



108142019003745



# SECURITIES AND EXCHANGE COMMISSION

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### Company Information

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SEC Registration No. AS95008557  
Company Name IPM HOLDINGS, INC.  
Industry Classification Metallic Core Mining  
Company Type Stock Corporation

### Document Information

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SEC Registration Number

I P M    H O L D I N G S    I N C .    A N D    S U B S I D I A R Y

(Company's Full Name)

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

Atty. Ana Katigbak

Contact Person

817 6791/897-5257

Company Telephone Number

1	2
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Month      Day  
Fiscal Year

3	1
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Day

SEC Form 17-Q  
June 30, 2019

FORM TYPE

4<sup>th</sup> Wed of May

Month      Day  
Annual Meeting

Secondary License Type, If Applicable

C   F   D

Dept Requiring this Doc

Amended Articles Number / Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended: **June 30, 2019**
2. SEC Identification Number: AS095-008557
3. BIR Tax Identification Number: 004-636-077
4. **IPM HOLDINGS, INC.**  
Exact name of issuer as specified in its charter
5. Pasig City, Philippines  
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. Unit 103 G/F, Prestige Tower, Condominium F. Ortigas Jr., Avenue  
Ortigas Center, Pasig City  
Address of issuer's principal office                      Postal Code: 1605
8. (632) 897-5257/817-6791  
Issuer's telephone number, including area code
9. **MINERALES INDUSTRIAS CORPORATION**  
Former name, former address and former fiscal year, if changed since last report:

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	690,000,000 shares

11. Are any or all of Corporation's Securities Listed with the Philippine Stock Exchange?

Yes (√)                      No ( )

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder of Section 11 of the RSA Rule 11 (a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes[ x ] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes[ x ] No [ ]

## **PART I – FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

Please see attached.

### **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations; Plan of Operations**

#### **PLAN OF OPERATIONS**

The Corporation’s controlling stake in Basic Environmental Systems & Technologies, Inc. (BEST) continues to provide a steady stream of revenues and income.

BEST, with a vision of providing quality environmental and waste management services nationwide, is currently spearheading activities aimed to enable municipalities, cities, and provinces to establish integrated waste management systems that are compliant with the requirements of Republic Act 9003, the Ecological Solid Waste Management Act of 2000.

With the technical competency and available solutions, BEST, on a Public-Private Partnership (PPP) framework, shall build, develop and operate state-of-the-art facilities to properly address the local government units’ (LGUs’) waste management needs and raise the standards of waste management solutions, thereby reducing pollution and preventing the further destruction of the country’s natural resources.

As of June 30, 2019, BEST is actively engaged in advanced stages of development for the realization of these PPP projects, which will place BEST at the forefront of the waste management industry all over the Philippines.

In addition, considering the ongoing focus and drive for compliance with proper waste management in the private sector, BEST plans to further expand its operations in private waste collection and disposal within Metro Manila and its environs.

#### **MANAGEMENT’S DISCUSSION AND ANALYSIS**

Management’s discussion and analysis of the Company and subsidiary (the “Company”) financial position and results of operations should be read in conjunction with the interim consolidated financial statements as of June 30, 2019.

#### **Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018**

##### Income

Total consolidated income for the six-month period ending June 30, 2019 amounted to Php112.81 million, up Php13.57 million or 13.67% from the Php99.24 million posted in the same period of 2018. The material changes are as follows:

- Service income increased by Php29.59 million or 54.89% from the Php53.90 million in 2018 to Php83.49 million posted in 2019. The upsurge is due to the increase in tipping fees charged to LGUs and private hauling revenues.
- Rental income decreased by Php16.25 million or 36.31% from Php44.75 million in 2018 to Php28.50 million in 2019. This is attributable mainly to the decrease in equipment and truck rentals.

- Interest income increased by Php0.23 million or 38.98% from Php0.59 million in 2018 to Php0.82 million in 2019, resulting from the increase in earnings from time deposits.

#### Expenses

Total consolidated expenses for the first six months of 2019 amounted to Php54.24 million, down Php3.79 million or 6.53% from the Php58.03 million posted in the same period of 2018. The material changes are as follows:

- Cost of services amounted to Php29.48 million, Php7.35 million or 33.21% higher than the Php22.13 million posted in the same period of 2018. This is attributable mainly to the increase in depreciation of land and development costs of the Morong Engineered Sanitary Landfill (MESLF).
- General and administrative expenses decreased by Php12.62 million or 40.31%, from Php31.30 million in 2018 to Php18.68 million in 2019. This is attributable mainly to the decrease in taxes and licenses.
- Interest expense went up by Php1.01 million or 44.49%, from Php2.27 million in 2018 to Php3.28 million posted in 2019. This is mainly due to the increase in bank loan interest.
- Equity in net losses of an associate and a joint venture went up by Php0.46 million or 19.74%, from Php2.37 million in 2018 to Php2.79 million in 2019. This is mainly due to the increase in net losses of a joint venture.

#### Net Income

The first six months of 2019 resulted to a net income of Php40.48 million, Php11.87 million or 41.48% higher than the Php28.61 million reported in the same period of 2018. This is mainly due to the significant rise in tipping fee and hauling revenues vis-à-vis a modest increase in expenses.

#### Liquidity and Capital Resources

For the first half of 2019, net cash provided by operating activities amounted to Php19.34 million as compared to the net cash used in operating activities of Php0.61 million in 2018. This reversal is mainly due to the increase in net income in 2019.

Net cash provided by investing activities amounted to Php3.71 million in the first half of 2019 as compared to the Php1.07 million in the same period of 2018.

On the other hand, net cash used in financing activities amounted to Php7.28 million in 2019 as compared to the Php2.27 million in 2018, the difference representing payment of bank loans and interest.

### **Second Quarter Ended June 30, 2019 Compared to Second Quarter Ended June 30, 2018**

#### Income

Total consolidated income for the quarter ending June 30, 2019 amounted to Php52.64 million, down by Php2.94 million or 5.28% from the Php55.58 million posted in the same period of 2018. The material changes are as follows:

- Service income increased by Php9.55 million or 29.08% from the Php32.83 million in 2018 to Php42.38 million posted in 2019. This is attributable mainly to the increase in tipping fees charged to LGUs and private hauling revenues.

- Rental income decreased by Php12.20 million or 55.07% from Php22.15 million in 2018 to Php9.95 million in 2019. This is attributable mainly to the decrease in equipment and truck rentals.
- Interest income decreased by Php0.28 million or 47.45% from Php0.59 million in 2018 to Php0.31 million in 2019. This is mainly due to the decrease in earnings from time deposits.

### Expenses

Total consolidated expenses for the second quarter of 2019 amounted to Php28.24 million, down Php6.92 million or 19.68% from the Php35.16 million posted in the same period of 2018. The material changes are as follows:

- Cost of services amounted to Php16.44 million, Php5.70 million or 53.07% higher than the Php10.74 million posted in the same period of 2018. This is attributable mainly to the increase in depreciation of land and development costs of the Morong Engineered Sanitary Landfill (MESLF).
- General and administrative expenses decreased by Php12.84 million or 60.99%, from Php21.05 million in 2018 to Php8.21 million reported in 2019. This is attributable mainly to the decrease in taxes and licenses.
- Interest expense went up by Php0.93 million or 74.40%, from Php1.25 million in 2018 to Php2.17 million in 2019. This is mainly due to the increase in bank loan interest.
- Equity in net losses of an associate and a joint venture down by Php0.72 million or 33.96%, from Php2.12 million in 2018 to Php1.41 million in 2019. This is mainly due to the decrease in net losses of a joint venture.

### Net Income

The second quarter of 2019 ended with a net income of Php16.74 million, Php2.53 million or 17.80% higher than the Php14.21 million reported in 2018, owing to higher tipping fee collections and hauling revenues.

### Liquidity and Capital Resources

For the second quarter of 2019, net cash provided by operating activities amounted to Php5.13 million as compared to the net cash used in operating activities of Php0.21 million in 2018. This reversal is mainly due to the increase in net income in 2019.

Net cash provided by investing activities amounted to Php8.18 million in the second quarter of 2019 as compared to the Php0.45 million in the same period of 2018. This is attributable mainly to the increase in deposit amounting to Php20 million net of acquisition of property and equipment of Php4.62 million and the dividends received from an associate of Php7.20 million.

Net cash used in financing activities amounted to Php6.17 million in the second quarter of 2019 as compared to the Php1.25 million in the same period of 2018, the difference representing payment of bank loans and interest.

## Financial Position as of June 30, 2019 Compared to Financial Position as of December 31, 2018

Statements of financial position data	30-Jun-2019	31-Dec-2018	% Inc/(Dec)
Total Current Assets	1,037,582,178	960,289,364	8.05%
Total Assets	1,415,824,923	1,342,023,548	5.50%
Total Current Liabilities	258,676,736	225,512,064	14.71%
Total Liabilities	287,527,257	254,362,585	13.04%
Total Stockholders' Equity	1,128,297,666	1,087,660,963	3.74%

The Company's consolidated total assets slightly increased by Php0.07 billion or 5.50% from Php1.34 billion as of December 31, 2018 to Php1.41 billion as of June 30, 2019.

- Cash and cash equivalents increased by Php15.76 million or 227.08% from Php6.94 million as of December 31, 2018 to Php22.70 million as of June 30, 2019. The increase was mainly due to the increase in collections from LGUs and private hauling.
- Trade and other receivables was up by Php60.07 million or 6.37% from Php942.43 million as of December 31, 2018 to Php1,002.50 million as of June 30, 2019. This is attributable mainly to the increase in current billings uncollected from LGUs and from a related party for equipment rental.
- Other current assets increased by Php1.45 million or 13.26% from Php10.93 million as of December 31, 2018 to Php12.38 million as of June 30, 2019 due to the increase in creditable withholding taxes which are applied against income tax payable.
- Noncurrent assets slightly decreased by Php3.49 million or 0.91% from Php381.73 million as of December 31, 2018 to Php378.24 million as of June 30, 2019.

Total consolidated liabilities amounted to Php287.53 million as of June 30, 2019, up by Php33.17 million or 13.04% from Php254.36 million as of December 31, 2018. This is attributable mainly to the increase in VAT payable and in deferred output VAT and additional loans from other related party transaction.

Total stockholders' equity increased by Php40.64 million or 3.73%, from Php1,087.66 million as of December 31, 2018 to Php1,128.30 million as of June 30, 2019.

Current ratio decreased from 4.26x as of December 31, 2018 to 4.01x as of June 30, 2019; net working capital stood at Php778.91 million as of June 30, 2019 versus Php734.78 million as of December 31, 2018.

### Key Performance Indicators

The company's key performance indicators are as follows:

KPI	Calculation	30-Jun-2019	31-Dec-2018
Current Ratio (1)	Current Assets/Current Liabilities	<b>4.01x</b>	4.26x
Quick Ratio (2)	Current Assets (cash and equivalents + accounts receivable) /Current Liabilities	<b>3.96x</b>	4.21x
Debt to Equity Ratio (3)	Liabilities/ Stockholders' Equity	<b>0.25x</b>	0.23x
Book Value per share (4)	Total Assets –Total Liabilities/ Outstanding Shares	<b>1.64</b>	1.58
Net Income per Share (5)	Net Income/Weighted Average Number of Shares Outstanding	<b>0.06</b>	0.08

	<u>30-Jun-19</u>	<u>31-Dec-2018</u>
(1) Current Ratio	1,037,582,178/258,676,736	960,289,364/225,512,064
(2) Quick Ratio	1,025,202,865/258,676,736	949,364,215/225,512,064
(3) Debt to Equity	287,527,257/1,128,297,666	254,362,585/1,087,660,963
(4) Book Value/Share	1,128,297,666/690,000,000	1,087,660,963/690,000,000
(5) Income per Share	40,636,703/690,000,000	52,542,062/690,000,000

The Current Ratio is the general measure of a company's liquidity. It represents the ratio of all current assets to all current liabilities. It is also known as the "Working Capital Ratio" because working capital is the excess of current assets over current liabilities.

The Quick Ratio is another measure of a company's liquidity. It is used to measure a company's ability to pay its liabilities using assets that are cash or very liquid.

The Debt to Equity Ratio is a measure of leverage, or the relative amount of funds provided by lenders and owners. This measures the amount of debt being used by the Company.

Book Value per Share is a measure of stockholders' equity. It represents the difference between total assets and total liabilities then divide that total by the number of common shares outstanding.

Loss per Share is computed by dividing the net loss by the weighted average number of common shares outstanding.

#### Other Matters

No disclosures nor discussions were made for the following since these did not affect the past and present operations or the foreseeable future operations of the Company:

- (a) Any known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity other than those discussed in the Plan of Operation, Item 2- Management's Discussion and Plan of Operations.
- (b) Any material commitments for capital expenditures, the general purpose of the commitments and the expected sources of funds for the expenditures.
- (c) Any known trends, events, or uncertainties that have had or that reasonably expected to have a material favorable or unfavorable impact on net sales or income other than what was mentioned in the Plan of Operation, Item 2 – Management's Discussion and Analysis;
- (d) Any significant elements of income or loss that did not arise from the Company's continuing operations;
- (e) Any seasonal aspects that have material effect on the financial condition or results of operation except as mentioned in the Notes to Financial Statements No 5.

## **PART II – OTHER INFORMATION**

The issuer may, at its option, report under this item any information not previously reported in a report on SEC 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

Not Applicable



## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer : **IPM HOLDINGS, INC.**

  
**ISABEL F. MERCADO**  
Chairman/Chief Executive Officer

  
**FRANCIS NEIL P. MERCADO**  
Treasurer/Chief Financial Officer

Date: August 13, 2019

**IPM HOLDINGS, INC. AND SUBSIDIARY**  
**UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>30-Jun-2019</b>	<b>31-Dec-2018</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 4)	<b>₱22,701,284</b>	₱6,936,678
Current portion of Receivables - net (Notes 5 and 14)	<b>1,002,501,581</b>	942,427,537
Other current assets (Note 6)	<b>12,379,313</b>	10,925,149
<b>Total Current Assets</b>	<b>1,037,582,178</b>	960,289,364
<b>Noncurrent Assets</b>		
Noncurrent portion of Receivables – net (Notes 5 and 14)	<b>50,605,851</b>	50,605,851
Deposits (Note 8)	<b>21,988,034</b>	3,333,398
Investments in an associate and a joint venture (Note 7)	<b>70,135,280</b>	82,529,043
Property and equipment (Note 10)	<b>119,568,703</b>	128,630,733
Investment property (Note 9)	<b>106,713,101</b>	107,403,383
Deferred tax assets (Note 19)	<b>9,231,776</b>	9,231,776
<b>Total Noncurrent Assets</b>	<b>378,242,745</b>	381,734,184
	<b>₱1,415,824,923</b>	₱1,342,023,548
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 11)	<b>₱138,950,089</b>	₱122,068,935
Loan payable (Note 12)	<b>112,000,000</b>	96,000,000
Income tax payable	<b>7,726,647</b>	7,443,129
<b>Total Current Liabilities</b>	<b>258,676,736</b>	225,512,064
<b>Noncurrent Liabilities</b>		
Asset Rehabilitation Obligation (ARO-liability) (Note 20)	<b>27,576,815</b>	27,576,815
Net pension liability (Note 18)	<b>1,273,706</b>	1,273,706
<b>Total Noncurrent Liabilities</b>	<b>28,850,521</b>	28,850,521
<b>Total Liabilities</b>	<b>287,527,257</b>	254,362,585
<b>Equity</b>		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock (Note 13)	<b>690,000,000</b>	690,000,000
Retained earnings (Note 13)	<b>375,473,404</b>	345,375,958
Other reserves (Notes 1 and 18)	<b>(298,314,816)</b>	(298,314,816)
	<b>767,158,588</b>	737,061,142
Noncontrolling interests	<b>361,139,078</b>	350,599,821
<b>Total Equity</b>	<b>1,128,297,666</b>	1,087,660,963
	<b>₱1,415,824,923</b>	₱1,342,023,548

*See accompanying Notes to Consolidated Financial Statements.*

**IPM HOLDINGS, INC. AND SUBSIDIARY**  
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Quarters Ended June 30	
	2019	2018
<b>REVENUE AND OTHER INCOME</b>		
Service income (Notes 15 and 20)	P42,380,495	P32,831,566
Rental income (Notes 9 and 20)	9,952,188	22,155,714
Interest Income (Notes 4, 8 and 14)	309,428	592,056
	<b>52,642,111</b>	<b>55,579,336</b>
<b>EXPENSES</b>		
Cost of services (Note 16)	16,443,868	10,740,372
General and administrative expenses (Note 17)	8,215,281	21,052,587
Interest expense (Notes 12 and 20)	2,175,806	1,246,416
Equity in net losses of an associate and a joint venture (Note 7)	1,407,969	2,124,638
	<b>28,242,924</b>	<b>35,164,013</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>24,399,187</b>	<b>20,415,323</b>
<b>PROVISION FOR INCOME TAX</b>	<b>7,663,177</b>	<b>6,204,955</b>
<b>NET INCOME</b>	<b>16,736,010</b>	<b>14,210,368</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Items not to be reclassified to profit or loss:</i>		
Actuarial losses on defined benefit obligation	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P16,736,010</b>	<b>P14,210,368</b>
Net income attributable to:		
Equity holders of the parent	P12,355,229	P10,447,258
Noncontrolling interest	4,380,781	3,763,110
	<b>P16,736,010</b>	<b>P14,210,368</b>
Total comprehensive income attributable to:		
Equity holders of the parent	P12,355,229	P10,447,258
Noncontrolling interest	4,380,781	3,763,110
	<b>P16,736,010</b>	<b>P14,210,368</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY</b>		
<b>HOLDERS OF THE PARENT (Note 20)</b>	<b>P0.018</b>	<b>P0.015</b>

*See accompanying Notes to Consolidated Financial Statements*

**IPM HOLDINGS, INC. AND SUBSIDIARY**  
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Six Months Ended June 30	
	2019	2018
<b>REVENUE AND OTHER INCOME</b>		
Service income (Notes 14 and 19)	<b>₱83,486,600</b>	₱53,904,458
Rental income (Notes 9, 14 and 19)	<b>28,501,920</b>	44,745,625
Interest income (Notes 4, 8 and 14)	<b>821,311</b>	594,588
	<b>112,809,831</b>	99,244,671
<b>EXPENSES</b>		
Cost of services (Note 15)	<b>29,485,735</b>	22,130,830
General and administrative expenses (Note 16)	<b>18,516,129</b>	31,302,760
Interest expense (Notes 10 and 12)	<b>3,285,458</b>	2,269,619
Equity in net losses of an associate and a joint venture	<b>2,793,762</b>	2,326,468
	<b>54,081,084</b>	58,029,677
<b>INCOME BEFORE INCOME TAX</b>	<b>58,728,747</b>	41,214,994
<b>PROVISION FOR INCOME TAX</b>	<b>18,092,044</b>	12,604,316
<b>NET INCOME</b>	<b>₱40,636,703</b>	₱28,610,678
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Items not to be reclassified to profit or loss:</i>		
Actuarial losses on defined benefit obligation	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱40,636,703</b>	₱28,610,678
Net income attributable to:		
Equity holders of the parent	<b>₱30,097,446</b>	₱21,119,924
Noncontrolling interest	<b>10,539,257</b>	7,490,754
	<b>₱40,636,703</b>	₱28,610,678
Total comprehensive income attributable to:		
Equity holders of the parent	<b>₱30,097,446</b>	₱21,119,924
Noncontrolling interest	<b>10,539,257</b>	7,490,754
	<b>₱40,636,703</b>	₱28,610,678
<b>EARNING PER SHARE ATTRIBUTABLE TO</b>		
<b>EQUITY HOLDERS OF THE PARENT</b> (Note 18)	<b>₱0.044</b>	₱0.031

*See accompanying Notes to Consolidated Financial Statements*

**IPM HOLDINGS, INC. AND SUBSIDIARY**

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Capital Stock	Retained Earnings - Unappropriated	Retained Earnings - Appropriated	Other Reserves Equity Reserve	Actuarial Losses on Defined Benefit Obligation	Noncontrolling Interests	Total Equity
At March 31, 2019	P690,000,000	P363,118,175	–	(P298,498,391)	P183,575	P356,758,297	P1,111,561,656
Net income for the second quarter	–	12,355,229	–	–	–	4,380,781	15,736,010
At June 30, 2019	<b>P690,000,000</b>	<b>P375,473,404</b>	<b>P</b>	<b>(P298,498,391)</b>	<b>P183,575</b>	<b>P361,139,078</b>	<b>P1,128,297,666</b>
At March 31, 2018	P690,000,000	P331,497,135	–	(P298,498,391)	(P12,265)	P346,185,762	P1,069,172,241
Net income for the second quarter	–	10,447,258	–	–	–	3,763,110	14,210,368
At June 30, 2018	<b>P690,000,000</b>	<b>P341,944,393</b>	<b>P</b>	<b>(P298,498,391)</b>	<b>(P12,265)</b>	<b>P349,948,872</b>	<b>P1,083,382,609</b>
At January 1, 2018, as restated	P690,000,000	P306,441,413	P-	(P298,498,391)	(P12,265)	P336,927,024	P1,034,857,781
Net income	–	38,934,545	–	–	–	13,607,517	52,542,062
Other comprehensive income	-	-	–	-	195,840	65,280	261,120
Total comprehensive income	–	38,934,545	–	–	195,840	13,672,797	52,803,182
At December 31, 2018	P690,000,000	P345,374,958	P-	(P298,498,391)	(P183,575)	P350,599,821	P1,087,660,963

*See accompanying Notes to Consolidated Financial Statements.*

**IPM HOLDINGS, INC. AND SUBSIDIARY**

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Capital Stock	Retained Earnings - Unappropriated	Retained Earnings - Appropriated	Equity Reserve	Other Reserves Actuarial Losses on Defined Benefit Obligation	Noncontrolling Interests	Total Equity
At January 1, 2019	<b>₱690,000,000</b>	<b>₱345,375,958</b>	<b>₱-</b>	<b>(₱298,498,391)</b>	<b>₱183,575</b>	<b>₱350,599,821</b>	<b>₱1,087,660,963</b>
Net income for the six months period	-	<b>30,097,446</b>	-	-	-	<b>10,539,257</b>	<b>40,636,703</b>
At June 30, 2019	<b>₱690,000,000</b>	<b>₱375,473,404</b>	<b>₱</b>	<b>(₱298,498,391)</b>	<b>₱183,575</b>	<b>₱361,139,078</b>	<b>₱1,128,297,666</b>
At January 1, 2018	₱690,000,000	₱320,898,238	₱	(₱298,498,391)	(₱12,265)	₱342,384,349	₱1,054,771,931
Net income for the six months period	-	21,119,924	-	-	-	7,490,754	28,610,678
At June 30, 2018	₱690,000,000	₱342,018,162	₱	(₱298,498,391)	(₱12,265)	₱349,775,103	₱1,083,382,609
At January 1, 2018, as restated	₱690,000,000	₱306,441,413	₱-	(₱298,498,391)	(₱12,265)	₱336,927,024	₱1,034,857,781
Net income	-	38,934,545	-	-	-	13,607,517	52,542,062
Other comprehensive income	-	-	-	-	195,840	65,280	261,120
Total comprehensive income	-	38,934,545	-	-	195,840	13,672,797	52,803,182
At December 31, 2018	₱690,000,000	₱345,375,958	₱-	(₱298,498,391)	₱183,575	₱350,599,821	₱1,087,660,963

*See accompanying Notes to Consolidated Financial Statements.*

**IPM HOLDINGS, INC. AND SUBSIDIARY**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Quarters Ended June 30	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱24,399,187</b>	₱20,415,324
Adjustments for:		
Depreciation and amortization	<b>10,610,261</b>	4,483,397
Equity in net losses (earnings) of an associate and a joint venture (Note 7)	<b>1,407,969</b>	2,124,638
Interest expense	<b>2,175,806</b>	1,246,416
Interest income	<b>(309,428)</b>	(592,056)
Operating income before changes in working capital	<b>38,283,795</b>	27,677,719
Decrease (increase) in:		
Receivables	<b>(17,271,828)</b>	(13,832,534)
Due from a related party		
Other current assets	<b>(413,024)</b>	1,453,291
Increase (decrease) in:		
Trade and other payables	<b>2,027,364</b>	1,499,473
Due to related parties	<b>-</b>	-
Net cash generated from (used in) operations	<b>22,626,307</b>	16,797,949
Interest received	<b>309,428</b>	2,532
Income tax paid	<b>(17,808,492)</b>	(16,822,437)
Net cash provided by (used in) operating activities	<b>5,127,243</b>	(21,956)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	<b>(4,617,956)</b>	447,984
Increase in deposits	<b>20,000,000</b>	-
Dividends received from an associate	<b>(7,200,000)</b>	-
Net cash provided by (used in) investing activities	<b>8,182,044</b>	447,984
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Interest paid	<b>(2,175,806)</b>	(1,246,416)
Payment of bank loan	<b>(4,000,000)</b>	-
Net cash used by financing activities	<b>(6,175,806)</b>	(1,246,416)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>7,133,481</b>	(820,388)
<b>CASH AT BEGINNING OF PERIOD</b>	<b>15,567,803</b>	6,677,496
<b>CASH AT END OF PERIOD (Note 4)</b>	<b>₱22,701,284</b>	₱5,857,108

*See accompanying Notes to Consolidated Financial Statements.*

**IPM HOLDINGS, INC. AND SUBSIDIARY**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱58,728,747</b>	₱41,214,994
Adjustments for:		
Depreciation and amortization	<b>16,439,188</b>	8,504,058
Equity in net losses (earnings) of an associate and a joint venture (Note 7)	<b>2,793,762</b>	2,326,468
Interest expense	<b>3,285,458</b>	2,269,619
Interest income	<b>(821,311)</b>	(594,588)
Operating income before changes in working capital	<b>80,425,844</b>	53,720,551
Decrease (increase) in:		
Receivables	<b>(60,451,091)</b>	(40,933,980)
Prepaid and other current assets	<b>(1,070,791)</b>	6,815,030
Increase (decrease) in:		
Trade and other payables	<b>17,420,190</b>	(3,413,455)
Net cash generated from (used in) operations	<b>36,324,152</b>	16,188,146
Interest received	<b>821,311</b>	24,201
Income tax paid	<b>(17,808,527)</b>	(16,822,486)
Net cash provided by (used in) operating activities	<b>19,336,936</b>	(610,139)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of property and equipment (Note 10)	<b>(6,686,872)</b>	1,067,961
Increase in deposits	<b>20,000,000</b>	
Dividends received from an associate (Note 7)	<b>(9,600,000)</b>	-
Net cash provided by investing activities	<b>3,713,128</b>	1,067,961
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Interest paid	<b>(3,285,458)</b>	(2,269,619)
Payment/proceeds from bank loan (Note 13)	<b>(4,000,000)</b>	-
Net cash used by in financing activities	<b>(7,285,458)</b>	(2,269,619)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>15,764,606</b>	(1,811,797)
<b>CASH AT BEGINNING OF PERIOD</b>	<b>6,936,678</b>	7,668,905
<b>CASH AT END OF PERIOD (Note 4)</b>	<b>₱22,701,284</b>	₱5,857,108

*See accompanying Notes to Consolidated Financial Statements.*



**IPM HOLDINGS, INC.****UNAUDITED PARENT COMPANY STATEMENTS OF FINANCIAL POSITION**

	<b>30-Jun-2019</b>	31-Dec-2018
	<b>Unaudited</b>	Audited
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	<b>₱569,251</b>	₱153,908
Other current assets	<b>398,234</b>	20,000
<b>Total Current Assets</b>	<b>967,485</b>	173,908
<b>Noncurrent Asset</b>		
Investment in a subsidiary	<b>485,375,000</b>	485,375,000
<b>TOTAL ASSETS</b>	<b>₱486,342,485</b>	₱485,548,908
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Advances from related party (Note 10)	<b>₱10,100,000</b>	₱7,500,000
Accrued expenses and other payables	<b>95,963</b>	376,911
<b>Total Liabilities</b>	<b>₱10,195,963</b>	₱7,876,911
<b>Equity</b>		
Capital stock	<b>690,000,000</b>	690,000,000
Deficit	<b>(213,853,478)</b>	(212,328,003)
<b>Total Equity</b>	<b>476,146,522</b>	477,671,997
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱486,342,485</b>	₱485,548,908

**IPM HOLDINGS, INC.****UNAUDITED PARENT COMPANY STATEMENTS OF INCOME**

	<b>Quarters Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>INCOME</b>		
Interest	<b>₱267</b>	<b>₱249</b>
<b>EXPENSES</b>		
Directors' per diem	<b>160,000</b>	150,000
Stock exchange listing fee	<b>146,450</b>	153,113
Salaries and wages	<b>137,000</b>	137,000
Entertainment, amusement and recreation	<b>113,572</b>	83,359
Professional fees	<b>95,000</b>	135,322
Utilities	<b>45,000</b>	45,000
Rent	<b>40,179</b>	40,179
Transportation	<b>16,720</b>	17,076
Office supplies and printing costs	<b>15,136</b>	63,780
Advertising and publication	<b>11,910</b>	-
Miscellaneous	<b>11,503</b>	17,444
	<b>792,470</b>	842,273
<b>LOSS BEFORE INCOME TAX</b>	<b>792,203</b>	842,024
Provision for income tax	<b>53</b>	50
<b>NET LOSS</b>	<b>792,256</b>	842,074
Other comprehensive loss	-	-
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>₱792,256</b>	<b>₱842,074</b>
<b>Basic/Diluted Loss Per Share</b>	<b>₱0.0011</b>	<b>₱0.0010</b>

**IPM HOLDINGS, INC.****UNAUDITED PARENT COMPANY STATEMENTS OF INCOME**

	<b>Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>INCOME</b>		
Interest	<b>₱440</b>	<b>₱497</b>
<b>EXPENSES</b>		
Stock exchange listing fee	<b>296,475</b>	298,650
Salaries and wages	<b>274,000</b>	274,000
Professional fees	<b>194,386</b>	210,322
Directors' per diem	<b>340,000</b>	150,000
Entertainment, amusement and recreation	<b>124,492</b>	93,859
Utilities	<b>90,000</b>	90,000
Rent	<b>80,357</b>	80,357
Transportation	<b>28,814</b>	25,236
Membership fee	<b>25,000</b>	-
Office supplies and printing costs	<b>21,604</b>	68,517
Taxes and licenses	<b>18,086</b>	38,390
Advertising	<b>11,910</b>	-
Miscellaneous	<b>20,703</b>	23,406
	<b>1,525,827</b>	1,352,737
<b>LOSS BEFORE INCOME TAX</b>	<b>1,525,387</b>	1,352,240
Provision for income tax	<b>88</b>	100
<b>NET LOSS</b>	<b>1,525,475</b>	1,352,340
Other comprehensive loss	-	-
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>₱1,525,475</b>	<b>₱1,352,340</b>
<b>Basic/Diluted Loss Per Share</b>	<b>₱0.002</b>	<b>₱0.002</b>

**IPM HOLDINGS, INC.****UNAUDITED PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY**

	<b>Capital Stock</b>	<b>Deficit</b>	<b>Total</b>
At March 31, 2019	<b>₱690,000,000</b>	<b>(₱213,061,222)</b>	<b>₱476,938,778</b>
Net loss for the second quarter	–	<b>(792,256)</b>	<b>(792,256)</b>
At June 30, 2019	<b>₱690,000,000</b>	<b>(₱213,853,478)</b>	<b>₱476,146,522</b>
At March 1, 2018	₱690,000,000	(₱209,550,266)	₱480,449,734
Net loss for the first quarter	–	(842,074)	(842,074)
At June 30, 2018	₱690,000,000	(₱210,392,340)	₱479,607,660
At January 1, 2018	₱690,000,000	(₱209,040,001)	₱480,959,999
Net loss	–	(3,288,002)	(3,288,002)
At December, 2018	₱690,000,000	(₱212,328,003)	₱477,671,997

**IPM HOLDINGS, INC.****UNAUDITED PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY**

	<b>Capital Stock</b>	<b>Deficit</b>	<b>Total</b>
At January 1, 2019	<b>₱690,000,000</b>	<b>(₱212,328,003)</b>	<b>₱477,671,997</b>
Net loss for the six months period	–	<b>(1,525,475)</b>	<b>(1,525,475)</b>
At June 30, 2019	<b>₱690,000,000</b>	<b>(₱213,853,478)</b>	<b>₱476,146,522</b>
At January 1, 2018	₱690,000,000	(₱209,040,001)	₱480,959,999
Net loss for the six months period	–	(1,352,339)	(1,352,339)
At June 30, 2018	₱690,000,000	(₱210,392,340)	₱479,607,660
At January 1, 2018	₱690,000,000	(₱209,040,001)	₱480,959,999
Net loss	–	(3,288,002)	(3,288,002)
At December, 2018	₱690,000,000	(₱212,328,003)	₱477,671,997

**IPM HOLDINGS, INC.****UNAUDITED PARENT COMPANY STATEMENTS OF CASH FLOWS**

	<b>Quarters Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	<b>(P792,203)</b>	(P842,023)
Adjustments for:		
Interest income (Note 4)	<b>(267)</b>	(249)
Operating loss before changes in working capital	<b>(792,470)</b>	(842,272)
Changes in operating assets and liabilities		
Increase in other current assets	<b>154,753</b>	116,925
Decrease in accrued expenses and other payables	<b>(32,692)</b>	(66,376)
Net cash provided by (used in) operations	<b>(670,409)</b>	(791,723)
Interest received	<b>267</b>	249
Income tax paid	<b>(53)</b>	(50)
Net cash used in operating activities	<b>(670,195)</b>	(791,524)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Increase in advance from related party (Note 10)	<b>1,000,000</b>	1,000,000
Net cash provided by financing activities	<b>1,000,000</b>	1,000,000
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>329,805</b>	208,475
<b>CASH AT BEGINNING OF PERIOD</b>	<b>239,446</b>	175,982
<b>CASH AT END OF PERIOD</b>	<b>P569,251</b>	P384,457

**IPM HOLDINGS, INC.****UNAUDITED PARENT COMPANY STATEMENTS OF CASH FLOWS**

	<b>Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	<b>(P1,525,387)</b>	(P1,352,240)
Adjustments for:		
Interest income (Note 4)	<b>(440)</b>	(497)
Operating loss before changes in working capital	<b>(1,525,827)</b>	(1,352,737)
Changes in operating assets and liabilities		
Increase in other current assets	<b>(378,234)</b>	(400,167)
Decrease in accounts and other payables	<b>(280,949)</b>	(336,448)
Net cash used in operations	<b>(2,185,009)</b>	(2,089,352)
Interest received	<b>440</b>	497
Income tax paid	<b>(88)</b>	(100)
Net cash provided by (used in) operating activities	<b>(2,184,657)</b>	(2,088,955)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Increase in advance from related party	<b>2,600,000</b>	<b>1,500,000</b>
Net cash provided by financing activities	<b>2,600,000</b>	<b>1,500,000</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>415,343</b>	<b>(588,955)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>153,908</b>	<b>973,412</b>
<b>CASH AT END OF PERIOD</b>	<b>P569,251</b>	<b>P384,457</b>

## IPM HOLDINGS, INC. AND SUBSIDIARY

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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#### 1. Corporate Information and Status of Operations

IPM Holdings, Inc., (the Parent Company) and its subsidiary, Basic Environmental Systems and Technologies, Inc. (BEST) (collectively referred to as “the Group”), were incorporated in the Philippines with a corporate life of 50 years on August 1, 1995 and September 15, 1999, respectively. The Parent Company’s registered office address is at Unit 103, Ground Floor, Prestige Tower Condominium, F. Ortigas Jr. Avenue, Ortigas Center, Pasig City.

The Parent Company is engaged in the business of investment; to own, hold, use, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real and personal property of every kind and description; and, to manage any business, joint venture, firm partnership, corporation, institution or entity or otherwise act as holding or management corporation thereof.

BEST is engaged in contracting and consulting business for waste management, public cleansing, sanitation and general hygiene to provide comprehensive waste disposal services.

The Parent Company’s shares are publicly traded in the Philippine Stock Exchange (PSE) under the ticker “IPM”. As of June 30, 2019, the top four beneficial shareholders of the Parent Company are the following:

	Percentage of ownership
IPM Construction and Development Corporation (IPMCDC)	51%
IPM Environmental Services, Inc. (IPMESI)	10%
IPM Realty and Development Corporation (IPMRDC)	7%
Public	32%

IPMCDC, IPMESI and IPMRDC were all incorporated in the Philippines. The ultimate parent company of the Group is IPMCDC.

#### *Reverse acquisition*

Before the Parent Company acquired 75% interest in BEST, majority of the shareholders of BEST are also the shareholders of IPMCDC, IPMESI and IPMRDC. Hence, the Parent Company’s acquisition of 75% interest in BEST effectively qualifies as a reverse acquisition since BEST is the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity. Equity reserve pertains to the difference in capital structure of IPM and BEST and recognition of deficit of IPM during the date of acquisition, as the retained earnings of the consolidated financial statements represents retained earnings of BEST before acquisition adjusted by post-acquisition results of the Group.

Since the Parent Company is not a business as defined in paragraph B7 of PFRS 3, *Business Combination*, the transaction did not qualify a business combination, but a share-based payment transaction whereby BEST has received the net assets of the Parent Company together with the listing status of the Parent Company.

The consolidated financial statements reflect the substance of the transaction which is that BEST is the continuing entity, therefore, the principles and guidance on the preparation and presentation of the consolidated financial statements in a reverse acquisition set out in PFRS 3 were applied in this transaction. However, the listing status did not qualify for recognition as an intangible asset, and therefore expensed in profit or loss.



In 2013, listing expense was recognized in profit or loss and equity reserve at the date of acquisition. Computation of listing expense follows:

Fair value of BEST at acquisition date	₱650,295,426
Interest acquired by Parent Company	75%
	<hr/>
	487,721,570
Cash paid by Parent Company	462,500,000
	<hr/>
	₱25,221,570
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## 2. Summary of Significant Accounting Policies

### Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared using the historical cost basis. These consolidated financial statements are presented in Philippine Peso (₱), the Group's functional currency. All amounts are rounded to the nearest Philippine Peso unless otherwise indicated.

### Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Philippine Financial Reporting Standards (PFRSs).

### Basis of Consolidation

The consolidated financial statements prepared following a reverse acquisition are issued under the name of the Parent Company (legal parent or accounting acquiree) but is a continuation of the financial statements of BEST (legal subsidiary or accounting acquirer). The consolidated financial statements comprise the financial statements of the Parent Company and BEST.

The consolidated financial statements are prepared based on the principles of reverse acquisition involving a non-trading shell company. The accounting acquiree is fully consolidated from the date of acquisition or incorporation, being the date on which the accounting acquirer obtains control, and continues to be consolidated until the date that such control ceases.

All intra-group balances, transactions and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Noncontrolling interest (NCI) represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position and consolidated statements of changes in equity.

Acquisitions of NCI are accounted for using the acquisition method, whereby the Group considers the acquisition of NCI as an equity transaction. Any premium or discount on subsequent purchases from NCI shareholders is recognized directly in equity and attributed to the equity holders of the Parent Company.

### *Assessment of Control*

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect that return through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of the subsidiary are included in the consolidated statements of financial position and consolidated statements of comprehensive income from the date the Group gains control at the subsidiary until the date the Group loses the control.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and to the NCI, even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the consolidated financial statements of the subsidiary to bring its accounting policies in line with the accounting policies of the Group.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. When the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation adjustments 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.

As of June 30 2019 and December 31, 2018, NCI pertains to the 25% ownership of individuals and companies other than the Parent Company of BEST. The financial information of BEST, with material NCI, is provided below. This information is based on amounts before intercompany eliminations.

*Statements of Financial Position*

	<b>30-Jun-2019</b>	31-Dec-2018
Current assets	<b>₱1,039,209,551</b>	₱960,129,786
Noncurrent assets	<b>380,604,652</b>	383,984,187
<b>Total assets</b>	<b>₱1,419,814,203</b>	₱1,344,113,973
Current liabilities	<b>₱258,580,773</b>	₱225,149,483
Noncurrent liabilities	<b>28,850,521</b>	28,850,521
<b>Total liabilities</b>	<b>₱287,431,294</b>	₱254,000,004

*Statements of Comprehensive Income*

	<b>30-Jun-2019</b>	31-Dec-2018
Revenue	<b>₱83,486,600</b>	₱213,872,413
Net income	<b>42,157,032</b>	54,430,069
<b>Total comprehensive income</b>	<b>42,157,032</b>	54,691,189

*Statements of Cash Flows*

	<b>30-Jun-2019</b>	31-Dec-2018
Cash flows from (used in):		
Operating activities	<b>₱18,921,593</b>	₱24,876,573
Investing activities	<b>3,713,128</b>	(18,431,595)
Financing activities	<b>(7,285,458)</b>	(6,357,702)
<b>Net increase in cash and cash equivalents</b>	<b>₱15,349,263</b>	<b>₱87,276</b>
Accumulated balance of material NCI	<b>₱361,139,078</b>	₱350,599,821
Net income attributable to material NCI	<b>10,539,257</b>	13,607,517
Total comprehensive income attributable to NCI	<b>10,539,257</b>	13,672,797

There are no significant restrictions on the Group's ability to use assets or settle liabilities within the Group. There is no difference on the voting rights of non-controlling interests as compared to majority stockholders.

Change in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the Group's financial statements are consistent with those of the previous financial year except for the adoption of the following new standards, amendments to standards and interpretations starting January 1, 2018.

Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless otherwise indicated.

- *PFRS 9, Financial Instruments*

PFRS 9 replaces the provisions of Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the exception of hedge accounting, which the Group applied prospectively, as applicable, the Group has applied PFRS 9 retrospectively, adjusting the comparative information for the earliest period presented beginning January 1, 2017.

The effect of adopting PFRS 9 is as follows:

*(a) Classification and measurement*

Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2017. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of PFRS 9 did not have a significant impact to the Group. Cash in bank, deposits and receivables, previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely parts of

principal and interest. These are now classified as financial assets at amortized cost beginning January 1, 2017.

The Group has no designated financial liabilities at fair value through profit or loss. There are no changes in the classification and measurement for the Group's financial liabilities.

*(b) Impairment*

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to record an allowance for impairment losses for all debt financial assets not held at FVPL.

*Incurred loss versus expected credit loss methodology.* For trade receivables, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. customer type). The calculation reflects the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation rate) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate (see Note 3). The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

For receivables from related parties, ECLs are recognized in two stages. For credit exposures for which there has not been significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

*Staging Assessment*

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Group recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Group recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative

impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires a lifetime ECL for impaired financial instruments.

For cash in bank and deposits, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. To estimate the ECL, the Group uses the ratings from Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group identified that the receivables from Local Government Units (LGU) and private entity customers amounting to ₱3.55 million and ₱4.18 million, respectively, are credit impaired assets prior to January 1, 2017. The Group recognized provision for expected credit losses for the receivables identified amounting to ₱7.73 million which reduced the receivables as of December 31, 2017 and January 1, 2017 by the same amount. The Group also recognized the related deferred tax assets amounting to ₱2.32 million as of December 31, 2017 and January 1, 2017.

#### *PFRS 15, Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised 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 measure and recognize revenue.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted PFRS 15 using the full retrospective method of adoption. However, the adoption has no significant effect on the current and prior period consolidated financial statements of the Group. Revenue recognition and measurement remains significantly the same as compared to the Group policy prior to the adoption of new revenue accounting standard.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to

retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

The amendments are not applicable to the Group as the Group does not measure its investment at FVPL.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

#### Future Changes in Accounting Policies

The following are the standards amendments and improvements to PFRSs that were issued but are not effective as at December 31, 2018. Unless otherwise indicated, the Group does not expect that the future adoption of these pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*  
Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

These amendments have no impact on the consolidated financial statements of the Group.

- 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. Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effectivity date.

- *Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures*  
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

- *Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments*  
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

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

- *Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement*  
The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the:

- Current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and,
- Net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

The Group is currently assessing the impact of adopting the amendments to PAS 19.

- *Annual Improvements 2015-2017 Cycle*

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.



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

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*  
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

#### *Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*  
The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*  
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity will apply those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted, as applicable.

#### *Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contract*  
PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are

largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

#### *Deferred effectivity*

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

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

The Group is currently assessing the impact of adopting the amendments to PFRS 10 and PAS 28.

#### Current versus Non-current Classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

Deferred tax assets and liabilities are classified as noncurrent.

### Cash

Cash includes cash on hand and deposits held on demand with banks that are carried in the consolidated statements of financial position at face amount and earn interest based on the prevailing bank deposit rates.

### Financial Instruments

#### *Date of recognition*

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

### Financial assets

#### *Initial recognition of financial instruments*

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

#### *Subsequent measurement*

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

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

#### *Financial assets at amortized cost*

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

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

The Group's financial assets at amortized cost includes cash, receivables and deposits.

#### *Derecognition*

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

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

#### *Impairment of financial assets*

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. customer type). The calculation reflects the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation rate) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate (see Note 3). The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

For receivables from related parties, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash in bank and deposits, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. To estimate the ECL, the Group uses the ratings from Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The key inputs in the model include the Group's definition of default and historical data of three years for the origination, maturity date and default date. The Group considers trade receivables in default when contractual payment are 120 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature which may extend the definition of default to 30 days and beyond. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

#### *Determining the stage for impairment*

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

The Group considers that there has been a significant increase in credit risk when contractual payments are more than one year past due.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-month ECL.

#### Financial liabilities

##### *Initial recognition and measurement*

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

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

The Group's financial liabilities include "Trade and other payables" (other than "Payable to government agencies" which is covered by other accounting standard) and "Loan Payable".

##### *Subsequent measurement*

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

##### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the

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

Gains or losses on liabilities held for trading are recognized in the consolidated statement of income. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

#### *Loans and borrowings and other payables*

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

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

This category generally applies to “Trade and other payables” (excluding payable to government agencies) and “Loan payable”.

#### *Derecognition*

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

#### Offsetting Financial Instruments

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

#### Fair Value Measurement

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

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

The principal or most advantageous market must be accessible to the Group.

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

#### *Fair value hierarchy*

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which the lowest input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: Valuation techniques for which lowest level input that is significant to the fair value measurement is observable.

#### *“Day 1” loss*

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a “Day 1” loss) in the statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data that is not observable, the difference between the transaction price and model value is only recognized in the 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” loss amount.

#### *Financial instruments*

The fair values for financial instruments traded in active markets at the reporting date are based on their quoted market prices (any price between the bid and ask spread), without any deduction for transaction costs. When current market prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models. Any difference noted between the fair value and the transaction price is treated as expense or income, unless it qualifies for recognition as some type of asset or liability.

#### *Nonfinancial asset*

Fair value measurement of nonfinancial asset, such as investment property, takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing 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 Group’s management determines the policies and procedures for both recurring fair value measurement and for non-recurring fair value measurement.

External valuers are involved for valuation of significant assets, such as investment property. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or reassessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents with relevant external sources to determine whether the change is reasonable.

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

#### Other Current Assets

Prepayments represent expenses not yet incurred but already paid in advance. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit and loss as the benefits are consumed in operations or expired with the passage of time. Input value-added tax and creditable withholding tax are recognized as assets to the extent that it is probable that the benefit will flow to the Group. These are derecognized when there is a legally enforceable right to apply the recognized amounts against the related tax liability within the period prescribed by the relevant tax laws.

#### Deposits

Deposits represent deposits to a government agency as a surety bond which is measured at amortized cost.

#### Investments in an Associate and a Joint Venture

Associates are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group. 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 are similar to those necessary to determine control over subsidiaries.

A joint venture is an entity, not being a subsidiary or an associate, in which the Group exercises joint control together with one or more venturers. Investments in an associate and a joint venture are accounted for under the equity method of accounting in the consolidated financial statements.

Under the equity method, the investments in associate and joint venture are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate and joint venture, less dividends declared and impairment in value. If the Group's share of losses of an associate and joint venture equals or exceeds its interest in the associate, the Group discontinues recognizing its share of further losses. The interest in an associate and a joint venture is the carrying amount of the investment in the associate and joint venture under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate and joint venture. After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investments in the associate and joint venture. The consolidated statements of comprehensive income reflects the Group's share in the results of operations of its associate and joint venture. This is included in the "Equity in net earnings (losses) of an associate and a joint venture" account in the consolidated statements of comprehensive income. After the Group's interest is reduced to zero, additional losses are provided to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate and joint venture.



When there has been a change recognized directly in the equity of the associate and joint venture, the Group recognizes its share of any change and discloses this, when applicable, in the consolidated statements of changes in equity.

The reporting dates of the associate, joint venture and the Group are identical and the accounting policies of the associate and joint venture conform to those used by the Group for like transactions and events in similar circumstances.

Unrealized gains arising from intercompany transactions with its associate and joint venture are eliminated to the extent of the Group's interest in the associate and joint venture. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

Upon loss of significant influence over the associate, the Group measures and recognizes any remaining investment at fair value and will subsequently be measured using the policy on financial assets. Any difference between the carrying amount of the associate and joint venture upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

#### Investment Property

Property held for long-term rental and/or capital appreciation are classified as investment property. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property, except land, is stated at cost, less any accumulated depreciation and amortization and any accumulated impairment in value. Land is stated at cost, less any accumulated impairment losses.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party or by the end of construction or development.

Depreciation of investment property is computed using the straight-line method over the estimated useful life of 35 years.

The useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from its investment property.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when such cost is incurred if the recognition criteria are met.

Depreciation of property and equipment, other than land and identified development cost specific to the landfill cells, is computed using the straight-line method over the following estimated useful lives:

	Years
Condominium units and improvements	35
Development costs	5 to 15
Transportation and heavy equipment	5 to 10
Office furniture and fixtures	2 to 5
Leasehold improvements	5 or over the period of lease term, whichever is shorter

The Group's land used as sanitary landfill and identified development costs specific to the landfill cells are depreciated using the unit of production method.

The useful lives and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

#### Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for a nonfinancial asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

#### *Investments in an associate and a joint venture*

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The Group determines at each reporting date whether there is any objective evidence that the investment in an associate or a joint venture is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of fair value less cost to

sell or value-in-use) and the carrying value of the investments in an associate or a joint venture and recognizes the difference in profit or loss.

#### Asset Rehabilitation Obligation (ARO-liability)

The Group is legally required to rehabilitate the land used as landfill through performance of certain maintenance and monitoring functions at site for a minimum of ten (10) years. Although rehabilitation costs will only be incurred and paid when the last phases/cells of the landfill reach final waste elevation, the event that gives rise to the obligation is the actual development and operations conducted by the Group in the landfill.

The provision for rehabilitation is made based on historical experience and benchmarking of costs from other similar operations undertaken by companies within the same industry.

The estimated cost of Asset Rehabilitation Obligation was recognized by the Group as a property and equipment under “ARO-Asset” account. The capitalized asset is depreciated on a straight-line basis over the period of expected utilization of the landfill. The amount of related obligation is recognized and carried at amortized cost using the effective interest method. The Group regularly assesses the sufficiency of provision for ARO-liability and adjusts the related liability for changes in estimates.

#### Equity

##### *Capital stock*

Capital stock is measured at par value for all shares issued and outstanding. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

##### *Retained earnings*

Retained earnings represent the cumulative balance of net income or loss of the Group, net of any dividend declaration. Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders, after adjustments for any unrealized items, which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

##### *Equity reserve*

Equity reserve pertains to the effect of reverse acquisitions.

#### Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in all of its revenue arrangement.

##### *Income from tipping fee*

Transaction price is determined to be the contract price stated in each contract service. Disposal of municipal residual waste and use of LGU to Morong Engineered Sanitary Landfill is considered as a single performance obligation, therefore it is not necessary to allocate the transaction price. The service is capable of being distinct from the other services and the transaction price for each service is separately identifiable. Income from tipping fee is recognized at a point in time and when the Group satisfies a performance obligation by transferring a promised service to the customer.

##### *Composting/waste process*

Transaction price is determined to be the contract price stated in each contract services. Each supply of labor, equipment, tools and expertise in transforming all the compostable waste material originated

from a location into compost is considered as a single performance obligation since two or more services are significantly affected by each other. Considering that the Group would not be able to fulfill its obligation by transferring each of the services independently, it is not necessary to allocate the transaction price. Income from composting/waste process is recognized over the time the related services are rendered and upon the customer's simultaneous receipt of the services provided by the Group.

*Consultancy/field services*

Transaction price is determined to be the contract price stated in each contract service. The Group's responsibility as the contractor to manage, operate, and maintain the principal's (IPMCDC) Material Recovery Facility is considered as a single performance obligation since two or more services are significantly affected by each other. Considering that the Group would not be able to fulfill its obligation by transferring each of the services independently, it is not necessary to allocate the transaction price. Income from consultancy/field services is recognized over the time the related services are rendered and upon the customer's simultaneous receipt of the services provided by the Group.

*Hauling income*

Transaction price is determined to be the price stated in each contract service or work orders. Collection of residual waste from the customer's garbage room and its disposal is considered as a single performance obligation, therefore it is not necessary to allocate the transaction price. The service is capable of being distinct from the other services and the transaction price for each service is separately identifiable. Income from hauling services is recognized at a point in time the related services are rendered and when the Group satisfies a performance obligation by transferring a promised service to the customer.

Rental income

Rental income pertains to the transportation and heavy equipment leased out by the Group and a portion of its office space leased under cancellable operating lease. Rental income is recognized when earned over the time the related services are rendered.

Costs and Expenses

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in Group's equity, other than those relating to distributions to stockholders.

*Cost of services*

Cost of services include costs relating directly to a specific contract, costs that are attributable to a contract activity in general and can be allocated to the contract and other costs that can be charged to the customer under the contract. These are recognized when incurred and is measured based on the actual costs and valuation of goods or services used or consumed.

*General and administrative expenses*

General and administrative are recognized in profit or loss in the period these are incurred and is measured based on the actual costs and valuation of goods or services used or consumed.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A restatement is made after the inception of the lease only if one of the following applies:

- (a) there is a change in the contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal and extension was initially included in the lease term;
- (c) there is a change in the determination of whether the fulfilment is dependent on a specified asset;  
or
- (d) there is a substantial change to the asset.

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

#### *Finance lease commitments - Group as a lessee*

The Group has entered into commercial lease of transportation equipment. The Group has determined that it acquires all the significant risks and rewards of ownership on these equipment and therefore accounts for these under finance lease.

#### *Group as a lessor*

Lease of assets under which the Group effectively retains all the risks and rewards of ownership is classified as operating lease. Variable lease payments under an operating lease are recognized as an income in profit or loss based on the terms of the operating lease agreement.

#### Retirement Cost

The Group has funded, non-contributory retirement plan, administered by a trustee, covering its regular employees. Retirement cost is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Defined retirement costs comprise the following:

- (a) Service costs
- (b) Net interest on the net defined benefit liability
- (c) Remeasurements of net defined benefit liability

Service costs which include current service cost and gains or losses on non-routine settlements are recognized as expense in profit or loss. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses and return on plan assets (excluding net interest on defined benefit liability) are recognized immediately in OCI under "Actuarial gains (losses) on defined benefit plan" in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of

the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan. The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

#### Short-term Benefits

The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Group to its employees include compensation, social security contributions, short-term compensated absences, bonuses and other non-monetary benefits.

#### 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 authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of the reporting date.

##### *Deferred tax*

Deferred income 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 with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences and net operating loss carry over (NOLCO) to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and NOLCO can be utilized.

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

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

Deferred tax relating to items recognized outside profit or loss is recognized in correlation to the underlying transaction either in OCI or directly in equity, net of tax.

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

##### *Value-Added Tax (VAT)*

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

- When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position.

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

#### Other Comprehensive Income

Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statements of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRSs. Other comprehensive income includes actuarial gains and losses on defined benefit obligation. Other comprehensive income that will be reclassified subsequently to profit or loss is presented separately from other comprehensive income that will not be reclassified to profit or loss in the future.

#### Operating Segment

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Disclosure of segment information is presented in Note 23.

#### Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss, net of any reimbursement.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

#### Basic/Diluted Earnings Per Share (EPS)

EPS is computed by dividing net income for the year attributable to equity holders of the Parent Group by the weighted average number of common shares issued and outstanding during the year, with retroactive adjustments for any stock dividends declared.

#### Events After the Reporting Date

Post year-end events that provide additional information about the Group'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 consolidated financial statements when material.

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### **3. Significant Accounting Judgments and Estimates**

The preparation of the consolidated financial statements in compliance with PFRSs requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements. Among the significant accounting judgments made by the Group are as follows:

#### *Assessment of control*

The Parent Company classifies its investee companies as subsidiary if the Parent Company achieves control over the companies. Control is presumed to exist if the Parent Company has the following characteristics:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Control is achieved when the Parent Company is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In the event the Parent Company loses this power, the Parent Company will have to change the classification of its investment in investee companies.

BEST is the combining entity whose owners as a group received the largest portion of the voting rights in the Group, hence, is regarded as the accounting acquirer.

As of June 30, 2019 and December 31, 2018, BEST holds 60% interest in Ecoedge Resources Corporation (ERC), which is accounted as investment in a joint venture. Joint control exists as decisions about the relevant activities of ERC require the unanimous consent of BEST and Lafarge Industrial Ecology International, S.A (LIEI), which is supported by the contractual agreement of the parties to the following:

- The affirmative vote of shareholders representing at least 75% of the issued share capital shall be required to pass a shareholders resolution;
- ERC shall be governed by the BOD that will comprise five (5) directors (three (3) nominated by BEST and two (2) nominated by LIEI), whereby four (4) directors shall be required to pass a board resolution.

#### *Assessment of significant influence*

The Group classifies its investee companies as an associate if the Group has significant influence in the investee company. Significant influence is presumed to exist if the Group has a holding of 20% or more of the voting power of the investee. Holding of less than 20% of the voting power is presumed not to give rise to significant influence, unless it can be clearly demonstrated that there is in fact significant influence.

As of June 30, 2019 and December 31, 2018, the Group holds 16% interest in (Metro Clark Waste Management Corporation (MCWM), which is accounted as investment in an associate. The Group exercises significant influence in MCWM due to the presence of BEST's representatives in the Board



of Directors of MCWM. Hence, BEST effectively has a participation in the policy-making processes of MCWM.

*Identification of contract with customers and performance obligation under PFRS 15*

The Group applies PFRS 15 guidance to a portfolio of contracts with similar characteristics as the Group reasonably expects that the effects on the financial statements if applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts within that portfolio. The Group viewed each contract as a single performance obligation.

*Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as investment property or owner-occupied property. In making its judgment, the Group considers whether the property generated cash flows largely independently of the other assets held by an entity or for capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in the supply of services or for administrative purposes.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of services or for administrative purposes. If these portions cannot be sold separately as of the reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

The disclosures on the Group's investment property and property and equipment are presented in Notes 9 and 10, respectively.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as of 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 years, are discussed below:

*Allowance for expected credit losses on receivables*

The Group uses a provision matrix to calculate ECLs for its receivables. The provision rates are based on days past due.

The provision matrix is initially based on the Group's historically observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historically observed default rates, forward-looking information, and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecasted economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future.

*Impairment of investments in an associate and a joint venture*

In assessing impairment losses from investments in an associate and a joint venture, the Group considers the following at the minimum: (a) dividends exceeding the total comprehensive income of the investee in the period the dividend is declared; or (b) the carrying amount of the investment in the

separate financial statements exceeding the carrying amount of the investee's net assets, including goodwill.

As described in the accounting policy (see Note 2), the Group calculates the amount of impairment as being the difference between the fair value less cost to sell or value-in-use, whichever is higher, and the carrying value of the investments in an associate and a joint venture and recognizes the difference in profit or loss. Key assumptions used to determine the fair value less cost to sell include valuation technique and methodology and obsolescence factor.

As of June 30, 2019 and December 31, 2018, the carrying values of investments in an associate and a joint venture amounted to ₱70.14 million and ₱82.53 million, respectively (see Note 7).

*Estimation of Asset Rehabilitation Obligation (ARO-liability)*

The Group is legally required to rehabilitate the land used as landfill through the performance of certain maintenance and monitoring functions at site. These costs are accrued based on internal estimates which include costs of certain environmental monitoring system costs (i.e. road, drainage, soil cover, greening costs and leachate management), cost for general administration (i.e. utilities and administration facilities), and security services.

Assumptions used to compute ARO-liability are reviewed and updated annually by the Group. As of June 30, 2019 and December 31, 2018, the cost of asset rehabilitation obligation is computed based on the Group's assessment on expected costs to be incurred and timing of rehabilitation procedures. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. As June 30, 2019 and December 31, 2018, the Group's ARO-liability has a carrying value of ₱27.58 million.

*Determining Estimated Total Capacity, Utilized Capacity and Salvage Value of Land and Development Costs Used as Landfill*

The Group estimates the utilized capacity based on actual volume and compacted volume of trash received. For the salvage value of the land used as sanitary landfill, the Group bases its estimates on the latest appraisal report. Determined utilization rate is used to depreciate the land used as sanitary landfill and the related development cost. This rate is annually assessed and reviewed based on the actual utilization during the year including the remaining capacity of the landfill.

The Group reviews annually the utilization rate and salvage value of the land and development costs based on factors that include asset use, internal technical evaluation, and technological and environmental changes, and anticipated use of the assets.

*Impairment of nonfinancial assets (other than investments in an associate and a joint venture)*

The Group assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. The Group recognizes an impairment loss if such indications are present and whenever the carrying amount of an asset exceeds its recoverable amount.

This requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Group to conclude that these assets are impaired. Any resulting additional impairment loss could have a material adverse impact on the Group's financial condition and results of operations.

As of June 30, 2019 and December 31, 2018, the Group did not recognize any impairment loss on its nonfinancial assets. As of June 30, 2019 and December 31, 2018, the carrying values of the Group's nonfinancial assets are as follows:

	<b>30-Jun-2019</b>	31-Dec-2018
Property and equipment (Note 10)	<b>₱119,568,703</b>	₱128,630,733
Investment property (Note 9)	<b>106,713,101</b>	107,403,383
Other current assets (Note 6)	<b>12,379,313</b>	10,925,149

*Estimating retirement benefits*

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates in the Philippines. Pension liability amounted to ₱1.64 million as of June 30, 2019 and December 31, 2018. Further details about the assumptions used are provided in Note 18.

*Recognition of deferred tax assets*

The Group's assessment on the recognition of deferred tax assets on future deductible temporary differences and carry forward benefit of NOLCO is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses.

Deferred tax assets as of June 30, 2019 and December 31, 2018 amounted to ₱9.23 million.

**4. Cash**

	<b>30-Jun-2019</b>	31-Dec-2018
Cash on hand	<b>₱72,210</b>	₱72,210
Cash in banks	<b>22,629,074</b>	6,864,468
	<b>₱22,701,284</b>	₱6,936,678

Cash in banks earn interest at the prevailing bank deposit rates.

**5. Receivables - net**

Current receivables

	<b>30-Jun-2019</b>	31-Dec-2018
Trade receivables		
Related parties (Note 14)	<b>₱961,079,282</b>	₱910,441,638
Private entities	<b>26,577,322</b>	21,550,814
Local government units (LGUs) (Note 21)	<b>16,811,261</b>	13,186,364
	<b>1,004,467,865</b>	945,178,816

	<b>30-Jun-2019</b>	31-Dec-2018
(Forward)		
Loans receivable (Note 14)	-	-
Advances to officers and employees	<b>1,869,240</b>	1,659,986
Interest receivable (Note 14)	<b>3,589,625</b>	3,000,000
Dividend receivable (Note 7)	-	-
Advances to suppliers	<b>697,979</b>	711,863
Others	<b>1,066,172</b>	1,066,172
	<b>1,011,690,881</b>	951,616,837
Less allowance for expected credit losses	<b>9,189,300</b>	9,189,300
	<b>₱1,002,501,581</b>	₱942,427,537

Trade receivables pertain to receivables from services rendered and rental of equipment earned by BEST in the ordinary course of its business operations. Trade receivables are noninterest-bearing and collectible within one year, except those that were classified as noncurrent, which are expected to be collected within two (2) years.

Advances to officers and employees mainly pertain to various advances for performance bond in relation to bidding activities of BEST. These are noninterest-bearing and subject to liquidation within one year.

#### Noncurrent receivables

	<b>30-Jun-2019</b>
Trade receivables – related party (Note 14)	<b>₱17,576,311</b>
Loan receivables – related party (Note 14)	<b>31,000,000</b>
Interest receivable – related party (Note 14)	<b>2,029,540</b>
	<b>₱50,605,851</b>

In 2018, IPMCDC provided BEST with the schedule of payment for the former's payable to the latter. Non-interest bearing trade receivables amounting to ₱19.08 million are expected to be collected in the first quarter of 2020. These trade receivables have been discounted and the corresponding 'day 1' loss amounting to ₱1.51 million is charged to profit and loss in 2018 (Notes 14 and 17).

In 2018, ERC also provided BEST with the schedule of payment for the former's payable to the latter. The principal amount of the interest bearing loans amounting to ₱31.00 million and interest receivable amounting to ₱2.03 million are expected to be collected more than one year. The rollforward analysis of the Group's allowance for expected credit losses follows:

	<b>30-Jun-2019</b>	31-Dec-2018
Balance at the beginning of the year	<b>₱9,189,300</b>	₱8,799,310
Provision for the year (Note 17)	-	389,990
Balance at end of year	<b>₱9,189,300</b>	₱9,189,300

Allowance for expected credit losses as of June 30, 2019 and December 31, 2018 pertains to long-outstanding trade and other receivables of the Group which were determined to be credit impaired and expected credit losses assessed by the management.

## 6. Other Current Assets

	<b>30-Jun-2019</b>	31-Dec-2018
Input VAT	<b>₱9,846,834</b>	₱10,741,516
Creditable withholding taxes	<b>6,739,421</b>	5,158,176
Deferred input VAT	<b>780,290</b>	364,101
Prepayments	<b>378,703</b>	27,291
Deposits	<b>15,669</b>	15,669
	<b>17,760,917</b>	16,306,753
Less allowance for impairment losses	<b>5,381,604</b>	5,381,604
	<b>₱12,379,313</b>	₱10,925,149

Input VAT represents VAT paid by the Group on its purchases of goods and services from VAT-registered suppliers. This is available for offset against output VAT.

Creditable withholding taxes are applied against income tax payable.

Deferred input VAT pertains to unpaid purchases as of reporting period.

The Parent Company provided allowance for impairment on its creditable withholding taxes and input VAT due to low probability that these assets may be utilized in the future.

The movement in allowance for impairment losses follows:

	<b>30-Jun-2019</b>	31-Dec-2018
Balance at beginning of year	<b>₱5,381,604</b>	₱5,194,693
Provision for the year (Note 17)	-	186,911
Balance at end of year	<b>₱5,381,604</b>	₱5,381,604

## 7. Investments in an Associate and a Joint Venture

The details of the Group's investments in an associate and a joint venture accounted for under the equity method as of June 30, 2019 and December 31, 2018 follow:

	<b>Associate</b>		<b>Joint Venture</b>		<b>Total</b>	
	<b>Metro Clark Waste Management Corporation (MCWM)</b>		<b>Ecoedge Resources Corporation (ERC)</b>			
	<b>30-Jun-2019</b>	31-Dec-2018	<b>30-Jun-2019</b>	31-Dec-2018	<b>30-Jun-2019</b>	31-Dec-2018
Cost	<b>₱32,393,358</b>	₱32,393,358	<b>₱51,412,499</b>	₱51,412,499	<b>₱83,805,857</b>	₱83,805,857
Accumulated share in net earnings (losses):						
Balance at beginning of year	<b>38,442,681</b>	27,411,580	<b>(39,719,496)</b>	(32,208,136)	<b>(1,276,815)</b>	(4,796,556)
Equity in net earnings (losses) of an associate and a joint venture	-	12,497,534	<b>(2,793,762)</b>	(7,511,360)	<b>(2,793,762)</b>	4,986,174
Other adjustments to equity in net earnings (losses) of an associate and a joint venture	-	(1,466,432)	-	-	-	(1,466,432)
Dividends	<b>(9,600,000)</b>	-	-	-	<b>(9,600,000)</b>	-
Balance at end of year	<b>28,842,681</b>	38,442,682	<b>(42,513,258)</b>	(39,719,496)	<b>(13,670,577)</b>	(1,276,814)
	<b>₱61,236,039</b>	₱70,836,040	<b>₱8,899,241</b>	₱11,693,003	<b>₱70,135,280</b>	₱82,529,043

**MCWM**

MCWM was incorporated on March 6, 2002 with the primary purpose of managing, supervising and operating a waste management system for the efficient, hygienic, and economical collection, segregation, recycling, composting, filling, disposing, treating and managing of commercial, industrial and other waste garbage, refuse and similar items and engaging in related activities. The registered business address of MCWM is at Clark Special Economic Zone, Clark Field Pampanga.

**ERC**

On November 6, 2013, BEST entered into a joint venture agreement with Lafarge Industrial Ecology International, S.A. (LIEI) to organize and establish ERC to engage in the development, utilization of renewable energy sources for non-power applications, and in particular, the production, processing, packaging, distribution and/or sale of fuel generated from municipal solid waste, such as refuse derived fuel, and pursuant thereto, to establish renewable energy systems or facilities, and to engage in any activity pursuant or incidental thereto. ERC was incorporated on November 27, 2013 and its registered address is at Unit 103, GF Prestige Tower Condominium, F. Ortigas Jr. Avenue, Ortigas Center, Pasig City.

In 2018, goodwill in investments in ERC amounting to ₱2.56 million has been impaired, decreasing the investment and 2017 net income by the same amount. This decreased the retained earnings and noncontrolling interests by ₱1.93 million and ₱0.64 million as of December 31, 2017, respectively. There are no significant restrictions on the ability of the associate and the joint venture to transfer funds to the Group in the form of cash dividends or to repay loans or advances made by the Group.

**8. Deposits**

As of June 30, 2019 and December 31, 2018, BEST has deposits to GSIS as surety bond and a bank guarantee for bidding purposes amounting to ₱21.99 million and ₱3.33 million, respectively. These deposits were made in favor of BEST's contracting parties, which are government offices, so that the completion of the project is guaranteed. If the Group fails to execute the services according to the specifications laid out in the respective contracts, the government offices will receive guaranteed compensation for any monetary loss up to the amount of the performance bond.

**9. Investment Property**

	<b>30-Jun-2019</b>		
	<b>Land</b>	<b>Condominium Unit</b>	<b>Total</b>
<b>Cost</b>	<b>₱70,320,000</b>	<b>₱44,762,040</b>	<b>₱115,082,040</b>
Reclassification (Note 10)		-	-
Balance at end of year	<b>70,320,000</b>	<b>44,762,040</b>	<b>115,082,040</b>
<b>Accumulated depreciation:</b>			
Balance at beginning of year	-	7,678,657	7,678,657
Depreciation (Note 15)	-	690,282	690,282
Balance at end of year	-	<b>8,368,939</b>	<b>8,368,939</b>
<b>Net book value</b>	<b>₱70,320,000</b>	<b>₱36,393,101</b>	<b>₱106,713,101</b>

	31-Dec-2018		
	Land	Condominium Unit	Total
Cost	₱70,320,000	₱38,535,329	₱108,855,329
Reclassification (Note 10)		6,226,711	6,226,711
Balance at end of year	70,320,000	44,762,040	115,082,040
Accumulated depreciation:			
Balance at beginning of year	–	5,570,782	5,570,782
Depreciation (Note 15)	–	1,117,443	1,117,443
Reclassification		990,432	990,432
Balance at end of year	–	7,678,657	7,678,657
Net book value	₱70,320,000	₱37,083,383	₱107,403,383

Land pertains to a property located in Taytay, Rizal with currently undetermined use as of June 30, 2019 and December 31, 2018.

BEST leased out portions of the other unit to its joint venture and to another private company. In 2018, the Group reclassified the portions of the condominium unit with allocated cost and accumulated depreciation amounting to ₱6.23 million, due to a lease agreement entered into in 2018. The rental income recognized from lease agreements amounted to ₱0.50 million and ₱0.05 million in 2018 and 2017, respectively. Depreciation amounting to ₱0.69 million and ₱1.12 million as of June 30, 2019 and December 31, 2018 is recognized in cost of services.

10. Property and Equipment

	30-Jun-2019							Total
	Land	Condominium Unit and Improvements	Transportation and Heavy Equipment	Office Furniture and Fixtures	Development Costs	Leasehold Improvements	ARO-Asset (Note 21)	
<b>Cost</b>								
At January 1	P44,932,700	P30,829,613	P123,814,371	P4,480,390	P122,654,889	P793,187	P14,202,829	P341,707,979
Additions	–	–	–	–	6,686,872	–	–	6,686,872
At June 30	44,932,700	30,829,613	123,814,371	4,480,390	129,341,761	793,187	14,202,829	348,394,851
<b>Accumulated Depreciation and Amortization</b>								
At January 1	11,557,350	5,745,320	85,541,793	4,273,255	98,981,444	158,795	6,391,272	212,649,229
Depreciation and amortization (Notes 16 and 17)	2,716,743	877,934	5,676,549	101,420	6,618,433	79,318	106,522	16,176,919
At June 30, 2019	14,274,093	6,623,254	91,218,342	4,374,675	105,599,877	238,113	6,497,794	228,826,148
<b>Net Book Value</b>	<b>P30,658,607</b>	<b>P24,206,359</b>	<b>P32,596,029</b>	<b>P105,715</b>	<b>P23,741,884</b>	<b>P555,074</b>	<b>P7,705,035</b>	<b>P119,568,703</b>

  

	31-Dec-2018							Total
	Land	Condominium Unit and Improvements	Transportation and Heavy Equipment	Office Furniture and Fixtures	Development Costs	Leasehold Improvements	ARO-Asset (As restated - Note 21)	
<b>Cost</b>								
At January 1	P44,932,700	P37,056,324	P123,814,371	P4,260,747	P114,219,384	P548,133	P14,202,829	P339,034,488
Additions	–	–	–	219,643	8,435,505	245,054	–	8,900,202
Reclassifications (Note 9)	–	(6,226,711)	–	–	–	–	–	(6,226,711)
At December 31	44,932,700	30,829,613	123,814,371	4,480,390	122,654,889	793,187	14,202,829	341,707,979
<b>Accumulated Depreciation and Amortization</b>								
At January 1	4,137,700	5,716,748	74,412,752	3,751,119	81,629,681	12,132	5,681,131	175,341,263
Depreciation and amortization (Notes 16 and 17)	7,419,650	1,447,021	11,129,041	522,136	17,351,763	146,663	710,141	38,726,415
Reclassifications (Note 9)	–	(990,432)	–	–	–	–	–	(990,432)
At December 31	11,557,350	6,173,337	85,541,793	4,273,255	98,981,444	158,795	6,391,272	213,077,246
<b>Net Book Value</b>	<b>P33,375,350</b>	<b>P24,656,276</b>	<b>P38,272,578</b>	<b>P207,135</b>	<b>P23,673,445</b>	<b>P634,392</b>	<b>P7,811,557</b>	<b>P128,630,733</b>



The Group's property and equipment have no restrictions or not pledged as security for any liability.

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## 11. Trade and Other Payables

	30-Jun-2019	31-Dec-2018
Trade payables		
Related parties (Note 14)	<b>₱8,866,240</b>	₱251,072
Third parties	<b>4,048,209</b>	5,329,685
	<b>12,914,449</b>	5,580,757
Payable to government agencies	<b>12,501,578</b>	12,731,215
Deferred output VAT	<b>108,545,333</b>	101,993,424
Accrued expenses	<b>4,988,729</b>	1,763,539
	<b>₱138,950,089</b>	₱122,068,935

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Trade payables comprise of payables in the contracting and consulting operations of BEST to provide waste disposal services. These are noninterest-bearing and are due and demandable.

Payable to government agencies pertain to output VAT payable, documentary stamp tax, withholding tax on compensation and expanded withholding tax. These also include liabilities arising from contributions to Social Security System, Philippine Health Insurance Corporation and Home Development Mutual Fund, which are remitted within one month from the reporting period.

Accrued expenses pertain to accruals of professional fees, salaries and wages and interest on loan payable and are normally settled within 12 months.

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## 12. Loan Payable

On November 5, 2015, BEST obtained a loan from a local bank for working capital requirements amounting to ₱100.00 million and is due for settlement on October 20, 2016. The loan is unsecured and with interest rate of 4.00% per annum. The interest on loan is paid on a monthly basis.

On December 29, 2016, BEST only paid ₱2.00 million of the total amount and renewed the remaining ₱98.00 million for the period of 352 days with maturity date of December 15, 2017.

On December 15, 2017, BEST paid ₱1.00 million of the principal amount of the loan. The remaining ₱97.00 million was renewed for the period of 360 days and will mature on December 15, 2018. Interest from December 15, 2017 to January 16, 2018 shall be at the rate of 4.50% per annum and every month thereafter shall be at the prevailing interest rate. Interest payment shall commence on January 25, 2018.

On December 13, 2018, BEST paid ₱1.00 million for the principal amount of the loan. The remaining ₱96.00 million was renewed for a period of 57 days and has matured on February 8, 2019. Principal amount renewed bears interest payable monthly in arrears. Interest from December 13, 2018 to January 11, 2019 (29 days) shall be at 7.25% per annum. Payment of interest shall commence on January 11, 2019 and every month, thereafter until fully paid at prevailing rate. Upon maturity in February 2019, remaining principal amount was renewed for another 30 days.

As of June 30, 2019, BEST paid ₱4.00 million of the principal amount of the loan and renewed the remaining ₱92.00 million and obtained an additional loan amounted to ₱20.00 million from a related party.

Interest expense on loan payable amounted to ₱3.29 million and ₱5.14 million as of June 30, 2019 and December 31, 2018, respectively.

As of June 30, 2019 and December 31, 2018, the outstanding balance of loan payable amounted to ₱112.00 million and ₱96.00 million, respectively.

### 13. Equity

#### Capital Stock

The authorized capital stock of the Parent Company with ₱1 par value per share follows:

	<b>30-Jun-2019</b>	31-Dec-2018
<b>Authorized number of shares:</b>		
At the beginning and end of the year	<b>740,000,000</b>	740,000,000
<b>Number of shares issued and outstanding:</b>		
At the beginning and end of the year	<b>690,000,000</b>	690,000,000

In accordance with Annex 68-D of SRC Rule 68 (As Amended) (2011), below is a summary of the Parent Company's track record of registration of securities.

Common Shares	Number of Shares Registered	Issue/Offer	
		Price	Date of Approval
180,000,000	180,000,000	₱1.00	August 31, 1995
10,000,000	10,000,000	1.00	April 14, 2010
500,000,000	500,000,000	1.00	June 11, 2013
690,000,000	690,000,000		

The Parent Company's total number of shareholders is 117 as of June 30, 2019 and December 31, 2018.

On May 25, 2016, the stockholders approved the increase in the Parent Company's authorized capital stock to an amount of up to ₱7.50 billion consisting of common and/ or preferred shares as may be determined by the BOD.

#### Retained Earnings

For purposes of dividend declaration, the retained earnings shall be that of the Parent Company presented in the separate financial statements. As of June 30, 2019 and December 31, 2018, the Parent Company is in a deficit position, hence, no dividends were declared during the years covered.

As of June 30, 2019 and December 31, 2018, the portion of retained earnings corresponding to the undistributed equity in net earnings of the associate amounting to ₱36.04 million and ₱38.44 million are not available for distribution as dividends until declared by the associate. The investment in a joint venture has an accumulated share in net losses as of June 30, 2019 and December 31, 2018.

The details of the Parent Company's deficit are as follows:

	<b>30-Jun-2019</b>	31-Dec-2018
Balance at beginning of year	<b>₱212,328,003</b>	₱209,040,001
Net loss during the year	<b>1,525,475</b>	3,288,002
	<b>₱213,853,478</b>	₱212,328,003

The appropriations made by BEST of ₱14.80 million represent continuing appropriation for future capital expenditures and property acquisitions in the field of waste to energy technology.

On March 30, 2016, the BOD of BEST approved the reversal of appropriated retained earnings of ₱14.80 million to unrestricted retained earnings.

#### Noncontrolling Interests

On June 16, 2014, the other stockholders of BEST made additional investments amounting to ₱20.25 million with corresponding equivalent number of shares issued.

#### 14. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) parties owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Group; (b) associates; (c) joint venture; and (d) individual owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individuals.

The following table provides the total amount of transactions and outstanding balances that have been entered into with related parties for the relevant financial year:

<u>30-Jun-2019</u>				
<u>Category</u>	<u>Amount</u>	<u>Outstanding Balance</u>	<u>Terms</u>	<u>Conditions</u>
<b>Trade receivables (Note 5)</b>				
<b>Parent</b>				
IPMCDC (a)	<b>₱32,597,544</b>	<b>₱272,653,275</b>	Noninterest-bearing; within one year	Unsecured, no impairment
		<b>17,576,311</b>	Noninterest-bearing; within one year	Unsecured, no impairment
<b>Shareholders</b>				
IPMESI (b)		<b>688,373,254</b>	Noninterest-bearing; within one year	Unsecured, no impairment
IPMRDC (c)	-	<b>34,687</b>	Noninterest-bearing; within one year	Unsecured, no impairment
<b>Joint Venture</b>				
ERC (d)	<b>14,330</b>	<b>18,069</b>	Noninterest-bearing; on demand	Unsecured, no impairment
		<b>₱978,655,593</b>		

Category	Amount	Outstanding Balance	Terms	Conditions
<b>Loans Receivable (Note 5)</b>				
<b>Joint venture</b>				
ERC (e)	₱–	₱31,000,000	Interest bearing; due and demandable	Unsecured, no impairment
<b>Interest Receivable (Note 5)</b>				
ERC (e)	295,080	5,619,165	Due and demandable	Unsecured, no impairment
		<b>₱36,619,165</b>		
<b>Trade payables (Note 11)</b>				
<b>Parent</b>				
IPMDCD (f)	₱4,477,709	₱8,866,240	Noninterest-bearing; on demand	Unsecured
<b>Accrued expenses</b>				
<b>Affiliate</b>				
GNCA Holdings, Inc. (GNCA) (g)	45,000	–	Noninterest-bearing; on demand	Unsecured
<b>BOD (h)</b>	<b>180,000</b>	<b>–</b>	<b>Noninterest-bearing; on demand</b>	<b>Unsecured</b>
		<b>₱8,866,240</b>		

31-Dec-2018

Category	Amount	Outstanding Balance	Terms	Conditions
<b>Trade receivables (Note 5)</b>				
<b>Parent</b>				
IPMDCD (a)	₱132,953,974	₱216,643,227	Noninterest-bearing; within one year	Unsecured, no impairment
Shareholders		17,576,311	Noninterest-bearing; within one year	
IPMESI (b)		693,745,655	Noninterest-bearing; within one year	Unsecured, no impairment
IPMRDC (c)	–	34,687	Noninterest-bearing; within one year	Unsecured, no impairment
<b>Joint Venture</b>				
ERC (d)	53,571	18,069	Noninterest-bearing; on demand	Unsecured, no impairment
		<b>₱928,017,949</b>		

Category	Amount	Outstanding Balance	Terms	Conditions
<b>Loans Receivable (Note 5)</b>				
<b>Joint venture</b>				
ERC (e)	₱–	₱31,000,000	Interest bearing; due and demandable	Unsecured, no impairment
<b>Interest Receivable (Note 5)</b>				
ERC (e)	1,180,320	5,029,540	Due and demandable	Unsecured, no impairment
		<b>₱36,029,540</b>		

<b>Trade payables (Note 11)</b>				
<b>Parent</b>				
IPMDCD (f)	₱22,602,394	₱251,072	Noninterest-bearing; on demand	Unsecured
<b>Accrued expenses</b>				
<b>Affiliate</b>				

GNCA Holdings, Inc. (GNCA) (g)	180,000	–	Noninterest-bearing; on demand	Unsecured
BOD (h)	450,000	–	Noninterest-bearing; on demand	Unsecured
<hr/> <b>₱251,072</b> <hr/>				

- a. BEST provides composting of waste materials services to IPMCDC and charges composting and waste processing fees based on a fixed contract price specified in the composting agreement. In 2018 and 2017 the Company charged IPMCDC for transportation and heavy equipment rental fees.

In July 2015, BEST entered into a consultancy agreement with IPMCDC for the monitoring of efficiency of the latter's operation and compliance with rules and regulations on IPMCDC's contract with several local municipalities. The income payment is based on a fixed amount specified in the consultancy agreement.

The Group's revenue from IPMCDC as of June 30, 2019 and December 31, 2018 is composed of the following:

	<b>30-Jun-2019</b>	31-Dec-2018
Consultancy	<b>₱17,571,429</b>	₱35,142,857
Equipment rental	<b>28,582,277</b>	85,811,117
Composting	<b>6,000,000</b>	12,000,000
	<b>₱52,153,705</b>	₱132,953,974

In 2018, BEST agreed with IPMCDC the fixing of date of collection of the former's receivables to the latter. Receivables amounting to ₱19.08 million will be collected in the first quarter of 2020. This portion of receivables is reclassified as noncurrent trade receivables and have been discounted. The resulting 'day 1' loss amounting to ₱1.51 million is charged to profit and loss in 2018 (Note 17). All remaining receivables are collectible within one (1) year.

- b. In prior years, IPMESI has contracted BEST for the operation and maintenance of an Integrated Solid Waste Management Facility for a fixed monthly fee of ₱15.58 million. The contract was terminated in August 2017 and was not renewed in 2018 (see Note 21). In April 2018, BEST entered into a Memorandum of Agreement with IPMESI and IPMRDC wherein the latter assigned 65,000,000 shares and 35,000,000 shares, respectively, of the Parent Company to guaranty BEST's receivables from IPMESI amounting to ₱693.75 million (see Note 22).
- c. In 2018 and 2017, IPMRDC has not renewed its lease agreement with BEST.
- d. In January 2017, BEST entered into a contract of lease with ERC, whereby the latter, shall lease a portion of BEST's office space. Lease term commenced on January 1, 2017 and was for a period of two (2) years, renewable upon mutual agreement of the parties.
- e. In 2014, BEST granted loans to ERC amounting to ₱19.00 million with 3.864% interest rate per annum and ₱12.00 million with 3.718% interest rate per annum which are due and demandable. In 2018, BEST agreed with ERC the fixing of date of collection of the former's receivables to the latter. Receivables pertaining to interest receivables amounting to ₱3.00 million are collectible within (1) one year. The principal amount to ₱31.00 million and interest receivable amounting to ₱2.03 million are collectible within five (5) years and were reclassified as noncurrent receivables.

Accrued interest receivable amounted to ₱5.62 million and ₱5.03 million as of June 30, 2019 and December 31, 2018, respectively.

- f. IPMCDC charges BEST for the rental of equipment, subcontracted services, salaries and wages, fuel and oil and repairs and maintenance costs incurred in line with the operations of BEST.
- g. The Parent Company entered into an agreement with GNCA, an entity controlled by one of the Parent Company's director, for the sharing of common costs incurred on the leased office space of the Parent Company. The agreement provides that Parent Company shall pay fixed monthly utility charges of ₱15,000 in 2019 and 2018, in lieu of its proportionate share in monthly rentals on the leased premises.
- h. In 2013, the BOD of the Parent Company approved the grant of per diem to members of the BOD for every attendance in the regular meetings of the BOD. On June 27, 2018, the BOD approved the 100% increase in the *per diem* of each director. Total per diem paid to the directors amounted to ₱0.34 million and ₱0.45 million as of June 30, 2019 and December 31, 2018, respectively (see Note 17).

Transactions with related parties are based on terms agreed to by the parties. Outstanding balances as of reporting date are to be settled in cash, unless otherwise stated. Based on management's assessment, no provision for impairment of receivables for related parties is necessary. This assessment is done on a regular basis (Note 22).

#### 15. Revenues from Contracts with Customers

	<b>Quarters Ended June 30</b>	
	<b>30-Jun-2019</b>	30-Jun-2018
Income from tipping fee	<b>₱19,368,381</b>	₱15,872,523
Composting/waste process	<b>3,000,000</b>	3,000,000
Consultancy/field services	<b>8,785,713</b>	8,785,714
Hauling income	<b>11,226,401</b>	5,173,328
	<b>₱42,380,495</b>	₱32,831,565

	<b>Six Months Ended June 30</b>	
	<b>30-Jun-2019</b>	30-Jun-2018
Income from tipping fee	<b>₱36,572,177</b>	₱20,463,741
Composting/waste process	<b>6,000,000</b>	6,000,000
Consultancy/field services	<b>17,571,429</b>	17,571,429
Hauling income	<b>23,342,994</b>	9,869,288
	<b>₱83,486,600</b>	₱53,904,458

Income from tipping fee are the fees charged by the Group to customers, usually LGUs, for the given quantity of residual wastes received at the landfill facility.

Composting/waste process pertains to services for composting of biodegradable organic waste such as food waste, manure, leaves, grass trimmings, paper, wood, feathers, crop residue and others which turns it into a valuable organic fertilizer.

Consultancy/field services pertains to the Group's revenue from maintaining IPMCDC's landfill facilities.

Hauling income pertains to the house to house collection of garbage and delivery to the sanitary landfill of the waste collected

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## 16. Cost of Services

This account consists of:

	Quarters Ended June 30	
	2019	2018
Depreciation and amortization	P10,012,585	P4,683,559
Rent	2,862,366	1,454,866
Salaries and wages	2,030,242	2,345,270
Fuel and oil	968,405	1,535,873
Security and janitorial	268,031	468,692
Transportation and travel	202,940	4,978
Utilities	54,515	40,645
Taxes and licenses	18,097	46,206
Others	9,613	44,800
Supplies	6,393	55,031
Repairs and maintenance	1,707	40,452
Representation	8,974	20,000
	<b>P16,443,868</b>	<b>P10,740,372</b>

	Six Months Ended June 30	
	2019	2018
Depreciation and amortization	P15,183,892	P9,277,144
Salaries and wages	3,979,821	5,100,001
Rent	5,927,188	3,056,875
Fuel and oil	2,048,958	2,278,791
Insurance	77,846	870,000
Security and janitorial	713,111	468,692
Taxes and licenses	331,260	321,719
Repairs and maintenance	-	289,254
Supplies	51,558	175,316
Utilities	162,086	78,989
Entertainment, amusement and recreation	41,198	51,500
Transportation and travel	207,012	13,473
Professional fees	-	11,786
Others	761,805	137,288
	<b>P29,485,735</b>	<b>P22,130,830</b>

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## 17. General and Administrative Expenses

This account consists of:

	Quarters Ended June 30	
	2019	2018
Salaries, wages and employee benefits	P2,996,778	P3,476,567
Professional fees	1,556,489	2,385,840
Depreciation	595,366	695,805

	2019	2018
Entertainment, amusement and recreation	494,243	514,359
Taxes and licenses	442,164	12,619,831
Repairs and maintenance	260,839	173,565
Advertising and promotion	214,910	-
Transportation and travel	201,947	179,658
Utilities	183,077	238,976
Directors' per diem	160,000	150,000
Stock exchange listing fee	146,450	153,113
Membership	134,819	-
Fuel and oil	83,610	58,510
Subscription fee	75,000	-
Office supplies and printing costs	50,119	115,297
Security and janitorial	24,318	52,765
Rent	21,607	32,411
Vat expense	-	(78,948)
Insurance	2,643	15,847
Miscellaneous	570,902	268,993
	<b>₱8,215,281</b>	<b>₱21,052,587</b>

	Six Months Ended June 30	
	2019	2018
Salaries, wages and employee benefits	₱5,875,659	6,670,457
Professional fees	4,003,373	3,101,951
Bid expense	2,000,000	-
Depreciation	1,255,296	1,362,836
Taxes and licenses	866,645	₱17,232,802
Entertainment, amusement and recreation	796,637	526,859
Transportation and travel	576,698	344,907
Repairs and maintenance	374,561	208,588
Advertising and promotion	347,522	-
Directors' per diem	340,000	150,000
Utilities	310,184	440,706
Stock exchange listing fee	296,475	298,650
Membership	289,637	298,995
Fuel and Oil	146,106	90,635
Office supplies and printing costs	112,523	241,650
Security and janitorial	95,500	107,646
Subscription fee	75,000	-
Rent	54,015	63,839
Insurance	16,570	29,802
VAT expense	-	(283,061)
Miscellaneous	683,728	415,496
	<b>₱18,516,129</b>	<b>₱31,302,758</b>

## 18. Pension Plan

The Group has a funded, non-contributory defined benefit pension plan that covers all regular full-time employees. Under its defined benefit plan, the Group provides a retirement benefit equal to 22.5 days' pay for every year of credited service in accordance with the Retirement Pay Law (RA 7641). The benefit is paid lump sum upon retirement or separation in accordance with the terms of the plan. The law does not require minimum funding of the plan.



The Group's retirement fund is administered by Metropolitan Bank and Trust Company (the Trustee) under the supervision of the Board of Trustees (BOT) of the plan which delegates the implementation of the investment policy to the Trustee. The fund is subject to the investment objectives and guidelines established by the Trustee and rules and regulations issued by Bangko Sentral ng Pilipinas covering assets under trust and fiduciary agreements. The Trustee is responsible for the investment strategy of the plan.

The latest actuarial valuation date of the Group's retirement plan is as of December 31, 2018.

The following tables summarize the components of plan expense recognized in profit or loss and other comprehensive income and the funded status and amounts recognized in the consolidated statements of financial position for the plan:

<b>30-Jun-2019</b>			
	<b>Present value of defined benefit obligation</b>	<b>Fair value of plan assets</b>	<b>Net pension liability</b>
At January 1	<b>₱1,512,998</b>	<b>(₱358,613)</b>	<b>₱1,154,385</b>
<i>Benefit cost in profit or loss</i>			
Current service cost (Note 17)	423,779	-	423,779
Net interest expense (income) (Note 17)	89,872	(21,302)	68,570
<i>Remeasurements in other comprehensive income</i>			
Remeasurement loss - return on plan asset	-	14,520	14,520
Actuarial gain - changes in financial assumptions	(146,899)	-	(146,899)
Actuarial gain - changes in experience	(240,649)	-	(240,649)
At June 30	<b>₱1,639,101</b>	<b>(₱365,395)</b>	<b>₱1,273,706</b>
<b>31-Dec-2018</b>			
	<b>Present value of defined benefit obligation</b>	<b>Fair value of plan assets</b>	<b>Net pension liability</b>
At January 1	₱1,512,998	(₱358,613)	₱1,154,385
<i>Benefit cost in profit or loss</i>			
Current service cost (Note 17)	423,779	-	423,779
Net interest expense (income) (Note 17)	89,872	(21,302)	68,570
<i>Remeasurements in other comprehensive income</i>			
Remeasurement loss - return on plan asset	-	14,520	14,520
Actuarial gain - changes in financial assumptions	(146,899)	-	(146,899)
Actuarial gain - changes in experience	(240,649)	-	(240,649)
At December 31	<b>₱1,639,101</b>	<b>(₱365,395)</b>	<b>₱1,273,706</b>

Remeasurement gain on defined benefit obligations, presented in OCI are as follows:

	2018
Actuarial gain	₱373,028
Less tax effect	111,908
Actuarial gain recorded in OCI	<b>₱261,120</b>

The Group's plan assets are invested mainly in cash and cash equivalents. The carrying value of the Group's plan assets approximates the fair value due to its short-term nature. The plan assets do not have any concentration risk. The actual return on plan assets amounted to ₱6,782 and ₱4,632 in 2018 and 2017, respectively.

The Group did not make any contribution in 2018 and 2017 to the defined benefit pension plan. The Group does not expect any contribution to the defined benefit pension plan in 2019.

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**19. Basic/Diluted Earnings per Share**

Basic/diluted earnings per share was computed as follows:

	<b>Quarters Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Net income attributable to equity holders of the parent company (a)	<b>₱12,355,229</b>	₱10,447,258
Weighted average number of outstanding common share (b)	<b>690,000,000</b>	690,000,000
<b>Basic earnings per share (a/b)</b>	<b>₱0.018</b>	₱0.015
	<b>Six Months Ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Net income attributable to equity holders of the parent company (a)	<b>₱30,097,446</b>	₱21,119,924
Weighted average number of outstanding common share (b)	<b>690,000,000</b>	690,000,000
<b>Basic earnings per share (a/b)</b>	<b>₱0.044</b>	₱0.031

The basic EPS is equal to the diluted EPS since the Group has no potential shares that will have a dilutive effect on EPS.

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**20. Commitments**

As of June 30, 2019 and December 31, 2018, the Group has the following contractual commitments:

- The Group has entered into a contractual agreement with IPMCDC, the ultimate parent, to undertake the following:
  - a. Composting of waste materials from Pasig City and Pasay City that is being renewed every year. Income from composting amounted to ₱3.00 million in 2019 and ₱12.00 million in 2018 (see Note 14).
  - b. Consultancy and field services in IPMCDC's Materials Recovery Facility (MRF) that is being renewed every year. In July 2015, the Group entered into new consultancy services contracts with IPMCDC for the monitoring of efficiency of the latter's operation and compliance with rules and regulations on IPMCDC's contract with several local cities. The Group recognized income amounting to ₱35.14 million in 2018 and 2017, respectively, arising from these consultancy service contracts (see Note 14).
- In prior years, the Group entered into a contractual commitment with IPMESI, a stockholder, to undertake the Operation and Maintenance of Integrated Solid Waste Management Facility for a fixed monthly fee of ₱15.58 million. This agreement has been terminated in August 2017 (Note 14).
- The Group entered into contractual commitments with various municipalities of Rizal for tipping and disposal of residual wastes. Each agreement is effective for one year, renewable every year under the same terms and conditions unless, otherwise, mutually agreed upon by the parties.

In 2017, the Group entered into the contract agreement for garbage disposal services for the municipalities of Baras and Cardona. Contract terms was for ten (10) months beginning March 2017 until December 31, 2017. These contracts were renewed in 2018 with the same terms in 2017. The contract covers BEST's provision of professional services within its disposal facility and includes all programming, planning, calculation, specifications equipment and management services necessary to carry out the agreed services.

Beginning March 22, 2018, the Group has renewed its contract of solid waste disposal and service of a sanitary landfill with the municipality of Binangonan. The term of the contract shall be for one year until December 31, 2018 unless sooner terminated. The contract with municipality of Teresa was entered into by the Group in August 2016. Under this agreement, the Group, through BEST, allows these municipalities to dump residual wastes to BEST's landfill in Morong. The agreement took effect on September 1, 2016 and shall end on June 30, 2019 unless sooner terminated.

- In 2013, the Group entered into a finance lease agreement with a local lending company for two units of transportation equipment amounting to ₱6.61 million, payable over five (5) years on a monthly basis.

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## 21. Financial Risk Management Objectives and Policies

The Group's principal financial assets and liabilities comprise of cash, receivables, deposits, due to/from related parties, trade and other payables (excluding payable to government agencies) and loans payable. The main purpose of these financial instruments is to raise finances for the Group's operations.

The Group has established a risk management function with clear terms of reference and with the responsibility for developing policies on credit risk and liquidity risk. It also supports the effective implementation of such policies. The policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

The main risk arising from the Group's consolidated financial statements are credit risk and liquidity risk. The BOD reviews and approves the policies for managing each of these risks which are summarized below:

### Credit risk

Credit risk arises when the counterparty to a financial asset of the Group is unable to fulfill its obligation in time the obligation becomes due. Credit risk arises from the Group's financial assets, which comprise cash, receivables and deposits. Credit risk pertains to the risk that a party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

The table below shows the maximum exposure to credit risk of the financial assets of the Group:

**30-Jun-2019**

	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Financial assets at amortized cost				
Cash*	₱22,629,074	₱2,500,000	₱20,129,074	₱2,500,000
Receivables:				
Trade	1,022,044,176	592,230,000	429,814,176	592,230,000
Loan	31,000,000	–	31,000,000	–
Interest	5,619,165	–	5,619,165	–
Deposits	21,988,034	–	21,988,034	–
	<b>₱1,103,280,449</b>	<b>₱594,730,000</b>	<b>₱508,550,449</b>	<b>₱594,730,000</b>

\*Excluding cash on hand. The collateral pertains to the maximum deposit insurance coverage per depositor per bank.

**31-Dec-2018**

	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Financial assets at amortized cost				
Cash*	₱6,864,468	₱2,500,000	₱4,364,468	₱2,500,000
Receivables:				
Trade	962,755,127	809,381,000	269,009,472	809,381,000
Loan	31,000,000	–	31,000,000	–
Interest	5,029,540	–	5,029,540	–
Deposits	3,333,398	–	3,333,398	–
	<b>₱1,008,982,533</b>	<b>₱811,881,000</b>	<b>₱312,736,878</b>	<b>₱811,881,000</b>

\*Excluding cash on hand. The collateral pertains to the maximum deposit insurance coverage per depositor per bank

In April 2018, BEST entered into a Memorandum of Agreement with IPMESI and IPMRDC wherein the latter assigned 65,000,000 shares and 35,000,000 shares of the Parent Company, respectively, to guaranty BEST's receivables from IPMESI amounting to ₱693.75 million (see Notes 5, 14 and 21). The agreement is valid, binding and in full force and effect until the secured obligations are fully paid by IPMESI. IPMESI committed to pay its total liability to BEST. The fair value of the collateral, net of costs to sell, as of June 30, 2019 and December 31, 2018 amounted to ₱592.23 million ₱809.38 million, respectively.

The gross maximum exposure to credit risk of the Group approximates its net maximum exposure. There were no amounts that are set-off in accordance with the requirements of PAS 32, *Financial Instruments: Disclosures and Presentations*. There were no amounts subject to an enforceable master-netting arrangement or similar agreement as of June 30, 2019 and December 31, 2018.

**Credit Quality.** The financial assets of the Group are grouped according to stage whose description is explained as follows:

**Stage 1** - Those that are considered current and up to 120 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

**Stage 2** - Those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date.

**Stage 3** - Those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

The table below shows determination of ECL stage of the Group's financial assets:

	<b>30-Jun-2019</b>			
	Total	Stage 1	Stage 2	Stage 3
		12-month ECL	Lifetime ECL	Lifetime ECL
<b>Financial Assets at Amortized Cost</b>				
Cash*	<b>₱22,629,074</b>	<b>₱22,629,074</b>	<b>₱–</b>	<b>₱–</b>
Receivables				
Trade	1,022,044,176	28,969,332	985,301,706	7,773,138
Loans	31,000,000	–	31,000,000	–
Interest	5,619,165	295,080	5,324,085	–
Others	1,066,172	–	–	1,066,172
Deposits	21,988,034	21,988,034	–	–
	<b>₱1,104,346,621</b>	<b>₱73,881,520</b>	<b>₱1,021,625,791</b>	<b>₱8,839,310</b>

\*excluding cash on hand

	<b>31-Dec-2018</b>			
	Total	Stage 1	Stage 2	Stage 3
		12-month ECL	Lifetime ECL	Lifetime ECL
<b>Financial Assets at Amortized Cost</b>				
Cash*	₱6,864,468	₱6,864,468	₱–	₱–
Receivables				
Trade	962,755,127	25,937,868	928,017,949	7,773,138
Loans	31,000,000	–	31,000,000	–
Interest	5,029,540	–	5,029,540	–
Others	1,066,172	–	–	1,066,172
Deposits	3,333,398	3,333,398	–	–
	<b>₱1,010,048,705</b>	<b>₱36,135,734</b>	<b>₱964,047,489</b>	<b>₱8,839,310</b>

\*excluding cash on hand

The credit quality of financial assets is managed by using internal credit ratings, as shown below:

- A - For counterparty that is not expected by the Group to default in settling its obligations, thus, credit risk exposure is minimal. This counterparty normally includes financial institutions, certain related parties and customers who pay on or before due date.
- B - For counterparty with tolerable delays in settling its obligations to the Group, normally. The delays may be due to cut-off differences and/or clarifications on billings and special arrangements.
- C - For counterparty who consistently defaults in settling its obligations.

#### Liquidity risk

Liquidity risk is the risk that the entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Prudent liquidity risk management implies sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group also ensures that there are sufficient, available and approved working capital lines that it can draw from anytime. It maintains an adequate cash in the event of unforeseen interruption of its cash collections. The Group also maintains accounts with several relationship banks to avoid significant concentration of cash with one institution.

The table below summarizes the maturity profile of the Group's nonderivative financial assets and liabilities as of June 30, 2019 and December 31, 2018 based on contractual undiscounted payments:

30-Jun-2019					
	On Demand	Less than 3 Months	3 to 12 Months	More than One Year	Total
<b>Financial assets</b>					
Loans and receivables:					
Cash	P22,701,284	P-	P-	P-	P22,701,284
Receivables:					
Trade	874,160,100	87,332,475	42,678,959	19,345,016	1,023,516,550
Loan	-	-	-	31,000,000	31,000,000
Interest			3,589,625	2,029,540	5,619,165
Deposits	20,000,000	-	-	1,988,033	21,988,033
	<b>P916,861,384</b>	<b>P87,332,475</b>	<b>P46,268,584</b>	<b>P54,362,590</b>	<b>P1,104,825,033</b>
<b>Financial liabilities</b>					
Trade and other payables (excluding payable to government agencies)	P-	P17,903,177	P-	P-	P17,903,177
Loan payable	-	-	112,000,000	-	112,000,000
	<b>P-</b>	<b>P17,903,177</b>	<b>P112,000,000</b>	<b>P-</b>	<b>P129,903,177</b>

31-Dec-2018					
	On Demand	Less than 3 Months	3 to 12 Months	More than One Year	Total
<b>Financial assets</b>					
At amortized cost					
Cash	P6,936,678	P-	P-	P-	P6,936,678
Receivables:					
Trade	728,521,259	-	216,657,557	19,048,685	964,227,501
Loan	-	-	-	31,000,000	31,000,000
Interest			3,000,000	2,029,540	5,029,540
Deposits	-	-	-	3,333,398	3,333,398
	<b>P735,457,937</b>	<b>P-</b>	<b>P219,657,557</b>	<b>P53,939,249</b>	<b>P1,010,527,117</b>
<b>Financial liabilities</b>					
Trade and other payables (excluding payable to government agencies)	P-	P7,344,296	P-	P-	P7,344,296
Loan payable	-	-	96,000,000	-	96,000,000
	<b>P-</b>	<b>P7,344,296</b>	<b>P96,000,000</b>	<b>P-</b>	<b>P103,344,296</b>

### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group considers its total equity amounting to P1,128.30 million and P1,087.66 million as of June 30, 2019 and December 31, 2018.

### Fair Value Information

Due to the short-term nature of the Group's financial instruments except for noncurrent trade receivables, their fair values approximate their carrying amounts as of June 30, 2019 and December 31, 2018. The fair value of noncurrent trade receivables amounted to P17,576,310 discounted using PDST-R2 rate for a period of one year and three months.

### Fair Value Hierarchy

As of June 30, 2019 and December 31, 2018, the Group has no financial instrument carried in the books at fair value. There were no transfers between Level 1 and Level 2 financial instruments, and no transfers into or out of Level 3 fair value instrument



**IPM HOLDINGS, INC. AND SUBSIDIARY****Financial Soundness Indicators****June 30, 2019**

<b>FSI</b>	<b>Calculation</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Current Ratio	Current Assets/Current Liabilities	4.01x	4.26x
Quick Ratio	Cash + Marketable Securities + Receivables/Current Liabilities	3.96x	4.21x
Debt to Equity Ratio	Liabilities/ Stockholders' Equity	0.25x	0.23x
Asset to Equity Ratio	Assets/Stockholders' Equity	1.25x	1.23x
Interest Coverage Ratio	Earnings Before Interest & Taxes/ Interest Expense	18.88	12.50
Gross Profit Margin	Gross Profit/Net Sales	0.74	0.65
Book Value per share	Total Assets –Total Liabilities/ Outstanding Shares	1.64	1.58
Net Income per Share	Net Income/Outstanding Shares	0.06	0.08

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Current Ratio	1,037,582,178/258,676,736	960,289,364/225,512,064
Quick Ratio	1,025,202,865/258,676,736	949,364,215/225,512,064
Debt to Equity	287,527,257/1,128,297,666	254,362,585/1,087,660,963
Asset to Equity Ratio	1,415,824,923/1,128,297,666	1,342,023,548/1,087,660,963
Interest Coverage Ratio	62,014,206/3,285,458	89,081,162/7,123,692
Gross Profit Margin	82,502,785/111,988,520	136,740,225/208,978,920
Book Value/Share	1,128,297,666/690,000,000	1,087,660,963/690,000,000
Net Income per Share	40,636,703/690,000,000	52,542,062/690,000,000



**IPM HOLDINGS, INC. AND SUBSIDIARY****AGING OF RECEIVABLES****June 30, 2019**

<b>Nature/Description</b>	<b>Current</b>	<b>1 to 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>Over 90 days</b>	<b>Total</b>
Income from Tipping Fee	6,942,467	3,101,533	1,601,073	334,643	1,277,608	13,257,323
Hauling Income	4,738,323	4,077,755	3,272,873	1,427,041	8,072,140	21,588,132
Composting/Waste Process	1,000,000	1,000,000	3,000,000	3,000,000	10,000,000	18,000,000
Consultancy/Field Services	3,280,000	6,560,000	56,036,000	32,142,857	688,373,254	786,392,112
Rental	3,384,227	4,669,308	4,013,933	5,774,418	156,841,595	174,683,481
Loans Receivable	-	-	-	-	31,000,000	31,000,000
Interest Receivable	98,360	98,360	98,360	295,080	2,999,465	5,619,165
Others	218,909	106,265	125,000	278,414	1,838,630	2,567,218
<b>Total</b>	<b>19,662,286</b>	<b>19,613,221</b>	<b>68,147,239</b>	<b>43,252,453</b>	<b>900,402,694</b>	<b>1,053,107,431</b>