,762 | 516,344 | 2,847 | 49,274 | – | 574,227 |
| Accumulated Depreciation and Amortization | | | | | | |
| At beginning of year | 7,024 | 2,009,975 | 17,361 | 61,592 | 7,734 | 2,103,686 |
| Depreciation and amortization (Notes 21 and 23) | 317 | 5,043 | 499 | 6,240 | 240 | 12,339 |
| Disposals | ₱– | (₱1,282,106) | (₱12,842) | (₱803) | (₱7,974) | (₱1,303,725) |
| Retirements | (3,666) | (239,466) | (2,974) | (24,383) | – | (270,489) |
| Reclassifications (Note 12) | – | (4,833) | – | – | – | (4,833) |
| At end of year | 3,675 | 488,613 | 2,044 | 42,646 | – | 536,978 |
| Net Book Values | ₱2,087 | ₱27,731 | ₱803 | ₱6,628 | ₱– | ₱37,249 |

In September 2012, certain property and equipment and investment properties of TPI were destroyed in fire. FPIC, the insurance policy provider and also a majority-owned subsidiary of POPI, recognized the incident as a fire loss event. The insurance policy was substantially ceded by FPIC to third party reinsurers. TPI received the remaining insurance proceeds from FPIC amounting to ₱6.73 million as at December 31, 2018 (nil as at December 31, 2017 and 2016).

In 2017, certain property and equipment and foreclosed property presented under "Other noncurrent assets" with carrying values of ₱3.13 million and ₱14.66 million as at December 31, 2018 and 2017, respectively, were reclassified to investment property.

Gain on sale of property and equipment recognized for the years ended December 31, 2018 and 2017 and six months ended December 31, 2016 amounted to ₱0.003 million, ₱31.74 million and ₱2.09 million, respectively.

As at December 31, 2018 and 2017, the Group continues to utilize fully depreciated property and equipment with an aggregate acquisition cost amounting to ₱18.54 million and ₱13.00 million, respectively.

## 14. Software Costs

The details of this account follow:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Cost: | | |
| Beginning balances | **₱30,857** | ₱40,589 |
| Additions | – | 591 |
| Retirements | **(15,387)** | (10,323) |
| Ending balances | **15,470** | 30,857 |
| Accumulated amortization: | | |
| Beginning balances | **25,951** | 32,956 |
| Amortization (Note 21) | **1,950** | 3,318 |
| Retirements | **(15,304)** | (10,323) |
| Ending balances | **12,597** | 25,951 |
| Net book values | **₱2,873** | ₱4,906 |

## 15. Other Noncurrent Assets

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Deferred input VAT | **₱413,581** | ₱437,959 |
| Advances to suppliers and contractors | **228,064** | 10,000 |
| Refundable deposits (Note 29) | **105,287** | 37,369 |
| Spare parts and supplies | **1,966** | 1,966 |
| Deferred acquisition cost | – | 580 |
| Prepaid rent and other expenses | – | 228 |
| Others | **7,793** | 595 |
| | **₱756,691** | ₱488,697 |

Deferred input VAT arises from the purchase of capital goods by the Group for amortization for a period of 5 years.

Advances to contractors and suppliers pertain to advance payment to service contractors for various renovation and rehabilitation services of the Group’s buildings.

Refundable deposits pertain to deposits made to utility companies, other suppliers and various miscellaneous deposits.

Spare parts and supplies pertain to supplies, materials and spare parts for office and building maintenance of TPI.

Deferred acquisition cost pertains to the unamortized acquisition costs incurred during the period that are related to securing new insurance contracts and or renewing existing insurance contracts.

Prepaid expenses comprise of advances to insurance companies for personal accident, term life and fire, advance rental and deposits to lessors which shall be applied in the future.

Others consist mainly of various assets that are individually immaterial.

## 16. Accounts Payable and Accrued Expenses

The details of this account follow:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Accrued expenses | | |
| Light and water | **₱343,652** | ₱38,810 |
| Provisions (Note 30) | **151,607** | 119,160 |
| Rent (Note 29) | **101,895** | 137,442 |
| Professional and management fees | **75,358** | 75,004 |
| Commissions | **35,567** | – |
| Taxes and licenses | **19,809** | 661 |
| Contracted services | **12,926** | 30,714 |
| Repairs and maintenance | **5,555** | – |
| Salaries and benefits | **4,040** | 2,656 |
| Subcontractor cost | **2,268** | – |
| | **752,677** | 404,447 |
| Trade payables | **596,113** | 76,311 |
| Nontrade payables | **96,989** | 42,319 |
| Claims payables | **32,617** | 50,936 |
| Due to reinsurers and ceding companies | **2,810** | 11,121 |
| Reserves for unearned premiums | **–** | 2,088 |
| Others | **3,210** | 6,006 |
| | **₱1,484,416** | ₱593,228 |

Accrued expenses include rentals, janitorial, security, utilities and other accrued expenses.

Claims payables pertain to the estimated ultimate cost of incurred but not settled claims as at the reporting period.

Reserves for unearned premiums are portion of the premiums that relates to unexpired periods.

Nontrade payables are generally settled within one (1) year.

Due to reinsurers and ceding companies refers to the balance of premium and claims with respect to accepted and ceded reinsurance agreement whether directly or through brokers.

The terms and conditions of the above payables are as follows:

- Trade payables are noninterest-bearing and are normally settled on thirty (30) days' term.
- All other payables are noninterest-bearing and have an average term of one (1) year.

## 17. Rental and Other Deposits

The details of this account follow:

| | **December 31, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | **Due within One Year** | **Beyond One Year** | **Total** | Due within One Year | Beyond One Year | Total |
| | | | *(In Thousands)* | | | |
| Security deposits | **₱397,555** | **₱118,139** | **₱515,694** | ₱103,681 | ₱92,570 | ₱196,251 |
| Rental deposits | **76,822** | **20,799** | **97,621** | 48,725 | 27,889 | 76,614 |
| Construction bond | **21,989** | **13,424** | **35,413** | 18,103 | 5,442 | 23,545 |
| Customer deposits | **3,823** | **498** | **4,321** | 14,097 | 3,304 | 17,401 |
| Other deposits | **11,847** | **–** | **11,847** | 791 | 8,945 | 9,736 |
| | **₱512,036** | **₱152,860** | **₱664,896** | ₱185,397 | ₱138,150 | ₱323,547 |

Deposits include rental, security, customer, construction bond and other deposits paid by tenants to the Group on the leased properties which are refundable at the end of the contract.

Customer deposits consist of priority premiums paid by tenants which serve as their reservation deposits.

## 18. Equity

The details of the common number of shares follow:

**2018**

| | **Number of Shares** | Amount |
|---|---|---|
| Authorized, ₱1 par value | **7,500,000,000** | **₱7,500,000,000** |
| Issued | **4,513,228,698** | **₱4,513,228,698** |
| Subscribed | **1,611,944,113** | **1,611,944,113** |
| Less subscription receivables | | **235,978,292** |
| Issued and outstanding | | **₱5,889,194,519** |

2017

| | Number of Shares | Amount |
|---|---|---|
| Authorized, ₱1 par value | 7,500,000,000 | ₱7,500,000,000 |
| Issued | 4,501,803,698 | ₱4,501,803,698 |
| Subscribed | 391,085,186 | 391,085,186 |
| Less subscription receivables | | 240,621,292 |
| Issued and outstanding | | ₱4,652,267,592 |

On August 14, 2015, POPI entered into an agreement with ALI, whereby ALI will subscribe to 2,500,000,000 common shares of stock of POPI or 51.06% equity interest in POPI for a total consideration of ₱5.625 billion, subject to certain terms and conditions.

In connection with the foregoing, on August 13, 2015, the BOD approved the amendment of POPI's Articles of Incorporation, specifically: (i) Article Sixth - to increase the number of its directors from seven (7) to nine (9); and (ii) Article Seventh - to increase its authorized capital stock from ₱2.40 billion (divided into 2.40 billion common shares at ₱1 par value) to ₱7.50 billion (divided into 7.50 billion common shares at ₱1 par value). On February 24, 2016, the Deed of Subscription was executed. POPI's increase in authorized capital stock was approved by the SEC on July 4, 2016. Accordingly, the amount received for the ALI subscription of ₱1,406.25 million (initially recorded as deposit for future stock subscription) was applied as payment for the subscription. ALI paid the remaining 75% of its subscription amounting to ₱4,218.75 million on November 21, 2017.

In 2018, the issued and subscribed capital and additional paid-in capital increased by ₱1,232.28 million and ₱1,809.85 million, respectively, arising from business combination and ESOWN subscription. In 2017, the issued and subscribed capital increased by ₱1,886.68 million coming from ALI's payment of subscription amounting to ₱1,875.00 million and the rest from ESOWN availment and full payment of other subscriptions.

Retained Earnings

Retained earnings also include undistributed net earnings amounting to ₱3,327.69 million and ₱685.84 million as of December 31, 2018 and 2017, respectively, representing accumulated equity in the net earnings of subsidiaries. These are not available for dividend distribution unless declared by subsidiaries.

Non-controlling Interest

As of December 31, 2018, the financial information on the Group's subsidiary with material NCI follows (in thousands, except for %):

*LTI and Subsidiary*

| | |
|---|---|
| Proportion of equity interests held by non-controlling interests | 25% |
| Accumulated balances of material non-controlling interests | ₱628,733 |
| Net income and total comprehensive income allocated to material non-controlling interests | 112,120 |

The summarized financial information of LTI Group is provided below. This information is based on amounts before inter-company eliminations (in thousands).

| | As of December 31, 2018 |
|---|---|
| **Statement of financial position** | |
| Current assets | ₱2,710,931 |
| Noncurrent assets | 1,253,146 |
| Current liabilities | 1,292,788 |
| Noncurrent liabilities | 80,980 |
| Total equity | 2,590,309 |
| Attributable to: | |
| Equity holders of LTI | 1,961,576 |
| Non-controlling interests | 628,733 |
| Dividends paid to non-controlling interests | – |

| | For the year ended December 31, 2018 |
|---|---|
| **Statement of comprehensive income** | |
| Revenue | ₱2,621,919 |
| Cost and expenses | 2,089,061 |
| Income before income tax | 532,858 |
| Provision for income tax | 84,377 |
| Income from operations | ₱448,481 |
| Other comprehensive loss | – |
| Total comprehensive income | 448,481 |
| Attributable to: | |
| Equity holders of LTI | ₱336,361 |
| Non-controlling interests | 112,120 |
| | |
| **Statement of cash flows** | |
| Operating activities | ₱413,514 |
| Investing activities | (200,360) |
| Financing activities | (179,759) |
| Foreign exchange and other adjustments | 1,073 |
| Net increase in cash and cash equivalents | ₱34,468 |

Capital Management

The primary objective of the Group's capital management is to optimize the use and earnings potential of the Group's resources and considering changes in economic conditions and the risk characteristics of the Group's activities.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes as at December 31, 2018 and 2016.

As at December 31, 2018 and 2017, the Group considers the following accounts as capital:

| | 2018 | 2017 |
|---|---|---|
| | (In Thousands) | |
| Capital stock | **₱5,889,195** | ₱4,652,268 |
| Additional paid-in capital | **5,772,959** | 3,942,404 |
| | **₱11,662,154** | ₱8,594,672 |

The Group is not subject to externally imposed capital requirements.

Shares Held by a Subsidiary
On June 27, 2017, OLI acquired 512,480,671 shares of the Parent Company with a cost of ₱1,255.58 million. This is presented as Shares held by subsidiary in the consolidated statements of financial position as at December 31, 2018.

As at December 31, 2018 and 2017, shares held by a subsidiary amounted to ₱1,279.03 million.

## 19. Related Party 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 exercise 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 enterprises and its key management personnel, directors or its stockholders. In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Parent Company and its subsidiaries, in their normal course of business, have entered into transactions with related parties principally consisting of interest and noninterest-bearing advances with no fixed repayment terms and are due and demandable. These transactions are normally settled in cash.

Account balances with related parties, other than intra-group balances which were eliminated in consolidation, follows:

**As at and for the year ended December 31, 2018**

*Amounts owed by related parties*

| Category | Amount of transactions (In Thousands) | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|
| *Parent* | | | | |
| ALI (a) | **₱84,301** | **₱85,307** | To be settled in cash and collectible on demand | Unsecured, noninterest-bearing, not impaired, and unguaranteed |
| *Entities under common control* | | | | |
| Airswift Transport, Inc. (b) | | | | |
| Principal | **20,000** | **20,000** | To be settled in cash, 30-days; 6.18% | Unsecured, not impaired, and unguaranteed |
| Interest | **(1,444)** | **402** | | |
| North Triangle Hotel Ventures, Inc. (b) | | | | |
| Principal | – | – | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Interest | **37** | **86** | | |

(Forward)

| Category | Amount of transactions (In Thousands) | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|
| Cebu Property Ventures Dev't. Corporation (b) | | | | |
| Principal | **(₱8,700)** | **₱–** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Interest | **3** | **3** | | |
| Cebu Holdings, Inc. (b) | | | | |
| Principal | **28,000** | **28,000** | To be settled in cash, 30-days; 6.14% | Unsecured, not impaired, and unguaranteed |
| Central Block Development, Inc. (b) | | | | |
| Principal | **54,000** | **54,000** | To be settled in cash, 30-days; 6.25% | Unsecured, not impaired, and unguaranteed |
| HLC Development Corp. (b) | | | | |
| Principal | **10,000** | **10,000** | To be settled in cash, 30-days; 5.92% | Unsecured, not impaired, and unguaranteed |
| Interest | **91** | **91** | | |
| Amaia Land Corporation (b) | | | | |
| Principal | **(36,800)** | **–** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Interest | **(104)** | **3** | | |
| Ayala Land Metro North, Inc. (b) | | | | |
| Principal | **(27,000)** | **8,000** | To be settled in cash, 30-days; 6.17% | Unsecured, not impaired, and unguaranteed |
| Interest | **308** | **313** | | |
| Avida Land Corporation (b) | | | | |
| Principal | **350,700** | **444,500** | To be settled in cash, 30-days; 6.25% | Unsecured, not impaired, and unguaranteed |
| Interest | **792** | **855** | | |
| Arvo Commercial Corporation (b) | | | | |
| Principal | **48,000** | **54,000** | To be settled in cash, 30-days; 6.25% | Unsecured, not impaired, and unguaranteed |
| Interest | **954** | **958** | | |
| Soltea Commercial Corp (b) | | | | |
| Principal | **26,000** | **26,000** | To be settled in cash, 30-days; 6.25% | Unsecured, not impaired, and unguaranteed |
| Interest | **855** | **855** | | |
| Summerhill Commercial (b) | | | | |
| Principal | **75,000** | **194,000** | To be settled in cash, 30-days; 6.25% | Unsecured, not impaired, and unguaranteed |
| Interest | **2,507** | **3,031** | | |
| Ten Knots Philippines, Inc. (b) | | | | |
| Principal | **(29,000)** | **–** | To be settled in cash and collectible on | Unsecured, not impaired, and unguaranteed |
| Interest | **(318)** | **36** | | |
| Bank of the Philippine Islands (c) | **2,249** | **2,249** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Globe Telecom Inc. (c) | **1,083** | **1,083** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Nuevocentro, Inc. (c) | **1,177** | **1,177** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Integrated Microelectronics, Inc. (e) | **603** | **603** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Innove Communications, Inc. (d) | **257** | **257** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Ayala Group Counselors Corp. (f) | **241** | **241** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Leisure and Allied Industries Phils., Inc. (d) | **79** | **79** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Makati Development Corp. (d) | **62** | **62** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Ayalaland Malls Synergies, Inc. (d) | **54** | **54** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| Econorth Resort Ventures, Inc. (d) | **37** | **37** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |

(Forward)

| Category | Amount of transactions (In Thousands) | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|
| North Triangle Depot Commercial Corp. (d) | **₱21** | **₱21** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| South Innovative Theater Mngt, Inc. (d) | **6** | **6** | To be settled in cash and collectible on demand | Unsecured, not impaired, and unguaranteed |
| North Eastern Commercial (d) | **2** | **2** | To be settled in cash and collectible on demand | Unsecured, noninterest-bearing, not impaired, and unguaranteed |
| Ayala Property Management Corp. (d) | **1** | **1** | | |
| Ayalaland Estates, Inc. | **1** | **1** | | |
| Accendo Commercial Corpooration (b) | | | | |
| Principal | **(10,000)** | – | | |
| Southgateway Development Corp. (b) | | | To be settled in cash and collectible on demand | Unsecured, noninterest-bearing, not impaired, and unguaranteed |
| Principal | **(50,000)** | – | | |
| Interest | **(6)** | | | |
| Guoman Philippines, Inc. (c) | **(1,675)** | – | To be settled in cash and collectible on demand | Unsecured, noninterest-bearing, not impaired, and unguaranteed |
| ALI Commercial Center (c) | **231** | **235** | To be settled in cash and collectible on demand | Unsecured, noninterest-bearing, not impaired, and unguaranteed |
| *Associate* | | | | |
| BAIBI | **(2)** | – | | |
| **Total** | | **₱936,548** | | |

## *Amounts owed to related parties*

| Category | Amount of transactions (In Thousands) | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|
| *Parent* | | | | |
| ALI (i) | **₱43,607** | **₱63,034** | Due and demandable noninterest bearing | Unsecured and unguaranteed |
| *Entities under common control* | | | | |
| Ayalaland Malls, Inc. (d) | **478** | **478** | Due and demandable noninterest bearing | Unsecured and unguaranteed |
| Ayala Property Management Corp. (d) | **1,682** | **1,682** | Due and demandable noninterest bearing | Unsecured and unguaranteed |
| Makati Development Corp. (g) | **150,785** | **150,785** | Due and demandable noninterest bearing | Unsecured and unguaranteed |
| Nuevocentro, Inc. (d) | **2,115** | **2,115** | Due and demandable noninterest bearing | Unsecured and unguaranteed |
| MDC BuildPlus, Inc. (h) | **14,482** | **14,482** | Due and demandable noninterest bearing | Unsecured and unguaranteed |
| Ayalaland Malls Synergies, Inc. (d) | **1,677** | **1,677** | Due and demandable noninterest bearing | Unsecured and unguaranteed |
| Globe Telecom, Inc (d) | **15** | **15** | Due and demandable noninterest bearing | Unsecured and unguaranteed |
| **Total** | | **₱234,268** | | |

## As at and for the year ended December 31, 2017

### *Amounts owed by related parties*

| Category | Amount of transactions (In Thousands) | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|
| *Parent* | | | | |
| ALI (a) | ₱1,005 | ₱1,005 | To be settled in cash and collectible on demand | Unsecured, noninterest-bearing and unguaranteed |
| *Entities under common control* | | | | |
| Airswift Transport, Inc. (b) | | | | |
| Principal | 1,846 | 1,846 | To be settled in cash, | Unsecured, not impaired, and |
| Interest | – | – | 42-day; 2.55% | unguaranteed |
| North Triangle Hotel Ventures, Inc. (b) | | | | |
| Principal | 49 | 49 | To be settled in cash, | Unsecured, not impaired, and |
| Interest | – | – | 42-day; 2.55% | unguaranteed |
| Cebu Property Ventures Dev't. Corp (b) | | | | |
| Principal | 8,700 | 8,700 | To be settled in cash, | Unsecured, not impaired, and |
| Interest | – | – | 22-day; 2.55% | unguaranteed |
| Amaia Land Corporation (b) | | | | |
| Principal | 36,800 | 36,800 | To be settled in cash, | Unsecured, not impaired, and |
| Interest | 107 | 107 | 30-day; 2.55% | unguaranteed |
| Ayala Land Metro North, Inc. (b) | | | | |
| Principal | 35,005 | 35,000 | To be settled in cash, | Unsecured, not impaired, and |
| Interest | 5 | 5 | 30-day; 2.65% | unguaranteed |
| Avida Land Corporation (b) | | | | |
| Principal | 93,800 | 93,800 | To be settled in cash, | Unsecured, not impaired, and |
| Interest | 63 | 63 | 30-day; 2.55% | unguaranteed |
| Arvo ommercial Corporation (b) | | | | |
| Principal | 6,000 | 6,000 | To be settled in cash, | Unsecured, not impaired, and |
| Interest | 4 | 4 | 30-day; 2.55% | unguaranteed |
| Summerhill Commercial (b) | | | | |
| Principal | 119,000 | 119,000 | To be settled in cash, | Unsecured, not impaired, and |
| Interest | 524 | 524 | 30-day; 2.55% | unguaranteed |
| Ten Knots Philippines, Inc. (b) | | | | |
| Principal | 29,000 | 29,000 | To be settled in cash, 30-day; 2.55% | Unsecured, not impaired, and unguaranteed |
| Interest | 354 | 354 | | |
| Accendo Commercial Corp (b) | | | , | |
| Principal | 10,000 | 10,000 | To be settled in cash 30-day; 2.55% | Unsecured, not impaired, and unguaranteed |
| Southgateway Development Corp (b) Principal | 50,000 | 50,000 | To be settled in cash, | Unsecured, not impaired, and unguaranteed |
| Interest | 6 | 6 | 30-day; 2.55% | |
| Guoman Philippines, Inc (c) | 1,675 | 1,675 | To be settled in cash and collectible on demand | Unsecured, noninterest-bearing, not impaired, and unguaranteed |
| ALI Commercial Center (c) | 4 | 4 | To be settled in cash and collectible on demand | Unsecured, noninterest-bearing, not impaired, and unguaranteed |
| *Associate* | | | | |
| BAIBI | – | 2 | To be settled in cash and collectible on demand | Unsecured, noninterest-bearing, not impaired, and unguaranteed |
| Total | | 393,944 | | |
| Allowance for impairment losses | | (1,625) | | |
| Net | | ₱392,319 | | |

*Amounts owed to related parties*

| Category | Amount of transactions (In Thousands) | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|
| *Parent* | | | | |
| ALI (i) | ₱19,427 | ₱19,427 | Due and demandable noninterest bearing | Unsecured and unguaranteed |

The following describes the nature of the material transactions of the Group with related parties as of December 31, 2018 and 2017:

a. Amounts owed by ALI pertains to rental revenue collected by ALI on behalf of OLI.
b. Amounts owed by related parties are short-term advances made by the Group with interest rate at 2.55% to 6.25 % per annum. Interest income attributable to intercompany loans amounted to ₱29.32 million and ₱36.94 million in 2018 and 2017, respectively.
c. The Group entered into operating lease agreements with entities under common control, on its investment property portfolio.
d. The Group has entered into transactions with related parties consisting of advances and reimbursements of expenses. Services rendered to and received from related parties are made at normal market prices and normally settled in cash.
e. The Group engaged the services of a third-party agency to provide security and maintenance within the Technopark which will be billed to IMI. As of December 31, 2018, the total receivable from IMI amounted to ₱0.60 million (nil as at December 31, 2017).
f. The Group advances cash to AG Counselors Corp. for the due diligence of a property in Cavite. As of December 31, 2018, the unliquidated advances amounted to ₱0.24 million (nil as at December 31, 2017).
g. The Group has engaged the services of MDC for the due diligence and land development of the property in Cavite.
h. MDC Build Plus is contractor of the Group’s Standard Factory Building 2 in Phase 7, Laguna Technopark. As of December 31, 2018, the retention payable of the Group amounts to ₱14.48 million (nil as at December 31, 2017).
i. Payable to ALI pertains to the advances made by ALI for operating expenses. This is due and demandable and noninterest bearing.

Allowance for impairment losses on amounts owed by related parties was reversed as at December 31, 2018.

This assessment is undertaken at each financial year-end by examining the financial position of the related parties and the market in which the related parties operate.

Other transactions with related parties include the following:

- OLI’s acquisition of commercial building from ALI (see Note 12).

- On June 27, 2017, OLI acquired 512,480,671 shares of POPI for a total consideration of ₱1,279.03 million. This is presented as “Shares held by subsidiary” in the consolidated statement of financial position (see Note 18).

- On November 14, 2016, LCI and LTI entered into a marketing and operations management agreement, whereby LTI shall be in-charge of the marketing and operations management of LCI. LTI shall receive a management fee equivalent to five percent (5%) of the monthly gross revenues. Likewise, for every new lessee, LCI shall pay LTI a commission equivalent to one month’s rent of the lessee. Management fees recognized for the years ended December 31, 2018 and 2017 amounted to nil and ₱1.60 million, respectively.

- The Parent Company entered into a service agreement with Ayalaland Malls, Inc., and Ayalaland Malls Northeast, Inc. to provide specialized jobs/services/work to the Group. The term of the agreement shall be 3 years starting November 1, 2016 until October 31, 2019 and January 1, 2017 until December 31, 2018, respectively. The service fees arising from these agreements amounted to ₱4.78 million and ₱4.36 million, for the years ended December 31, 2018 and 2017, respectively.
- The Parent Company and TPI entered into a master service agreement with Aprisa Business Process Solutions, Inc. to provide data processing services. The agreement is effective from January 1, 2018 until December 31, 2018. The total service fees arising from these agreements amounted to ₱1.54 million and ₱1.51 million, for the years ended December 31, 2018 and 2017, respectively.

*Compensation of key management personnel*
There was no compensation of key management personnel recognized for the years ended December 31, 2018 and 2017 and for the six months ended December 31, 2016 as the management functions were being handled by the ALI.

## 20. Subscription Payable

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 ₱10.2 billion 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 December 31, 2018 and 2017, the Parent Company has unpaid subscription in Cyber Bay amounting to ₱481.68 million, which is presented as "Subscriptions Payable" in the consolidated statements of financial position. The movement in investment in Cyber Bay under "Financial assets at fair value through other comprehensive income and AFS financial assets" is as follows:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Beginning balance | **₱624,646** | ₱777,337 |
| Changes in fair value | **(76,346)** | (152,691) |
| | **₱548,300** | ₱624,646 |

## 21. **Operating Expenses**

The details of this account follow:

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| | | *(In Thousands)* | |
| Systems costs | **₱45,802** | ₱9,514 | ₱– |
| Personnel expenses (Notes 22 and 31) | **29,788** | 84,998 | 204,417 |
| Janitorial and security services | **21,978** | 18,031 | 5,845 |
| Professional and legal fees | **14,161** | 18,521 | 30,649 |
| Depreciation and amortization (Notes 13 and 14) | **12,564** | 12,339 | 13,313 |
| Provision for impairment losses on real estate held for sale and development and finish goods inventory (Notes 6 and 7) | **11,525** | 238 | 530 |
| Taxes and licenses | **5,562** | 13,935 | 2,889 |
| Rental | **5,534** | 11,136 | 10,561 |
| Communication and transportation | **3,644** | 3,058 | 3,583 |
| Supplies and repairs | **1,970** | 1,995 | 2,104 |
| Representations | **661** | 286 | 422 |
| Membership dues and subscription | **611** | 1,379 | 956 |
| Insurance | **204** | 4,908 | 1,469 |
| Marketing expenses | **147** | 385 | 1,311 |
| Provision for (reversal of) impairment losses (Note 5) | **(2,509)** | 60,340 | 3,115 |
| Others | **2,398** | 7,658 | 10,726 |
| | **₱154,040** | ₱248,721 | ₱291,890 |

## 22. **Personnel Expenses**

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| | | *(In Thousands)* | |
| Compensation and employee benefits (Note 31) | **₱28,692** | ₱83,105 | ₱198,125 |
| Retirement expense (Note 25) | **1,096** | 1,893 | 6,292 |
| | **₱29,788** | ₱84,998 | ₱204,417 |

## 23. **Cost of Rental Services**

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| | | *(In Thousands)* | |
| Depreciation and amortization (Notes 12, 13 and 14) | **₱234,374** | ₱85,294 | ₱23,504 |
| Rental (Note 29) | **153,085** | 149,558 | 75,908 |
| Share in CUSA related expenses | **92,513** | 74,329 | 59,067 |
| Management fees | **56,840** | – | – |
| Taxes and licenses | **27,628** | 17,707 | 7,394 |
| Contracted services | **23,024** | 15,105 | 6,712 |
| Dues and fees | **13,690** | – | – |
| Insurance | **2,873** | 3,016 | – |
| Repairs and maintenance | **2,561** | – | – |
| Professional fees | **1,298** | 546 | 628 |
| Others | **7,955** | 6,173 | 3,059 |
| | **₱615,841** | ₱351,728 | ₱176,272 |

## 24. **Interest Income and Bank Charges – net and Other Income - net**

*Interest income and bank charges*

The details of this account follows:

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| | | *(In Thousands)* | |
| Interest income: | | | |
| Cash and cash equivalents and short-term investments (Note 4) | **₱2,036** | ₱1,383 | ₱4,737 |
| Amounts owed by related parties (Note 19) | **29,315** | 36,938 | 15,846 |
| Retirement benefits liability - net (Note 25) | **960** | 813 | – |
| | **32,311** | 39,134 | 20,583 |
| Interest expense and bank charges: | | | |
| Interest expense | **726** | 1,673 | – |
| Bank charges | **13** | 47 | 517 |
| Retirement benefits liability - net (Note 25) | – | – | 1,631 |
| | **739** | 1,720 | 2,148 |
| | **₱31,572** | ₱37,414 | ₱18,435 |

*Other income*
Other income, net of other charges, includes collection of forfeited deposits and penalty charges, proceeds from disposal of scraps and reversal of accrued expense.

## 25. Retirement Benefits Liability

The Group has a funded, noncontributory retirement plan covering all its regular employees. The plan provides for retirement, separation, disability and death benefits to its members. The normal retirement benefit is based on a percentage of the employees' final monthly salary for every year of credited service.

The latest independent actuarial valuation dated November 19, 2018 was determined using the projected unit credit method in accordance with PAS 19 (R).

The following tables summarize the funded status and amounts recognized in the consolidated statements of financial position, and the components of the net retirement benefit costs recognized in the consolidated statements of income for the retirement plan:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Retirement benefits asset: | | |
| Present value of obligation (PVO) | **₱1,622** | ₱613 |
| Fair value of plan assets | **(19,012)** | (21,280) |
| Overfunded obligation | **(₱17,390)** | (₱20,667) |

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| | | *(In Thousands)* | |
| Retirement benefits costs: | | | |
| Current service cost (Note 22) | **₱1,096** | ₱1,893 | ₱6,292 |
| Interest cost (income) - net (Note 24) | **(960)** | (813) | 1,631 |
| | **₱136** | ₱1,080 | ₱7,923 |

Movements in the retirement benefits asset follow:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Balances at beginning of year | **(₱20,667)** | (₱12,549) |
| Addition through business combination (Note 1) | **(180)** | – |
| Retirement benefits costs | **136** | 540 |
| Actuarial gains - net | **50** | (5,600) |
| Benefits paid out of own plan | **4,196** | (1,643) |
| Contribution | **(1,156)** | – |
| Transfer from affiliates | **231** | – |
| Settlement gain | – | (1,415) |
| Balances at end of year | **(₱17,390)** | (₱20,667) |

Changes in the PVO follows:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Balances at beginning of year | **₱613** | ₱20,630 |
| Addition through business combination (Note 1) | **1,543** | – |
| Current service cost | **1,096** | 1,353 |
| Interest cost | **112** | 245 |
| Benefits paid | **(718)** | (14,194) |
| Actuarial gain | **(1,255)** | (6,006) |
| Transfer from affiliates | **231** | – |
| Settlement gain | **–** | (1,415) |
| Balances at end of year | **₱1,622** | ₱613 |

Changes in fair value of plan assets follows:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Balances at beginning of year | **₱21,280** | ₱33,179 |
| Addition through business combination (Note 1) | **1,723** | – |
| Interest income | **1,072** | 1,058 |
| Actuarial gain (loss) on plan assets | **(1,305)** | (406) |
| Contribution | **1,156** | – |
| Benefits paid | **(4,914)** | (12,551) |
| Balances at end of year | **₱19,012** | ₱21,280 |

Changes in remeasurement of retirement benefit plan under other comprehensive income follows:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Balances at beginning of year | **₱46,259** | ₱51,859 |
| Actuarial gain (loss) on plan assets | | |
| Return loss (gain) on plan assets | **1,305** | 406 |
| Remeasurement loss (gain) due to liability experience | **(132)** | (4,019) |
| Remeasurement loss (gain) due to liability assumption changes–demographic | **–** | – |
| Remeasurement loss (gain) due to liability assumption changes - economic | **(1,123)** | (1,987) |
| Transfer from retained earnings | **(1,996)** | – |
| Balances at end of year | **₱44,313** | ₱46,259 |

The categories of plan assets as a percentage of fair value of the total plan assets follows:

| | 2018 | 2017 |
|---|---|---|
| Cash | **16.88%** | 13.87% |
| Fixed income | **82.96%** | 84.96% |
| Others | **0.16%** | 1.17% |
| | **100.00%** | 100.00% |

The plan assets are invested in different financial instruments and do not have any concentration risk. The asset allocation of the plan is set and reviewed from time to time by the Trustee taking into account the membership profile and the liquidity requirements of the plan. This also considers the expected benefit cash flows to be matched with asset durations.

As of December 31, 2018 and 2017, the plan assets do not include any debt or equity instruments nor any property occupied, or other assets of the Group's related parties.

The Group does not expect to contribute to the retirement plan in 2019.

The principal assumptions used to determine pension for the Group are as follows:

| | **December 31, 2018** | **December 31, 2017** | December 31, 2016 |
|---|---|---|---|
| Discount rates | **7.40% to 8.16%** | 5.65% to 5.89% | 5.37% to 5.93% |
| Salary increase rate | **5.00% to 7.00%** | 5.00% | 6.50% |

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:

| | Increase (decrease) in significant assumptions | Increase (decrease) in defined benefit obligation |
|---|---|---|
| ***December 31, 2018*** | | |
| **Discount rate** | **+1%** | **(₱314,687)** |
| | **(1%)** | **399,594** |
| **Future salary increases** | **+1%** | **403,849** |
| | **(1%)** | **(324,387)** |
| *December 31, 2017* | | |
| Discount rate | +1% | (₱73,907) |
| | (1%) | 87,712 |
| Future salary increases | +1% | 93,539 |
| | (1%) | (79,712) |

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which change other than those assumed may be deemed to be more reasonable.

The following table shows the maturity profile of the Group's defined benefit obligation based on undiscounted benefit payments:

| | Amount |
|---|---|
| | *(In Thousands)* |
| Less than 1 year | – |
| More than 1 year to 5 years | ₱4,224 |
| More than 5 years to 10 years | 3,933 |
| More than 10 years to 15 years | 132,061 |
| More than 15 years to 20 years | 2,757 |
| More than 20 years | 14,442 |

The average duration of the defined benefit obligation is 14.96 to 22.43 years and 7.6 to 26.1 years in 2018 and 2017, respectively.

## 26. Income Taxes

The details of provision for (benefit from) income tax follow:

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| | | *(In Thousands)* | |
| Current | **₱160,080** | ₱10,649 | ₱3,340 |
| Final | **855** | 1,030 | 1,465 |
| Deferred | **(8,740)** | 8,439 | (18,638) |
| | **₱152,195** | ₱20,118 | (₱13,833) |

The Group's current provision for income tax as at December 31, 2018, 2017 and 2016 represents regular corporate income tax.

The reconciliation of the statutory income tax rates to the effective income tax rates follows:

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| At statutory tax rates | **30.0%** | 30.0% | 30.0% |
| Additions to (reductions in) income taxes resulting from: | | | |
| Movements in unrecognized deferred income tax assets | **(0.1)** | (2.8) | (133.3) |
| Expired NOLCO | **(0.1)** | (15.3) | – |
| Interest income already subjected to final taxes | **0.2** | (3.2) | 3.9 |
| Nondeductible expenses | **0.4** | 14.0 | (30.0) |
| Expired MCIT | **–** | (1.9) | – |
| Other nontaxable income | **(10.7)** | (2.3) | 240.8 |
| At effective tax rates | **19.7%** | 18.5% | 111.4% |

The significant components of the deferred income tax assets - net of the Group follows:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Deferred income tax asset on NOLCO | **₱15,881** | ₱– |
| Deferred income tax liability on accrued rent | **(1,684)** | – |
| | **₱14,197** | ₱– |

The significant components of the deferred income tax liabilities - net of the Group follows:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Deferred income tax assets: | | |
| Deferred rent | **₱5,876** | ₱17,991 |
| Allowance for impairment losses on receivables | **25,983** | 15,015 |
| PAS 17 rent expense | **17,753** | 24,997 |
| MCIT | **5,484** | 5,484 |
| Others | **2,801** | 3,175 |
| | **57,897** | 66,662 |
| Deferred income tax liabilities: | | |
| Revaluation increment on property and equipment | **(97,931)** | (96,684) |
| Recovery on insurance | **(98,382)** | (98,382) |
| Remeasurement gain on retirement benefits liability | **(2,290)** | (2,190) |
| Unrealized gain on valuation of AFS financial assets | **(2,055)** | (775) |
| Accrued rent income | **–** | (1,684) |
| Revaluation reserve on investment properties | **(60,014)** | (64,338) |
| Undepreciated capitalized interest | **(6,466)** | (6,466) |
| Retirement plan assets | **(4,856)** | (4,311) |
| Unrealized gain on foreign exchange | **(1,204)** | – |
| | **(273,198)** | (274,830) |
| | **(₱215,301)** | (₱208,168) |

Deferred income tax assets are recognized only to the extent that taxable income will be available against which the deferred income tax assets can be used. The Group reassesses the unrecognized deferred income tax assets on the following deductible temporary differences, NOLCO and MCIT and recognizes the previously unrecognized deferred income tax assets to the extent that it has become probable that future taxable income would allow the deferred income tax assets to be recovered.

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| | | *(In Thousands)* | |
| NOLCO | **₱156,449** | ₱210,300 | ₱479,879 |
| Allowance for impairment losses on receivables, other current assets, inventories and others | **814,489** | 569,027 | 870,504 |
| MCIT | **1,649** | 8,649 | 8,649 |

As at December 31, 2018, the Company has NOLCO and MCIT that can be claimed as deduction from future taxable income and tax due, respectively:

| Year Incurred | Expiration Date | NOLCO | MCIT |
|---|---|---|---|
| 2016 | 2019 | ₱156,449 | ₱3,475 |
| 2017 | 2020 | – | 3,658 |
| 2018 | 2021 | 52,937 | – |
| | | ₱209,386 | ₱7,133 |

The following are the movements in NOLCO as at December 31, 2018, 2017 and December 31, 2016:

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| | | *(In Thousands)* | |
| Balances at beginning of year | **₱206,300** | ₱533,179 | ₱461,275 |
| Additions | **52,937** | – | 177,976 |
| Expirations/Application | **(49,851)** | (326,879) | (106,072) |
| | **₱209,386** | ₱206,300 | ₱533,179 |

The following are the movements in MCIT as at December 31, 2018, 2017 and 2016:

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| | | *(In Thousands)* | |
| Balances at beginning of year | **₱7,484** | ₱8,830 | ₱5,669 |
| Additions | **138** | 857 | 3,340 |
| Expirations/Application | **(489)** | (2,203) | (179) |
| | **₱7,133** | ₱7,484 | ₱8,830 |

## 27. **Earnings Per Share**

The following table presents information necessary to calculate basic earnings per share:

| | **December 31, 2018 (One Year)** | December 31, 2017 (One Year) | December 31, 2016 (Six Months) |
|---|---|---|---|
| | | *(In Thousands)* | |
| a. Net income attributable to equity holders of the Parent | **₱441,908** | ₱33,143 | (₱330) |
| b. Weighted average number of shares | **5,350,484** | 4,155,983 | 4,896,455 |
| Basic earnings per share (a/b) | **₱0.08** | ₱0.01 | ₱0.00 |

## 28. **Segment Information**

Revenue from Contracts with Customers

This account consists of:

| | 2018 |
|---|---|
| | *(In Thousands)* |
| Sale of electricity | ₱1,734,957 |
| Real estate sales | 785,828 |
| | ₱2,520,785 |

The Group derives revenue from the transfer of goods and services over time. The Group's disaggregation of each sources of revenue from contracts with customers are presented below:

*Real estate sales*

| | 2018 |
|---|---|
| | *(In Thousands)* |
| Cavite | ₱629,738 |
| Laguna | 156,090 |
| | ₱785,828 |

*Sale of electricity*

| | 2018 |
|---|---|
| | *(In Thousands)* |
| Sales to external customers | ₱1,383,129 |
| Sales to related parties | 351,828 |
| | ₱1,734,957 |

Business Segments

The Group's operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit.

The industry segments where the Parent Company and its subsidiaries and associates operate are as follows:

- Holding Company
- Real estate - commercial leasing and industrial lot sales and development
- Retail electricity supply

The amount of segment assets and liabilities are based on measurement principles that are similar with those used in measuring assets and liabilities in the consolidated statements of financial position which is in accordance with PFRS.

Financial information about the operations of these business segments is summarized as follows:

**December 31, 2018 (One Year)**

| | Holding Company | Real Estate and Property Development | Retail and Electricity Supply | Others | Total | Elimination | Total |
|---|---|---|---|---|---|---|---|
| **Revenue and income** | **₱–** | **₱1,628,975**** | **₱1,739,343*** | **₱1,633** | **₱3,369,951** | **₱–** | **₱3,369,951** |
| **Cost and expenses** | **(40,091)** | **(1,031,287)** | **(1,689,281)** | **(21,251)** | **(2,781,910)** | **(1,819)** | **(2,783,729)** |
| **Other income (charges)** | **9,618** | **112,244** | **–** | **16,527** | **138,389** | **(17,700)** | **120,689** |
| **Income (loss) before income tax** | **(30,473)** | **709,932** | **50,062** | **(3,091)** | **726,430** | **(19,519)** | **706,911** |
| **Provision for income tax** | **–** | **147,291** | **3,492** | **1,412** | **152,195** | **–** | **152,195** |
| **Net income (loss)** | **(₱30,473)** | **₱562,641** | **₱46,570** | **(₱4,503)** | **₱574,235** | **(₱19,519)** | **₱554,716** |
| **Segment assets** | **₱11,940,456** | **₱13,398,367** | **₱647,277** | **₱1,386,964** | **₱27,373,064** | **(₱14,398,671)** | **₱12,974,393** |
| **Segment liabilities** | **₱1,217,592** | **₱2,611,220** | **₱559,742** | **₱759,191** | **₱5,147,745** | **(₱2,047,602)** | **₱3,100,143** |

*Includes other income amounting to ₱4.39 million.
**Includes real estate sales amounting to ₱785.83 million and rental revenue amounting to ₱843.15 million.

December 31, 2017 (One Year)

| | Holding Company | Real Estate and Property Development | Retail and Electricity Supply | Others | Total | Elimination | Total |
|---|---|---|---|---|---|---|---|
| Revenue and income | ₱– | ₱502,168 | ₱– | ₱104,437 | ₱606,605 | ₱3,875 | ₱610,480 |
| Cost and expenses | (49,780) | (447,475) | – | (182,768) | (680,023) | (13,183) | (693,206) |
| Other income (charges) | 45,537 | 71,448 | – | 20,122 | 137,107 | (15,712) | 121,395 |
| Income (loss) before income tax | (4,243) | 126,141 | – | (58,209) | 63,689 | (25,020) | 38,669 |
| Provision for income tax | 1,371 | 17,846 | – | 1,344 | 20,561 | (443) | 20,118 |
| Net income (loss) | (₱5,614) | ₱108,295 | ₱– | (₱59,553) | ₱43,128 | (₱24,577) | ₱18,551 |
| Segment assets | ₱15,568,091 | ₱2,602,415 | ₱– | ₱1,473,973 | ₱19,644,479 | (₱10,720,934) | ₱8,923,545 |
| Segment liabilities | ₱849,787 | ₱1,588,208 | ₱– | ₱803,503 | ₱3,241,498 | (₱1,574,809) | ₱1,666,689 |

December 31, 2016 (Six Months)

| | Holding Company | Real Estate and Property Development | Retail and Electricity Supply | Others | Total | Elimination | Total |
|---|---|---|---|---|---|---|---|
| Revenue | ₱502 | ₱249,497 | ₱– | ₱113,018 | ₱363,017 | (₱90) | ₱362,927 |
| Cost and expenses | (91,038) | (343,015) | – | (132,856) | (566,909) | 90 | (566,819) |
| Other income (charges) | 74,266 | 93,974 | – | 20,764 | 189,004 | – | 189,004 |
| Income (Loss) before income tax | (16,270) | 456 | – | 926 | (14,888) | – | (14,888) |
| Provision for income tax | 2,352 | (17,124) | – | 939 | (13,833) | – | (13,833) |
| Net income (loss) | (₱18,622) | ₱17,580 | ₱– | (₱13) | (₱1,055) | ₱– | (₱1,055) |
| | | | | | | | |
| Segment assets | ₱4,349,421 | ₱3,062,987 | ₱– | ₱535,286 | ₱7,947,694 | (₱1,932,994) | ₱6,014,700 |
| Segment liabilities | ₱668,086 | ₱1,098,165 | ₱– | ₱475,198 | ₱2,241,449 | (₱634,833) | ₱1,606,616 |

Geographical Segments

The Group does not have geographical segments.

## 29. Long-term Lease

Group as Lessee

*TPI*

On August 28, 1990, TPI, through a Deed of Assignment, acquired all the rights, titles, interests and obligations of Gotesco Investment, Inc. on a contract of lease of the land owned by PNR for the Tutuban Terminal and where TPI's mall is located. The contract provided for a payment of a guaranteed minimum annual rental, 12% escalation rate every two (2) years, additional ₱10 million every two (2) years, plus a certain percentage of gross sales. The lease covers a period of twenty-five (25) years until 2014 and is automatically renewable for another twenty-five (25) years, subject to compliance with the terms and conditions of the lease agreement.

On December 22, 2009, TPI renewed its lease contract with PNR for another twenty-five (25) years beginning September 5, 2014, the end of the original lease agreement. Related rent expense charged to operations amounted to ₱151.56 million, ₱149.56 million and ₱74.42 million for the years ended December 31, 2018 and 2017 and six months ended December 31, 2016, respectively (see Note 23).

As at December 31, 2018 and 2017, the aggregate annual commitments on these existing lease agreements for the succeeding years follows:

| | **2018** | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| Less than one (1) year | **₱140,529** | ₱140,529 |
| More than one (1) year but not more than five (5) years | **702,647** | 702,647 |
| More than five (5) years | **2,061,097** | 2,201,626 |
| | **₱2,904,273** | ₱3,044,802 |

*OLI*

OLI, by Assignment of Lease executed between ALI and Avida Land Corporation on November 29, 2017, assumed a lease agreement with Avida to lease a land located along National Road, Muntinlupa City with an area of approximately 19,311 square meters (sqm) for the construction, development and operation thereon of a commercial retail development for a period of 50 years.

The lease agreement provides for a rental fee equivalent to 1.50% and 1.00% of gross rental income which will be paid on a monthly basis for the first three years for the retail mall portion and office portion. The rates will increase to 8.60% and 4.50% on the fourth year which will be applicable onwards. Related rent expense charged to operations amounted to ₱1.53 million for the year ended December 31, 2018 (nil for the year ended December 31, 2017 and six months ended December 31, 2016) (see Note 23).

Group as a Lessor

The Group has entered into commercial property leases on its buildings. These leases have remaining terms of one (1) year to less than five (5) years except for one (1) tenant with lease term of fifteen (15) years. Renewals are subject to the mutual consent of the lessor and the lessee.

Tenants are required to post security deposits, which shall be refunded, without interest, within sixty (60) days after the expiration of the lease period, deducting the amount of damages to the leased premises, if any. The discounted amount of noncurrent rental deposits amounted to ₱152.86 million and ₱138.15 million as at December 31, 2018 and 2017, respectively.

Accretion of interest amounted to ₱1.21 million and ₱1.67 million for the year ended December 31, 2018 and 2017, respectively (nil for the six months ended December 31, 2016).

As of December 31, 2018, future minimum rentals receivable under non-cancellable operating leases of the Group follows (in thousands):

| | |
|---|---|
| Less than one (1) year | ₱93,243 |
| More than one (1) year but not more than five (5) years | 295,039 |
| More than five (5) years | 52,274 |
| | ₱440,556 |

30. **Provisions and Contingencies**

The Group, in the ordinary course of business, is involved in various legal proceedings and assessments that are either pending decision by the courts or under negotiation. Management and its legal counsels believe that the eventual outcome of these lawsuits or claims will not have a material effect on the consolidated financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings. Total reversal of provision recognized amounted to ₱59.07 million and ₱106.47 million as at December 31, 2018 and for the six months ended December 31, 2016, respectively (nil as at December 31, 2017). As at December 31, 2018 and 2017, the related liability amounted to ₱151.61 million and ₱119.16 million, respectively (see Note 16).

The information normally required under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of the proceedings.

31. **Share-based Payments**

In 2015, the Group introduced the ESOWN Plan (the Plan) wherein grantees (employees within POPI Group) may subscribe in whole or in part to the shares awarded to them based on a discounted market price, but in no case lower than the par value, that was determined at grant date. The grantees will pay for the shares subscribed through installments over a maximum period of ten (10) years. To subscribe, the grantee must be an employee, officer or director of the Group as of June 30, 2015. In case the grantee resigns, unsubscribed shares are cancelled and returned to the plan pool, while the subscription 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.

The BOD of POPI approved the allocation of 32 million shares (first tranche) for ESOWN plan which will be taken from the remaining unissued shares (with grant date in 2016) and the increase in authorized of stock of POPI, which was approved by the SEC in July 2016 as discussed in Note 18.

In 2017, notice of grant for the 218 million shares (second tranche of ESOWN plan) was issued to employees for the right to subscribe to the common shares of POPI at ₱1.68 per share.

The availment period for the first tranche and for the second tranche of ESOWN plan is within 30 days from employees' receipt of notice of grant and within 30 days after one year from employees' receipt of notice of grant, respectively.

The fair values of these options are estimated on the date of grant using the Cox-Ross-Rubenstein option pricing model.

The assumptions used to determine the fair value of the stock options are as follows:

| | December 31, 2017 |
|---|---|
| Share price at date of grant | ₱2.12 |
| Risk free interest rate | 5.6818% |
| Annualized volatility | 49.68% |
| Annual dividend yield | 0% |
| Exit rates | |
| Termination for cause | 0% |
| Voluntary Resignation | 0% |
| Involuntary Separation | 7.29% |

The resulting personnel expense recognized for the year ended December 31, 2017 amounted to ₱33.34 million (nil for the year ended December 31, 2018, see Note 22). ESOWN availment in 2018 resulted in increase in capital stock and additional paid-in capital of ₱6.91 million and ₱25.17 million, respectively (nil for the year ended December 31, 2017).

## 32. **Financial Instruments**

Fair Value Information

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2018 and 2017:

| | **December 31, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| | | (In Thousands) | | |
| **Financial Assets at FVPL** | **₱4,519** | **₱4,519** | ₱2,643 | ₱2,643 |
| **Financial Assets at FVOCI** | | | | |
| Quoted equity securities | **551,668** | **551,668** | – | – |
| Quoted debt securities | **76,628** | **76,628** | – | – |
| Nonlisted equity securities | **23,668** | **23,668** | – | – |
| **Available-for-Sale Financial Assets** | | | | |
| Quoted equity securities | – | – | 632,739 | 632,739 |
| Quoted debt securities | – | – | 71,189 | 71,189 |
| Nonlisted equity securities | – | – | 6,526 | 6,526 |
| **Refundable Deposits** | **105,287** | **99,438** | 37,369 | 35,384 |
| | **₱761,770** | **₱755,921** | ₱750,466 | ₱748,481 |

(Forward)

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| | | (In Thousands) | | |
| **Other Financial Liabilities** | | | | |
| Rental and other deposits | **₱664,896** | **₱586,096** | ₱323,547 | ₱283,694 |

The following method and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such values at December 31, 2018 and 2017 are set out below:

*Cash and Cash Equivalents and Short-term Investments*
The carrying amount of cash and cash equivalents approximates its fair values due to the short-term maturity of this financial instrument.

*Receivables - current, Accounts Payable and Accrued Expenses and Amounts owed to and by Related Parties*
The carrying amounts of the current portion of receivables, accounts payable and accrued expenses and amounts owed by related parties approximate their fair values due to their short-term nature.

*Refundable Deposits under Other noncurrent assets and Rental and Other Deposits*
The carrying amounts of current portion of rental and other deposits approximates its fair value due to the short-term maturity of this financial instrument. The fair values of noncurrent security deposit recorded under 'Rental and other deposits" and refundable deposits recorded under 'Other noncurrent assets' are determined by discounting future cash flows using the applicable rates of similar types of instruments.

*Financial Assets at FVOCI and AFS Financial Assets*
Equity financial assets that are listed are based on their quoted prices published in markets as at December 31, 2018 and 2017. Debt financial assets that are quoted are based on published market prices as at December 31, 2018 and 2017. Nonlisted AFS financial assets are based on latest available transaction price at the end of the reporting period.

*Financial Assets at FVPL*
Listed equity securities designated as financial assets at FVPL are based on their quoted prices as at December 31, 2018 and 2017. The fair value of the UITF has been determined based on the net asset values as of reporting date, based on the nature and level of adjustments needed to be made to the NAV and the level of trading in the money market UITF.

Fair Value Hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Quoted FVOCI and AFS financial assets amounting to ₱628.96 million and ₱703.93 million as of December 31, 2018, and 2017, respectively, were classified under Level 1.

Nonlisted FVOCI and AFS financial assets amounting to ₱23.67 million and ₱6.53 million as of December 31, 2018 and 2017, respectively, were classified under Level 2.

FVPL amounting to ₱4.52 million and ₱2.64 million as of December 31, 2018, and 2017, respectively were classified under Level 2.

The fair value disclosure of rental and other deposits and refundable deposits as of December 31, 2018, and 2017, were classified under Level 3.

There have been no reclassifications from Level 1 to Level 2 categories in 2018 and 2017.

Financial Risk Management Objectives, Policies and Capital Management

The Group has various financial instruments such as cash and cash equivalents, receivables, amounts owed by/to related parties, financial assets at FVOCI and AFS financial assets, FVPL investments, deposits under other noncurrent assets, accounts payable and accrued expenses, rental and other deposits and subscriptions payable. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Group. The Group has other financial liabilities such as accounts payable and accrued expenses and rental and other deposits, which arise directly from its operations.

The main risks from the use of financial instruments are liquidity risk, credit risk and equity price risk. The Group's BOD reviews and approves policies for managing these risks as summarized below.

*Liquidity Risk*

Liquidity risk arises when there is a shortage of funds and the Group as a consequence could not meet its maturing obligations.

In the management of liquidity, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The tables below summarize the maturity profile of the Group's financial assets and financial liabilities as at December 31, 2018 and 2017 based on contractual undiscounted payments:

**December 31, 2018**

| | On demand | Less than 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|---|
| | | | *(In Thousands)* | | | |
| *Financial Assets at Amortized Cost:* | | | | | | |
| Cash in banks and cash equivalents | ₱220,011 | ₱– | ₱– | ₱– | ₱– | ₱220,011 |
| Short-term investments | 43,489 | – | – | – | – | 43,489 |
| Receivables: | | | | | | |
| Trade debtors | 1,125,501 | 142,589 | 181,252 | – | 62,615 | 1,511,957 |
| Insurance receivables | 43,125 | – | – | – | 47,975 | 91,100 |
| Others | – | 127,351 | – | – | 188,191 | 315,542 |
| Amounts owed by related parties | 936,548 | – | – | – | – | 936,548 |
| Deposits (under "Other noncurrent assets") | – | – | – | 104,879 | 408 | 105,287 |
| FVPL investments | 4,519 | – | – | – | – | 4,519 |
| *FVOCI Financial Assets* | | | | | | |
| Quoted debt securities | 76,628 | – | – | – | – | 76,628 |
| | ₱2,449,821 | ₱269,940 | ₱181,252 | ₱104,879 | ₱299,189 | ₱3,305,081 |
| | | | | | | |
| Accounts payable and accrued expenses | ₱1,197,324 | ₱287,092 | ₱– | ₱– | ₱– | ₱1,484,416 |
| Subscription payable | 481,675 | – | – | – | – | 481,675 |
| Rental and other deposits | 346,325 | 21,278 | 8,985 | 135,448 | 152,860 | 664,896 |
| Amounts owed to related parties | 234,268 | – | – | – | – | 234,268 |
| | ₱2,430,794 | ₱308,370 | ₱8,985 | ₱135,448 | ₱152,860 | ₱2,865,255 |

December 31, 2017

| | On demand | Less than 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|---|
| | | | *(In Thousands)* | | | |
| *Loans and Receivables:* | | | | | | |
| Cash in banks and cash equivalents | ₱254,881 | – | – | – | – | ₱254,881 |
| Trade debtors | 263,784 | 17,271 | 14,961 | – | 54,249 | 350,265 |
| Insurance receivables | – | – | 73,790 | – | 54,760 | 128,550 |
| Others | 11,739 | – | 15 | – | 190,725 | 202,464 |
| Amounts owed by related parties | 392,319 | – | – | – | 1,625 | 393,944 |
| Deposits (under "Other noncurrent assets") | 172 | – | – | – | 480 | 652 |
| *AFS Financial Assets* | | | | | | |
| Quoted debt securities | 71,189 | – | – | – | – | 71,189 |
| | ₱994,084 | ₱17,271 | ₱88,766 | ₱– | ₱301,839 | ₱1,401,945 |
| | | | | | | |
| Accounts payable and accrued expenses | ₱405,196 | ₱74,219 | ₱31,256 | ₱82,557 | ₱– | ₱593,228 |
| Subscription payable | 481,675 | – | – | – | – | 481,675 |
| Rental and other deposits | 139,873 | 10,908 | 8,985 | 8,320 | 155,461 | 323,547 |
| Amounts owed to related parties | 19,427 | – | – | – | – | 19,427 |
| | ₱1,046,171 | ₱85,127 | ₱40,241 | ₱90,877 | ₱155,461 | ₱1,417,877 |

*Credit Risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The 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 and other financial instruments.

*Trade receivables*

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

*Rental receivables*

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 the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants. For existing tenants, the 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.

*Real estate receivables*

In respect of receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain payment structures. The Group's stringent customer requirements and policies in place contribute to lower customer default. 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.

*Other financial assets*
Credit risk from balances with banks and financial institutions and related parties is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The Group invests mainly on government securities with very low credit risk and, therefore, are considered to be low credit risk investments.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

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 customer with 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.

The tables below show the aging analyses of financial assets per class that the Group held as at December 31, 2018 and 2017. A financial asset is past due when a counterparty has failed to make payment when contractually due.

**December 31, 2018**

| | Neither past due nor impaired | Past due but not impaired | | | | Individually impaired | Total |
|---|---|---|---|---|---|---|---|
| | | Less than 30 days | 31 to 60 days | 61 to 90 days | Over 90 days | | |
| | | | | *(In Thousands)* | | | |
| *Financial Assets at Amortized Cost:* | | | | | | | |
| Cash and cash equivalents | ₱220,011 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱220,011 |
| Short term investments | 43,489 | – | – | – | – | – | 43,489 |
| Receivables: | | | | | | | |
| Trade debtors | 1,125,501 | 86,019 | 47,471 | 9,103 | 181,252 | 62,611 | 1,511,957 |
| Insurance receivables | – | – | – | – | 43,125 | 47,975 | 91,100 |
| Others | 127,351 | – | – | – | – | 188,191 | 315,542 |
| Amounts owed by related parties | 936,548 | – | – | – | – | – | 936,548 |
| Deposits (under "Other noncurrent assets") | 104,879 | – | – | – | – | 408 | 105,287 |
| *FVOCI Financial Assets* | | | | | | | |
| Quoted debt securities | 76,628 | – | – | – | – | – | 76,628 |
| | ₱2,634,407 | ₱86,019 | ₱47,471 | ₱9,103 | ₱224,377 | ₱299,185 | ₱3,300,562 |

December 31, 2017

| | Neither past due nor impaired | Past due but not impaired: Less than 30 days | 31 to 60 days | 61 to 90 days | Over 90 days | Individually impaired | Total |
|---|---|---|---|---|---|---|---|
| | (In Thousands) | | | | | | |
| *Loans and Receivables:* | | | | | | | |
| Cash and cash equivalents | ₱254,881 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱254,881 |
| Receivables: | | | | | | | |
| Trade debtors | 263,785 | 6,906 | 4,207 | 6,158 | 14,961 | 54,248 | 350,265 |
| Insurance receivables | – | – | – | – | 73,790 | 54,760 | 128,550 |
| Others | 11,722 | – | – | – | 15 | 190,726 | 202,463 |
| Amounts owed by related parties | 392,319 | – | – | – | – | 1,625 | 393,944 |
| Deposits (under "Other noncurrent assets") | 36,961 | – | – | – | – | 408 | 37,369 |
| *AFS Financial Assets* | | | | | | | |
| Quoted debt securities | 71,189 | – | – | – | – | – | 71,189 |
| | ₱1,030,857 | ₱6,906 | ₱4,207 | ₱6,158 | ₱88,766 | ₱301,767 | ₱1,438,661 |

*Equity Price Risk*

Equity price risk is the risk that the fair values of equities decrease as the result of change in the levels of equity indices and the value of individual stock. The equity price risk exposure arises from the Group's investment in stocks. Equity investment of the Group is categorized as financial assets at FVOCI.

The Group measures the sensitivity to its equity securities by using Philippine Stock Exchange index fluctuations and its effect to respective share prices.

The Group's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

The basic sensitivity analysis assumes that the stock's standard deviation on its historical yield for the past one year provides the basis for reasonably possible change in prices of the stock investment. The Group establishes the relative range of stock investment yields based on historical standard deviation for one year.

The following table demonstrates the sensitivity to reasonable possible change in equity prices, with all other variables held constant:

| | Change in Equity price index | Effect on Equity |
|---|---|---|
| **December 31, 2018** | (In Thousands) | |
| **Upper Limit** | **+5.00%** | **₱34,690** |
| **Lower Limit** | **(5.00%)** | **(34,690)** |
| December 31, 2017 | | |
| Upper Limit | +12.36% | ₱472 |
| Lower Limit | (12.36%) | (472) |

The impact on the Group's equity already excludes the impact on transactions affecting the consolidated statements of income.

## 33. Notes to Cash Flows

Changes in the Group's liabilities arising from financing activities follow (in thousands):

| | January 1, 2018 | Cash Flows | Non-cash Changes | December 31, 2018 |
|---|---|---|---|---|
| **Amounts owed to related parties** | **₱19,427** | **₱214,841** | **₱–** | **₱234,268** |

| | January 1, 2017 | Cash Flows | Non-cash Changes | December 31, 2017 |
|---|---|---|---|---|
| Amounts owed to related parties | ₱10,699 | ₱8,728 | ₱– | ₱19,427 |

## 34. Events After Reporting Date

On March 6, 2019, the SEC has issued its certificate of approval of valuation certifying the valuation of 30,186 LTI shares of stocks worth ₱3,030.750 million in exchange for the additional issuance of 1,225,370,620 POPI shares with par value of ₱1.00.

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Prime Orion Philippines, Inc.
3rd Floor Glorietta 5,
Ayala Center, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Prime Orion Philippines, Inc. and its subsidiaries (the Group) as at December 31, 2018 and 2017 and for the years ended December 31, 2018 and 2017 and for the six months ended December 31, 2016, and have issued our report thereon dated March 14, 2019. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, as Amended (2011), 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 financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Carlo Paolo V. Manalang

Carlo Paolo V. Manalang
Partner
CPA Certificate No. 111947
SEC Accreditation No. 1625-A (Group A),
March 28, 2017, valid until March 27, 2020
Tax Identification No. 210-730-804
BIR Accreditation No. 08-001998-127-2017,
February 9, 2017, valid until February 8, 2020
PTR No. 7332576, January 3, 2019, Makati City

March 14, 2019

## SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS

| 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 | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2018 | | Adopted | Not Adopted | Not Applicable* |
|---|---|---|---|---|
| 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 | ✓ | | |
| 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 FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2018 | | Adopted | Not Adopted | Not Applicable* |
|---|---|---|---|---|
| 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 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 | Operating Leases—Incentives | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018 | | Adopted | Not Adopted | Not Applicable* |
|---|---|---|---|---|
| SIC-15 | | | | |
| 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 | | | ✓ |

**Standards tagged as Not Applicable have been adopted by the Group but have not significant covered transactions for the year ended December 31, 2018.*

**Prime Orion Philippines, Inc.**
3rd Floor Glorietta 5, Ayala Center, Makati City

**SCHEDULE II**
**RECONCILIATION OF RETAINED EARNINGS**
**AVAILABLE FOR DIVIDEND DECLARATION**
**AS OF DECEMBER 31, 2018**

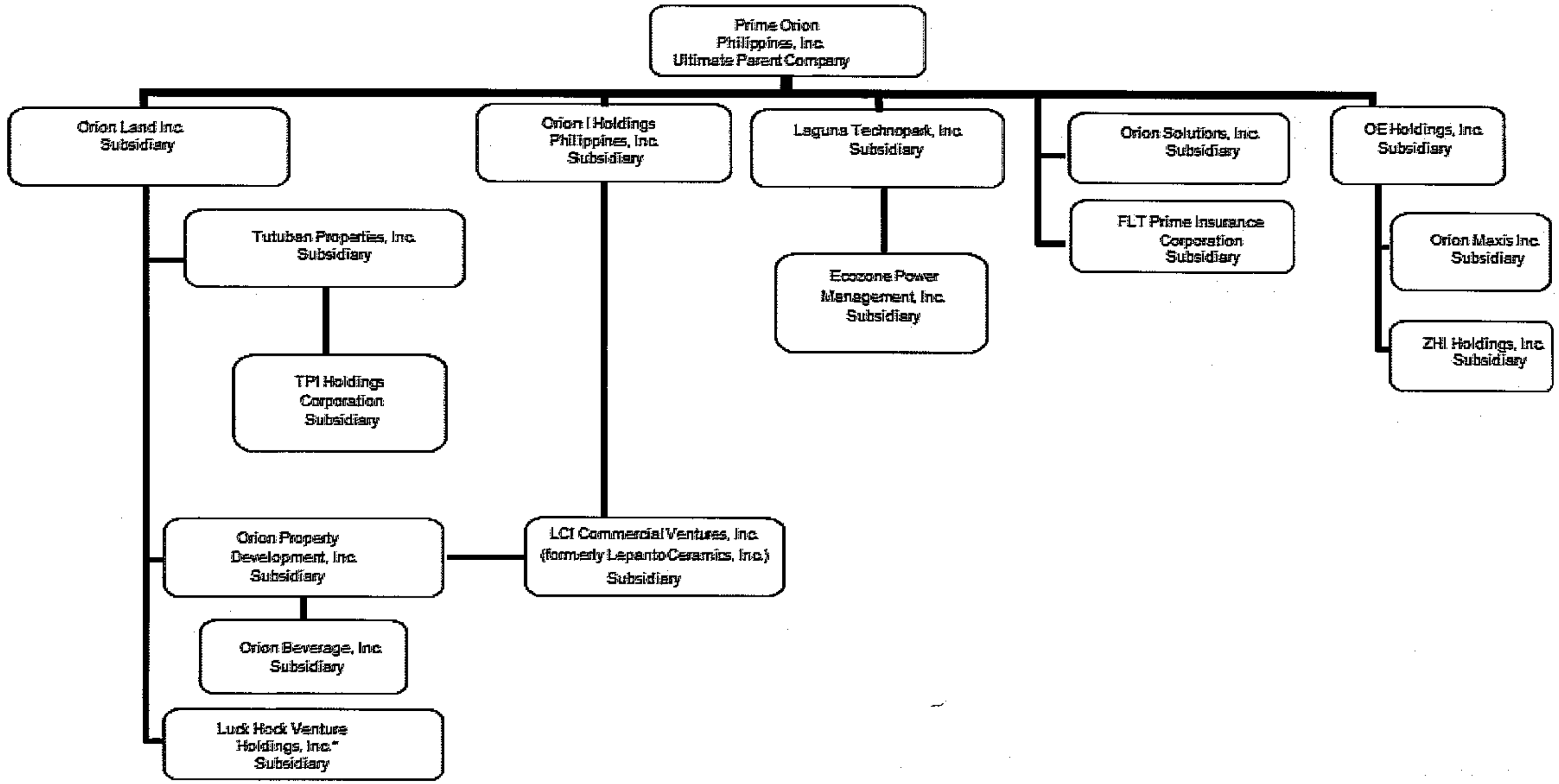
***(Figures based on functional currency audited financial statements)***

| | | **Amounts (In Thousands)** |
|---|---|---|
| Unappropriated Retained Earnings, *as of 31 December 2017* | | (848,042) |
| Effect of change in accounting policy on PFRS 9 | | 527,479 |
| Unappropriated Retained Earnings, *as adjusted to available, as of 31 December 2017* | | (320,564) |
| Add: Net income actually earned/realized during the period | | |
| Net income during the period closed to Retained Earnings | (30,472) | |
| Less: Non-actual/unrealized income net of tax | | |
| Equity in net income of associate/joint venture | - | |
| Recognized deferred tax asset that increased the net income | - | |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS | - | |
| Sub-total | - | |
| Add: Non-Actual Losses | | |
| Depreciation on revaluation increment (after tax) | - | |
| Unrealized actuarial loss | - | |
| Movement in deferred tax during the year | - | |
| Sub-total | - | |
| **Net Income actually earned during the period** | | **(30,472)** |
| Add (Less): | | |
| Shares held by subsidiary | | - |
| **TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND** | | **(351,036)** |

**SCHEDULE III**
**FINANCIAL RATIOS**
**PURSUANT TO SRC RULE 68, AS AMENDED**

| | Formula | (One Year) 31-Dec-18 | (One Year) 31-Dec-17 | (Six Months) 31-Dec-16 |
|---|---|---|---|---|
| Return on assets | Net Income / Average Assets | 0.05 | 0.00 | (0.00) |
| Return on equity | Net Income / Average Equity | 0.06 | 0.00 | (0.00) |
| Gross profit margin | Gross profit / Total Revenues | 0.22 | 0.27 | 0.26 |
| Net profit margin | Net income / Sales revenue | 0.16 | 0.03 | (0.00) |
| Cost to income ratio | Cost and expenses / Revenues | 0.83 | 1.14 | 1.52 |
| Current ratio | Current Assets / Current Liabilities | 2.35 | 2.91 | 5.28 |
| Quick ratio | Current Assets less Inventory / Current Liabilites | 2.35 | 2.90 | 5.27 |
| Solvency ratio | After tax net profit(loss) + Depreciation / Long Term Liabilities + Short Term Liabilities | 0.26 | 0.07 | 0.02 |
| Asset to equity ratio | Total Assets / Equity | 1.31 | 1.24 | 1.38 |
| Debt to equity ratio | Total Liability / Equity | 0.31 | 0.23 | 0.37 |
| Interest rate coverage ratio | EBITDA / Interest expense | not applicable | not applicable | not applicable |
| Gross Profit Margin | Sales - COGS or COS / Sales | 0.22 | 0.27 | 0.23 |
| Price/Earnings Ratio | Price Per Share / Earnings Per Common Share | 350 | 304 | (28,192) |

**SCHEDULE IV**
**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**
**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**
**AS AT DECEMBER 31, 2018**




*Inactive

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**
**SCHEDULE A - FINANCIAL ASSETS**
**AS AT DECEMBER 31, 2018**
AMOUNTS IN THOUSANDS *(Except for Number of Shares)*

| Name of issuing entity and association of each issue | Number of shares or principal amounts of bonds and notes | Amount shown in the balances sheet | Income received and accrued |
|---|---|---|---|
| **A. CASH IN BANK AND CASH EQUIVALENTS** | | | |
| **SAVINGS/CURRENT ACCOUNT (PESO)** | | | |
| BDO Unibank, Inc. | | 1,101 | 5 |
| Bank of the Philippine Islands | | 169,282 | 781 |
| Development Bank of the Philippines | | 52 | 0 |
| Metropolitan Bank and Trust Company | | 670 | 1 |
| Rizal Commercial Banking Corp. | | 517 | 10 |
| United Coconut Planters Bank | | 13,653 | 9 |
| Sub-total | | 185,275 | 806 |
| **SAVINGS/CURRENT ACCOUNT (FCDU)** | | | |
| Bank of the Philippine Islands | | 7,137 | 24 |
| BDO Unibank, Inc. | | 51 | - |
| | | 7,188 | 24 |
| **SHORT TERM INVESTMENTS (FCDU)** | | | |
| Chinatrust (Phils.) Commercial Bank | | 27,548 | 154 |
| | | 27,548 | 154 |
| | | **220,011** | **984** |

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**
**SCHEDULE A - FINANCIAL ASSETS**
**AS AT DECEMBER 31, 2018**
AMOUNTS IN THOUSANDS *(Except for Number of Shares)*

| Name of issuing entity and association of each issue | Number of shares or principal amounts of bonds and notes | Amount shown in the balances sheet | Income received and accrued |
|---|---|---|---|
| **B. SHORT TERM INVESTMENTS** | | | |
| Rizal Commercial Banking Corp | | 32,414 | 1,209 |
| Security Bank | | 11,075 | - |
| | | 43,489 | 1,209 |
| **C. INVESTMENT IN BONDS AND OTHER SECURITIES** | | | |
| Available for sale investments: | | | |
| *Listed equity securities* | | | |
| *Asia United Bank* | 500 | 3 | |
| *Cyber Bay Corporation* | 1,388,101,404 | 548,300 | |
| *Philippine Long Distance Telephone Company* | 500 | 90 | |
| *Top Frontier Holdings, Inc.* | 4,200 | 1,049 | |
| *Zeus Holdings, Inc.* | 876 | 0 | |
| | 1,388,107,480 | 549,442 | - |
| *Quoted debt securities* | | | |
| *Ayala Corporation* | 5,000 | 2,225 | - |
| *AMALGAMATED 7-57* | - | 272 | 8 |
| *AMALGAMATED-RTB 10-04* | - | 4,199 | 122 |
| *CHINABANK- RTB 10-04* | - | 8,398 | 268 |
| *FIRST METRO 20-17* | - | 14,434 | 804 |
| *FIRST METRO-RTB 10-04* | - | 10,506 | 244 |
| *Rizal Commercial Banking Corp.- RTB 10-60* | - | 6,952 | 263 |
| *Rizal Commercial Banking Corp.- RTB 7-51* | - | 1,479 | 126 |
| *Rizal Commercial Banking Corp.* | - | 868 | 21 |
| *Rizal Commercial Banking Corp.- RTB 10-04* | - | 8,309 | 244 |
| *SECURITY BANK 20-13* | - | 1,148 | 86 |
| *SECURITY BANK-5-72* | - | 1,737 | 9 |
| *Retail Treasury Bond* | 5,000,000 | 5,281 | - |
| *BDO Unibank, Inc. UITF* | 13,000,000 | 13,046 | |
| | 18,005,000 | 78,854 | 2,195 |
| *Nonlisted equity securities - net* | | | |
| *Canlubang Golf & Country Club* | 1 | 900 | |
| *Makati (Sports) Club, Inc.* | *1* | *250* | |
| *Philippine Central Depository, Inc.* | 5,000 | 500 | |
| *Sta. Elena Golf Club-A* | 3 | 13,200 | |
| *Alabang Country Club* | *1* | *7,000* | |
| *Zeus Holdings, Inc. - unlisted shares* | *1,175,600* | *1,176* | |
| *MERALCO* | *59,837* | *598* | |
| *PLDT* | *4,250* | *44* | |
| | 1,244,693 | 23,668 | - |
| **TOTAL INVESTMENTS IN BONDS & OTHER SECURITIES** | | **651,964** | **2,195** |

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**
**As of December 31, 2018**
AMOUNTS IN THOUSANDS

| | | | Deductions | | | | |
|---|---|---|---|---|---|---|---|
| Account Type | Balance at Beginning period | Additions | Amounts Collected / Settlements | Amounts Written off | Current | Not Current | Balance at end period |
| Advances to employees for company expenses | 250 | 1,299 | 862 | - | 683 | 4 | 687 |
| Salary loan | - | 131 | 82 | - | 49 | - | 49 |
| Car loan | - | 1,239 | 644 | - | 105 | 490 | 595 |
| Others | 4,345 | 4,783 | 866 | - | 8,262 | 0 | 8,262 |
| | 4,595 | 7,452 | 2,454 | - | 9,099 | 494 | 9,593 |

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
As of December 31, 2018
AMOUNTS IN THOUSANDS

| Name and Designation of Debtor | Balance at Beginning period | Additions | Amounts Collected/ Settlements | Current | Not Current | Balance at end period |
|---|---|---|---|---|---|---|
| Orion I Holdings Philippines, Inc./Subsidiary | 199,153 | - | - | - | 199,153 | 199,153 |
| Lepanto Ceramics, Inc./Subsidiary | 76 | - | (76) | - | - | - |
| OE Holdings, Inc./Subsidiary | 34,088 | - | (1,830) | - | 32,258 | 32,258 |
| Orion Maxis Inc./Subsidiary | 23,120 | - | - | - | 23,120 | 23,120 |
| FLT Prime Insurance Corp./Subsidiary | 947 | 73 | - | - | 1,020 | 1,020 |
| Tutuban Properties, Inc./Subsidiary | 76,442 | 15,628 | - | 92,070 | - | 92,070 |
| Orion Property Development, Inc./Subsidiary | 125 | - | (125) | - | - | - |
| Orion Land Inc./Subsidiary | 155 | - | (155) | - | - | - |
| Laguna Technopark, Inc./Subsidiary | - | 855 | - | 855 | | 855 |
| | **334,106** | **16,556** | **(2,186)** | **92,925** | **255,551** | **348,476** |

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**
**SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS**
**As of December 31, 2018**
**AMOUNTS IN THOUSANDS**

| Description | Beginning balance | Additions at cost | Charged to cost and expenses | Charged to other accounts | Other changes additions (deductions) | Ending Balance |
|---|---|---|---|---|---|---|
| Deferred acquisition cost | 580 | - | - | - | (580) | - |
| Deferred input tax | 437,959 | - | - | - | (24,378) | 413,581 |
| Software costs | 4,906 | - | (1,950) | - | - | 2,873 |
| | 443,445 | - | (1,950) | - | (24,958) | 416,454 |

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
As of December 31, 2018

| Title of Issue and type of obligation | Amount authorized by indenture | Amount shown under the caption "Current Portion of long-term debt" in related balance sheet | Amount shown under the caption "Long-Term Debt" in related balance sheet |
|---|---|---|---|
| NOT APPLICABLE | | | |

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES
SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED COMPANIES)
As of December 31, 2018
AMOUNTS IN THOUSANDS

| Name of Related Party | Balance at beginning of period | Balance at end of period |
|---|---|---|
| NOT APPLICABLE | | |

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES
SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS
As of December 31, 2018
AMOUNTS IN THOUSANDS

| 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 owed by person for which statement is filed | Nature of guarantee |
|---|---|---|---|---|
| | | NOT APPLICABLE | | |

**PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES**
**SCHEDULE H - CAPITAL STOCK**
**As of December 31, 2018**

| Title of Issue | Number of Shares authorized | Number of shares issued and outstanding as shown under related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by related parties | Number of shares held Directors, officers and employees | Number of shares held by Others |
|---|---|---|---|---|---|---|
| COMMON SHARES | 7,500,000,000 | | | | | |
| ISSUED | | 4,513,228,698 | | 3,039,542,667 | 69,779,659 | |
| SUBSCRIBED | | 1,611,944,113 | | 1,225,370,620 | | |
| | | 6,125,172,811 | | 4,264,913,287 | 69,779,659 | |