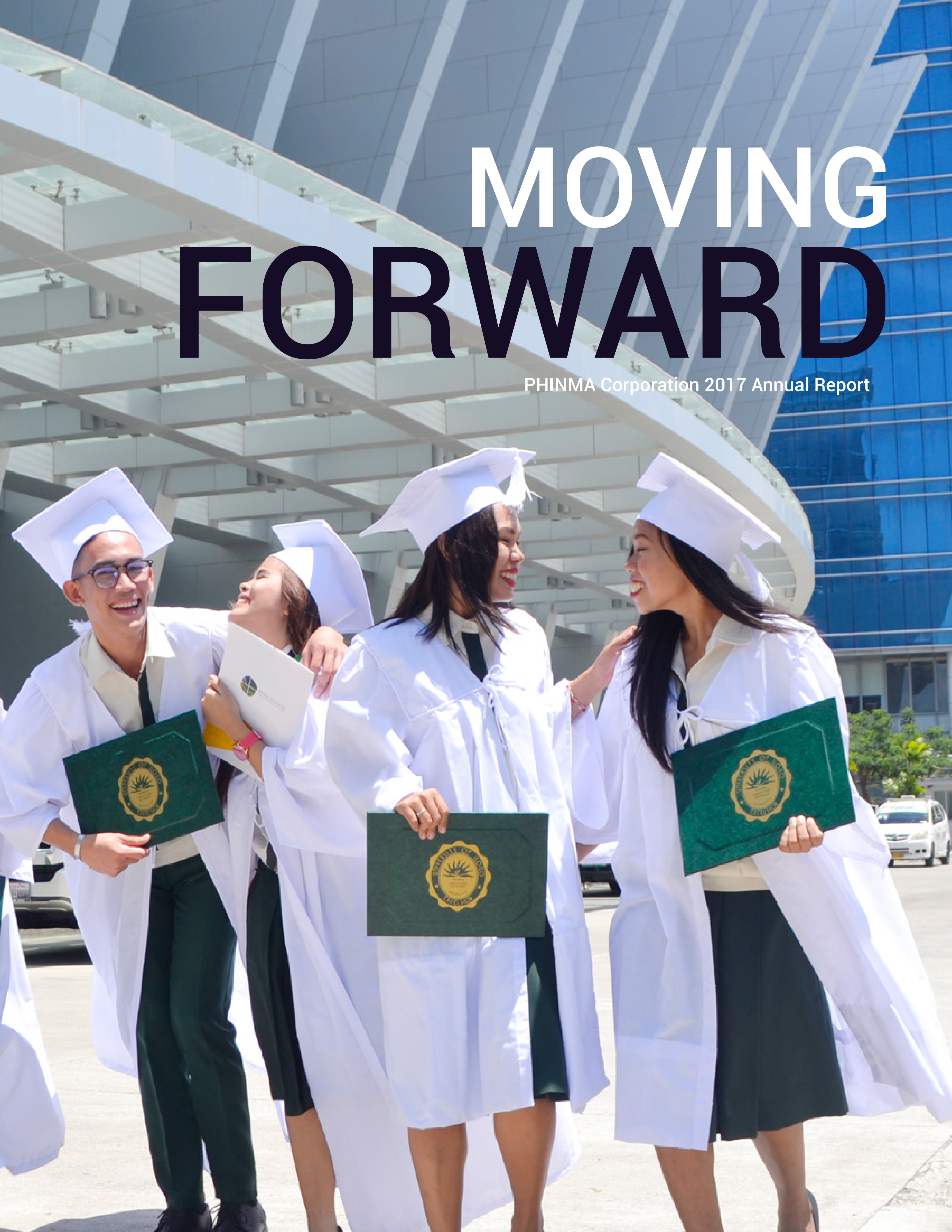
MOVING FORWARD

PHINMA Corporation 2017 Annual Report



PHINMA

Making Lives Better

WHO WE ARE

PHINMA is a proudly Filipino conglomerate that seeks to make lives better and build the nation through successfully run and profitable businesses while remaining consistent with our core values of Integrity, Patriotism, Competence and Professionalism.

PHINMA GROUP'S MISSION STATEMENT

The PHINMA Group's Mission is to help build our Nation through competitive and well-managed business enterprises that enable FIlipinos to attain a better quality of life. With professional and effective management as our distinctive edge, we aim to give communities, not only in the Philippines but wherever else we might find the need, improved access to the essentials of a dignified life.

In the pursuit of our Mission, we look to our tradition, our experience, our reputation, and above all, our people, as the principal factors that will enable us to achieve our lofty goals.

The PHINMA Group will demonstrate that private business can mutually serve the needs of society and the aspirations of shareholders.

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FINANCIAL HIGHLIGHTS

	2017	2016	2015 (as restated)
INCOME AND DIVIDENDS (In Thousand Pesos)			
Revenues	**6,419,212**	6,302,141	5,710,308
Net Income Attributable to PHN Equity Holders	**(29,233)**	277,178	390,394
Consolidated Net Income	**46,053**	367,206	492,554
Cash Dividend	**103,611**	103,666	104,176
FINANCIAL POSITION (In Thousand Pesos)			
Current Assets	**5,558,529**	3,684,736	3,322,283
Total Assets	**16,741,507**	14,572,966	14,223,264
Current Liabilities	**2,661,219**	2,132,575	2,108,073
Non-current Liabilities	**6,154,589**	4,017,345	4,045,691
Equity Attributable to PHN Equity Holders	**6,962,396**	7,437,212	6,862,967
Total Equity	**7,925,699**	8,423,046	8,069,500
PER SHARE (In Pesos)			
Earnings	**(0.10)**	0.97	1.37
Cash Dividend Per Share	**0.40**	0.40	0.40
Book Value of Common Shares	**24.44**	26.11	24.09
FINANCIAL RATIOS			
Current Ratio	**2.09**	1.73	1.58
Debt to Equity Ratio	**1.11**	0.73	0.76

Dear Shareholders,

Consolidated revenue of your Company amounted to ₱6.4 billion in 2017, an increase of 2% over the previous year due to increased revenue from our construction materials group as well as from our education group. Consolidated net income of your Company, however, decreased to ₱46 million in 2017 from ₱367 million in the previous year. The decrease in net income is primarily due to a decrease in income from affiliates. Phinma Energy Corporation was challenged in 2017 by continued low market prices for electricity due to the competitive supply environment. Phinma Properties posted a net loss in 2017 due to a delay in sales recognition as well as increased construction costs. In addition, in 2017 your company reported higher interest and financing charges due to additional debt in connection with increased investment in new subsidiary Philcement Corporation and in subsidiary Phinma Education Holdings, Inc. in relation to the acquisition of Saint Jude College, Inc. Net income attributable to shareholders of the parent amounted to a net loss of ₱29 million for the year.

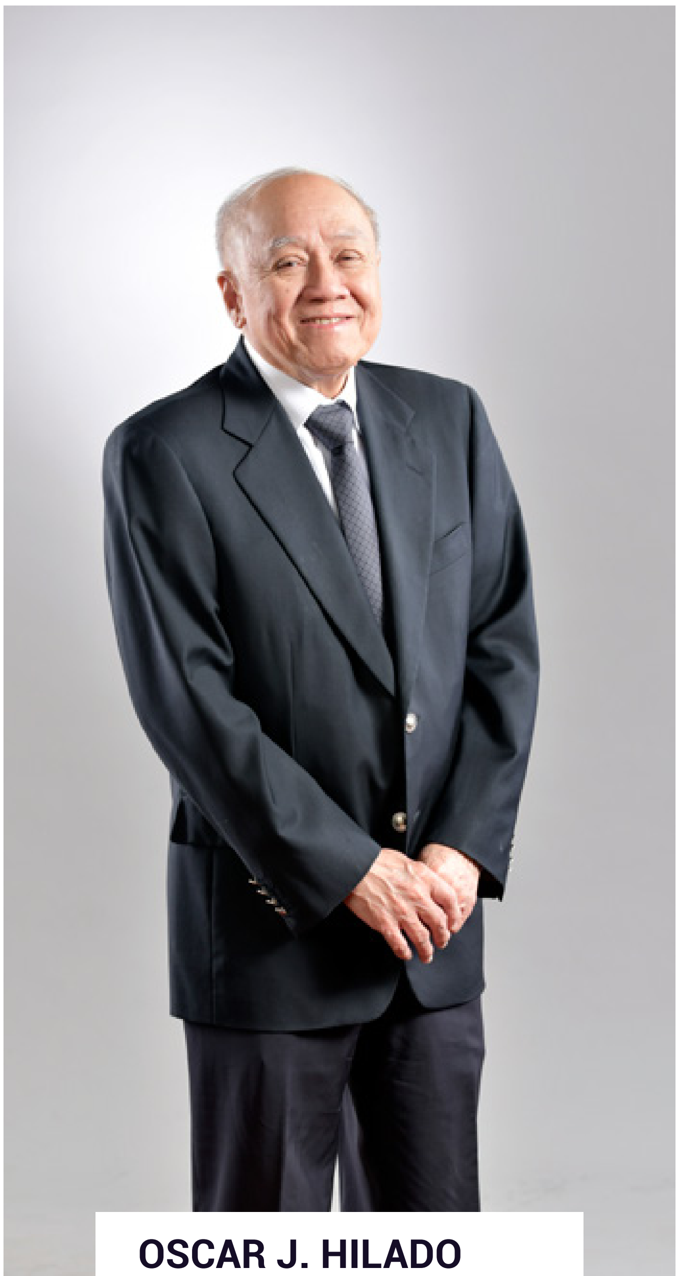
2017 Highlights

Phinma Education Holdings, Inc. (Phinma Education) holds your Company's investment in 6 tertiary education schools. In 2017, the tertiary education industry continued to be affected by the implementation of the Department of Education's new K12 curriculum which added two senior high school years and decreased college freshman enrolment for the second straight year. Despite this, the Phinma Education schools again posted the largest senior high school enrollment for private schools in the areas where they operate. Despite the effects of K12, total enrollment for the first five schools increased 8% to 58,837 in school year 2017/2018. Consolidated net income of Phinma Education however decreased to ₱150 million in 2017 from ₱219 million in the previous year due to expenses from newly established international operations. Net income was also adversely affected by the K12 implementation as a second batch of college freshman was replaced by relatively lower-yield senior high school students.

In 2017, Phinma Education implemented initiatives to improve and integrate Southwestern University into the network by renovating facilities and developing Active Learning curriculum specifically for SouthWestern programs. The Phinma Training Center in Yangon, Myanmar also started offering training programs in 2017 for nursing assistants, bringing the network closer to its goal of offering full degree programs. Phinma Education continued efforts at improving retention and quality at its schools.

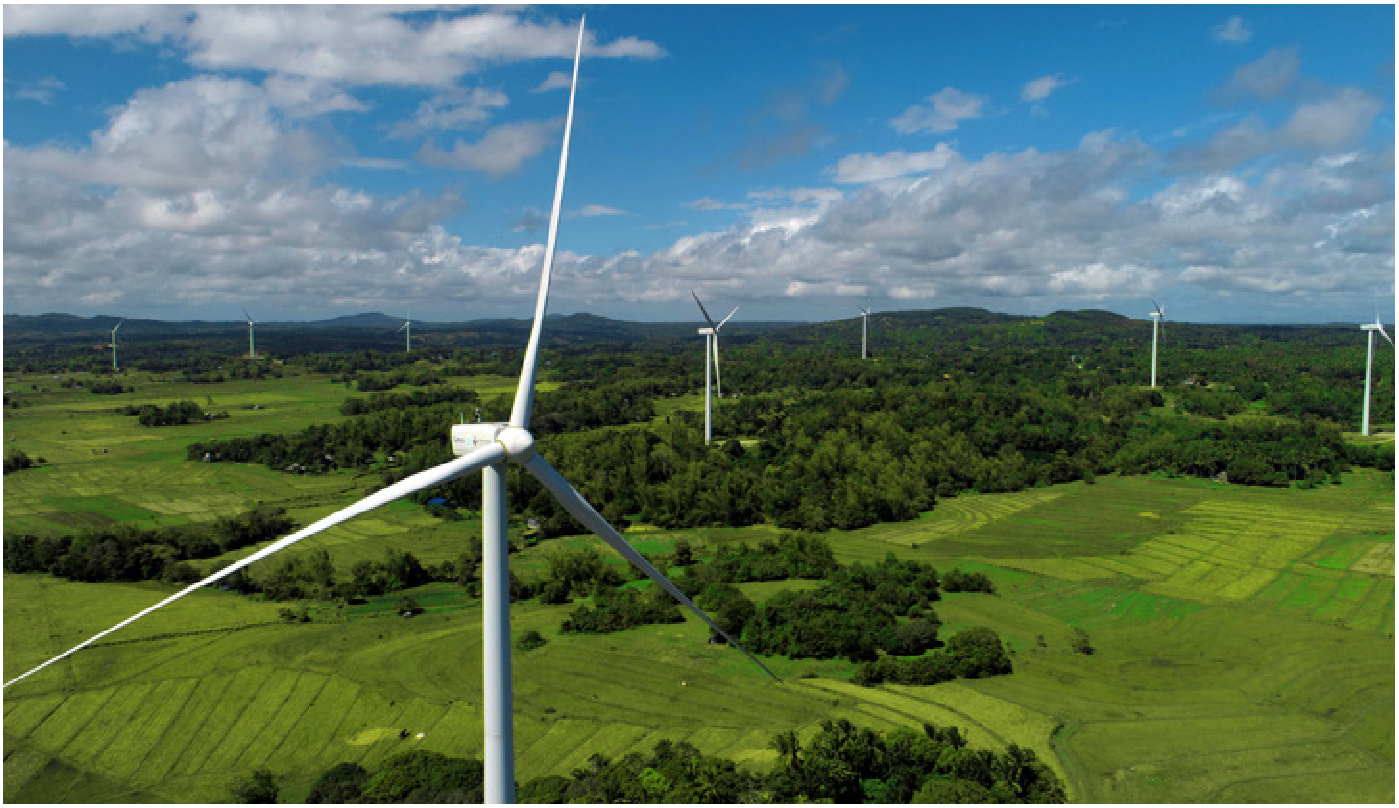
Phinma Education ended the year with the acquisition of St. Jude College, a school known for its strong tertiary allied health sciences courses, also offering programs in business, education, information technology, and hospitality.

MESSAGE TO SHAREHOLDERS



OSCAR J. HILADO
Chairman

RAMON R. DEL ROSARIO, JR.
President



In 2017, *Trans Asia Renewable Energy Corporation*, a subsidiary of Phinma Energy, amended its corporate name to *Phinma Renewable Energy Corporation* (Phinma Renewable) to highlight Phinma's continuing commitment to renewable energy.

In 2017, the electricity supply industry continued to be challenged by excess capacity and low market prices. Revenue of *Phinma Energy Corporation* (Phinma Energy) increased 10% to ₱17 billion as the company increased its retail electricity supply client base. Margins however were challenged by the competitive supply environment and low energy prices. Consolidated net income of Phinma Energy decreased to ₱347 million in 2017 from ₱1.383 billion in the previous year. Of the ₱347 million net income, ₱92.1 million was equitized by the Company in 2017.

In 2017, *Trans Asia Renewable Energy Corporation*, a subsidiary of Phinma Energy, amended its corporate name to *Phinma Renewable Energy Corporation* (Phinma Renewable) to highlight Phinma's continuing commitment to renewable energy. In 2017 our 54-MW wind farm in San Lorenzo Guimaras generated 89.6 GWH of clean and renewable energy. During the year, Phinma Energy subscribed to an increase in capital and preferred shares in Phinma Renewable worth ₱2.35 billion, to set the stage for possible wind generation capacity expansion in light of the Department of Energy's (DOE) Renewable Portfolio Standards implementation in 2020. Phinma Energy also sees a bright future in solar renewable energy.

In 2017, the DOE awarded solar energy service contracts to Phinma Energy for 40 MW and 45 MW solar farms in Pangasinan and Batangas, respectively. In partnership with Union Galvasteel, Phinma Energy through *Phinma Solar Energy Corporation* will also explore the market for smaller solar generation facilities and retail solar products.

Despite strong growth in the construction sector, Union Galvasteel Corporation (UGC) faced higher global steel prices in 2017 due to capacity cutbacks in China. Despite an increase in revenue, UGC posted net income of ₱182 million in 2017, less than the ₱221 million net income of the previous year which included an extraordinary gain on sale of land. During the year, UGC expanded its product line and geographical coverage, sourced new supplier partners abroad, and brought in new leadership, all part of key strategic initiatives of the company for long term growth and better shareholder value.

Despite brisk sales take up of projects in the latter part of the year, Phinma Property Holdings Corporation (Phinma Properties) posted a consolidated net loss of ₱400 million in the year due to delayed sales recognition and an increase in construction costs. During the year, Phinma Properties initiated measures to improve profitability and customer focus through better product margins and operational reorganization. The operations teams of the Urban Housing and Socialized Housing Divisions will be combined into a single Operations Team, divided into brands, which will provide increased focus on specific target market and customer needs.

In 2017, Microtel Development Corporation changed its corporate name to *Phinma Hospitality* to more closely relate the Wyndham franchises to the Phinma brand. In October 2017, Krypton Esplanade Hotel Corporation, an indirect subsidiary of Phinma Hospitality, opened its new 191-room TRYP by Wyndham hotel in the Manila Bay area. The new hotel complements our existing Microtel by Wyndham Mall of Asia hotel by offering more premium accommodations catering to a younger, more hip, and energetic clientele.

In 2017, Phinma sold its majority stake in Fuld & Co. Inc., its US-based strategic consulting firm,to allow the Company to focus its efforts on its local consulting practice as it develops new markets and opportunities in the Philippines and Southeast Asia. In 2017, our local company changed its name to *Integrative Competitive Intelligence Asia, Inc.* (ICI-Asia). ICI-Asia showed marked improvement in 2017, with revenue doubling over the previous year to ₱52 million and the company posting net income of ₱6.3 million from a net loss of ₱16.7 million in the previous year. In 2017, ICI-Asia won projects from several clients as the company continued its campaign to increase its presence in the consulting market for government, multilateral, and aid agencies.

In September 2017, your Company initiated its re-entry into the cement business through its investment in *Philcement Corporation*, the vehicle that will re-introduce into the market this year Phinma's *Union Cement* brand, once very well known in the local industry. The brand will combine world class standards with Filipino expertise to once again make Filipino lives better through quality affordable cement products. Together, Union Galvasteel and Union Cement form what we now call Phinma's *Construction Materials Group* through which Phinma sees greater and more meaningful participation in the high-growth construction sector in the coming years.

Phinma Corporation ended 2017 with a strong balance sheet, with total assets of ₱16.7 billion and a current ratio and debt-to-equity ratio of 2.09:1 and 1.11:1, respectively. Your Company has funds available for investment, should attractive opportunities arise.

We are pleased to report that the Board has declared a cash dividend of ₱0.40 per share payable on April 6, 2018.

2018 Outlook

For 2018, the Philippine economy will hopefully maintain a healthy growth rate given a timely implementation of infrastructure projects with respect to the current administration's *Build Build Build* initiative. Although the initial approved TRAIN tax reform package will result in increased private sector household consumption from higher take home pay, this will be tempered by higher inflation from its impact on commodity prices as well as the expectation of a continued rise in global oil prices. The Peso is expected to continue to weaken versus the US dollar due to a continued trade gap and current account deficit.

This year, Phinma Education looks forward to increased traction in international operations at the Phinma Training Center in Myanmar, moving closer to our international objective of offering full degree programs overseas. We also look forward to the integration of St Jude, our first Manila school, into the network. Moving forward, Phinma Education continues to search for schools to add to its growing network in pursuit of our goal of becoming the largest education network in the country in the coming years.

We maintain our commitment to various stakeholders including suppliers, partners, creditors, and of course customers, who all play a role in our continuing endeavor to make life better.

Despite the competitive power supply environment, Phinma Energy looks forward to being the supplier of choice for even more customers and further expanding its retail electricity supply business. The company is studying projects that will diversify its generation portfolio to possibly include gas and hydro power projects. Phinma Energy remains poised to develop additional conventional as well as renewable energy projects as market and regulatory conditions merit.

For 2018, the Construction Materials Group anticipates deeper penetration into the market for steel products due to recent efforts at broadening product lines and expanding geographic coverage. This year the Construction Materials Group also hopes to reintroduce our Union Cement brand into the market in time for the eventual implementation of the administration's *Build Build Build* infrastructure development program.

Phinma Properties this year begins its trek to recovery as various repricing and reorganization initiatives are implemented to improve product margins and customer focus. Phinma Hospitality, on the other hand, looks forward to the opening of the 14th Microtel hotel in the country — a new 80-room Microtel by Wyndham hotel in San Fernando, Pampanga.

We would like to express our gratitude to our employees and management teams who share in our mission of providing reliable and renewable power, quality education, affordable construction materials and homes, and clean and comfortable accommodations. We maintain our commitment to various stakeholders including suppliers, partners, creditors, and of course customers, who all play a role in our continuing endeavor to make life better. We also maintain our commitment to improve values for our shareholders, to whom we extend our gratitude for their unwavering support whether in times of success or challenge.

OSCAR J. HILADO
Chairman of the Board

RAMON R. DEL ROSARIO, JR.
President and Chief Executive Officer

EDUCATION

Phinma Education Holdings, Inc. (Phinma Education) makes life better by providing accessible quality education. PHINMA Araullo University (PHINMA AU), PHINMA Cagayan de Oro College (PHINMA COC), PHINMA University of Pangasinan (PHINMA UPang), and PHINMA University of Iloilo (PHINMA UI) provide quality basic and tertiary education to students from low income families in developing urban centers. Southwestern University PHINMA (SWU PHINMA), on the other hand, provides quality education to a middle income market, catering to local well as international students in Cebu and surrounding provinces.

2017 was the second year of implementation of the Department of Education's industry-wide K12 program, which added two senior high school years and correspondingly decreased college freshman enrollment during the transition period. The PHINMA Education schools welcomed another year of strong senior high school enrollment. The five schools came out leading their field, once again posting the largest senior high school enrollment among schools in their areas. Although the new curriculum resulted in a decline in the nationwide need for college teachers during the transition, PHINMA Education responded by enhancing operational efficiencies, maintaining the company's over-all financial status while still retaining the majority of employees.

In 2017, Phinma Education also implemented initiatives to improve and integrate Southwestern University into the network. The first phase of renovation of the Medical Center was undertaken. Major renovation was also done on the campus's main building as well as the Aznar Coliseum, hospital residence quarters, Veterinary Medicine laboratory, and faculty rooms.

PHINMA Education's Active Learning is a network wide system of instruction which is more integrative, thematic, and student centered compared to traditional methods. At SWU, Phinma Education took Active Learning a step further and developed a set of programs beyond the traditional offerings. New programs were developed for Hospitality Management, Veterinary Medicine, Information Technology, Architecture and Communication. These programs are slated to open for enrollment this school year.

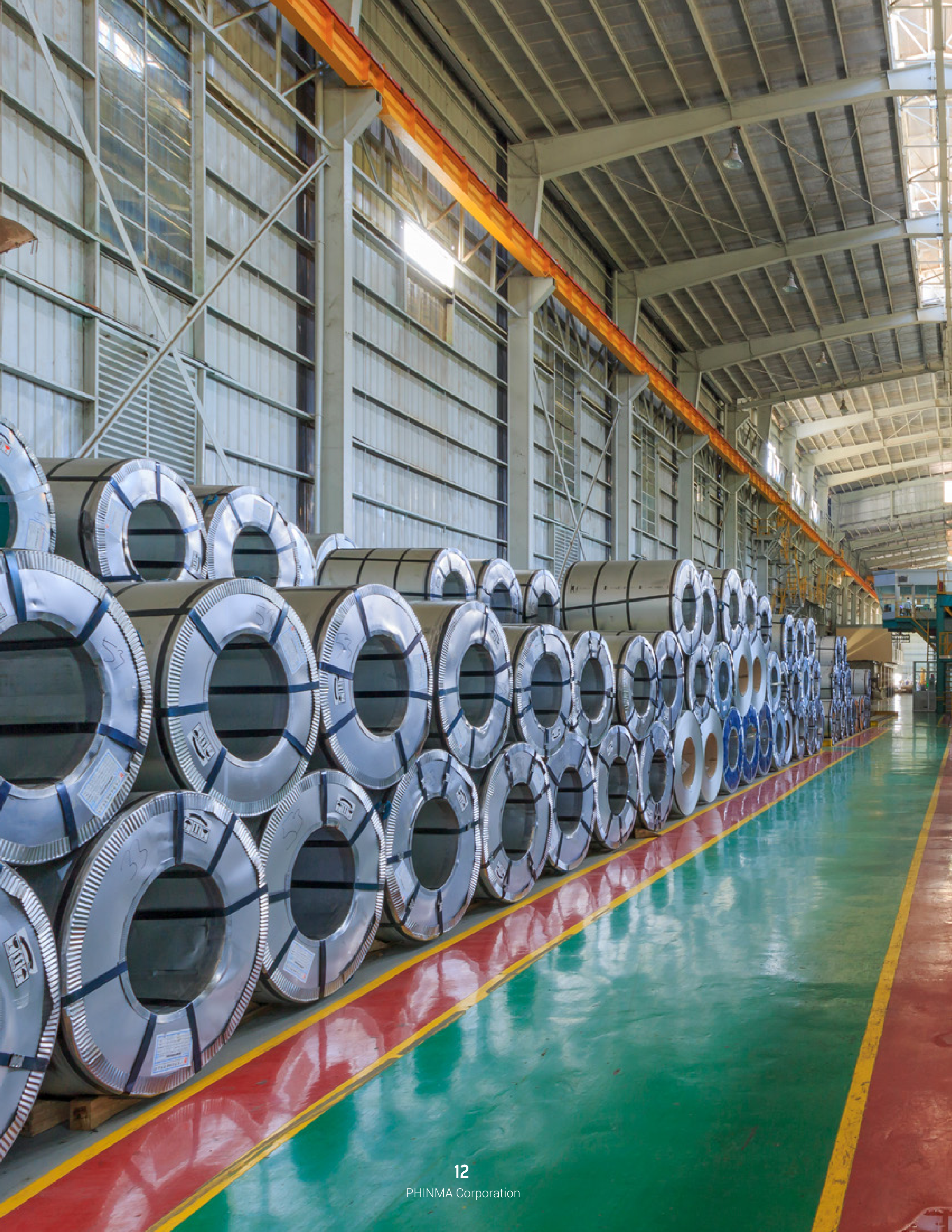
Previously, PHINMA Education began expansion into the greater Southeast Asia market by establishing the PHINMA Training Center in Yangon, Myanmar in partnership with Victoria Hospital, one of the most technologically advanced hospitals in the city. In 2017, the Training Center started offering short nursing and healthcare programs for nursing assistants out of its training facility in Yangon. Although enrollment was initially modest at around 160 students, the program provides Phinma Education with invaluable insights into the Yangon market, bringing it closer to its goal of eventually offering full degree programs.

Despite the continued effects of K12 reform on the industry, total enrolment across the network of five Phinma Education schools increased 8% to 58,837 in school year 2017/2018. In calendar year 2017 however, consolidated net income of Phinma Education decreased to ₱150million from ₱219million in the previous year due to increased expenses from recently established international operations. Profitability was also affected by the K12 reform, as another batch of college freshman was replaced by lower yield senior high school students in the second year of implementation of the new curriculum.

PHINMA Education ended 2017 with the acquisition of St. Jude College, a full service educational institution serving around 3,000 students in the Manila area. St. Jude - established in 1968 as a school for nursing - today offers basic education, college, and graduate school programs. The school is known for its strong tertiary allied health science courses and also offers programs in business, education, information technology, and hospitality.

This year PHINMA Education looks forward to increased traction in its international operations and the integration of its first Manila school into the network. The company continues to look out for more schools which could be valuable additions to its growing network in its goal of becoming the largest private educational network in the country in the coming years. Pursuant to PHINMA Education's continuing mission to make lives better for its students and their families, the company will continue introducing new innovations, improving operational efficiencies, exploring new markets, and expanding borders, providing high quality education accessible to all.

PHINMA Education looks forward to increased traction in its international operations and the integration of its first Manila school into the network.



CONSTRUCTION MATERIALS

Union Galvasteel Corporation (UGC), a 98%-owned subsidiary of the Company, is a leading manufacturer and distributor of pre-painted roofing and steel products. Philcement Corporation (Philcement), a majority owned subsidiary of the Company incorporated in September 2017, is the vehicle by which Phinma will relaunch its Union Cement brand into the local market. Union Galvasteel and Philcement together represent your Company's investment in the construction materials industry.

As the Philippine economy rose 6.7% in 2017, the construction industry grew at a respectable 5.7%, slower than 15.1% growth posted in the historically strong election year. Public construction spending growth remained robust at 13.5%, even as private firms scaled back investments, posting growth of only 3.3%. This was evident in the 16% decline in the value of construction starts during the first nine months of 2017, as residential condominium developments and commercial construction retreated by 43% and 32% respectively. China, the source of half of the world's supply of steel, heightened its focus on environmental concerns, promoted industry consolidation and pressed on with the shutdown of outdated manufacturing plants. This led to steep increases in steel prices and significantly affected global markets.

In this environment, UGC achieved record revenues of P4.2 billion in 2017 driven by volumes which were 2% higher than the previous year. However, due to the increase in imported steel prices, net income decreased to P182 million from net income of P221 million in the previous year which included an extraordinary gain on sale of land of P27.7million.

In line with its new vision to make lives better and contribute to nation building through innovative construction solutions, UGC embarked on key strategic initiatives for long-term growth and better value for its stakeholders.

In 2017, after expanding its value offerings "from foundation to roofing", UGC further improved its depth and reach by beginning expansion into new geographical markets and segments and re-entering the trade of galvanized iron sheets. Operationally, the company also strengthened its customer engagement programs and marketing capabilities and rationalized its cost-to-market strategies to drive top-line growth and manage margins.

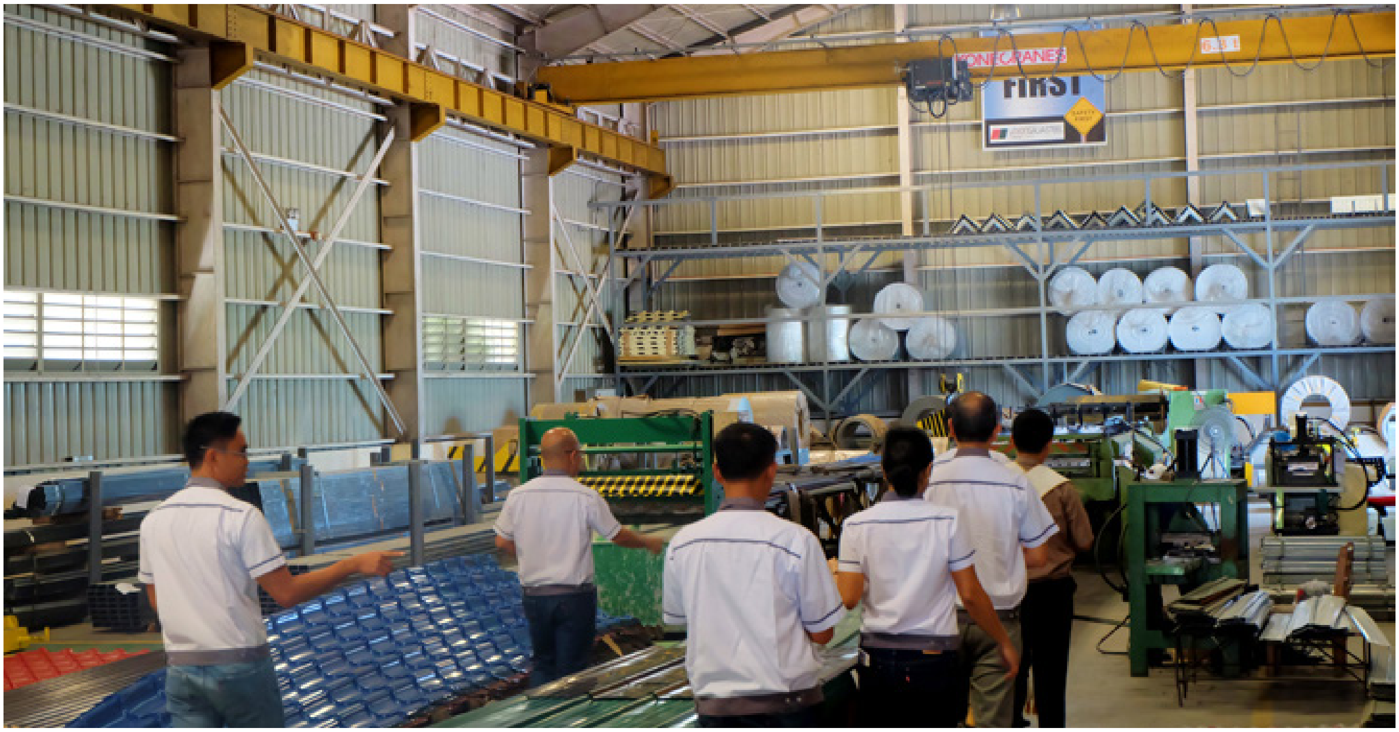
In its drive to outperform, UGC enhanced its supply chain further, gaining additional reliable high-quality partners from China capable of supplying at competitive prices. Recognizing the need to respond to changes in the market environment, the company brought in new talent and leadership to supplement the current organization while continuing to invest in human capital.

PHINMA is confident that its professional management, competence, and wealth of experience in the cement business will allow Philcement to compete in the local market on the basis of quality and service, providing quality offerings and solutions to its customers.

In September 2017, your Company initiated its re-entry into the cement business through its investment in Philcement Corporation, a majority-owned subsidiary with an initial authorized capital of P1 billion.

Philcement is reintroducing Union Cement, PHINMA's legacy brand well known in the industry from the late 1950s to the early 2000s. The new Union Cement will combine world class standards with Filipino expertise to make the lives of Filipinos better through quality, affordable, readily available cement products.

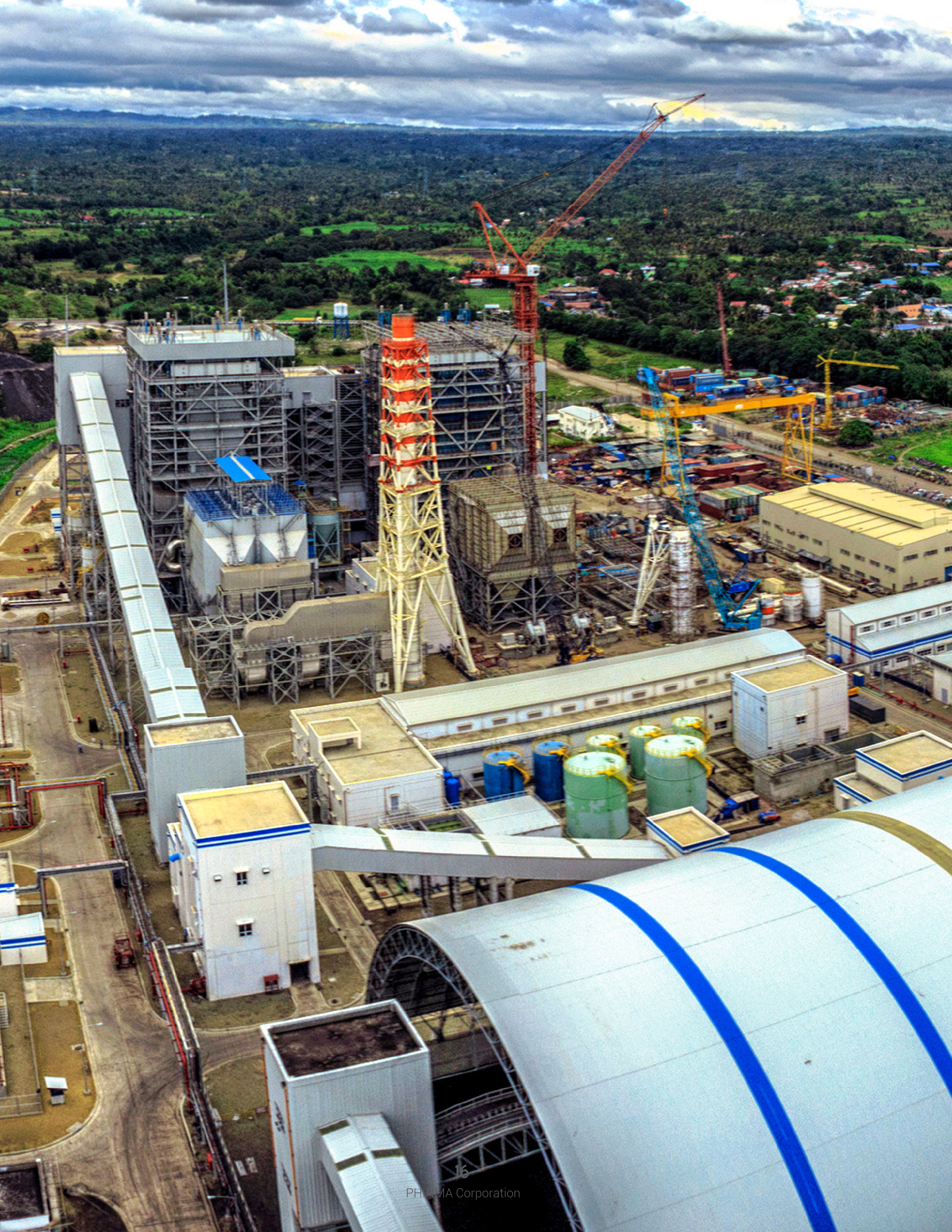
To serve key markets, Philcement will build a cement facility in Bataan capable of supplying up to two million tons per annum of cement sourced from Philcement's ASEAN strategic partner.



PHINMA is confident that its professional management, competence, and wealth of experience in the cement business will allow Philcement to compete in the local market on the basis of quality and service, providing quality offerings and solutions to its customers. The new venture also allows your Company to participate more substantially in the growth in the construction industry in support of Philippine economic development, particularly at a time when the country is embarking on its very massive and ambitious infrastructure program.

In line with developing synergies and enhancing capabilities among its related businesses, affiliates Union Galvasteel Corporation and Phinma Energy Corporation established Phinma Solar Energy Corporation in 2017. Bringing together the collective expertise of these two reputable companies in their own respective fields, Phinma Solar will enhance the portfolio of Union Galvasteel Corporation through its solar rooftop offerings to be made available to the latter's current and future customers.

Moving forward, Phinma's Construction Materials group looks forward to ASEAN integration and the opportunities afforded by the opening up of new markets, supply sources, and possible partnerships, as well as the challenges posed by a larger competitive playing field. Closer to home, the country is poised to continue its impressive growth trajectory through investment in infrastructure and construction on the heels of the *Build Build Build* infrastructure program. Union Galvasteel, Philcement, and Phinma Solar expect to be at the forefront of the industry, offering a vast array of innovative and quality solutions associated with the Union brand, affirming Phinma's commitment to nation building and making Filipino lives better.



ENERGY

PHINMA Energy Corporation is an integrated power company engaged in power generation and electricity supply, renewable energy, and resource development and exploration.

In 2017, demand for energy continued to increase in line with the growing Philippine economy. The energy supply industry however was challenged by continued excess supply of power from coal fired baseload plants. The competitive supply situation resulted in low power prices, challenging the margins of suppliers.

In 2017, PHINMA Energy posted ₱17.0 billion in revenue from electricity sales, an increase of10% from ₱15.5 billion in the previous year due to new retail electricity supply contracts. Margins however were challenged by continued low market prices. Phinma Energy consolidated net income decreased to ₱347 million in 2017 from ₱1.383 billion in the previous year which included nonrecurring income of ₱444 million from gains on sales of assets including a 5% share in South Luzon Thermal Energy Corporation.

Despite the competitive environment, Phinma Energy expanded its business as a licensed Retail Electricity Supplier (RES). In 2017, the company was able to switch 71 additional customers with a total load of 161.5 MW and ended the year as the second largest retail electricity supplier.

On the generation side, Phinma Energy affiliate, *South Luzon Thermal Energy Corporation* (SLTEC), continued to provide reliable baseload power from its two 135MW circulating fluidized bed (CFB) coal fired power plants. SLTEC is the company's joint venture with *AC Energy Holdings Inc.* of the Ayala group and *Axia Power Holdings Philippines Corporation* of the Marubeni group. In 2017, SLTEC generated 1,850GWh from its two plants, an increase of 19% over the previous year. The two plants operated at an availability of 88.6% over the year, a significant improvement over the previous year.

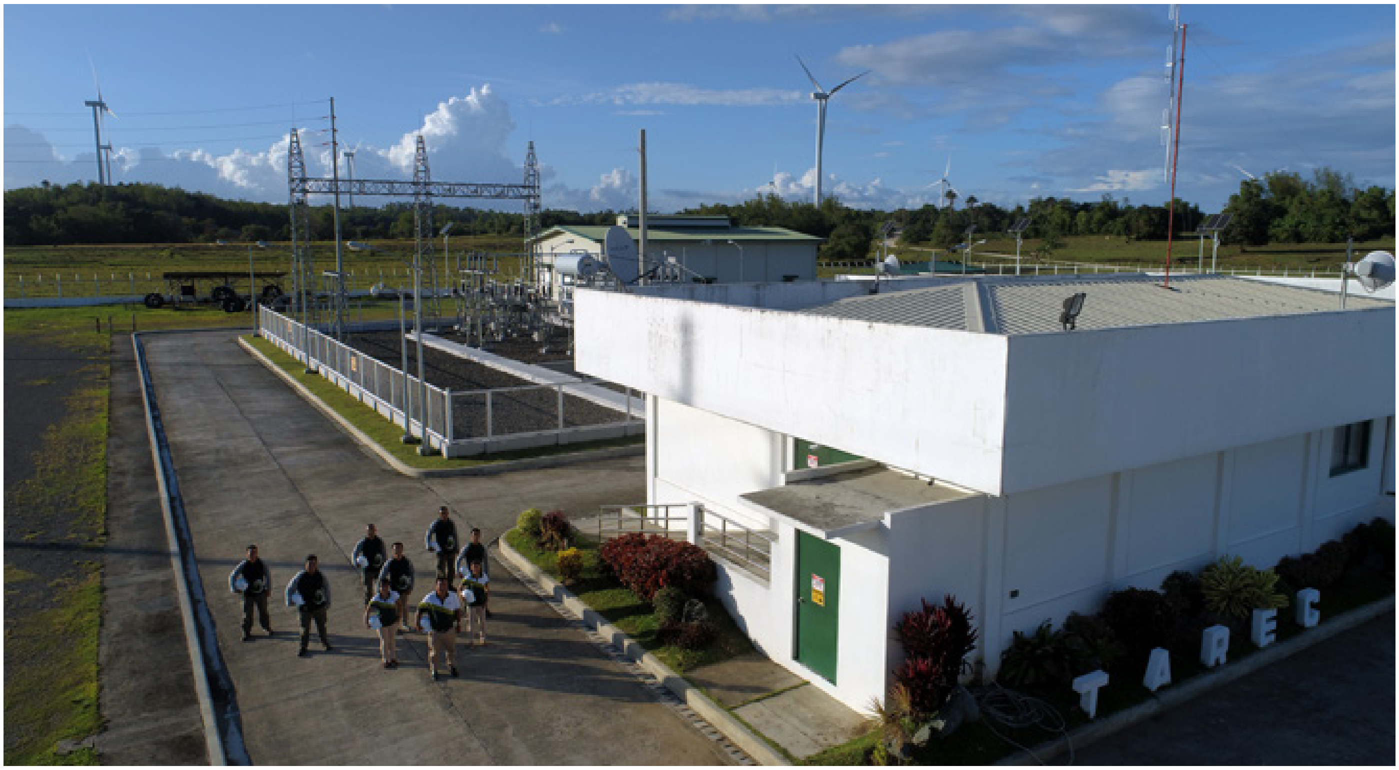
Providing renewable and sustainable energy is an integral part of the company's mission. In 2017, PHINMA Renewable Energy Corporation's 54-MW wind farm in San Lorenzo, Guimaras delivered 89.6 GWH of clean and renewable energy to the grid. In the future, Phinma Renewable looks forward to developing more projects out of its portfolio of 400MW of wind service contracts nationwide, in preparation for the implementation of the Department of Energy's (DOE) Renewable Portfolio Standards in 2020. To set the base for future wind capacity expansion, in early 2017 Phinma Energy subscribed to an increase in authorized capital and preferred shares in Phinma Renewable worth ₱2.35 billion.

Phinma Energy sees a bright future for solar renewable energy. In 2017, the company and the DOE entered into 25-year Solar Energy Service contracts covering 40MW and 45MW solar farms in Pangasinan and Batangas, respectively. In addition to grid connected solar projects, Phinma Energy and Union Galvasteel are jointly exploring off grid solar applications. The two companies will engage in solar power generation and develop retail solar products through *Phinma Solar Energy Corporation.*

The company remains poised to develop additional conventional and renewable energy projects as market and regulatory conditions merit, as it pursues its vision to be the preferred electricity supplier, serving the energy supply requirements of its customers as its contribution toward nation building and making lives better.

Geothermal energy is another valuable source of renewable energy in the country. PHINMA Energy, together with partners PetroGreen Energy Resources and PNOC Renewable Corporation, owns a twenty-five percent stake in the 20 MW Maibarara Geothermal Inc. (MGI) power plant in Sto. Tomas Batangas. In 2017, the Maibarara geothermal plant produced 160GWh of renewable energy, an increase over 152GWh in the previous year. MGI expanded the Maibarara geothermal plant by an additional 12MW in March 2018, increasing total plant capacity to 32MW.

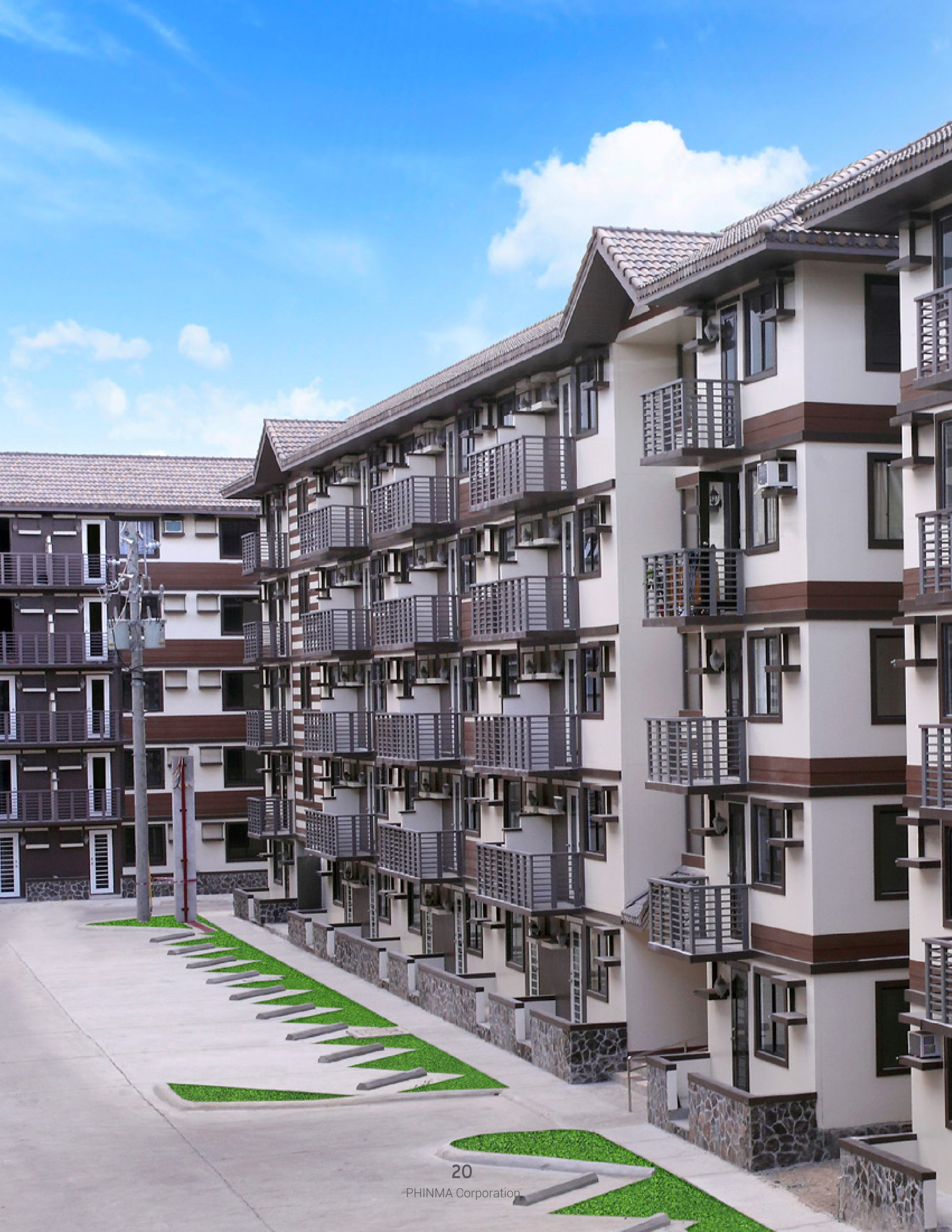
Moving forward, Phinma Energy recognizes the need to diversify its generating portfolio. Phinma Energy is studying projects that will diversity its generation portfolio to include gas and hydropower. Projects under study include two combined cycle gas turbine (CCGT) plants and a floating CCGT power

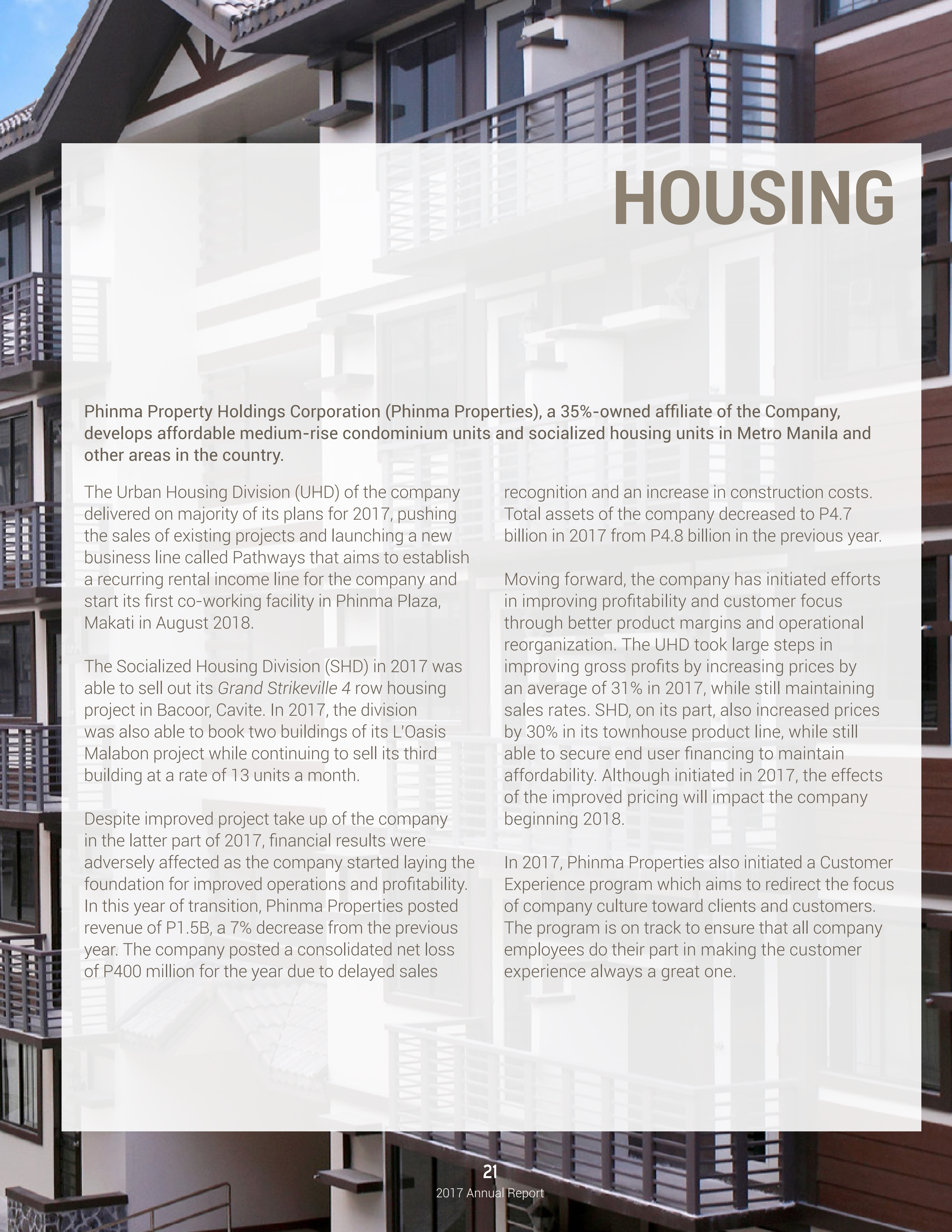


plant in Argao, Cebu. A fourth project is a 21.6MW Ilog hydroelectric power plant in Mabinay, Negros Oriental. The projects, all in the pre-development stage, have been cleared by the DoE for conduct of grid impact studies, and further development shall proceed as merited by market conditions.

Despite a slight recovery in oil prices in 2017, *PHINMA Petroleum and Geothermal Inc.* remains challenged by low oil prices which have dampened global exploration activity. The company however remains ready to resume activities once conditions permit, with the conviction that resource exploration and development play a key role in pursuing energy self-reliance for the country. Phinma Energy will also enter into the downstream oil industry, initially catering to the fuel requirement of its own diesel plants, through its subsidiary *One Subic Oil Distribution Corporation.*

Despite the challenges facing the energy supply industry, PHINMA Energy looks forward to greater participation in the retail electricity market using its existing portfolio of generating plants. The company remains poised to develop additional conventional and renewable energy projects as market and regulatory conditions merit, as it pursues its vision to be the preferred electricity supplier of choice, serving the energy supply requirements of its customers as its contribution toward nation building and making lives better.





HOUSING

Phinma Property Holdings Corporation (Phinma Properties), a 35%-owned affiliate of the Company, develops affordable medium-rise condominium units and socialized housing units in Metro Manila and other areas in the country.

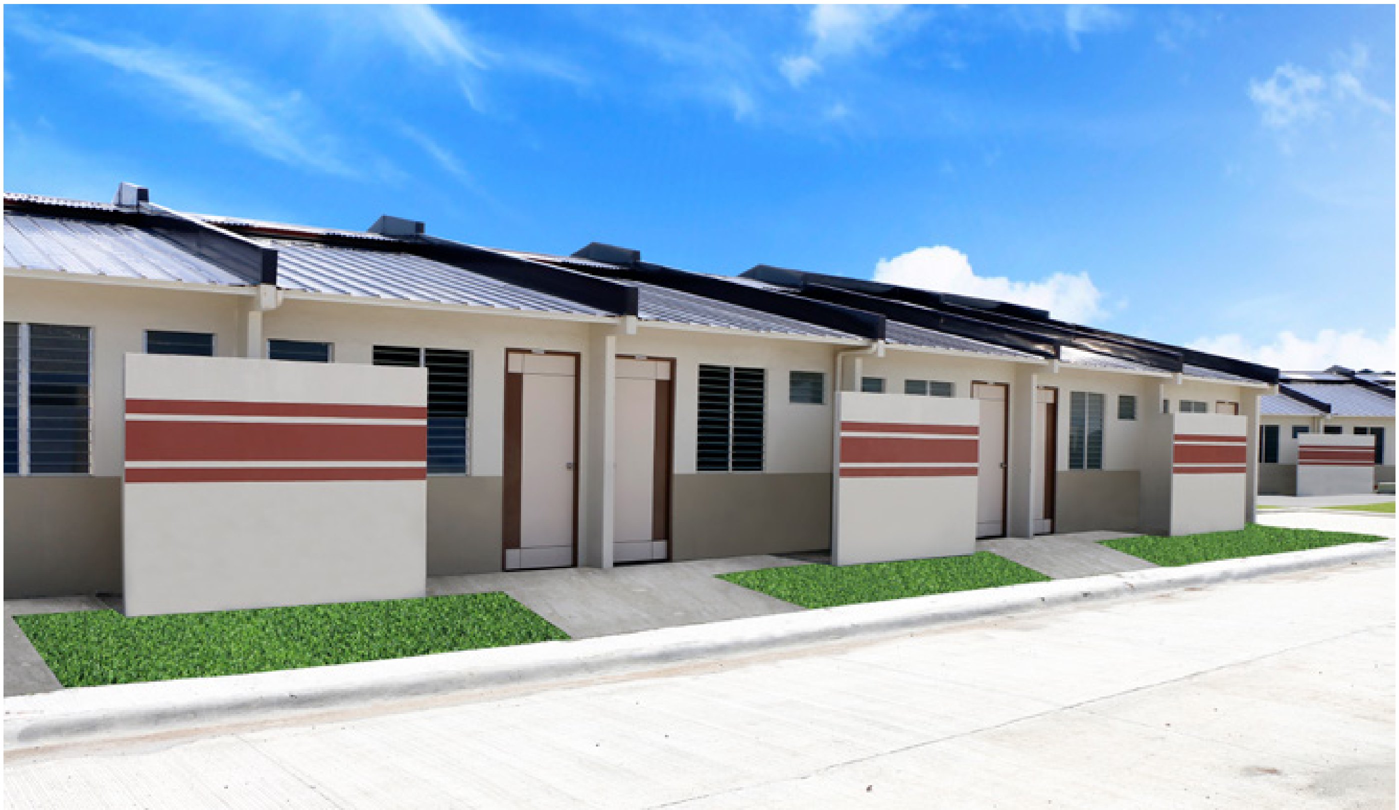
The Urban Housing Division (UHD) of the company delivered on majority of its plans for 2017, pushing the sales of existing projects and launching a new business line called Pathways that aims to establish a recurring rental income line for the company and start its first co-working facility in Phinma Plaza, Makati in August 2018.

The Socialized Housing Division (SHD) in 2017 was able to sell out its *Grand Strikeville 4* row housing project in Bacoor, Cavite. In 2017, the division was also able to book two buildings of its L'Oasis Malabon project while continuing to sell its third building at a rate of 13 units a month.

Despite improved project take up of the company in the latter part of 2017, financial results were adversely affected as the company started laying the foundation for improved operations and profitability. In this year of transition, Phinma Properties posted revenue of P1.5B, a 7% decrease from the previous year. The company posted a consolidated net loss of P400 million for the year due to delayed sales recognition and an increase in construction costs. Total assets of the company decreased to P4.7 billion in 2017 from P4.8 billion in the previous year.

Moving forward, the company has initiated efforts in improving profitability and customer focus through better product margins and operational reorganization. The UHD took large steps in improving gross profits by increasing prices by an average of 31% in 2017, while still maintaining sales rates. SHD, on its part, also increased prices by 30% in its townhouse product line, while still able to secure end user financing to maintain affordability. Although initiated in 2017, the effects of the improved pricing will impact the company beginning 2018.

In 2017, Phinma Properties also initiated a Customer Experience program which aims to redirect the focus of company culture toward clients and customers. The program is on track to ensure that all company employees do their part in making the customer experience always a great one.

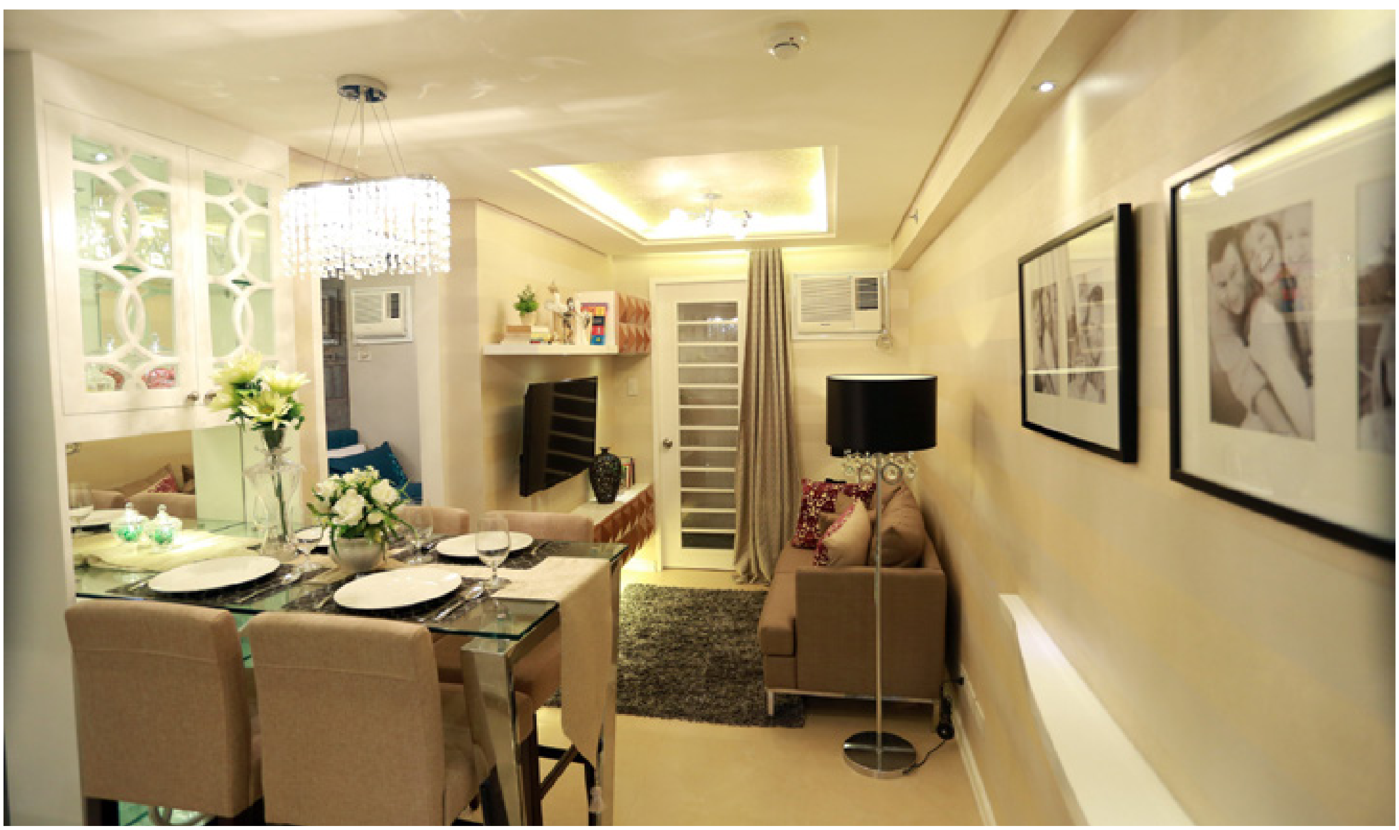


Phinma Properties looks to the future as various customer focus and reorganization initiatives enable the company to participate more meaningfully in the property sector.

In late 2017, the company also started organization changes to improve operations. Phinma Properties began combining the operations teams of both the Urban Housing Division and Socialized Housing Division to a single unified Operations team, which will then be divided into brands depending on the target market. The change is in line with the company's renewed focus toward specific customer needs. For socialized housing, the company is delivering housing units for the government and has begun to engage in projects for other companies in need of economic and socialized housing projects.

This year, Phinma Properties' *Pinnacle* affordable housing line looks forward to planning and permitting activity for *Metrotowne*, a joint venture with Giant Philippines in Las Pinas. *Metrotowne* will be a residential condominium project adjacent to a commercial complex development of Giant Philippines which will include a P2P terminal. The company also looks forward to launching Pathways, its first co-working facility in August of 2018 where the company hopes to establish recurring rental business.

Despite the trials faced by the company in 2017, Phinma Properties looks to the future as various customer focus and reorganization initiatives enable the company to participate more meaningfully in the property sector. The renewed Phinma Properties continues on with its mission of making home ownership more accessible, its contribution to PHINMA's mission of making life better for Filipinos.



HOTELS

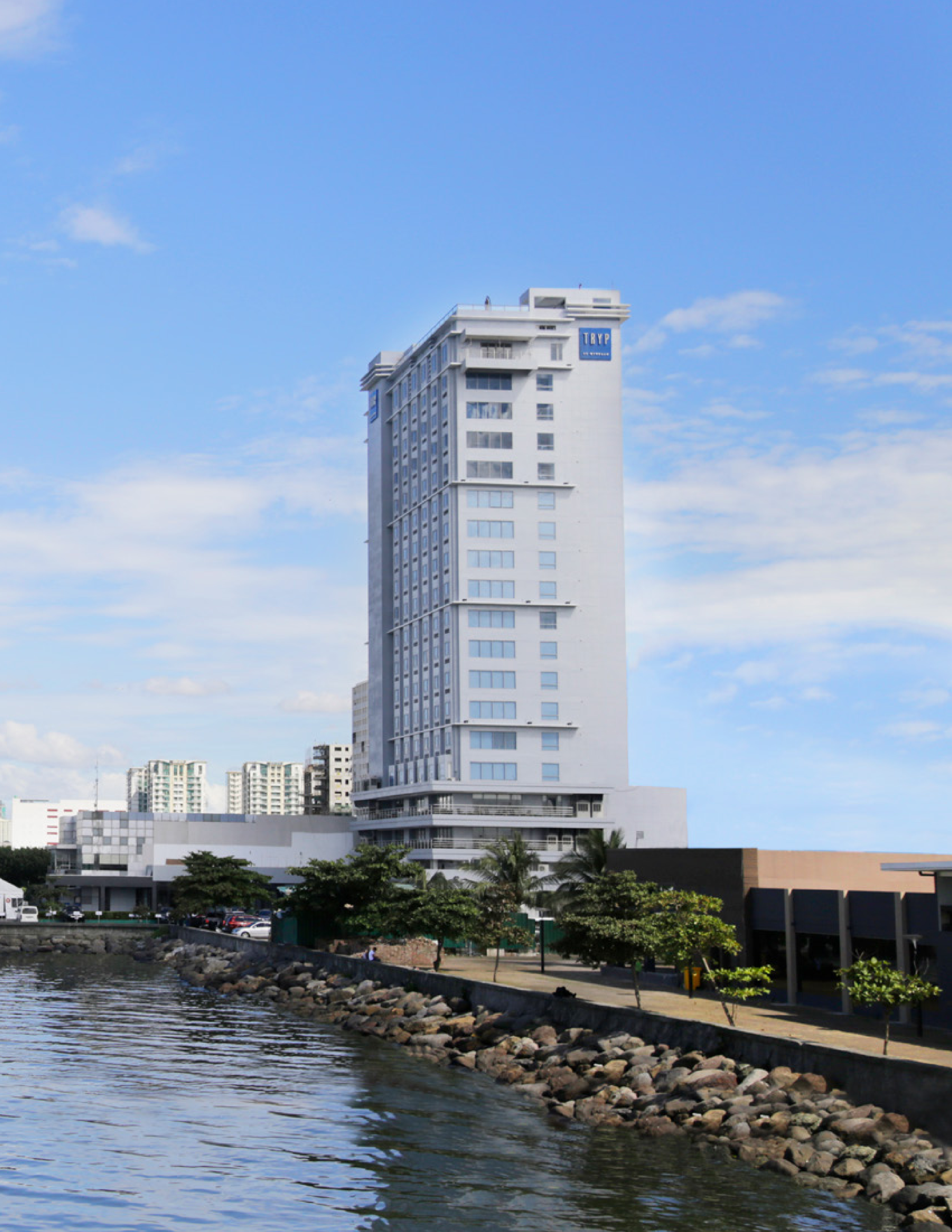
In 2017, Microtel Development Corporation changed its corporate name to Phinma Hospitality Inc. (Phinma Hospitality), to more closely relate the Wyndham franchises with the Phinma brand. Phinma Corporation, through Asian Plaza Inc., has a 36% equity interest in Phinma Hospitality as well as a direct 24% equity interest in Coral Way City Hotel Corporation (Coral Way), owner of the Microtel by Wyndham Mall of Asia hotel. Phinma Hospitality operates 14 Wyndham hotels in the country including 13 Microtel hotels and one TRYP hotel, and is a joint venture owner of majority of the hotels, including the flagship 150-room Microtel by Wyndham Mall of Asia hotel.

Microtel by Wyndham is an international chain of limited service hotels under Wyndham Hotel Group with 300+ properties worldwide, including 13 in the Philippines. Microtel by Wyndham pioneered the no-frills hotel concept in the country that targets the mid-market traveler. Its business model revolves around product and service consistency in terms of quality and value—focusing on providing consistently clean, comfortable and secure accommodations at value rates. TRYP is a sister brand of Microtel by Wyndham with over 120 properties in many urban cities in Europe, North and Latin America, and Australia.

Microtel's flagship hotel in the country is the 150-room Microtel by Wyndham Mall of Asia. The hotel's accessibility to SMX Convention Center, SM Mall of Asia, Mall of Asia arena, and key business and leisure hubs makes it ideal for business and leisure travelers in the area. In 2017, the hotel's average occupancy was 86% with a gross revenue of P201 million. Gross operating profit was P84 million and net Income was P14.6 million.

To complement Microtel by Wyndham Mall of Asia and to address the increased demand for accommodations from corporate accounts, leisure travelers, and attendees of meetings, conventions and exhibitions in the area, Coral Way, through its wholly owned subsidiary Krypton Esplanade Hotel Corporation, opened the 191-room TRYP by Wyndham hotel in October 2017. Located along Seaside Ave, also in the Mall of Asia complex, TRYP by Wyndham is a select-service hotel that targets today's modern travelers with its hip, young and energetic interiors. In addition to regular hotel rooms, the new TRYP by the bay provides specialty rooms including accessible rooms, family rooms with bunk beds, lofts, and fitness rooms for fitness-minded travelers. The TRYP by the bay experience is themed on discovery. Installations by local artists showcase the city, while the hotel also offers concierge services to assist travelers explore and discover Manila.

For 2018, Phinma Hospitality looks forward to the opening of the 80-room Microtel by Wyndham hotel in San Fernando, Pampanga. The company will also explore new TRYP sites in Manila, other urban areas, and popular vacation destinations in the country.


TRYP

STRATEGIC CONSULTING

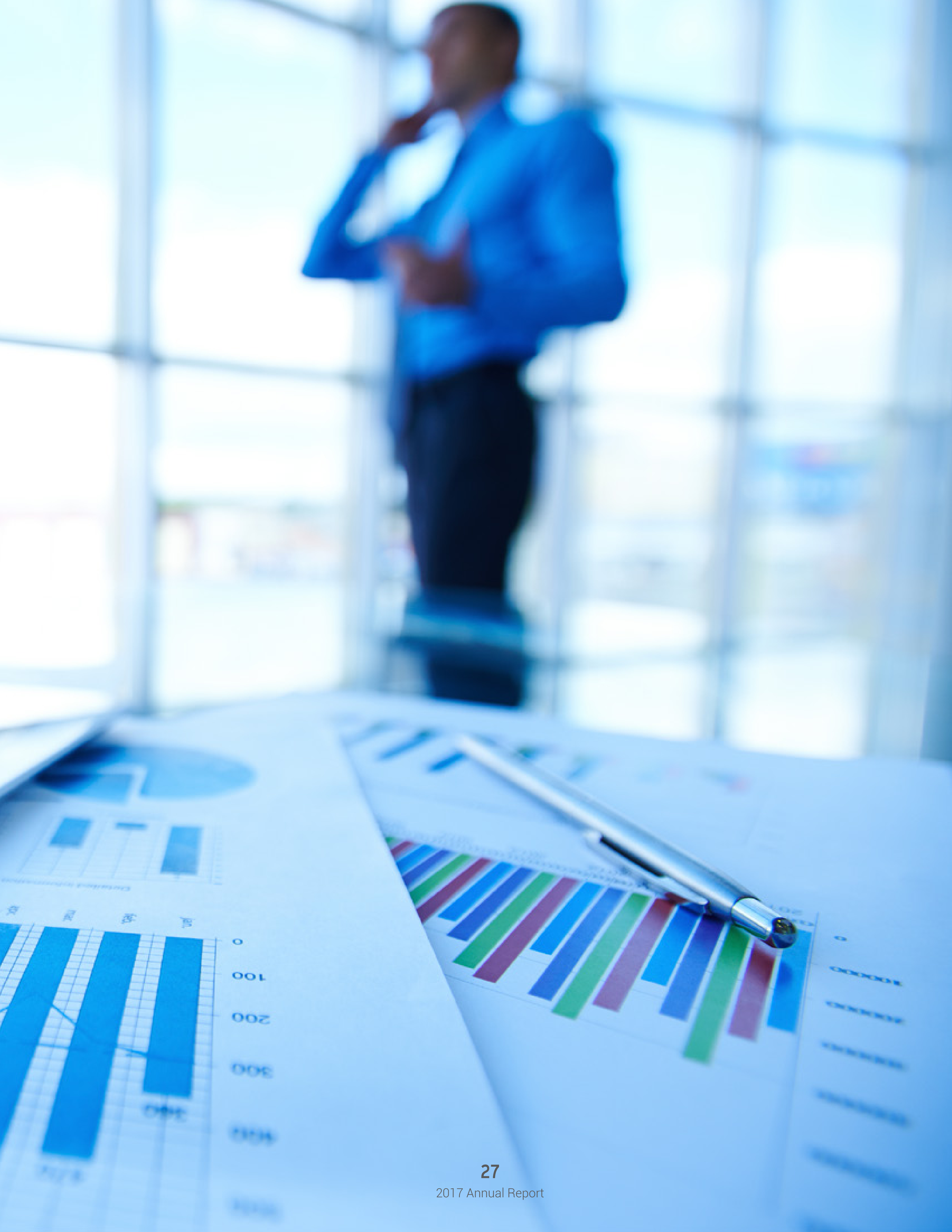
In 2017, Phinma sold its majority stake in Fuld & Co. Inc., its US based strategic consulting firm, to allow the Company to focus its efforts on its local consulting practice as it develops new markets and opportunities in the Philippines and Southeast Asia. In 2017, Fuld and Company (Philippines), Inc. changed its corporate name to *Integrative Competitive Intelligence Asia, Inc.*(ICI Asia).ICI Asia provides strategic consulting support to businesses and is the pioneer of competitive intelligence (CI) in the country. The change in name signifies the company's focus on bringing its strengthin CI to a wider Asian audience, including government agencies and non-profit organizations among its clients.

In 2017, the company focused on strengthening its local presence by introducing two new services: Development Research (DevRes) and Strategic Engagement (StratEn). DevRes is aimed at providing research support to help address social development issues that affect the achievement of our nation's full potential. StratEn, on the other hand, is focused on helping organizations in planning for and executing projects across a broad spectrum of activities, including organizational development and optimization, digital and marketing transformation, public dialogue, and employee management.

Within the first year of its new direction, ICI Asia won projects from several organizations. These highlighted the premise that the integration of CI to both the discipline of social research and the implementation mindset of strategic engagement would be a strong differentiator in the market. In 2017, the company turned around its financial performance, posting revenue of P52.3 million, over double that of the previous year, and net income of P6.3 million, compared to a net loss of P16.7 million in the previous year.

For 2018, the company will continue to build its presence in the Philippines with initiatives aimed at building stronger relationships at the provincial level to help advance social causes and promote growth inclusivity. Complementing this will be a push to engage clients in the ASEAN region. The company also hopes to reinvigorate its traditional business line which it now calls *Business Intelligence* (BizIntel).

Through the lens of research, ICI Asia does its part in PHINMA's mission of making lives better in the country, transforming insights into actions that empower organizations in contributing to nation building.



CORPORATE SOCIAL RESPONSIBILITY

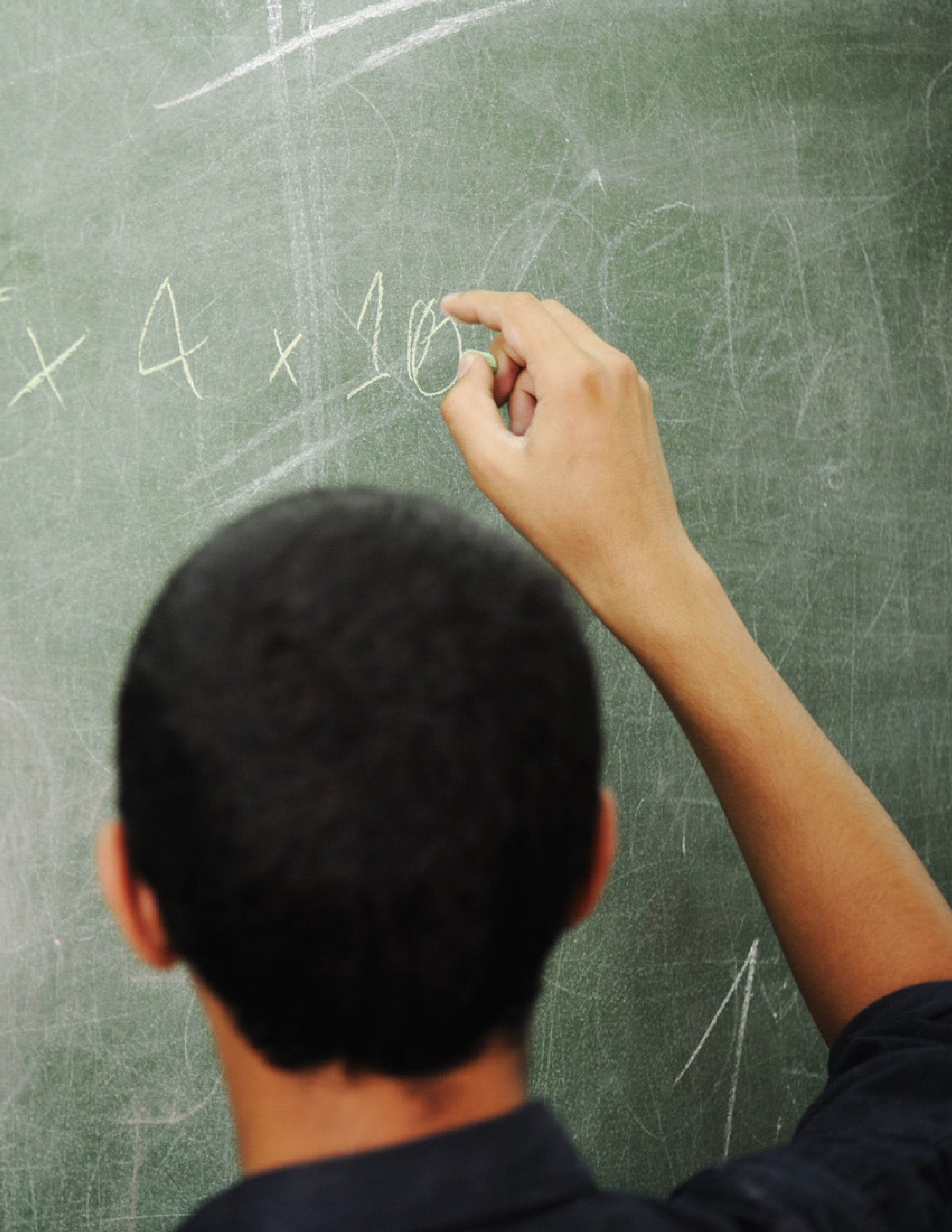
At PHINMA, we believe that our business is our social responsibility, and our social responsibility is our business. PHINMA Corporation's corporate social responsibility initiatives therefore focus on areas in line with our main businesses and contribute to providing the Filipino people with the essentials necessary to live dignified lives. Through the Helpful Employees Responsible for Others Network (HERO) PHINMA also encourages its employees to contribute in their personal capacities by volunteering and improving their communities.

Education

In 2017, PHINMA continued its strong commitment to providing quality education. This was demonstrated by its continued support of the PHINMA National Scholarship (PNS) program, the flagship program of the PHINMA Foundation. PNS provides scholarships, leadership development and mentoring to 100 scholars enrolled in education, accounting and engineering courses in Philippine Normal University (PNU), Polytechnic University of the Philippines (PUP) and the University of the Philippines (UP) Diliman. To date, the program has produced 154 graduates. PNS scholars pass their respective board exams within one year of graduation.

PNS aims to develop not only scholars but leaders as well. Year-round activities are therefore made available to the scholars to hone the students' skills and potential in becoming leaders and productive citizens of the Philippines. On-the-job trainings, leadership conference, and workshops are conducted for the continuing development of the scholars. This year, the annual leadership conference theme was "Reboot Camp" where the scholars were taught to develop their skills as leaders. This was organized and facilitated by the PHINMA National Scholarship Alumni Association (PNSAA). PNS scholars are also paired with mentors known as Big Brothers or Big Sisters (BBBS) from within PHINMA to provide them with mental and emotional support.

PHINMA Education continued to extend scholarships to deserving students while partnering with the communities surrounding its schools. PHINMA Cagayan de Oro College conducted relief operations to the battle-torn city of Marawi. Students and employees worked together with local and non-government units to provide relief goods to three evacuation centers as well as meals to soldiers manning checkpoints. PHINMA COC has further plans to visit affected schools and donate basic necessities for students. The PHINMA Education schools also continued its annual bloodletting activities. PHINMA AU's Bulilit University, a program to improve retention and introduce learning among children, currently manages five day care centers. SWU PHINMA continued its work in SWU Town providing health and education programs in Barangay Sambag 1 and 2, with a total population of approximately 4,000 families in income classes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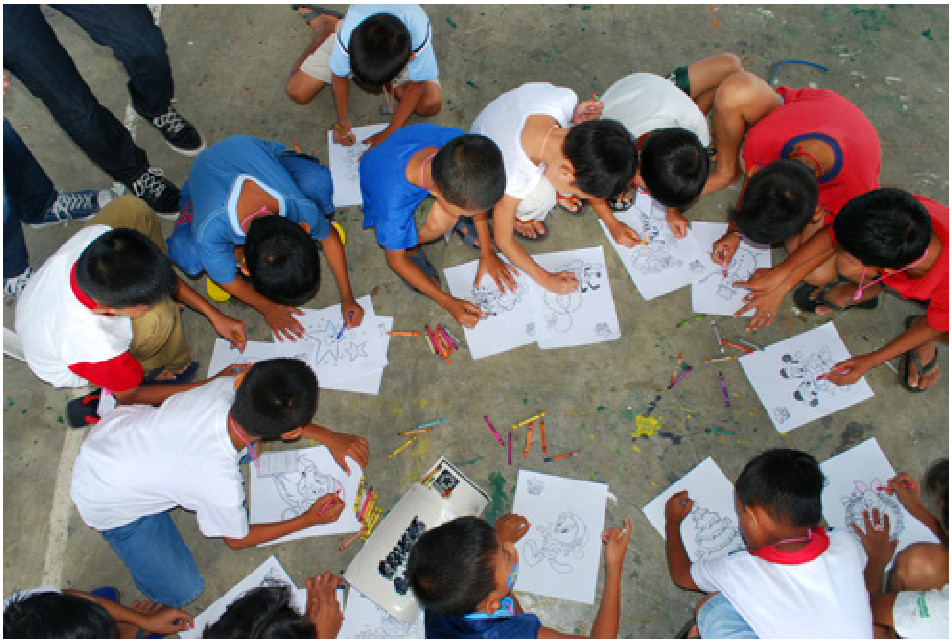


C to E. PHINMA UI focused on programs that enhanced the disaster risk awareness of the youth and disaster responders.

Union Galvasteel Corporation (UGC) also continues its support for the Education sector by completing the reroofing of schools in their partner communities. UGC also conducted plant visits and implemented extensive OJT programs for students. At least six scholarships were also awarded to numerous talented students in select schools including Laguna State Polytechnic University (LSPU), Batangas State University (BSU), and Don Mariano Marcos Memorial State University (DMMMSU).

UGC continues to conduct Summer Computer Camps to different elementary schools surrounding the vicinity of their plant. This year, they conducted the summer camp for students from Real Elementary School. UGC employees also continue to volunteer their time and expertise by providing Basic Computer Literacy workshops for incoming Grade 5 and six public school students from select barangays in Laguna.

Environment

PHINMA Energy continued its Harnessing Energy Literacy for Planet Earth (HELP Earth) program in 2017 by providing education support and conducting reforestation, clean-up drives, and waste management programs. HELP Earth Education currently counts 33 partner schools and has reached more than 10,000 students and 120 teachers. HELP Earth Environment has planted more than 18,000 seedlings in 82 hectares of adopted sites. The CSR practices of PHINMA Energy were recognized by the Asia Corporate Excellence and Sustainability (ACES) Awards as they were named among the Top CSR Advocates in Asia. In addition, PHINMA Energy was recognized by the Asia Responsible Empowerment Awards (AREA) in the categories of Green Leadership and Social Empowerment.

Reforestation efforts were also conducted by the PHINMA Education schools which have planted more than 16,000 seedlings in adopted areas within partner communities. PHINMA AU has established an Ecology Center in Dupinga Watershed in Gabaldon, Nueva Ecija. PHINMA UI continues to implement mangrove planting annually in Katunggan Park in Leganes, Iloilo. Most recently, 1,200 graduating students planted 1,350 wildlings. PHINMA Propreties partnered with Miriam College to conduct reforestation efforts in Tanay, Rizal. PHINMA Hospitality focused its CSR efforts on rehabilitating tourist sights situated around its properties including its International Coastal Clean Up and its Adopt an Estero programmes. PHINMA Hospitality employees also participated in the restoration of Silang Church.

Disaster Response

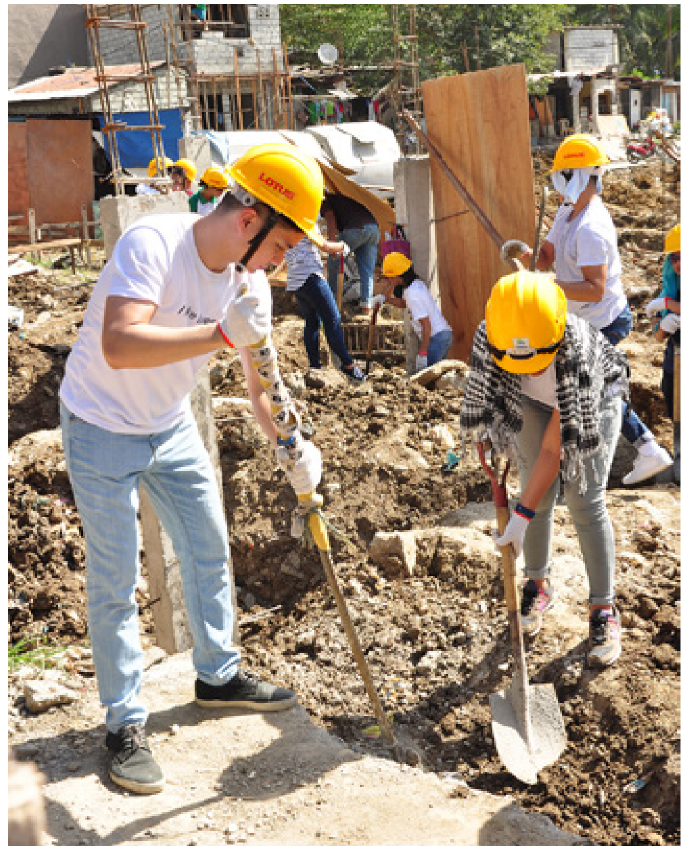
UGC in Cagayan De Oro took part in boosting disaster preparedness in their area by donating life jackets for use during severe storms. These life jackets were recycled from UGC materials using employee households to do the sewing.

In partnership with local barangay officials, UGC also targeted the repair and restoration of dilapidated waiting sheds along the highways.

Individual Social Responsibility

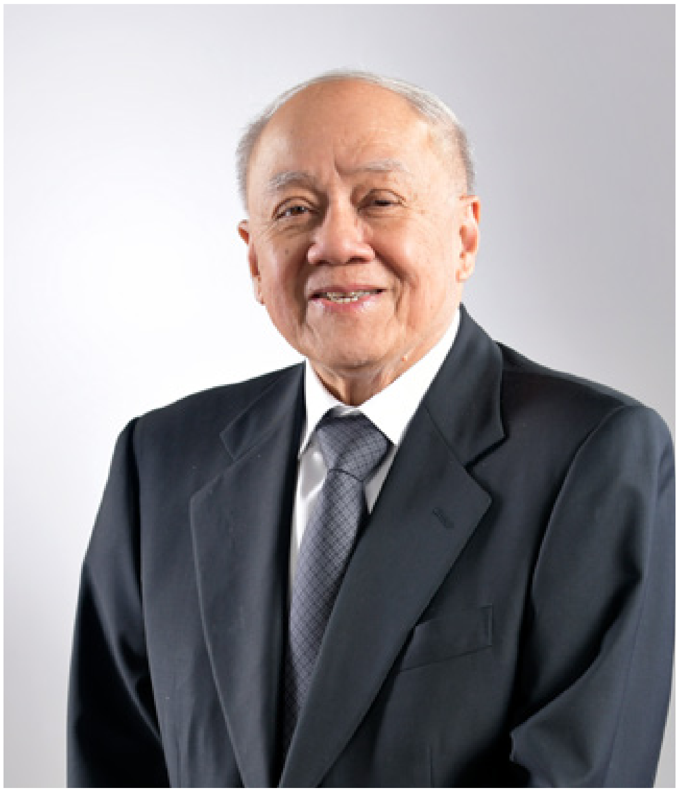
PHINMA lives up to its mission of making lives better as it continues to empower and encourage its employees to join its efforts towards nation building through the PHINMA HERO Network. PHINMA HERO seeks to inspire, equip, and mobilize PHINMA employees to make life better through volunteering and giving.

PHINMA, in partnership with the Ateneo De Manila University for a Strategic Management class, focused on creating sustainable livelihood opportunities for GK Zabarte. This was the fourth year of the partnership as PHINMA employees served as mentors to the students, providing insights and guidance on running social enterprises. PHINMA employees also served as panelists for the panel defenses that the students went through, providing their own wisdom and insight by critiquing the presented business models.



In 2017, PHINMA conducted its second PHINMA Reaches Out, a weeklong event of volunteer activities at 25 sites nationwide. Almost 600 employees participated in programs focused on education, the environment and in building communities. Through efforts such as PHINMA Reaches Out, PHINMA Corporation achieved a 96% rate of volunteerism in 2017.

The HERO program will continue to collaborate with the different CSR Groups of PHINMA, as well as strengthen its partnership with the various adopted communities and beneficiaries in order to provide more meaningful avenues for employee volunteerism. Through these efforts, HERO continues to work towards achieving 100% volunteer participation within the PHINMA group.



OSCAR J. HILADO
Director and Chairman of the Board

Oscar J. Hilado has been the Chairman of the Board of the Company since 2003. He is also Chairman of the Board of PHINMA, Inc., PHINMA Property Holdings Corporation. and Union Galvasteel Corporation. He is Vice Chairman of Union Galvasteel Corporation, PHINMA Energy Corporation, PHINMA Power Generation Corporation, and PHINMA Petroleum and Geothermal, Inc. Mr. Hilado is also a Director and Chairman of the Audit Committee of A. Soriano Corporation, First Philippine Holdings Corporation, Philex Mining Corporation, Smart Communications, Inc., and Seven Seas Resort and Leisure, Inc. He is also a Director of One Subic Power Generation Corp., Palawan 55 Exploration & Production Corporation, PHINMA Renewable Energy Corporation, One Subic Oil Distribution Corporation, PHINMA Solar Energy Corporation, Digital Telecommunications Philippines, Inc. (DIGITEL), Manila Cordage Company, Beacon Property Ventures, Inc., Pueblo de Oro Development Corporation, Rockwell Land Corporation, Roxas Holdings, Inc. and United Pulp and Paper Co., Inc. He has been a Director of the Company since 1969 and is also the Chairman of the Executive Committee and Corporate Governance and Related Party Transaction Committee of the Company. Mr. Hilado is a Certified Public Accountant with a Bachelor of Science degree in Commerce from the De La Salle College in Bacolod and a Master's degree in Business Administration from the Harvard Graduate School of Business.

RAMON R. DEL ROSARIO, JR.
Director, Vice Chairman and President

Ramon R. del Rosario, Jr. is the President and CEO of PHINMA Inc. and PHINMA Corporation. He is Chairman of the Board of PHINMA Energy Corporation, PHINMA Power Generation Corporation, PHINMA Renewable Energy Corporation, PHINMA Petroleum and Geothermal, Inc., PHINMA Solar Energy Corporation, One Subic Power Generation Corporation, CIP II Power Corporation, PHINMA Microtel Hotels, Inc., PHINMA Hospitality, Inc. and the Chairman of the Boards of Trustees of PHINMA Education Holdings, Inc., Araullo University, Cagayan de Oro College, University of Iloilo, University of Pangasinan and Southwestern University. He is a director of several PHINMA-managed companies and currently serves as a member of the Board of Directors of Ayala Corporation and as Chairman of United Pulp and Paper Company of the Siam Cement Group. He served as Secretary of Finance of the Philippines from 1992 to 1993. He is the Chairman of the Philippine Business for Education (PBED) and the National Museum of the Philippines. He was the Chairman of the Makati Business Club, the Integrity Initiative and Ramon Magsaysay Award Foundation. He was selected as the Most Outstanding Student of the Philippines in 1967, one of the Ten Outstanding Young Men (TOYM) of the Philippines in 1978 and the MAP Management Man of the Year in 2010. He is the brother of Mr. Victor J. del Rosario. Mr. del Rosario obtained his BSC-Accounting and AB-Social Sciences degrees (Magna cum Laude) from De La Salle University and Master's degree in Business Administration from the Harvard Business School. He has been a director of the company since 2002.

BOARD OF DIRECTORS

MAGDALENO B. ALBARRACIN, JR.
Director

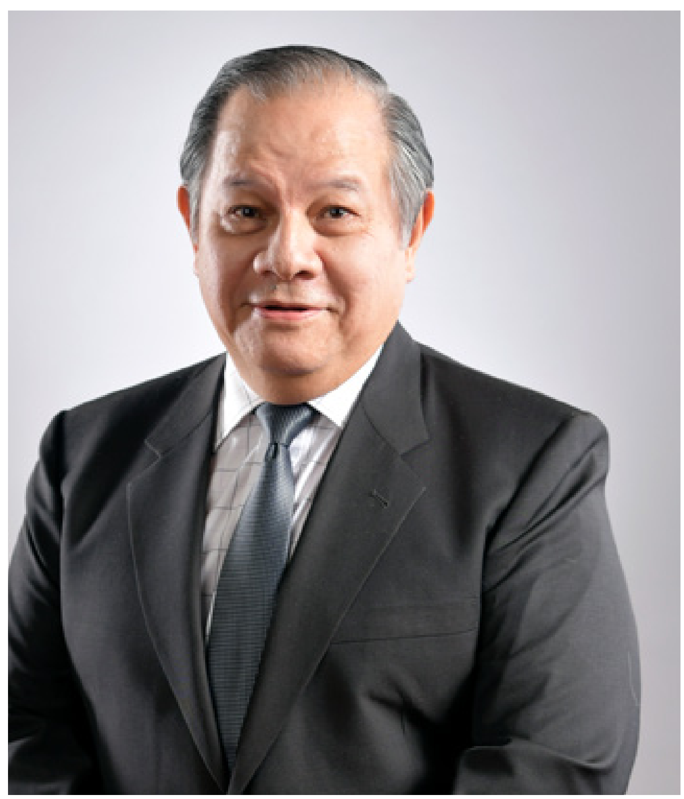
Magdaleno B. Albarracin, Jr. is the Vice-Chairman of PHINMA, Inc. He was a former director of Holcim Philippines, Inc. and holds directorates in various Phinma companies. Dr. Albarracin is a member of the Board of Regents of the University of the Philippines (UP) as well as Board of Trustees of U.P. Engineering Research and Development Foundation, Inc. (UPERDF). He is the Chairman of the Board of Trustees of the University of San Carlos, Cebu City. He served as Dean of the UP College of Business Administration and was President of the Asean Federation of Cement Manufacturers. Dr. Albarracin has a Bachelor of Science degree in Electrical Engineering from the University of the Philippines and a Master of Science degree in Electrical Engineering from the University of Michigan. He obtained his Master in Business Administration degree from the University of the Philippines and his Doctorate in Business Administration from Harvard University. He attended the Corporate Governance Seminar conducted by SGV last August 2015 and September 2016. He has been a Director of the Company since 1980.

ROBERTO M. LAVIÑA
Director, Senior Executive Vice President and Chief Operating Officer

Roberto M. Laviña was appointed Senior Executive Vice President and Chief Operating Officer on July 27, 2012. Mr. Laviña is also the Senior Executive Vice President and Chief Operating Officer of PHINMA, Inc. and is concurrently the President and Chief Executive Officer of PHINMA Property Holdings Corporation. He is a Member of the Board and the Senior Executive Vice President / Treasurer of PHINMA Energy Corporation. He also occupies various executive posts in PHINMA-managed companies and is a Member of the Board of all the companies in the Phinma Group which include companies in power generation, education, hotels, steel roofing, property development, oil exploration, strategic consulting and insurance brokers. For the year 2015, he attended various trainings as follows: Crisis Management and Communication Planning Forum on March 19, 2015, Executive Coaching Champions to Drive Business Impact on April 29, 2015, and Corporate Governance Seminar, by SGV on August 27, 2015 and August 25, 2016. He holds a Bachelor of Arts degree in Economics from Ateneo de Manila University and obtained his Master's degree in Business Management from the Asian Institute of Management. He became a Director of the Company on May 20, 2004.

VICTOR J. DEL ROSARIO
Director, Executive Vice President and Chief Finance Officer

Victor J. del Rosario is an Economics and Accounting graduate of De La Salle University and holds a Master's degree in Business Administration from Columbia University. He was elected as director on September 15, 2008. He is the Vice-Chairman of Union Galvasteel Corporation and is the Executive Vice President and Chief Strategic Officer of PHINMA Inc. For PHINMA Corp., he is Executive Vice President and Chief Finance Officer. He is also a member of the Board of Directors of PHINMA Inc., PHINMA Energy Corporation, PHINMA Petroleum and Geothermal, Inc. and other PHINMA-managed companies. Mr. Del Rosario is the brother of Mr. Ramon R. del Rosario, Jr.



JOSE L. CUISIA, JR.
Director

Jose L. Cuisia, Jr. was the Philippine Ambassador Extraordinary and Plenipotentiary to the United States of America and non-resident Ambassador to Trinidad & Tobago, the US Virgin Islands, Grenada, Puerto Rico, the Commonwealth of Jamaica and the Republic of Haiti, Antigua & Barbuda, Barbados, the Commonwealth of Dominica, The Federation of St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines. Ambassador Cuisia previously served the Philippine Government as Governor of the Philippine Central Bank and Chairman of its Monetary Board from 1990- 1993, was Governor for the Philippines to the International Monetary Fund and Alternate Governor to the World Bank. He was also Administrator and CEO of the Philippine Social Security System from 1986-1990. He was also appointed Commissioner, representative of the Employer's Group, for the Social Security System (SSS) from September-December 2010. He is the Chairman of the Board for The Covenant Car Company, Inc. (TCI) and the Vice-Chairman of the Board of SM Prime Holdings (SMPHI). He holds directorates in Manila Water Company, Inc., SM Prime Holdings, Century Properties Group, Inc., and Phinma, Inc. Ambassador Cuisia was President and CEO of Philam Life for 16 years. He obtained his BSC-Accounting and AB-Social Sciences degrees (Magna cum Laude) from De La Salle University and Master's degree in Business Administration from University of Pennsylvania. Ambassador Cuisia has been a Director of the Company since 1994.

FILOMENO G. FRANCISCO
Director

Filomeno G. Francisco was formerly President and Chief Operating Officer of AB Capital and Investment Corporation (ABCIC). He is currently a Director of PHINMA Property Holdings Corporation and Ginory Holdings Corporation. Mr. Francisco served on the Boards of trade organizations, Investment House Association of the Philippines, Philippine Stock Exchange Inc., PSE Foundation and Manila Stock Exchange. Mr. Francisco also held directorates in ABCIC, Cebu Holdings, Inc., Philippines Long-Term Equity Fund, Hi Cement Corporation, and United Pulp and Paper Company, Inc. He has a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University. Mr. Francisco was elected as director of PHINMA Corporation on May 14, 2012.

FRANCISCO L. VIRAY
Director

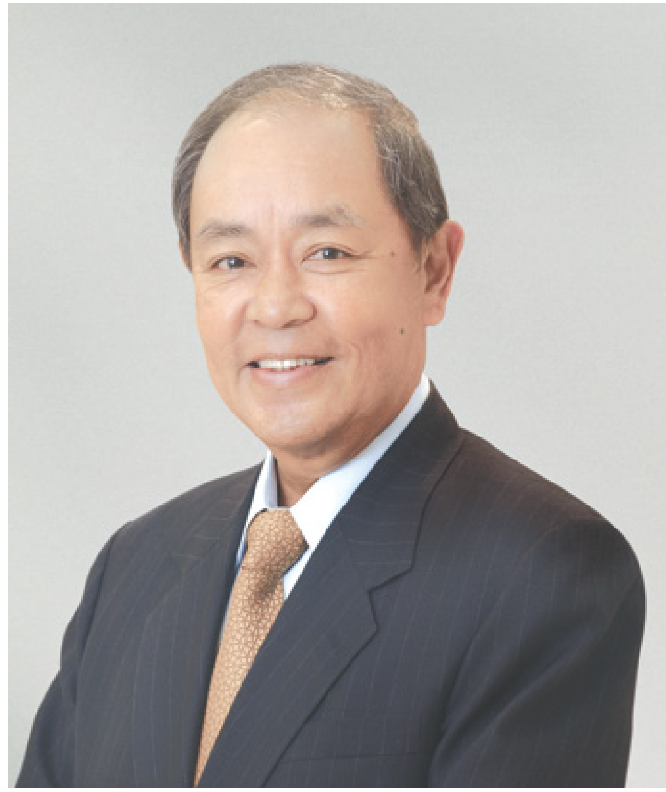
Francisco L. Viray is currently the President and Chief Executive officer and a director of PHINMA Energy Corporation. He is concurrently the President and Chief Executive Officer of PHINMA Power Generation Corporation,PHINMA Renewable Energy Corporation and PHINMA Petroleum and Geothermal, Inc. and Vice Chairman and Chief Executive Officer of CIP II Power Corporation and One Subic Power Generation Corporation. He is also at present a member of the Board of Directors of Araullo University, Cagayan de Oro College and University of Pangasinan. He obtained his Bachelor of Science and Masters in Electrical Engineering degrees from the University of the Philippines and his Doctorate in Engineering degree from West Virginia University. He was President of the National Power Corporation in May 1993 and served as Secretary of the Department of Energy from 1994 to 1998. He joined the PHINMA Group in 1999. Dr. Viray served on the Board of Directors of Manila Electric Company, Petron Corporation, Union Cement Corporation (now Holcim Philippines, Inc.) and United Pulp and Paper Company, Inc. He became a Director of the Company in April 2013.

ERIC S. LUSTRE
Director

Eric S. Lustre is the Head of Corporate Finance Department of the Investment Division and the Country Credit Officer of The Philippine American Life and General Insurance Company. He is also responsible for the real estate investment portfolio of the company and is the Chief Executive Officer of Philam Properties Corporation. Mr. Lustre is a member of the Board of Directors of Philam-Equitable Life Assurance Company, ICCP Holdings, Inc., Science Park of the Philippines, Inc., Regatta Properties, Inc., Beacon Property Ventures, Inc. Pueblo de Oro Development Corporation, Cebu Light Industrial Park, Inc., and RFM-Science Park of the Philippines, Inc. He is also the President of the Tower Club, Inc. He has a Bachelor of Science in Business Management from Ateneo de Manila University and holds a Master's degree in Business Management major in Finance from Asian Institute of Management. He attended the SGV Corporate Governance and Risk Seminar in August 2015 and September 21, 2016. Mr. Lustre was elected as director of PHINMA Corporation on November 6, 2013.

GUILLERMO D. LUCHANGCO
Independent Director

Guillermo D. Luchangco is Chairman and Chief Executive Officer of various companies of The ICCP Group, including Science Park of the Philippines, Inc., Pueblo de Oro Development Corp., Cebu Light Industrial Park, Inc., Regatta Properties, Inc., RFM-Science Park of the Philippines, Inc., and Manila Exposition Complex, Inc. He is Chairman of Investment & Capital Corporation of the Philippines as well as Chairman and President of Beacon Property Ventures, Inc. He is an independent director of Roxas and Company, Inc. and PHINMA Energy Corporation and a regular director of Ionics, Inc. and Ionics EMS. He was previously the Vice-Chairman and President of Republic Glass Corporation and Managing Director of SGV & Co. Mr. Luchangco received his Bachelor of Science degree in Chemical Engineering (magna cum laude) from De La Salle University, and holds a Master's degree in Business Administration from the Harvard Business School. He became an Independent Director of the Company on April 11, 2005.



ROBERTO F. DE OCAMPO
Independent Director

Roberto F. de Ocampo, OBE, became the first Filipino to receive the "Global Finance Minister of the Year" award from Euromoney. The Association of Development Finance Institutions of Asia and Pacific (ADFIAP) named him as Asian Finance Minister of the Year. He was again recognized as Asian Finance Minister of the year by Asiamoney. He is known nationally and internationally for public and international finance, having been Chairman of the APEC and ASEAN Finance Ministers as well as member of the Boards of Governors of World Bank, International Monetary Fund, and the Asian Development Bank. He was Secretary of Finance during the presidency of Fidel V. Ramos. Prior to these posts, he also served as Chairman and CEO of the Development Bank of the Philippines. He is the past president of the Asian Institute of Management (AIM) and was a member of the AIM Board of Trustees. At present he is the Chairman of the Philippine Veterans Bank and also Chairman of the Board of Advisers of the RFO Center for Public Finance and Regional Economic Cooperation, which is an ADB Regional Knowledge Hub. Dr. de Ocampo is a recipient of many international and national honors. He was named to the Ordre National de la Legion d' Honneur by the Republic of France with the rank of Chevalier. He was also conferred by Her Majesty Queen Elizabeth II the Most Excellent Order of the British Empire (OBE). He has also been awarded the Philippine Legion of Honor, the highest honor conferred on Filipino civilians by the Republic of the Philippines. He became an Independent Director of the Company on April 2, 2009.

OSCAR J. HILADO
Chairman of the Board

RAMON R. DEL ROSARIO, JR.
Vice Chairman and President and Chief Executive Officer

ROBERTO M. LAVIÑA
Senior Executive Vice President and Chief Operating Officer

VICTOR J. DEL ROSARIO
Executive Vice President and Chief Finance Officer

RIZALINA P. ANDRADA
Vice President - Finance

RODERICK Y. BARRO
Vice President

ROLANDO D. SOLIVEN
Assistant Vice President - Internal Audit

EXECUTIVE OFFICERS

PYTHAGORAS L. BRION
Senior Vice President and Treasurer

REGINA B. ALVAREZ
Senior Vice President - Finance

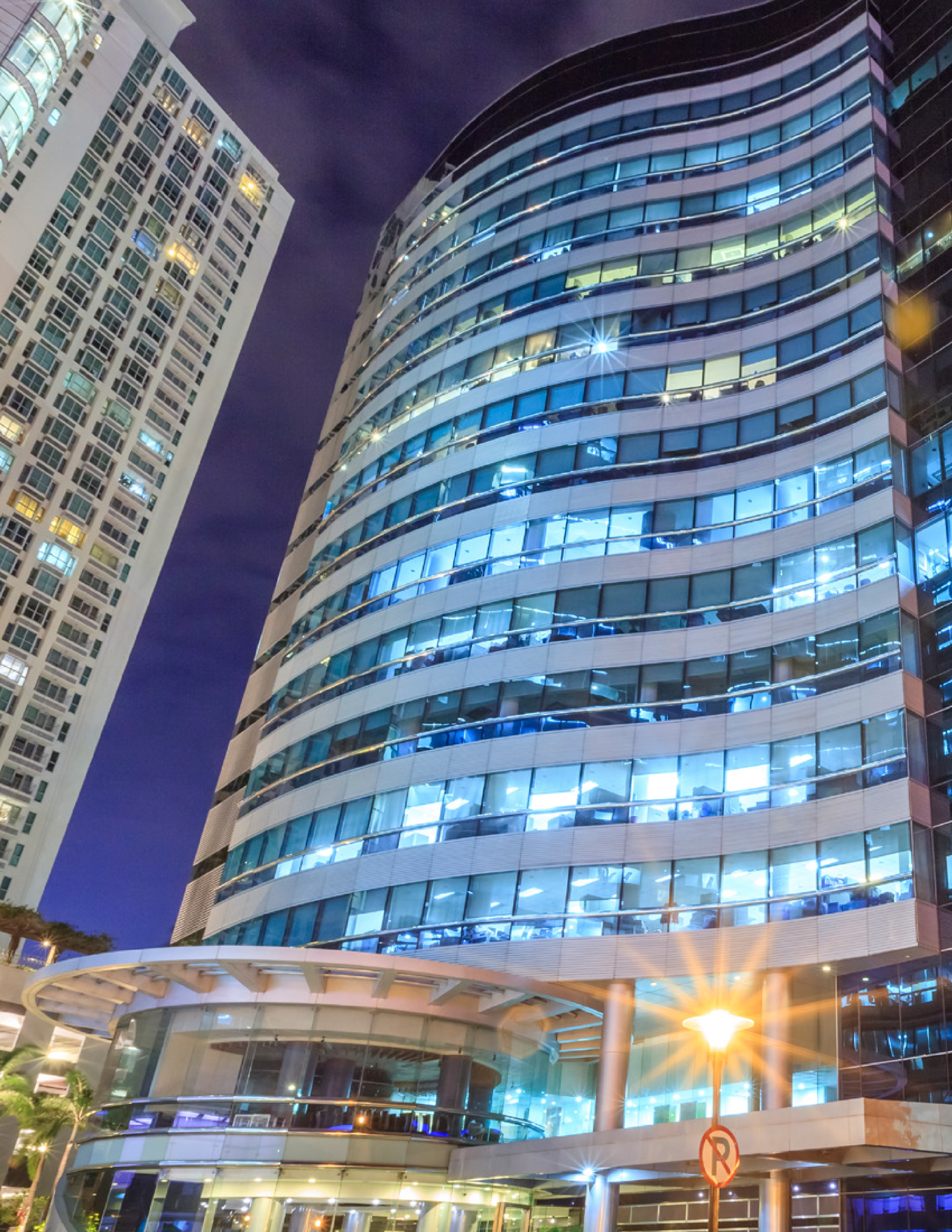
CECILLE B. ARENILLO
Vice President – Treasury and Compliance Officer

NANETTE P. VILLALOBOS
Assistant Vice President - Treasury

GILES R. KATIGBAK
Investor Relations Officer

TROY A. LUNA
Corporate Secretary

MA. CONCEPCION Z. SANDOVAL
Assistant Corporate Secretary



CORPORATE GOVERNANCE

The Board of Directors, officers and employees of PHINMA Corporation (PHN) commit themselves to the principles of good governance, as contained in its Manual of Good Corporate Governance approved in August 2002 and as amended in March 2004, February 2008, March 2011, June 2014, May 2017 and March 2018. PHN believes that good governance is an integral component of sound business management and exerts every effort necessary to ensure compliance within the organization.

COMPLIANCE OFFICER

The Chairman of the Board designates a Compliance Officer who reports to the Chairman of the Board. Because PHN is a publicly-listed company, the appointment of Compliance Officer is properly disclosed to the Securities and Exchange Commission.

The Compliance Officer's duties include ensuring proper onboarding of new directors, including providing orientation on the company's business, articles of incorporation and by-laws, among others. The Compliance Officer evaluates and ensures compliance by the Corporation and its officers and directors with the relevant laws, the Code of Corporate Governance ("Code"), and all related rules, regulations and issuances of regulatory agencies. The officer likewise identifies possible areas of compliance issues and works toward the resolution of the same and also performs such other duties and responsibilities as may be required by the SEC.

Integrated Annual Corporate Governance Report (I-ACGR)

SEC MC No. 15, Series of 2017 was released in December 2017 which mandates all publicly-Listed companies to submit an Integrated Annual Corporate Governance Report (I-ACGR) covering all relevant information for the year 2017 on May 30, 2018. The report supersedes the Annual Corporate Governance Report (ACGR) last submitted for 2016.

As of December 31, 2017, PHINMA Corporation has substantially complied with the principles and best practices contained in the Manual on Good Corporate Governance. There were no sanctions imposed on any director, officer or employee for non-compliance.

BOARD OF DIRECTORS

Composition

As of December 31, 2017, the Board of directors consists of 11 members, nominated in accordance with the By-Laws of the Company. In compliance with the legal requirement of SEC for publicly listed corporations, PHN's Board of Directors includes two (2) independent directors. The independent directors hold no interest or have no relationship with the corporation that may hinder their independence from the corporation or management or would interfere with the exercise of independent judgment in carrying out their responsibilities.

During the year, the Board of Directors held five regular board meetings and one organizational meeting. The details of the matters taken up during the Board meetings are detailed in the Definitive Information Statement sent to shareholders.

The attendance of the directors in the Board meetings is as follows:

	2017 Board Meetings					
Directors	Mar 22 Regular	Apr 18 Regular	May 15 Regular	May 15 Organizational	Aug 3 Regular	Nov 10 Regular
Oscar J. Hilado	P	P	P	P	P	P
Magdaleno B. Albarracin, Jr.	P	P	P	P	P	P
Ramon R. Del Rosario, Jr.	P	P	P	P	P	P
Jose L. Cuisia, Jr.	P	P	A	A	P	P
Victor J. Del Rosario	P	P	P	P	P	P
Roberto M. Laviña	P	P	P	P	P	P
Filomeno G. Francisco	P	P	P	P	P	P
Roberto F. De Ocampo	A	A	P	P	P	P
Guillermo D. Luchangco	P	P	P	P	A	P
Francisco L. Viray	P	P	P	P	P	P
Eric S. Lustre	P	P	A	A	P	A

P. Present A: Absent

Board Committees

To assist it in discharging its duties and responsibilities, the Board constitutes committees which directly report to the Board in accordance with duly approved procedures.

As of December 31, 2017 the board committees and its members were as follows:

	Board Committees					
Directors	Audit	Excom	Corporate Governance And Related Party Transactions	Risk Oversight	Compensation	Retirement
Oscar J. Hilado		C	C		M	C
Magdaleno B. Albarracin, Jr.		M		M		M
Ramon R. Del Rosario, Jr.		M	M		M	
Jose L. Cuisia, Jr.		M			C	
Victor J. Del Rosario	M					M
Roberto M. Laviña						M
Roberto F. De Ocampo	C			M	M	
Filomeno G. Francisco						
Guillermo D. Luchangco	M	M	M	C		

C: Chairman M: Member

Corporate Governance and Related Party Transactions Committee

The Corporate Governance and Related Party Transactions Committee is composed of three (3) directors, one of whom is an independent director. The Committee was formed at the Organizational Meeting dated April 10, 2017 to replace the Nominations Committee and is tasked to assist the Board in the performance of its corporate governance responsibilities, and in reviewing all material related party transactions of the company.

In March 2018, the committee, after a review of the qualifications of the candidates, submitted to the Board of Directors the list of qualified nominees.

Compensation Committee

The Compensation Committee is composed of four (4) directors, one (1) of whom is an independent director. The duties and responsibilities of this committee include establishing policies on executive remuneration, ensuring that the compensation is consistent with the corporation's culture, strategy and control environment, and strengthening policies on conflict of interest, salaries and benefits and compliance with statutory requirements.

Risk Oversight Committee

The Risk Oversight Committee is composed of three (3) members, two (2) of whom are independent directors, including the Chairman. The Committee is tasked to oversee the risk management systems, including implementation, activities and evaluation of the continued relevance and effectiveness of the system.

The oversight of risk management and audit functions were originally performed by the Audit and Risk Oversight Committee. These two functions are now assigned to two distinct committees, the Audit Committee and the Risk Oversight Committee. To facilitate the continuity of risk-related discussions, the Audit Committee continued to perform the risk oversight functions up to the end of 2017.

The newly constituted Risk Oversight Committee held its initial meeting on February 26, 2018 to review and endorse its own Charter for the Board's approval.

Audit Committee

The Audit Committee is composed of three (3) members of the Board, two (2) of whom are independent directors including the Chairman of the committee. The Committee assists the board of directors of PHINMA Corporation in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls, the audit process, risk management process, and the Company's process for monitoring compliance with laws and regulations.

In 2017, the Audit Committee held four meetings and overall attendance was 86%. The Committee reviewed the audited financial statements for 2016 and the interim statements for the quarters ending March 31, June 30, and September 30 for the year 2017. The Committee also endorsed to the Board of Directors the nomination of SGV and Co. as the company's external auditor for 2017. The Committee approved the Internal Audit plan for 2017, reviewed the audit reports, and evaluated Internal Audit's performance. The Audit Committee also reviewed the activities related to the Integrity Assurance programs and performed a self-assessment of the committee's performance against the approved Audit Committee Charter, in line with the guidelines issued by the Securities and Exchange Commission.

Attendance

	Year 2017			
Audit Committee	Mar 31	May 12	Aug 2	Nov 3
Roberto F. De Ocampo	P	P	P	P
Filomeno G. Francisco	P	P	-	-
Magdaleno B. Albarracin, Jr.	P	P	-	-
Victor J. Del Rosario	P	P	P	P
Guillermo D. Luchangco	-	-	A	A

P. Present A: Absent -: Not Applicable

EXTERNAL AUDITOR

The external Auditor contributes to the enforcement of good governance through independent examination of the financial records and reports of PHN.

On May 15, 2017, the stockholders, upon recommendation of the Audit Committee and the endorsement by the Board of directors, approved the appointment of SGV & Co. as PHN's external auditor. Mr. Johnny F. Ang is the partner in charge for CY 2017. On March 23, 2018, SGV & Co. issued its report on the financial statements for the year ended December 31, 2017, stating that the financial statements present fairly, in all material respects, the financial position of the company and that the same are in accordance with Philippine Financial Reporting Standards.

There have been no disagreements with the independent accountants on any matter pertaining to accounting principles or practices, financial statement disclosures or auditing scope or procedure.

The Company is in compliance with SRC Rule 68, paragraph 3(b) (iv) requiring the rotation of external auditors or engagement partners who have been engaged by the company for a period of five (5) consecutive years or more. This is the fifth and last year of Mr. Ang as audit partner of the Company.

The Company accrued the following fees for professional services rendered by SGV and Co. for the past two (2) years:

Year	Audit Fees	Tax Fees	Other Fees
2017	P3,500,000	-	-
2016	3,500,000	-	-

INTERNAL AUDIT

PHN has an independent Internal Audit organization that reports directly to the Board of Directors through the Audit Committee, and administratively to Senior Management. The Group Internal Audit (GIA) team provides PHN with professional assurance and consulting services that are designed to add value and improve operations. Consistent with its thrust to become better business partners, Group Internal Audit helps PHINMA Corporation accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of PHINMA's risk management, control, and governance processes.

To ensure the independence of Group Internal Audit, the Audit Committee reviewed and approved the GIA Charter which outlines internal audit's purpose, reporting relationships, authorities and responsibilities. Through this Charter, the internal auditors are kept free from interference by any element in the organization in matters of audit selection, scope, procedures, frequency, timing, or report content. Likewise, members of Group Internal Audit do not have any direct operational responsibility or authority over any of the activities audited and, as such, are further prohibited from implementing internal controls or engaging in any other activity that may impair the auditor's judgment.

Under the GIA Charter, GIA performed various internal control reviews of the Company and its subsidiaries and affiliates. Based on the results of these reviews, Group Internal Audit reported that overall controls are adequate and effective.

DISCLOSURE AND TRANSPARENCY

PHINMA Corporation commits itself to high standards of disclosure and transparency. In addition to submitting annual and quarterly financial information and other statutory requirements, the corporation promptly discloses to the SEC and PSE material information such as declaration of dividends, investments and divestments and other items. The disclosures are also uploaded to the company website for the benefit of the public.

CODE OF CONDUCT

We believe that our commitment to ethical business practices, good corporate governance and social responsibility is vital and integral to the pursuit of our Mission to help build our Nation through competitive and well-managed business enterprises.

The PHINMA Code of Business Conduct (the "PHINMA Code"), founded on the PHINMA core values of integrity, patriotism, competence and professionalism, embodies this unwavering commitment, and sets forth policies and guidelines on the following :

- Conflict of Interest
- Insider Trading
- Gifts and Gratuities
- Sexual Harassment
- Anti-Fraud
- Whistleblowing and Non-retaliation

FINANCIAL STATEMENTS

PHINMA
Making Lives Better

PHINMA Corporation

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **PHINMA CORPORATION AND SUBSIDIARIES** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at December 31, 2017 and December 31, 2016 and for each of the three years in the period ended December 31, 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 auditors, appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing and in its report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

Signed this 23rd day of March 2018.

OSCAR J. HILADO
Chairman of the Board

RAMON R. DEL ROSARIO, JR.
President and Chief Executive Officer

VICTOR J. DEL ROSARIO
Executive Vice President and Chief Financial Officer

REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

The Board of Directors
Phinma Corporation

MEMBERSHIP
The Audit Committee is composed of two (2) independent directors and one (1) executive director. An independent director, Mr. Roberto F. de Ocampo, chairs the Audit Committee. The other members are Mr. Guillermo D. Luchangco (independent director) and Mr. Victor del Rosario (executive director). Other attendees at Committee meetings (or parts thereof) were the Special Advisor to the Audit Committee, SVP-Finance, Group Internal Audit, Group Controller, Compliance Officer and the external auditors. The Committee has accounting expertise and adequate understanding of the Company's business and industry in which it operates.

ROLES AND RESPONSIBILITIES
The roles and responsibilities of the Committee are defined in the Audit Committee Charter. As a Board-level Committee, we assist the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to the financial statements and financial reporting process, internal control system, internal and external auditor's performance, and compliance with legal and regulatory matters including approving and recommending the appointment, reappointment, removal, fees and assessing the integrity and independence of the external auditor.

We are pleased to report our activities for Calendar Year 2017.

ACTIVITIES OF THE COMMITTEE
The Audit Committee had four (4) meetings during the year. Two meetings obtained complete attendance while the two meetings only had two members in attendance. Overall, attendance is at eighty six percent (86%). The meetings were timed to review the quarterly and yearly financial reporting of the Company. Also, the Committee reviewed the results of the annual audit of the external auditor, SGV & Co., the findings and status of Group Internal Audit's engagements and the status of Integrity Assurance activities and the 2016 Audit Committee Report.

We received information and support from Management, the Compliance Officer and Group Internal Audit to enable us to effectively carry out our functions as defined in our Charter approved by the Board of Directors.

Management's Financial Report
We reviewed and endorsed to the Board of Directors for approval the 2016 audited consolidated financial statements and the 2017 unaudited quarterly consolidated financial statements.

Informatively, in our first meeting for 2018 held on March 5, 2018, we likewise reviewed and endorsed to the Board of Directors for approval the 2017 audited consolidated financial statements presented in this 2017 annual report. These activities were performed in the following context:

- Management has primary responsibility for the financial statements and the financial reporting process.
- SyCip, Gorres, Velayo & Co. (SGV & Co.) is responsible for expressing an opinion on the annual audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. They have likewise confirmed that the audit was conducted in accordance with Philippine Standards on Auditing.

We also reviewed the Management Representation Letter prior to its submission by Management to the external auditors.

External Audit
The Audit Committee assessed the ongoing effectiveness, suitability and quality of the external auditor and the audit process through feedback from members of the Committee and a questionnaire-based internal review with Management. On the basis of their performance and qualifications, we endorsed to the Board of Directors the nomination of Sycip, Gorres, Velayo & Co. (SGV) as the Company's external auditor for 2017.

During the year, we reviewed and approved the scope and deliverables of the SGV audit plan. The Committee ensured that SGV's scope included the review of Company's compliance to Philippine Financial Reporting Standards (PFRS). Non-audit services and related fees for their services were also reviewed and we concluded that these fees are not significant to impair their independence.

In our Committee meeting held March 5, 2018, we agreed to propose to the Board of Directors the retention of SGV & Co. as the external auditor for 2018.

Internal Audit
We reviewed and approved the Internal Audit plan for 2017 and found them to be appropriate. Based on this plan, the Committee received and reviewed the audit reports submitted by Group Internal Audit and found that the Company's internal control system is generally adequate and effective. Various audit and control issues including actions taken by management were regularly discussed in the Committee meetings to ensure that management has taken appropriate corrective actions in a timely manner.

We also reviewed the organization and performance of Group Internal Audit for 2017 and found them to be sufficiently independent and effective.

Risk Oversight
In 2017, the oversight of risk management and audit functions were originally performed by a single committee, the Audit and Risk Oversight Committee. These two functions were eventually separated and assigned to two distinct committees, the Audit Committee and the Risk Oversight Committee. To facilitate the continuity of risk-related discussions, the Audit Committee continued to perform the risk oversight functions up to the end of 2017 and held meetings to review key emerging risks of the different strategic business units.

Integrity Assurance Program
We reviewed the status of ongoing activities related to the Company's Integrity Assurance program. This program provides a formal structure for institutionalizing policies, programs and mechanisms based on good corporate governance and ethical business practices, including the adoption of a Code of Business Conduct and the creation of a whistleblower policy and hotline. The Company's officers and employees have substantially complied with the policies under the Code.

Audit Committee Performance
We performed a self-assessment of the Committee's performance against the approved Audit Committee Charter in line with the guidelines issued by Securities and Exchange Commission for publicly listed companies. Based on this assessment, we attest to the Committee's effective performance of its duties in 2017.

ROBERTO F. DE OCAMPO
Chairman, Independent Director

GUILLERMO D. LUCHANGCO
Vice Chairman, Independent Director

VICTOR J. DEL ROSARIO
Executive Director

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
PHINMA Corporation

Opinion

We have audited the consolidated financial statements of PHINMA Corporation and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 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 Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the 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.

Acquisition of St. Jude College, Inc. (SJCI)

On December 5, 2017, the Company, through its wholly owned subsidiary PHINMA Education Holdings, Inc., acquired 95.19% ownership interest in SJCI for ₱368.7 million. The Company accounted for this acquisition as a business combination. This transaction is significant to our audit as business combination transaction requires significant management judgment and estimates, which includes determining whether the transaction is an acquisition of a business or group of assets, and allocating the purchase consideration to the identifiable assets acquired and liabilities assumed. The provisional goodwill arising from this business acquisition amounted to ₱64.2 million.

The related disclosures on the acquisition are included in Note 6 to the consolidated financial statements.

Audit Response

We read the purchase agreements and documents related to the acquisition. We evaluated management's judgment on whether the acquisition qualifies as a business or group of assets by reference to the existing inputs, processes and outputs of SJCI at the date of acquisition. We reviewed the identification of the underlying assets and liabilities of the investee based on our understanding of SJCI's business and existing customer, vendor and employee contracts. We reviewed the provisional purchase price allocation including the valuation of property, plant and equipment. We assessed the competence, capabilities, and objectivity of the Company's independent appraisers that prepared the appraisal of SJCI's property, plant and equipment. We involved our internal specialist in the review of the methodology and assumptions used in the valuation of the property and equipment. We assessed the methodology adopted by comparing common valuation models and reviewed the relevant information supporting the sales and listings of comparable properties. We also inquired from the external appraiser the basis of adjustments made to the sales price or the factors affecting value. We also reviewed the disclosures in the notes to the consolidated financial statements.

Recoverability of Goodwill

Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Company is required to perform annual impairment tests on the amount of goodwill acquired in a business combination. As at December 31, 2017, the Company's goodwill, excluding provisional goodwill from SJCI, arising from its prior year acquisitions of educational institutions and business research entity amounted to ₱1,667.8 million. The annual impairment tests of goodwill are significant to our audit because the amounts are material to the financial statements. In addition, the determination of the recoverable amount of the CGU to which the goodwill is allocated involves management's judgment and significant assumptions about the future results of business such as revenue growth, inflation rates and discount rates that were applied to the cash flow forecasts.

The Company's disclosures about goodwill are included in Notes 5 and 17 to the consolidated financial statements.

Audit Response

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include revenue growth, inflation rate and discount rates. We compared the key assumptions used, such as revenue growth against historical performance of the CGU, local economic development, industry outlook and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Accounting for the Investment in a Significant Associate

The Company has 26.24% investment in PHINMA Energy Corporation (PHEN) that is accounted for under the equity method. For the year ended December 31, 2017, the Company's share in the net income of PHEN amounted to ₱92 million. The accounting for the results of and investment in PHEN is significant to our audit due to the Company's share in its net income and the carrying value of investments in PHEN. The Company's share in PHEN's net income is significantly affected by any impairment loss on its goodwill. PHEN has goodwill, amounting to ₱234 million as of December 31, 2017, which is required to be tested annually for recoverability under PAS 36. The determination of the recoverable amount of the cash-generating unit (CGU) to which the goodwill belongs, requires significant judgement and is based on significant assumptions, specifically prices in the energy spot market, fuel prices and discount rates that were applied to the cash flow forecast.

In addition, the Company's share in PHEN's net income is also significantly affected by PHEN's recognition of provisions for tax contingencies. PHEN is involved in legal proceeding and assessments for local and national taxes. The estimation of the potential liability resulting from these tax assessments requires significant judgment by management. The inherent uncertainty over the outcome of these tax matters is brought about by the differences in the interpretation and application of the laws and tax rulings.

Notes 5, 13 and 39 to the consolidated financial statements provide the relevant disclosures related to these matters.

Audit response

We obtained the consolidated financial information of PHEN for the year ended December 31, 2017 and recomputed the Company's share in the results of operations of PHEN. We involved our internal specialist in evaluating the methodologies and assumptions used. We compared the revenue growth and gross margins to the historical data of the CGU and inquired about the rationale for the changes from prior year. Likewise, we compared PHEN's key market-related assumptions such as energy spot market prices and fuel prices with external industry data. We tested the parameters used in the determination of the discount rate against market data. We involved our internal specialist in the evaluation of management's assessment on whether any provision for tax contingencies should be recognized, and the estimation of such amount.

We discussed with management the status of the tax assessments, and obtained correspondences with the relevant tax authorities and opinions of the external tax counsel. We evaluated the tax position of PHEN by considering the tax laws, rulings and jurisprudence.

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, 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, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

Management is responsible for the preparation and fair presentation of 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 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.

Those charged with governance are responsible for overseeing the Company'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 Company's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Johnny F. Ang.

SYCIP GORRES VELAYO & CO.

Johnny F. Ang
Partner
CPA Certificate No. 0108257
SEC Accreditation No. 1284-AR-1 (Group A),
June 9, 2016, valid until June 9, 2019
Tax Identification No. 221-717-423
BIR Accreditation No. 08-001998-101-2015,
November 25, 2015, valid until November 24, 2018
PTR No. 6621222, January 9, 2018, Makati City

March 23, 2018

PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2017	2016 (As restated - Note 22)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 9, 33 and 34)	**₱919,829**	₱724,632
Short-term investments (Notes 33 and 34)	**414,954**	–
Investments held for trading (Notes 10, 33 and 34)	**1,232,902**	258,099
Trade and other receivables (Notes 11, 30, 33 and 34)	**1,715,726**	1,666,806
Inventories (Note 12)	**1,026,200**	902,274
Input value-added taxes	**22,619**	13,370
Derivative asset (Notes 33 and 34)	**10,508**	–
Other current assets	**215,791**	119,555
Total Current Assets	**5,558,529**	3,684,736
Noncurrent Assets		
Investment in associates - at equity (Note 13)	**3,228,882**	3,395,128
Available-for-sale investments (Notes 14, 33 and 34)	**66,559**	67,929
Property, plant and equipment (Notes 15 and 22)	**5,236,099**	4,477,789
Investment properties (Note 16)	**781,240**	864,001
Intangible assets (Notes 6 and 17)	**1,739,726**	1,901,517
Deferred tax assets - net (Note 31)	**86,603**	136,311
Other noncurrent assets (Note 18)	**43,869**	45,555
Total Noncurrent Assets	**11,182,978**	10,888,230
	₱16,741,507	₱14,572,966
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 19, 33 and 34)	**₱44,090**	₱274,346
Trade and other payables (Notes 20, 33 and 34)	**1,138,337**	903,799
Unearned revenues (Note 4)	**537,899**	497,529
Trust receipts payable (Notes 12, 33 and 34)	**521,740**	10,570
Derivative liability (Notes 33 and 34)	**2,649**	–
Income and other taxes payable	**39,334**	103,484
Current portion of long-term debt (Notes 21, 30, 33 and 34)	**279,889**	114,040
Due to related parties (Notes 30, 33 and 34)	**97,281**	228,807
Total Current Liabilities	**2,661,219**	2,132,575
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 21, 30, 33 and 34)	**5,322,388**	3,218,487
Deferred tax liabilities - net (Notes 22 and 31)	**441,232**	438,485
Pension and other post-employment benefits (Notes 30 and 32)	**326,795**	299,709
Deferred rent revenue - net of current portion (Note 30)	**5,648**	41,397
Other noncurrent liabilities (Note 30)	**58,526**	19,267
Total Noncurrent Liabilities	**6,154,589**	4,017,345
Total Liabilities	**8,815,808**	6,149,920

(Forward)

	December 31	
	2017	2016 (As restated - Note 22)
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 22)	**₱2,863,312**	₱2,604,284
Additional paid-in capital	**259,248**	259,248
Treasury shares (Note 22)	**(16,907)**	(16,337)
Exchange differences on translation of foreign operations	**(58)**	54,293
Equity reserves (Notes 7)	**(88,549)**	200,576
Other comprehensive income (Note 14)	**14,734**	11,776
Share in other comprehensive income of associates (Note 13)	**13,313**	21,322
Retained earnings (Note 22)	**3,917,303**	4,302,050
Equity Attributable to Equity Holders of the Parent	**6,962,396**	7,437,212
Non-controlling Interests	**963,303**	985,834
Total Equity	**7,925,699**	8,423,046
	₱16,741,507	₱14,572,966

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2017	2016	2015
REVENUES			
Sale of goods	**₱4,210,352**	₱3,888,655	₱3,653,504
Tuition, school fees and other services	**1,921,824**	1,835,123	1,502,677
Hospital routine services	**128,191**	113,234	93,278
Rental income (Note 16)	**72,155**	69,203	62,463
Consultancy services	**52,304**	377,954	384,249
Investment income (Note 23)	**34,386**	17,972	13,967
	6,419,212	6,302,141	5,710,138
COSTS AND EXPENSES			
Cost of sales (Note 24)	**3,346,831**	2,990,398	2,856,728
Cost of educational, hospital and consultancy service (Note 24)	**1,008,143**	902,241	746,565
General and administrative expenses (Note 25)	**1,158,052**	1,257,619	1,100,714
Selling expenses (Note 26)	**407,287**	532,781	549,271
	5,920,313	5,683,039	5,253,278
OTHER INCOME (EXPENSES)			
Interest expense and other financing charges (Note 29)	**(287,268)**	(204,236)	(138,145)
Equity in net earnings (losses) of associates (Note 13)	**(100,443)**	230,021	269,617
Net gains (losses) on derivatives (Note 34)	**6,814**	(1,004)	345
Foreign exchange gains (losses) - net (Note 33)	**(5,865)**	5,298	(376)
Gain on sale of investment in a subsidiary (Note 7)	**4,138**	–	–
Loss on sale of investment properties (Note 16)	**(2,139)**	(17,840)	(8,296)
Gain on sale of property, plant and equipment - net (Note 15)	**1,952**	28,705	6,838
Gain on sale of AFS investments	**750**	–	–
Impairment of goodwill (Notes 5 and 17)	**–**	(191,184)	(10,343)
Reversal of (provision for) unrecoverable input value-added tax (Note 18)	**(14)**	647	3,054
Others - net	**47,828**	68,318	(3,686)
	(334,247)	(81,275)	119,008
INCOME BEFORE INCOME TAX	**164,652**	537,827	575,868
PROVISION FOR INCOME TAX (Note 31)			
Current	**105,171**	172,523	101,107
Deferred	**13,428**	(1,902)	(17,793)
	118,599	170,621	83,314
NET INCOME	**₱46,053**	₱367,206	₱492,554
Attributable to:			
Equity holders of the Parent	**(₱29,233)**	₱277,178	₱390,394
Non-controlling interests	**75,286**	90,028	102,160
Net income	**₱46,053**	₱367,206	₱492,554
Basic/Diluted Earnings (Loss) Per Common Share - Attributable to Equity Holders of the Parent (Note 36)	**(₱0.10)**	₱0.97	₱1.37

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**₱46,053**	₱367,206	₱492,554
OTHER COMPREHENSIVE INCOME (LOSS)			
Items not to be reclassified to profit or loss in subsequent periods			
Re-measurement gain (loss) on defined benefit obligation (Note 32)	**8,899**	11,621	(9,700)
Income tax effect	**(887)**	3,584	2,886
	8,012	15,205	(6,814)
Items to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations	**(58)**	20,915	27,395
Unrealized gain (loss) on change in fair value of available-for-sale investments (Note 14)	**2,958**	365	11,411
	2,900	21,280	38,806
Share in other comprehensive income (loss) of associates (Note 13)			
Re-measurement gain (loss) on defined benefit obligation	**667**	(6,448)	(338)
Share in unrealized gain (loss) on change in fair value of AFS investments of associates (Note 13)	**(8,676)**	2,090	7,308
	(8,009)	(4,358)	6,970
Total other comprehensive income	**2,903**	32,127	38,962
TOTAL COMPREHENSIVE INCOME	**₱48,956**	₱399,333	₱531,516
Attributable to:			
Equity holders of the Parent	**(₱27,217)**	₱302,292	₱427,304
Non-controlling interests	**76,173**	97,041	104,212
Total comprehensive income	**₱48,956**	₱399,333	₱531,516

See accompanying Notes to Consolidated Financial Statements.

PHINMA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent											
								Retained Earnings (Note 22)				
	Capital Stock (Note 22)	Additional Paid-in Capital	Treasury Shares	Exchange Differences on Translation of Foreign Operations	Equity Reserves (Note 7)	Other Comprehensive Income (Note 14)	Share in Other Comprehensive Income of Associates (Note 13)	Appropriated	Unappropriated	Subtotal	Non-controlling Interests	Total Equity
Balance, January 1, 2017	₱2,604,284	₱259,248	(₱16,337)	₱54,293	₱200,576	₱11,776	₱21,322	₱1,500,000	₱2,647,707	₱7,282,869	₱985,834	₱8,268,703
Gross-up of revaluation increment to retained earnings (see Note 22)	–	–	–	–	–	–	–	–	154,343	154,343	–	154,343
Balance, January 1, 2017 (as restated-see Note 22)	2,604,284	259,248	(16,337)	54,293	200,576	11,776	21,322	1,500,000	2,802,050	7,437,212	985,834	8,423,046
Net income	–	–	–	–	–	–	–	–	(29,233)	(29,233)	75,286	46,053
Other comprehensive income (loss)	–	–	–	(58)	–	2,958	(8,009)	–	7,125	2,016	887	2,903
Total comprehensive income	–	–	–	(58)	–	2,958	(8,009)	–	(22,108)	(27,217)	76,173	48,956
Cash dividends (Note 22)	–	–	–	–	–	–	–	–	(103,611)	(103,611)	(117,355)	(220,966)
Stock dividends (Note 22)	259,028	–	–	–	–	–	–	–	(259,028)	–	–	–
Acquisition of non-controlling interest (Note 7)	–	–	–	–	(198,608)	–	–	–	–	(198,608)	(28,121)	(226,729)
Changes in ownership interests of the Parent without loss of control (Note 7)	–	–	–	–	(90,517)	–	–	–	–	(90,517)	11,299	(79,218)
Business combination (Note 6)	–	–	–	–	–	–	–	–	–	–	15,386	15,386
Incorporation of a new subsidiary (Note 1)	–	–	–	–	–	–	–	–	–	–	25,000	25,000
Disposal of shares in subsidiary (Note 7)	–	–	–	(54,293)	–	–	–	–	–	(54,293)	(6,858)	(61,151)
Buyback of shares (Note 22)	–	–	(570)	–	–	–	–	–	–	(570)	–	(570)
Reversal of appropriation for investments	–	–	–	–	–	–	–	(1,500,000)	1,500,000	–	1,945	1,945
Balance, December 31, 2017	₱2,863,312	₱259,248	(₱16,907)	(₱58)	(₱88,549)	₱14,734	₱13,313	₱–	₱3,917,303	₱6,962,396	₱963,303	₱7,925,699

	Equity Attributable to Equity Holders of the Parent											
								Retained Earnings (Note 22)				
	Capital Stock (Note 22)	Additional Paid-in Capital	Treasury Shares	Exchange Differences on Translation of Foreign Operations	Equity Reserves (Note 7)	Other Comprehensive Income (Note 14)	Share in Other Comprehensive Income of Associates (Note 13)	Appropriated	Unappropriated	Subtotal	Non-controlling Interests	Total Equity
Balance, January 1, 2016	₱2,604,284	₱259,248	(₱13,593)	₱33,378	(₱23,444)	₱11,411	₱25,680	₱1,000,000	₱2,966,003	₱6,862,967	₱1,206,533	₱8,069,500
Gross-up of revaluation increment to retained earnings (see Note 22)	–	–	–	–	–	–	–	–	154,343	154,343	–	154,343
Balance, January 1, 2016 (as restated-see Note 22)	2,604,284	259,248	(13,593)	33,378	(23,444)	11,411	25,680	1,000,000	3,120,346	7,017,310	1,206,533	8,223,843
Net income	–	–	–	–	–	–	–	–	277,178	277,178	90,028	367,206
Other comprehensive income (loss)	–	–	–	20,915	–	365	(4,358)	–	8,192	25,114	7,013	32,127
Total comprehensive income	–	–	–	20,915	–	365	(4,358)	–	285,370	302,292	97,041	399,333
Cash dividends (Note 22)	–	–	–	–	–	–	–	–	(103,666)	(103,666)	(111,243)	(214,909)
Dilution of non-controlling interest (Note 7)	–	–	–	–	224,020	–	–	–	–	224,020	(224,020)	–
Share in stock subscription	–	–	–	–	–	–	–	–	–	–	17,523	17,523
Buyback of shares (Note 22)	–	–	(2,744)	–	–	–	–	–	–	(2,744)	–	(2,744)
Additional appropriation for investments	–	–	–	–	–	–	–	500,000	(500,000)	–	–	–
Balance, December 31, 2016 (as restated)	₱2,604,284	₱259,248	(₱16,337)	₱54,293	₱200,576	₱11,776	₱21,322	₱1,500,000	₱2,802,050	₱7,437,212	₱985,834	₱8,243,046
Balance, January 1, 2015	₱2,604,284	₱259,248	₱–	₱5,983	(₱4,315)	₱–	₱18,372	₱1,000,000	₱2,688,989	₱6,572,561	₱616,153	₱7,188,714
Gross-up of revaluation increment to retained earnings	–	–	–	–	–	–	–	–	154,343	154,343	–	154,343
Balance, January 1, 2015 (as restated)	2,604,284	259,248	–	5,983	(4,315)	–	18,372	1,000,000	2,843,332	6,726,904	616,153	7,343,057
Net income	–	–	–	–			–	–	390,394	390,394	102,160	492,554
Other comprehensive income (loss)	–	–	–	27,395	–	11,411	7,308	–	(9,204)	36,910	2,052	38,962
Total comprehensive income	–	–	–	27,395	–	11,411	7,308	–	381,190	427,304	104,212	531,516
Cash dividends (Note 22)	–	–	–	–	–	–	–	–	(104,176)	(104,176)	(57,882)	(162,058)
Acquisition of non-controlling interest (Note 7)	–	–	–	–	(12,241)	–	–	–	–	(12,241)	9,241	(3,000)
Business combination (Note 6)	–	–	–	–	–	–	–	–	–	–	538,209	538,209
Disposal of shares in subsidiary (Note 7)	–	–	–	–	(6,888)	–	–	–	–	(6,888)	(3,400)	(10,288)
Buyback of shares (Note 22)	–	–	(13,593)	–	–	–	–	–	–	(13,593)	–	(13,593)
Balance, December 31, 2015 (as restated)	₱2,604,284	₱259,248	(₱13,593)	₱33,378	(₱23,444)	₱11,411	₱25,680	₱1,000,000	₱3,120,346	₱7,017,310	₱1,206,533	₱8,223,843

See Accompanying Notes to Consolidated Financial Statements

PHINMA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱164,652**	₱537,827	₱575,868
Adjustments to reconcile income before income tax to net cash flows:			
Depreciation and amortization (Note 28)	**304,929**	258,776	209,146
Equity in net (earnings) losses of associates (Note 13)	**100,443**	(230,021)	(269,617)
Interest expense and other financing charges (Note 29)	**287,268**	204,236	138,145
Impairment loss on goodwill (Notes 5 and 17)	**–**	191,184	10,343
Pension and other employee benefits expense (Note 32)	**83,212**	69,038	54,985
Gain on sale of property, plant and equipment (Note 15)	**(1,952)**	(28,705)	(6,838)
Gain on sale of AFS investment	**(750)**	–	–
Loss on sale of investment properties (Note 16)	**2,139**	17,840	8,296
Interest income (Note 23)	**(17,182)**	(11,917)	(8,015)
Unrealized foreign exchange loss – net	**5,865**	5,298	376
Unrealized gain (loss) on change in fair value	**(1,498)**	–	–
Net loss (gain) on derivatives (Note 34)	**(7,859)**	1,004	(345)
Reversal of provision on input VAT	**14**	(647)	(3,054)
Dividend income (Note 23)	**(215)**	(144)	(253)
Operating income before working capital changes	**919,066**	1,013,769	709,037
Decrease (increase) in:			
Investments held for trading	**(175,759)**	244,989	291,899
Inventories	**(123,926)**	(114,919)	382,380
Trade and other receivables	**(38,830)**	(77,306)	(334,834)
Other current assets	**(117,833)**	(18,082)	6,146
Increase (decrease) in:			
Trade and other payables	**(60,180)**	(17,023)	141,845
Trust receipts payable	**511,170**	10,570	(200,497)
Unearned revenues	**(11,707)**	(2,739)	155,108
Other taxes payable	**–**	–	(52)
Cash provided by used from operations	**902,001**	1,039,259	1,151,032
Interest paid	**(277,677)**	(211,542)	(127,887)
Income tax paid	**(167,397)**	(134,457)	(73,408)
Interest received	**7,136**	12,332	7,545
Net cash provided by operating activities	**464,063**	705,592	957,282
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Short-term investments	**(414,954)**	–	–
Investment held for trading	**(797,547)**	–	–
Property, plant and equipment (Note 15)	**(606,228)**	(373,490)	(534,143)
Investment in associates (Notes 13 and 39)	**(317)**	(11,398)	(306,813)
AFS investments	**–**	(5,000)	–
Investment properties	**–**	(850)	–

(Forward)

	Years Ended December 31		
	2017	2016	2015
Proceeds from sale of:			
Investment properties	**₱69,837**	₱151,077	₱16,929
Property, plant and equipment	**2,815**	58,535	108,127
Available-for-sale investments	**5,078**	9,000	–
Dividends received (Note 13)	**56,251**	110,271	55,415
Increase in other noncurrent assets	**39,963**	(23,817)	(44,353)
Acquisition of subsidiary - net of cash acquired (Note 6)	**(254,567)**	–	(2,426,950)
Proceeds from sale of subsidiary - net of cash disposed	**143,986**	–	–
Net cash used in investing activities	**(1,755,683)**	(85,672)	(3,131,788)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Cash dividends	**(219,581)**	(213,729)	(162,058)
Long-term debt	**(114,945)**	(128,117)	(101,019)
Notes payable	**(246,838)**	(22,500)	(2,059,330)
Treasury shares	**(570)**	(2,744)	(13,593)
Proceeds from availment of:			
Notes payable (Note 19)	**15,632**	16,122	1,950,000
Long-term debt (Note 21)	**2,400,000**	–	2,479,493
Issuance of shares to non-controlling interests	**26,945**	–	–
Decrease in due to related parties	**(83,577)**	(16,094)	(6,537)
Decrease in other noncurrent liabilities	**(56,676)**	–	–
Acquisition of non-controlling interests (Note 7)	**(226,729)**	–	(3,000)
Net cash provided by (used in) financing activities	**1,493,661**	(367,062)	2,083,956
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(6,844)**	1,655	1,058
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**195,197**	254,513	(89,492)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**724,632**	470,119	559,611
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 9)	**₱919,829**	₱724,632	₱470,119

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

PHINMA Corporation (PHN or the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on March 12, 1957.

The Company is listed in the Philippine Stock Exchange (PSE) since August 15, 1958.

On August 2, 2006, the Philippine SEC approved the extension of the Company's corporate life for another 50 years. On May 27, 2010, the Philippine SEC approved the change in the Company's corporate name from Bacnotan Consolidated Industries, Inc. to PHINMA Corporation. Its principal activity is holding investments in shares in various subsidiaries, associates and investees and other financial instruments.

Following are the subsidiaries of the Parent Company and the nature of their principal business activities:

			December 31, 2017			December 31, 2016		
Subsidiaries	Nature of Business		**PHN Direct Interest**	**Direct Interest of Subsidiary**	**PHN Effective Interest**	PHN Direct Interest	Direct Interest of Subsidiary	PHN Effective Interest
Union Galvasteel Corporation (UGC)	Manufacturing and distributionof steel products	December 31	**97.62**	**–**	**97.62**	98.08	–	98.08
PHINMA Education Holdings, Inc. (PEHI) [(a)]	Holding company	March 31	**100.00**	**–**	**100.00**	100.00	–	100.00
Pamantasan ng Araullo (Araullo University), Inc. (AU) [(a)]	Educational institution	March 31	**–**	**77.85**	**77.85**	–	78.64	78.64
Cagayan de Oro College, Inc. (COC) [(a)]	Educational institution	March 31	**–**	**73.18**	**73.18**	–	74.21	74.21
University of Iloilo (UI) [(a)]	Educational institution	March 31	**–**	**69.23**	**69.23**	–	69.79	69.79
University of Pangasinan (UPANG) and Subsidiary[(a)]	Educational institution	March 31	**–**	**69.33**	**69.33**	–	69.75	69.75
Southwestern University (SWU) [(a and b)]	Educational institution	March 31	**–**	**84.34**	**84.34**	–	84.05	84.05
St. Jude College Manila (SJCI) [(a and c)]	Educational institution	December 31	**–**	**95.19**	**95.19**	–	–	–
Fuld & Company, Inc. (Fuld U.S.) and Subsidiary [(d)]	Business research	December 31	–	**–**	–	81.23	–	81.23
Integrative Competitive Intelligence Asia, Inc. (ICI Asia) [(e)]	Business research	December 31	**100.00**	**–**	**100.00**	100.00	–	100.00
Career Academy Asia, Inc. (CAA) [(f)]	Educational Institution	March 31	**90.00**	**–**	**90.00**	90.00	–	90.00
PhilCement Corporation (PhilCement) [(g)]	Distribution of cement products	December 31	**85.70**	**–**	**85.70**	–	–	–
P & S Holdings Corporation (PSHC)	Investment and real estate holdings	December 31	**60.00**	**–**	**60.00**	60.00	–	60.00
Asian Plaza, Inc. (API)	Lease of real property	December 31	**57.62**	**–**	**57.62**	57.62	–	57.62
One Animate Limited (OAL) and Subsidiary [(h)]	Business Process Outsourcing - Animation services	December 31	**80.00**	**–**	**80.00**	80.00	–	80.00

[(a)] *Balances as at and for the year ended December 31 of these subsidiaries were used for consolidation purposes.*
[(b)] *In 2016, PEHI subscribed to additional shares of SWU which increased PEHI's total interest to 84.05%. On May 23, 2017, PEHI acquired 1,682 Merelito shares which increased PEHI's total interest from 84.05% to 84.34%.*
[(c)] *On December 5, 2017, PEHI acquired 95.19% controlling interest in SJCI (see Note 6).*
[(d)] *On April 26, 2017, the Company sold its 81.23% interest in Fuld U.S., plus the 14.31% minority shares acquired on March 27 and April 7, 2017, to Accretio Investments Pte,. Ltd. Proceeds from the sale amounting to US$3.6 million were received on June 6, 2017.*
[(e)] *Formerly Fuld & Company (Philippines), Inc. (Fuld Philippines)*
[(f)] *In August 2016, the Company has started its commercial operation. CAA has plan to cease its operations in June 2018.*
[(g)] *On September 22, 2017, PhilCement was incorporated with the Philippine SEC. The Company subscribed to the 85.70% controlling interest in PhilCement.*
[(h)] *OAL owns 100% interest in Toon City Animation, Inc. (Toon City). OAL and Toon City ceased operations in April 2013.*

The Parent Company and its subsidiaries (collectively referred to as "the Company") were all incorporated in the Philippines, except for OAL and Fuld U.S. which was incorporated in Hong Kong and United States of America, respectively. The Company's ultimate parent company is Philippine Investment-Management (PHINMA), Inc., which is also incorporated in the Philippines.

The information on the segments of the Company is presented in Note 37 to the consolidated financial statements.

The registered office address of the Parent Company is 12th Floor, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

The consolidated financial statements of the Company as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were reviewed and recommended for approval by the Audit Committee on March 5, 2018. On March 6, 2018, the Board of Directors (BOD) approved a resolution to authorize the Executive Committee of the BOD to approve the issuance of the consolidated financial statements. On March 23, 2018, the Executive Committee approved the issuance of the Company's consolidated financial statements.

2. **Basis of Preparation and Consolidation and Statement of Compliance**

Basis of Preparation
The consolidated financial statements of the Company have been prepared on a historical cost basis, except for investments held for trading, available-for-sale (AFS) investments and derivative financial instruments that are measured at fair value. The consolidated financial statements are presented in Philippine peso (₱) which is the Parent Company's functional and presentation currency. All values are rounded to the nearest thousand peso, except when otherwise indicated.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) which include statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- power over the investee (i.e. existing rights that give the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Company has less than majority of the voting rights or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins, when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. 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 Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Company and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intra-group assets and liabilities, equity, income expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

NCI represents the portion of profit or loss and the net assets not held by owners of the Parent Company 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 total equity attributable to owners of the Parent Company.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction and is shown as part of "Other reserves" under the consolidated statement of changes in equity. If the Company loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any NCI;
- derecognizes the cumulative translation differences, recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

3. **Changes in Accounting Polices and Disclosures**

Current Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new amendments to the standards starting January 1, 2017. Adoption of these amendments did not have any significant impact on the consolidated financial statements unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

- Amendment to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Company has provided the required information in Note 33 to the consolidated financial statements. As allowed under the transitions provisions of the standard, the Company did not present comparative information for the years ended December 31, 2016 and 2015.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Standards Issued but not yet Effective
The standards, interpretation and amendments that are issued, but not yet effective, up to the date of issuance of the consolidated financial statements are listed below. The Company will adopt these standards, interpretation and amendments to existing standards which are relevant to the Company when these become effective. Except for PFRS 9, *Financial Instruments* and PFRS 15, *Revenue from Contracts with Customers* as discussed further below, the Company does not expect the future adoption of these standards, interpretation and amendments to existing standards to have any significant impact on the Company's consolidated financial statements.

Effective beginning on or after January 1, 2018

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

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The Company is currently assessing the impact of adopting PFRS 9.

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

- PFRS 15*, Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective method.

  The Company is currently assessing the impact of adopting PFRS 15 in 2018.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRS* 2014 - 2016 Cycle)

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

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

Effective beginning on or after January 1, 2019

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

- 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.

  The Company is currently assessing the impact of adopting PFRS 16 in 2019.

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

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

Deferred Effectivity

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

4. **Summary of Significant Accounting and Financial Reporting Policies**

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition. The Company recognizes a financial instrument in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Company commits to purchase the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

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

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

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

Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Day 1 Difference. Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Assets and Liabilities at FVPL. This category includes financial assets and liabilities held for trading and those designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including any separated derivatives, are also classified under financial assets or liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge or financial guarantee contracts. Instruments under this category are classified as current assets or liabilities if these are held primarily for the purpose of trading or expected to be realized or settled within 12 months from reporting date. Otherwise, these are classified as noncurrent assets or liabilities.

Financial assets or financial liabilities may be designated at initial recognition as at FVPL when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- the assets and liabilities are part of group of financial assets, financial liabilities or both, which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy and information the group of financial assets or liabilities is provided internally or that basis to the entity's key management personnel; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities designated at FVPL are recorded in the consolidated statement of financial position at fair value. Subsequent changes in fair value on financial assets and liabilities designated at FVPL are recorded in the consolidated statement of income as "Net gains from fair value change of investments held for trading" under "Investment income" account. Interest and dividends earned are recorded under "Investment income" in the consolidated statement of income. Interest incurred is presented under "Interest expense and other financing charges" in the consolidated statement of income.

The Company's investments held for trading and derivative assets are classified as financial assets at FVPL. The Company's derivative liability is classified as financial liability at FVPL.

<u>Derivative Financial Instruments</u>
The Company enters into short-term forward currency contracts to hedge its currency exposure. Such derivative financial instruments are initially recorded at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and financial liabilities when the fair value is negative. Consequently, gains or losses from changes in fair value of these derivatives that do not qualify for hedge accounting are recognized immediately in the consolidated statement of income as part of "Other income (expenses)". The Company has opted not to designate its derivative transactions under hedge accounting. The fair values of freestanding forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Embedded Derivative. An embedded derivative is a component of a hybrid (combined) instrument that also includes a nonderivative host contract with the effect that some of the cash flows of the hybrid instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at FVPL.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Company determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

Embedded derivatives are measured at fair value and are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income as part of "Other income (expenses)".

The Company has no embedded derivatives and prepayment options separately accounted for from host contracts as at December 31, 2017 and 2016.

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL.

After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the financial reporting date. Otherwise, these are classified as noncurrent assets.

The Company's cash and cash equivalents, short-term investments, trade and other receivables and due from related parties are classified under this category.

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. When the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. HTM investments are classified as noncurrent assets except for those with maturities that are less than 12 month after the end of the reporting period, which are classified as current assets.

The Company has no financial assets classified as HTM investments as of December 31, 2017 and 2016.

AFS Investments. AFS investments are nonderivative financial assets that are designated in this category or are not classified in any of the three preceding categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS investments are measured at fair value in the consolidated statement of financial position. Changes in the fair value of such assets are reported as unrealized gain or loss on change in fair value of AFS investments recognized as OCI in the consolidated statement of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in consolidated statement of comprehensive income is transferred to the consolidated statement of income. AFS investments are included under noncurrent assets unless the Company intends to dispose of the investment within 12 months from the end of the reporting period.

The Company's investments in quoted and unquoted equity securities and proprietary shares are classified under this category. Dividends earned on holding AFS equity investments are recognized as "Dividend income" presented under "Investment income" account in the consolidated statement of income.

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

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 rate method of amortization for any related premium, discount and any directly attributable transaction costs. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are classified as current liabilities if settlement is within 12 months from the end of the reporting period. Otherwise, these are classified as noncurrent liabilities.

The Company's notes payable, trade and other payables, trust receipts payable, due to related parties and long-term debts are classified under this category.

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

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

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Debt Issuance Cost
Debt issuance costs are deducted against long-term debt and are amortized over the term of the related borrowings using the effective interest rate method.

Impairment of Financial Assets
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

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

For the purpose of specific evaluation of impairment, the Company assesses whether financial assets are impaired through assessment of collectability of financial assets considering the creditors' capacity to pay, history of payment, and the availability of other financial support. For the purpose of a collective evaluation of impairment, if necessary, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past due status and term.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

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. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

If a previous write-off is later recovered, the recovery is recognized in the consolidated statement of income. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date had no impairment loss been recognized in prior years.

AFS Investments. For AFS investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investment is impaired. In the case of equity instruments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its costs. 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 OCI and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized in OCI.

In the case of debt instruments classified as AFS investments, impairment is based on the same criteria as financial assets carried at amortized cost. Interest income continues to be accrued using the original effective interest rate on the reduced carrying amount of the asset. If, in the 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 Assets and Liabilities

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount 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 Financial Instruments
Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a currently enforceable legal right to offset the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Determination of Fair Value
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 or transfer the liability takes place either:

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these account as 'listed' are traded in an active market. When the Company has financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it has elected to use the measurement exception to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and with reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

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

Inventories
Inventories are valued at the lower of cost or net realizable value. Costs incurred in bringing each inventory to its present location and conditions are accounted for as follows:

Finished goods	-	determined using the moving average method; cost includes direct materials, labor and a proportion of manufacturing overhead costs based on normal operating capacity but excludes borrowing costs;
Raw materials, spare parts and others	-	determined using the moving average method.

The net realizable value of inventories, except spare parts, is the selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The net realizable value of spare parts is the current replacement cost.

Investment in Associates
An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Company's investments in associates are accounted for using the equity method. The investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value.

The consolidated statement of income reflects the Company's share of the results of operations of the associate. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in equity. Unrealized gains and losses resulting from transactions between the Company and the associate and are eliminated to the extent of the interest in the associate.

The Company's share of profits or losses of its associate is shown on the face of the consolidated statement of income outside operating profit and represents profit. This is the profit or loss attributable to equity holders of the associate and therefore is profit or loss after tax and net of controlling interest in the subsidiaries of the associates.

The accounting policies of the associates are consistent to those used by the Company for like transactions and events in similar circumstances. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

When the Company's share of losses exceeds its interest in an equity-accounted associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or have made payments on behalf of the associate.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investments in associate. The Company determines at the end of each reporting period whether there is any objective evidence that the Company's investment in associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of its investment in the associate and its carrying amount and recognizes the amount in the Company's consolidated statement of income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amounts of the Company's investment in the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in consolidated statement of income.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, amortization, depletion and any impairment loss. Land is carried at cost (initial purchase price and other cost directly attributable to the acquisition) less any impairment loss. The cost of property, plant and equipment, comprises its purchase price, including any import duties, capitalized borrowing costs and other costs directly attributable in bringing the asset to its working condition and location for its intended use.

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

Land, plant site improvements, buildings, plant and installations, machinery and equipment of UGC are stated at revalued amount before UGC adopted PFRS 1 in 2005. Upon adoption of PFRS, UGC elected to change its basis for measuring land, plant site improvements, buildings and installations, machinery and equipment from revalued amounts to the cost basis. Consequently, such assets are stated at "deemed cost" as allowed by the transitional provisions of the standard. There are no further increases in the asset revaluation reserve and the account is reduced by the amount of depreciation except for land, on appraisal increase charged to operations, net of tax effect, until the item of land, plant site improvements, buildings and installations, machinery and equipment is fully depreciated or upon its disposal. Such asset revaluation reserve has been closed to retained earnings.

Depreciation commences once the property and equipment are available for use and is computed using the straight-line method over the following estimated useful lives of the assets:

Plant site improvements	10–20 years
Buildings and improvements	10–25 years
Machinery and equipment	5–20 years
Transportation and other equipment	2–10 years

The assets' estimated useful lives, residual values and depreciation method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment. Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited or charged to operations.

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 carrying amount of the asset) is presented under "Other income (expenses)" in the consolidated statement of income.

Construction in-progress represents cost of plant and properties under construction or development and is stated at cost less any impairment in value. This includes cost of construction, plant and equipment, capitalizable borrowing costs and other costs directly attributable to such asset during the construction period and other direct costs. Construction in-progress is not depreciated until such time when the relevant assets are completed and becomes available for operational use.

Investment Properties

Investment properties are measured initially at cost, including direct transaction costs.

The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties (except land) are stated at cost less accumulated depreciation and any impairment in value.

Land is carried at cost less any impairment in value. Depreciation is calculated on a straight-line basis over 20 years, the estimated useful life of the depreciable investment property which refers to a building unit.

Investment properties are derecognized when either these have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

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 Company accounts for such property in accordance with the policy stated under property and equipment up to date change in use.

Business Combinations, Goodwill and Impairment of Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Company measures the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in the consolidated statements of income or as a change to OCI. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled, and remeasurement is recognized within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for NCI over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

When goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Impairment of Goodwill. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Company is required to perform annual impairment tests on the amount of goodwill acquired in a business combination. Moreover, if the Company did not finalize the goodwill allocation to cash-generating units (CGUs), as required by PAS 36, and there are indicators that the provisional goodwill may be impaired, an impairment test of the provisional goodwill is performed. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible Assets (Except for Goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized over the useful economic life using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At the minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the Company's consolidated statement of income.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually either individually or at the CGU level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The useful lives of intangible assets are as follows:

Software costs	5 years
Student lists	3 years

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the student lists, software costs and customer contracts are accounted for by changing the appropriate amortization period or method, as appropriate, and treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in consolidated statement of income.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that a nonfinancial asset, excluding goodwill and other intangible assets with indefinite useful lives, may be impaired. If any indication exists, or when annual impairment testing for a nonfinancial asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use (VIU). The recoverable amount determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGU to which the individual assets are allocated. These budgets and forecast generally cover a period of five years. For longer period, a long-term growth rate is calculated and applied to project future cash flows after the fifth year. Impairment losses are recognized in the consolidated statement of income in expense categories consistent with the function of impaired asset.

For nonfinancial assets excluding goodwill and other intangible asset with indefinite useful life, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount of the asset or CGU is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. However, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statement of income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Current versus Non-current Classification

The Company presents assets and liabilities in consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current asset and liabilities.

<u>Capital Stock</u>
Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account in the consolidated statement of financial position. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to the "Additional paid-in capital" account in the consolidated statement of financial position.

<u>Treasury Shares</u>
Treasury shares are recorded at cost and deducted from the Company's equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments. On subsequent issuance, any difference between the carrying amount and the consideration received is recognized under "additional paid-in capital" account in the consolidated statement of financial position.

<u>Equity Reserves</u>
Other reserves consist of equity transactions other than capital contributions, such as equity transactions arising from transactions with NCI and share-based payment transactions.

<u>Retained Earnings</u>
Retained earnings represent accumulated net profits, net of dividend distributions and other capital adjustments. Retained earnings also include effect of changes in accounting policy as may be required by the PFRS' transitional provision.

<u>Other Comprehensive Income</u>
Other comprehensive income (loss) comprises of items of income and expense (including items previously presented under the statement of changes in equity) that are not recognized in the statement of income for the year in accordance with PFRS.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding VAT. The Company is acting as a principal when it has the significant risks and rewards associated with the rendering of services. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods. Revenue from sale of roofing and other steel products, books and incidentals is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Tuition and School Fees. Revenue is recognized as income over the corresponding school term to which they pertain. Total assessments of tuition and other school fees, net of monthly amortization, are recorded as part of "Unearned revenue" account in the consolidated statement of financial position.

Hospital Routine Services. Revenue is recognized upon rendering of medical services and sale of medicines and other pharmaceutical products.

Consultancy Services. Revenue is recognized when services are rendered.

Construction Services. Revenue from construction services contract is recognized by stage of completion. Stage of completion is measured by reference to total costs incurred to date as a percentage of total estimated costs for each contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Investment Income. Investment income includes net gains and losses on investments held for trading and interest income. Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend Income. Revenue is recognized when the shareholder's right to receive the payment is established.

Rental Income. Revenue is recognized on a straight-line basis over the lease term.

Costs and Expenses
Costs and expenses are generally recognized as incurred. Costs and expenses constitute the following:

Cost of Sales, Educational, Hospital and Consultancy Services. Cost of sales includes direct materials used, personnel costs, as well as repair and power and fuel used to run production of steel products. Cost of educational services constitutes costs incurred to administer academic instruction. Cost of hospital services includes professional fees paid to medical personnel, utilities and other medical supplies used to render medical services. Cost of consultancy services includes labor cost and other direct costs related to the performance of consultancy services. These expenses are expensed as incurred.

General and Administrative Expenses. General and administrative expenses constitute costs of administering the business and are expensed as incurred.

Selling Expenses. Selling expenses include costs of distribution of steel products, books, incidentals, personnel costs, freight expenses, commission and advertising. Selling expenses are expensed as incurred.

Pension and Other Employee Benefits

Defined Benefit Plan. The Parent Company, PEHI, UGC, UPANG, AU, COC, UI, SJCI and SWU have distinct funded, noncontributory defined benefit retirement plans covering all permanent employees, each administered by their respective Retirement Committees. The rest of the subsidiaries have no retirement plan either because the subsidiaries ceased commercial operations or accounting or administrative functions are handled by an employee of another company within the group. Retirement costs on these defined benefit retirement plans are actuarially determined using the projected unit credit method.

The net pension 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.

Net pension cost comprises the following:

- service cost;
- net interest on the net defined benefit liability or asset; and
- remeasurement of defined benefit liability or asset in OCI

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to the consolidated statements of income in subsequent periods but rather these are closed to retained earnings every end of the period.

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 Company, nor can they be paid directly to the Company. 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).

The Company'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.

Defined contribution plan. The Parent Company also provides a defined contribution plans that cover all regular full-time employees under which the Company pays fixed contributions based on the percentage contributed by the employees from their monthly salaries. The retirement funds for the defined benefit and defined contribution plans cannot be used to meet the funding requirements of each other. While the Company is covered under Republic Act 7641, otherwise known as *"The Philippine*

Retirement Law", which provides for qualified employees to receive a defined minimum guarantee, the existing defined benefit plan is sufficient to cover the required minimum retirement obligation under the law. Accordingly, the Company accounts for its monthly defined contribution as expense when incurred.

Termination Benefits. Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee Leave Entitlement. Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees.

Stock Purchase Plan

The Company has a stock purchase plan offered to senior officers which gives them the right to purchase shares of the Company set aside by the plan.

The cost of equity-settled transactions with employees is measured by reference to their fair value at the date they are granted, determined using the acceptable valuation techniques. The amount is fixed at grant date.

The cost of equity-settled transactions, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("vesting date").

The cumulative expense recognized for equity-settled transactions at each reporting date up to and until the vesting date reflects the extent to which the vesting period has expired, as well as the Company's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of income charge or credit for the period represents the movement in cumulative expense recognized at the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

When the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. An additional expense is likewise recognized for any modification which increases the total fair value of the share-based payment arrangement or which is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. If a new award, however, is substituted for the cancelled awards and designated as a replacement award, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Leases

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

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that 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.

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

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

Company as Lessor. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the consolidated statement of income on a straight-line basis over the lease term.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase due to the passage of time is recognized as interest expense in the consolidated statement of income. When the Company expects a provision to be reimbursed, the reimbursement is recorded as a separate asset but only when the receipt of the reimbursement is virtually certain.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they are incurred. Borrowing cost consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency-denominated Transactions and Translation
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. The subsidiaries determine their own functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

Transactions in foreign currencies are recorded using their functional currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange at the end of the reporting period. Exchange gains or losses arising from foreign currency translations are credited or charged to current operations. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Other than OAL and Fuld U.S., the functional and presentation currency of the subsidiaries within the Company is Philippine peso. The functional currency of OAL and Fuld U.S. is U.S. dollar. The assets and liabilities of foreign operations are translated into Philippine peso at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in the consolidated statement of income.

Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) and unused tax losses from net operating loss carry over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused MCIT and NOLCO can be utilized, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interest in joint venture. Deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

Value-Added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of VAT, except:

- when the VAT incurred on a purchase of assets or services are not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- when receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the tax authority is included as part of “Input value-added taxes” or “Income and other taxes payable” accounts in the consolidated statement of financial position.

<u>Earnings per Common Share (EPS) Attributable to the Equity Holders of the Parent</u>
Basic EPS is computed by dividing net income attributable to the common equity holders of the Parent Company by the weighted average number of outstanding common shares during the year after giving retroactive effect to any stock dividend declared during the year.

The Company does not have potential common share or other instruments that may entitle the holder to common shares. Hence, diluted EPS is the same as basic EPS.

<u>Segment Reporting</u>
The Company is organized into seven major business segments namely, investment holdings, property development, construction materials, energy, educational services and business process outsourcing (BPO). Financial information about the Company’s business segments is presented in Note 37 to the consolidated financial statements.

<u>Contingencies</u>
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to consolidated financial statements 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 in the notes to consolidated financial statements when an inflow of economic benefits is probable.

<u>Events After Financial Reporting Date</u>
Post year-end events up to the date of approval of the consolidated financial statements by the BOD that provide additional information about the Company’s financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. **Significant Accounting Judgments, Estimates and Assumptions**

The accompanying consolidated financial statements prepared in conformity with PFRS require management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. In preparing the Company’s consolidated financial statements, management has made its best judgments, estimates and assumptions of certain amounts, giving due consideration to materiality. The judgments, estimates and assumptions used in the accompanying consolidated financial statements are based upon management’s evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

The Company believes the following represents a summary of these significant judgments, estimates and assumptions and related impact and associated risks in its consolidated financial statements.

Judgments
In the process of applying the Company'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 Company's consolidated financial statements:

Material Partly-owned Subsidiaries. The consolidated financial statements include additional information about subsidiaries that have NCI that are material to the Company (see Note 8). Management determined material partly-owned subsidiaries as those with carrying value of NCI greater than 5% of total NCI as at end of the year.

Material Associates. The consolidated financial statements include additional information about associates that are material to the Company (see Note 13). Management determined material associates as those associates where the carrying amount of the Company's investment is greater than 5% of the total investments in associates as at end of the year.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the succeeding paragraphs.

Business Combination. The Company's consolidated financial statements and financial performance reflect acquired businesses after the completion of the respective acquisition. The Company accounts for the acquired businesses using the acquisition method, which require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in the Company's consolidated statement of financial position. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect the Company's financial performance.

On December 5, 2017, the Company acquired 95.19% ownership in SJCI for ₱368.7 million which resulted in allocaton of the purchase consideration to the identifiable asset acquired and liabilities assumed. The provisional fair values of the identifiable assets and liabilities of SJCI as at the date of the acquisition are disclosed in Note 6.

Estimating Allowance for Doubtful Accounts. The Company maintains allowance for doubtful accounts based on the result of the individual and collective assessments. Under the individual assessment, which considers the significant financial difficulties of the debtor, the Company is required to obtain the present value of estimated cash flows using the receivables' original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying amount and the computed present value. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (debtor type, past-due status and terms) of the debtors. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any year would differ depending on the judgments and estimates made for the year.

Provision for doubtful accounts amounted to ₱103.7 million and ₱144.1 million in 2017 and 2016. The allowance for doubtful accounts amounted to ₱610.1 million and ₱608.2 million as at December 31, 2017 and 2016, respectively. The carrying amounts of trade and other receivables, including long-term receivables, amounted to ₱1,715.7 million and ₱1,666.8 million as at December 31, 2017 and 2016, respectively (see Note 11).

Estimating Net Realizable Value of Inventories. The Company carries inventories at net realizable value when this becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

The Company has not recorded any provision for inventory obsolescence in 2017 and 2016. The allowance for inventory obsolescence amounted to ₱2.3 million and ₱14.9 million as at December 31 2017 and 2016, respectively. The carrying amounts of inventories amounted to ₱1,026.2 million and ₱902.3 million as at December 31, 2017 and 2016, respectively (see Note 12).

Impairment of AFS Investments. The Company treats AFS equity investments as impaired when there has been a significant or prolonged declined in the fair value below its cost or when other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. "Significant" is generally referred to as 20% or more of the original cost of investment, and "prolonged" as period longer than 12 months. The Company evaluates factors including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

No impairment loss on AFS investments was recognized in 2017 and 2016. The allowance for impairment amounted to ₱45.5 million as at December 31, 2017 and 2016, respectively. The carrying values of AFS investments amounted to ₱66.6 million and ₱67.9 million as at December 31, 2017 and 2016, respectively (see Note 14).

Impairment of Investments in Associates. The Company assesses impairment of investments in associates whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. This requires an estimation of the VIU of the CGUs. Estimating the VIU requires the Company to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate to calculate the present value of those cash flows. In cases wherein VIU cannot be reliably estimated, the recoverable amount is based on the fair value less costs to sell. Fair value less costs to sell is determined to be the amount obtainable from the sale of the underlying net assets of the associate.

No impairment loss on investment in associates was recognized in 2017 and 2016. The carrying values of investments in associates amounted to ₱3,228.9 million and ₱3,395.1 million as at December 31, 2017 and 2016, respectively (see Note 13).

Impairment of Goodwill and Trademark. The Company performs impairment testing of goodwill and trademark on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the VIU of the CGU to which the goodwill is allocated. VIU is determined by making an estimate of the expected future cash flows from the CGU and applies a discount rate to calculate the present value of these cash flows. Goodwill acquired through business combination has been allocated to one CGU which is also the operating entity acquired through business combination and to which the goodwill relates. The recoverable amount of goodwill and trademark has been determined based on VIU calculation using cash flow projections covering a five-year period. The calculation of VIU for the Company's goodwill and trademark is sensitive to revenue growth rates and discount rates. Revenue growth rates estimates are based on values acquired in previous years and also takes into account anticipated increase from various market initiatives. Discount rate reflects the current market assessment of the risk specific to each CGU. The discount rate is based on the average percentage of the weighted average cost of capital for the industry. This rate is further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted.

The carrying amount of goodwill and trademark, pre-tax discount rates and growth rates applied to cash flow projections for impairment testing are as follows:

	Goodwill		Trademark		Pre-tax Discount		Growth Rates	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
SWU	**₱996,484**	₱996,484	**₱–**	₱–	**5%**	5%	**5%**	5%
UPANG	**385,817**	385,817	**–**	–	**4%**	4%	**5%**	5%
ICI Asia, Inc.	**14,120**	14,120	**–**	–	**7%**	7%	**3%**	3%
UI	**213,995**	213,995	**–**	–	**5%**	5%	**5%**	5%
AU	**35,917**	35,917	**–**	–	**4%**	4%	**5%**	5%
COC	**20,445**	20,445	**–**	–	**4%**	4%	**5%**	5%
Fuld U.S.	**–**	157,277	**–**	53,286	**–**	7%	**–**	3%
	₱1,666,778	₱1,824,055	**₱–**	₱53,286				

**transalated using ₱49.72:US$1 in 2016*

Management believes that no reasonably possible change in these key assumptions would cause the carrying values of goodwill and trademark to materially exceed its recoverable amount. The Company performs its annual testing of goodwill and trademark every December 31. The Company's goodwill and trademark from Fuld U.S. amounted to nil in 2017 due to the sale of the investment in shares of Fuld U.S. in April 2017. The provisional goodwill amounting to ₱64.2 million arising from the acquisition of SJCI was not tested for impairment with no impairment indicators identified to warrant impairment testing.

Impairment loss on goodwill amounted to nil and ₱191.2 million in 2017 and 2016, respectively. The impairment loss in 2016 pertains to the goodwill in Fuld U.S. No impairment loss on trademark was recognized in 2017 and 2016. The carrying amount of goodwill and trademark amounting to ₱1,731.0 million and ₱1,877.3 million as at December 31, 2017 and 2016, respectively, is presented under "Intangible assets" account in the consolidated statements of financial position (see Note 17).

Impairment of Property, Plant and Equipment, Investment Properties and Intangible Asset with Finite Useful Lives. The Company assesses impairment on property, plant and equipment, investment properties and other noncurrent assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance related to the expected or projected operating results;
- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

In 2017, the Company impaired improvements and construction materials after assessing that they are no longer needed by the Company. Total impairment loss recognized amounted to ₱4.6 million and nil in 2017 and 2016, respectively. The carrying amounts of property, plant and equipment, investment properties and intangible assets with finite useful lives as at December 31 are as follows:

	2017	2016
Property, plant and equipment (see Note 15)	**₱2,590,148**	₱2,224,627
Investment properties (see Note 16)	**39,055**	49,841
Intangible assets with finite useful lives (see Note 17)	**8,748**	24,176

Realizability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The assessment in the recognition of deferred tax assets on temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on past results and future expectations on revenues and expenses. However, there is no assurance that sufficient taxable profit will be generated to allow all or part of the deferred tax assets to be utilized.

Carrying values of deferred tax assets amounted to ₱144.6 million and ₱185.6 million as at December 31, 2017 and 2016, respectively. The Company's deductible temporary differences, unused NOLCO and MCIT, for which no deferred tax assets are recognized in the consolidated statements of financial position amounted to amounted to ₱1,091.2 million and ₱827.3 million as at December 31, 2017 and 2016, respectively (see Note 31).

Estimating Useful Lives of Property, Plant and Equipment, Investment Properties and Intangible Assets with Finite Useful Lives. The Company estimates the useful lives of depreciable property, plant and equipment, depreciable investment properties and intangible assets with finite useful lives based on the period over which the property, plant and equipment, investment properties and intangible assets with finite useful lives are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets and in the case of intangible assets, useful lives are also based on the contracts covering such intangible assets. The estimated useful lives of property, plant and equipment, investment properties and intangible assets with finite useful lives are reviewed at each financial year-end and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment, investment properties and intangible assets with finite useful lives. However, it is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances.

The carrying amounts of depreciable property, plant and equipment, investment properties and intangible assets with finite useful lives are as follows:

	2017	2016
Property, plant and equipment (see Note 15)	**₱2,590,148**	₱2,224,627
Investment properties (see Note 16)	**39,055**	49,841
Intangible assets with finite useful lives (see Note 17)	**8,748**	24,176

Estimating the Fair Values of Acquiree's Identifiable Assets and Liabilities. Where the fair values of the acquiree's identifiable assets and liabilities cannot be derived from active markets, the Company determined the fair values using internal valuation techniques and generally accepted valuation approaches. The inputs to these valuation approaches are taken from historical experience and observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The estimates may include discount rates and assumptions used in cash flow projections. The fair values of the identifiable net assets acquired as at date of acquisition are disclosed in Note 6 to the consolidated financial statements.

Pension Benefits. The cost of pension plans is determined using projected unit credit method. Actuarial valuation includes making various assumptions which consists, among other things, discount rates, rates of compensation increases and mortality rates. Due to complexity of valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in assumptions. While the Company believes that its assumptions are reasonable and appropriate, significant differences in its actual experience or significant changes in its assumptions may materially affect its cost for pension and other retirement obligations.

All assumptions are reviewed every year-end (see Note 32).

Pension costs amounted to ₱83.2 million, ₱69.0 million and ₱55.0 million in 2017, 2016 and 2015, respectively. Pension and other-employment benefits liability amounted to ₱326.8 million and ₱299.7 million as at December 31, 2017 and 2016, respectively (see Note 32).

Fair Value of Financial Instruments. When the fair values of financial instruments recorded on the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility. The Company's investments held for trading, quoted AFS investments and derivatives instruments are recorded at fair value.

The methods and assumptions used to estimate the fair value of financial assets and liabilities are discussed in Note 34.

Contingencies and Tax Assessments. The Company is currently involved in various legal proceedings and assessments for local and national taxes (see Note 39).

The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's consolidated financial statements. Based on management's assessment, appropriate provisions were made in the consolidated statement of financial position.

6. Business Combination

Acquisition of SJCI. On December 5, 2017, PEHI acquired a 95.19% controlling interest in SJCI for a total consideration of ₱368.7 million. Portion of the purchase price amounting to ₱65.1 million was placed in escrow which will be released to sellers upon fulfillment of certain conditions. SJCI is a school that operates secondary, tertiary and graduate programs as well as providing review center services and technical and vocational courses and training programs. The registered office address of SJCI is in Sampaloc, Manila.

The provisional fair value of the identifiable assets and liabilities of SJCI as at the date of the acquisition are as follows:

	Provisional Values Recognized at Acquisition Date
Total assets:	
Cash and cash equivalents	₱11,996
Trade and other current receivables	50,884
Property, plant and equipment	442,315
Indemnification assets	12,937
Total assets	518,132
Total liabilities:	
Trade and other current payables	36,937
Unearned income	25,658
Long-term payables	74,972
Retirement liability	13,879
Deferred tax liability	35,949
Other payables	10,869
Total liabilities	198,264
Total identifiable net assets acquired	319,868
Proportionate share of NCI in net assets acquired	(15,386)
Provisional goodwill arising from acquisition (see Note 17)	64,201
Purchase consideration transferred	₱368,683

The fair value and gross amount of the trade and other current receivables amounted to ₱50.9 million. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

Fixed assets recognized in the December 31, 2017 consolidated financial statements were based on provisional assessment of their fair valuation prepared by an independent appraiser accredited by the SEC while the remaining identifiable assets and liabilities are measured based on their carrying amount as at the date of acquisition. The valuation had not been completed by the date the 2017 consolidated financial statements were approved for issue by the Executive Committee.

The description of the valuation techniques used and key inputs to fair valuation are as follows:

	Valuation Technique	Inputs	Range
Land	Sales comparison approach	Price per square metre	₱58,000–91,200
Buildings and improvements	Cost approach	Market value per square metre	₱15,625

Market value is defined as the reproduction cost or current cost of an identical new item less depreciation.

The deferred tax liability mainly comprises the tax effect of the fair value adjustments on property, plant and equipment amounting to ₱35.9 million.

Goodwill determined provisionally from the acquisition amounted to ₱64.2 million. None of the goodwill recognized is expected to be deductible for income tax purposes.

Contingent liabilities totaling ₱12.9 million was recognized at acquisition date arising from probable claim and contingencies included under trade and other current payables. No further disclosures regarding the contingent liability arising from probable claims are made by SJCI at this time as SJCI believes that such further disclosures might be prejudicial to its position. A related indemnification asset amounting to ₱12.9 million was also recognized at acquisition date representing the amount reimbursable by PEHI from the previous owners of SJCI when the claims and contingencies have been finally settled.

The Company has elected to measure the NCI based on the NCI's proportionate share in the fair value of the net identifiable assets at acquisition date.

The cash outflow related to the acquisition is as follows:

Cash paid on acquisition date	₱266,563
Less cash of acquired subsidiary	11,996
Net cash outflow	₱254,567

Transaction costs of ₱3.2 million were expensed outright and are included in "General and Administrative Expenses" in the consolidated statement of income.

7. Transactions with Non-controlling Interests and Others

Dilution and Acquisition of NCI in SWU

On April 8, 2016, PEHI paid SWU a total amount of ₱46.5 million for its subscription of common shares at par value, which were initially classified as deposits for future stocks subscription.

On December 23, 2016, the SEC approved SWU's application for the increase in its authorized capital stock from ₱5.0 million (50,000 common shares at ₱100 par value per share) to ₱225.0 million (2,250,000 common shares at ₱100 par value per share), effectively increasing PEHI's ownership interest from 73.74% to 84.05% as at December 31, 2016. This transaction resulted in decrease in "Non-controlling interests" account by ₱224.02 million and increase in "Equity reserves" account by the same amount in 2016.

On May 23, 2017, PEHI completed acquisition of 1,682 SWU shares for a total consideration of ₱192.5 million which increased PEHI's interest in SWU from 84.05% to 84.34%. The transaction resulted in decrease in "Non-controlling interests" and "Equity reserves" account by ₱5.9 million and ₱186.6 million, respectively (see Note 8).

Acquisition of NCI and Sale of Investment in Fuld U.S.

On March 27, 2017, PHN acquired 10.5 shares representing 10.03% ownership in Fuld U.S. for ₱18.7 million. The transaction resulted in decrease in "Non-controlling interest" and "Equity reserves" accounts by ₱15.5 million and ₱3.2 million, respectively.

In addition, on April 7, 2017, PHN acquired an additional 4.5 shares representing 4.28% ownership interest in Fuld U.S. for a consideration of ₱15.5 million. The transaction resulted in decrease in "Non-controlling interest" and "Equity reserves" accounts by ₱6.7 million and ₱8.8 million, respectively.

On April 26, 2017, the Company sold its 95.56% interest in Fuld U.S. including the 14.31% minority shares acquired on March 27 and April 7, 2017 to Accretio Investments Pte., Ltd. The total proceeds from the sale amounted to US$3.6 million or ₱179.3 million which were collected on June 6, 2017. The Company recorded a gain of ₱4.1 million under "Other income (expenses)" in the consolidated statement of income in 2017.

8. **Material Partly-owned Subsidiaries**

Financial information of subsidiaries that have material NCI are provided below:

Proportion of equity interest held by NCI are as follows:

	Percentage of Ownership	
Name	**2017**	2016
API	**42.38**	42.38
UPANG and subsidiary	**30.67**	30.25
UI	**30.77**	30.21
SWU (see Note 7)	**15.66**	15.95
COC	**26.82**	25.79
AU	**22.15**	21.36
OAL and subsidiary	**20.00**	20.00
PSHC	**40.00**	40.00

Changes in proportion of equity interest held by NCI of UPANG and subsidiary, UI, COC and AU during the year resulted in increase in "Non-controlling interest" account by ₱11.3 million and decrease in "Equity reserves" account by the same amount in 2017 due to new issuance of shares.

Accumulated balances of material NCI as at December 31 are as follow:

Name	**2017**	2016
API	**₱148,409**	₱168,173
UPANG and subsidiary	**185,432**	165,403
UI	**124,738**	130,551
SWU	**308,644**	325,496
COC	**78,124**	90,599
AU	**65,320**	63,260
OAL and subsidiary	**(59,738)**	(58,313)
PSHC	**57,389**	54,611

Profit (loss) allocated to material NCI for the years ended December 31 follows:

Name	**2017**	2016
API	**₱135**	₱1,910
UPANG and subsidiaries	**26,395**	29,184
UI	**18,665**	28,914
SWU	**5,792**	40,832
COC	**27,892**	22,884
AU	**12,103**	11,795
OAL and subsidiary	**(590)**	(205)
PSHC	**2,778**	2,722

The summarized financial information of these subsidiaries are provided below. This information is based on amounts before inter-company eliminations.

Summarized total assets and liabilities as at December 31, 2017 are as follows:

	API	**UPANG and Subsidiary**	**UI**	**SWU**	**COC**	**AU**	**OAL and subsidiary**	**PSHC**
Current assets	**₱75,672**	**₱283,178**	**₱269,828**	**₱581,912**	**₱332,759**	**₱180,983**	**₱1,908**	**₱100,187**
Non-current assets	**332,642**	**891,760**	**448,330**	**797,619**	**441,138**	**575,574**	**–**	**220,850**
Total assets	**₱408,314**	**₱1,174,938**	**₱718,158**	**₱1,379,531**	**₱773,897**	**₱756,557**	**₱1,908**	**₱321,037**
Current liabilities	**₱53,400**	**₱313,260**	**₱211,646**	**₱416,818**	**₱355,051**	**₱205,173**	**₱304,656**	**₱7,421**
Non-current liabilities	**262**	**213,989**	**121,543**	**371,837**	**114,860**	**97,239**	**–**	**170,143**
Total liabilities	**₱53,662**	**₱527,249**	**₱333,189**	**₱788,655**	**₱469,911**	**₱302,412**	**₱304,656**	**₱177,564**

Summarized total assets and liabilities as at December 31, 2016 are as follows:

	API	UPANG and Subsidiary	UI	SWU	COC	AU	OAL and subsidiary	PSHC
Current assets	₱156,097	₱257,284	₱206,351	₱748,982	₱223,428	₱154,743	₱3,316	₱24,785
Non-current assets	334,845	880,627	414,156	2,028,292	434,485	525,156	2,755	288,886
Total assets	₱490,942	₱1,137,911	₱620,507	₱2,777,274	₱657,913	₱679,899	₱6,071	₱313,671
Current liabilities	₱134,692	₱232,793	₱190,405	₱583,921	₱261,752	₱158,144	₱308,566	₱6,203
Non-current liabilities	238	258,534	30,862	183,038	105,882	101,117	3,201	170,940
Total liabilities	₱134,930	₱491,327	₱221,267	₱766,959	₱367,634	₱259,261	₱311,767	₱177,143

Summarized statements of comprehensive income for the year ended December 31, 2017:

	API	**UPANG and Subsidiary**	**UI**	**SWU**	**COC**	**AU**	**OAL and Subsidiary**	**PSHC**
Revenues	**₱2,043**	**₱397,920**	**₱319,874**	**₱632,994**	**₱429,558**	**₱298,832**	**₱4**	**₱20,366**
Cost of sales	**–**	**(177,995)**	**(138,005)**	**(320,876)**	**(162,431)**	**(130,819)**	**–**	**–**
Administrative expenses	**(1,889)**	**(111,649)**	**(112,064)**	**(276,546)**	**(141,755)**	**(103,987)**	**(990)**	**(4,062)**
Finance costs	**–**	**(11,649)**	**(501)**	**(686)**	**(3,380)**	**(5,006)**	**–**	**–**
Other income - net	**(46,813)**	**1,294**	**3,440**	**91,079**	**(4,287)**	**1,092**	**737**	**(6,702)**
Income before income tax	**(46,659)**	**97,921**	**72,744**	**125,965**	**117,705**	**60,112**	**(249)**	**9,602**
Income tax	**(19)**	**(11,160)**	**(6,926)**	**(2,880)**	**(9,710)**	**(6,036)**	**–**	**–**
Net income	**(46,678)**	**86,761**	**65,818**	**123,085**	**107,995**	**54,076**	**(249)**	**9,602**
Other comprehensive income (loss)	**–**	**(3,829)**	**(193)**	**2,073**	**(672)**	**254**	**–**	**–**
Total comprehensive income	**(₱46,678)**	**₱82,932**	**₱65,625**	**₱125,158**	**₱107,323**	**₱54,330**	**(₱249)**	**₱9,602**

Summarized statements of comprehensive income for the year ended December 31, 2016:

	API	UPANG and Subsidiary	UI	SWU	COC	AU	OAL and Subsidiary	PSHC
Revenues	₱3,799	₱398,260	₱321,842	₱577,027	₱378,972	₱307,863	₱12	₱22,668
Cost of sales	–	(162,558)	(124,290)	(296,420)	(129,028)	(127,522)	–	–
Administrative expenses	(1,915)	(118,777)	(98,752)	(177,351)	(149,218)	(115,445)	(1,716)	(4,168)
Finance costs	–	(14,331)	(6)	(221)	(5,368)	(6,133)	–	–
Other income - net	(29,371)	(975)	6,940	189,673	3	384	693	(9,122)
Income before income tax	(27,487)	101,619	105,734	292,708	95,361	59,147	(1,011)	9,378
Income tax	(23)	(6,463)	(10,023)	(36,708)	(10,322)	(5,897)	(14)	(2,574)
Net income	(27,510)	95,156	95,711	256,000	85,039	53,250	(1,025)	6,804
Other comprehensive income (loss)	–	1,116	444	241	–	248	–	–
Total comprehensive income	(₱27,510)	₱96,272	₱96,155	₱256,241	₱85,039	₱53,498	(₱1,025)	₱6,804

Summarized statements of cash flows for the year ended December 31, 2017:

	API	**UPANG and Subsidiary**	**UI**	**SWU**	**COC**	**AU**	**OAL and subsidiary**	**PSHC**
Operating	**(₱62,589)**	**₱98,381**	**₱57,240**	**₱265,127**	**₱90,139**	**₱49,327**	**(₱1,156)**	**₱–**
Investing	**(42,714)**	**(83,851)**	**(121,580)**	**(244,301)**	**(50,576)**	**(42,956)**	**3,491**	**2,014**
Financing	**23**	**(60,071)**	**25,221**	**(26,714)**	**(39,800)**	**(33,808)**	**(3,740)**	**–**
Net increase (decrease) in cash and cash equivalents	**(₱105,280)**	**(₱45,541)**	**(₱39,119)**	**(₱5,888)**	**(₱237)**	**(₱27,437)**	**(₱1,405)**	**₱2,014**
Dividends paid to non-controlling interests	**₱–**	**₱27,589**	**₱24,889**	**₱20,357**	**₱26,146**	**₱12,273**	**₱–**	**₱–**

Summarized statements of cash flows for the year ended December 31, 2016:

	API	UPANG and Subsidiary	UI	SWU	COC	AU	OAL and subsidiary	PSHC
Operating	₱120,744	₱203,170	₱84,700	₱116,477	₱139,035	₱80,898	(₱1,199)	₱6,233
Investing	–	(55,758)	(30,787)	71,705	(30,774)	(25,423)	990	(850)
Financing	–	(100,406)	(49,993)	(185,000)	(85,041)	(48,687)	–	–
Net increase (decrease) in cash and cash equivalents	₱120,744	₱47,006	₱3,920	₱3,182	₱23,220	₱6,788	(₱209)	₱5,383
Dividends paid to non-controlling interests	₱–	₱27,603	₱18,126	₱37,632	₱16,146	₱8,860	₱–	₱–

9. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand and in banks	**₱276,674**	₱244,923
Short-term deposits	**643,155**	479,709
	₱919,829	₱724,632

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Interest income from cash and cash equivalents amounted to ₱13.4 million, ₱9.4 million and ₱5.3 million in 2017, 2016, and 2015 respectively (see Note 23).

10. Investments Held for Trading

This account consists of investments in:

	2017	2016
Unit Investment Trust Funds (UITFs)	**₱1,048,949**	₱251,095
Investment in treasury bills	**177,959**	–
Marketable equity securities	**5,994**	7,004
	₱1,232,902	₱258,099

Net gains from investments held for trading amounted to ₱17.0 million, ₱5.9 million and ₱5.7 million in 2017, 2016 and 2015, respectively (see Note 23).

Investments held for trading have yields ranging from 0.01% to 1.81% in 2017, 1.4% to 1.6% in 2016 and 1.0% to 1.2% in 2015. Interest income from investments held for trading amounted to ₱1.1 million in 2017, nil in 2016 and ₱0.8 million in 2015 (see Note 23).

11. Trade and Other Receivables

This account consists of:

	2017	2016
Trade	**₱1,812,300**	₱1,640,286
Due from related parties (see Note 30)	**174,734**	95,753
Advances to suppliers and contractors	**139,658**	78,842
Advances to officers and employees	**20,867**	13,529
Receivable from PHN Retirement/Gratuity Plan (PHN Retirement) (see Note 30)	**8,939**	8,939
Others	**169,335**	437,661
	2,325,833	2,275,010
Less allowance for doubtful accounts	**610,107**	608,204
	₱1,715,726	₱1,666,806

Trade receivables include receivables from sale of roofing and other steel products to customers which are normally on a 30-60 day term. Trade receivables also include tuition and other school fees receivables which are normally collected within the current school semester. Other trade receivables are noninterest-bearing and are normally collected within the next financial year.

The terms and conditions of the amounts due from related parties are discussed in Note 30.

Advances to suppliers and contractors and other receivables are noninterest-bearing and normally received within the next financial year.

Receivable from PHN Retirement consists of receivable from BPI Asset Management, the Parent Company's retirement fund manager, on the retirement payments made by the Parent Company to its qualified employees.

Other receivables mainly consist of interest-bearing loan receivables of PEHI and rental receivables which arose from operating leases on some of the properties of the Company. The loan receivables carry an interest rate of 10% per annum and are due and demandable. Rental and other receivables are generally non-interest bearing and have a term of one year.

Receivables written off amounted to ₱101.7 million and ₱11.4 million in 2017 and 2016, respectively. These pertain to receivables of UGC, AU, UPANG, UI, SWU and COC which are deemed worthless and uncollectible.

Movements in the allowance for doubtful accounts are as follows:

		2017	
	Trade	**Others**	**Total**
Balance at January 1, 2017	**₱442,230**	**₱165,974**	**₱608,204**
Provisions (see Note 25)	**103,590**	**60**	**103,650**
Write-offs	**(101,532)**	**(215)**	**(101,747)**
Balance at December 31, 2017	**₱444,288**	**₱165,819**	**₱610,107**
Individual impairment	**₱29,732**	**₱1,365**	**₱31,097**
Collective impairment	**414,556**	**164,454**	**579,010**
	₱444,288	**₱165,819**	**₱610,107**

		2016	
	Trade	Others	Total
Balance at January 1, 2016	₱311,455	₱163,955	₱475,410
Provisions (see Note 25)	142,068	2,019	144,087
Reversals	68	–	68
Write-offs	(11,361)	–	(11,361)
Balance at December 31, 2016	₱442,230	₱165,974	₱608,204
Individual impairment	₱7,256	₱1,368	₱8,624
Collective impairment	434,974	164,606	599,580
	₱442,230	₱165,974	₱608,204

12. **Inventories**

This account consists of:

	2017	2016
At cost:		
Finished goods	**₱871,872**	₱734,777
Raw materials	**58,534**	44,899
Other inventories	**52,839**	70,476
At net realizable value -		
Spare parts and others	**42,955**	52,122
	₱1,026,200	₱902,274

Under the terms of the agreements covering liabilities under trust receipts, certain inventories amounting to ₱521.7 million and ₱10.6 million as at December 31, 2017 and 2016, respectively, have been released to UGC in trust for the banks. UGC is accountable to the banks for the inventories under trust or its sales proceeds.

Finished goods mainly represent roofing and other steel products of UGC.

The cost of spare parts and other inventories carried at net realizable value amounted to ₱44.3 million and ₱65.2 million as of December 31, 2017 and 2016, respectively. The Company has allowance for inventory writedown amounting to ₱1.3 million and ₱13.1 million as at December 31, 2017 and 2016, respectively.

Cost of inventories sold, presented as “Inventories used” under “Cost of sales”, amounted to ₱2,968.4 million, ₱2,620.2 million and ₱2,565.8 million in 2017, 2016 and 2015, respectively (see Note 24).

13. **Investment in Associates**

The Company's associates consist of the following:

	Percentage of Ownership			
	2017		2016	
	Direct	**Effective**	Direct	Effective
PHINMA Property Holdings Corporation (PPHC) [(a)]	**35.42**	**42.71**	35.42	42.71
PHINMA Energy Corporation (PHEN)[(b)]	**26.24**	**26.24**	26.24	26.24
ABCIC Property Holdings, Inc. (APHI)	**26.51**	**26.51**	26.51	26.51
PHINMA Hospitality, Inc (PHI) [(c)]	**–**	**20.88**	–	20.88
Coral Way City Hotel Corporation (Coral Way) [(d)]	**23.75**	**26.44**	23.75	26.44
PHINMA Petroleum and Geothermal, Inc. (PHINMA Petroleum/PPG)[(e)]	**12.99**	**13.31**	12.99	13.31
Asia Coal Corporation (Asia Coal)[(f)]	**12.08**	**19.74**	12.08	19.74
Academy of Competitive Intelligence[(g)]	**–**	**–**	–	47.50

(a) *Indirect ownership through API.*
(b) *Formerly Trans-Asia Oil and Energy Corporation (TA Oil).*
(c) *Formerly Microtel Development Corporation (MDC). Indirect ownership through API.*
(d) *Indirect ownership through PHI.*
(e) *Formerly Trans-Asia Petroleum Corporation (TA Petroleum). Indirect ownership through PHEN.*
(f) *Ceased commercial operations and in the process of dissolution. Indirect ownership through PHEN.*
(g) *Indirect ownership through Fuld U.S. Investment in Fuld U.S. was sold on April 26, 2017 (see Note 7).*

The Company's associates are all incorporated in the Philippines except for Academy of Competitive Intelligence which is incorporated in United States of America. The reporting period of the associates ends at December 31. The detailed carrying values of investments in associates (accounted for under the equity method) are as follows:

	2017	2016
PHEN*	**₱2,274,920**	₱2,239,394
PPHC	**503,766**	695,578
PHINMA Petroleum**	**136,969**	138,727
PHI	**130,155**	126,806
APHI	**96,710**	99,844
Coral Way	**86,092**	92,436
Asia Coal	**270**	268
Academy of Competitive Intelligence	**–**	2,075
	₱3,228,882	₱3,395,128

**The fair value based on quoted share price amounted to ₱2,012.9 million and ₱2,718.1 million as at December 31, 2017 and 2016, respectively.*
***The fair value based on quoted share price amounted to ₱65.6 million and ₱92.9 million as at December 31, 2017 and 2016, respectively.*

The movements and details of the investments in associates account are as follows:

	2017	2016
Acquisition costs:		
Balance at beginning of year	**₱3,073,857**	₱3,062,459
Additions	**317**	11,398
Disposal	**(239)**	–
Balance at end of year	**3,073,935**	3,073,857
Accumulated equity in net income (losses):		
Balance at beginning of year	**300,949**	181,199
Equity in net earnings	**(100,443)**	230,021
Dividends	**(56,036)**	(110,271)
Disposal	**(1,836)**	–
Balance at end of year	**142,634**	300,949
Share in other comprehensive income of associates:		
Balance at beginning of year	**20,322**	24,680
Share in other comprehensive income (loss)	**(8,009)**	(4,358)
Balance at end of year	**12,313**	20,322
	₱3,228,882	₱3,395,128

The summarized financial information of the material associates are provided below.

Summarized statements of financial position as at December 31 follow:

	2017			2016		
	PHEN	**PPHC**	**PPG**	PHEN	PPHC	PPG
Total assets*	**₱20,753,938**	**₱4,662,249**	**₱156,777**	₱20,627,895	₱4,750,474	₱169,855
Total liabilities	**(11,618,359)**	**(3,584,655)**	**(1,445)**	(11,626,351)	(3,269,286)	(1012)
Non-controlling interests	**(78,111)**	**–**	**(2,398)**	(84,706)	–	(2,409)
	9,057,468	**1,077,594**	**152,934**	8,916,838	1,481,188	166,434
Proportion of the Parent Company's ownership	**26.24%**	**42.71%**	**13.31%**	26.24%	42.71%	13.31%
Equity attributable to Equity Holders of the Parent	**2,376,680**	**460,241**	**20,355**	2,339,778	632,615	22,152
Valuation differences	**(101,760)**	**43,525**	**116,614**	(100,384)	62,963	116,575
Carrying amount of the investments	**₱2,274,920**	**₱503,766**	**₱136,969**	₱2,239,394	₱695,578	₱138,727

**Includes cash and cash equivalents of PHEN amounting to ₱1,723 million and ₱395.6 million in 2017 and 2016, respectively, cash and cash equivalents of PPHC amounting to ₱289.6 million and ₱110.9 million in 2017 and 2016, respectively, and cash and cash equivalents of PHINMA Petroleum amounting to ₱3.1 million and ₱3.8 million in 2017 and 2016.*

Summarized statements of comprehensive income are as follow:

	2017			2016			2015		
	PHEN	**PPHC**	**PPG**	PHEN	PPHC	PPG	PHEN	PPHC	PPG
Revenues	**₱17,020,233**	**₱1,548,803**	**₱–**	₱15,477,873	₱1,672,830	₱–	₱13,470,170	₱1,427,066	₱–
Cost of sales	**(17,182,065)**	**(1,336,161)**	**–**	(14,105,874)	(1,532,444)	–	(11,440,717)	(925,481)	–
Depreciation and amortization	**(399,384)**	**(17,004)**	**(85)**	(413,091)	(17,935)	(50)	(397,116)	(14,095)	
Interest income	**87,185**	**30,038**	**15**	46,077	21,286	11	16,257	14,965	69
Interest expense	**(513,566)**	**(126,104)**	**–**	(468,485)	(87,731)	–	(449,480)	(38,587)	–
Other income (expenses) – net	**1,023,765**	**(479,085)**	**(13,569)**	906,482	(272,884)	(40,030)	(84,295)	(392,745)	(10,698)
Income (loss) before tax	**36,168**	**(379,513)**	**(13,639)**	1,442,982	(328,890)	(40,069)	1,114,819	71,123	(10,629)
Income tax	**308,227**	**(20,402)**	**128**	(60,451)	74,567	(247)	(208,967)	(10,987)	(65)
Net income (loss)	**344,395**	**(399,915)**	**(13,511)**	1,382,531	(254,323)	(40,316)	905,852	60,136	(10,694)
Other comprehensive income (loss)	**(28,030)**	**(3,500)**	**–**	2,141	(2,397)	–	25,110	722	–
Total comprehensive income (loss)	**₱316,365**	**(₱403,415)**	**(₱13,511)**	₱1,384,672	(₱256,720)	(₱40,316)	₱930,962	₱60,858	(₱10,694)
Company's share of total comprehensive income (loss)	**₱83,014**	**(₱172,298)**	**(₱1,798)**	₱363,338	(₱90,930)	(₱5,237)	₱240,604	₱22,304	(₱1,373)
Dividends received	**₱51,286**	**₱–**	**₱–**	₱102,394	₱–	₱–	₱51,039	₱–	₱–

The Company's share in total comprehensive income of the individually immaterial associates is provided below:

	2017	2016	2015
Net income	**₱766**	₱8,936	₱8,082
Other comprehensive income	**–**	–	–
Total comprehensive income	**₱766**	₱8,936	₱8,082

The aggregate carrying amount of the investments in the individually immaterial associates amounted to ₱313.2 million and ₱321.4 million as at December 31, 2017 and 2016, respectively.

Following are the status of operations and significant transactions of certain associates:

a. PHEN

PHINMA Energy PHEN (formerly Trans-Asia Oil and Energy Development Corporation) is involved in power generation and oil and mineral exploration activities. The registered office address of PHEN and PPG is 11th floor, PHINMA Plaza, 39 Plaza Drive, Rockwell Center, Makati City. PHEN and PPG are both listed in the Philippine Stock Exchange.

In 2016, Trans-Asia Oil and Energy Development Corporation changed its corporate name to PHINMA Energy Corporation and extended its corporate life for another 50 years. The Philippine SEC issued the Certificate of Amended Articles of Incorporation dated August 15, 2016, while the Bureau of Internal Revenue (BIR) issued an amended Certificate of Registration dated August 25, 2016 for the change in name.

On February 23, 2016, the BOD of PHEN declared cash dividend amounting to ₱194.6 million, equivalent to ₱0.04 per share, to all common stockholders of record as of March 9, 2016 and was paid on March 23, 2016.

On December 16, 2016, the BOD of PHEN declared cash dividend amounting to ₱195.4 million, equivalent to ₱0.04 per share, to all common stockholders of record as of January 4, 2017 and was paid on January 16, 2017.

On March 3, 2017, the BOD of PHEN declared cash dividend amounting to ₱195.4 million, equivalent to ₱0.04 per share, to all common stockholders of record as of March 17, 2017 and was paid on March 31, 2017.

Dividends received by the Company from PHEN amounted to ₱51.3 million in 2017 and ₱102.4 million in 2016.

The Company acquired additional shares in PHEN amounting to ₱0.3 million and ₱11.4 million in 2017 and 2016, respectively.

b. PPHC

PPHC was incorporated in the Philippines and is engaged in real estate development, particularly in the development of affordable medium and high-rise condominium units. The registered office address of the PPHC is PHINMA Properties Center, No. 29 EDSA, Mandaluyong City.

The Parent Company and API subscribed to additional shares in PPHC amounting to ₱183.4 million and ₱203.2 million, respectively, in July 2015. This resulted in increase in ownership interest in PPHC from 35.34% in 2014 to 35.42% in 2015. On June 7, 2017, the Parent Company paid its subscription payable to PPHC amounting to ₱73.4 million.

c. PHINMA Petroleum

PHINMA Petroleum was incorporated and registered with the SEC on September 28, 1994. PHINMA Petroleum is engaged in oil exploration and well development. On November 28, 2012, the SEC approved the increase in authorized capital stock of PHINMA Petroleum from ₱40 million divided into 4 billion shares with a par value of ₱0.01 per share to ₱1 billion divided into 100 billion shares with a par value of ₱0.01 per share. It also approved the change in its name to PHINMA Petroleum and the primary purpose from power generation to oil and gas exploration and production.

PHINMA Petroleum listed its shares with the Philippine Stock Exchange (PSE) by way of introduction on August 28, 2014. On April 10, 2017, PHINMA Petroleum's BOD approved the amendment of its Articles of Incorporation to change PHINMA Petroleum's corporate name to PHINMA Petroleum and Geothermal, Inc. and to include in its primary and secondary purposes the exploration and development of geothermal resources. The amended Articles of Incorporation were issued by the SEC on May 31, 2017 while the Certificate of Registration was issued by the BIR on June 14, 2017. As at December 31, 2017, PHINMA Petroleum has not started commercial operations.

d. AB Capital/APHI

AB Capital is an investment house that engages in corporate finance, fixed-income securities dealership, stock brokerage and fund management.

Pursuant to an agreement between PHN and Vicsal in March 2011, PHN agreed to sell its shares in AB Capital subject to certain conditions, including the following:

(a) Approval of BSP
(b) Removal of assets other than those identified and agreed to be retained by Vicsal in AB Capital, by transfer to a New Company (APHI) in exchange for shares in APHI and/or by sale or assignment of assets to APHI;
(c) Return of capital to PHN pertaining to shares in APHI;
(d) Selling Shareholders shall secure all Government Authorizations, including approvals and clearances, required for the return of capital of AB Capital to PHN and other sellers; and
(e) On Closing Date, PHN shall transmit to the Buyer the Deed of Absolute Sale.

On December 9, 2013, the SEC approved the return of capital of APHI to PHN and other selling shareholders.

On January 16, 2014, after having complied with the other conditions under the Share Purchase Agreement, PHN sold 406,361 shares in AB Capital to Vicsal for ₱97.5 million and on the same date signed the Deed of Absolute Sale.

e. Coral Way City Hotel Corporation (Coral Way)

Coral Way owns and operates Microtel Mall of Asia (the Hotel) which started commercial operations on September 1, 2010.

On April 28, 2016, the BOD of Coral Way declared cash dividend amounting to ₱15.0 million, equivalent to ₱0.40 per share, to all common stockholders of record as of December 31, 2015 and were paid on May 13, 2016.

On February 24, 2017, the BOD of Coral Way declared cash dividend amounting to ₱10.0 million, equivalent to ₱0.26 per share, to all common stockholders of record as of December 31, 2016 and were paid on April 10, 2017.

On November 28, 2017, the BOD of Coral Way declared cash dividend amounting to ₱10.0 million, equivalent to ₱0.26 per share, to all common stockholders of record as of October 31, 2017 and were paid on December 15, 2017.PHINMA Hospitality, Inc (PHI).

In 2015, API, a subsidiary of PHN, subscribed to 12.5 million shares of PHI representing 36.23% of PHI's outstanding shares for ₱125 million. Subscription payable amounting to ₱52.0 million is included in "Due to related parties" in the consolidated statement of financial position as at December 31, 2017.

14. AFS Investments

This account consists of:

	2017	2016
Unquoted equity securities	**₱95,036**	₱99,885
Quoted equity securities	**17,040**	13,561
Accumulated impairment losses	**(45,517)**	(45,517)
	₱66,559	₱67,929

AFS investments consist of investment in ordinary shares and proprietary shares.

The accumulated impairment loss pertains to investments in unquoted shares of Unicon Phinma Concrete Corporation and United Industrial Bag Corporation, which have both ceased operations in 2010, and investment in shares in Asian Eye Institute which was impaired in 2006.

No dividends were received in 2017, 2016 and 2015 from the AFS investments.

Set out below are the movements in the accumulated unrealized fair value gain on all investments in equity securities recognized as part of "Other comprehensive income" in equity as at December 31, 2017 and 2016.

	2017	2016
Balance at beginning of year	**₱11,776**	₱11,411
Change in fair value	**2,958**	365
Balance at end of year	**₱14,734**	₱11,776

15. Property, Plant and Equipment

This account consists of:

	January 1, 2017	**Acquisition through Business combination (see Note 6)**	**Additions**	**Disposals**	**Impairment**	**Reclassifica-tions**	**December 31, 2017**
Cost							
Land	**₱2,058,582**	**₱162,694**	**₱38,904**	**₱–**	**₱–**	**₱10,705**	**₱2,270,885**
Plant site improvements	**105,233**	**–**	**1,683**	**(10,183)**	**(4,683)**	**91,013**	**183,063**
Buildings and improvements	**2,341,383**	**264,296**	**80,239**	**(57,142)**	**(119)**	**123,338**	**2,751,995**
Machinery and equipment	**1,463,980**	**–**	**88,044**	**(1,968)**	**–**	**(53,324)**	**1,496,732**
Transportation and other equipment	**397,170**	**15,325**	**44,239**	**(25,353)**	**(46)**	**838**	**432,173**
	6,366,348	**442,315**	**253,109**	**(94,646)**	**(4,848)**	**172,570**	**7,134,848**
Less Accumulated Depreciation							
Plant site improvements	**43,033**	**–**	**2,547**	**(10,183)**	**–**	**–**	**35,397**
Buildings and improvements	**828,007**	**–**	**128,277**	**(54,165)**	**(206)**	**–**	**901,913**
Machinery and equipment	**937,310**	**–**	**122,012**	**(2,791)**	**(40)**	**–**	**1,056,491**
Transportation and other equipment	**274,789**	**–**	**25,158**	**(19,902)**	**(31)**	**–**	**280,014**
	2,083,139	**–**	**277,994**	**(87,041)**	**(277)**	**–**	**2,273,815**
	4,283,209	**442,315**	**(24,885)**	**(7,605)**	**(4,571)**	**172,570**	**4,861,033**
Construction in progress	**194,580**	**–**	**353,121**	**–**	**(65)**	**(172,570)**	**375,066**
Net Book Value	**₱4,477,789**	**₱442,315**	**₱328,236**	**(₱7,605)**	**(₱4,636)**	**₱–**	**₱5,236,099**

	January 1, 2016	Additions	Disposals	Reclassifications	December 31, 2016
Cost					
Land	₱2,053,118	₱32,619	(₱27,014)	(₱141)	₱2,058,582
Plant site improvements	103,391	1,072	–	770	105,233
Buildings and improvements	2,195,345	115,950	–	30,088	2,341,383
Machinery and equipment	1,304,351	92,027	(2,728)	70,330	1,463,980
Transportation and other equipment	380,112	32,871	(15,813)	–	397,170
	6,036,317	274,539	(45,555)	101,047	6,366,348
Less Accumulated Depreciation					
Plant site improvements	37,136	5,897	–	–	43,033
Buildings and improvements	710,695	113,818	–	3,494	828,007
Machinery and equipment	847,365	90,036	(2,728)	2,637	937,310
Transportation and other equipment	263,230	26,955	(12,997)	(2,399)	274,789
	1,858,426	236,706	(15,725)	3,732	2,083,139
	4,177,891	37,833	(29,830)	97,315	4,283,209
Construction in progress	192,944	112,973	–	(111,337)	194,580
Net Book Value	₱4,370,835	₱150,806	(₱29,830)	(₱14,022)	₱4,477,789

Construction in progress mainly pertains to the integration of the two bases of the head office of UGC in Calamba and renovation of the main building of Southwestern University and the Sacred Heart Hospital Redevelopment Project which started in 2016.

These include road improvement, parking area, office building, plant site and equipment.

Interest capitalized as part of “Construction in progress” account amounted to ₱2.8 million at a capitalization rate ranging 3.15% to 6.7% in 2017 and nil in 2016, respectively.

Certain property, plant and equipment of UGC, AU, COC and UPANG with aggregate amount of ₱1.8 billion and ₱1.3 billion as at December 31, 2017 and 2016, respectively, are used as security for their respective long-term debts (see Note 21).

In 2015, UPANG sold 2,713 square meter parcel of land to PSI. Proceeds from the sale of land amounted to ₱26.5 million, resulting to a loss of ₱5.6 million recognized (see Note 7). In the same year, UGC sold a parcel of land with carrying value of ₱5.5 million for ₱17.9 million, resulting to a gain of ₱12.4 million.

In 2016, UGC sold a parcel of land with carrying value of ₱27.0 million for ₱55.7 million, resulting to a gain of ₱28.7 million.

In 2017, PHN, UGC, ICI Asia and CAA sold various property and equipment resulting to a gain of ₱2.0 million. In the same year, CAA impaired improvements and construction materials resulting to recognition of impairment loss amounting to ₱4.6 million presented under “Other income (expense)” in the consolidated statement of income. The decrease in property, plant and equipment arising from the sale of investment in Fuld U.S with a carrying amount of ₱6.7 million.is presented as disposal.

The Company has fully depreciated property and equipment still used in operations with cost of ₱1.2 billion and ₱1.0 billion as at December 31, 2017 and 2016, respectively.

16. Investment Properties

This account consists of:

	January 1, 2017	**Additions**	**Disposals**	**Reclassification**	**December 31, 2017**
Cost:					
Land	**₱814,160**	**₱–**	**(₱71,974)**	**₱–**	**₱742,186**
Buildings for lease	**93,318**	**–**	**–**	**–**	**93,318**
	907,478	**–**	**(71,974)**	**–**	**835,504**
Less accumulated depreciation -					
Buildings for lease	**43,477**	**10,787**	**–**	**–**	**54,264**
	₱864,001	**₱10,787**	**(₱71,974)**	**₱–**	**₱781,240**

	January 1, 2016	Additions	Disposals	Reclassification	December 31, 2016
Cost:					
Land	₱1,070,306	₱850	(₱256,996)	₱–	₱814,160
Buildings for lease	93,318	–	–	–	93,318
	1,163,624	850	(256,996)	–	907,478
Less accumulated depreciation -				–	
Buildings for lease	37,330	6,147	–	–	43,477
	₱1,126,294	(₱5,297)	(₱256,996)	₱–	₱864,001

The profits from the investment properties for the years ended December 31 are as follows:

	2017	2016	2015
Rental income	**₱72,155**	₱69,203	₱62,463
Depreciation and amortization (included under "General and administrative expenses" account) (see Note 25)	**(10,787)**	(6,147)	(6,147)
	₱61,368	₱63,056	₱56,316

As at December 31, 2017 and 2016, the fair values of the investment properties amounted to ₱1,931.2 million and ₱1,881.4 million, respectively, based on valuations performed by accredited independent appraisers on various dates from 2014 to 2017. The description of the valuation techniques used and key inputs to fair valuation are as follows:

	Valuation Technique	Significant Unobservable Inputs	Range
Land	Market comparable assets	Price per square metre	₱350–₱5,300
Buildings for lease	Market comparable assets	Price per square metre	₱107,000–₱120,000

The fair value disclosure is categorized under Level 3.

PSHC's land amounting to ₱220.0 million is used as a security for its long-term debt (see Note 21). Other than this, the Company has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties.

In 2015, PHN sold its 21.05% ownership share in a parcel of land in Meycauayan Bulacan for ₱16.9 million. The Parent Company recorded a loss on sale of investment property in the amount of ₱8.3 million (see Note 16).

In 2016, the Parent Company sold its land located in San Fernando, La Union and Iloilo for a total net proceeds of ₱38.6 million. The Parent Company recognized a total net gain of ₱33.3 million. In the same year, SWU sold various parcels of land located in Cebu for a total net proceeds of ₱167.3 million, which resulted to a total net loss of ₱51.1 million.

In 2017, the Parent Company sold its land located in Nasugbu, Batangas for net proceeds of ₱5.9 million. The Company recorded a net gain of ₱5.9 million. In the same year, SWU sold various parcels of land located in Cebu for a total net proceeds of ₱63.9 million, which resulted to a total net loss of ₱8.0 million.

17. Intangible Assets

Following are the details and movements in this account:

	Student List	**Software Costs**	**Trademark with Indefinite Useful Life**	**Goodwill**	**Total**
Cost					
At January 1, 2016	₱165,638	₱22,088	₱50,435	₱2,385,580	₱2,623,746
Translation Adjustment	–	–	2,851	18,671	21,522
At December 31, 2016	**165,638**	**22,088**	**53,286**	**2,404,251**	**2,645,263**
Additions (see Note 6)	**–**	**720**	**–**	**64,201**	**64,921**
Disposal	**–**	**–**	**(53,286)**	**(348,462)**	**(401,748)**
At December 31, 2017	**₱165,638**	**₱22,808**	**₱–**	**₱2,119,990**	**₱2,308,436**
Amortization and Impairment					
At January 1, 2016	₱138,791	₱8,836	₱–	₱389,012	₱536,639
Amortization	11,505	4,418	–	–	15,923
Impairment	–	–	–	191,184	191,184
At December 31, 2016	**150,296**	**13,254**	**–**	**580,196**	**743,746**
Amortization	**11,505**	**4,643**	**–**	**–**	**16,148**
Disposal	**–**	**–**	**–**	**(191,184)**	**(191,184)**
At December 31, 2017	**₱161,801**	**₱17,897**	**₱–**	**₱389,012**	**₱568,710**
Net Book Value					
At December 31, 2017	**₱3,837**	**₱4,911**	**₱–**	**₱1,730,978**	**₱1,739,726**
At December 31, 2016	₱15,341	₱8,835	₱53,286	₱1,824,055	₱1,901,517

The Company performs its annual impairment test close to year-end, after finalizing the annual financial budgets and forecasts. The impairment test of goodwill is based on VIU calculations that uses the discounted cash flow model. Cash flow projections are based on the most recent financial budgets and forecast. Discount rates applied are based on market weighted average cost of capital with estimated premium over cost of equity. The carrying amount of goodwill allocated to each of the CGUs and key assumptions used to determine the recoverable amount for the different CGUs are discussed in Note 5.

Based on the impairment test performed for each of the CGUs, management identified impairment loss of nil and ₱191.2 million in 2017 and 2016, respectively. Goodwill acquired from the Company's acquisition of SJCI in 2017 is based on provisional values (see Note 6).

18. Other Noncurrent Assets

This account consists of:

	2017	2016
Refundable deposits	**₱10,058**	₱20,414
Long-term receivable	**11,937**	11,937
Input VAT - net of allowance for impairment of unrecoverable amount of ₱91.5 million and ₱113.1 million in 2017 and 2016, respectively	**1,630**	–
Others - net of allowance for doubtful advances of ₱51.5 million in 2017 and 2016	**20,244**	13,204
	₱43,869	₱45,555

19. Notes Payable

This account consists of notes payable of the following subsidiaries:

	2017	2016
UGC	**₱32,590**	₱271,846
AU	**11,500**	2,500
	₱44,090	₱274,346

The notes payable are unsecured short-term peso-denominated loans obtained from financial institutions with an annual interest rate of 4% in 2017 and 2016.

In 2015, PHN availed a total of ₱1.95 billion short term loan from Rizal Commercial Banking Corporation (RCBC) to partially fund the acquisition of SWU shares. The loan carries an interest of 3.25% per annum. During the year, PHN paid the loan in full when it transferred its direct ownership in SWU, including the other four schools, to PEHI in December 2015. PEHI availed of loans from various banks to fund the purchase of the schools from PHN (see Note 21).

20. Trade and Other Payables

This account consists of:

	2017	2016
Trade	**₱278,288**	₱162,370
Accruals for:		
Professional fees and others	**71,310**	42,298
Personnel costs (see Note 27)	**41,771**	57,084
Interest (see Notes 21 and 29)	**31,556**	7,610
Freight, hauling and handling	**7,195**	13,769
Customers' deposits	**184,277**	121,995
Dividends	**116,637**	111,114
Escrow	**65,136**	–
Provisions	**51,849**	99,882
Others	**290,318**	287,677
	₱1,138,337	₱903,799

Trade payables are noninterest-bearing and are normally settled on 30 to 90-day terms.

Accrued expenses and dividends are normally settled within the next financial year. Customer's deposits mainly consist of advanced paymets from customers of UGC.

Provisions consist of estimated liabilities for losses on claims by third parties. The information usually required by PAS 37 is not disclosed as it may prejudice the Company's negotiation with the third parties.

Escrow liability pertains to withheld portion of purchase price of acquisition of SJCI which will be release to sellers upon fulfillment of certain conditions.

Other liabilities pertain to other unpaid general and administrative expenses which are normally settled throughout the financial year.

21. **Long-term Debt**

This account consists of long-term liabilities of the following subsidiaries:

	2017	2016
PEHI	**₱2,300,000**	₱2,300,000
PHN	**2,000,000**	–
UGC	**498,125**	555,626
SWU	**300,000**	–
UPANG	**181,288**	216,186
PSHC	**128,864**	128,628
UI	**100,000**	–
AU	**75,000**	87,500
COC	**53,173**	63,219
	5,636,450	3,351,159
Less debt issuance cost	**34,173**	18,632
	5,602,277	3,332,527
Less current portion - net of debt issuance cost	**279,889**	114,040
	₱5,322,388	₱3,218,487

The balance of unamortized debt issuance cost follows:

	2017	2016
Beginning of year	**₱18,632**	₱6,516
Amortization	**(1,261)**	(1,807)
Additions	**16,802**	13,923
End of year	**₱34,173**	₱18,632

PEHI
On December 7 and 8, 2015, PEHI obtained a ten-year term loan from Rizal Commercial Banking Corporation (RCBC) and China Banking Corporation (CBC) in the amount of ₱1.4 billion and ₱900.0 million, respectively. Below is a summary of the terms of the said loans:

Bank	RCBC
Amount drawn	₱900.0 million
Tenure	Ten (10) years term loan
Repayment	Principal shall be payable in 27 equal quarterly repayment of ₱6.75 million and final quarter payment of ₱717.8 million
Prepayment	Allowed after fifth year without penalty
Drawdown date	December 7, 2015
Start of amortization payment	March 7, 2019
End of term loan	December 7, 2025
Interest rate	Repricing after 7^{th} year: interest rate then current (6.0762%) or applicable 3-year benchmark rate + 1.40% spread, or 5.00% floor rate, whichever is higher

Bank	RCBC
Amount drawn	₱500.0 million
Tenure	Ten (10) years term loan
Repayment	Principal shall be payable in 27 equal quarterly repayment of ₱3.75 million and final quarter payment of ₱398.8 million
Drawdown date	December 7, 2015
Start of amortization payment	March 7, 2019
End of term loan	December 7, 2025
Interest rate	Repricing after 5th year: interest rate then current (5.3179%) or applicable 5-year benchmark rate + 1.35% spread, or 5.00% floor rate, whichever is higher

Bank	CBC
Amount drawn	₱500.0 million
Tenure	Ten (10) years term loan
Repayment	Principal shall be payable in 27 equal quarterly repayment of ₱3.75 million and final quarter payment of ₱398.8 million
Drawdown date	December 8, 2015
Start of amortization payment	March 8, 2019
End of term loan	December 8, 2025
Interest rate	Repricing after 5th year: interest rate then current (5.3227%) or applicable 5-year benchmark rate + 1.35% spread, or 5.00% floor rate, whichever is higher
Bank	CBC
Amount drawn	₱400.0 million
Tenure	Ten (10) years term loan with 3 years grace period on principal repayment from date of initial drawdown
Repayment	Principal shall be payable in 28 equal quarterly repayment of ₱3.0 million and final quarter payment of ₱319.0 million
Drawdown date	December 8, 2015
Start of amortization payment	March 8, 2019
End of term loan	December 8, 2025
Interest rate	Repricing after 7th year: interest rate then current (6.1257%) or applicable 3-year benchmark rate + 1.40% spread, or 5.00% floor rate, whichever is higher

The loan agreements include, among others, certain restrictions and requirements with respect to the following:

- Debtor shall maintain its debt service coverage ratio, computed in accordance with generally accepted accounting principles, to be equal to or more than 1.20x starting fiscal year 2017;
- Debtor shall maintain its current ratio, computed in accordance with generally accepted accounting principles, to be equal to or more than 1.00x starting fiscal year 2017; and
- Debtor shall maintain its debt to equity ratio, computed in accordance with generally accepted accounting principles, to be less than or equal to 1.75x starting fiscal year 2017.

PEHI's investments in AU, COC, UI, UPANG and SWU are mortgaged as collaterals for its long-term debt.

As at December 31, 2017, PEHI is in compliance with the terms of the loan agreements.

PHN
On May 23 and 30, 2017, PHN obtained a ten-year term loan from Security Bank Corporation (SBC) for a total amount of ₱2.0 billion. Below is a summary of the terms of the said loans:

Bank	SBC
Amount drawn	₱2.0 billion
Tenure	Ten (10)-year term loan inclusive of three (3) years grace period
Repayment	Principal repayment shall commence at the end of the 3rd year from initial drawdown date until maturity date; balloon payment amounting to ₱1.9 billion or 94% of principal amount on maturity date.
Prepayment	Allowed starting at the end of the 12th quarter from the 1st drawdown date subject to certain conditions
Drawdown date	May 23 and 30, 2017
Start of amortization payment	August 24, 2020
End of term loan	May 21, 2027
Interest rate	6.0%

The loan agreements include, among others, certain restrictions and requirements with respect to the following:

- Maintenance of the following ratios computed in accordance with generally accepted accounting principles: (1) maximum debt-to-equity ratio of not more than 2.0:1 based on consolidated financial statements; (2) minimum debt service coverage ratio of 1.0x based on parent company financial statements; and (3) minimum current ratio of 1.0x based on parent company financial statements.

- Restrictions to assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any other person, firm or corporation; enter into merger or consolidation with any other corporation; sell, lease, or otherwise dispose of all or substantially all of its asset; make advances or loans to any of the Company's affiliates, subsidiaries, stockholders, directors and officers; or enter into any credit or loan agreement with any other creditor under such terms and conditions that would place SBC as a creditor in an inferior position.

As at December 31, 2017, the Company is in compliance with the terms of the loan agreement. Interest expense arising from the bank loan amounted to ₱75.9 million in 2017.

UGC
On July 19, 2016, UGC amended their ₱300.0 million five-year term loan from Banco de Oro Unibank, Inc. (BDO) obtained last March 25, 2013 by extending the maturity period to a seven-year term-loan. In 2016, the said loan has an outstanding balance of ₱218.8 million after the amendment.

Below is a summary of the terms of the said loan:

Bank	BDO
Amount drawn	₱218.8 million
Tenure	Seven (7)-year term loan
Repayment	Payable on 28 equal quarterly payments of ₱4.4 million with the remaining balance to be paid on maturity date
Prepayment	Allowed after third year without penalty

Drawdown date	March 25, 2013
End of term loan	July 20, 2023
Interest rate	Interest rate is based on the 7-year PDST-R2 plus a 1.40% spread or 5.5%, whichever is higher. No repricing of interest rate from borrowing date to maturity date.
Use of proceeds	Extend maturity date of the original loan to July 20, 2023

In 2015, UGC obtained a ten year term loan from SBC and BDO in the amount of ₱75.0 million each. UGC paid ₱25.0 million on the ₱300.0 million SBC loan and ₱25.0 million on the ₱300.0 million BDO loan before amendment. Below is the summary of the said loans:

Bank	BDO
Amount drawn	₱75.0 million
Tenure	Ten (10)-year term loan
Repayment	Principal shall be payable in 39 equal quarterly repayment of ₱1.9 million
Prepayment	Allowed without pernalty provided there is at least thirty (30) days prior written notice and prepayment shall be done on interest repricing date
Drawdown date	November 5, 2015
Start of amortization payment	December 31, 2015
End of term loan	November 5, 2025
Interest rate	The interest rate on the BDO loan commencing from the borrowing date up to the last day immediately preceding the interest repricing date is based on a 5-year PDST-R2 plus a 1.4% spread or 5.5%, whichever is higher, and for the interest period commencing from the interest repricing date and each succeeding interest periods until the maturity date, the interest rate is the rate to be negotiated by the parties within 30 banking days prior to interest repricing date.
Collateral	A parcel of land with improvements thereon located along Davao-Agusan Highway, Brgy. Ilang, Davao City Four (4) parcel of land with improvements thereon located along Chipeco Avenue extension corner Villa de Calamba Road, Brgy. Real, Calamba City.
Use of proceeds	Working capital requirements

Bank	SBC
Amount drawn	₱75.0 million
Tenure	Ten (10) years from initial drawdown date
Repayment	Payable in forty (40) equal quarterly installments commencing at the end of the 1st quarter following the initial drawdown date.
Prepayment	Allowed subject to the following conditions: ▪ 30 days prior notice and said notice shall be irrevocable ▪ Allowed in whole or in part on any interest payment date ▪ Prepayments shall be applied in reverse order ▪ Break funding cost based on the difference between the contracted interest rate and the comparable benchmark, if any, for fixed rate portion shall be for the account of the borrower.
Drawdown date	November 12, 2015
Start of amortization payment	December 31, 2015

End of term loan	November 5, 2025
Interest rate	The interest rate on the SBC loan for the first 5 years is based on the 5-year PDST-R2 plus a 1.35% spread or 5.5%, whichever is higher, and to be repriced at the end of the fifth year for the remaining 5 years at an interest rate based on the 3- day average of the 5-year PDST-R2 plus a 1.35% spread or the interest rate set for the first 5 years, whichever is higher.
Collateral	A parcel of land with improvements thereon located along Davao-Agusan Highway, Brgy. Ilang, Davao City Four (4) parcel of land with improvements thereon located along Chipeco Avenue extension corner Villa de Calamba Road, Brgy. Real, Calamba City.

On March 31, 2013, UGC obtained a five-year term loan from Security Bank Corporation (SBC) in the amount of ₱300.0 million.

Below is a summary of the terms of the said loans:

Bank	SBC
Amount drawn	₱300.0 million
Tenure	Five (5) - year term loan
Repayment	Principal shall be payable in 19 equal quarterly repayment of ₱6.25 million and final quarter payment of ₱181.3 million
Drawdown date	March 25, 2013
Start of amortization payment	June 21, 2013
End of term loan	March 25, 2018
Interest rate	Interest shall be fixed at 5.0%
Collateral	50% real estate mortgage on land, building and machinery in Calamba and Davao plants
Use of proceeds	Working capital requirements

As at December 31, 2017 and 2016, the loans from the lenders are collateralized by a mortgage agreement on the UGC's land, plant site improvements, buildings and installations, and machinery and equipment of Calamba and Davao plants with carrying value amounting to ₱511.1 million and ₱476.5 million, respectively. In addition, UGC is required to maintain maximum debt to equity ratio of 2:1 under its loan covenants. As at December 31, 2017 and 2016, UGC is in compliance with all of its loan covenants.

SWU
The school entered into a ten-year term loan agreement with RCBC for ₱400.0 million of which ₱100.0 million had been drawn on December 07, 2017, ₱200.0 million on December 20, 2017 and the remaining ₱100.0 million to be drawn in March 2018. The loan has three (3) years grace period and the principal is payable in twenty eight (28) quarterly amortization to start on the 13th quarter from the initial drawdown date. Interest shall be fixed at 6.655%from years one to five and at 6.936% onwards until maturity. The terms of the loan are as follows:

Bank	RCBC
Amount drawn	₱300.0 million drawn as at December 31, 2017
Undrawn amount	₱100.0 million to be drawn on March 29, 2018
Tenure	Ten (10) years from the date of initial drawdown for the payment of the principal amortization, with three (3) years grace period
Repayment	Payable in 28 quarterly amortizations on the principal payment date, provided that the annual principal payments shall be 1% of the beginning principal balance to commence at the end of the 13th quarter from the initial drawdown date, with the remaining principal balance to be paid upon maturity
Prepayment	The school may prepay the loan in part or in full, without any prepayment penalties after the 5th year of the term, subject to the payment of all accrued interests, charges and obligations provided in the agreement computed up to the date of prepayment, provided that certain conditions are complied with.

Drawdown date	December 7 and 20, 2017
Start of amortization payment	March 7, 2021 (13th quarter from initial drawdown)
End of term loan	December 7, 2027
Interest rate	Interest shall be fixed at 6.655% from years one to five and at 6.936% onwards until maturity.
Collateral	None
Use of proceeds	₱200.0 million shall be used to partially finance the building development, expansion and purchase of equipment of Sacred Heart Hospital; and ₱200.0 million shall be used to partially finance the developments of SWU.

The loan agreements include, among others, certain restrictions and requirements with respect to the following:

- Debtor shall not allow its debt service coverage ratio, computed in accordance with generally accepted accounting principles, to fall below 1.00x starting fiscal year 2019;

- Debtor shall not allow its current ratio, computed in accordance with generally accepted accounting principles, to be less than 1.00x starting fiscal year 2019; and

- Debtor shall not allow its debt-to-equity ratio, computed in accordance with generally accepted accounting principles, to exceed 1.75x starting fiscal year 2019 .

As at December 31, 2017, SWU is not yet required to comply with these financial ratios.

UPANG
On December 21, 2012, a 7-year term loan agreement was signed by UPANG and CBC for a maximum principal amount of ₱250.0 million. The proceeds were used to refinance existing obligations and to fund the capital expenditures for the school year 2012-2013. The loans are collateralized with land costing ₱121.8 million and with a revalued amount of ₱447.6 million. The terms of the loan are as follows:

Amount drawn	₱156.0 million
Tenure	Seven (7)-year term loan
Repayment	Principal shall be payable in 28 equal quarterly repayment of ₱5.6 million
Funding/Interest rate	Interest shall be payable quarterly in arrears. Interest from (February 1, 2013 – May 1, 2013) 89 days shall be at 5.7766% p.a. computed as 7-year PDSTF of 3.9688 plus spread of 175bps plus GRT of 1%. Starting May 2015, rate shall be at 6.0198%.
Security	The facility is secured by Real Estate Mortgage amounting to ₱300.0 million on the school assets covering land and land improvements.
Amount drawn	₱94.0 million
Tenure	Seven (7)-year term loan
Repayment	Principal shall be payable in 28 equal quarterly repayment of ₱3.4 million
Funding/Interest rate	Interest shall be payable quarterly in arrears. Interest from February 15, 2013 - May 15, 2013 (89 days) shall be at 5.5787% p.a. computed as 7-year PDST-F of 3.7729 plus spread of 175bps plus GRT of 1%. Starting May 2015, rate shall be at 5.8136%.
Security	The facility is secured by Real Estate Mortgage amounting to ₱447.6 million on the school assets covering land and land improvements.

The foregoing loan agreements include, among others, certain restrictions and requirements with respect to the following:

- No payment of dividends will be allowed in the first three (3) years of the loan. Dividends may be paid starting in the 4th year, provided the current ratio (defined as current assets over current liabilities) shall not be less than 1.25x and debt-service coverage ratio (defined as EBITDA over principal and interest payment) shall be at least 1.50x.

- No material change in the character of business; permit any material change in ownership of control of its stocks; participate in or enter into merger or consolidation which would result in a material change in control; voluntarily suspend its business operations or dissolve its affairs; amend its Articles of Incorporation and By-laws that would cause a material adverse change in financial ability and capacity of UPANG and; re-organize, undertake a quasi-reorganization, reduce its capital, change in its fiscal year, which would cause a material adverse change in the financial ability or capacity of the University.

As at December 31, 2017 and 2016, UPANG is in compliance with the terms of the loan agreement.

UPANG Urdaneta
On September 29, 2015, a 10-year term loan agreement was signed by PHINMA-UPANG College Urdaneta, Inc., a subsidiary of UPANG, and RCBC for a maximum principal amount of ₱100.0 million. The proceed was used to refinance existing obligations and the improvement of UPANG Urdaneta's building located at 587 McArthur Highway, Brgy. Nancayasan, Urdaneta City, Pangasinan. The loan proceeds were drawn on September 29, 2015 for ₱100.0 million. The terms of the loan are as follows:

Bank	RCBC
Amount drawn	₱100.0 million
Tenure	Ten (10)-year term loan with three (3) years grace period
Repayment	Principal shall be paid in the amounts of ₱0.6 million quarterly in year 4, ₱1.7 million quarterly in year 5, ₱2.7 million quarterly in year 6, ₱3.8 million quarterly in year 7, ₱4.4 million quarterly in year 8, ₱4.4 million quarterly in year 9, ₱7.5 million in year 10
Interest rate	Interest shall be fixed rate at 5.5926% (5.6485% with GRT) for the first seven (7) years of the term based on 3 day average of 7-year PDST-R2 +1.42% spread, subject to repricing at the end of the seventh (7th) year based on the interest rate then current or the 3 day average of 3-year PDST R-2 plus 1.42%, whichever is higher

The loan agreements include, among others, certain restrictions and requirements with respect to the following :

- Debtor shall not allow its total debt-to-equity ratio, computed in accordance with generally accepted accounting principles, for fiscal years 2016, 2017, and 2018 to exceed 3.00x and for fiscal years 2019 to 2025 to exceed 1.75x.

- Debtor shall not allow its current ratio, computed in accordance with generally accepted accounting principles to be less than 1.00x.

- Debtor shall not allow its debt-service coverage ratio to fall below 1.0x for fiscal years 2016 and 2017, and 1.2x for 2018 to 2025.

As at December 31, 2017 and 2016, UPANG Urdaneta is in compliance with the terms of the loan agreement.

UI
UI entered into a 10-year term loan agreement with CBC for ₱200.0 million of which ₱100.0 million had been drawn on December 20, 2017 and the remaining ₱100.0 million to be drawn in May 2018. The loan has a three (3)-year grace period and the principal is payable quarterly to start on March 20, 2021 for the first ₱100.0 million with fixed interest rates for the first seven years and subject to repricing afterwards. The terms of the loan are as follows:

Bank	CBC
Amount drawn	₱100.0 million
Tenure	10 years from initial drawdown
Repayment	Repay the principal amount of the loan on each principal repayment date within a period of 10 years from initial drawdown date, inclusive of three (3) years grace period.
Prepayment	Provided that no event of default has occurred, the borrower may repay all or part of the loan, together with the accrued interest and other charges accruing thereon up to the date of prepayment subject to conditions.
Drawdown date	December 20, 2017
Start of amortization payment	March 20, 2018

End of term loan	December 20, 2027
Interest rate	6.3321000%
Collateral	Real estate mortgage on twenty three (23) continous parcel of commercial lots including improvements located at Rizal Mapa St. and General Blanco St. with total net usable area of 9,887 sq.m. with a total appraised value of ₱273.2 million and total loanable value of ₱163.9 million. One parcel of commercial lot including improvements located at cor. Rizal and Mapa St. with net usable area of 1,606 sq.m. covered by TCT No. T-63576 registered under University of Iloilo with a total appraised value of ₱42.9 million and total loanable value of ₱25.8 million.
Use of proceeds	Partially fund the University of Iloilo,s expansion and development plans which includes school, buildings, upgrades and improvement of existing facilities.

The loan agreements include, among others, certain restrictions and requirements with respect to the following:

- Debtor shall not allow its total debt-to-equity ratio, computed in accordance with generally accepted accounting principles, for fiscal years 2017- 2018 to exceed 1.75x.

- Debtor shall not allow its current ratio, computed in accordance with generally accepted accounting principles consistently applied, to be less than 1.00x starting fiscal year 2017-2018.

- Debtor shall not allow its debt service coverage ratio to fall below 1.2x starting fiscal year 2017-2018 .

As at December 31, 2017, UI is not yet required to comply with these financial ratios.

COC
COC entered into a 10-year term loan agreement with CBC for ₱100.0 million of which ₱50.0 million had been drawn on March 27, 2013 and the other ₱50.0 million had been drawn on July 18, 2013. The loan is payable quarterly at ₱2.5 million with fixed interest rates for the first seven (7) years and subject to quarterly repricing afterwards.

The terms of the loan are as follows:

Bank	CBC
Amount drawn	₱100.0 million
Tenure	Payable quarterly at ₱2.5 million with fixed interest rates for the first 7 years and subject to quarterly repricing until 2023
Repayment	Payable in (40) equal quarterly amortizations to start at the end of the first quarter from initial drawdown.
Prepayment	COC may, at its option, prepay after five (5) years without prepayment penalty of 3.0%, together with the accrued interest and other charges thereon to the date of prepayment.
Drawdown date	₱50.0 million withdrawn on March 27, 2013 and the remaining ₱50.0 million on July 23, 2013
Start of amortization payment	June 27, 2013
End of term loan	March 27, 2023
Interest rate	First 7 years is based on the floor rate of 5.75% plus GRT of 1%. Repricing after 5 years to reflect 5% GRT. Repricing at the end of the 7th year based on applicable 3 year base rate plus spread of 200bps which will be mutually agreed upon by the Lender and the College or a floor rate plus GRT imposed by the Lender, whichever is higher.
Collateral	Land carried at revalued amount and its improvement with a combined area of 8,859 square meters.
Use of proceeds	The proceeds of the loan was used to finance the capital expenditures and to refinance obligations existing at the time of borrowing.

The loan agreements include, among others, certain restrictions and requirements with respect to the following:

- Comply with specified legal and statutory obligations, including payment and discharge of all taxes, assessments, and governmental charges levied on the College or the College's properties; conducting its operations in accordance with sound business practice; continuing all governmental and other approvals obtained relating to the agreement with the lender and obtaining new or additional actions necessary for the performance or enforceability of loan documents; permitting the authorized representatives and agents of the lender to inspect COC's sites at any reasonable time; and maintaining reasonable collateral business with the lender.

- No material change in the character of its business; permitting any material change in ownership or control of its capital stock; articipating in or entering into any merger or consolidation which would result in a material change in the control of COC; amending its Articles of Incorporation or By-Laws; and re-organizing, undertaking a quasi-reorganization, reducing its capital, or changing its fiscal year.

As at December 31, 2017 and 2016, COC is in compliance with all of its debt covenants.

AU
On December 11, 2013, a 10-year Term Loan Agreement was signed by the AU and RCBC for a principal amount of ₱125.0 million. The loan is payable quarterly at ₱3.1 million. The University's land and buildings and improvements amounting to ₱138.2 million are mortgaged as collateral for its long-term debt.

The terms of the loan are as follows:

Bank	RCBC
Amount drawn	₱125.0 million
Tenure	10 years
Repayment	Quarterly
Prepayment	Subject to the payment of all accrued interests, charges and obligations provided for in this Agreement, AU may prepay the loan in part of in full, without any prepayment penalties, subject to the following conditions: a. The debtor shall give the creditor at least thirty (30) days advance written notice of their intention to make such prepayments counted from the date of receipt by the creditor of such notice; b. Prepayment shall be applied against prepayment installmetns of the Loan in the inverse order of their maturity, provided that the earliest of such prepayment installment dates does not fall earlier than the thirty (30)-day notice provided for in the preceding subparagraph; and c. All prepayments shall be made only on an Interest Payment date
Drawdown date	December 11, 2013
Start of amortization payment	December 11, 2013
End of term loan	December 11, 2023
Interest rate	5.75%
Collateral	Land and building improvements
Use of proceeds	For general funding requirement and/or refinancing of AU's existing loan and the construction of the new university campus.

The foregoing loan agreements include; among others, certain restrictions and requirements with respect to the following:

- Debtor shall not allow its debt-to-equity ratio to exceed 1.75x

- Debtor shall not allow its current ratio to be less than 1.00

As at December 31, 2017 and 2016, AU is in compliance with its debt covenants.

PSHC
This represents interest-bearing loan obtained from United Pulp and Paper Co., Inc. (UPPC) amounting to ₱154.0 million arising from the acquisition of land from UPPC. UPPC was a former associate of the Parent Company.

This loan is presented at amortized cost as of the end of the reporting period. The present value of the loan at initial recognition in 2006 was calculated using an effective interest rate of 11.0%. The effective interest rate used in computing for the present value of the loan payable was derived based on the rate inherent to the loan after considering the carrying value and the future value of the loan payable at the coupon rate of 9.1%.

Initially, the said loan is payable in two installments amounting to ₱44.0 million on July 15, 2008 and ₱110.0 million on July 15, 2013. On July 8, 2008, a Memorandum of Agreement was executed by UPPC and PSHC amending the maturity date of the ₱44.0 million from July 15, 2008 to July 15, 2013. A recomputation of the effective interest rate of 10.52% was made in 2008 to reflect the change in the payment terms of the liability in 2013. On December 20, 2012, another Memorandum of Agreement was executed by UPPC and PSHC amending the payment term of the ₱154.0 million from July 15, 2013 to July 15, 2018. A recomputation of the effective interest rate of 9.28% was made to reflect the change in the payment terms in the liability. On September 19, 2014, PSHC paid ₱25.0 million as partial payment of outstanding balance of land. A recomputation of the effective interest rate of 7.82% was made to reflect the change in the payment terms in the liability. On July 1, 2015, another Memorandum of Agreement was executed amending the interest rate from 9.1% to 7.6% per annum. A recomputation of the effective interest rate of 9.33% was made to reflect the change in the payment terms in the liability. On July 1, 2015 and January 1, 2016, another Memorandum of Agreement was executed amending the interest rate to 7.6% and 6.8% per annum, respectively. The effective interest rate after the change in interest rates are 7.82% to 7.0%, respectively. On March 2017, UPPC and PSHC executed a Memorandum of Agreement amending the interest rate to 6.8% per annum effective January 1, 2016. The effective interest rate after the change in interest rate is 7.00%. On the same date, PSHC also extended the maturity of the loan, originally due on July 15, 2018 to July 15, 2023.

Additional interest expense resulting from the accretion of loan payable amounted to ₱0.24 million in 2017 and ₱0.27 million 2016 (see Note 29). The details of the loan are as follows:

	2017	2016
Loan payable to UPPC	**₱129,000**	₱129,000
Less: unamortized discount	**136**	372
	₱128,864	₱128,628

To secure the payment of the loan, PSHC constituted a mortgage over its land amounting to ₱220.0 million in favor of certain creditors of UPPC (see Note 15).

The payable of PSHC to UPPC incurs an annual interest at a rate subject to mutual agreement by UPPC and PSHC on each anniversary date. Interest expense on the amount payable to UPPC amounted to ₱8.72 million and ₱8.75 million in 2017 and 2016, respectively (see Note 29).

22. Equity

a. Capital Stock

The composition of the Parent Company's capital stock as at December 31, 2017 and 2016 is as follows:

	Number of Shares	
	2017	2016
Preferred - cumulative, nonparticipating, ₱10 par value		
Class AA - Authorized	**50,000,000**	50,000,000
Class BB - Authorized	**50,000,000**	50,000,000
Issued and subscribed	**–**	–
Common - ₱10 par value		
Authorized	**420,000,000**	420,000,000
Issued		
Balance at beginning of year	**260,400,814**	260,400,814
Stock dividend	**25,902,736**	–
Balance at end of year	**286,303,550**	260,400,814
Subscribed	**39,994**	39,994
Issued and subscribed	**286,343,544**	260,440,808
Treasury shares	**1,467,279**	1,408,979

The issued and outstanding shares as at December 31, 2017 and 2016 are held by 1,230 and 1,236 equity holders, respectively.

Capital stock presented in the consolidated statements of financial position is net of subscription receivable amounting to ₱0.1 million as at December 31, 2017 and 2016.

The following summarizes information on the Parent Company's track record of registration of securities under the Securities Regulation Code:

Date of SEC Approval	Authorized Shares	Issue/Offer Price
March 12, 1957	1,200,000	₱10
June 12, 1968	1,000,000	10
April 7, 1969	800,000	10
January 21, 1980	2,000,000	10
November 3, 1988	10,000,000	10
October 13, 1992	25,000,000	10
June 3, 1995	60,000,000	10
March 16, 1999	320,000,000	10

b. Retained Earnings

Appropriated

On March 22, 2017, the Company's BOD approved the reversal of appropriated retained earnings amounting to ₱1.2 billion to the Company unrestricted retained earnings. The remaining ₱300.0 million restricted retained earnings as at December 31, 2017 appropriated by the BOD for the buyback of the Company's shares from 2015 to 2017 was transferred to unrestricted retained earnings as at December 31, 2017 due to the lapse of the period designated by the BOD.

As at December 31, 2016, the Company has total appropriated retained earnings amounting to ₱1.5 billion as approved by the BOD of the Company on March 4, 2016 allocated as follows:

i. Investment in existing business of energy, education and property for ₱1.2 billion; and
ii. Buyback of the Company's shares in the amount of ₱300.0 million from 2015 to 2017.

The above shall be subject to specific terms and conditions as the BOD shall fix.

Unappropriated

On March 4, 2015, the Parent's Company BOD declared a cash dividend of ₱0.40 per share or an equivalent of ₱104.1 million, to all common shareholders of record as at March 18, 2015. The cash dividends were paid on March 31, 2015.

On March 4, 2016, the Parent's Company BOD declared a cash dividend of ₱0.40 per share or an equivalent of ₱103.7 million, to all common shareholders of record as at March 18, 2016. The cash dividends were paid on March 31, 2016.

On March 22, 2017, the Parent's Company BOD declared a cash dividend of ₱0.40 per share or an equivalent of ₱103.6 million, to all common shareholders of record as at April 5, 2017. The cash dividends were paid on April 21, 2017.

On April 18, 2017, the Parent's Company BOD declared a 10% stock dividend to all common shareholders of record as at June 6, 2017 amounting to ₱259 million. The stock dividends were approved by the stockholders on May 15, 2017 and were distributed last June 30, 2017.

The balance of retained earnings includes Parent Company's accumulated equity in net earnings of subsidiaries and associates which are not currently available for dividend declaration until declared by the respective subsidiaries and associates amounting to ₱788.6 million and ₱953.9 million as at December 31, 2017 and 2016, respectively.

In accordance with PFRS 1, paragraph 11, UGC closed out the "Revaluation Increment in Property, Plant and Equipment" account amounting to ₱135.0 million as at January 1, 2010 to retained earnings. The revaluation increment pertains to the remaining balance of the deemed cost adjustment on land, plant site improvements, buildings and installations, machinery and equipment which arose when UGC transitioned to PFRS in 2005.

As at December 31, 2017 and 2016, the remaining balance of deemed cost adjustment amounting to ₱71.8 million and ₱75.6 million (net of deferred tax liabilities), respectively, should not form part of retained earnings available for dividend declaration by UGC. These amount will be realized as depreciation and amortization in the statements of comprehensive income is recognizes in the case of depreciable assets and through sale to third party in the case of land. Prior to 2017, certain deemed cost adjustments related to land, plant site improvements, buildings and installations, machinery and equipment of UGC were presented as offset to the Company's property, plant and equipment and deferred tax liability. These were grossed up in 2017 and the comparative December 31, 2016 balances were reclassified to conform with 2017 consolidated statement of financial position.

In 2017, the following were reflected to the statement of financial position of the Company as at December 31, 2016 and January 1, 2016:

	December 31, 2016 (As presented)	Adjustment	December 31, 2016 (As adjusted)
Property, plant and equipment	₱4,291,043	₱186,746	₱4,477,789
Deferred tax liability	406,082	32,403	438,485
Retained earnings	4,147,707	154,343	4,302,050

	January 1, 2016	Adjustment	January 1, 2016 (As adjusted)
Property, plant and equipment	₱4,184,089	₱186,746	₱4,370,835
Deferred tax liability	361,447	32,403	393,850
Retained earnings	3,966,003	154,343	4,120,346

The Company did not present a statement of financial position as at the beginning of the earliest comparative period taking into account the significance and materiality of the accounts.

c. Stock Purchase Plan

Following are the salient features of the Parent Company's Stock Purchase Plan:

Purpose	To motivate the Senior Officers to achieve the Parent Company's goals, to help make the personal goals and corporate goals congruent and to reward the senior officers for the resulting increase in the value of PHN shares.
Prices of share	The officers shall purchase shares of stock of PHN from those set aside under the Stock Purchase Plan at the average closing price of PHN shares in the stock market for 20 trading days, in no case shall the price be lower than par value.
Tranches	1/3 of the maximum shares can be purchased upon date of first notice and 1/3 each every year thereafter provided that work performance is deemed acceptable.
Holding period	One-third of the shares shall not be sold or transferred to a 3rd party for at least one year from the date of each purchase or until retirement whichever comes first. Another one-third of the shares shall not be sold or transferred to a 3rd party for at least two years from the date of each purchase or until retirement whichever comes first. The last one-third of the shares shall not be sold or transferred to a 3rd party for at least three years from the date of each purchase or until retirement whichever comes first. Any such sale or transfer shall be considered null and void.

On April 2, 2009 and April 20, 2010, the BOD and shareholders of PHN, respectively, approved the setting aside of 8.4 million shares from the unsubscribed portion of the Parent Company's 420 million authorized common shares for stock purchase by the Senior Officers of this Corporation. On January 26, 2012, the Philippine SEC approved the Parent Company's Stock Purchase Plan while the PSE approved for listing the 8.4 million shares on May 23, 2012.

Under the Stock Purchase Plan, officers of the Parent Company can purchase ₱30.5 million worth of shares over three years, subject to certain conditions. The shares can be purchased at the average closing price of PHN shares in the market 20 days prior to each notice, but in no case shall the price be less than par value.

As at December 31, 2017 and 2016, shares acquired under the Stock Purchase Plan totaled 2,703,501 shares.

Total cumulative expense recognized in relation to the Stock Purchase Plan amounted to nil and ₱44.8 million as at December 31, 2017 and 2016, respectively. There were no unexercised vested shares as at December 31, 2017.

d. Buyback of Shares

On March 4, 2015, the BOD approved the buyback of up to 10% of the issued shares of the Company from March 2015 to 2017 in the open market through the means of the trading facilities of the PSE.

In 2017 and 2016, the Parent Company bought back 58,300 shares and 212,479 shares which amounted to ₱0.6 million and ₱2.5 million, respectively.

23. Investment Income

This account consists of:

	2017	2016	2015
Interest income on:			
Cash and cash equivalents (see Note 9)	**₱13,382**	₱9,381	₱5,269
Investments held for trading (see Note 10)	**1,133**	–	782
Due from related parties (see Note 30)	**2,667**	2,527	1,964
Others	**–**	9	–
	17,182	11,917	8,015
Net gains from investments held for trading (see Note 10)	**16,989**	5,911	5,699
Dividend income	**215**	144	253
	₱34,386	₱17,972	₱13,967

24. Cost of Sales, Educational, Hospital and Consultancy Services

This account consists of:

	2017	2016	2015
Cost of sales	**₱3,346,831**	₱2,990,398	₱2,856,728
Cost of educational services	**875,603**	766,906	654,039
Cost of hospital services	**101,458**	91,223	53,920
Cost of consultancy services	**31,082**	44,112	38,606
	₱4,354,974	₱3,892,639	₱3,603,293

The details of cost of sales, educational, hospital and consultancy services are as follows:

	2017	2016	2015
Inventories used (see Note 12)	**₱2,968,384**	₱2,620,163	₱2,565,844
Personnel costs (see Note 27)	**673,779**	634,145	504,127
Depreciation (see Note 28)	**223,017**	125,659	118,784
Laboratory and school supplies	**61,527**	56,872	96,281
Sports development and school activities	**49,226**	31,883	7,467
Repairs and maintenance	**44,993**	45,956	53,255
Educational tour expenses	**24,172**	39,223	33,911
Power and fuel	**20,443**	19,128	23,426
School affiliations and other expenses	**8,485**	3,318	7,442
Accreditation expenses	**1,149**	430	1,221
Provision for inventory obsolescence (see Note 12)	**37**	13,117	–
Others	**279,762**	302,745	191,535
	₱4,354,974	₱3,892,639	₱3,603,293

25. General and Administrative Expenses

This account consists of:

	2017	2016	2015
Personnel costs (see Notes 27, 30 and 32)	**₱479,908**	₱525,668	₱489,573
Professional fees and outside services (see Note 30)	**255,584**	177,328	179,509
Rent, light and water	**88,156**	69,368	71,244
Provision for doubtful accounts (see Note 11)	**103,650**	144,087	80,652
Depreciation and amortization (see Note 28)	**73,161**	126,483	95,954
Taxes and licenses	**33,881**	34,548	60,767
Transportation and travel	**15,131**	24,963	17,657
Repairs and maintenance	**13,763**	22,801	12,656
Communications	**10,462**	6,988	12,386
Insurance	**10,016**	10,666	10,855
Donations	**5,733**	13,405	3,999
Office supplies	**8,632**	9,780	15,380
Others	**59,975**	91,534	50,082
	₱1,158,052	₱1,257,619	₱1,100,714

26. Selling Expenses

This account consists of:

	2017	2016	2015
Personnel costs (see Note 27)	**₱133,268**	₱236,942	₱254,606
Freight, handling and hauling	**58,160**	79,147	74,652
Advertising	**50,659**	54,056	35,019
Commission	**42,956**	41,958	37,710
Transportation and travel	**23,010**	26,429	25,825
Installation cost	**18,922**	18,163	31,789
Taxes and licenses	**16,596**	15,275	13,992
Supplies	**11,874**	14,292	11,433
Repairs and maintenance	**11,534**	11,423	11,014
Postage, telephone and telegraph	**8,988**	8,678	9,652
Depreciation (see Note 28)	**8,751**	6,634	555
Insurance	**4,232**	3,997	3,414
Entertainment, amusement and recreation	**4,113**	3,820	4,313
Rental and utilities	**2,553**	2,418	3,704
Outside services	**2,283**	1,676	19,953
Others	**9,388**	7,873	11,640
	₱407,287	₱532,781	₱549,271

27. Personnel Costs

This account consists of:

	2017	2016	2015
Salaries, employee benefits and bonuses	**₱1,177,318**	₱1,254,178	₱1,178,149
Pension and other post-employment benefits (see Note 32)	**83,212**	69,038	54,985
Training	**7,730**	9,898	10,639
Others	**18,695**	63,641	4,533
	₱1,286,955	₱1,396,755	₱1,248,306

28. Depreciation and Amortization

Depreciation and amortization relate to the following assets:

	2017	2016	2015
Property, plant and equipment and investment properties:			
Cost of sales, educational, hospital and animation services (see Note 24)	**₱211,512**	₱125,659	₱118,784
General and administrative expenses (see Notes 15, 16 and 25)	**68,648**	110,560	77,718
Selling expenses (see Note 26)	**8,621**	6,634	555
Intangible assets -			
Cost of sales, educational, hospital and animation services (see Note 24)	**11,505**	11,505	7,671
General and administrative expenses (see Notes 15, 16 and 25)	**4,513**	4,418	4,418
Selling expenses (see Note 26)	**130**	–	–
	₱304,929	₱258,776	₱209,146

29. Interest Expense and Other Financing Charges

This account consists of:

	2017	2016	2015
Interest expense on long-term debt (see Note 21)	**₱266,977**	₱185,428	₱66,696
Interest expense on notes payable (see Note 19)	**18,474**	7,723	57,586
Other financing charges	**1,817**	11,085	13,863
	₱287,268	₱204,236	₱138,145

30. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions and the parties are subject to common control. Related parties may be individual or corporate entities.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2017 and 2016, the Company has not recorded any impairment of receivables from related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The significant related party transactions entered into by the Company with its associates and entities under common control and the amounts included in the consolidated financial statements with respect to such transactions follow:

2017						
Company	**Nature**	**Amount/ Volume**	**Amount Due to Related Parties**	**Amount Due from Related Parties** (see Note 11)	**Terms**	**Conditions**
Ultimate Parent						
PHINMA Inc.	Share in expenses, management fees and bonus	**₱190,513**	**₱43,703**	**3,483**	Noninterest-bearing	Unsecured, no impairment
	Grant of interest bearing advances	**50,000**	**–**	**–**	2.5% for 46 days	Unsecured, no impairment
Associates						
PPHC, PHEN, PPG	Share in expenses	**10,473**	**–**	**2,154**	Noninterest-bearing	Unsecured, no impairment
PHEN & Coral Way	Dividend income	**56,035**	**–**	**–**	Noninterest-bearing	Unsecured, no impairment

(Forward)

			2017			
Company	**Nature**	**Amount/ Volume**	**Amount Due to Related Parties**	**Amount Due from Related Parties** (see Note 11)	**Terms**	**Conditions**
Other related parties						
PHI	Subscription payable	**₱–**	**₱52,000**	**₱–**	Noninterest-bearing	Unsecured, no impairment
Phinma Power, T-O Ins. CIP II, PFI, Phinma Renewable	Share in expenses	**1,186**	**1,578**	**144**	Noninterest-bearing	Unsecured, no impairment
UPPC	Consultancy Fee	**2,414**	**–**	**793**	Noninterest-bearing	Unsecured, no impairment
Phinma Microtel Hotels, Inc.	Sale of US $	**1,169**	**–**	**–**	Noninterest-bearing	Unsecured, no impairment
CDCC	Grant of non-interest bearing advances	**7,176**	**–**	**168,160**	Noninterest-bearing	Unsecured, no impairment
			₱97,281	**₱174,734**		

			2016			
Company	Nature	Amount/ Volume	Amount Due to Related Parties	Amount Due from Related Parties (see Note 11)	Terms	Conditions
Ultimate Parent						
PHINMA Inc.	Share in expenses, management fees and bonus	₱134,011	₱21,784	₱1,448	Noninterest-bearing	Unsecured, no impairment
	Grant of interest bearing advances	6,300	–	6,300	2.465% 10-29 days	Unsecured, no impairment
Associates						
PPHC	Subscriptions payable	–	154,660	–	Noninterest-bearing	Unsecured, no impairment
	Grant of interest bearing advances	11,000	–	–	3.00%-5.56% 90 days	Unsecured, no impairment
	Sale of assets	28,224	–	18,900	3.00%-5.56% 90 days	Unsecured, no impairment
PPHC & PHEN	Share in expenses	3,209	–	821	Noninterest-bearing	Unsecured, no impairment
PHEN	Dividend income	72,821	–	51,525	Noninterest-bearing	Unsecured, no impairment
Other related parties						
PHI, T-O Insurance,	Subscriptions payable	–	52,086 –	–	Noninterest-bearing	Unsecured, no impairment
CIP II, PHINMA Foundation Inc.	Consultancy Fee	2,377	–	793	Noninterest-bearing	Unsecured, no impairment
	Sale of US $	474	–	–		
	Share in expenses	4,563	277	84	Noninterest-bearing	Unsecured, no impairment
	Grant of non-interest bearing advances	15,882	–	15,882	Noninterest-bearing	Unsecured, no impairment
			₱228,807	₱95,753		

PHINMA, Inc. The Parent Company has a 5-year management contract with PHINMA, Inc. up to June 30, 2019, renewable thereafter mutual agreement. Under this contract, PHINMA, Inc. has a general management authority with corresponding responsibility over all operations and personnel of the Parent Company including planning, direction, and supervision of all the operations, sales, marketing, distribution, finance and other business activities of the Parent Company. Under the existing management agreement, the Parent Company pays PHINMA, Inc. a fixed monthly management fee plus an annual incentive based on a certain percentage of the Parent Company's net income.

PHEN and TA Power. PHEN and TA Power are likewise controlled by PHINMA, Inc. through a management agreement. PHN bills PHEN and TA Power for their share in expenses.

PPHC. The Parent Company grants interest-bearing advances to PPHC for a period of 30-60 days. The Parent Company also bills PPHC for their share in expenses.

Retirement Fund. The Parent Company has established a retirement fund that is managed by a trustee. The Parent Company has a receivable from PHN Retirement amounting to ₱8.9 million as at December 31, 2017 and 2016.

Management and Directors' Compensation
PHN, UGC, COC, AU, UPANG and UI are under common management of PHINMA, Inc. and pay PHINMA, Inc. a fixed annual management fee plus an annual bonus based on a certain percentage of the respective companies' adjusted net income, as defined in the management contract between PHINMA, Inc. and the respective companies, pursuant to the provisions of the same contract.

Management fees and bonuses, presented as "Professional fees and outside services" under "General and administrative expenses" account, amounted to ₱151.1 million, ₱102.5 million and ₱93.0 million in 2017, 2016 and 2015, respectively (see Note 25). The related unpaid amount, presented as "Accruals for professional fees and others" under "Trade and other payables" account in the consolidated statements of financial position, amounted to ₱47.6 million and ₱68.2 million as of December 31, 2017 and 2016, respectively (see Note 20).

PHN, UGC, AHC, UI and AU recognized bonus to directors computed based on net income with pre-agreed adjustments. Directors' bonus, presented in "Personnel costs" under "General and administrative expenses" account, amounted to ₱65.1 million, ₱54.4 million and ₱43.4 million in 2017, 2016 and 2015, respectively (see Note 25). The related unpaid amount, presented in "Accruals for personnel costs" under "Trade and other payables" account in the consolidated statements of financial position, amounted to ₱20.9 million and ₱36.2 million as of December 31, 2017 and 2016, respectively (see Note 20).

Compensation of key management personnel of the Company are as follows:

	2017	2016	2015
Short-term employee benefits	**₱126,890**	₱125,078	₱100,661
Post-employment benefits (see Note 32):			
Retirement benefits	**17,278**	12,579	7,920
Vacation and sick leave	**2,592**	1,026	468
	₱146,760	₱138,683	₱109,049

31. **Income Taxes**

The components of the Company's deferred tax assets and liabilities are as follows:

	2017	2016
Deferred tax assets:		
NOLCO	**₱3,388**	₱30,733
Allowance for doubtful accounts	**39,605**	52,194
Accrued expenses	**25,446**	25,652
Pension liability	**44,343**	46,007
Unrealized foreign exchange losses	**–**	3,754
Management bonus	**8,751**	10,579
Allowance for inventory write-down	**1,493**	1,029
Others	**21,574**	15,649
	144,600	185,597
Deferred tax liabilities:		
Fair value adjustments on property, plant and equipment of subsidiaries	**(433,452)**	(403,048)
Accelerated depreciation	**(52,140)**	(51,704)
Trademark recognized from business combination	**–**	(15,986)
Unrealized foreign exchange gain	**–**	(3,222)
Unrealized gain on change in fair value	**(1,819)**	(1,297)
Accrued revenue (work in process)	**(4,413)**	(4,274)
Unamortized debt issuance costs	**(893)**	(1,274)
Unamortized capitalized borrowing cost	**(847)**	(922)
Others	**(5,665)**	(6,044)
	(449,229)	(487,771)
	(₱354,629)	(₱302,174)

The deferred tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2017	2016
Deferred tax assets – net	**₱86,603**	₱136,311
Deferred tax liabilities – net	**(441,232)**	(438,485)
	(₱354,629)	(₱302,174)

The Company's deductible temporary differences, unused NOLCO and MCIT for which no deferred tax assets are recognized in the consolidated statements of financial position, are as follows:

	2017	2016
NOLCO	**₱732,625**	₱401,054
Allowance for impairment loss	**271,666**	224,878
Accrued personnel costs and employee benefits	**59,511**	77,642
Unrealized foreign exchange losses	**7,283**	23,187
Unamortized past service costs	**6,203**	8,585
Unrealized change in fair value of investment	**3,518**	3,518
MCIT	**2,974**	2,606
Accrued rental – PAS 17 adjustments	**7,357**	–
Allowance for bad debts	**106**	–
Allowance for unrecoverable input VAT	**–**	85,795
	₱1,091,243	₱827,265

Deferred tax assets were not recognized since management believes that it is not probable that sufficient future taxable profit will be available to allow said deferred tax assets to be utilized.

AU, UPANG, UPANG Urdaneta, UI, COC and SWU, as private educational institutions, are taxed based on Republic Act (R.A.) No. 8424 which was effective January 1, 1998. Section 27(B) of R.A. No. 8424 defines and provides that: "A Proprietary Educational Institution is any private school maintained and administered by private individuals or groups with an issued permit to operate from the Department of Education, Culture and Sports, or Commission on Higher Education, or Technical Education and Skills Development Authority, as the case may be, in accordance with the existing laws and regulations shall pay a tax of ten percent (10%) on their taxable income."

MCIT totaling ₱3.0 million can be deducted against RCIT due while NOLCO totaling ₱732.6 million can be claimed as deduction against taxable income, as follows:

		Amount	
Date Paid/Incurred	Expiry Date	MCIT	NOLCO
December 31, 2015	December 31, 2018	₱653	₱123,516
December 31, 2016	December 31, 2019	1,337	286,099
December 31, 2017	December 31, 2020	984	389,509
		₱2,974	₱799,124

MCIT amounting to ₱0.6 million and ₱1.8 million, respectively expired in 2017 and 2016. Expired NOLCO amounted ₱123.0 million and ₱110.3 million in 2017 and 2016. No MCIT and NOLCO were claimed as deduction against regular taxable income in 2017 and 2016.

Reconciliation between the statutory tax rates and the Company's effective tax rates follows:

	2017	2016	2015
Applicable statutory tax rate	**30.0%**	30.0%	30.0%
Income tax effects of:			
Income of schools subject to lower income tax rate of 10%	**(32.8)**	(15.7)	(22.2)
Change in unrecognized deferred tax assets and others	**62.3**	31.4	24.3
Equity in net earnings (loss) of associates	**18.3**	(13.5)	(13.8)
Interest income subjected to lower final tax rate	**(5.8)**	(0.5)	(1.4)
Effective tax rates	**72.0%**	31.7%	16.9%

32. Pension and Other Post-employment Benefits

Pension and other post-employment benefits as at December 31 consist of:

	2017	2016
Net pension liability	**₱287,514**	₱260,695
Vacation and sick leave	**39,234**	39,014
Defined contribution plan	**47**	–
	₱326,795	₱299,709

Pension and other employee benefits expenses under “Cost of sales”, “General and administrative expenses” and “Selling expenses”, consist of:

	2017	2016	2015
Net pension expense	**₱75,817**	₱56,480	₱46,030
Vacation and sick leave	**7,348**	12,558	8,955
Defined contribution plan	**47**	–	–
	₱83,212	₱69,038	₱54,985

A. Pension Benefit Obligation

The following tables summarize the components of net pension expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position for the respective plans.

Net pension expense consists of:

	2017	2016	2015
Current service cost	**₱44,630**	₱44,290	₱41,442
Past service cost	**5,955**	–	–
Curtailment loss	**12,275**	–	–
Net interest cost	**12,957**	12,190	4,588
Net pension expense	**₱75,817**	₱56,480	₱46,030

Details of net pension liability as at December 31 are as follows:

	2017	2016
Present value of defined benefit obligation	**₱548,901**	₱539,985
Fair value of plan assets	**(261,387)**	(279,290)
Pension liability	**₱287,514**	₱260,695

Changes in the present value of the defined benefit obligation are as follows:

	2017	2016
Balance at beginning of year	**₱539,985**	₱441,871
Current service cost	**44,630**	44,290
Interest cost on defined benefit obligation	**23,584**	21,370
Benefits paid from plan assets	**(66,558)**	(6,436)
Benefits paid from operating funds	**(6,991)**	(34,217)
Acquisition of subsidiary	**15,391**	58,045
Past service cost	**5,955**	–
Actuarial (gains)/losses:		
Changes in financial assumptions	**(8,446)**	(16,035)
Experience adjustments	**(5,641)**	31,396
Changes in demographic assumptions	**(5,283)**	(299)
Effect of curtailment	**12,275**	–
Balance at end of year	**₱548,901**	₱539,985

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

	2017	2016
Balance at beginning of year	**₱279,290**	₱188,010
Acquisition and disposal of subsidiaries	**1,512**	18,036
Actual return excluding amount included in net interest cost	**(11,679)**	26,683
Actual contributions	**48,195**	43,818
Interest income included in net interest cost	**10,627**	9,179
Benefits paid	**(66,558)**	(6,436)
Balance at end of year	**₱261,387**	₱279,290
Actual return on plan assets	**(₱1,052)**	₱15,891

Change in net pension liability are as follows:

	2017	2016
Balance at beginning of year	**₱260,695**	₱253,861
Pension expense	**75,817**	56,480
Contributions	**(48,195)**	(43,818)
Remeasurements in OCI	**(7,691)**	(11,621)
Acquisition and disposal of subsidiaries	**13,879**	40,010
Benefits paid from operating fund	**(6,991)**	(34,217)
Pension liability	**₱287,514**	₱260,695

The Company expects to contribute ₱57.5 million to its retirement fund in 2018.

The ranges of principal assumptions used in determining pension benefits are as follows:

	2017	2016
Discount rates	**5–6%**	4–5%
Rates of salary increase	**5–6%**	5–6%

The Company has established a retirement fund that is managed by a trustee. The carrying value and fair value of the retirement fund of the Company amounts to ₱323.8 million and ₱279.3 million as at December 31, 2017 and 2016, respectively. The major assets are as follows:

	2017	2016
Cash and short-term investments	**₱182,875**	₱167,767
Marketable equity securities	**140,574**	111,327
Others	**301**	196
	₱323,750	₱279,290

Cash and short-term investments include liquid investments in Special Deposit Accounts (SDAs), government securities and mutual funds and UITFs. Marketable equity securities can be sold through the Philippine Stock Exchange. The plan assets include shares of stock of the Parent Company with a fair value of ₱1.9 million and ₱2.4 million as at December 31, 2017 and 2016, respectively. Cumulative unrealized fair value gains on the shares amounted to ₱0.2 million and ₱0.1 million as at December 31, 2017 and 2016 respectively.

The voting rights over the shares are exercised by the trustee through the retirement committee, the members of which are directors or officers of the Parent Company.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	2017	2016
	Increase (Decrease)	
Discount rate:		
Increase by 1%	**(₱77,701)**	(₱52,751)
Decrease by 1%	**93,084**	65,035
Salary increase rate:		
Increase by 1%	**95,477**	63,730
Decrease by 1%	**(84,901)**	(52,312)

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

	2017	2016
Within the next 12 months	**₱91,730**	₱122,721
Between 2 and 5 years	**112,488**	106,780
Beyond 5 years	**2,037,238**	1,975,045

The average duration of the defined benefit obligation at the end of the year is between 10 to 22 years.

B. Vacation and Sick Leave

The following tables summarize the components of vacation and sick leave expense recognized in the consolidated statements of income and the amounts recognized in the consolidated statements of financial position.

Vacation and sick leave expense consists of:

	2017	2016	2015
Current service cost	**₱5,221**	₱10,611	₱7,549
Interest cost	**2,127**	1,947	1,406
Vacation and sick leave expense	**₱7,348**	₱12,558	₱8,955

Changes in the present value of the vacation and sick leave obligation are as follows:

	2017	2016
Balance at beginning of year	**₱39,014**	₱40,172
Current service cost	**5,221**	10,611
Interest cost	**2,127**	1,947
Actuarial gains	**(1,208)**	(305)
Benefits paid	**(5,920)**	(13,410)
Balance at end of year	**₱39,234**	₱39,014

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

The Company's principal financial instruments comprise of cash and cash equivalents, short-term investments, corporate promissory notes and bonds, government bonds, quoted and unquoted shares of stocks, investments in UITFs and loans and borrowings in Philippine Peso and U.S. dollar currencies. The main purpose of these financial instruments is to finance the Company's investments. The Company also has financial assets and liabilities, such as trade and other receivables and trade and other payables that arise directly from operations.

The main risks arising from the Company's treasury transactions are credit risk, liquidity risk, market risk, foreign currency risk, interest rate risk and equity price risk. Careful study, skill, prudence and due diligence are exercised at all times in the handling of the funds of the Company.

An Investment Committee reviews and approves policies and directions for investments and risks management.

The basic parameters approved by the Investment Committee are:

Investment Objective	**Safety of Principal**
Tenor	Three year maximum for any security, with average duration between one and two years
Exposure Limits	a. For banks and fund managers: maximum of 20% of total funds of the Company per bank or fund b. For peso investments: minimal corporate exposure except for registered bonds c. For foreign currencies: maximum 50% of total portfolio. Limits on third currencies outside USD are set regularly and reviewed at least once a year by the Investment Committee d. For investments in equities whether directly managed or managed by professional managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review e. For derivative transactions - limits are set up to 100% of asset subject to derivative transaction with the objective of neutrality of gain/loss

Credit Risk
Credit risk is the risk that the Company will incur a loss arising from customers, clients or counter-parties that dail to discharge their contractual obligations. Due to the Company's investing and operating activities, the Company is exposed to the potential credit-related losses that may occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations.

In managing credit risk on these financial instruments, the Company transacts only with the Company's duly accredited domestic and foreign banks. Investments per financial institution are subject to a maximum of 20% of the Company's investible funds. It is the Company's policy that investments cannot exceed 10% of the trust or mutual fund's total assets.

A comprehensive credit and business review in coordination with dealers or underwriters is performed whenever the Company invests in non-rated securities. Furthermore, the Company monitors the credit quality of corporate and sovereign bonds with reference to credit rating studies and updates from the major rating agencies. The Company's exposure to credit risk on its cash and cash equivalents and trade and other receivables arises from default of the counterparties with maximum exposures equal to the carrying amounts of the instruments.

	2017	2016
Loans and receivables:		
Cash and cash equivalents	**₱902,206**	₱702,661
Short-term investmets	**414,954**	–
Trade and other receivables	**1,715,726**	1,666,806
	₱3,032,886	₱2,369,467

**Excluding cash on hand amounting to ₱17,623 in 2017 and ₱21,971 in 2016.*

There are no significant concentrations of credit risk.

Credit Quality of Financial Assets, Other than Trade and Other Receivables

The Company uses the following criteria to rate credit quality of its financial assets, other than trade and other receivables:

Class	Description
High Grade	Investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty/collateral.
Standard Grade	Investments in instruments of companies that have the apparent ability to satisfy its obligations in full.
Substandard Grade	Investments in instruments of companies that have an imminent possibility of foreclosure; those whose securities have declined materially in value, or those whose audited financial statements show impaired/negative net worth.

Cash and cash equivalents are classified as high grade since these are deposited in/or transacted with reputable financial institutions which have low probability of insolvency.

Credit Quality of Trade and Other Receivables

Trade and other receivables are classified as (a) high grade when the receivables are secured or covered with collaterals; (b) standard grade when the receivables are unsecured but debtors have good paying habits; or (c) substandard grade when the receivables are unsecured and debtors have poor paying habits.

The credit quality of trade and other receivables as of December 31 are as follows:

	2017				
	Neither Past Due nor Impaired			**Past Due or Impaired**	
	High Grade	**Standard Grade**	**Substandard Grade**		**Total**
Trade	**₱–**	**₱981,885**	**₱–**	**₱830,415**	**₱1,812,300**
Due from related parties	**–**	**13,749**	**–**	**160,985**	**174,734**
Installment contract receivables	**–**	**600**	**–**	**–**	**600**
Advances to suppliers and contractors	**–**	**125,305**	**–**	**14,353**	**139,658**
Accrued interest	**10,283**	**–**	**–**	**–**	**10,283**
Receivable from PHN Retirement	**–**	**8,939**	**–**	**–**	**8,939**
Advances to officers and employees	**–**	**16,426**	**–**	**4,441**	**20,867**
Advances for future subscription	**–**	**329**	**–**	**–**	**329**
Others	**–**	**156,518**	**–**	**1,605**	**158,123**
	₱10,283	**₱1,303,751**	**₱–**	**₱1,011,799**	**₱2,325,833**

	2016				
	Neither Past Due nor Impaired			Past Due or Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
Trade	₱6,111	₱501,249	₱–	₱1,132,926	₱1,640,286
Due from related parties	–	95,643	–	110	95,753
Installment contract receivables	–	600	–	–	600
Advances to suppliers and contractors	–	78,842	–	–	78,842
Accrued interest	237	–	–	–	237
Receivable from PHN Retirement	–	8,939	–	–	8,939
Advances to officers and employees	–	11,998	–	1,531	13,529
Others	–	265,132	–	171,692	436,824
	₱6,348	₱962,403	₱–	₱1,306,259	₱2,275,010

As of December 31, 2017 and 2016, the aging analysis of trade and other receivables (including installment contract receivables) are as follows:

			2017					
			Past Due but not Impaired					
	Total	**Neither Past Due nor Impaired**	**<30 Days**	**30<60 Days**	**60<90 Days**	**90<120 Days**	**>120 Days**	**Past Due and Impaired**
Trade	**₱1,812,300**	**₱981,885**	**₱139,442**	**₱73,050**	**₱75,637**	**₱37,954**	**₱60,162**	**₱444,170**
Due from related parties	**174,734**	**13,749**	**–**	**–**	**–**	**–**	**–**	**160,985**
Installment contract receivables	**600**	**600**	**–**	**–**	**–**	**–**	**–**	**–**
Advances to suppliers and contractors	**139,658**	**125,305**	**–**	**3,905**	**5,858**	**4,013**	**–**	**577**
Accrued interest	**10,283**	**10,283**	**–**	**–**	**–**	**–**	**–**	**–**
Receivable from PHN Retirement	**8,939**	**8,939**	**–**	**–**	**–**	**–**	**–**	**–**
Advances to officers and employees	**20,867**	**16,426**	**–**	**–**	**–**	**934**	**623**	**2,884**
Advances for future subscription	**329**	**329**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**158,123**	**156,518**	**–**	**–**	**–**	**–**	**114**	**1,491**
	₱2,325,833	**₱1,314,034**	**₱139,442**	**₱76,955**	**₱81,495**	**₱42,901**	**₱60,889**	**₱610,107**

			2016					
			Past Due but not Impaired					
	Total	Neither Past Due nor Impaired	<30 Days	30<60 Days	60<90 Days	90<120 Days	>120 Days	Past Due and Impaired
Trade	₱1,640,286	₱507,360	₱123,166	₱77,223	₱111,861	₱186,847	₱30,722	₱603,107
Due from related parties	95,753	95,643	–	–	–	–	–	110
Installment contract receivables	600	600	–	–	–	–	–	–
Advances to suppliers and contractors	78,842	78,842	–	–	–	–	–	–
Accrued interest	237	237	–	–	–	–	–	–
Receivable from PHN Retirement	8,939	8,939	–	–	–	–	–	–
Advances to officers and employees	13,529	11,998	–	–	–	–	–	1,531
Others	436,824	265,132	18,878	23,473	106,188	338	19,359	3,456
	₱2,275,010	₱968,751	₱142,044	₱100,696	₱218,049	₱187,185	₱50,081	₱608,204

Impaired financial instruments comprise of trade receivables from customers, related parties and other receivables. The past due but not impaired trade and receivables are expected to be collected the following year.

<u>Liquidity Risk</u>

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company manages liquidity risks by restricting investments and continuously monitoring weekly and monthly cash flows as well as updates of annual plans.

The maturities of the financial liabilities are determined based on the Company’s projected payments and contractual maturities. The average duration adheres to guidelines provided by the Investment Committee. It is the Company’s policy to restrict investment principally to publicly traded securities with a history of marketability and by dealing with only large reputable domestic and international institutions.

The tables below show the maturity profile of the Company's financial assets used for liquidity purposes based on contractual undiscounted cash flows as of December 31:

	2017					
	Within 1 Year	**1 to < 2 Years**	**2 to < 3 Years**	**3 to 5 Years**	**More than 5 Years**	**Total**
Financial Assets						
Loans and receivables -						
Cash and cash equivalents*	**₱902,533**	**₱–**	**₱–**	**₱–**	**₱–**	**₱902,533**
Short term investments	**414,954**	**–**	**–**	**–**	**–**	**414,954**
Trade and other receivables	**1,715,726**	**–**	**–**	**–**	**–**	**1,715,726**
Financial assets at FVPL -						
Investments in marketable equity securities	**5,994**	**–**	**–**	**–**	**–**	**5,994**
Investments in Treasury Bills	**177,959**	**–**	**–**	**–**	**–**	**177,959**
Investment in UITF	**1,048,949**	**–**	**–**	**–**	**–**	**1,048,949**
	₱4,266,115	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,266,115**

**Excludes cash on hand amounting to ₱17,623*

	2016					
	Within 1 Year	1 to < 2 Years	2 to < 3 Years	3 to 5 Years	More than 5 Years	Total
Loans and receivables -						
Cash and cash equivalents*	₱702,661	₱–	₱–	₱–	₱–	₱702,661
Trade and other receivables	1,666,806	–	–	–	–	1,666,806
Financial assets at FVPL -						
Investments in marketable equity securities	7,004	–	–	–	–	7,004
Investment in UITF	251,093	–	–	–	–	251,093
	₱2,627,564	₱–	₱–	₱–	₱–	₱2,627,564

**Excludes cash on hand amounting to ₱21,971.*

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31:

	2017					
	Within 1 Year	**1 to < 2 Years**	**2 to < 3 Years**	**3 to 5 Years**	**More than 5 Years**	**Total**
Financial Liabilities						
Other financial liabilities:						
Notes payable	**₱44,090**	**₱–**	**₱–**	**₱–**	**₱–**	**₱44,090**
Trade and other payables	**1,138,337**	**–**	**–**	**–**	**–**	**1,138,337**
Trust receips payable	**521,740**	**–**	**–**	**–**	**–**	**521,740**
Long-term debt*	**481,521**	**279,889**	**318,815**	**351,730**	**4,170,322**	**5,602,277**
	₱2,185,688	**₱279,889**	**₱318,815**	**₱351,730**	**₱4,170,322**	**₱7,306,444**

**Including current and noncurrent portion and interest.*

	2016					
	Within 1 Year	1 to < 2 Years	2 to < 3 Years	3 to 5 Years	More than 5 Years	Total
Financial Liabilities						
Other financial liabilities:						
Notes payable	₱274,346	₱–	₱–	₱–	₱–	₱274,346
Trade and other payables	903,799	–	–	–	–	903,799
Trust receipt receivable	10,570	–	–	–	–	10,570
Long-term debt*	–	–	–	–	3,351,159	3,351,159
	₱1,188,715	₱–	₱–	₱–	₱3,351,159	₱4,539,874

**Including current and noncurrent portion and interest.*

Changes in liabilities arising from financing activities

The changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes are as follows:

	January 1, 2017	Proceeds	Payment	Others*	December 31, 2017
Notes payable	₱274,346	₱15,632	₱(246,838)	₱950	₱44,090
Long-term debt	3,332,527	2,400,000	(114,945)	(15,305)	5,602,277
Due to related parties	228,807	–	(83,577)	(47,949)	97,281
Other non-current liabilities	19,267	–	(26,032)	65,291	58,526
Total liabilities from financing activity	₱3,854,947	₱2,415,632	(₱471,392)	₱2,987	₱5,802,174

**Others include amortization of debt issue cost*

Market Risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Market risks are managed by constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists/strategy officers to get multiple perspectives on interest rate trends/forecasts. Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks are also made.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's financial assets that are exposed to foreign currency risk are foreign currency denominated cash and cash equivalents, investment in bonds and investments in UITFs.

Foreign exchange risks on the U.S. dollar and other foreign currencies are managed through constant monitoring of the political and economic environment. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies.

The following table shows the U.S. foreign currency-denominated financial assets and financial liabilities and their peso equivalents as of December 31:

	2017		2016	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
Financial assets:				
Cash and cash equivalents	**US$2,736**	**₱136,587**	US$821	₱40,673
Short-term investments	**8,311**	**414,954**		
Derivative asset	**205**	**10,508**	–	–
Receivables	**–**	**–**	967	48,063
	US$11,252	**₱562,049**	US$1,788	₱88,736
Financial liabilities:				
Trust receipts payable	**US$–**	**₱–**	US$213	₱10,570
Derivative liability	**53**	**2,649**	–	–
	US$53	**₱2,649**	US$213	₱10,570

In translating foreign currency-denominated financial assets into peso amounts, the exchange rates used were ₱49.93 and ₱49.72 to US$1.00 as at December 31, 2017 and 2016, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Company's profit before tax (due to the changes in the fair value of monetary assets) as at December 31, 2017 and 2016. There is no impact on the Company's equity other than those already affecting the profit or loss. The effect on profit before tax already includes the impact of derivatives outstanding as at December 31, 2017 and 2016.

	2017	
	Increase (Decrease) in Peso-Dollar Exchange Rate	**Effect on Profit Before Tax**
		(Amounts in Millions)
PHN	**₱1.00**	**₱11.0**
	(1.00)	**(11.0)**
UGC	**3.00**	**(0.1)**
	(3.00)	**0.1**
PEHI	**1.00**	**0.06**
	(1.00)	**(0.06)**

	2016	
	Increase (Decrease) in Peso-Dollar Exchange Rate	Effect on Profit Before Tax
		(Amounts in Millions)
PHN	₱1.00	₱1.7
	(1.00)	(1.7)
UGC	1.5	(0.3)
	(1.5)	0.3
ICI Asia	1.00	0.08
	(1.00)	(0.08)

Interest Rate Risk
Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The following tables set out the carrying amounts, by maturity, of the Company's financial assets and liabilities that are exposed to interest rate risk as of December 31:

		2017					
	Interest Rates	**Within 1 Year**	**1 to < 2 Years**	**2 to < 3 Years**	**3 to 5 Years**	**More than 5 Years**	**Total**
Financial Assets							
Placements (PHP)	**0.75% - 4.25%**	**₱474,928**	**₱–**	**₱–**	**₱–**	**₱–**	**₱474,928**
Placements (USD)	**0.50%-2.15%**	**550,175**	**–**	**–**	**–**	**–**	**550,175**
Financial Liabilities							
PHN	**3.5%-6%**	**–**	**–**	**10,000**	**40,000**	**2,003,472**	**2,053,472**
UGC	**375%–4.5%**	**212,993**	**31,940**	**31,991**	**64,157**	**154,067**	**495,148**
AU	**5.75% subject to repricing at the end of 7th year**	**–**	**–**	**–**	**–**	**74,408**	**74,408**
COC	**from 5.81% PDSTF + 2% 5.81% to PDST +2%**	**10,048**	**10,097**	**10,214**	**20,455**	**2,352**	**53,166**
UPANG	**from 5.78% PDST + 1% 6.02% to PDST + 1%**	**45,623**	**31,342**	**16,080**	**44,837**	**43,883**	**181,765**
PEHI	**5.3179%–6.1257%**	**–**	**69,000**	**69,000**	**138,000**	**2,024,000**	**2,300,000**
UI	**6.33%**				**7,000**	**93,000**	**100,000**
SWU	**6.655%-6.936%**				**5,970**	**292,530**	**298,500**

		2016					
	Interest Rates	Within 1 Year	1 to < 2 Years	2 to < 3 Years	3 to 5 Years	More than 5 Years	Total
Financial Assets							
Placements (PHP)	0.2%–1.0%	₱82,661	₱–	₱–	₱–	₱–	₱82,661
Placements (USD)	0.69375%–0.925%	37,826	–	–	–	–	37,826
Financial Liabilities							
UGC	1.375%–4.5%	24,337	181,095	338,811	–	–	544,243
AU	5.75% subject to repricing at the end of 7th year	12,304	12,328	62,079	22,500	–	109,211
COC	from 5.81% PDSTF + 2% 5.81% to PDST +2%	10,025	10,038	20,117	23,121	–	63,301
UPANG	from 5.78% PDST + 1% 6.02% to PDST + 1%	100,000	115,984	–	–	–	215,984
PEHI	5.3179%–6.1257%	–	–	69,000	138,000	2,093,000	2,300,000

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The table below sets forth the estimated change in the Company's income before tax due to a reasonably possible change in interest rates as at December 31, 2017 and 2016. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2017	
	Increase/(Decrease) in Basis Points	**Effect on Profit Before Tax**
Financial Assets		
PHN – peso placement	**25**	**₱1,151**
	(25)	**(1,151)**
API– peso placement	**50**	**72**
	(50)	**(72)**
Financial Liabilities		
PHN	**25**	**(5,000)**
	(25)	**5,000**
UGC	**25**	**(1,331)**
	(25)	**1,331**
AU	**25**	**115**
	(25)	**(115)**
COC	**25**	**184**
	(25)	**(184)**
UPANG	**25**	**1,331**
	(25)	**(1,331)**
PEHI	**25**	**(5,750)**
	(25)	**5,750**

	2016	
	Increase/(Decrease) in Basis Points	Effect on Profit Before Tax
Financial Assets		
PHN – peso placement	25	₱115
	(25)	(115)
UGC, API, PSHC, PEHI – peso placement	50	184
	(50)	(184)
Financial Liabilities		
UGC	25	(1,331)
	(25)	1,331
AU	25	115
	(25)	(115)
COC	25	184
	(25)	(184)
UPANG	25	1,331
	(25)	(1,331)
PEHI	25	(5,750)
	(25)	5,750

Peso placements are subject to cash flow interest rate risk while peso and dollar bonds are subject to fair value interest rate risk.

Equity Price Risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The Company's exposure to equity price risk relates primarily to its equity investments listed in the PSE classified under investments held for trading.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on the Company's financial position.

The following tables demonstrate the effect on the Company's profit before income tax (as a result of a change in the fair value of equity instruments held as investment held for trading) due to a reasonably possible change in equity indices, based on the Company's expectation, with all other variables held constant as at December 31, 2017 and 2016. There is no other significant impact on the Company's equity other than those already affecting the profit or loss.

	2017	
	Increase/Decrease in Stock Exchange Index	**Effect on Profit Before Tax**
PHN	**+10%**	**₱164**
	-10%	**(164)**
API	**+10%**	**268**
	-10%	**(268)**

	2016	
	Increase/Decrease in Stock Exchange Index	Effect on Profit Before Tax
PHN	+10%	₱159
	-10%	(159)
API	+10%	393
	-10%	(393)

Capital Management

The primary objective of the Company's capital management is to ensure that the Company maintains a healthy capital structure to maintain strong credit rating and maximize shareholder value.

The Company closely monitors and manages its debt-to-equity ratio, which it defines as total liabilities divided by total equity. Capital includes all the accounts appearing in the "Equity attributable to equity holders of the parent" and "Equity attributable to non-controlling interests" in the consolidated statements of financial position.

To ensure that there are sufficient funds to settle its liabilities, the Company's policy is to keep debt-to-equity ratio below 1:1. The Company's consolidated debt-to-equity ratio as at December 31, 2017 and 2016 are as follows:

	2017	2016
Total liabilities	**₱8,815,808**	₱6,149,920
Total equity	**7,925,699**	8,423,046
Debt-to-equity ratio	**1.11:1**	0.73:1

The Company expects to improve the debt-to-equity ratio mainly through improvement in the Company's business operations.

34. Financial Instruments

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of its assets and liabilities by valuation technique:

- 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 is significant to their fair value measurement is unobservable

Assets and liabilities measured or disclosed at fair value are as follows:

	2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Investments held for trading:				
Investments in UITFs	**₱1,048,949**	**₱1,048,949**	**₱–**	**₱–**
Investments in marketable equity securities	**5,994**	**5,994**	**–**	**–**
Investments in Treasury Bills	**177,959**	**177,959**	**–**	**–**
Derivative asset	**10,508**	**10,508**	**–**	**–**
Quoted AFS investments	**17,040**	**17,040**	**–**	**–**
	₱1,260,450	**₱1,249,942**	**₱–**	**₱–**
Liabilities				
Derivative liability	**₱2,649**	**₱2,649**	**₱–**	**₱–**
Long-term debt	**5,704,485**	**–**	**5,704,485**	**–**
	₱5,707,134	**₱2,649**	**₱5,704,485**	**₱–**

	2016			
	Total	Level 1	Level 2	Level 3
Assets				
Investments held for trading:				
Investments in UITFs	₱251,093	₱251,093	₱–	₱–
Investments in marketable equity securities	7,006	7,006	–	–
Quoted AFS investments	13,560	13,560	–	–
	₱271,659	₱271,659	₱–	₱–
Liabilities				
Long-term debt	₱3,332,527	₱–	₱–	₱3,332,527
	₱3,332,527	₱–	₱–	₱3,332,527

During the years ended December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The following methods and assumptions are used to estimate the fair value of the following financial instruments.

Investments Held for Trading and AFS Investments. Quoted market prices have been used to determine the fair value of financial assets at FVPL and listed AFS investments. Unquoted AFS investments are measured at cost less accumulated impairment loss since the fair value is not readily determinable due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. The Company does not intend to dispose the unquoted AFS in the near future.

Cash and Cash Equivalents, Short-term Investments, Trade and Other Receivables, Notes Payable, Trade and Other Payables, Trust Receipts Payable and Due to Related Parties. Due to the short-term nature of these transactions, the carrying value approximate the fair values as at the reporting date. Short-term investments have varying maturities from four to five months and earn interest at 2.125%.

Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable rates for similar types of loans. Discount rates used ranged from 5% to 6% % in 2017 and 2016.

Derivative Instruments

Freestanding Derivatives. The Company's derivative financial instruments are accounted for as financial instruments at FVPL.

The Parent Company entered into a sell US$-buy PHP₱ deliverable foreign currency forward contracts to manage the foreign currency risk arising from its US$-denominated assets. These derivatives are transactions not accounted for as accounting hedges.

The Company has a derivative asset amounting to ₱10.5 million as at December 31, 2017. The transacted contract in 2017 has an aggregate notional amount of US$6.6 million. The weighted average contracted forward rate is ₱51.523 to US$1.00 as at December 31, 2017.

The net changes in fair value of these derivative assets are as follows:

	2017	2016
Balance at beginning of year	**₱–**	₱–
Net change in fair value during the year	**10,508**	–
Fair value of settled contracts	**–**	–
Balance at end of year	**₱10,508**	₱–

UGC also entered into a buy US$-sell PHP₱ deliverable foreign currency forward contracts to manage the foreign currency risk arising from its US$-denominated trust receipts payable.

The Company has a derivative liability amounting to ₱2.6 million as at December 31, 2017. The transacted contract in 2017 has an aggregate notional amount of US$ 19.1 million. The weighted average contracted forward rate is ₱50.559 to US$1.00 as at December 31, 2017.

The net changes in fair value of these derivative liability are as follows:

	2017	2016
Balance at beginning of year	**₱–**	₱–
Net change in fair value during the year	**(3,895)**	(1,004)
Fair value of settled contracts	**1,246**	1,004
Balance at end of year	**(₱2,649)**	₱–

35. **Commitments and Contingencies**

a. Unused Credit Lines

PHN has an unused credit line amounting to ₱4.0 billion as at December 31, 2017.

UGC has the following unused approved credit lines with local banks and financial institutions as at December 31, 2017:

Nature	Amount
Letters of credit/trust receipts	₱601,090
Bills purchase line	370,000
Settlement risk	199,720
Forward contract	1,461,992

b. Commitments Under Operating Lease Agreements

Lessee
UGC entered into lease agreements covering its warehouse premises which have terms ranging from one to two years, renewable at the option of UGC under certain terms and conditions.

Future minimum rental payable as at December 31, 2017 are as follows:

	Amount
2018	₱27,946
2019	61,935

c. Others

There are contingent liabilities arising from lawsuits primarily involving collection cases filed by third parties and for tax assessments occurring in the ordinary course of business. On the basis of information furnished by the Company's legal counsel, management believes that none of these contingencies will materially affect the Company's financial position and results of operations.

36. EPS Computation

Basic EPS is computed as follows:

	2017	2016	2015
(a) Net income (loss) attributable to equity holders of the parent	**(₱29,233)**	₱277,178	₱390,394
(b) Weighted average number of common shares outstanding	**284,921**	285,020	285,820
Basic/diluted EPS attributable to equity holders of the parent (a/b)	**(₱0.10)**	₱0.97	₱1.37

The Company paid a 10% stock dividend on June 30, 2017 in favor of all stockholders of record of the Company as of June 6, 2017. The weighted average number of common shares outstanding have been adjusted retrospectively for 2017, 2016 and 2015 to account for the stock dividends paid.

The Company's basic and diluted earnings per share are the same since the potential common shares arising from outstanding options from stock purchase plan are anti-dilutive.

37. Segment Information

For management purposes, the Company is organized into business units based on its products and services and has five reportable operating segments as follows:

- Investment holdings – The Parent Company and PSHC are engaged in investment holding activities of shares of stocks and other financial instruments.
- Property development – API and PHI leases out their real and personal properties. PPHC is engaged in real estate development.
- Construction materials – The Company has created this new segment to encompass the previous steel operating segment and the operations of the newly-incorporated cement trading entity, PhilCement Corporation. UGC handles the manufacturing and trading of iron and steel products. The Company has assessed that the nature of the products and services and the type or class of customers for these products and services are related.
- Energy – PHEN is involved in power generation and trading, oil and mineral exploration, exploitation and production.
- Educational services – PEHI holds interest in AU, COC, UPANG, UI and SWU which offer graduate, tertiary, secondary and elementary education services. CAA is organized to engaged in providing technical vocational education and training programs. SJCI, a newly-acquired educational institution by PEHI, is also categorized under educational services segment.
- BPO – ICI Asia (formerly Fuld Philippines) is engaged in strategic consulting.

The BOD (Chief Operating Decision Maker) monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. Segment result is defined as the segment's income generated from its own operations, net of its share in the equity in net earnings of associates and investment income, before deducting interest and financing charges, provision for income tax and share of NCI. The amounts of segment assets and liabilities, and segment profit or loss are based on measurement principles that are similar to those used in measuring the assets, liabilities and profit or loss in the consolidated financial statements, which is in accordance with PFRS.

The Company does not report its results based on geographical segments since the Company's risks and rates of return are substantially in the same economic and political environment with the companies incorporated and operated in the Philippines. There are no transactions with a single customer that accounts to 10% or more of the Company's revenue.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transaction with third parties. Segment revenues, segment expenses and segment results include transfers between operating segments. These transfers are eliminated in full upon consolidation.

Segment Information

Financial information on the operating segments are summarized as follows:

	Investment Holdings	Property Development	Energy	Construction Materials	Educational Services	BPO	Eliminations	Total Operations
Year Ended December 31, 2017								
Revenue	**₱481,298**	**₱2,043**	**₱–**	**₱4,211,068**	**₱2,092,398**	**₱52,308**	**(₱419,942)**	**₱6,419,173**
Segment results	**216,441**	**(323)**	**–**	**307,969**	**293,426**	**9,597**	**(310,020)**	**517,090**
Investment income	**25,375**	**477**	**–**	**716**	**7,775**	**4**	**–**	**34,347**
Equity in net earnings of an associates	**–**	**(188,463)**	**92,100**	**–**	**–**	**–**	**(3,194)**	**(99,557)**
Interest expense and financing charges	**(85,995)**	**–**	**–**	**(48,874)**	**(152,359)**	**–**	**–**	**(287,228)**
Benefit from (provision for) income tax	**(3,600)**	**(19)**	**–**	**(77,773)**	**(33,649)**	**(3,559)**	**–**	**(118,600)**
Share of non-controlling interests	**–**	**–**	**–**	**–**	**(90,848)**	**–**	**15,563**	**(75,285)**
Net income attributable to equity holders of the parent	**₱152,221**	**(₱188,328)**	**₱92,100**	**₱182,038**	**₱24,345**	**₱6,042**	**(₱297,651)**	**(₱29,233)**
Total assets	**₱8,803,265**	**₱332,642**	**₱–**	**₱2,576,710**	**₱8,620,035**	**₱209,261**	**(₱3,800,406)**	**₱16,741,507**
Total liabilities	**₱2,481,558**	**₱53,661**	**₱–**	**₱1,561,787**	**₱5,929,843**	**₱402,466**	**(₱1,613,507)**	**₱8,815,808**
Year Ended December 31, 2016								
Revenue	₱427,774	₱3,799	₱–	₱3,888,807	₱1,986,405	₱388,743	(₱393,387)	₱6,302,141
Segment results	100,892	(12,757)	–	360,815	365,508	15,495	(335,883)	494,070
Investment income	9,212	2,206	–	152	5,920	482	–	17,972
Equity in net earnings of an associate	–	(127,361)	367,945	–	–	5,308	(15,871)	230,021
Interest expense and financing charges	(11,611)	–	–	(45,716)	(145,123)	(1,786)	–	(204,236)
Benefit from (provision for) income tax	(3,889)	(40)	–	(94,408)	(58,956)	(13,328)	–	(170,621)
Share of non-controlling interests	–	–	–	–	(95,870)	–	5,842	(90,028)
Net income attributable to equity holders of the parent	₱94,604	(₱137,952)	₱367,945	₱220,843	₱71,479	₱6,171	(₱345,912)	₱277,178
Total assets	₱6,699,510	₱489,942	₱–	₱2,281,632	₱7,467,428	₱197,181	(₱2,749,473)	₱14,386,220
Total liabilities	₱439,636	₱134,930	₱–	₱1,353,393	₱4,435,603	₱510,627	(₱756,672)	₱6,117,517

	Investment Holdings	Property Development	Energy	Construction Materials	Educational Services	BPO	Eliminations	Total Operations
Year Ended December 31, 2015								
Revenue	₱383,948	₱4,437	₱–	₱3,654,140	₱1,623,571	₱402,145	(₱358,103)	₱5,710,138
Segment results	242,011	(712)	–	274,073	624,072	(66,901)	(642,114)	430,429
Investment income	8,243	3,101	–	563	1,577	483	–	13,967
Equity in net earnings of an associate	–	22,303	240,604	–	–	5,218	1,492	269,617
Interest expense and financing charges	(14,240)	–	–	(48,466)	(73,009)	(2,430)	–	(138,145)
Benefit from (provision for) income tax	(2,602)	(20)	–	(67,698)	(10,418)	(7,653)	5,077	(83,314)
Share of non-controlling interests	–	–	–	–	(123,257)	–	21,097	(102,160)
Net income attributable to equity holders of the parent	₱233,412	₱24,672	₱240,604	₱158,472	₱418,965	(₱71,283)	(₱614,448)	₱390,394
Total assets	₱6,732,813	₱490,147	₱–	₱2,212,566	₱7,321,027	₱187,026	(₱2,720,315)	₱14,223,264
Total liabilities	₱460,913	₱134,904	₱–	₱1,350,991	₱4,347,759	₱511,640	(₱652,443)	₱6,153,764

38. Events after the Reporting Period

On March 6, 2018, the Parent Company's BOD declared a cash dividend amounting to ₱113.9 million, or equivalent to ₱0.40 per share, to all common shareholders of record as of March 22, 2018 and payable on April 6, 2018.

On March 23, 2018, the Parent Company's Executive Committee approved the appropriation of ₱1.0 billion retained earnings for investment in the Education and Construction Materials business until 2019, and ₱300 million for the buyback of shares of the Parent Company. The Parent Company will buy back until December 31, 2019 up to ten percent (10%) of the issued and outstanding shares of the Parent Company through the trading facilities of the Philippine SEC.

39. Other Matters

a. On August 20, 2014, PHEN distributed cash and property dividends in the form of shares in PPG after securing SEC's approval of the registration and receipt of Certificate Authorizing Registration (CAR) from the BIR.

   On October 22, 2014, PHEN received from the BIR a Formal Letter of Demand (FLD), assessing PHEN for a total donor's tax due of ₱157.75 million inclusive of penalty and interest up to September 30, 2014.

   On November 21, 2014, PHEN and its independent legal counsel filed an administrative protest in response to the FLD, on the following grounds:

   1) The dividend distribution is a distribution of profits by PHEN to its stockholders and not a "disposition" as contemplated under Revenue Regulations Nos. 6-2008 and 6-2013 which would result in the realization of any capital gain of PHEN;
   2) PHEN did not realize any gain or increase its wealth as a result of the dividend distribution; and,
   3) There was no donative intent on the part of PHEN.

   On May 27, 2015, PHEN received from the BIR a Final Decision on Disputed Assessment (FDDA) dated May 26, 2015, denying the protest.

   On June 25, 2015, PHEN filed with the CTA a Petition for Review seeking a review of the FDDA and requesting the cancellation of the assessment. Both PHEN and the BIR have finished presenting evidence. As at March 23, 2018, the case is still pending.

b. On August 15, 2016, PHINMA Renewable filed with the BIR a letter and application for tax credits or refund for the PHINMA Renewable's excess and unutilized input VAT for the period July 1, 2014 to June 30, 2015 amounting to ₱335.76 million attributable to PHINMA Renewable's zero-rated sales. On December 19, 2016, PHINMA Renewable received a letter from the BIR denying the administrative claim for refund of excess and unutilized input VAT for the period July 1, 2014 to December 31, 2014. As at December 31, 2017, BIR has not granted or denied PHINMA Renewable's administrative claim for refund for the period January 1, 2015 to June 30, 2015. On January 11, 2017, PHINMA Renewable filed with the CTA a Petition for Review. As at March 23, 2018, the case is still pending.

c. On September 5, 2017, CIPP received a Final Decision on Disputed Assessment from the BIR demanding the payment of a total amount of ₱341.73 million for various alleged deficiency taxes for taxable year 2013. On October 4, 2017, CIPP filed its request for reconsideration with the Office of the Commissioner. As at March 23, 2018, the case is still pending.

d. On January 4, 2018, PHINMA Power received a formal letter of demand issued by the BIR demanding payment amounting to ₱19.72 million for deficiency income tax, value-added tax, withholding tax and compromise penalties for the taxable year 2013. On January 5, 2018, PHINMA Power paid the amount of ₱19.72 million as full settlement of the assessment.

e. R.A. No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date.

   The TRAIN changes the existing tax law and includes several provisions that will generally affect businesses on a prospective basis. In particular, the management assessed that amendment of Section 148 - Excise tax on manufactured oil and other fuels - which increases the excise tax rates of lubricating oil, diesel fuel oil and bunker fuel oil, among others, that are used for the power plants, may have material impact to the operations of the Company. However, the same will not have any significant impact on the financial statements as of the reporting date.

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