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I P M HOLDINGS, INC. AND SUBSIDIARY

(Company's Full Name)

UNIT 103, GROUND FLOOR PRESTIGE TOWER CONDOMINIUM F. ORTIGAS JR. AVENUE ORTIGAS CENTER PASIG CITY

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

**Atty. Ana Maria A. Katigbak**
(Contact Person)

**817-6791/897-5257**
(Company Telephone Number)

**1 2** **3 1**
*Month* *Day*
(Fiscal Year)

**1 7 - A**
(Form Type)

**4th Wed of May**
(Annual Meeting)

**N/A**
(Secondary License Type, If Applicable)

**CRMD**
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

**118**
Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

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

1. For the calendar year ended: December 31, 2017

2. SEC Identification Number: AS095-008557

3. BIR Tax Identification Number: 004-636-077-000

4. Exact name of issuer as specified in its charter: **IPM Holdings, Inc.**

5. Province, Country or other jurisdiction of incorporation or organization: Pasig City, Philippines

6. (SEC Use Only) Industry Classification Code

7. Address of principal office :
   Unit 103, Ground Floor, Prestige Tower Condominium, F. Ortigas, Jr. Avenue
   Ortigas Center, Pasig City Postal Code: 1605

8. Issuer's telephone number, including area code: (632) 817-6791/897-5257

9. Former name, former address and former fiscal year, if changed since last report:
   Minerales Industrias Corporation

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

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| Common Stock, P1.00 par value | **690,000,000** |

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

Yes [ x ] No [ ]

The Philippine Stock Exchange Common Stock

12. Check whether the issuer:

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

Yes [ x ] No [ ]

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

Yes [ x ] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant as of December 31, 2017:

Assumptions:

| | |
|---|---|
| (a) Total number of shares held by non-affiliates as of December 31, 2017 | 217,850,200 |
| (b) Closing price of the Registrant's share on the exchange as of December 31, 2017 | 8.35 |
| Aggregate market price of (a) as of December 31, 2017 | **1,819,049,170** |

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**APPLICABLE ONLY TO REGISTRANT'S INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [x] No [ ]

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

a. Any annual report to security holders - none
b. Any information statement filed pursuant to SRC Rule 20 - none
c. Any prospectus filed pursuant to SRC Rule 8.1 - none

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## PART I – BUSINESS AND GENERAL INFORMATION

### Item 1. Business

### OVERVIEW

IPM Holdings, Inc., formerly Minerales Industrias Corporation ("IPM" or the "Parent Company") was incorporated on August 31, 1995 to engage in business as an investment holding company.

Its subsidiary, Basic Environmental Systems & Technologies, Inc. ("BEST") was in turn established on September 15, 1999 to engage in contracting and consulting business for waste management, public cleansing, sanitation and general hygiene to provide comprehensive waste disposal services.

The Parent Company started commercial operations on September 4, 1995 with an initial capitalization of Php60.00 million. On October 27, 1997, the Parent Company's Board of Directors (BOD) authorized the additional issuance of shares of stock amounting to Php60.00 million from the unissued portion of the Parent Company's authorized capital stock at a par value of Php1.00 per share.

On June 14, 1998, the Parent Company listed its shares of stock in the Philippine Stock Exchange. The Parent Company offered for subscription to the public, 60.00 million unclassified common shares at an offer price equal to its par value of Php1.00 per share, increasing the Company's capitalization to Php180.00 million. The offer accounted for 33.3% outstanding capital stock of the Company. Proceeds from the offering amounting to Php58.20 million were used to partly finance the additional equity investment in Orion Savings Bank Inc.

On December 10, 1999, the Parent Company's stockholders and board of directors approved the increase in its authorized capital stock from 240.00 million shares to 740.00 million shares, all with par value of Php1.00. On the same date, the Board of Directors resolved to amend the Articles of Incorporation and By-Laws of the Company, changing the name of the Company to Multitech Investments Corporation. The resolutions were ratified and approved by the stockholders during its annual meeting in June 2000.

On July 26, 2007 and August 31, 2007, the Board of Directors and stockholders, respectively approved the amendment of the Articles of Incorporation in order to (a) change the corporate name of the company from Multitech Investments Corporation to Minerales Industrias Corporation, (b) change its principal office from Pasig City to Makati City and (c) change the primary purpose clause of the Company to reflect the shift from being an investment company to a mining company.

On September 24, 2007, the Securities and Exchange Commission (SEC) approved the change in company name and primary purpose. The change in registered address was subsequently approved by the SEC on January 14, 2008.

On December 29, 2009, the Board of Directors approved the private placement of a total of 10.0 million common shares out of the unissued authorized capital stock of the Company at a subscription price of Php1.00 per share. Of the total issue price of Php10.00 million, Php5.05 million was paid to the Company on December 31, 2009 while the balance was settled in full on February 1, 2010.

On November 20, 2012, the Board of Directors approved the subscription of the IPM group of companies to a total of 500.00 million shares out of the Php500.00 million increase n the authorized capital stock of the Company previously approved by the stockholders, at a total subscription price of Php500.00 million, payable in cash. Also, the Board of Directors authorized the acquisition of 615.00 million shares in Basic Environmental Systems & Technologies, Inc. (BEST) at par value of Php1.00 per share, which will constitute 75% of the resulting outstanding capital of BEST. BEST is a corporation engaged in contracting and consulting business for waste management, public cleansing, sanitation and general hygiene to provide comprehensive waste disposal services.

On February 8, 2013, the stockholders of the Parent Company representing at least two thirds of the outstanding capital stock approved the subscription by the following within the IPM group of companies or any of their designees/nominees to a total of 500.00 million shares out of the Php500.00 million increase in the authorized capital stock of the Parent Company previously approved by the shareholders, at a total subscription price of Php500.00 million, payable in cash: (a) IPM Construction and Development Corporation, Php350.00 million; (b) IPM Environmental Services, Inc., Php100.00 million; and (b) IPM Realty and Development Corporation, Php50.00 million. On the same date, the stockholders approved the amendment of the primary purpose of the Parent Company to enable the Company to revert to being a holding company and give it more flexibility in looking for suitable investments.

On March 4, 2013, the Parent Company acquired shares in BEST and subscription rights from various stockholders of BEST amounting to Php450.00 million and Php12.50 million, respectively, which resulted in the Company obtaining 75% interest in BEST, thereby treating BEST as its subsidiary starting March 4, 2013.

On June 11, 2013, the SEC approved the Parent Company's application for increase in authorized capital stock from Php240.00 million to Php740.00 million divided into 740.00 million shares, with a par value of Php1 per share and the amendment of the primary purpose of the Parent Company to revert back to a holding company.

On July 18, 2013, the Board of Directors approved the increase in the authorized capital stock of the Parent Company from Php740.00 million divided into 740.00 million shares with a par value of Php1 per share to Php5.00 billion divided into 5.00 billion shares with a par value of Php1 per share. On the same date, the BOD approved the transfer of the principal address of the Parent Company from Room 322, 3rd Floor, LRI Design Plaza, 210 Nicanor Garcia Street, Barangay Sta. Cruz, Makati City to its current principal address, Unit 103, Ground Floor, Prestige Tower Condominium, F Ortigas Jr. Avenue Ortigas Center, Pasig City. These were subsequently approved by the shareholders on September 19, 2013. The SEC approved the amended articles of incorporation indicating the change of address on October 18, 2013.

On September 11, 2013, The Philippines Stock Exchange, Inc. (PSE) approved the application of the Parent Company to list the additional 500.00 million common shares (the "Private Placement Shares") with a par value of Php1.00 per share, at a Subscription Price of Php1.00 per share. The Parent Company, the IPM Group, and Metropolitan Bank and Trust Company-Trust Banking Group ("Escrow Agent") executed an Escrow Agreement and Certification and Undertaking on November 15, 2013 and December 4, 2013, respectively, to implement the required lock-up of the Private Placement Shares.

On July 22, 2015 and October 21, 2015, the Board of Directors and stockholders, respectively approved the amendment of the Articles of Incorporation in order to (a) change the corporate name of the Parent Company from Minerales Industrias Corporation to IPM Holdings, Inc., (b) change its ticker symbol from "MIC" to "IPM". The SEC approved the amended Articles of Incorporation indicating the change in the name of the Parent Company on November 25, 2015.

On May 25, 2016, the stockholders of the Parent Company approved the: (a) increase in the Corporation's authorized capital stock to an amount of up to Php7.50 billion consisting of common and/or preferred shares as may be determined by the Board of Directors; (b) amendment of the Corporation's Articles of Incorporation to include in the company primary purpose clause the authority to issue sureties and guarantees; (c) amendment of the By-laws of the Corporation to create the Offices of the Chief Executive Officer and Chief Operating Officers; and (d) delegation to the Board of Directors of the authority to amend the By-Laws of the Corporation.

**BUSINESS DESCRIPTION**

The Parent Company embarked on its first strategic investment in August 1996, acquiring a 20% stake in Armstrong Securities, Inc. (ASI) in partnership with EBC Capital Corporation. Nine months later, the Parent Company, together with Tong Yang Group of Korea, established a thrift bank, Orion Savings Bank Inc. (the "Bank"). In 1998, the proceeds from the offering of shares to the public were used for the additional investment of the Parent Company in the Bank. The additional investment increased Parent Company's ownership stake in the Bank from twenty percent (20%) to forty percent (40%).

To provide diversity in the portfolio, the Parent Company also invested in Altech Fabrication Industries, Inc., a manufacturer and contractor of aluminum building materials. The foregoing investment was subsequently sold in 1997.

In September 1999, Mr. Dante T. Tan acquired for Php294.25 million, a 59% equity stake in the Parent Company, equivalent to 107.0 million shares. Capitalizing on the strong showing of its investee companies, the Company sold Armstrong Securities Inc. and Orion Savings Bank to Golden Maple Holdings, Inc. and Harrigold Assets, Inc., respectively, for a total consideration of Php152.3 million in September 1999. The Parent Company then purchased Php191.0 million worth of shares of BW Resources Corporation (now known as "Fairmont Holdings, Inc.").

In November 1999, a Subscription Agreement was executed by and between the Parent Company and Mr. Dante T. Tan, for the latter to subscribe to sixty million (60,000,000) new common shares from the unissued authorized capital stock of the Company, for a total subscription price of Php60.0 million.

In May 2000, Mr. Tan had asked for the rescission of the subscription agreement. Likewise, Mr. Tan also has written the Parent Company expressing his withdrawal of interest in further subscribing to the 500 million common shares of the Parent Company which shall come from the Company's intended increase in authorized capital stock. The Board of Directors has since resolved to rescind the subscription contract on the 60.0 million common shares and to accept the withdrawal of interest in the subscription of the 500.0 million common shares of Mr. Tan.

In April 2002, a Subscription Agreement was signed between the Parent Company and the shareholders of Intercontinental Paper Industries, Inc. (IPII) where the latter will subscribe to the intended increase of authorized capital stock of 500 million common shares and to the 60.00 million common shares from the unissued authorized capital stock of the Parent Company at Php1.00 par value. The new Subscribers will pay for the additional shares with 560.00 million common shares ("IPII Shares") with par value of Php1.00 per share. The IPII Shares represent 100% of the outstanding capital common stock of IPII. After the issuance by the Parent Company of the additional shares to the New Subscribers and the transfer of the New Subscribers' IPII shares to the Parent Company, the paper manufacturing company shall be owned 100% by the Company. In April 2007, the Subscription Agreement with Shareholders of Intercontinental Paper Industries Inc. (IPPI) was been rescinded.

After several years of looking for suitable investments, the Parent Company finally reached agreement with the IPM group of companies in late 2012 for: (i) the subscription by the IPM group to 500.00 million shares of the Parent Company at a total subscription price of Php500.00 million, and (ii) the acquisition by the company of a 75% equity interest in BEST, a member company of the IPM group, using the proceeds of the IPM group subscription. These transactions were approved by the stockholders of the Parent Company representing at least two-thirds of the Parent Company's outstanding capital stock in its meeting on February 8, 2013. The subscription agreements and related documents to implement the transactions were executed on March 4, 2013.

The Parent Company's subsidiary, BEST, is engaged in contracting and consulting business for waste

management, public cleansing, sanitation and general hygiene to provide comprehensive waste disposal services.

**INDUSTRY TRENDS/COMPETITION**

BEST is one of the few players in the solid waste management contracting industry which owns and operates its own sanitary landfill facility, having established the Morong Sanitary Landfill in 2008 to cater to the waste disposal needs of the cluster towns of Morong, Teresa, Baras and Cardona. Moreover, it has a large fleet of dump trucks and other hauling/materials handling equipment that it uses for its waste collection and management contracts.

An emerging trend in the solid waste management industry is the so-called refuse-derived fuel (RDF) which involves the processing of solid waste into fuel for the cement and power generation industries, in substitution for coal. The production of RDF not only reduces industry's dependence on fossil fuels but also prevents the accumulation of waste matter in landfills, extending the latter's service life to the benefit of the general populace.

BEST is at the forefront of this new technology, through the first ever RDF facility constructed in the country , which is owned by a BEST affiliate, Mundo Verde Corporation, a joint venture with La Farge Industrial Ecology International, SA and IPM ESI. After this first facility which went into operation in early 2013, BEST is seen as the lead company within the IPM group to undertake additional RDF plants, utilizing waste collected in the transfer stations operated by another affiliate, IPM Construction and Development Corporation, and BEST's own landfill in Morong.

BEST is also in partnership with Lafarge Industrial Ecology International, SA ("LIEI") another RDF facility under Ecoedge Resources Corporation ("Ecoedge"). Ecoedge is 60% owned by BEST and 40% owned by LIEI.

In the next several years, the Company intends to focus on growing BEST through the expansion of its municipal solid waste contracting business and establishment of additional facilities for the production of RDF. BEST is thus envisioned to provide significant income growth for the Company and its shareholders, particularly in light of the growing demand for renewable energy sources amid the burgeoning waste production of the rapidly growing urban population in the country, and BEST's unique position as a pioneer in RDF technology and its ready access to RDF feedstock.

SOURCES OF RAW MATERIALS AND NAMES OF PRINCIPAL SUPPLIERS

Not Applicable.

DEPENDENCE ON SINGLE CUSTOMER

Not Applicable.

TRANSACTION WITH AND/OR DEPENDENCE ON RELATED PARTIES

Except as disclosed in Note 14 of the audited consolidated financial statements for 2017 and 2016, there were no other transactions entered into with related parties.

PATENTS, TRADEMARKS, ETC.

No product patents, trademarks, licenses were executed for the Company.

GOVERNMENT APPROVALS AND REGULATION

The Company has secured all necessary business permits and licenses granted by the government and its appropriate agencies, which include the Certificate of Registration from the BIR, registration and licenses from the SEC, Social Security System, etc. At present, the Company does not know any specific government regulation imposed on its business that may have material effect on the Company which it has not complied with.

RESEARCH AND DEVELOPMENT

Not Applicable.

ENVIRONMENTAL LAWS

Not Applicable.

HUMAN RESOURCES

The Company has 50 employees as of December 31, 2017 of whom four (4) are clerical, five (5) are administrative, thirty-seven (37) are operations, one (1) managerial and four (4) executive. The employees were not subject to any Collective Bargaining Agreement (CBA).

**Item 2. Properties**

The consolidated property, plant and equipment for the year 2017, is as follows: land Php40.80 million, building and improvements Php31.34 million, transportation equipment Php49.40 million, office equipment Php0.51 million and development cost of Php32.59 million and leasehold improvements Php0.54 million, totaled of Php155.17 million.

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

**Item 3. Legal Proceedings**

The Parent Company and its subsidiary are not involved in litigation that occurred in the last three years that would be considered material.

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

Except for the matters taken up during the Annual and Special Stockholders' Meeting held on May 24, 2017, there were no other matters submitted to a vote of the security holders in 2017.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

**Item 5. Market for Issuer's Common Equity and Related Stockholders Matters**

(1) MARKET INFORMATION

The shares of the Parent Company are listed and traded in the Philippine Stock Exchange. The high and low closing prices of the Parent Company's shares for each quarter within the last two (2) years and the first quarter of 2018 are as follows:

| Year | Quarter | High(in Php) | Low(in Php) |
|---|---|---|---|
| 2016 | First | 9.90 | 8.20 |
| | Second | 9.80 | 6.30 |
| | Third | 9.40 | 8.80 |
| | Fourth | 9.25 | 9.00 |
| 2017 | First | 9.09 | 8.90 |
| | Second | 9.04 | 8.51 |

| | | | |
|---|---|---|---|
| | Third | 8.80 | 8.00 |
| | Fourth | 9.00 | 8.00 |
| 2018 | First | 8.35 | 8.00 |

The closing price of the Parent Company's shares on April 24, 2018 was Php8.29 per share.

(2) HOLDERS

The Parent Company has only common stock, with Php1.00 par value. As of December 31, 2017, the number of common shares issued and outstanding was 690,000,000 shares, held by a total of 118 stockholders. The top twenty (20) stockholders of the Parent Company as of December 31, 2017 were as follows:

| Name | No. of Shares | Percentage to Total |
|---|---|---|
| 1. IPM Construction and Development Corp. | 350,000,000 | 50.725% |
| 2. PCD Nominee Corporation (Filipino) | 205,532,069 | 29.787% |
| 3. IPM Environmental Services, Inc. | 65,000,000 | 9.420% |
| 4. IPM Realty and Development Corporation | 50,000,000 | 7.246% |
| 5. PCD Nominee Corporation (Non-Filipino) | 12,469,702 | 1.807% |
| 6. William D. Ty | 2,000,000 | 0.29% |
| 7. Jocelyn Y. Lao | 1,800,000 | 0.261% |
| 8. Jewelle Y. Lao | 1,000,000 | 0.145% |
| Isabelita P. Mercado | 1,000,000 | 0.145% |
| 9. Candice Choa Cocuaco | 200,000 | 0.029% |
| 10. S.J. Roxas& Co., Inc. | 100,000 | 0.014% |
| 11. Violeta L. Lim | 74,000 | 0.011% |
| 12. Ma. Teresita T. De Leon | 61,000 | 0.009% |
| Hanson G. So &/or LarcyMarichi Y. So | 61,000 | 0.009% |
| 13. Pei Zhi Lin | 60,000 | 0.009% |
| 14. PCCI Securities Brokers Corporation | 50,000 | 0.007% |
| 15. Romeo G. See | 37,000 | 0.005% |
| 16. Roberto L. Uy | 32,000 | 0.005% |
| 17. Edmund Lee | 29,000 | 0.004% |
| 18. Lucena B. Enriquez | 20,000 | 0.003% |
| George G. Precilla | 20,000 | 0.003% |
| Mimi Perez | 20,000 | 0.003% |
| Alberto Soon | 20,000 | 0.003% |
| Johnny T. Yu | 20,000 | 0.003% |
| Kim Sing Yu | 20,000 | 0.003% |
| 19. Elizabeth Ong | 18,000 | 0.003% |
| 20. Gregorio O. Yu Jr. | 15,500 | 0.002% |
| **TOTAL** | **689,659,271** | **99.951%** |

(3) DIVIDENDS

No dividends, either in cash or stock, were declared on the shares for the last three (3) years, i.e., 2017, 2016 and 2015, since the Parent Company is in a deficit position. There are no restrictions that limit the ability to pay dividends on common equity but the Company, as a general rule, shall only declare from surplus profit as determined by the Board of Directors so long as such declaration will not impair the capital of the Company.

(4) RECENT SALES OF UNREGISTERED SECURITIES

No sales of unregistered securities or shares of the Parent Company were made during the past five (5) years.

**Item 6. Management's Discussion and Analysis or Plan of Operation**

**PLAN OF OPERATIONS**

The Company'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, will build, develop and operate state-of-the-art facilities to properly address the local government units' (LGUs') waste management needs.

As of December 31, 2017, BEST is actively engaged in various 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management's discussion and analysis of the Parent Company and its subsidiary (the "Group") financial position and results of operations should be read in conjunction with the attached audited consolidated financial statements of the Group.

**2017**

Income

Consolidated revenues for 2017 amounted to Php296.65 million, down by Php61.03 million or 17.06% from the Php357.86 million posted in 2016. This was mainly due to the temporary closure of the Quezon City Sanitary Landfill in August 2017. Revenues for 2017 consisted mainly of service income of Php209.63 million, rental income of Php85.21 million, interest income of Php1.23 million and equity in net earnings of an associate and a joint venture of Php0.52 million.

Expenses

Cost of services for the year decreased by Php48.78 million or 28.42% from the Php171.65 million posted in 2016 to Php122.87 million in 2017. This is attributable mainly to the decrease in manpower costs and equipment rental expenses for the maintenance and operation of the Quezon City Sanitary Landfill which was temporarily closed in August 2017.

General and administrative expenses declined by Php3.52 million or 8.03%, from Php43.86 million in 2016 to Php40.34 million in 2017.

Net Income

The twelve month operation of the Group resulted in a net income of Php87.13 million for 2017. This is lower by Php7.15 million or 7.58% than the net income of Php94.27 million posted in 2016.

Financial Condition

| Statements of financial position data | December 31,2017 | December 31,2016 | % Inc/(Dec) |
|---|---|---|---|
| Total Current Assets | 947,171,431 | 829,867,309 | 14.14% |
| Total Assets | 1,290,863,788 | 1,193,457,737 | 8.16% |
| Total Current Liabilities | 234,937,472 | 224,949,727 | 4.44% |
| Total Liabilities | 236,091,857 | 226,232,424 | 4.36% |
| Total Equity | 1,054,771,931 | 967,225,313 | 9.05% |

The material changes in the statements of financial position are as follows:

Consolidated total assets increased by Php97.40 million or 8.16% to Php1,290.86 million in 2017 from Php1,193.46 million in 2016.

- Cash and cash equivalents increased by 18% from Php6.52 million in 2016 to Php7.70 million in 2017. The decrease was mainly due to the settlement of long term liabilities.

- Trade and other receivables increased by 15.43% from Php803.85 million in 2016 to Php927.89 million in 2017. This was largely due to the increase in services rendered to IPMESI to undertake the operation and maintenance of the Integrated Solid Waste Management Facility in Quezon City for a fixed monthly fee of Php15.58 million up to July 2017.

- Other current assets decreased by 40.54% from Php19.49 million in 2016 to Php11.59 million in 2017 due to the decrease in input VAT pertaining to the cost of services and general and administrative expenses.

- Noncurrent assets went down by 5.47% from Php363.59 million in 2016 to Php343.69 million in 2017. This is due mainly to adjustments in the carrying value of investments in affiliates Metro Clark Waste Management Corporation (MCWM) and Ecoedge Resources Corporation (ERC).

Total consolidated liabilities amounted to Php236.09 million in 2017, up slightly by Php9.86 million or 4.36% from Php226.23 million in 2016.

Total stockholders' equity increased by Php87.54 million or 9.05%, from Php967.23 million in 2016 to Php1,054.77 million in 2017, reflecting the income for the current year.

Current ratio increased from 3.69x in 2016 to 4.03x in 2017; net working capital stood at Php712.23 million in 2017 versus the Php604.92 million in 2016.

Liquidity and Capital Resource

For the year ended December 31, 2017, net cash provided by operating activities amounted to Php2.72 million as compared to the net cash used in operating activities of Php71.58 million in 2016. This is mainly due to the decreases in receivables from related parties, other current assets and trade and other payables.

Net cash provided by investing activities amounted to Php3.88 million in 2017 as compared to Php2.87 million in 2016, the former figure representing cash dividends received from an affiliate, net of acquisition of property, plant and equipment.

Net cash used in financing activities amounted to Php5.42 million in 2017 as compared to Php6.24 million in 2016.

**2016**

Income

Consolidated revenues for 2016 amounted to Php357.68 million, up by Php39.18 million or 12.30% from the Php318.50 million posted in 2015. Revenues consisted mainly of service income of Php275.78 million and rental income of Php78.81 million.

Expenses

Cost of services was essentially flat at Php171.65 million, from the Php171.35 million posted in 2015.

General and administrative expenses for 2016 rose by Php13.54 million or 44.66%, from Php30.32 million in 2015 to Php43.86 million in 2016. This was mainly due to the provision for impairment losses amounting to Php9.24 million pertaining to the write-off of long outstanding receivables from local government units.

Net Income

The twelve month operation of the Group resulted in a net income of Php94.27 million for 2016. This is higher by Php16.56 million or 21.31%, than the net income of Php77.71 million posted in 2015.

Financial Condition

| Statements of financial position data | December 31,2016 | December 31,2015 | % Inc/(Dec) |
|---|---|---|---|
| Total Current Assets | 829,867,309 | 692,749,113 | 19.87% |
| Total Assets | 1,193,457,737 | 1,078,527,900 | 10.66% |
| Total Current Liabilities | 224,949,727 | 204,729,820 | 9.88% |
| Total Liabilities | 226,232,424 | 205,435,939 | 10.12% |
| Total Equity | 967,225,313 | 873,091,961 | 10.78% |

The material changes in the statements of financial position are as follows:

Consolidated total assets increased by Php114.93 million or 10.66% to Php1.19 billion in 2016 from Php1.08 billion in 2015.

- Cash and cash equivalents declined 91.99% from Php81.48 million in 2015 to Php6.52 million in 2016. The decrease was mainly due to the settlement of long term liabilities.

- Trade and other receivables increased by 35.43% from Php593.57 million in 2015 to Php803.85 million in 2016. This was largely due to the increase in services rendered to IPMESI to undertake the operation and maintenance of the Integrated Solid Waste Management Facility in Quezon City for a fixed monthly fee of Php15.58 million.

- Noncurrent assets went down by 5.75% from Php385.78 million in 2015to Php363.59 million in 2016 due mainly to depreciation charges on property, plant and equipment.

Total consolidated liabilities amounted to Php226.23million in 2016, increased by Php20.80 million or 10.12%, from Php205.43 million in 2015, due to the increase in deferred output tax.

Total stockholders' equity increased by Php94.14 million or 10.78%, from Php873.09 million in 2015to Php967.23million in 2016, reflecting the income for the current year.

Current ratio increased from 3.38x in 2015 to 3.69x in 2016; net working capital stood at Php604.92 million in 2016 versus the Php488.02 million in 2015.

Liquidity and Capital Resource

For the year ended December 31, 2016, net cash used in operating activities amounted to Php71.58 million as compared to the Php39.66 million in 2015. This is mainly due to the increase in receivables from related parties.

Net cash provided by investing activities amounted to Php2.87million in 2016 as compared to Php0.42 million in 2015, the former figure representing cash dividends received from an affiliate, net of acquisition of property, plant and equipment.

Net cash used in financing activities amounted to Php6.24 million in 2016 as compared to the net cash provided by financing activities of Php99.39 million in 2015, the difference being the availment of a Php100 million loan in 2015.

**2015**

Income

Consolidated revenues for 2015 amounted to Php318.50 million, up by Php35.90 million or 12.70% from Php282.60 million posted in 2014.Revenues consisted of the following: Php260.45 million from service income; Php56.53 million from rental income; Php1.51 million from interest income; and Php0.01 million from other income.

Expenses

Cost of services increased by Php21.92 million or 14.67% from Php149.43 million in 2014 to Php171.35 million in 2015. This is mainly due to the increase in equipment rental costs associated with the bigger volume of business.

On the other hand, general and administrative expenses for the year declined by Php5.72 million or 15.87%, from Php36.04 million in 2014 to Php30.32 million in 2015. This was mainly due to the decreases in taxes and licenses, provision for impairment losses and professional fees.

Net Income

The twelve month operation of the Group resulted in a net income of Php77.71 million for2015, which is higher by Php16.48 million or 26.92%, than the net income of Php61.23 million posted in 2014.

Financial Condition

| Statements of financial position data | December 31,2015 | December 31,2014 | % Inc/(Dec) |
|---|---|---|---|
| Total Current Assets | 692,749,113 | 443,171,284 | 56.32% |
| Total Assets | 1,078,527,900 | 888,549,822 | 21.38% |
| Total Current Liabilities | 204,729,820 | 92,757,391 | 120.72% |
| Total Liabilities | 205,435,939 | 93,173,867 | 120.49% |
| Total Equity | 873,091,961 | 795,375,955 | 9.77% |

The material changes in the statements of financial position are as follows:

Consolidated total assets increased byPhp189.98 million or 21.38% to Php1.08 billion in 2015 from Php888.55 million in 2014.

- Cash and cash equivalents went up282.13% from Php21.32 million in 2014 to Php81.48 million in 2015. This was mainly due to the availment of a working capital loan amounting to Php100.00 million and the collection of long-outstanding receivables of about Php37.58 million.

- Trade and other receivables increased by 46.85% from Php404.20 million in 2014 to Php593.57 million in 2015. This was largely due to the increase in services rendered to IPMESI to undertake the operation and maintenance of Integrated Solid Waste Management Facility for a fixed monthly fee of Php15.58 million.

- Noncurrent assets went down by 13.38% from Php445.38 million in 2014 to Php385.78 million in 2015. This was mainly due to the collection of long-outstanding receivables from IPMESI amounting to Php37.58 million and the annual set-up of depreciation and amortization.

Total consolidated liabilities amounted to Php205.43 million in 2015, up Php112.26 million or 120.49%, from Php93.17 million in 2014.The increase was mainly due to the availment of a working capital loan from a local bank.

Total stockholders' equity increased byPhp77.72 million or 9.77% from Php795.38million in 2014to Php873.09million in 2015, reflecting the income posted in the current year.

Current ratio decreased from 4.78x in 2014 to 3.38x in 2015; net working capital stood at Php488.02 million in 2015, versus the Php350.41 million in 2014.

Liquidity and Capital Resource

For the year ended December 31, 2015, net cash used in operating activities amounted to Php39.66 million as compared to the Php15.65 million net cash provided by operating activities in 2014. This reversal is mainly due to the increase in receivables and the decrease of payables from related parties.

Net cash provided by investing activities amounted to Php0.42 million in 2015 as compared to Php51.13 million in 2014. The difference is in short-term deposit amounting to Php101.22 million which was partly offset by the increase in investment amounting to Php48.60 million in 2014.

Net cash provided by financing activities amounted to Php99.39 million in 2015 as compared to the net cash used in financing activities of Php80.69 million in 2014 including the Php20.25 million proceeds from the issuance of shares stock.

Key Performance Indicators

The Company's key performance indicators are as follows:

| KPI | Calculation | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|---|---|---|---|
| Current Ratio(1) | Current Assets/Current Liabilities | 4.03x | 3.69x | 3.38x |
| Quick Ratio (2) | Cash + Marketable Securities + Receivables /Current Liabilities | 3.98x | 3.60x | 3.37x |
| Debt to Equity | Liabilities/ Stockholders' | 0.22x | 0.23x | 0.24x |

| Ratio (3) | Equity | | | |
|---|---|---|---|---|
| Book Value per share (4) | Total Assets –Total Liabilities/ Outstanding Shares | 1.53 | 1.40 | 1.27 |
| Net Income per Share (5) | Net Income/Weighted Average Number of Shares Outstanding | 0.13 | 0.14 | 0.11 |

| | | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|---|---|---|---|
| (1) | Current Ratio | 947,171,431/234,937,472 | 829,867,309/224,949,727 | 692,749,113/204,729,820 |
| (2) | Quick Ratio | 935,583,423/234,937,472 | 810,377,871/224,949,727 | 689,167,642/204,729,820 |
| (3) | Debt to Equity | 236,091,857/1,054,771,931 | 226,232,424/967,225,313 | 205,435,939/873,091,961 |
| (4) | Book Value/Share | 1,054,771,931/690,000,000 | 967,225,313/690,000,000 | 873,091,961/690,000,000 |
| (5) | Net Income per Share | 87,128,566/690,000,000 | 94,274,997/690,000,000 | 77,712,687/690,000,000 |

The Current Ratio is a general and quick measure of a Group'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 Group'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 Group.

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.

Net Income per Share is computed by dividing the net income by the weighted average number of common shares outstanding.

*No disclosures nor discussions were made for the following since these did not affect the past and present operations nor the foreseeable future operations of the Company: (a) default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments; (b) any significant amount of the Company's trade payables which has not been paid within the stated terms; (c) any significant purchase commitment for capital expenditures; (d) any seasonal aspects that have material effect on the financial condition or results of operations; (e) any known trends, events or uncertainties that have had or will have an impact on net sales or revenues.*

**Item 7. Financial Statements**

The audited consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

**Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There were no changes in and disagreements with accountants on accounting and financial disclosure.

**Audit and Audit-Related Fees**

The Parent Company paid its auditors the following fees for the last two years for professional services rendered, exclusive of VAT and out of pocket expenses:

| Year | Audit Fees | Tax Fees | All Other Fees |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 2017 | Php184,800.00 | - | - |
| 2016 | 168,000.00 | - | - |

## PART III - CONTROL AND COMPENSATION INFORMATION

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

(1) DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

a. Incumbent Directors and Executive Officers.

The Corporation's Articles of Incorporation provide for a seven seat Board of Directors. The following is the list of the members of the Board:

| Name | Position | Age | Citizenship |
|---|---|---|---|
| Isabelita P. Mercado | Chairman | 67 | Filipino |
| Rhodora G. Uy | Director | 67 | Filipino |
| Alfredo P. Javellana II | Independent Director | 72 | Filipino |
| Gener T. Mendoza | Director | 60 | Filipino |
| Antonio Victoriano F. Gregorio III | Director | 44 | Filipino |
| Francis Neil P. Mercado | Director | 38 | Filipino |
| David L. Kho | Independent Director | 70 | Filipino |

The following is a list of the Parent Company's key executive officers as of the date of this report:

| Name | Position | Age | Citizenship |
|---|---|---|---|
| Isabelita P. Mercado | Chairman/Chief Executive Officer | 67 | Filipino |
| Rhodora G. Uy | President/Chief Operating Officer | 67 | Filipino |
| Francis Neil P. Mercado | Treasurer | 38 | Filipino |
| Ana Maria A. Katigbak | Corporate Secretary | 49 | Filipino |

b. Term of office.

The term of office of the Directors and executive officers is one (1) year from their election as such until their successors are duly elected and qualified.

Of the seven members of the Board, Mr. Gener T. Mendoza, and Ms. Isabelita P. Mercado have been directors of the Company since July 2007. Atty. Antonio F. Gregorio III has been a director since July 2011, Mr. Francis P. Mercado has been a director since May 2012. Atty. Alfredo P. Javellana II has been a director since July 2012, Ms. Rhodora G. Uy and Atty. David L. Kho have been directors since May 2016.

With regard to the executive officers, Ms. Isabelita P. Mercado has been the Chairman and Chief Executive Officer while Ms. Rhodora G. Uy was elected as President and Chief Operating Officer since May 2016, Atty. Maria Ana Katigbak has been Corporate Secretary since July 2007 and Mr. Francis Neil P. Mercado has been Treasurer since September 2013.

c. Business experience of the Directors and Officers during the past five (5) years.

**ISABELITA P. MERCADO**, 67 years old, for the past five years has been the chair and chief executive officer of IPM Construction and Development Corporation (1991 to present), IPM Environment Services Inc. (2003 to present), IPM Realty & Development Corporation (1991 to present), IPM Trading and Development Corporation (1989 to present) and TRX Global Corporation (2008 to present). She also serves as president of Lee Gardens Property and Development Corporation (1997 to present) and director of several other companies within the IPM Group.

**RHODORA G. UY, 67** years old, graduated as Summa Cum Laude with a Bachelor of Science in Commerce Major in Accounting degree and as Magna Cum Laude with a Bachelor of Arts degree in the University of Sto. Tomas. She also completed the Get on Board Governance Education Program, Advanced Level at the Canadian Board Diversity Council; the Executive MBA at the National University of Singapore; and the Global Professional Master of Laws at the University of Toronto. Being a seasoned investment and corporate professional, she has worked as the Senior Finance Officer, Manila Regional Office of the International Finance Corporation (IFC), World Bank Group and was the Country Head for Philippines and the Investment Director for Asia Group of Commonwealth Development Corporation, CDC Capital Partners. She was also the Managing Director of Newcrest Trading Limited, a special purpose vehicle owned by foreign shareholders in the British Virgin Islands. Currently, she sits as director of THR Hospitality Group LLC (California); Bumble Bee Preschool and Day Care Center Inc. (Philippines); JRL Go Children's Memorial Library (Philippines); and several asset/property holding companies, including Irvine Avenue LLC (U.S.), Providence Group LLC (U.S.), Fordham Properties Corporation (Philippines), and Newcrest Properties Corporation (Philippines)

**ALFREDO P. JAVELLANA II**, 72 years old, is an independent director of USB Securities Phil. Inc. Mr. Javellana earned his Bachelor of Science in Commerce Major in Accounting and Bachelor of Laws from the University of San Agustin, Iloilo City. He was an independent director of UBS Securities Philippines, Inc. from December 16, 2009 to February 10, 2010. For the past five years he was a director of Philippine Savings Bank and Toyota Motor Philippines. Previously, he was the Chief Finance Officer of the Metropolitan Bank & Trust Company, Inc. likewise held several other positions in the same bank prior to his appointment as CFO.

**GENER T. MENDOZA,** 60 years old, is co-founder and president of GNCA Holdings, Inc. For several years now, he has served as rehabilitation receiver or assignee-in insolvency for various companies. Previously, he was a principal at SyCip Gorres & Co. (1983 to 1991), vice president for corporate finance of Kuok Phil. Properties Inc. (1994 to 1996) and executive vice president of Crown Equities Inc. (1996). Mr. Mendoza earned his MBA from the Harvard Business School and his bachelor of science in management engineering (summa cum laude) from the Ateneo de Manila University.

**ANTONIO VICTORIANO F. GREGORIO III,** 44 years old**,** Mr. Gregorio graduated with a Juris Doctor from the Ateneo de Manila University Second Honors in 1998 and passed the bar examinations in 1999. He also has a Bachelor of Science Major in Management Engineering and a Bachelor of Arts, Major in Economics-Honors, both from the Ateneo de Manila University, with a standing of magna cum laude. He was valedictorian of his high school class in the Ateneo. Atty. Gregorio is a Partner at Gregorio Law Offices and sits as director and officer of various public and private companies, including Lodestar Investments Holdings Corporation (Corporate Secretary and Assistant Corporate Information Officer, 2008 to present), Abacus Consolidated Resources and Holdings, Inc., AGP Industrial Corporation (Chairman), Active Earnings, Inc. (Corporate Secretary, 2003 to present), Tajima Yakiniku, Inc. (Corporate Secretary, 2005 to present), Tanba Yakiniku, Inc. (Corporate Secretary and Treasurer), Big Herald Link International Corporation (Corporate Secretary and Treasurer, 2004 to present), Pride Development Bank Corporation, among other companies.

**FRANCIS-NEIL P. MERCADO**, 38 years old, graduated with a Bachelor of Science degree in Economics and Finance from Southern New Hampshire University, Manchester, and New England, USA in 2003. He also completed his Bachelor of Science in Economics from Nottingham University,

United Kingdom in 2001 and Foundation Levels from Bellerby's College, Cambridge, United Kingdom. He sits as director and/or officer of various companies' including Metro luxury Mining Corp. (2009 to present), Zinith Mines Inc. (2009-present), IPM Construction and Development Corp. (2007-present), IPM Realty and Development Corp. (2007-present) and IPM Trading and Development Corp. (2007-present).

**DAVID Y. KHO,** 70 years old, has been a legal and business practitioner since graduating from college. He finished his Business Administration degree, major in Banking and Finance, at the University of the Philippines-Diliman. He later earned his Bachelor of Laws degree also from U.P. Atty. Kho was a member of the 15th Congress of the Philippines where he served as Vice chairman of two committees and member of ten others. He ended his term with a perfect attendance. David is an incumbent Trustee of the Kapihan sa Klub Filipino, past president of the Rotary club of Sto. Domingo, Quezon City, former Vice-President and Director of the Quezon City Sports Club, Inc., past Director and legal counsel of the Philippine Chamber of Commerce & Industry, Quezon City chapter, Lifetime member of U.P. Pan Xenia Fraternity, U.P. Law Alumni Assn., Integrated Bar, Charter President of the U.P. Junior Finance Assn. He is an author and publisher as well as a topnotcher of the Real Estate Brokers Exam.

**ANA MARIA A. KATIGBAK,** 49 years old, is a member of the Integrated Bar of the Philippines and a graduate of Bachelor of Laws at the University of the Philippines. She is a Partner at the Castillo Laman Tan Pantaleon& San Jose Law Offices. For the past five years, she has served as assistant corporate secretary in certain publicly-listed companies such as: Marcventures Holdings, Inc., Boulevard Holdings, Inc., Premiere Entertainment Philippines, Inc., Mabuhay Holdings Corp., Paxys, Inc., Energy Development Corp., and Solid Group, Inc.

d. The names and nationalities of the incorporators of the Company are as follows:

| Name | Nationality |
|---|---|
| Tony O. King | Filipino |
| Pacita K. Yap | Filipino |
| Felisa D. King | Filipino |
| Alberto Ty | Filipino |
| Joselyn C. Tiu | Filipino |

(2) SIGNIFICANT EMPLOYEES

There are no employees identified for disclosure to which the operational decisions and strategies of the Company are entirely dependent on.

(3) FAMILY RELATIONSHIP

Ms. Isabelita P. Mercado is the mother of Mr. Francis Neil P. Mercado. Apart from the foregoing, there are no other family relationships, either by consanguinity or affinity, among the directors and executive officers of the Corporation.

(4) RESIGNATION/RE-ELECTION

Since the last annual stockholders' meeting of the Corporation, no Director has resigned or declined to stand for reelection to the Board of Directors of the Corporation because of disagreement with the Corporation on any matter relating to the Corporation's operations, policies or practice.

(5) INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS DURING THE PAST 5

YEARS

The Company is not aware of any civil or criminal legal proceedings filed against any one of its directors, executive officers or control persons during the last five (5) years up to present.

**Item 10. Executive Compensation**

(1) COMPENSATION TABLE

The following is a summary of the aggregate compensation paid or accrued during the two fiscal years, 2017 and 2016, to the Company's Chairman and Chief Executive Officer and other most highly compensated executive officers who are individually named, and to all other officers and directors of the Company as a group:

| **Name and Principal Position** | **Year** | **Salary** | **Bonus** | **Other Annual Compensation** |
|---|---|---|---|---|
| Isabelita P. Mercado<br>*Chairman and Chief Executive Officer* | 2017-Jan to Dec 31<br>2016-Jan to Dec 31 | NIL | NIL | NIL |
| Rhodora G. Uy<br>*President and Chief Operating Officer* | 2017-Jan to Dec 31<br>2016-May to Dec 31 | NIL | NIL | NIL |
| Alfredo P. Javellana II<br>*Independent Director* | 2017-Jan to Dec 31<br>2016-Jan to Dec 31 | NIL | NIL | NIL |
| Gener T. Mendoza<br>*Director* | 2017-Jan to Dec 31<br>2016-Jan to Dec 31 | NIL | NIL | NIL |
| Francis Neil P. Mercado<br>*Director and Treasurer* | 2017-Jan to Dec 31<br>2016-Jan to Dec 31 | NIL | NIL | NIL |
| Antonio Victoriano F. Gregorio III<br>*Director* | 2017-Jan to Dec 31<br>2016-Jan to Dec 31 | NIL | NIL | NIL |
| David L. Kho<br>*Independent Director* | 2017-Jan to Dec 31<br>2016-May to Dec 31 | NIL | NIL | NIL |
| Ana Maria A. Katigbak<br>*Corporate Secretary* | 2017-Jan to Dec 31<br>2016-Jan to Dec 31 | NIL | NIL | NIL |
| **TOTAL OF THE GROUP** | **2017**<br>**2016** | **NIL** | **NIL** | **NIL** |

In May 23, 2012, the Board of Directors approved the grant of per diem to members of the Board of Directors, for every attendance at regular meetings of the board. The *per diem* are as follows: (i) Chairman of the Board Php20,000, (ii) Regular Directors Php10,000, and (iii) Independent Directors Php10,000.

There is no contract covering their employment with the Company and they hold office by virtue of their election to office. The Company has no agreements with its named executive officers regarding any bonus, profit sharing, and pension or retirement plan.

(2) COMPENSATION OF DIRECTORS

a. Standard Arrangements

The Parent Company provided standard compensatory arrangements with its Directors and Officers prior to August 31, 2007. They are provided fixed monthly fees until June 2005. The incumbent directors do not receive any compensation for their services.

b. Other Arrangements

None executed for the last five-years of operations other than the above-mentioned standard arrangements.

(3) EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE-IN CONTROL ARRANGEMENTS

None executed by the Company for the last three years of operations

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

(1) Security Ownership of Certain Record and Beneficial Owners

The following table sets forth as of December 31, 2017, the record and/or beneficial owners of more than 5% of the outstanding common shares of the Corporation and the amount of such record and/or beneficial ownership.

| Title of Class | Name and Address of Record Owner and Relationship with Issuer | Name and Address of Beneficial Owner and Relationship with Record Owner | Citizenship | Number of Shares Held | Percent of Class |
|---|---|---|---|---|---|
| Common | IPM Construction and Development Corporation*<br><br>Unit 804 Ortigas Building, Ortigas Avenue, Pasig City<br><br>Relationship: Majority Stockholder | All the shares of IPM Construction and Development Corporation are directly owned by its shareholders. | Filipino | 350,000,000 | 50.725% |
| Common | PCD Nominee Corporation<br><br>Relationship: Stockholder | The beneficial owners of such shares are Philippine Depository & Trust Corporation (PDTC) participants who hold the shares on their behalf or on behalf of their clients | Filipino | 205,532,069 | 29.787% |
| Common | IPM Environmental Services, Inc.<br><br>Unit 804 Ortigas Building, Ortigas Avenue, Pasig City<br><br>Relationship: Stockholder | All the shares of IPM Environmental Services, Inc. are directly owned by its shareholders. | Filipino | 65,000,000 | 9.42% |
| Common | IPM Realty and Development Corporation<br><br>Northfields Executive Vill., Mc. | All the shares of IPM Realty and Development Corporation are directly owned by its shareholders. | Filipino | 50,000,000 | 7.246% |

| | | | | | |
|---|---|---|---|---|---|
| | Arthur Hi-way, Longos, Malolos, Bulacan<br><br>Relationship: Stockholder | | | | |

Below is the record owner under PCD account holding more than 5% of the outstanding capital stock of the Company:

| Title of Class | Name and Address of Record Owner and Relationship with Issuer | Citizenship | Number of Shares Held | Percent of Class |
|---|---|---|---|---|
| Common | Meridian Securities, Inc.<br>Suite 2702 B&C Tektite Tower 1 Ortigas Centre, Pasig City | Filipino | 130,969,800 | 18.98% |

The above broker is only record owner of shares of stock held under the name of PCD Nominee Corp., thus they exercise no voting power over the shares.

As of December 31, 2017, the foreign ownership level of IPM is 12,540,204 shares or equivalent to 1.8174%.

(2) Security Ownership of Management

The table sets forth as of December 31, 2017 the record or beneficial stock ownership of each Director of the Corporation and all Officers and Directors as a group.

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Citizenship | Percent of Class |
|---|---|---|---|---|
| Common | Isabelita P. Mercado<br>*Chairman and Chief Executive Officer* | 1,000,000 (Direct)<br>500,000 (Indirect) | Filipino | 0.21739% |
| Common | Rhodora G. Uy<br>*President and Chief Operating Officer* | 2,000 (Direct) | Filipino | 0.00029% |
| Common | Alfredo P. Javellana II<br>*Independent Director* | 1,000 (Direct)<br>179,000 (Indirect) | Filipino | 0.02608% |
| Common | Gener T. Mendoza<br>*Director* | 5,000 (Indirect) | Filipino | 0.00072% |
| Common | Antonio Victoriano F. Gregorio III<br>*Director* | 1,000 (Direct) | Filipino | 0.00014% |
| Common | Francis Neil P. Mercado<br>*Director and Treasurer* | 2,000 (Direct) | Filipino | 0.00029% |
| Common | David L. Kho<br>*Independent Director* | 459,800 (Indirect) | Filipino | 0.06664% |
| Common | Ana Maria A. Katigbak<br>*Corporate Secretary* | 0 | Filipino | 0 % |
| | **T O T A L** | **2,149,800** | | **0.31156%** |

All the above named directors and officers of the Corporation are the record and beneficial owners of the shares of stock set forth opposite their respective names.

(3) Voting Trust Holders of 5% or more

The Corporation is not aware of any person holding more than 5% of the shares of the Corporation under a voting trust or similar agreement which may result in a change in control of the Corporation.

(4) Changes in Control

The Securities and Exchange Commission approved the Corporation's increase in authorized capital stock from Php240.00 million to Php740.00 million divided into 740.00 million shares with a par value of Php1.00 each share on June 11, 2013. The IPM group of companies subscribed to the 500.00 million new common shares issued by the Corporation. The stock certificates representing 500.00 million new common shares was issued in favor of the IPM group of companies on June 19, 2013 following payment of the corresponding documentary stamp taxes on the original issuance of such shares. On October 17, 2014, the IPM group disposed 30.00 million shares of the outstanding capital stock of the Parent Company out of their 500.00 million shares subscription. The IPM group of companies now own approximately 68.11% of the resulting outstanding capital stock of the Corporation, thereby acquiring control of the Corporation.

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

Except as disclosed in Note 14 of the audited consolidated financial statements for 2017 and 2016, there were no other transactions entered into with related parties.

## PART IV – CORPORATE GOVERNANCE

**Item 13. Corporate Governance**

This portion has been deleted pursuant to SEC Memorandum Circular No. 5, Series of 2013.

## PART V – EXHIBIT AND SCHEDULES

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

(a) Exhibits

The Audited Consolidated Financial Statements ending December 31, 2017 are herein attached and incorporated by reference.

(b) Reports on SEC Form 17-C. The following are the reports filed by the Company on SEC Form 17-C for the year 2017.

| Date of Report | Description |
|---|---|
| March 28, 2017 | Notice of the Annual Stockholder's Meeting will be held on May 24, 2017 |
| April 27, 2017 | Updating the notice to report the time, venue and agenda of the stockholders' meeting |
| May 5, 2017 | Approval of the Amended By-Laws |
| May 24, 2017 | Result of the 2017 Annual Stockholders' Meeting |

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig on APRIL 23, 2018

By:

**ISABELITA P. MERCADO**
Chairman of the Board and
Chief Executive Officer

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

**ANA MARIA A. KATIGBAK**
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this APR 27 2018, affiants exhibiting to me their Passports, as follows:

| Name | Passport No. | Date of Issue | Place of Issue |
|---|---|---|---|
| Isabelita P. Mercado | EC3526522 | February 25, 2015 | DFA, Manila |
| Francis Neil P. Mercado | EB4433663 | June 18, 2015 | DFA, Manila |
| Ana Maria A. Katigbak | P1893381A | February 7, 2017 | DFA, Manila |

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Book No. 08
Series of 2018

ATTY. HOBERT N. LLUZ
NOTARY PUBLIC
Until December 31, 2019
Appt. No. M-102, Makati City
IBP #017525 for 2018 Nov 22, 2017 PSM
PTR #6607606 Jan 03, 2018-Makati
S.C. Roll No. 59597
MCLE Compliance No. V-0015439, 9 March 2016
Unit 301 3rd Flr. Campos Rueda Bldg.
191 Urban Avenue, Brgy. Pio del Pilar
Makati City

**IPM HOLDINGS, INC. AND SUBSIDIARY**

**INDEX TO FINANCIAL STATEMENTS, SUPPLEMENTARY SCHEDULES AND SEC FORM 17-C UNDER FORM 17-A, ITEM 7**

# COVER SHEET

for

**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

| A | S | 0 | 9 | 5 | 0 | 0 | 8 | 5 | 5 | 7 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

IPM HOLDINGS, INC. AND SUBSIDIARY

**PRINCIPAL OFFICE** *( No. / Street / Barangay / City / Town / Province )*

UNIT 103, GROUND FLOOR, PRESTIGE TOWER CONDOMINIUM, F. ORTIGAS JR. AVENUE, ORTIGAS CENTER PASIG CITY

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| ACFS | CRMD | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| info@ipmholdings.com.ph | 897-5257 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 118 | 4th Wed of May | December 31 |

**CONTACT PERSON INFORMATION**

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Ana Maria A. Katigbak | AAK@cltpsj | 817-6791 | N/A |

**CONTACT PERSON's ADDRESS**

3rd Floor, The Valero Tower, 122 Valero St., Salcedo Village, Makati City

***NOTE 1 :*** *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2 :*** *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

# IPM HOLDINGS, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR THE FINANCIAL STATEMENTS

The management of **IPM Holdings, Inc. and its Subsidiary (the Group)** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

**SyCip Gorres Velayo & Co.**, the independent auditors, appointed by the stockholders has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signed under oath by the following:

**ISABELITA P. MERCADO**
Chairman of the Board/
Chief Executive Officer

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

Signed this 13th day of April 2018

**SUBSCRIBED AND SWORN** to before me this APR 27 2018, affiants exhibiting to me their Passports, as follows:

| Name | Passport No. | Date of Issue | Place of Issue |
|---|---|---|---|
| Isabelita P. Mercado | EC3526522 | February 25, 2015 | DFA, Manila |
| Francis Neil P. Mercado | EB4433663 | June 18, 2015 | DFA, Manila |

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Series of 2018

ATTY. HOBERT N. LLUZ
NOTARY PUBLIC
Until December 31, 2019
Appt. No M-102, Makati City
IBP #017525 for 2018 Nov 22 2017-RSM
PTR #[illegible] Jan 03, 2018-Makati
S.C. Roll No 59597
MCLE Compliance No V-0015439 9 March 2016
Unit [illegible] 8th Flr Campos Rueda Bldg.
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SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
IPM Holdings, Inc.
Unit 103, Ground Floor, Prestige Tower Condominium
F. Ortigas Jr. Avenue, Ortigas Center
Pasig City

## Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

## Basis for Opinion

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

***Adequacy of the allowance for impairment losses on trade receivables***
As of December 31, 2017, the Group has outstanding trade receivables amounting to ₱871.08 million. The estimation of allowance for impairment of these trade receivables was significant to our audit because it is a subjective area which requires high level of management judgment and trade receivables accounts for 67% of the Group's consolidated total assets.

The disclosures in relation to trade receivables are included in Notes 3, 5 and 14 to the consolidated financial statements.

*Audit response*
Our audit procedures included, among others, obtaining an understanding of the factors considered by the management in assessing the collectability of its receivables, including among others, the fair value of the collateral. For allowance for impairment calculated on an individual basis, we evaluated management's assumptions underlying the impairment identification and quantification by checking collections subsequent to year-end, reviewing historical collection patterns and any correspondence with the counterparties on expected settlement dates and reviewing management's consideration of the financial capacity of its counterparties. For receivables covered by collateral, we have read the memorandum of agreement, recomputed the fair value of such collateral, and compared the fair value with the carrying value of the receivables being secured.

***Accounting for the investment in a joint venture***
The Group has an investment in a joint venture engaged in production, processing and distribution of fuel generated from municipal solid waste amounting to ₱21.77 million as at December 31, 2017 and accounts for the investment under the equity method. The Group's share in the joint venture's net loss is significantly affected by the impairment loss recognized in the joint venture's property and equipment. This matter is significant to our audit because of the significant management judgment and estimations involved in determining the recoverable amount of the joint venture's property and equipment and the complexity of the estimation process.

The disclosures in relation to the investment in joint venture are included in Notes 3 and 7 to the consolidated financial statements.

*Audit response*
Our audit procedures included, among others, obtaining the relevant financial information from the joint venture as of December 31, 2017, and recomputation of the Group's equity in net loss of the joint venture. We reviewed the appraisal report of the joint venture's property and equipment as at December 31, 2017. We considered the independence, reputation and competence of the appraiser. We involved our internal specialist in evaluating the reasonableness of the methodology used by the appraiser to determine the recoverable amount of the joint venture's property and equipment. Additionally, our audit procedures included discussions with management on the joint venture's future plans and projects.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS and SEC Form 17-A for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

Those charged with governance is responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jennifer D. Ticlao.

SYCIP GORRES VELAYO & CO.

Jennifer D. Ticlao

Jennifer D. Ticlao
Partner
CPA Certificate No. 109616
SEC Accreditation No. 1507-A (Group A),
September 24, 2015, valid until September 23, 2018
Tax Identification No. 245-571-753
BIR Accreditation No. 08-001998-110-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621335, January 9, 2018, Makati City

April 13, 2018

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

| | December 31 | |
|---|---|---|
| | **2017** | 2016 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash (Note 4) | **₱7,697,566** | ₱6,523,092 |
| Receivables - net (Notes 5 and 14) | **927,885,857** | 803,854,779 |
| Other current assets (Note 6) | **11,588,008** | 19,489,438 |
| Total Current Assets | **947,171,431** | 829,867,309 |
| **Noncurrent Assets** | | |
| Investments in an associate and a joint venture (Note 7) | **81,574,301** | 87,985,191 |
| Deposits (Note 8) | **3,315,666** | 3,304,746 |
| Investment property (Note 9) | **103,284,547** | 104,401,990 |
| Property and equipment (Note 10) | **155,171,527** | 167,513,692 |
| Deferred tax assets (Note 18) | **346,316** | 384,809 |
| Total Noncurrent Assets | **343,692,357** | 363,590,428 |
| | **₱1,290,863,788** | ₱1,193,457,737 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Loan payable (Note 12) | **₱97,000,000** | ₱98,000,000 |
| Trade and other payables (Notes 11 and 14) | **127,514,396** | 121,027,350 |
| Income tax payable | **10,423,076** | 5,922,377 |
| Total Current Liabilities | **234,937,472** | 224,949,727 |
| **Noncurrent Liability** | | |
| Net pension liability (Note 17) | **1,154,385** | 1,282,697 |
| Total Liabilities | **236,091,857** | 226,232,424 |
| **Equity** | | |
| Equity Attributable to Equity Holders of the Parent Company | | |
| Capital stock (Note 13) | **690,000,000** | 690,000,000 |
| Retained earnings (Note 13) | **320,898,238** | 256,293,618 |
| Other reserves (Notes 1 and 17) | **(298,510,656)** | (298,824,195) |
| | **712,387,582** | 647,469,423 |
| Noncontrolling interests (Note 2) | **342,384,349** | 319,755,890 |
| Total Equity | **1,054,771,931** | 967,225,313 |
| | **₱1,290,863,788** | ₱1,193,457,737 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| **REVENUE AND OTHER INCOME** | | | |
| Service income (Notes 14 and 20) | **₱209,627,948** | ₱275,783,494 | ₱260,447,907 |
| Rental income (Notes 9, 14 and 20) | **85,213,750** | 78,808,503 | 56,531,736 |
| Equity in net earnings of an associate and a joint venture - net (Note 7) | **522,444** | 1,776,994 | – |
| Interest income (Notes 4, 8 and 14) | **1,233,811** | 1,243,121 | 1,510,419 |
| Other income | **54,323** | 71,986 | 12,554 |
| | **296,652,276** | 357,684,098 | 318,502,616 |
| **EXPENSES AND OTHER CHARGES** | | | |
| Cost of services (Note 15) | **122,865,944** | 171,649,390 | 171,346,575 |
| General and administrative expenses (Note 16) | **40,335,589** | 43,859,579 | 30,320,265 |
| Interest expense (Notes 12 and 20) | **4,297,146** | 4,552,475 | 909,911 |
| Equity in net losses of an associate and a joint venture - net (Note 7) | **–** | – | 726,271 |
| | **167,498,679** | 220,061,444 | 203,303,022 |
| **INCOME BEFORE INCOME TAX** | **129,153,597** | 137,622,654 | 115,199,594 |
| **PROVISION FOR INCOME TAX** (Note 18) | **42,025,031** | 43,347,657 | 37,486,907 |
| **NET INCOME** | **87,128,566** | 94,274,997 | 77,712,687 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| **Item not to be reclassified to profit or loss in subsequent periods** | | | |
| Actuarial gains (losses) on defined benefit obligation - net of tax (Note 17) | **418,052** | (141,645) | 3,319 |
| **TOTAL COMPREHENSIVE INCOME** | **₱87,546,618** | ₱94,133,352 | ₱77,716,006 |
| Net income attributable to: | | | |
| Equity holders of the parent | **₱64,604,620** | ₱69,835,173 | ₱57,538,383 |
| Noncontrolling interest (Note 2) | **22,523,946** | 24,439,824 | 20,174,304 |
| | **₱87,128,566** | ₱94,274,997 | ₱77,712,687 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the parent | **₱64,918,159** | ₱69,728,940 | ₱57,540,872 |
| Noncontrolling interest (Note 2) | **22,628,459** | 24,404,412 | 20,175,134 |
| | **₱87,546,618** | ₱94,133,352 | ₱77,716,006 |
| **BASIC/DILUTED EARNINGS PER SHARE** (Note 19) | **₱0.09** | ₱0.10 | ₱0.08 |

*See accompanying Notes to Consolidated Financial Statements.*

## IPM HOLDINGS, INC. AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | | | | Other Reserves | | | |
|---|---|---|---|---|---|---|---|
| | **Capital Stock** (Note 13) | **Retained Earnings-Unappropriated** (Note 13) | **Retained Earnings-Appropriated** (Note 13) | **Equity Reserve** (Note 1) | **Actuarial Losses on Defined Benefit Obligation** (Note 17) | **Noncontrolling Interests** | **Total Equity** |
| At January 1, 2017 | **₱690,000,000** | **₱256,293,618** | **₱–** | **(₱298,498,391)** | **(₱325,804)** | **₱319,755,890** | **₱967,225,313** |
| Net income | – | **64,604,620** | – | – | – | **22,523,946** | **87,128,566** |
| Other comprehensive income | – | – | – | – | **313,539** | **104,513** | **418,052** |
| Total comprehensive income | – | **64,604,620** | – | – | **313,539** | **22,628,459** | **87,546,618** |
| At December 31, 2017 | **₱690,000,000** | **₱320,898,238** | **₱–** | **(₱298,498,391)** | **(₱12,265)** | **₱342,384,349** | **₱1,054,771,931** |
| At January 1, 2016 | ₱690,000,000 | ₱171,655,226 | ₱14,803,219 | (₱298,498,391) | (₱219,571) | ₱295,351,478 | ₱873,091,961 |
| Reversal of appropriation | – | 14,803,219 | (14,803,219) | – | – | – | – |
| Net income | – | 69,835,173 | – | – | – | 24,439,824 | 94,274,997 |
| Other comprehensive income | – | – | – | – | (106,233) | (35,412) | (141,645) |
| Total comprehensive income | – | 69,835,173 | – | – | (106,233) | 24,404,412 | 94,133,352 |
| At December 31, 2016 | ₱690,000,000 | ₱256,293,618 | ₱– | (₱298,498,391) | (₱325,804) | ₱319,755,890 | ₱967,225,313 |
| At January 1, 2015 | ₱690,000,000 | ₱114,116,843 | ₱14,803,219 | (₱298,498,391) | (₱222,060) | ₱275,176,344 | ₱795,375,955 |
| Net income | – | 57,538,383 | – | – | – | 20,174,304 | 77,712,687 |
| Other comprehensive income | – | – | – | – | 2,489 | 830 | 3,319 |
| Total comprehensive income | – | 57,538,383 | – | – | 2,489 | 20,175,134 | 77,716,006 |
| At December 31, 2015 | ₱690,000,000 | ₱171,655,226 | ₱14,803,219 | (₱298,498,391) | (₱219,571) | ₱295,351,478 | ₱873,091,961 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱129,153,597** | ₱137,622,654 | ₱115,199,594 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 9, 10, 15 and 16) | **24,419,639** | 20,271,954 | 21,449,272 |
| Interest expense (Notes 12 and 20) | **4,297,146** | 4,552,475 | 909,911 |
| Net change in pension liability (Notes 16 and 17) | **468,905** | 374,229 | 294,384 |
| Provision for impairment (Notes 5, 6 and 16) | **195,956** | 9,478,758 | 1,843,838 |
| Interest income (Notes 4, 8 and 14) | **(1,233,811)** | (1,243,121) | (1,510,419) |
| Equity in net losses (earnings) of an associate and a joint venture - net (Note 7) | **(522,444)** | (1,776,994) | 726,271 |
| Operating income before changes in working capital | **156,778,988** | 169,279,955 | 138,912,851 |
| Decrease (increase) in: | | | |
| Receivables | **(121,250,758)** | (219,392,157) | (152,603,752) |
| Due from a joint venture | **–** | – | 716,162 |
| Other current assets | **7,705,474** | (2,021,497) | (956,603) |
| Increase (decrease) in: | | | |
| Trade and other payables | **(2,907,014)** | 29,693,349 | 8,629,545 |
| Due to related parties | **–** | (1,239,931) | (2,798,763) |
| Net cash generated from (used for) operations | **40,326,690** | (23,680,281) | (8,100,560) |
| Interest received | **53,491** | 62,801 | 330,099 |
| Income tax paid | **(37,665,004)** | (47,964,816) | (31,889,518) |
| Net cash provided by (used in) operating activities | **2,715,177** | (71,582,296) | (39,659,979) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of property and equipment (Note 10) | **(1,446,371)** | (179,583) | (645,073) |
| Increase in deposits | **(10,920)** | (19,261) | (130,120) |
| Dividends received from an associate (Note 7) | **5,333,334** | 3,066,667 | 1,200,000 |
| Net cash provided by investing activities | **3,876,043** | 2,867,823 | 424,807 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** (Notes 12 and 23) | | | |
| Interest paid | **(4,416,746)** | (4,238,875) | (609,911) |
| Proceeds from bank loan | **–** | – | 100,000,000 |
| Payment of bank loan | **(1,000,000)** | (2,000,000) | – |
| Net cash provided by (used in) financing activities | **(5,416,746)** | (6,238,875) | 99,390,089 |
| **NET INCREASE (DECREASE) IN CASH** | **1,174,474** | (74,953,348) | 60,154,917 |
| **CASH AT BEGINNING OF YEAR** | **6,523,092** | 81,476,440 | 21,321,523 |
| **CASH AT END OF YEAR** (Note 4) | **₱7,697,566** | ₱6,523,092 | ₱81,476,440 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information

IPM Holdings, Inc., (the Parent Company) and its subsidiary, Basic Environmental Systems and Technologies, Inc. (BEST) (collectively referred to as "the Group"), are incorporated in the Philippines. 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 was incorporated and organized in the Republic of the Philippines on August 31, 1995 with a corporate life of 50 years to engage 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 was incorporated in the Philippines on September 15, 1999 and is engaged in contracting and consulting business for waste management, public cleansing, sanitation and general hygiene to provide comprehensive waste disposal services.

On November 20, 2012, the BOD approved the issuance of 500,000,000 shares at par value of ₱1 per share in favor of the following companies within IPM Group: (a) IPM Construction and Development Corporation (IPMCDC), 350,000,000; (b) IPM Environmental Services, Inc. (IPMESI), 100,000,000; and (c) IPM Realty and Development Corporation (IPMRDC), 50,000,000. On the same date, the BOD authorized the acquisition of 615,000,000 shares in Basic Environmental Systems and Technologies, Inc. (BEST) at par value of ₱1 per share, which will constitute 75% of the resulting outstanding capital of BEST. Further, the Parent Company was authorized to partially pay for the 615,000,000 shares in BEST as follows: (a) ₱450,000,000 for the 600,000,000 shares that will come from the increase in authorized capital stock of BEST; and (b) ₱12,500,000 for the subscription rights to 15,000,000 shares in BEST to be acquired from the original shareholders of BEST.

On February 8, 2013, the stockholders representing at least two thirds of the outstanding capital stock of the Parent Company approved the subscription by the IPM Group or any of their designees or nominees to a total of 500,000,000 shares out of the ₱500,000,000 increase in the authorized capital stock of the Parent Company, at a total subscription price of ₱500,000,000, payable in cash: (a) IPMCDC, ₱350,000,000; (b) IPMESI, ₱100,000,000; and (c) IPMRDC, ₱50,000,000. On the same date, the stockholders approved the amendment of the primary purpose of the Parent Company to enable the Parent Company to revert to being a holding company and give it more flexibility in looking for suitable investments.

On February 11, 2013 and February 12, 2013, the Parent Company received ₱50,000,000 and ₱450,000,000, respectively, as deposits for the said subscriptions to the proposed increase in the authorized capital stock of the Parent Company. Consequently, the Parent Company became a subsidiary of IPMCDC upon receipt of the deposit as per the subscription agreement.

On March 4, 2013, the Parent Company acquired 615,000,000 shares in BEST representing 75% interest and paid ₱462,500,000, ₱12,500,000 of which was paid to the original shareholders of BEST as consideration to the subscription rights acquired.

On June 11, 2013, the SEC approved the Parent Company's application for increase in authorized capital stock from 240,000,000 to 740,000,000 shares with a par value of ₱1 per share and the amendment of the primary purpose of the Parent Company to revert back to a holding company. The

deposits for stock subscriptions by IPMCDC, IPMESI and IPMRDC were then transferred to common stocks following the approval of the increase in authorized capital stock.

On July 18, 2013, the BOD approved the increase in the authorized capital stock of the Parent Company from ₱740,000,000 divided into 740,000,000 shares with a par value of ₱1 per share to an amount not exceeding ₱5,000,000,000 divided into 5,000,000,000 shares with a par value of ₱1 per share. On the same date, the BOD approved the transfer of the principal address of the Parent Company from Room 322, 3rd Floor, LRI Design Plaza, 210 Nicanor Garcia Street, Barangay Sta. Cruz, Makati City to its current principal address, Unit 103, Ground Floor, Prestige Tower Condominium, F. Ortigas Jr. Avenue, Ortigas Center, Pasig City. These were subsequently approved by the shareholders on September 19, 2013. On October 18, 2013, the SEC approved the amended articles of incorporation indicating the change of address and increase in authorized capital stock.

On February 10, 2014, the BOD approved the payment to BEST of ₱22,875,000 representing 15% of the unpaid balance on the total subscription price for the 615,000,000 shares subscribed by the Parent Company in BEST.

On July 2, 2015, the BOD approved the change in the name of the Parent Company from "Minerales Industrias Corporation" to "IPM Holdings, Inc." and the change in the Parent Company's ticker symbol from "MIC" to "IPM". These were subsequently approved by the shareholders on October 21, 2015. The SEC approved the amended articles of incorporation indicating the change in the name of the Parent Company on November 25, 2015.

The Parent Company's shares are publicly traded in the Philippine Stock Exchange (PSE) under the ticker "IPM". As of December 31, 2017 and 2016, the top four (4) beneficial shareholders of the Parent Company are the following:

| | Percentage of ownership |
|---|---|
| IPMCDC | 51% |
| IPMESI | 10% |
| 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% |
| | 487,721,570 |
| Cash paid by Parent Company | 462,500,000 |
| | ₱25,221,570 |

Status of Operations and Management's Plans of the Subsidiary
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, will build, develop and operate state-of-the-art facilities to properly address the local government units' (LGUs') waste management needs.

As of December 31, 2017, BEST is actively engaged in various 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.

The accompanying consolidated financial statements of the Group were approved and authorized for issue by the Chairman on April 13, 2018, as delegated by the Board of Directors (BOD) on April 5, 2018.

## 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 Philippines Peso unless otherwise indicated.

Statement of Compliance
The consolidated financial statements have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The accompanying 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 accompanying 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 accounting acquirer 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 accounting acquirer obtains control over the accounting acquiree and ceases when the accounting acquirer loses control of the accounting acquiree. Assets, liabilities, income and expenses of the accounting acquiree are included in the consolidated statements of financial position and consolidated statements of comprehensive income from the date the accounting acquirer gains control at the accounting acquiree until the date the accounting acquirer losses the control.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the accounting acquirer 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 accounting acquiree to bring its accounting policies in line with the accounting policies of the accounting acquirer.

As of December 31, 2017 and 2016, 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.

| | **2017** | 2016 |
|---|---|---|
| Current assets | **₱951,206,679** | ₱830,626,112 |
| Noncurrent assets | **343,692,356** | 363,590,428 |
| Total assets | **₱1,294,899,035** | ₱1,194,216,540 |
| Current liabilities | **₱234,557,720** | ₱224,260,748 |
| Noncurrent liabilities | **1,154,385** | 1,282,697 |
| Total liabilities | **₱235,712,105** | ₱225,543,445 |

| | **2017** | 2016 |
|---|---|---|
| Revenue | **₱296,811,583** | ₱357,843,239 |
| Net income | **90,095,784** | 97,759,298 |
| Total comprehensive income | **90,513,836** | 97,617,653 |
| Cash flows from (used in): | | |
| Operating activities | **₱2,049,625** | (₱69,480,980) |
| Investing activities | **3,876,043** | 2,867,823 |
| Financing activities | **(5,416,746)** | (6,238,875) |
| Net increase (decrease) in cash and cash equivalents | **₱508,922** | (₱72,852,032) |
| Accumulated balance of material NCI | **342,384,349** | 319,755,890 |
| Net income attributable to material NCI | **22,523,946** | 24,439,824 |
| Total comprehensive income attributable to NCI | **22,628,459** | 24,404,413 |

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.

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended PFRS, which became effective on January 1, 2017. Except as otherwise indicated, the adoption of these new accounting standards and amendments have no material impact on the consolidated financial statements.

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

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  Adoption of these amendments did not have any impact on the Group's consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Group has provided the required information in Note 23 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

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

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Standards and interpretation issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to 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, 2018*

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

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

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Group has assessed that the adoption of these amendments will not have any impact on the 2018 consolidated financial statements.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 9, *Financial Instruments*

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

  The adoption of PFRS 9 will have an effect on the impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial assets and liabilities. PFRS 9 requires the Group to record expected losses on all of its debt financial assets. The Group plans to apply the simplified approach and to record lifetime expected losses on all loans and receivables that do not contain significant financing component. The Group is currently quantifying the impact of the change in measuring credit losses.

- PFRS 15, *Revenue from Contracts with Customers*

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

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is currently assessing the impact of adopting this standard.

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

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

  The amendments should be applied retrospectively, with earlier application permitted.

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

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

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

*Effective beginning on or after January 1, 2019*

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

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- 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 adopting this standard.

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

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is 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 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.

*Deferred effectivity*

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

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

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 on the consolidated statements 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 trade date.

*Initial recognition*

All financial assets are initially recognized at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

As of December 31, 2017 and 2016, the Group's financial instruments are in the nature of loans and receivables and other financial liabilities.

*Day 1 profit*

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

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

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the interest income in profit or loss. The losses arising from impairment of such loans and receivables are recognized as "Provision for impairment losses" in profit or loss.

This accounting policy relates to the Group's "Cash", "Receivables" and "Deposits".

*Other financial liabilities*
Other financial liabilities pertain to issued financial instruments that are not classified or designated as at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than the exchange of a fixed amount of cash. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy applies primarily to the Group's "Loan payable", "Trade and other payables", and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

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

*Loans and receivables*
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets' original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss shall be recognized in profit or loss during the period in which it arises.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to loans and receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired loans and receivables are derecognized when they are assessed as uncollectible.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with the changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any difference between loss estimate and actual loss experience.

Derecognition of Financial Assets and Liabilities

*Financial asset*

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

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

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

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

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amount 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: other techniques for which all inputs which have a significant effect on the recorded fair value are observable in the market, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

*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 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 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 |

The Group's land used as sanitary landfill is 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 Asset

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.

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 Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Regardless of when the payment is being made, revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue agreements. The following specific recognition criteria must also be met before revenue is recognized:

*Service income*
Service income is recognized when the related services are rendered.

*Rental income*
The Group leases out office spaces and transportation and heavy equipment under cancellable operating leases. Rental income arising from investment property is recognized on a straight-line basis while rental income on transportation and heavy equipment which are considered as variable lease payments are recognized based on the terms of the operating lease agreement.

*Interest income*
Interest income is recognized as the interest accrues, taking into account the effective yield on the underlying asset.

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.

*General and administrative expenses*
General and administrative are recognized in profit or loss in the period these are incurred.

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, through BEST, has a 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.

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 PFRS. 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 22.

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 Company 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.

## 3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRS 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 December 31, 2017 and 2016, 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 December 31, 2017 and 2016, 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.

*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 impairment loss on receivable*
The Group maintains allowance for impairment loss on its receivables at a level considered adequate to provide for any potential uncollectible receivables. The level of this allowance is regularly evaluated by the Group. The Group assesses whether objective impairment exists for the receivable by considering the financial condition, historical collection pattern of the counterparty and the fair value of any collateral. Moreover, the Group also considers its historical experience adjusted for

current observable data in assessing collective impairment of receivables. The Group reviews the status of the receivables and identifies amounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the Group's allowance for impairment loss on receivables would increase the Group's recorded expenses and decrease current assets. The allowance for impairment losses on receivables amounted to ₱1.07 million as of December 31, 2017 and 2016. The carrying amounts of receivables amounted to ₱927.89 million and ₱803.85 million as of December 31, 2017 and 2016, respectively (see Note 5).

*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.

As of December 31, 2017, the Group has not recognized impairment losses on its investment in an associate and a joint venture. As of December 31, 2017 and 2016, the carrying values of investments in an associate and a joint venture amounted to ₱81.57 million and ₱87.99 million, respectively (see Note 7).

*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 December 31, 2017 and 2016, the Group did not recognize any impairment loss on its nonfinancial assets. As of December 31, 2017 and 2016, the carrying values of the Group's nonfinancial assets are as follows:

| | **2017** | 2016 |
|---|---|---|
| Property and equipment (Note 10) | **₱155,171,527** | ₱167,513,692 |
| Investment property (Note 9) | **103,284,547** | 104,401,990 |
| Other current assets (Note 6) | **11,588,008** | 19,489,438 |

*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. Net pension liability amounted to ₱1.15 million and ₱1.28 million as of December 31, 2017 and 2016, respectively. Further details about the assumptions used are provided in Note 17.

*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 recognized amounted to ₱0.35 million and ₱0.38 million as of December 31, 2017 and 2016, respectively. The amount of unrecognized deferred tax assets amounted to ₱2.85 million and ₱3.06 million as of December 31, 2017 and 2016, respectively (see Note 18).

## 4. Cash

| | **2017** | 2016 |
|---|---|---|
| Cash on hand | **₱71,417** | ₱72,210 |
| Cash in banks | **7,626,149** | 6,450,882 |
| | **₱7,697,566** | ₱6,523,092 |

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

Interest earned on cash in banks amounted to ₱0.04 million, ₱0.03 million and ₱0.17 million in 2017, 2016 and 2015, respectively.

## 5. Receivables

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Trade receivables | | |
| Related parties (Note 14) | **₱850,955,968** | ₱731,551,650 |
| Private entities | **12,628,025** | 10,540,453 |
| Local government units (LGUs) | **7,494,320** | 8,031,983 |
| | **871,078,313** | 750,124,086 |
| Loans receivable (Note 14) | **31,000,000** | 31,000,000 |
| Advances to officers and employees | **19,613,816** | 19,361,494 |

| | 2017 | 2016 |
|---|---|---|
| *(Forward)* | | |
| Interest receivable (Note 14) | **₱3,849,220** | ₱2,668,900 |
| Dividend receivable (Note 7) | **1,600,000** | – |
| Advances to suppliers | **744,508** | 700,299 |
| Others | **1,066,172** | 1,066,172 |
| | **928,952,029** | 804,920,951 |
| Less allowance for impairment losses | **1,066,172** | 1,066,172 |
| | **₱927,885,857** | ₱803,854,779 |

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.

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.

The rollforward analysis of the Group's allowance for impairment losses follows:

| | 2017 | 2016 |
|---|---|---|
| Balance at the beginning of the year | **₱1,066,172** | ₱4,394,669 |
| Provision for the year (Note 16) | – | 9,244,219 |
| Write-off | – | (12,572,716) |
| Balance at end of year | **₱1,066,172** | ₱1,066,172 |

Allowance for impairment losses as of December 31, 2017 and 2016 pertains to long-outstanding trade and other receivables of the Group which were specifically identified as impaired. Provision for impairment losses amounted to nil and ₱9.24 million in 2017 and 2016, respectively (see Note 16). Receivables from LGUs which were identified as uncollectible amounting to ₱12.57 million were written-off in 2016.

## 6. Other Current Assets

| | 2017 | 2016 |
|---|---|---|
| Input VAT | **₱11,328,206** | ₱19,827,785 |
| Creditable withholding taxes | **3,149,275** | 2,451,210 |
| Prepayments | **2,289,551** | 2,158,772 |
| Deferred input VAT | – | 34,739 |
| Miscellaneous deposits | **15,669** | 15,669 |
| | **16,782,701** | 24,488,175 |
| Less allowance for impairment losses | **5,194,693** | 4,998,737 |
| | **₱11,588,008** | ₱19,489,438 |

The movement in allowance for impairment losses follows:

| | **2017** | 2016 |
|---|---|---|
| Balance at beginning of year | **₱4,998,737** | ₱4,764,198 |
| Provision for the year (Note 16) | **195,956** | 234,539 |
| Balance at end of year | **₱5,194,693** | ₱4,998,737 |

The Parent Company provided allowance for impairment on its creditable withholding taxes and input VAT amounting to ₱5.19 million and ₱5.00 million as of December 31, 2017 and 2016, respectively, due to low probability that these assets may be utilized in the future.

## 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 December 31, 2017 and 2016 follow:

| | **Associate** | | **Joint Venture** | | **Total** | |
|---|---|---|---|---|---|---|
| | **Metro Clark Waste Management Corporation (MCWM)** | | **Ecoedge Resources Corporation (ERC)** | | | |
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Cost: | | | | | | |
| Balance at beginning and end of the year | **₱32,393,358** | ₱32,393,358 | **₱51,412,499** | ₱51,412,499 | **₱83,805,857** | ₱83,805,857 |
| Accumulated share in net earnings (losses): | | | | | | |
| Balance at beginning of year | **19,664,063** | 15,604,605 | **(15,484,729)** | (10,135,598) | **4,179,334** | 5,469,007 |
| Equity in net earnings (losses) of an associate and a joint venture | **18,307,614** | 8,645,612 | **(14,158,407)** | (5,349,131) | **4,149,207** | 3,296,481 |
| Other adjustments | **(3,626,763)** | (1,519,487) | – | – | **(3,626,763)** | (1,519,487) |
| Dividends during the year | **(6,933,334)** | (3,066,667) | – | – | **(6,933,334)** | (3,066,667) |
| Balance at end of year | **27,411,580** | 19,664,063 | **(29,643,136)** | (15,484,729) | **(2,231,556)** | 4,179,334 |
| | **₱59,804,938** | ₱52,057,421 | **₱21,769,363** | ₱35,927,770 | **₱81,574,301** | ₱87,985,191 |

The reconciliation of the associate's and joint venture's net assets multiplied by the ownership interest and the carrying amount of each investments is shown in the table below:

| | **MCWM** | | **ERC** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Net assets | **₱373,780,860** | ₱299,358,277 | **₱32,007,272** | ₱55,604,617 |
| Ownership interest | **16%** | 16% | **60%** | 60% |
| | **59,804,938** | 47,897,324 | **19,204,363** | 33,362,770 |
| Fair value and other adjustments | □ | 4,160,097 | **2,565,000** | 2,565,000 |
| Carrying value of investment | **₱59,804,938** | ₱52,057,421 | **₱21,769,363** | ₱35,927,770 |

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 (see Note 3).

Significant financial information of the associate follows:

| | **2017** | 2016 |
|---|---|---|
| Current assets | **₱198,732,275** | ₱161,459,212 |
| Noncurrent assets | **339,876,211** | 232,259,952 |
| Total assets | **₱538,608,486** | ₱393,719,164 |
| | | |
| Current liabilities | **₱102,075,127** | ₱50,298,231 |
| Noncurrent liabilities | **62,752,499** | 44,062,656 |
| Total liabilities | **₱164,827,626** | ₱94,360,887 |
| Gross revenue | **₱503,776,448** | ₱349,439,923 |
| Cost and expenses - net | **380,925,574** | 290,604,302 |
| Net profit before income tax | **122,850,874** | 58,835,621 |
| | | |
| Net profit | **114,422,583** | 54,035,078 |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **₱114,422,583** | ₱54,035,078 |

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 (see Note 3).

Significant financial information of the joint venture follows:

| | **2017** | 2016 |
|---|---|---|
| Current assets (including cash amounting to ₱3.99 million and ₱1.29 million in 2017 and 2016, respectively) | **₱12,385,491** | ₱16,702,202 |
| Noncurrent assets | **88,997,316** | 105,661,837 |
| Total assets | **₱101,382,807** | ₱122,364,039 |
| Total liabilities | **₱69,375,535** | ₱66,759,422 |
| | | |
| Gross revenue | **₱6,860,610** | ₱26,323,476 |
| Cost of sales | **18,368,932** | 30,672,477 |
| Administrative expenses | **12,086,397** | 4,564,611 |
| Loss before income tax | **(23,594,719)** | (8,913,612) |
| Income tax expense | **2,626** | 1,606 |
| Net loss | **(23,597,345)** | (8,915,218) |
| Other comprehensive income | **–** | – |
| Total comprehensive loss | **(₱23,597,345)** | (₱8,915,218) |

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 December 31, 2017 and 2016, BEST has deposits to GSIS as surety bond amounting to ₱3.32 million and ₱3.30 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. Interest income from deposits amounted to ₱0.01 million, ₱0.03 million and ₱0.16 million in 2017, 2016 and 2015, respectively.

## 9. Investment Property

| | **2017** | | |
|---|---|---|---|
| | **Land** | **Condominium Unit** | **Total** |
| **Cost** | **₱70,320,000** | **₱38,535,329** | **₱108,855,329** |
| **Accumulated depreciation:** | | | |
| Balance at beginning of year | □ | **4,453,339** | **4,453,339** |
| Depreciation (Note 15) | □ | **1,117,443** | **1,117,443** |
| Balance at end of year | □ | **5,570,782** | **5,570,782** |
| **Net book value** | **₱70,320,000** | **₱32,964,547** | **₱103,284,547** |

| | 2016 | | |
|---|---|---|---|
| | Land | Condominium Unit | Total |
| Cost | ₱70,320,000 | ₱38,535,329 | ₱108,855,329 |
| Accumulated depreciation: | | | |
| Balance at beginning of year | □ | 3,335,896 | 3,335,896 |
| Depreciation (Note 15) | □ | 1,117,443 | 1,117,443 |
| Balance at end of year | □ | 4,453,339 | 4,453,339 |
| Net book value | ₱70,320,000 | ₱34,081,990 | ₱104,401,990 |

Land pertains to a property located in Taytay, Rizal with currently undetermined use as of December 31, 2017 and 2016.

Portion of BEST's condominium unit located in Pasig City is being leased out to related parties. The rental income recognized from lease agreements amounted to ₱0.05 million in 2017 and 2016. Depreciation amounting to ₱1.12 million in 2017 and 2016 is recognized in cost of services.

The land and condominium unit have fair values of ₱85.42 million and ₱40.96 million, respectively, based on an appraisal made by an independent appraiser on December 31, 2014 and December 8, 2017, respectively. The sales comparison approach was used in determining the fair value which considers the sales of similar or substitute properties and related market data, and establishes a value estimate by processes involving comparison. The fair value of the investment property is categorized as Level 3 which used adjusted inputs for valuation that are unobservable as of the date of valuation. The inputs used were asking prices of listings and offerings of similar condominium units and extent, character and utility of the property. Significant increases or decreases in asking price would result in higher or lower fair value of the asset.

## 10. Property and Equipment

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Land** | **Condominium Unit and Improvements** | **Transportation and Heavy Equipment** | **Office Furniture and Fixtures** | **Development Costs** | **Leasehold Improvements** | **Total** |
| **Cost** | | | | | | | |
| At January 1 | **₱44,932,700** | **₱37,056,324** | **₱123,814,371** | **₱3,922,134** | **₱104,146,099** | **₱□** | **₱313,871,628** |
| Additions | **–** | **–** | **–** | **338,613** | **10,073,285** | **548,133** | **10,960,031** |
| At December 31 | **44,932,700** | **37,056,324** | **123,814,371** | **4,260,747** | **114,219,384** | **548,133** | **324,831,659** |
| **Accumulated Depreciation and Amortization** | | | | | | | |
| At January 1 | **–** | **4,553,785** | **62,999,654** | **3,347,646** | **75,456,851** | **□** | **146,357,936** |
| Depreciation and amortization (Notes 15 and 16) | **4,137,700** | **1,162,963** | **11,413,098** | **403,473** | **6,172,830** | **12,132** | **23,302,196** |
| At December 31 | **4,137,700** | **5,716,748** | **74,412,752** | **3,751,119** | **81,629,681** | **12,132** | **169,660,132** |
| **Net Book Value** | **₱40,795,000** | **₱31,339,576** | **₱49,401,619** | **₱509,628** | **₱32,589,703** | **₱536,001** | **₱155,171,527** |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land | Condominium Unit and Improvements | Transportation and Heavy Equipment | Office Furniture and Fixtures | Development Costs | Leasehold Improvements | Total |
| Cost | | | | | | | |
| At January 1 | ₱44,932,700 | ₱36,962,660 | ₱123,814,371 | ₱3,836,215 | ₱104,146,099 | ₱– | ₱313,692,045 |
| Additions | – | 93,664 | – | 85,919 | – | – | 179,583 |
| At December 31 | 44,932,700 | 37,056,324 | 123,814,371 | 3,922,134 | 104,146,099 | – | 313,871,628 |
| Accumulated Depreciation and Amortization | | | | | | | |
| At January 1 | – | 3,398,626 | 51,586,556 | 2,934,222 | 69,284,021 | – | 127,203,425 |
| Depreciation and amortization (Notes 15 and 16) | – | 1,155,159 | 11,413,098 | 413,424 | 6,172,830 | – | 19,154,511 |
| At December 31 | – | 4,553,785 | 62,999,654 | 3,347,646 | 75,456,851 | – | 146,357,936 |
| Net Book Value | ₱44,932,700 | ₱32,502,539 | ₱60,814,717 | ₱574,488 | ₱28,689,248 | ₱– | ₱167,513,692 |

In 2017, acquisitions of property and equipment amounting to ₱9.51 million remain in trade and other payables as of December 31, 2017.

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

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 (see Note 20).

The cost of fully-depreciated property and equipment still being used in operations amounted to ₱13.46 million and ₱11.79 million as of December 31, 2017 and 2016, respectively.

## 11. Trade and Other Payables

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Trade payables | | |
| Related parties (Note 14) | **₱8,531,187** | ₱13,165,254 |
| Third parties | **7,470,921** | 4,737,871 |
| | **16,002,108** | 17,903,125 |
| Payable to government agencies | **110,190,667** | 101,306,843 |
| Accrued expenses (Note 14) | **1,321,621** | 1,817,382 |
| | **₱127,514,396** | ₱121,027,350 |

Trade payables comprise of payables in the contracting and consulting operations of BEST to provide waste disposal services. These are noninterest-bearing and are generally settled within one year.

Payable to government agencies pertain to output tax payable, deferred output tax 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. Accrued interest on loan payable amounted to ₱0.19 million and ₱0.31 million as of December 31, 2017 and 2016, respectively (see Note 12). These are noninterest-bearing and payable within 30 days.

## 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.

Interest expense on loan payable amounted to ₱4.17 million, ₱4.17 million and ₱0.62 million in 2017, 2016, and 2015 respectively. Accrued interest payable amounted to ₱0.19 million and ₱0.31 million as of December 31, 2017 and 2016, respectively (see Note 11).

## 13. Equity

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

| | **2017** | 2016 |
|---|---|---|
| **Authorized number of shares:** | | |
| At the beginning and end of the year | **740,000,000** | 740,000,000 |
| **Number of shares issued and outstanding:** | | |
| At the beginning and end of the year | **690,000,000** | 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 118 as of December 31, 2017 and 2016, respectively.

*Subscriptions*
On February 8, 2013, the stockholders of the Parent Company representing at least two thirds of the outstanding capital stock approved the subscription by the following companies within the IPM group or any of their designees/nominees to a total of 500,000,000 shares out of the ₱500,000,000 increase in the authorized capital stock at a total subscription price of ₱500,000,000, which was paid as follows: (a) IPMCDC, ₱350,000,000; (b) IPMESI, ₱100,000,000; and (c) IPMRDC, ₱50,000,000.

The Parent Company received the deposits on stock subscription on February 11, 2013 and February 12, 2013 amounting to ₱50.00 million and ₱450.00 million, respectively. These deposits for stock subscriptions were then transferred to common shares following the approval of the SEC of the Parent Company's application for increase in authorized capital stock on June 11, 2013.

On May 25, 2016, the stockholders approved the increase in the Corporation's authorized capital stock to an amount of up to ₱7,500.00 million 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 legal parent presented in the separate financial statements. As of December 31, 2017 and 2016, the Parent Company is in a deficit position, hence, no dividends were declared during the years covered.

The portion of retained earnings corresponding to the undistributed equity in net earnings of the associate and joint venture are not available for distribution as dividends until declared by the associate and joint venture.

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

| | **2017** | 2016 |
|---|---|---|
| Balance at beginning of year | **₱206,072,782** | ₱202,588,481 |
| Net loss during the year | **2,967,219** | 3,484,301 |
| | **₱209,040,001** | ₱206,072,782 |

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:

**2017**

| Category | Amount | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|
| **Trade receivables** (Note 5) | | | | |
| **Parent** | | | | |
| IPMCDC (a) | **₱132,303,036** | **₱157,157,557** | Noninterest-bearing; within one year | Unsecured, no impairment |
| **Shareholders** | | | | |
| IPMESI (b) | **109,074,088** | **693,745,655** | Noninterest-bearing; within one year | Secured, no impairment |
| IPMRDC (c) | – | **34,687** | Noninterest-bearing; within one year | Unsecured, no impairment |
| **Joint Venture** | | | | Unsecured, no impairment |
| ERC (d) | **53,571** | **18,069** | Noninterest-bearing; on demand | Unsecured, no impairment |
| | | **₱850,955,968** | | |

*(Forward)*

| Category | Amount | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|
| **Loans Receivable** (Note 5) | | | | |
| **Joint venture** | | | | |
| ERC (e) | **₱–** | **₱31,000,000** | Interest bearing; due and demandable | Unsecured,no impairment |
| **Interest Receivable** (Note 5) | | | | |
| ERC (e) | **1,180,320** | **3,849,220** | Due and demandable | Unsecured, no impairment |
| | | **₱34,849,220** | | |
| **Trade payables** (Note 11) | | | | |
| **Parent** | | | | |
| IPMCDC (f) | **₱95,339,251** | **₱8,531,187** | Noninterest-bearing; on demand | Unsecured |
| **Accrued expenses** | | | | |
| **Affiliate** | | | | |
| GNCA Holdings, Inc. (GNCA) (g) | **180,000** | □ | Noninterest-bearing; on demand | Unsecured |
| **BOD** (h) | **110,000** | □ | Noninterest-bearing; on demand | Unsecured |
| | | **₱8,531,187** | | |

2016

| Category | Amount | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|
| Trade receivables (Note 5) | | | | |
| Parent | | | | |
| IPMCDC (a) | ₱131,529,298 | ₱128,734,290 | Noninterest-bearing; within one year | Unsecured, no impairment |
| Shareholders | | | | |
| IPMESI (b) | 187,288,837 | 602,764,158 | Noninterest-bearing; within one year | Unsecured, no impairment |
| IPMRDC (c) | 706,661 | 34,687 | Noninterest-bearing; within one year | Unsecured, no impairment |
| Joint Venture | | | | |
| ERC (d) | 53,571 | 18,515 | Noninterest-bearing; on demand | Unsecured, no impairment |
| | | ₱731,551,650 | | |
| Loans Receivable (Note 5) | | | | |
| Joint venture | | | | |
| ERC (e) | ₱– | ₱31,000,000 | Interest-bearing;due and demandable | Unsecured, no impairment |
| Interest Receivable (Note 5) | | | | |
| ERC (e) | 1,180,320 | 2,668,900 | Due and demandable | Unsecured, no impairment |
| | | ₱33,668,900 | | |
| Trade payables (Note 11) | | | | |
| Parent | | | | |
| IPMCDC (f) | ₱145,976,096 | ₱13,165,254 | Noninterest-bearing; on demand | Unsecured |
| Accrued expenses | | | | |
| Affiliate | | | | |
| GNCA Holdings, Inc. (GNCA) (g) | 180,000 | 50,400 | Noninterest-bearing; on demand | Unsecured |
| BOD (h) | 300,000 | □ | Noninterest-bearing; on demand | Unsecured |
| | | ₱13,215,654 | | |

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 2017 and 2016, 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 total revenue earned from IPMCDC amounted to ₱132.30 million, ₱132.53 million and ₱113.71 million in 2017, 2016 and 2015, respectively.

b. BEST has an existing contract with IPMESI for the operation and maintenance of an Integrated Solid Waste Management Facility for a fixed monthly fee of ₱15.58 million. In 2017, 2016 and 2015, BEST charged IPMESI for the rental of transportation and heavy equipment. The Group's total revenue earned from IPMESI amounted to ₱109.07 million, ₱187.29 million and ₱188.97 million in 2017, 2016 and 2015, respectively. Receivables from IPMESI amounting to ₱693.75 million is secured (see Note 21).

c. In 2017 and 2016, rental income earned on the lease of equipment to IPMRDC amounted to nil and ₱0.71 million, respectively.

d. In January 2016, 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, 2016 and was for the 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 3.8640% interest rate per annum and ₱12.00 million with 3.718% interest rate per annum which are due and demandable. Accrued interest receivable amounted to ₱3.85 million and ₱2.67 million as of December 31, 2017 and 2016, respectively.

f. IPMCDC charge 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 2017, 2016 and 2015, 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. Total per diem paid to the directors amounted to ₱0.11 million, ₱0.30 million, and ₱0.32 million in 2017, 2016 and 2015, respectively (see Note 16).

Transactions with related parties are based on terms agreed to by the parties. Outstanding balances as of reporting date are unsecured, non-interest bearing and settled in cash, unless otherwise stated. There have been no guarantees provided or received for any related party receivables or payables. Based on management's assessment, no provision for impairment for receivables for related parties is necessary due to regular settlements made by the related parties in 2017 and 2016. This assessment is done on a regular basis.

Compensation of Key Management Personnel

Details of the compensation of key management personnel of the Group are as follows:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Salaries and other short-term employee benefits | **₱8,799,062** | ₱7,956,783 | ₱6,307,613 |
| Long-term employee benefits | **214,399** | 214,399 | 152,981 |
| | **₱9,013,461** | ₱8,171,182 | ₱6,460,594 |

## 15. Cost of Services

This account consists of:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Rent (Note 14) | **₱49,454,476** | ₱91,333,946 | ₱89,324,115 |
| Depreciation and amortization (Notes 9 and 10) | **21,725,961** | 17,585,928 | 19,625,574 |
| Contract costs (Note 14) | **15,625,000** | 27,983,500 | 27,364,244 |
| Salaries, wages and employee benefits | **12,675,326** | 7,505,977 | 5,538,488 |
| Repairs and maintenance (Note 14) | **7,549,213** | 8,012,522 | 11,213,897 |
| Materials and tools (Note 14) | **6,832,003** | 9,864,570 | 9,516,568 |
| Fuel and oil (Note 14) | **6,286,042** | 7,971,605 | 7,242,500 |
| Taxes and licenses | **1,118,183** | 938,127 | 1,012,998 |
| Transportation and travel | **494,865** | 154,788 | 94,092 |
| Supplies | **444,129** | 217,585 | 139,713 |
| Utilities | **161,629** | 48,322 | 89,082 |
| Others | **499,117** | 32,520 | 185,304 |
| | **₱122,865,944** | ₱171,649,390 | ₱171,346,575 |

## 16. General and Administrative Expenses

This account consists of:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Taxes and licenses | **₱14,349,342** | ₱12,516,242 | ₱10,678,881 |
| Salaries, wages and employee benefits (Note 14) | **10,719,043** | 10,130,792 | 9,308,671 |
| Professional fees | **3,103,043** | 1,726,219 | 1,448,811 |
| Advertising and promotion | **3,094,654** | 102,050 | 84,957 |
| Depreciation and amortization (Note 10) | **2,693,678** | 2,686,026 | 1,823,698 |
| Transportation and travel | **1,242,381** | 573,849 | 235,704 |
| Utilities (Note 14) | **998,049** | 954,481 | 986,727 |
| Entertainment amusement and recreation | **837,561** | 2,447,816 | 660,423 |
| Stock exchange listing fee | **640,025** | 693,910 | 397,430 |
| Office supplies and printing costs | **435,134** | 416,845 | 625,344 |
| Pension expense (Note 17) | **398,357** | 336,734 | 273,768 |
| Rent (Note 14) | **264,286** | 126,083 | 185,332 |

*(Forward)*

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Repairs and maintenance | **₱241,540** | ₱315,849 | ₱476,273 |
| Provision for impairment losses (Notes 5 and 6) | **195,956** | 9,478,758 | 1,843,838 |
| Seminars and trainings | **118,500** | 14,000 | – |
| Directors' fee (Note 14) | **110,000** | 300,000 | 320,000 |
| Insurance | **78,493** | 120,728 | 14,090 |
| Others | **815,547** | 919,197 | 956,318 |
| | **₱40,335,589** | ₱43,859,579 | ₱30,320,265 |

## 17. Pension Plan

The Group has a 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, 2017.

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:

| | **2017** | | |
|---|---|---|---|
| | **Present value of defined benefit obligation** | **Fair value of plan assets** | **Net pension liability** |
| At January 1 | **₱1,636,678** | **(₱353,981)** | **₱1,282,697** |
| *Benefit cost in profit or loss* | | | |
| Current service cost (Note 16) | **398,357** | **–** | **398,357** |
| Net interest expense (income) (Note 16) | **90,017** | **(19,469)** | **70,548** |
| *Remeasurements in other comprehensive income* | | | |
| Remeasurement loss - return on plan asset | **–** | **14,837** | **14,837** |
| Actuarial gain - changes in financial assumptions | **(61,049)** | **–** | **(61,049)** |
| Actuarial gain - changes in experience | **(551,005)** | **–** | **(551,005)** |
| At December 31 | **₱1,512,998** | **(₱358,613)** | **₱1,154,385** |

| | 2016 | | |
|---|---|---|---|
| | Present value of defined benefit obligation | Fair value of plan assets | Net pension liability |
| At January 1 | ₱1,056,535 | (₱350,416) | ₱706,119 |
| *Benefit cost in profit or loss* | | | |
| Current service cost (Note 16) | 336,734 | – | 336,734 |
| Net interest expense (income) (Note 16) | 56,102 | (18,607) | 37,495 |
| *Remeasurements in other comprehensive income* | | | |
| Remeasurement loss - return on plan asset | – | 15,042 | 15,042 |
| Actuarial gain - changes in financial assumptions | (21,925) | – | (21,925) |
| Actuarial loss - changes in experience | 209,232 | – | 209,232 |
| At December 31 | ₱1,636,678 | (₱353,981) | ₱1,282,697 |

Net interest expense amounting to ₱0.07 million and ₱0.04 million in 2017 and 2016, respectively, is included in the "Salaries and wages" under "General and administrative expenses" (see Note 16).

Changes in remeasurement loss on defined benefit obligations are as follows:

| | **2017** | 2016 |
|---|---|---|
| Balance at beginning of year | **(₱431,506)** | (₱289,861) |
| Actuarial gain (loss) on defined benefit plan - net of tax | **418,052** | (141,645) |
| Balance at end of year | **(₱13,454)** | (₱431,506) |

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 ₱4,632 and ₱3,565 in 2017 and 2016, respectively.

The Group did not make any contribution in 2017 and 2016 to the defined benefit pension plan. The Group does not expect any contribution to the defined benefit pension plan in 2018.

The present value of the pension obligation is determined using an actuarial valuation, which involves making various assumptions. The principal assumptions used in determining pension benefits are as follows:

| | **2017** | 2016 |
|---|---|---|
| Discount rate | **5.94%** | 5.50% |
| Salary increase rate | **2.00%** | 2.00% |

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

| | | Increase (decrease) in present value of defined benefit obligation | |
|---|---|---|---|
| | Change in variable | **2017** | 2016 |
| Discount rate | +100 bps | **(₱121,427)** | (₱106,336) |
| | -100 bps | **137,376** | 122,399 |
| Salary increase rate | +100 bps | **125,693** | 114,164 |
| | -100 bps | **(113,472)** | (101,325) |

Changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

The Group expects to pay retirement benefits amounting to ₱0.02 million in 2018 and 2019, respectively. The weighted average duration of the defined benefit obligation is 8.6 years and 8.4 years as of December 31, 2017 and 2016, respectively.

## 18. Income Tax

The provision for income tax recognized in profit or loss consists of:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Current | **₱42,154,925** | ₱42,448,816 | ₱38,007,435 |
| Final | **10,778** | 12,561 | 66,020 |
| Deferred | **(140,672)** | 886,280 | (586,548) |
| | **₱42,025,031** | ₱43,347,657 | ₱37,486,907 |

The provision for current income tax represents regular corporate income tax of BEST in 2017, 2016 and 2015.

The components of the Parent Company's unrecognized deferred tax assets follow:

| | **2017** | 2016 |
|---|---|---|
| NOLCO | **₱8,433,028** | ₱9,134,793 |
| Allowance for impairment losses | **1,066,172** | 1,066,172 |
| | **9,499,200** | 10,200,965 |
| Tax rate | **30%** | 30% |
| | **₱2,849,760** | ₱3,060,290 |

The Group's deferred tax assets pertaining to the Parent Company's NOLCO and allowance for impairment loss on receivables were not recognized in the books because management believes that it is not probable that taxable profits will be available in the future against which these can be utilized. The Group will recognize a previously unrecognized deferred tax asset to the extent that it becomes probable that future taxable income will allow the deferred tax asset to be recovered.

The components of the Group's recognized deferred tax assets follow:

| | **2017** | 2016 |
|---|---|---|
| **Presented in profit or loss** | | |
| Net pension liability | **₱340,550** | ₱199,878 |
| **Presented in other comprehensive income** | | |
| Actuarial losses on defined benefit obligation | **5,766** | 184,931 |
| Net deferred tax assets | **₱346,316** | ₱384,809 |

The reconciliation between the statutory income tax and the effective income tax follows:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| At statutory tax rate | **₱38,746,079** | ₱41,286,796 | ₱34,559,878 |
| Add (deduct) tax effects of: | | | |
| Nondeductible expense | **2,645,123** | 1,665,927 | 1,942,473 |
| Expired NOLCO | **1,006,441** | 2,141,140 | 512,366 |
| Equity in net earnings of an associate and a joint venture | **(156,733)** | (533,098) | 217,881 |
| Change in unrecognized deferred tax assets | **(210,530)** | (1,206,828) | 287,319 |
| Interest income subjected to final tax | **(5,349)** | (6,280) | (33,010) |
| Effective income tax | **₱42,025,031** | ₱43,347,657 | ₱37,486,907 |

The Parent Company's NOLCO as of December 31, 2017 consists of:

| Year Incurred | Amount | Applied | Expired | Balance | Expiry Date |
|---|---|---|---|---|---|
| 2017 | ₱2,653,040 | ₱– | ₱– | ₱2,653,040 | 2020 |
| 2016 | 3,114,370 | – | – | 3,114,370 | 2019 |
| 2015 | 2,665,618 | – | – | 2,665,618 | 2018 |
| 2014 | 3,354,805 | – | 3,354,805 | – | 2017 |
| | ₱11,787,833 | ₱– | ₱3,354,805 | ₱8,433,028 | |

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as of the reporting date.

## 19. Basic/Diluted Earnings per Share

Basic/diluted earnings per share was computed as follows:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Net income attributable to equity holders of the parent company (a) | **₱64,604,620** | ₱69,835,173 | ₱57,538,383 |
| Weighted average number of outstanding common share (b) | **690,000,000** | 690,000,000 | 690,000,000 |
| Basic earnings per share (a/b) | **₱0.09** | ₱0.10 | ₱0.08 |

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

## 20. Commitments

As of December 31, 2017 and 2016, 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 ₱12.00 million in 2017 and 2016 (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 and ₱41.79 million in 2017 and 2016, respectively, arising from these consultancy service contracts (see Note 14).

- The Group entered into contractual commitments with various municipalities of Rizal and Laguna 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. As of and for the years ended December 31, 2017 and 2016, the amount of income recognized by the Group and outstanding balance per municipality follow:

| | | **Income** (in millions) | | **Outstanding Balance** (in millions) | |
|---|---|---|---|---|---|
| Municipality | Rate per ton | **2017** | 2016 | **2017** | 2016 |
| Binangonan, Rizal | ₱600 | **₱12.26** | ₱5.94 | **₱0.89** | ₱0.60 |
| Tanay, Rizal | 600 | **2.68** | 2.26 | **0.72** | 1.51 |
| Teresa, Rizal | 500 | **2.67** | 1.97 | **1.36** | 1.87 |
| Baras, Rizal | 600 | **1.55** | 1.54 | **0.48** | 0.63 |
| Cardona, Rizal | 600 | **0.53** | 0.65 | **0.78** | 0.50 |
| Morong, Rizal | 300 | **0.28** | – | **0.33** | – |
| Jalajala, Rizal | 600 | **0.16** | 0.37 | **0.18** | 0.14 |
| Pililia | 300 | **0.04** | 0.08 | **–** | 0.05 |
| Pangil, Laguna | 600 | **0.02** | □ | **0.02** | □ |
| Taytay, Rizal | 600 | **–** | – | **2.73** | 2.73 |
| | | **₱20.19** | ₱12.81 | **₱7.49** | ₱8.03 |

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. 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 February 20, 2017, 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 February 20, 2018 unless sooner terminated. In August 2017, the Group entered into a new contract agreement with the municipality of Pangil, Laguna, for the disposal of residual waste. The contract was for 110 days and has ended on December 8, 2017. 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. The ownership of the transportation equipment will be transferred to the Group at the end of the lease term.

  The carrying value of the transportation equipment amounted to ₱3.66 million and ₱4.36 million as of December 31, 2017 and 2016, respectively. The transportation equipment is being depreciated using straight-line method over 10 years.

  Future minimum rentals payable under non-cancellable finance lease as of December 31 follow:

| | **2017** | 2016 |
|---|---|---|
| Within one year | **₱844,116** | ₱1,447,056 |
| After one year but not more than five years | – | 844,116 |
| | **₱844,116** | ₱2,291,172 |

  Interest expense incurred amounted to ₱0.13 million, ₱0.38 million and ₱0.29 million in 2017, 2016 and 2015, respectively.

## 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:

**2017**

| | **Gross Maximum Exposure** | **Fair Value of Collateral** | **Net Exposure** | **Financial Effect of Collateral** |
|---|---|---|---|---|
| Cash* | **₱7,626,149** | **₱2,500,000** | **₱5,126,149** | **₱2,500,000** |
| Receivables: | | | | |
| Trade | **871,078,313** | **824,186,750** | **177,332,658** | **824,186,750** |
| Loan | **31,000,000** | – | **31,000,000** | – |
| Advances to officers and employees | **19,613,816** | – | **19,613,816** | – |
| Interest | **3,849,220** | – | **3,849,220** | – |
| Dividend | **1,600,000** | – | **1,600,000** | – |
| Deposits | **3,315,666** | – | **3,315,666** | – |
| | **₱938,083,164** | **₱826,686,750** | **₱241,837,509** | **₱826,686,750** |

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

2016

| | Gross Maximum Exposure | Fair Value of Collateral | Net Exposure | Financial Effect of Collateral |
|---|---|---|---|---|
| Cash* | ₱6,450,882 | ₱2,500,000 | ₱3,950,882 | ₱2,500,000 |
| Receivables: | | | | |
| Trade | 750,124,086 | – | 750,124,086 | – |
| Loan | 31,000,000 | – | 31,000,000 | – |
| Advances to officers and employees | 19,361,494 | – | 19,361,494 | – |
| Interest | 2,668,900 | – | 2,668,900 | – |
| Deposits | 3,304,746 | – | 3,304,746 | – |
| | ₱812,910,108 | ₱2,500,000 | ₱810,410,108 | ₱2,500,000 |

**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, respectively, of the Parent Company to guaranty BEST's receivables from IPMESI amounting to ₱693.75 million (see Note 14). 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, amounted to ₱824.19 million.

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 December 31, 2017 and 2016.

The aging analysis of financial assets as of December 31, 2017 and 2016 follows:

| | **2017** | | | | |
|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | **Past Due but not Impaired** | | | |
| | **High Grade** | **31 to 60 Days** | **Over 60 days** | **Impaired** | **Total** |
| Financial assets: | | | | | |
| Loans and receivables: | | | | | |
| Cash | **₱7,626,149** | **₱–** | **₱–** | **₱–** | **₱7,626,149** |
| Receivables: | | | | | |
| Trade | **33,237,288** | **29,420,302** | **808,420,723** | **–** | **871,078,313** |
| Loans | **–** | **–** | **31,000,000** | **–** | **31,000,000** |
| Advances to officers | **1,113,816** | **–** | **18,500,000** | **–** | **19,613,816** |

*(Forward)*

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | **Past Due but not Impaired** | | | |
| | **High Grade** | **31 to 60 Days** | **Over 60 days** | **Impaired** | **Total** |
| Interest | **₱1,180,320** | **₱–** | **₱2,668,900** | **₱–** | **₱3,849,220** |
| Dividend | **1,600,000** | **–** | **–** | **–** | **1,600,000** |
| Others | **–** | **–** | **–** | **1,066,172** | **1,066,172** |
| Deposits | **3,315,666** | **–** | **–** | **–** | **3,315,666** |
| | **₱48,073,239** | **₱29,420,302** | **₱860,589,623** | **₱1,066,172** | **₱939,149,336** |

**Excluding cash on hand.*

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | |
| | High Grade | 31 to 60 Days | Over 60 days | Impaired | Total |
| Financial assets: | | | | | |
| Loans and receivables: | | | | | |
| Cash | ₱6,450,882 | ₱– | ₱– | ₱– | ₱6,450,882 |
| Receivables: | | | | | |
| Trade | 31,806,656 | 35,279,603 | 683,037,827 | – | 750,124,086 |
| Loans | – | – | 31,000,000 | – | 31,000,000 |
| Advances to officers | 19,361,494 | – | – | – | 19,361,494 |
| Interest | 1,180,320 | – | 1,488,580 | – | 2,668,900 |
| Others | – | – | – | 1,066,172 | 1,066,172 |
| Deposits | 3,304,746 | – | – | – | 3,304,746 |
| | ₱62,104,098 | ₱35,279,603 | ₱715,526,407 | ₱1,066,172 | ₱813,976,280 |

**Excluding cash on hand.*

High grade assets are considered as having very low risk and can easily be converted to cash. These assets are considered for counterparties that possess strong to very strong capacity to meet their obligations.

The Group trades with only recognized, creditworthy third parties; thus, there is no requirement for collateral. Customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to debts is not significant.

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 December 31, 2017 and 2016 based on contractual undiscounted payments:

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **On Demand** | **Less than 3 Months** | **3 to 12 Months** | **More than One Year** | **Total** |
| **Financial assets** | | | | | |
| Loans and receivables: | | | | | |
| Cash | **₱7,697,566** | **₱–** | **₱–** | **₱–** | **₱7,697,566** |
| Receivables: | | | | | |
| Trade | **854,352,667** | **16,725,646** | **–** | **–** | **871,078,313** |
| Loan | **31,000,000** | **–** | **–** | **–** | **31,000,000** |
| Advances to officers | **19,613,816** | **–** | **–** | **–** | **19,613,816** |
| Interest | **3,849,220** | **–** | **–** | **–** | **3,849,220** |
| Dividend | **–** | **1,600,000** | **–** | **–** | **1,600,000** |
| Deposits | **–** | **–** | **–** | **3,315,666** | **3,315,666** |
| | **₱916,513,269** | **₱18,325,646** | **₱–** | **₱3,315,666** | **₱938,154,581** |
| **Financial liabilities** | | | | | |
| Trade and other payables (excluding payable to government agencies) | **₱–** | **₱17,323,729** | **₱–** | **₱–** | **₱17,323,729** |
| Loan payable | **–** | **–** | **97,000,000** | **–** | **97,000,000** |
| | **₱–** | **₱17,323,729** | **₱97,000,000** | **₱–** | **₱114,323,729** |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | On Demand | Less than 3 Months | 3 to 12 Months | More than One Year | Total |
| Financial assets | | | | | |
| Loans and receivables: | | | | | |
| Cash | ₱6,523,092 | ₱– | ₱– | ₱– | ₱6,523,092 |
| Receivables: | | | | | |
| Trade | 718,285,437 | 31,838,649 | – | – | 750,124,086 |
| Loan | 31,000,000 | – | – | – | 31,000,000 |
| Interest | 2,668,900 | – | – | – | 2,668,900 |
| Deposits | – | – | – | 3,304,746 | 3,304,746 |
| | ₱758,477,429 | ₱31,838,649 | ₱– | ₱3,304,746 | ₱793,620,824 |
| Financial liabilities | | | | | |
| Trade and other payables (excluding payable to government agencies) | ₱– | ₱19,720,507 | ₱– | ₱– | ₱19,720,507 |
| Loan payable | – | – | 98,000,000 | – | 98,000,000 |
| | ₱– | ₱19,720,507 | ₱98,000,000 | ₱– | ₱117,720,507 |

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 ₱1,054.77 million and ₱967.23 million as of December 31, 2017 and 2016, respectively, as capital.

Fair Value Information

Due to the short-term nature of the Group's financial instruments, their fair values approximate their carrying amounts as of December 31, 2017 and 2016.

Fair Value Hierarchy

As of December 31, 2017 and 2016, 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.

## 22. Segment Information

For management reporting purposes, the Group's businesses are classified into the following business segments: (1) investment holding and (2) service. Details of the Group's business segments are as follows:

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **Investment Holding** | **Service** | **Combined** | **Eliminations** | **Consolidated** |
| Revenue and other income | **₱–** | **₱295,056,735** | **₱295,056,735** | **(₱160,714)** | **₱294,896,021** |
| Interest income | **1,407** | **1,232,404** | **1,233,811** | **–** | **1,233,811** |
| Equity earnings | **–** | **522,444** | **522,444** | **–** | **522,444** |
| Interest expense | **–** | **4,297,146** | **4,297,146** | **–** | **4,297,146** |
| Income (loss) before tax | **(2,966,937)** | **132,120,534** | **129,153,597** | **–** | **129,153,597** |
| Provision for income tax | **281** | **42,024,750** | **42,025,031** | **–** | **42,025,031** |
| Net income (loss) | **(2,967,218)** | **90,095,784** | **87,128,566** | **–** | **87,128,566** |
| **Other Information** | | | | | |
| Segment assets | **₱486,397,072** | **₱1,294,899,035** | **₱1,781,296,107** | **(₱490,432,319)** | **₱1,290,863,788** |
| Segment liabilities | **5,437,073** | **235,712,105** | **241,149,178** | **(5,057,321)** | **236,091,857** |
| Depreciation and amortization | **–** | **24,419,639** | **24,419,639** | **–** | **24,419,639** |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Investment Holding | Service | Combined | Eliminations | Consolidated |
| Revenue and other income | ₱– | ₱354,824,697 | ₱354,824,697 | (₱160,714) | ₱354,663,983 |
| Interest income | 1,573 | 1,241,548 | 1,243,121 | – | 1,243,121 |
| Equity earnings | – | 1,776,994 | 1,776,994 | □ | 1,776,994 |
| Interest expense | – | 4,552,475 | 4,552,475 | – | 4,552,475 |
| Income (loss) before tax | (3,483,986) | 141,106,640 | 137,622,654 | – | 137,622,654 |
| Provision for income tax | 315 | 43,347,342 | 43,347,657 | – | 43,347,657 |
| Net income (loss) | (3,484,301) | 97,759,298 | 94,274,997 | – | 94,274,997 |
| Other Information | | | | | |
| Segment assets | ₱485,731,520 | ₱1,194,216,540 | ₱1,679,948,060 | (₱486,490,323) | ₱1,193,457,737 |
| Segment liabilities | 1,804,302 | 225,543,445 | 227,347,747 | (1,115,323) | 226,232,424 |
| Depreciation and amortization | – | 20,271,954 | 20,271,954 | – | 20,271,954 |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Investment Holding | Service | Combined | Eliminations | Consolidated |
| Revenue and other income | ₱– | ₱317,152,911 | ₱317,152,911 | (₱160,714) | ₱316,992,197 |
| Interest income | 9,539 | 1,500,880 | 1,510,419 | – | 1,510,419 |
| Interest expense | – | 909,911 | 909,911 | – | 909,911 |
| Equity interest | – | 726,271 | 726,271 | – | 726,271 |
| Income (loss) before tax | (2,982,619) | 118,182,213 | 115,199,594 | – | 115,199,594 |
| Provision for income tax | 1,908 | 37,484,999 | 37,486,907 | – | 37,486,907 |
| Net income (loss) | (2,984,527) | 80,697,214 | 77,712,687 | – | 77,712,687 |
| Other Information | | | | | |
| Segment assets | ₱487,840,836 | ₱1,076,249,038 | ₱1,564,089,874 | (₱485,561,974) | ₱1,078,527,900 |
| Segment liabilities | 429,317 | 205,193,596 | 205,622,913 | (189,674) | 205,433,239 |
| Depreciation and amortization | – | 21,449,272 | 21,449,272 | – | 21,449,272 |

Segment revenue, segment expenses and segment results include transfers between business segments. Those transfers are eliminated in consolidation.

All of the Group's revenues are derived from operations within the Philippines, hence, the Group did not present geographical information required by PFRS 8, *Operating Segments*.

Revenue derived from IPMCDC, IPMESI and IPMRDC (entities under common control of IPM Group) amounted to ₱241.38 million, ₱319.52 million and ₱304.42 million, in 2017, 2016 and 2015, respectively.

## 23. Notes to Consolidated Statements of Cash Flows

Rollforward of liabilities under financing activities as of December 31, 2017 follows:

| | January 1, 2017 | Cash flows | Non-cash change | December 31, 2017 |
|---|---|---|---|---|
| Loan payable | ₱98,000,000 | (₱1,000,000) | ₱– | ₱97,000,000 |
| Interest payable | 313,600 | (4,416,746) | 4,297,146 | 194,000 |
| | ₱98,313,600 | (₱5,416,746) | ₱4,297,146 | ₱97,194,000 |

The non-cash change in interest payable pertains to interest expense amounting to ₱4.30 million in 2017 (see Notes 12 and 20).

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6760 Ayala Avenue
1226 Makati City
Philippines

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

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders
IPM Holdings, Inc.
Unit 103, Ground Floor, Prestige Tower Condominium
F. Ortigas Jr. Avenue Ortigas Center
Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of IPM Holdings, Inc. and its subsidiary (collectively, the Group) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated April 13, 2018. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jennifer D. Ticlao

Jennifer D. Ticlao
Partner
CPA Certificate No. 109616
SEC Accreditation No. 1507-A (Group A),
September 24, 2015, valid until September 23, 2018
Tax Identification No. 245-571-753
BIR Accreditation No. 08-001998-110-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621335, January 9, 2018, Makati City

April 13, 2018

# IPM HOLDINGS, INC. AND SUBSIDIARY

## SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS

List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2017:

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as of December 31, 2017** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | | | ✓ |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | ✓ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| | Amendments to PFRS 1: Borrowing costs | | | ✓ |
| | Amendments to PFRS 1: Meaning of 'Effective PFRSs' | | | ✓ |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| | Amendments to PFRS 2: Definition of Vesting Condition | | | ✓ |
| | Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions | **Not early adopted** | | |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| | Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination | | | ✓ |
| | Amendments to PFRS 3: Scope Exceptions for Joint Arrangements | | | ✓ |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PFRS 4: Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4 | **Not early adopted** | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| | Amendments to PFRS 5: Changes in Methods of Disposal | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Servicing Contracts | | | ✓ |
| | Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements | | | ✓ |
| **PFRS 8** | Operating Segments | ✓ | | |
| | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets | ✓ | | |
| **PFRS 9** | Financial Instruments | **Not early adopted** | | |
| | Amendments to PFRS 9: Prepayment Features with Negative Compensation | **Not early adopted** | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | **Not early adopted** | | |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10, Investment Entities: Applying the Consolidation Exception | | | ✓ |
| | Amendments to PFRS 10, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | **Not early adopted** | | |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | ✓ |
| **PFRS 11** | Joint Arrangements | ✓ | | |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Investment Entities | | | ✓ |
| | Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception | | | ✓ |
| | Amendments to PFRS 12: Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle) | | | ✓ |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| | Amendments to PFRS 13: Short-term receivable and payables | ✓ | | |
| | Amendments to PFRS 13: Portfolio Exception | | | ✓ |
| **PFRS 14** | Regulatory Deferral Accounts | | | ✓ |
| **PFRS 15** | Revenue from Contracts with Customers | **Not early adopted** | | |
| **PFRS 16** | Leases | **Not early adopted** | | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendments to PAS 1: Clarification of the requirements for comparative information | ✓ | | |
| | Presentation of Financial Statements - Disclosure Initiative | ✓ | | |
| **PAS 2** | Inventories | | | ✓ |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| | Amendments to PAS 7: Statement of Cash Flows, Disclosure Initiative | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| | Amendments to PAS 12: Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses | | | ✓ |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendment to PAS 16: Classification of servicing equipment | | | ✓ |
| | Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization | | | ✓ |
| | Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |
| | Amendment to PAS 16: Agriculture: Bearer Plants | | | ✓ |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits (Revised) | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions | | | ✓ |
| | Amendments to PAS 19: Discount Rate: Regional Market Issue | | | ✓ |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment to PAS 21: Net Investment in a Foreign Operation | | | ✓ |
| **PAS 23 (Revised)** | Borrowing Costs | | | ✓ |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Key Management Personnel | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27 (Amended)** | Amendments to PAS 27: Separate Financial Statements | | | ✓ |
| | Amendments to PAS 27: Equity Method in Separate Financial Statements | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | ✓ | | |
| | Amendments to PAS 28: Long-term Interests in Associates and Joint Venture | **Not early adopted** | | |
| | Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception | | | ✓ |
| | Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle) | **Not early adopted** | | |
| | Amendments to PFRS 10, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | **Not early adopted** | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Tax effect of Distribution to Holders of Equity Instruments | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | | | ✓ |
| | Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities | | | ✓ |
| | Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report' | | | ✓ |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | | | ✓ |
| | Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization | | | ✓ |
| | Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as of December 31, 2017** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | | | ✓ |
| **PAS 40** | Investment Property | ✓ | | |
| | Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40 | | | ✓ |
| | Amendments to PAS 40: Investment Property, Transfers of Investment Property | **Not early adopted** | | |
| **PAS 41** | Agriculture | | | ✓ |
| | Amendment to PAS 41: Agriculture: Bearer Plants | | | ✓ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | *Determining Whether an Arrangement Contains a Lease* | | | ✓ |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* | | | ✓ |

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as of December 31, 2017** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **IFRIC 7** | *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* | | | ✓ |
| **IFRIC 8** | *Scope of PFRS 2* | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | *Interim Financial Reporting and Impairment* | | | ✓ |
| **IFRIC 11** | PFRS 2- Group and Treasury Shares Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| **IFRIC 15** | Agreements for the Construction of Real Estate | | | ✓ |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies | ✓ | | |
| **IFRIC 22** | Foreign Currency Transactions and Advance Consideration | **Not early adopted** | | |
| **IFRIC 23** | Uncertainty over Income Tax Treatments | **Not early adopted** | | |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | | | ✓ |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| **SIC-29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

# COVER SHEET

for

## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| A | S | 0 | 9 | 5 | 0 | 0 | 8 | 5 | 5 | 7 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

IPM HOLDINGS, INC.

**PRINCIPAL OFFICE** *( No. / Street / Barangay / City / Town / Province )*

UNIT 103, GROUND FLOOR, PRESTIGE TOWER CONDOMINIUM, F. ORTIGAS JR. AVENUE, ORTIGAS CENTER, PASIG CITY

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AAFS | CRMD | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| info@mineralesindustrias.com | 897-5257 | NA |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 118 | 4th Wed of May | December 31 |

**CONTACT PERSON INFORMATION**

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Ana Maria A. Katigbak | AAK@cltpsj | 817-6791 | |

**CONTACT PERSON's ADDRESS**

3rd Floor, The Valero Tower, 122 Valero St., Salcedo Village, Makati City

***NOTE 1 :*** *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2 :*** *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

# IPM HOLDINGS, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR THE FINANCIAL STATEMENTS

The management of **IPM Holdings, Inc. (the "Parent Company")** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Parent Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

**SyCip Gorres Velayo & Co.**, the independent auditors, appointed by the stockholders has audited the financial statements of the Parent Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signed under oath by the following:

**ISABELITA P. MERCADO**
Chairman of the Board/
Chief Executive Officer

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

Signed this 13th day of April 2018

**SUBSCRIBED AND SWORN** to before me this APR 16 2018, affiants exhibiting to me their Passports, as follows:

| Name | Passport No. | Date of Issue | Place of Issue |
|---|---|---|---|
| Isabelita P. Mercado | EC3526522 | February 25, 2015 | DFA, Manila |
| Francis Neil P. Mercado | EB4433663 | June 18, 2015 | DFA, Manila |

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Book No. 118
Series of 2018

Mary Melanie H. Quiño
Notary Public - City of Makati
UNTIL DECEMBER 31, 2018
PTR NO. 3387551 1/3/18
IBP LIFETIME NO. 07635
MCLE COMPLIANCE NO. V-0007145 4/7/2017

Unit 103 G/F Prestige Tower Condominium F. Ortigas Jr. Rd., Ortigas Center, Pasig City, Philippines 1605
Telephone No. (632) 631-0281 Fax. No. (632) 654-2167

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1226 Makati City
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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
IPM Holdings, Inc.
Unit 103, Ground Floor, Prestige Tower Condominium,
F. Ortigas Jr. Avenue Ortigas Center,
Pasig City

## Report on the Audit of the Parent Company Financial Statements

### Opinion

We have audited the parent company financial statements of IPM Holdings, Inc. (the Parent Company), which comprise the parent company statements of financial position as at December 31, 2017 and 2016, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 13 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of IPM Holdings, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Jennifer D. Ticlao.

SYCIP GORRES VELAYO & CO.

Jennifer D. Ticlao

Jennifer D. Ticlao
Partner
CPA Certificate No. 109616
SEC Accreditation No. 1507-A (Group A),
September 24, 2015, valid until September 23, 2018
Tax Identification No. 245-571-753
BIR Accreditation No. 08-001998-110-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621335, January 9, 2018, Makati City

April 13, 2018

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ANDREA P. ROSARIO
COLLECTION SECTION

## IPM HOLDINGS, INC.
## PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2017** | 2016 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash (Note 4) | **₱1,002,072** | ₱336,520 |
| Receivables (net of allowance for impairment losses of ₱1,066,172 as of December 31, 2017 and 2016) | **–** | – |
| Other current assets - net (Note 5) | **20,000** | 20,000 |
| **Total Current Assets** | **1,022,072** | 356,520 |
| **Noncurrent Asset** | | |
| Investment in a subsidiary (Notes 6 and 10) | **485,375,000** | 485,375,000 |
| **TOTAL ASSETS** | **₱486,397,072** | ₱485,731,520 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Advances from related party (Note 10) | **₱5,000,000** | ₱1,000,000 |
| Accrued expenses and other payables (Notes 7 and 10) | **437,073** | 804,302 |
| **Total Current Liabilities** | **5,437,073** | 1,804,302 |
| **Equity** | | |
| Capital stock (Note 8) | **690,000,000** | 690,000,000 |
| Deficit | **(209,040,001)** | (206,072,782) |
| **Total Equity** | **480,959,999** | 483,927,218 |
| **TOTAL LIABILITIES AND EQUITY** | **₱486,397,072** | ₱485,731,520 |

*See accompanying Notes to Parent Company Financial Statements.*

## IPM HOLDINGS, INC.
## PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2017** | 2016 | 2015 |
| **INCOME** | | | |
| Interest (Note 4) | **₱1,407** | ₱1,573 | ₱9,539 |
| **EXPENSES** | | | |
| Stock exchange listing fee | **640,025** | 693,910 | 397,430 |
| Salaries and wages | **636,000** | 636,000 | 629,333 |
| Professional fees | **538,080** | 898,005 | 475,911 |
| Provision for impairment losses (Note 5) | **195,957** | 234,539 | 183,061 |
| Utilities (Note 10) | **180,000** | 180,000 | 180,000 |
| Rent expense (Note 10) | **160,714** | 160,714 | 321,429 |
| Entertainment, amusement and recreation | **119,348** | 136,650 | 143,478 |
| Directors' per diem (Note 10) | **110,000** | 300,000 | 320,000 |
| Office supplies and printing costs | **71,843** | 82,906 | 117,723 |
| Transportation | **38,227** | 41,207 | 43,067 |
| Taxes and licenses | **18,496** | 15,616 | 14,616 |
| Miscellaneous | **259,655** | 106,012 | 166,110 |
| | **2,968,345** | 3,485,559 | 2,992,158 |
| **LOSS BEFORE INCOME TAX** | **2,966,938** | 3,483,986 | 2,982,619 |
| **PROVISION FOR INCOME TAX** (Note 9) | **281** | 315 | 1,908 |
| **NET LOSS** | **₱2,967,219** | ₱3,484,301 | ₱2,984,527 |
| **OTHER COMPREHENSIVE INCOME** | **–** | – | – |
| **TOTAL COMPREHENSIVE LOSS** | **₱2,967,219** | ₱3,484,301 | ₱2,984,527 |

*See accompanying Notes to Parent Company Financial Statements.*

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

| | Capital Stock (Note 8) | Deficit | Total |
|---|---|---|---|
| At January 1, 2017 | **₱690,000,000** | **(₱206,072,782)** | **₱483,927,218** |
| Net loss | – | **(2,967,219)** | **(2,967,219)** |
| At December 31, 2017 | **₱690,000,000** | **(₱209,040,001)** | **₱480,959,999** |
| At January 1, 2016 | ₱690,000,000 | (₱202,588,481) | ₱487,411,519 |
| Net loss | – | (3,484,301) | (3,484,301) |
| At December 31, 2016 | ₱690,000,000 | (₱206,072,782) | ₱483,927,218 |
| At January 1, 2015 | ₱690,000,000 | (₱199,603,954) | ₱490,396,046 |
| Net loss | – | (2,984,527) | (2,984,527) |
| At December 31, 2015 | ₱690,000,000 | (₱202,588,481) | ₱487,411,519 |

*See accompanying Notes to Parent Company Financial Statements.*

## IPM HOLDINGS, INC.
## PARENT COMPANY STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss before income tax | **(₱2,966,938)** | (₱3,483,986) | (₱2,982,619) |
| Adjustments for: | | | |
| Provision for impairment losses (Note 5) | **195,957** | 234,539 | 183,061 |
| Interest income (Note 4) | **(1,407)** | (1,573) | (9,539) |
| Operating loss before changes in working capital | **(2,772,388)** | (3,251,020) | (2,809,097) |
| Changes in operating assets and liabilities: | | | |
| Increase in other current assets | **(195,957)** | (226,539) | (197,728) |
| Increase (decrease) in accrued expenses and other payables | **(367,229)** | 374,985 | 181,838 |
| Net cash used in operations | **(3,335,574)** | (3,102,574) | (2,824,987) |
| Interest received | **1,407** | 1,573 | 9,539 |
| Income tax paid | **(281)** | (315) | (1,908) |
| Net cash flows used in operating activities | **(3,334,448)** | (3,101,316) | (2,817,356) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Increase in advances from related party (Note 10) | **4,000,000** | 1,000,000 | – |
| **NET INCREASE (DECREASE) IN CASH** | **665,552** | (2,101,316) | (2,817,356) |
| **CASH AT BEGINNING OF YEAR** | **336,520** | 2,437,836 | 5,255,192 |
| **CASH AT END OF YEAR** (Note 4) | **₱1,002,072** | ₱336,520 | ₱2,437,836 |

*See accompanying Notes to Parent Company Financial Statements.*

# IPM HOLDINGS, INC.
# NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

## 1. Corporate Information and Status of Operations

IPM Holdings, Inc. (IPM) (the Parent Company) was incorporated and organized in the Republic of the Philippines on August 31, 1995 with a corporate life of 50 years, to engage in the business as an investment holding company.

On November 20, 2012, the BOD approved the issuance of 500,000,000 shares at par value of ₱1 per share in favor of the following companies within IPM Group: (a) IPM Construction and Development Corporation (IPMCDC), 350,000,000; (b) IPM Environmental Services, Inc. (IPMESI), 100,000,000; and (c) IPM Realty and Development Corporation (IPMRDC), 50,000,000. On the same date, the BOD authorized the acquisition of 615,000,000 shares in Basic Environmental Systems and Technologies, Inc. (BEST) at par value of ₱1 per share, which will constitute 75% of the resulting outstanding capital of BEST. Further, the Parent Company was authorized to partially pay for the 615,000,000 shares in BEST as follows: (a) ₱450,000,000 for the 600,000,000 shares that will come from the increase in authorized capital stock of BEST; and (b) ₱12,500,000 for the subscription rights to 15,000,000 shares in BEST to be acquired from the original shareholders of BEST.

On February 8, 2013, the stockholders of the Parent Company representing at least two thirds of the outstanding capital stock approved the subscription by the following within the IPM Group of companies or any of their designees/nominees to a total of 500,000,000 shares out of the ₱500,000,000 increase in the authorized capital stock of the Parent Company previously approved by the shareholders, at a total subscription price of ₱500,000,000, payable in cash: (a) IPMCDC, ₱350,000,000; (b) IPMESI, ₱100,000,000; and (c) IPMRDC, ₱50,000,000. On the same date, the stockholders approved the amendment of the primary purpose of the Parent Company to enable the Parent Company to revert to being a holding company.

On February 11, 2013 and February 12, 2013, the Parent Company received ₱50,000,000 and ₱450,000,000, respectively, as deposits for the said subscription to the proposed increase in the authorized capital stock of the Parent Company.

On March 4, 2013, the Parent Company acquired 615,000,000 shares in BEST representing 75% interest, thereby treating it as a subsidiary and paid ₱462,500,000, ₱12,500,000 of which was paid to the original shareholders of BEST as consideration to the subscription rights acquired (see Note 6).

On June 11, 2013, the Securities and Exchange Commission (SEC) approved the Parent Company's application for increase in authorized capital stock from 240,000,000 shares to 740,000,000 shares with a par value of ₱1 per share and the amendment of the primary purpose of the Parent Company to revert back to a holding company. The deposit for future subscription of stocks by IPMCDC, IPMESI and IPMRDC was then transferred to common stocks following the approval of the increase in authorized capital.

On July 18, 2013, the BOD approved the increase in the authorized capital stock of the Parent Company from ₱740,000,000 divided into 740,000,000 shares with a par value of ₱1 per share to ₱5,000,000,000 divided into 5,000,000,000 shares with a par value of ₱1 per share. On the same date, the BOD approved the transfer of the principal address of the Parent Company from Room 322, 3rd Floor, LRI Design Plaza, 210 Nicanor Garcia Street, Barangay Sta. Cruz, Makati City to its current principal address, Unit 103, Ground Floor, Prestige Tower Condominium, F. Ortigas Jr. Avenue Ortigas Center, Pasig City. These were subsequently approved by the shareholders on

September 19, 2013. The SEC approved the amended articles of incorporation indicating the change of address on October 18, 2013.

On February 10, 2014, the BOD approved the payment to BEST of ₱22,875,000 representing 15% of the unpaid balance on the total subscription price for the 615,000,000 shares subscribed by the Parent Company in BEST. Subscription payable as of December 31, 2017 and 2016 amounted to ₱129,625,000 (see Notes 6 and 10).

On July 2, 2015 and October 21, 2015, the BOD and the shareholders, respectively, approved the change in the name of the Parent Company from "Minerales Industrias Corporation" to "IPM Holdings, Inc." and the change in the Parent Company's ticker symbol from "MIC" to "IPM". The SEC approved the Parent Company's Amended Articles of Incorporation indicating the change in the name of the Parent Company on November 25, 2015.

The Parent Company's shares are publicly traded in the Philippine Stock Exchange (PSE). As of December 31, 2017 and 2016, the percentage ownership of the top four beneficial shareholders of the Parent Company follows:

| | Percentage of ownership |
|---|---|
| IPMCDC | 51% |
| IPMESI | 10% |
| IPMRDC | 7% |
| Public | 32% |

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

The Parent Company's unissued authorized capital stock amounted to ₱50,000,000 as of December 31, 2017 and 2016 (see Note 8).

The Parent Company's subsidiary, BEST, was incorporated in the Philippines. BEST is engaged in contracting and consulting business for waste management, public cleansing, sanitation and general hygiene to provide comprehensive waste disposal services (see Note 6).

The accompanying parent company financial statements of the Parent Company were approved and authorized for issue by the Chairman on April 13, 2018, as delegated by the Board of Directors (BOD) on April 5, 2018.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying parent company financial statements have been prepared on a historical cost basis. These parent company financial statements are presented in Philippine Peso (₱), the Parent Company's functional currency. All amounts are rounded to the nearest peso unit unless otherwise indicated.

The Parent Company also prepares and issues consolidated financial statements for the same period as the separate financial statements presented in compliance with PFRS. These financial statements may be obtained at the Parent Company's registered office address or from the SEC.

Statement of Compliance
The parent company financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Parent Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Parent Company's financial position or performance unless otherwise indicated.

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

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

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Parent Company has provided the required information in Note 10 to the financial statements. As allowed under the transition provisions of the standard, the Parent Company did not present comparative information for the year ended December 31, 2016.

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

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2017 and these will be adopted on their effectivity dates in accordance with the transition provisions. Except as otherwise stated, these amendments and improvements to PFRS and new standard are not expected to have any significant impact on the parent company financial statements.

*Effective beginning on or after January 1, 2018*
- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*

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

  The adoption of PFRS 9 will have an effect on the impairment methodology for financial assets, but will have no impact on the classification and measurement of the Parent Company's financial assets and liabilities.

  Since the Parent Company's receivable have been fully provided for impairment losses, the Parent Company does not expect that adopting this standard will have any impact on its financial statements.

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

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

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

  Since the Parent Company is only a holding company, the Parent Company does not expect that adopting this standard will have any impact on its financial statements.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

*Effective beginning on or after January 1, 2019*
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

- PFRS 16, *Leases*
  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  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 Parent Company does not expect any impact on its financial statements.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

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

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

Financial Instruments
*Date of recognition*
The Parent Company recognizes a financial asset or a financial liability on the parent company statements 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 trade date.

*Initial recognition*
All financial assets are initially recognized at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Parent Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

As of December 31, 2017 and 2016, the Parent Company has no financial assets and liabilities at FVPL, AFS financial assets and HTM investments.

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

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

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the interest income in profit or loss. The losses arising from impairment of such loans and receivables are recognized in provision for impairment losses in profit or loss. This accounting policy relates to the Parent Company's "Cash" and "Receivables".

*Other financial liabilities*
Other financial liabilities pertain to issued financial instruments that are not classified or designated as at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than the exchange of a fixed amount of cash. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. This accounting policy applies primarily to the Parent Company's accrued expenses and other payables and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax and taxes payable).

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

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

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

*Loans and receivables*
For loans and receivables carried at amortized cost, the Parent Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Parent Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets' original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss shall be recognized in profit or loss during the period in which it arises.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to loans and receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Parent Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired loans and receivables are derecognized when they are assessed as uncollectible.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Parent Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with the changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Parent Company and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Parent Company to reduce any difference between loss estimate and actual loss experience.

Derecognition of Financial Assets and Liabilities

*Financial asset*

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

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

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

*Financial liability*

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

Investment in a Subsidiary

A subsidiary is an entity in which the Parent Company exercises control over the operation and management of the subsidiary. The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

An investor controls an investee if and only if the investor has all the following:

- 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 effect the amount of the investor's returns.

The Parent Company's investment in a subsidiary is accounted for in the parent company financial statements under the cost method of accounting.

The reporting dates of the subsidiary and the Parent Company are identical and the subsidiary's accounting policies conform to those used by the Parent Company for like transactions and events in similar circumstances.

The Parent Company recognizes dividend income from its subsidiary once the subsidiary declared dividends.

Impairment of Nonfinancial Asset

The Parent Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Parent Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs 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 unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase in other comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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 Parent Company.

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 Parent Company 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: other techniques for which all inputs which have a significant effect on the recorded fair value are observable in the market, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

*Financial assets*
The fair values for financial instruments traded in active markets at the reporting date are based on their quoted market price which is between the bids and ask prices 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 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 financial statements on a recurring basis, the Parent Company 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 Parent Company's management determines the policies and procedures for both recurring fair value measurement, such as unquoted AFS financial assets, and for non-recurring fair value measurement.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Parent Company'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 Parent Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Other Current Assets
Other current assets represent creditable withholding taxes, input vat and prepaid expenses, Prepaid expenses pertain to 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.

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.

*Deficit*
Deficit represents the cumulative amount of net losses of the Parent Company.

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

*Interest income*
Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Expenses
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized in profit or loss in the period these are incurred.

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.

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)*
Revenue, expenses and assets are recognized net of the amount of sales tax except:

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

The net amount of tax recoverable from the tax authority is included as part of "Other current assets" in the parent company statement of financial position.

*Creditable Withholding Tax*
Creditable withholding taxes are taxes deducted by required withholding agents who remit directly to the Bureau of Internal Revenue. These can be claimed by the Company against the income tax liability of the Company for the current taxable year and any excess thereof can be carried over for the next taxable year.

Operating Segment
The Parent Company'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 11.

Provisions
Provisions are recognized when the Parent Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Parent Company 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 parent company 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 parent company financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Parent Company's financial position at the reporting date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the parent company financial statements when material.

## 3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the accompanying parent company financial statements in conformity with PFRS requires the Parent Company to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. However, future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the parent company

financial statements as they become reasonably determinable. Actual results could differ from such estimates.

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.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting period, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed as follows.

*Estimation of allowance for impairment losses on receivables*

The Parent Company maintains allowance for impairment loss on its receivables at a level adequate to provide for any potential uncollectible receivables. The level of this allowance is regularly evaluated by the Parent Company. The Parent Company assesses whether objective impairment exists for the receivable by considering the financial condition and credit history of the counterparty. Moreover, the Parent Company also considers its historical loss experience in assessing collective impairment of receivables. The Parent Company reviews the status of the receivables and identifies amounts that are to be provided with allowance on a continuous basis.

As of December 31, 2017 and 2016, receivables amounting to ₱1,066,172 have been fully provided with allowance for impairment losses since management believes that these receivables will not be recovered.

*Impairment of nonfinancial assets*

The Parent Company 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 and significant negative industry or economic trends. The Parent Company recognizes an impairment loss if such indications are present and whenever the carrying amount of an asset exceeds its recoverable amount.

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

The carrying amount and the related impairment loss of prepaid taxes, creditable withholding tax and input VAT are disclosed in Note 5. The Parent Company recognized impairment loss amounting to ₱195,957, ₱234,539 and 183,061 in 2017, 2016 and 2015, respectively. As of December 31, 2017 and 2016, the Parent Company's prepaid expenses amounting to ₱20,000 are recoverable (see Note 5).

As of December 31, 2017 and 2016, there were no impairment loss recognized in the investment in a subsidiary amounting to ₱485,375,000 as management believes that the investment are fully recoverable (see Note 6).

*Recognition of deferred tax assets*
As of December 31, 2017 and 2016, deferred tax assets have not been recognized in respect of carryforward benefit of NOLCO that are available for offset against future taxable income for three succeeding years because management believes that it is more likely than not that the tax benefits will not be realized in the future. As of December 31, 2017 and 2016, unrecognized deferred tax assets amounted to ₱2,529,908 and ₱2,740,438, respectively (see Note 9).

## 4. Cash

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Cash on hand | **₱2,210** | ₱2,210 |
| Cash in bank | **999,862** | 334,310 |
| | **₱1,002,072** | ₱336,520 |

Cash in bank earns interest at the prevailing bank deposit rate.

Interest earned from cash in bank amounted to ₱1,407, ₱1,573 and ₱9,539 in 2017, 2016 and 2015, respectively.

## 5. Other Current Assets

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Prepaid taxes | **₱1,976,300** | ₱1,976,300 |
| Creditable withholding tax | **1,137,430** | 1,137,430 |
| Input VAT | **2,080,964** | 1,885,007 |
| Prepaid expenses | **20,000** | 20,000 |
| | **5,214,694** | 5,018,737 |
| Less allowance for impairment losses | **5,194,694** | 4,998,737 |
| | **₱20,000** | ₱20,000 |

The movement in allowance for impairment losses follows:

| | **2017** | 2016 |
|---|---|---|
| Balance at beginning of year | **₱4,998,737** | ₱4,764,198 |
| Provision for impairment losses | **195,957** | 234,539 |
| Balance at end of year | **₱5,194,694** | ₱4,998,737 |

The Parent Company provided an allowance for impairment on its prepaid taxes, creditable withholding tax and input VAT amounting to ₱5,194,694 and ₱4,998,737 as of December 31, 2017 and 2016, respectively, due to low probability that these assets may be utilized in the future.

## 6. Investment in a Subsidiary

The Parent Company's investment in a subsidiary, BEST, amounted to ₱485,375,000 as of December 31, 2017 and 2016.

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

On November 20, 2012, the Parent Company's BOD authorized the acquisition of 615,000,000 shares in BEST at par value of ₱1 per share, which constitute 75% of the resulting outstanding capital of BEST. Further, the Parent Company was authorized to partially pay for the 615,000,000 shares in BEST as follows: (a) ₱450,000,000 for the 600,000,000 shares that will come from the increase in authorized capital stock of BEST; and (b) ₱12,500,000 for the subscription rights to 15,000,000 shares in BEST.

On March 4, 2013, the Parent Company acquired 615,000,000 shares in BEST representing 75% interest and paid ₱462,500,000.

On February 10, 2014, the BOD approved the payment to BEST of ₱22,875,000 representing 15% of the unpaid balance on the total subscription price for the 615,000,000 shares subscribed by the Parent Company in BEST. Subscription payable as of December 31, 2017 and 2016 amounting to ₱129,625,000 was offset against the Parent Company's investment in a subsidiary (see Note 10).

The Parent Company accounts for its investment in BEST at cost.

Summarized below is the financial information of BEST as of December 31:

| | **2017** | 2016 |
|---|---|---|
| Current assets | **₱951,206,679** | ₱830,626,112 |
| Noncurrent assets | **343,692,356** | 363,590,428 |
| Total assets | **₱1,294,899,035** | ₱1,194,216,540 |
| Current liabilities | **₱234,557,720** | ₱224,260,748 |
| Noncurrent liabilities | **1,154,385** | 1,282,697 |
| Total liabilities | **₱235,712,105** | ₱225,543,445 |
| Revenue | **₱296,811,583** | ₱357,843,239 |
| Net income | **90,095,783** | 97,759,298 |
| Total comprehensive income | **90,513,835** | 97,617,653 |

Status of Operations and Management's Plans

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, will build, develop and operate state-of-the-art facilities to properly address the local government units' (LGUs') waste management needs.

As of December 31, 2017, BEST is actively engaged in various 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.

## 7. Accrued Expenses and Other Payables

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Accrued expenses | **₱417,469** | ₱780,753 |
| Taxes payable | **19,604** | 23,549 |
| | **₱437,073** | ₱804,302 |

Accrued expenses pertain to unreleased checks and accruals of professional fees as of December 31, 2017 and 2016. Of the total amount, ₱57,321 and ₱114,643 is payable to BEST which pertains to accrual of rent expense as of December 31, 2017 and 2016, respectively (see Note 10).

Taxes payable pertains to liabilities for withholding tax on compensation and expanded withholding tax as of December 31, 2017 and 2016.

Accrued expenses and taxes payable are non-interest-bearing and are generally payable within 30- to 60-day terms.

## 8. Equity

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

| | **2017** | 2016 |
|---|---|---|
| **Number of shares authorized to issue:** | | |
| At beginning and end of year | **740,000,000** | 740,000,000 |
| **Number of shares issued and outstanding:** | | |
| At beginning and end of year | **690,000,000** | 690,000,000 |

In accordance with Annex 68-D of SRC Rule 68, 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 | | |

On February 8, 2013, the stockholders of the Parent Company representing at least two thirds of the outstanding capital stock approved the subscription by the following companies within the IPM Group or any of their designees/nominees to a total of 500,000,000 shares out of the ₱500,000,000 increase in the authorized capital stock at a total subscription price of ₱500,000,000, which was paid as follows: (a) IPMCDC, ₱350,000,000; (b) IPMESI, ₱100,000,000; and (c) IPMRDC, ₱50,000,000.

The Parent Company received deposit on future stock subscription from these companies on February 11, 2013 and February 12, 2013 amounting to ₱50,000,000 and ₱450,000,000, respectively, for the said subscription, which was subsequently transferred to common shares following the approval of SEC of the application for increase in authorized shares of the Parent Company on June 11, 2013.

On May 25, 2016, the stockholders approved the increase in the Corporation'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.

The Parent Company's unissued authorized capital stock amounted to ₱50,000,000 as of December 31, 2017 and 2016.

The number of holders of securities of the Parent Company as of December 31, 2017 and 2016 is 118 shareholders.

## 9. Income Tax

The provision for income tax consists of final tax on interest income.

The Parent Company's unrecognized deferred tax asset as of December 31, 2017 and 2016 pertains to the Parent Company's NOLCO amounting to ₱8,433,028 and ₱9,134,793, respectively. The tax effect of these NOLCO amounted to ₱2,529,908 and ₱2,740,438 as of December 31, 2017 and 2016, respectively.

The Parent Company's deferred tax assets were not recognized in the books because management believes that it is not probable that future taxable profits will be available against which these can be utilized in the future before the carry forward benefit expires. The Parent Company will recognize a previously unrecognized deferred tax asset to the extent that it becomes probable that future taxable income will allow the carry forward benefit of NOLCO to be recovered.

The Parent Company's NOLCO as of December 31, 2017 consists of:

| Year Incurred | Amount | Applied | Expired | Balance | Expiry Date |
|---|---|---|---|---|---|
| 2017 | ₱2,653,040 | ₱– | ₱– | ₱2,653,040 | 2020 |
| 2016 | 3,114,370 | – | – | 3,114,370 | 2019 |
| 2015 | 2,665,618 | – | – | 2,665,618 | 2018 |
| 2014 | 3,354,805 | – | 3,354,805 | – | 2017 |
| | ₱11,787,833 | ₱– | ₱3,354,805 | ₱8,433,028 | |

The movements in NOLCO follow:

| | **2017** | 2016 |
|---|---|---|
| Balance at beginning of year | **₱9,134,793** | ₱13,157,555 |
| Addition | **2,653,040** | 3,114,370 |
| Expiration | **(3,354,805)** | (7,137,132) |
| Balance at end of year | **₱8,433,028** | ₱9,134,793 |

The reconciliation between the statutory income tax and the effective income tax follows:

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Benefit from income tax at statutory tax rate | **(₱890,081)** | (₱1,045,196) | (₱894,786) |
| Add (Deduct) tax effects of: | | | |
| Expired NOLCO | **1,006,441** | 2,141,140 | 512,366 |
| Nondeductible expenses | **94,592** | 111,357 | 97,963 |
| Interest income subjected to final tax | **(141)** | (157) | (954) |
| Change in unrecognized deferred tax assets | **(210,530)** | (1,206,829) | 287,319 |
| Effective income tax | **₱281** | ₱315 | ₱1,908 |

## 10. Related Party Transaction

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 Parent Company; (b) associates; and (c) individual owning, directly or indirectly, an interest in the voting power of the Parent Company that gives them significant influence over the Parent Company 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:

| | **Amount** | | **Outstanding Balance** | | | |
|---|---|---|---|---|---|---|
| **Category** | **2017** | 2016 | **2017** | 2016 | **Terms** | **Conditions** |
| *Subsidiary* | | | | | | |
| BEST | | | | | | |
| Rent (a) | **₱160,714** | ₱160,714 | **₱57,321** | ₱114,643 | Noninterest-bearing; on demand | Unsecured |
| Subscription payable (b) | **–** | – | **129,625,000** | 129,625,000 | Due and demandable | Unsecured |
| Advances from related party (c) | **4,000,000** | 1,000,000 | **5,000,000** | 1,000,000 | Noninterest-bearing; on demand | Unsecured |
| *Other related parties* | | | | | | |
| GNCA Holdings, Inc.(GNCA) | | | | | | |
| Utilities (d) | **180,000** | 180,000 | **–** | 50,400 | Noninterest-bearing; on demand | Unsecured |
| Directors | | | | | | |
| Directors' per diem (e) | **110,000** | 300,000 | **–** | – | Noninterest-bearing; on demand | Unsecured |

a. On January 12, 2015, the Parent Company entered into a contract of lease with BEST for rental of office space amounting to ₱15,000 per month inclusive of utilities or ₱180,000 per year. The contract retroactively covers the period from October 2014 to October 2015. The contract of lease was renewed for another year with the same contract terms in 2017 and 2016. The Parent Company's unpaid rent expense as of December 31, 2017 and 2016 amounted to ₱57,321 and ₱114,643, respectively (see Note 7).

b. Subscription payable of the Parent Company to BEST amounted to ₱129,625,000 as of December 31, 2017 and 2016 which was offset against the Parent Company's investments in a subsidiary (see Note 6).

c. Advances of the Parent Company from BEST amounted to ₱5,000,000 and ₱1,000,000 as of December 31, 2017 and 2016, respectively. These advances represent noninterest-bearing advances obtained from the subsidiary to finance the operating requirements of the Company.

d. The Parent Company entered into an agreement with GNCA, an entity controlled by one of the Parent Company's BOD, for the sharing of common costs incurred on the leased office space. The agreement provides that the Parent Company shall pay fixed monthly utility charges of ₱15,000 exclusive of VAT in 2017, 2016 and 2015, in lieu of its proportionate share in monthly rentals on the leased premises.

e. 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. Total per diem paid to the directors amounted to ₱0.11 million and ₱0.30 million in 2017 and 2016, respectively.

## 11. Segment Information

For management reporting purposes, the Parent Company's activities are organized in one operating segment. As of December 31, 2017 and 2016, the segment's assets amounted to ₱486.40 million and ₱485.73 million, respectively. As of December 31, 2017 and 2016, the segment's liabilities amounted to ₱5.44 million and ₱1.80 million, respectively. In 2017 and 2016, the segment's source of revenue is interest income. The segment's net loss amounted to ₱2.97 million, ₱3.48 million, and ₱2.98 million in 2017, 2016 and 2015, respectively.

The Parent Company has no revenue outside the Philippines and no revenue from a single customer, hence, the Parent Company did not present geographical information required by PFRS 8, *Operating Segments.*

## 12. Financial Instruments

Fair Value Information
Due to the short-term nature of the Parent Company's financial instruments, their fair values approximate their carrying amounts as of December 31, 2017 and 2016.

Fair Value Hierarchy
As of December 31, 2017 and 2016, the Parent Company has no financial assets 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.

Financial Risk Management Objectives and Policies
The Parent Company's principal financial instruments comprise of cash, advances from related party, and accrued expenses and other payables. The main purpose of the Parent Company's financial instruments is to fund its operational and capital expenditures.

The main risks arising from the Parent Company's financial instruments are credit risk and liquidity risk. The main objectives of the Parent Company's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

*Credit risk*
The investment of the Parent Company's cash resources is managed so as to minimize risk while seeking to enhance yield. The Parent Company's holding of cash exposes the Parent Company to credit risk if the counterparty is unwilling or unable to fulfill its obligations, and the Parent Company consequently suffers financial loss. Credit risk management involves entering into financial instruments only with counterparties with acceptable credit standing. The Parent Company's maximum exposure to credit risk pertains only to cash in bank amounting to ₱999,862 and ₱334,310 as of December 31, 2017 and 2016, respectively.

The gross maximum exposure to credit risk of the Parent Company approximates its net maximum exposure. There were no amounts that are set-off with the criteria in PAS 32, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*. There are no amounts subject to an enforceable master netting arrangement or similar agreement as of December 31, 2017 and 2016.

The Parent Company's cash in bank has high grade credit quality. The credit quality of the financial assets was determined based on the nature of the counterparty and the Parent Company's historical experience with them.

As of December 31, 2017 and 2016, the Parent Company's receivable amounting to ₱1,066,172 is fully impaired.

*Liquidity risk*
Liquidity or funding risk is the risk associated with the difficulty of selling financial assets in a timely manner at their values to meet obligations.

The Parent Company seeks to manage its liquidity profile to be able to finance capital expenditures and working capital requirements.

The Parent Company's advances from related party and accrued expenses and other payables excluding taxes payable are all due within one year.

Capital management
The primary objective of the Parent Company'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 Parent Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

In 2013, following the receipt of capital infusion from IPM Group of Companies, the Parent Company acquired 75% interest in BEST, an investment that is expected to improve its financial condition. Following the subscription agreement with IPMCDC, IPMESI and IPMRDC, the Parent Company became part of the IPM Group of Companies on March 4, 2013.

As of December 31, 2017 and 2016, the Parent Company has a deficit of ₱209,040,001 and ₱206,072,782, respectively.

The Parent Company is not exposed to externally-imposed capital requirements.

13. **Supplementary Information Required Under Revenue Regulations 15-2010**

In compliance with the requirements set forth by Revenue Regulations 15-2010, hereunder are the information on taxes and license fees paid or accrued in 2017.

VAT
The Parent Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12%.

a. The Parent Company did not have any transaction subjected to output VAT in 2017

b. Input VAT for 2017 follows:

| | |
|---|---|
| Balance at January 1, 2017 | ₱1,885,007 |
| Current year's domestic purchases/payments for: | |
| Services lodged under other accounts | 142,616 |
| Goods other than for resale or manufacture | 12,455 |
| Others | 40,886 |
| Balance at December 31, 2017 | ₱2,080,964 |

Taxes and Licenses
Details of the taxes and licenses for 2017 follow:

| | |
|---|---|
| *Local* | |
| Business clearance | ₱17,996 |
| *National* | |
| BIR annual registration | 500 |
| | ₱18,496 |

Withholding Taxes
The withholding taxes paid in 2017 follow:

| | |
|---|---|
| Tax on compensation and benefits | ₱82,107 |
| Expanded withholding taxes | 46,685 |
| | ₱128,792 |

Tax Assessments
The Parent Company has no Final Assessment Notice and/or Formal letter of Demand from the Bureau of Internal Revenue (BIR) for alleged deficiency income tax, VAT and withholding tax. In addition, the Parent Company has no pending tax case outside the administration of the BIR as of December 31, 2017.

SGV
Building a better working world

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

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

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

**INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors
IPM Holdings, Inc.
Unit 103, Ground Floor, Prestige Tower Condominium,
F. Ortigas Jr. Avenue Ortigas Center,
Pasig City

We have audited the accompanying parent company financial statements of IPM Holdings, Inc. (the Parent Company) as of and for the year ended December 31, 2017, on which we have rendered the attached report dated April 13, 2018.

In compliance with Securities Regulation Code Rule No. 68, As Amended (2011), we are stating that the above Parent Company has one hundred nine (109) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Jennifer D. Ticlao

Jennifer D. Ticlao
Partner
CPA Certificate No. 109616
SEC Accreditation No. 1507-A (Group A),
September 24, 2015, valid until September 23, 2018
Tax Identification No. 245-571-753
BIR Accreditation No. 08-001998-110-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621335, January 9, 2018, Makati City

April 13, 2018

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December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

**INDEPENDENT AUDITOR'S REPORT**
**ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders
IPM Holdings, Inc.
Unit 103, Ground Floor, Prestige Tower Condominium
F. Ortigas Jr. Avenue Ortigas Center,
Pasig City

We have audited in accordance with Philippine Standards on Auditing, the parent company financial statements of IPM Holdings, Inc. (the Parent Company) as at December 31, 2017 and 2016 and for the years then ended, and have issued our report thereon dated April 13, 2018. Our audits were made for the purpose of forming an opinion on the basic parent company financial statements taken as a whole. The accompanying schedule of all effective standards and interpretations as of December 31, 2017 is the responsibility of the management of the Parent Company. This schedule is presented for the purposes of complying with Securities Regulation Code 68, As Amended (2011) and is not part of the basic parent company financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic parent company financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic parent company financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jennifer D. Ticlao

Jennifer D. Ticlao
Partner
CPA Certificate No. 109616
SEC Accreditation No. 1507-A (Group A),
September 24, 2015, valid until September 23, 2018
Tax Identification No. 245-571-753
BIR Accreditation No. 08-001998-110-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621335, January 9, 2018, Makati City

April 13, 2018

## IPM HOLDINGS, INC.

## SUPPLEMENTARY SCHEDULE OF DEFICIT

**DECEMBER 31, 2017**

| | |
|---|---|
| Unappropriated deficit, as adjusted, beginning | ₱206,072,782 |
| Net loss during the period closed to deficit | 2,967,219 |
| Unappropriated deficit, as adjusted, ending | ₱209,040,001 |

**IPM HOLDINGS, INC.**
**Schedule of All Effective Standards and Interpretations**
**Under PFRS in compliance with SRC Rule 68, as amended**
**December 31, 2017**

List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2017:

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as of December 31, 2017** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | | | ✓ |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| | Amendments to PFRS 1: Borrowing costs | | | ✓ |
| | Amendments to PFRS 1: Meaning of 'Effective PFRSs' | | | ✓ |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| | Amendments to PFRS 2: Definition of Vesting Condition | | | ✓ |
| | Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions | **Not early adopted** | | |
| **PFRS 3 (Revised)** | Business Combinations | | | ✓ |
| | Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination | | | ✓ |
| | Amendments to PFRS 3: Scope Exceptions for Joint Arrangements | | | ✓ |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PFRS 4: Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4 | **Not early adopted** | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| | Amendments to PFRS 5: Changes in Methods of Disposal | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Servicing Contracts | | | ✓ |
| | Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements | | | ✓ |
| **PFRS 8** | Operating Segments | ✓ | | |
| | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets | ✓ | | |
| **PFRS 9** | Financial Instruments: Classification and Measurement | **Not early adopted** | | |
| | Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 | **Not early adopted** | | |
| | Financial Instruments | **Not early adopted** | | |
| | Amendments to PFRS 9: Prepayment Features with Negative Compensation | **Not early adopted** | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | **Not early adopted** | | |
| **PFRS 10** | Consolidated Financial Statements | | | ✓ |
| | Amendments to PFRS 10, Investment Entities: Applying the Consolidation Exception | | | ✓ |
| | Amendments to PFRS 10, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | **Not early adopted** | | |
| **PFRS 11** | Joint Arrangements | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | ✓ |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception | | | ✓ |
| | Amendments to PFRS 12: Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle) | | | ✓ |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| | Amendments to PFRS 13: Short-term receivable and payables | ✓ | | |
| | Amendments to PFRS 13: Portfolio Exception | | | ✓ |
| **PFRS 14** | Regulatory Deferral Accounts | | | ✓ |
| **PFRS 15** | Revenue from Contracts with Customers | **Not early adopted** | | |
| **PFRS 16** | Leases | **Not early adopted** | | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendments to PAS 1: Clarification of the requirements for comparative information | ✓ | | |
| | Presentation of Financial Statements - Disclosure Initiative | ✓ | | |
| **PAS 2** | Inventories | | | ✓ |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| | Amendments to PAS 7: Statement of Cash Flows, Disclosure Initiative | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| | Amendments to PAS 12: Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | Amendment to PAS 16: Classification of servicing equipment | | | ✓ |
| | Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization | | | ✓ |
| | Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |
| | Amendment to PAS 16: Agriculture: Bearer Plants | | | ✓ |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits (Revised) | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions | | | ✓ |
| | Amendments to PAS 19: Discount Rate: Regional Market Issue | | | ✓ |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | | | ✓ |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| **PAS 23 (Revised)** | Borrowing Costs | | | ✓ |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Key Management Personnel | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27 (Amended)** | Amendments to PAS 27: Separate Financial Statements | ✓ | | |
| | Amendments to PAS 27: Equity Method in Separate Financial Statements | | | ✓ |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | | | ✓ |
| | Amendments to PAS 28: Long-term Interests in Associates and Joint Venture | **Not early adopted** | | |
| | Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate | **Not early adopted** | | |
| | Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle) | **Not early adopted** | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Tax effect of Distribution to Holders of Equity Instruments | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| **PAS 33** | Earnings per Share | | | ✓ |
| **PAS 34** | Interim Financial Reporting | | | ✓ |
| | Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities | | | ✓ |
| | Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report' | | | ✓ |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | | | ✓ |
| | Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization | | | ✓ |
| | Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | | | ✓ |

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as of December 31, 2017** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | | | ✓ |
| **PAS 40** | Investment Property | ✓ | | |
| | Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40 | | | ✓ |
| | Amendments to PAS 40: Investment Property, Transfers of Investment Property | **Not early adopted** | | |
| **PAS 41** | Agriculture | | | ✓ |
| | Amendment to PAS 41: Agriculture: Bearer Plants | | | ✓ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | *Determining Whether an Arrangement Contains a Lease* | | | ✓ |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* | | | ✓ |
| **IFRIC 7** | *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* | | | ✓ |
| **IFRIC 8** | *Scope of PFRS 2* | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | *Interim Financial Reporting and Impairment* | | | ✓ |
| **IFRIC 11** | PFRS 2- Group and Treasury Share Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC- 14, Prepayments | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | of a Minimum Funding Requirement | | | |
| **IFRIC 15** | Agreements for the Construction of Real Estate | | | ✓ |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies | | | ✓ |
| **IFRIC 22** | Foreign Currency Transactions and Advance Consideration | **Not early adopted** | | |
| **IFRIC 23** | Uncertainty over Income Tax Treatments | **Not early adopted** | | |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | | | ✓ |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| **SIC-29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

**IPM HOLDINGS, INC. AND SUBSIDIARY**

**Schedule A - Financial Assets**
December 31, 2017

| Name of Issuing entity and association of each issue (i) | Number of shares or principal amount of bonds and notes | Amount shown in the balance sheet (ii) | Valued based on market quotation at end of reporting period (iii) | Income received and accrued |
|---|---|---|---|---|
| Loans and receivables: | | | | |
| Cash and cash equivalents | | 7,697,566 | 7,697,566 | |
| Trade receivables | | 871,078,313 | 871,078,313 | |
| Loan receivables | | 31,000,000 | 31,000,000 | |
| Advances to officers | | 19,613,816 | 19,613,816 | |
| Interest | | 3,849,220 | | 3,849,220 |
| Dividend | | 1,600,000 | | 1,600,000 |
| Deposits | | 3,315,666 | 3,315,666 | |
| **Total Financial Assets** | | **938,154,581** | **932,705,361** | **5,449,220** |

**IPM HOLDINGS, INC. AND SUBSIDIARY**
**Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)**
December 31, 2017

| Name and Designation of debtor | Balance at beginning of period | Additions | Deductions | | | | Balance at end of period |
|---|---|---|---|---|---|---|---|
| | | | Amounts collected (ii) | Amounts written off (iii) | Current | Not Current | |
| Trade | 731,551,650 | 263,870,206 | 144,465,888 | | - | - | 850,955,968 |
| Loans receivable | 31,000,000 | | | | | | 31,000,000 |
| Advances to officers & employees | 19,361,494 | 252,322 | | | | | 19,613,816 |
| Interest receivable | 2,668,900 | 1,180,320 | | | | | 3,849,220 |
| | **784,582,044** | **265,302,848** | **144,465,888** | - | - | - | **905,419,004** |

**IPM HOLDINGS, INC. AND SUBSIDIARY**
**Schedule C - Amounts Receivable from Related Parties**
**which are eliminated during the consolidation of financial statements**
December 31, 2017

| Name and Designation of debtor (i) | Balance at beginning of period | Additions | Amounts collected (i) | Amounts written off (ii) | Current | Not Current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| IPM Holdings Inc. | 1,115,323 | 4,057,321 | 115,323 | | 5,057,321 | | 5,057,321 |

**IPM HOLDINGS, INC. AND SUBSIDIARY**
**Schedule D- Intangible Assets - Other Assets**
December 31, 2017

| Description (i) | Beginning balance | Additions at cost (ii) | Charged to cost and expenses | Charged to other accounts | Other changes additions (deductions) (iii) | Ending balance |
|---|---|---|---|---|---|---|

None

**IPM HOLDINGS, INC. AND SUBSIDIARY**
**Schedule E- Long Term Debt**
December 31, 2017

| Title of Issue and type of obligation (i) | Amount authorized by indenture | ~~Amount shown under caption~~ "Current portion of long-term debt" in related balance sheet (ii) | Amount shown under caption "Long-Term Debt" in related balance sheet (iii) |
|---|---|---|---|

None

**IPM HOLDINGS, INC. AND SUBSIDIARY**

**Schedule F- Indebtedness to Related Parties (Long-Term Loans from Related Companies)**

December 31, 2017

| Name of related party (i) | Balance at beginning of period | Balance at end of period (ii) |
|---|---|---|

None

**IPM HOLDINGS, INC. AND SUBSIDIARY**
**Schedule G - Guarantees of Securities of Other Issuers**
December 31, 2017

| Name of issuing entity of securities guaranteed by the company for which this statements is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding (i) | Amount owned by person for which statement is filed | Nature of guarantee (ii) |
|---|---|---|---|---|

None

**IPM HOLDINGS, INC. AND SUBSIDIARY**
**Schedule H - Capital Stock**
December 31, 2017

| Title of Issue | Number of Shares Authorized | Number of shares issued and outstanding at shown under related balance sheet caption | Number of shares reserved for options, warrants, conversions and other rights | Number of Shares Held By | | |
|---|---|---|---|---|---|---|
| | | | | Related parties | Directors, officers and employees | Others |
| Common shares - Php1 par value | 740,000,000 | 690,000,000 | none | 470,000,000 | 2,149,800 | 217,850,200 |

**IPM HOLDINGS, INC. AND SUBSIDIARY**
**Spplementary Schedule of Deficit of the Parent Company**
December 31, 2017

| | |
|---|---|
| Unappropriated deficit, as adjusted, beginning | 206,072,782 |
| Net loss during the period closed to deficit | 2,967,219 |
| Unappropriated deficit, as adjusted, ending | **209,040,001** |

**IPM HOLDINGS, INC. AND SUBSIDIARY**

**Financial Soundness Indicators**
December 31, 2017

| FSI | Calculation | Years Ended December 31 2017 | 2016 |
|---|---|---|---|
| Current Ratio | Current Assets/Current Liabilities | 4.03x | 3.69x |
| Quick Ratio | Cash + Marketable Securities + Receivables/Current Liabilities | 3.98 | 3.60x |
| Debt to Equity Ratio | Liabilities/ Stockholders' Equity | 0.22x | 0.23x |
| Asset to Equity Ratio | Assets/Stockholders' Equity | 1.22x | 1.23x |
| Interest Coverage Ratio | Earnings Before Interest & Taxes/ Interest Expense | 31.06 | 31.23 |
| Gross Profit Margin | Gross Profit/Net Sales | 58.33 | 51.59 |
| Book Value per share | Total Assets –Total Liabilities/ Outstanding Shares | 1.53 | 1.40 |
| Net Income per Share | Net Income/Outstanding Shares | 0.13 | 0.14 |

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Current Ratio | 947,171,431/234,937,472 | 829,867,309/224,949,727 |
| Quick Ratio | 935,583,423/234,937,472 | 810,377,871/224,949,727 |
| Debt to Equity | 236,091,857/1,054,771,931 | 226,735,747/967,225,313 |
| Asset to Equity Ratio | 1,290,863,788/1,054,771,931 | 1,193,547,737/967,225,313 |
| Interest Coverage Ratio | 133,450,743/4,297,146 | 142,175,129/4,552,475 |
| Gross Profit Margin | 171,975,754/294,841,698 | 139,411,028/354,919,997 |
| Book Value/Share | 1,054,771,931/690,000,000 | 967,225,313/690,000,000 |
| Net Income per Share | 87,128,566/690,000,000 | 94,274,997/690,000,000 |

**MAP OF IPM HOLDINGS, INC.**
**Group of Companies**