COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C E 0 2 5 3 6

COMPANY NAME

A B O I T I Z E Q U I T Y V E N T U R E S , I N C .

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

3 2 n d S t r e e t , B o n i f a c i o G l o b a l C i t y , T a g u i g C i t y , M e t r o M a n i l a , P h i l i p p i n e s

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S	C F D	- N A -

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
www.aboitiz.com.ph	(032) 411-1800	0917-7265728
No. of Stockholders	**Annual Meeting (Month / Day)**	**Fiscal Year (Month / Day)**
9,002	May 21	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
Melinda R. Bathan	melinda.bathan@aboitiz.com	(02) 886-2496	Not available

CONTACT PERSON's ADDRESS

c/o Aboitiz Equity Ventures, Inc. - 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines

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.*

SEC
Cebu Extension Office
APR 06 2018
By:
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SECURITIES & EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Aboitiz Equity Ventures, Inc. (Parent)** 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Sycip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

JON RAMON M. ABOITIZ
Chairman of the Board

ERRAMON I. ABOITIZ
President & Chief Executive Officer

MANUEL R. LOZANO
Senior Vice President - Chief Financial Officer

Signed this 8th day of March, 2018.

BUREAU OF INTERNAL REVENUE
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Republic of the Philippines)
Taguig City) S.S.

Before me, a notary public in and for the city named above, personally appeared:

Name	Passport/CTC	Date/Place Issued
Jon Ramon M. Aboitiz	EB9718353	November 29, 2013, Cebu City
	11860761	February 09, 2018, Cebu City
Erramon I. Aboitiz	EB7151577	January 14, 2013, Cebu City
	26936151	January 15, 2018, Cebu City
Manuel R. Lozano	EC1926563	August 18, 2014, NCR South
	14226194	February 20, 2018, Taguig City

who are personally known to me and to me known to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this _____ day of MAR 20 2018 2018.

ATTY. MELBIAN JEROME E. LARAÑO
Notary Public for Taguig, Roll No. 59294
Commission no. 26, until 31 Dec. 2019
PTR No. A-3693788/ 01.03.18 / Taguig City
IBP No. 1063530 / 11.23.17 / Cavite
MCLE Compliance No. V-0015571 / 03.14.16
3/F Bonifacio Technology Center 31st Street
corner 2nd Avenue Crescent Park West
Global City Taguig City, Philippines

Doc. No. 199;
Page No. 40;
Book No. LXXVI;
Series of 2018.

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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 AUDITOR'S REPORT

The Board of Directors and Stockholders
Aboitiz Equity Ventures, Inc.
32nd Street Bonifacio Global City
Taguig City, Metro Manila
Philippines

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Aboitiz Equity Ventures, Inc. (the Company), which comprise the parent company balance sheets as at December 31, 2017 and 2016, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for each of the three years in the period ended December 31, 2017, 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 Company as at December 31, 2017 and 2016, and its financial performance and its 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 Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the 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 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.

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

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

Auditor's Responsibilities for the Audit of the Parent 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 Company's internal control.

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

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

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

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

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

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 24 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 Aboitiz Equity Ventures, 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 Maria Veronica Andresa R. Pore.

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-71-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621311, January 9, 2018, Makati City

March 8, 2018

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ABOITIZ EQUITY VENTURES, INC.
PARENT COMPANY BALANCE SHEETS

	December 31 2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 10)	**₱15,398,127,571**	₱13,472,400,603
Trade and other receivables (Notes 5 and 10)	**974,368,143**	3,721,064,373
Other current assets (Note 6)	**935,475,223**	791,611,114
Total Current Assets	**17,307,970,937**	17,985,076,090
Noncurrent Assets		
Investments and advances (Notes 7 and 8)	**59,643,289,173**	58,392,765,058
Available-for-sale (AFS) investments (Note 21)	**128,212,241**	122,608,858
Held-to-maturity (HTM) investments	**189,215,830**	–
Due from subsidiaries - net of current portion (Notes 5 and 10)	**420,000,000**	360,000,000
Property and equipment (Note 11)	**235,057,929**	237,136,940
Deferred income tax assets (Note 19)	**86,808,946**	44,268,533
Pension asset (Note 18)	**58,622,213**	–
Other noncurrent assets	**129,392,733**	135,086,313
Total Noncurrent Assets	**60,890,599,065**	59,291,865,702
TOTAL ASSETS	**₱78,198,570,002**	₱77,276,941,792
LIABILITIES AND EQUITY		
Current Liability		
Accounts payable and accrued expenses (Notes 9 and 12)	**₱303,018,040**	₱505,165,920
Noncurrent Liabilities		
Long-term debts (Note 12)	**31,815,743,585**	31,770,998,493
Pension liability (Note 18)	**–**	30,054,777
Total Noncurrent Liabilities	**31,815,743,585**	31,801,053,270
Equity		
Capital stock (Note 13)	**5,694,599,621**	5,694,599,621
Additional paid-in capital (Note 13)	**12,693,153,652**	12,693,153,652
Net unrealized mark-to-market gains on AFS investments	**7,577,196**	1,973,813
Actuarial losses on defined benefit plan (Note 18)	**(84,428,481)**	(188,648,513)
Retained earnings (Notes 14 and 22)		
Appropriated	**1,622,000,000**	2,717,000,000
Unappropriated	**26,668,037,932**	24,573,775,572
Treasury stock at cost (Note 13)	**(521,131,543)**	(521,131,543)
Total Equity	**46,079,808,377**	44,970,722,602
TOTAL LIABILITIES AND EQUITY	**₱78,198,570,002**	₱77,276,941,792

See accompanying Notes to Parent Company Financial Statements.

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Electronic Records Management Division
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ABOITIZ EQUITY VENTURES, INC.

PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUE			
Dividend income	**₱9,636,257,603**	₱11,613,203,133	₱12,295,568,949
Management, professional and technical fees (Note 10)	**1,244,040,769**	1,154,820,161	953,850,499
	10,880,298,372	12,768,023,294	13,249,419,448
COST OF SERVICES (Note 15)	**627,716,924**	605,225,140	561,290,344
GROSS PROFIT	**10,252,581,448**	12,162,798,154	12,688,129,104
General and administrative expenses (Notes 10 and 16)	**(785,520,131)**	(666,003,280)	(615,042,504)
Interest income (Notes 4, 5 and 10)	**407,715,480**	267,238,172	192,806,908
Interest expense (Note 12)	**(1,553,541,680)**	(1,553,541,680)	(917,675,726)
	(1,931,346,331)	(1,952,306,788)	(1,339,911,322)
OTHER INCOME (CHARGES)			
Foreign exchange gain (loss) - net	**(68,159,678)**	176,644,582	(22,202,247)
Service income (Note 10)	**100,125,637**	97,912,827	101,648,163
Reversal of impairment on (write-off of) investments and advances, project costs and other assets (Note 7)	**(63,732,281)**	78,444,744	(884,455,513)
Rent income (Note 10)	**8,630,434**	9,548,669	4,569,286
Gain (loss) on sale of:			
Property and equipment	**258,864**	94,953	(257,651)
Investment in a subsidiary (Note 7)	**–**	(96,905,000)	–
Others (Note 10)	**165,178,640**	147,665,440	110,251,641
	142,301,616	413,406,215	(690,446,321)
INCOME BEFORE INCOME TAX	**8,463,536,733**	10,623,897,581	10,657,771,461
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)	**(28,669,728)**	58,897,210	36,992,868
NET INCOME	**₱8,492,206,461**	₱10,565,000,371	₱10,620,778,593

See accompanying Notes to Parent Company Financial Statements.

ABOITIZ EQUITY VENTURES, INC.

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**₱8,492,206,461**	₱10,565,000,371	₱10,620,778,593
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that may be reclassified subsequently to statements of income:			
Net unrealized mark-to-market gains (losses) on AFS investments	**5,603,383**	(4,557,655)	(1,263,591)
Item that will not be reclassified to statements of income:			
Actuarial gains (losses) on defined benefit plan (Note 18)	**148,885,760**	7,486,164	(144,951,423)
Income tax effect	**(44,665,728)**	(2,245,849)	43,485,427
	104,220,032	5,240,315	(101,465,996)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱8,602,029,876**	₱10,565,683,031	₱10,518,049,006

See accompanying Notes to Parent Company Financial Statements.

ABOITIZ EQUITY VENTURES, INC.

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Capital Stock (Note 13)	Additional Paid-in Capital (Note 13)	Net Unrealized Mark-to-Market Gains on AFS Investments	Actuarial Losses on Defined Benefit Plan	Retained Earnings Appropriated (Note 14)	Retained Earnings Unappropriated (Note 14)	Treasury Stock (Note 13)	Total
Balances at January 1, 2015	₱5,694,599,621	₱6,591,000,759	₱7,795,059	(₱92,422,832)	₱–	₱18,145,989,579	(₱1,178,397,226)	₱29,168,564,960
Net income for the year	–	–	–	–	–	10,620,778,593	–	10,620,778,593
Movement of net unrealized mark-to-market gains on AFS investments	–	–	(1,263,591)	–	–	–	–	(1,263,591)
Movement of actuarial losses on defined benefit plan	–	–	–	(101,465,996)	–	–	–	(101,465,996)
Total comprehensive income for the year	–	–	(1,263,591)	(101,465,996)	–	10,620,778,593	–	10,518,049,006
Sale of treasury shares	–	772,523,350	–	–	–	–	112,812,103	885,335,453
Cash dividends - ₱1.11 per common share (Note 14)	–	–	–	–	–	(6,153,470,156)	–	(6,153,470,156)
Balances at December 31, 2015	₱5,694,599,621	₱7,363,524,109	₱6,531,468	(₱193,888,828)	₱–	₱22,613,298,016	(₱1,065,585,123)	₱34,418,479,263
Balances at January 1, 2016	₱5,694,599,621	₱7,363,524,109	₱6,531,468	(₱193,888,828)	₱–	₱22,613,298,016	(₱1,065,585,123)	₱34,418,479,263
Net income for the year	–	–	–	–	–	10,565,000,371	–	10,565,000,371
Movement of net unrealized mark-to-market gains on AFS investments	–	–	(4,557,655)	–	–	–	–	(4,557,655)
Movement of actuarial losses on defined benefit plan	–	–	–	5,240,315	–	–	–	5,240,315
Total comprehensive income for the year	–	–	(4,557,655)	5,240,315	–	10,565,000,371	–	10,565,683,031
Sale of treasury shares	–	5,329,629,543	–	–	–	–	544,453,580	5,874,083,123
Appropriation during the year	–	–	–	–	2,717,000,000	(2,717,000,000)	–	–
Cash dividends - ₱1.06 per common share (Note 14)	–	–	–	–	–	(5,887,522,815)	–	(5,887,522,815)
Balances at December 31, 2016	₱5,694,599,621	₱12,693,153,652	₱1,973,813	(₱188,648,513)	₱2,717,000,000	₱24,573,775,572	(₱521,131,543)	₱44,970,722,602
Balances at January 1, 2017	₱5,694,599,621	₱12,693,153,652	₱1,973,813	(₱188,648,513)	₱2,717,000,000	₱24,573,775,572	(₱521,131,543)	₱44,970,722,602
Net income for the year	–	–	–	–	–	8,492,206,461		8,492,206,461
Movement of net unrealized mark-to-market gains on AFS investments	–	–	5,603,383	–	–	–	–	5,603,383
Movement of actuarial losses on defined benefit plan	–	–	–	104,220,032	–	–	–	104,220,032
Total comprehensive income for the year	–	–	5,603,383	104,220,032	–	8,492,206,461	–	8,602,029,876
Reversal of appropriation during the year	–	–	–	–	(1,095,000,000)	1,095,000,000	–	–
Cash dividends - ₱1.33 per common share (Note 14)	–	–	–	–	–	(7,492,944,101)	–	(7,492,944,101)
Balances at December 31, 2017	₱5,694,599,621	₱12,693,153,652	₱7,577,196	(₱84,428,481)	₱1,622,000,000	₱26,668,037,932	(₱521,131,543)	₱46,079,808,377

See accompanying Notes to Parent Company Financial Statements.

ABOITIZ EQUITY VENTURES, INC.

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱8,463,536,733**	₱10,623,897,581	₱10,657,771,461
Adjustments for:			
Interest expense (Note 12)	**1,553,541,680**	1,553,541,680	917,675,726
Unrealized foreign exchange loss	**273,497,146**	140,947	6,714
Write-off of (reversal of impairment on) investments and advances, project costs and other assets	**63,732,281**	(78,444,744)	884,455,513
Depreciation and amortization (Note 11)	**59,332,022**	59,204,989	57,833,989
Amortization of computer software (Notes 15 and 16)	**1,502,629**	674,572	2,059,966
Loss (gain) on sale of:			
Investment in subsidiaries and an associate (Note 7)	**–**	122,010,000	–
Property and equipment	**(258,863)**	(94,953)	257,651
AFS investments	**–**	(25,105,000)	–
Interest income (Notes 4 and 10)	**(407,715,480)**	(267,238,172)	(192,806,908)
Operating income before working capital changes	**10,007,168,147**	11,988,586,900	12,327,254,112
Decrease (increase) in:			
Trade and other receivables	**2,844,908,639**	(3,111,021,506)	(99,545,917)
Other operating assets	**(143,864,109)**	(138,590,494)	(113,566,723)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(202,232,870)**	66,560,201	19,474,665
Other operating liabilities	**(88,676,990)**	(87,103,053)	172,039,772
Net cash flows generated from operations	**12,417,302,818**	8,718,432,048	12,305,655,909
Income and final taxes paid	**(58,536,412)**	(55,157,991)	(36,607,930)
Net cash flows from operating activities	**12,358,766,405**	8,663,274,057	12,269,047,979
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	**309,503,071**	260,110,067	188,217,299
Proceeds from redemption of preferred shares by a subsidiary	**24,191,000**	41,051,592	40,000,000
Proceeds from sale of:			
Property and equipment	**8,343,986**	745,775	1,243,506
Investment in subsidiaries and an associate (Notes 7 and 8)	**–**	605,000,000	–
AFS Investments	**–**	37,155,000	–
Decrease (increase) in:			
Investments and advances (Notes 7 and 8)	**(22,815)**	(22,611)	(25,996)
AFS investments	**(189,215,830)**	(105,042,540)	–
Other noncurrent assets	**74,089,522**	(418,326,299)	(416,233,607)

(Forward)

	Years Ended December 31		
	2017	2016	2015
Acquisitions of:			
Investments (Notes 7 and 8)	**(₱1,274,692,300)**	(₱1,042,146,229)	(₱26,157,385,956)
Property and equipment (Note 11)	**(65,338,134)**	(58,252,081)	(45,352,501)
Net cash flows used in investing activities	**(1,113,141,500)**	(679,727,326)	(26,389,537,255)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on common shares (Note 14)	**(7,492,944,101)**	(5,887,522,815)	(6,153,470,156)
Proceeds from availment of long-term debt (Note 12)	**–**	–	24,000,000,000
Payments of:			
Long-term debt (Note 12)	**–**	–	(1,188,000,000)
Interest	**(1,553,456,690)**	(1,553,301,964)	(762,754,468)
Proceeds from sale of treasury shares (Note 13)	**–**	5,874,083,123	885,335,453
Net cash flows from (used in) financing activities	**(9,046,400,791)**	(1,566,741,656)	16,781,110,829
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,199,224,114**	6,416,805,075	2,660,621,553
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(273,497,146)**	(140,947)	(6,714)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**13,472,400,603**	7,055,736,475	4,395,121,636
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱15,398,127,571**	₱13,472,400,603	₱7,055,736,475

See accompanying Notes to Parent Company Financial Statements.

ABOITIZ EQUITY VENTURES, INC.
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Aboitiz Equity Ventures, Inc. (the Company) was incorporated in the Republic of the Philippines on September 11, 1989. It is registered with the Philippine Securities and Exchange Commission (SEC) and is the publicly listed holding and management company of the Aboitiz Group of Companies. Through its subsidiaries and associates, it is engaged in various business activities, mainly in the Philippines, including electricity generation and distribution, banking and financial services, food manufacturing, real estate development and infrastructure. The ultimate parent of the Company is Aboitiz & Company, Inc. (ACO), a company incorporated in the Philippines.

The registered office address of the Company is 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines.

The financial statements of the Company were authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 8, 2018.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The parent company financial statements have been prepared on a historical cost basis, except for quoted AFS investments which are measured at fair value. The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency and all values are rounded to the nearest peso except as otherwise indicated.

The Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements, presented in compliance with Philippine Financial Reporting Standards (PFRS). These may be obtained at 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines.

Statement of Compliance

The accompanying parent company financial statements, which are prepared for submission to the SEC and the Bureau of Internal Revenue (BIR), have been prepared in compliance with PFRS.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for certain amendments which were applied starting January 1, 2017. These amendments did not have any significant impact on the parent company financial statements:

- Amendment 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 parent company financial statements.

- Amendments to Philippine Accounting Standards (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 on the reversal of the deductible temporary difference. 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 Company applied the amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
  The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Company has provided the required information in Note 22 to the parent company financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

New Standards and Interpretations Issued and Effective after December 31, 2017
The Company will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements.

Effective 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.

  These amendments will not be applicable to the Company since it has no share-based payment arrangements.

- 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 Company since it is not engaged in the insurance business.

- 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 or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective method. In 2016, the Company performed a preliminary assessment of PFRS 15, which was continued with a more detailed analysis in 2017.

  Based on its initial assessment, the requirement of PFRS 15 on identification of performance obligations may have an impact on the Company's financial position, performance and disclosures. For contract with customers in which the rendering of services is generally expected to qualify as a series of distinct services that are substantially the same and have the same pattern of transfer accounted for as one performance obligation, adoption of PFRS 15 is not expected to have significant impact on the Company's revenue and profit or loss. The Company expects the revenue recognition to occur over time wherein the customer simultaneously receives and consumes the benefits as the seller render the services.

  In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Company is currently assessing what necessary changes it needs to make on its current systems, internal controls policies and procedures to enable the Company to collect and disclose the required information.

  The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Company.

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

  The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

  The Company has performed an assessment of the population of financial instruments impacted by the classification and measurement requirements of PFRS 9 and is in the process of developing impairment methodologies to support the calculation of expected credit losses (ECL) for qualified credit exposures.

  (a) Classification and measurement
  PFRS 9 requires that the Company classifies debt instruments based on the contractual cash flow characteristics of the assets and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL).

  The Company assessed that the contractual cash flows of its debt financial assets are solely payments of principal and interest (SPPI) and are expected to be held to collect all contractual cash flows until their maturity. As a result, these debt financial assets are still expected to be measured at amortized cost.

  Investments in unquoted equity shares currently carried at cost under PAS 39 are expected to be measured at FVTPL. The Company is in the process of determining how to measure the fair value of these unquoted investments.

  Quoted equity shares currently held as AFS investments are expected to be measured at either FVTPL (at default), which will increase volatility in profit or loss, or at FVOCI with no recycling to profit or loss (upon irrevocable election).

  (b) Impairment
  PFRS 9 requires the Company to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with contract assets, loan commitments and financial guarantee contracts. The Company plans to apply the simplified approach and record lifetime ECL on all trade receivables and contract assets. For other debt financial assets measured at amortized cost, the general approach will be applied, measuring either a 12-month or lifetime expected losses, depending on the extent of the deterioration of their credit quality from origination. The Company is currently quantifying the impact of the change in measuring ECL.

(c) *Hedge accounting*
The Company has determined that all existing hedge relationships that are currently designated in effective hedging relationships under PAS 39 will continue to qualify for hedge accounting under PFRS 9. On transition, the Company will not retrospectively apply PFRS 9 to the hedges where the Company excluded the forward points from the hedge designation under PAS 39.

As PFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of PFRS 9 will not have a significant impact on the Company's financial statements.

The Company has applied its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments in implementing PFRS 9. The Company is continuously refining its internal controls and processes which are relevant in the proper implementation of PFRS 9.

- 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.

These amendments are not applicable to the Company since it is not a venture capital organization and has no interest in investment entity subsidiaries, associates or joint ventures.

- 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.

These amendments are not applicable to the Company since it does not own any investment property.

- 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. The interpretation may be applied on a fully retrospective basis. Entities 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 Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its financial statements upon adoption of this interpretation.

Effective January 1, 2019

- 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 Company is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date.

- 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.

  The Company expects that adoption of these amendments will not have any impact on its financial statements and plans to adopt these on the required effective date.

- 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.

  The Company expects that adoption of these amendments will not have any impact on its financial statements and plans to adopt these on the required effective date.

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

  The interpretation specifically addresses the following:

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

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

  The Company is currently assessing the impact of adopting this interpretation.

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.

Summary of Significant Accounting Policies

Current versus Noncurrent Classification

The Company presents assets and liabilities in the parent company balance sheet based on current/noncurrent classification. An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

All other liabilities are classified as noncurrent.

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

Fair Value Measurement

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the 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.

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

Cash and Cash Equivalents

Cash and cash equivalents in the Company's balance sheet consist of cash on hand and with banks, and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the parent company balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

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

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

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets held for trading and financial assets designated upon initial recognition as FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the parent company statement of income.

Financial assets or financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing the gains or losses on them on a different basis; or (ii) the assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset or financial liabilities at FVPL, except when the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and liabilities at FVPL are recorded in the parent company balance sheet at fair value. Subsequent changes in fair value are recognized in the parent company statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payment has been established.

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not reclassified or designated as AFS investments or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the parent company statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Financial assets included in this classification are the Company's cash in banks and cash equivalents and trade and other receivables.

HTM investments
HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After the initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between the parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums and discounts. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. Gains and losses are recognized in the parent company statement of income when the investments are impaired, as well as through the amortization process.

The Company's HTM investments amounted to ₱189.2 million and nil as of December 31, 2017 and 2016, respectively.

AFS investments
AFS financial investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated as at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. They are included in noncurrent assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the other comprehensive income and in equity as "Net unrealized mark-to-market gains on AFS investments". When the investment is disposed of, the cumulative gains or loss previously recorded in equity is recognized in the parent company statement of income. The Company uses the specific identification method in determining the cost of securities sold. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Unquoted equity securities are carried at cost, net of impairment.

The Company's AFS investments as of December 31, 2017 and 2016 include investments in quoted and unquoted shares of stock.

Other financial liabilities
Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of liability. These include liabilities arising from operations or borrowings.

Other financial liabilities are initially recognized at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the parent company statement of income when the liabilities are derecognized, as well as through the amortization process.

Included under this category are the Company's long-term debts and accounts payable and accrued expenses.

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

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the parent company statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the financial asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the parent company statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS investments
In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the parent company statement of income) is removed from other comprehensive income and recognized in the parent company statement of income. Impairment losses on equity investments are not reversed through the parent company statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

HTM investments
The Company reviews the age and status of HTM investments and assesses if it needs to be provided with allowance for impairment. The Company maintains allowances for impairment losses at a level considered adequate to provide for potential uncollectible investments.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the parent company statement of income.

Embedded Derivatives
An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

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

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in the parent company statement of income.

The Company has no embedded derivatives as of December 31, 2017 and 2016.

Financial Guarantee Contracts
Financial guarantee contracts issued by the parent company to its subsidiaries are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified subsidiaries fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the ability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognized less cumulative amortization.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the parent company balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Classification of Financial Instruments between Liability and Equity

Financial instruments are classified as liabilities 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.

A financial instrument is classified as debt if it provides for a contractual obligation to:

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

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

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

Redeemable Preferred Shares (RPS)

The component of the RPS that exhibits characteristics of a liability is recognized as a liability in the parent company balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the parent company statement of income. On issuance of the RPS, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability at amortized cost until extinguished.

Investments and Advances

Investments in subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Control is presumed to exist when an investor 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. Investments in subsidiaries are carried at cost less any impairment in value.

Business combination of entities under common control is accounted for using a method similar to pooling of interest. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.

Investments in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Company's investment in its associates is accounted for using the cost method of accounting.

The Company's investments in subsidiaries and associates are accounted for under the cost method of accounting in the Company's separate financial statements. These investments are carried in the Company's balance sheet at cost less any impairment in value. The Company recognizes income from the investments only to the extent that the Company receives distributions from accumulated profits of the subsidiaries and associates arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

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

Investments in joint ventures

Investments in joint ventures are investments in shares of stock of a joint arrangement where the parent company exercises joint control with two or more parties. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investments in joint ventures are carried at cost, net of allowance for any substantial and presumably permanent decline in value.

Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and amortization and accumulated impairment in value. Cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Repairs and maintenance costs are recognized in the parent company statement of income as incurred.

Depreciation and amortization are calculated on a straight-line basis over the useful lives of the assets, or the terms of the lease in case of leasehold improvements, whichever is shorter, as follows:

Category	Number of Years
Transportation equipment	5
Office equipment, furniture and fixtures	3-5
Leasehold improvements	5
Computer equipment	3

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.

The assets' residual values, useful lives and depreciation and amortization method are reviewed, and adjusted if appropriate, at each financial year-end.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the parent company statement of income in the year the asset is derecognized.

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Computer Development Cost

Costs incurred in the development of computer software are capitalized. Computer development costs, included under "Other noncurrent assets" account in the parent company balance sheet, are amortized using the straight-line method over a period of two to three years.

The carrying value of computer development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that carrying value may not be recoverable.

Impairment of Nonfinancial Assets

Investments and advances, property and equipment, software development costs and other noncurrent assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or 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 group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the parent company statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet 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 accumulated depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. 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.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and preferred stock.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against an equity reserve account.

Retained Earnings

Retained earnings include accumulated earnings of the Company and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the transition provisions of new and amended standards.

Treasury Shares

The Company's own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in the parent company statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Foreign Currency Transactions

The parent company financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency based on the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences arising from settlement or restatement are taken to the parent company statement of income.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

Dividend income
Dividend income is recognized when the Company's right to receive payment is established.

Rendering of services
Management, professional and technical fees are recognized when the related services are rendered.

Interest income
Interest income is recognized as it accrues taking into account the effective yield on the asset.

Costs and expenses
Costs 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 decreases in equity, other than those relating to distributions to equity participants.

Pension Benefits
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to parent company statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Borrowing Costs

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

Leases

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

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

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

Taxes

Current income tax

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

Current income tax relating to items recognized directly in equity is recognized in the parent company statement of comprehensive income and not in the parent company statement of income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

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

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

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the balance sheet date.

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

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

Sales tax
Revenues, expenses, and assets are recognized net of amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales 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 sales tax are included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the parent company balance sheet.

Input value-added tax (VAT)
Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations.

Input VAT, which is presented as part of "Other current assets" and/or "Other noncurrent assets" in the parent company balance sheets, is recognized as an asset and will be used to offset the Company's current output VAT liabilities and or applied for claim for tax credit certificates. Input VAT is stated at its estimated net realizable value.

Output VAT
Output VAT represents VAT due on the sale, lease or exchange of taxable goods or properties or service by any person registered or required to register under Philippine taxation laws and regulations.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the parent company balance sheets.

Related Party Transactions
Transactions with related parties are accounted for based on the nature and substance of the agreement, and financial effects are included in the appropriate asset, liability, income and expense accounts.

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

company statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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 disclosed when an inflow of economic benefits is probable.

Events after the Reporting Period

Post year-end events that provide additional information about the Company's position at balance sheet date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed when material.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from retained earnings when approved by the respective shareholders of the Company. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

3. Significant Accounting Judgment, Estimates and Assumptions

The preparation of the parent company financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, as of December 31, 2017, 2016 and 2015. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgment

In the process of applying the Company's accounting policies, management has made the following judgment, apart from those involving estimations, which have the most significant effect on the amounts recognized in the parent company financial statements:

Classification of financial instruments

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the parent company balance sheet.

Estimation Uncertainty

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

Estimating allowance for impairment losses on trade and other receivables

The Company maintains allowance for impairment losses on trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Company on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with debtors, their payment behavior and known market factors. The Company reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The Company also evaluates its receivables from a portfolio perspective, to determine whether there are collective indicators of incurred loss. The amount and timing of recorded expenses for any period would differ if the Company made different judgment or utilized different estimates. An increase in the Company's allowance for probable losses on receivables would increase the Company's recorded expenses and decrease current assets.

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Company assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Company determines allowance for each significant receivable on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the account that have been endorsed to the legal department, non-moving account receivables, accounts of defaulted agents and accounts from closed stations.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is not yet objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectability.

Allowance for impairment losses on trade receivables amounted to nil as of December 31, 2017 and 2016, respectively. Trade and other receivables amounted to ₱974.4 million and ₱3.7 billion as of December 31, 2017 and 2016, respectively (see Note 5).

Estimating allowance for impairment losses on investments in and advances to subsidiaries and associates

Investments in and advances to subsidiaries and associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There are no impairment indicators in 2017, 2016 and 2015 based on management's assessment. The carrying amounts of the investments in and advances to associates amounted to ₱59.6 billion and ₱58.4 billion as of December 31, 2017 and 2016 (see Notes 7 and 8).

Estimating useful lives of property and equipment
The Company estimates the useful lives of property and equipment based on their economic lives. The estimated useful lives of property and equipment are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment. However, it is possible that future results or operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the noncurrent assets. As of December 31, 2017 and 2016, the carrying amount of property and equipment amounted to ₱235.1 million and ₱237.1 million, respectively (see Note 11).

Assessing impairment of AFS investments
The computation for the impairment of AFS investments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In applying this judgment, the Company evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Company expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology and other factors that affect the recoverability of the Company's investments. Fair value of AFS investments amounted to ₱317.4 million and ₱122.6 million as of December 31, 2017 and 2016, respectively. No impairment losses were recognized in 2017, 2016 and 2015 (see Note 20).

Assessing impairment of nonfinancial assets
PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of property and equipment, investments in subsidiaries and associates, software development costs and other noncurrent assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect its parent company financial statements. Future events could cause the Company to conclude that the property and equipment, investments in subsidiaries and associates, computer development costs and other noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations. The aggregate carrying values of these assets amounted to ₱60.0 billion and ₱58.8 billion as of December 31, 2017 and 2016, respectively (see Notes 7, 8 and 11). No impairment losses were recognized in 2017, 2016 and 2015.

Estimating realizability of deferred income tax assets
The Company reviews the carrying amounts of deferred income tax assets at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. The Company's assessment on the recognition of deferred income tax assets on nondeductible temporary differences is based on the budgeted taxable income of the following reporting period. This budget is based on the Company's past results and future expectations on revenue and expenses. As of December 31, 2017 and 2016, deferred income tax assets amounted to ₱118.2 million and ₱90.8 million, respectively (see Note 19).

The Company did not recognize deferred income tax assets on NOLCO generated in 2017 and 2016 amounting to ₱966.3 million and ₱1.1 billion, respectively, and on MCIT paid in 2017 and 2016 amounting to ₱25.2 million and ₱21.4 million, respectively (see Note 19). Prior to 2015, the Company recorded ₱22.9 million in deferred income tax assets on unapplied MCIT as of December 31, 2014. The said account has a remaining balance of ₱9.9 million as of December 31, 2016 (see Note 19).

Pension costs
The costs of defined benefit pension plans, as well as 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. Net defined benefit asset and liability amounted to ₱58.6 million and ₱30.1 million as of December 31, 2017 and 2016, respectively (see Note 18).

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 for the specific country.

Further details about the assumptions used are provided in Note 18.

Fair value of financial instruments
When the fair values of financial assets and financial liabilities recorded in the parent company balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 21 for further disclosures.

Legal contingencies
The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the parent company financial statements as of December 31, 2017 and 2016.

4. Cash and Cash Equivalents

	2017	2016
Cash on hand and in banks (see Note 10)	**₱217,217,782**	₱207,143,875
Short-term investments (see Note 10)	**15,180,909,789**	13,265,256,728
	₱15,398,127,571	₱13,472,400,603

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

Interest income earned on cash and cash equivalents amounted to ₱325.9 million in 2017, ₱246.0 million in 2016 and ₱192.8 million in 2015.

5. Trade and Other Receivables

	2017	2016
Trade receivables (see Note 10)	**₱456,698,368**	₱337,991,570
Due from affiliates (see Note 10)	**789,000,000**	2,979,500,000
Dividends receivable from a subsidiary	**–**	700,000,000
Interest receivable (see Notes 4 and 10)	**117,727,470**	26,563,364
Recoverable deposits	**19,971,715**	20,347,809
Others	**10,970,590**	16,661,630
	1,394,368,143	4,081,064,373
Less noncurrent portion (see Note 10)	**420,000,000**	360,000,000
	₱974,368,143	₱3,721,064,373

Trade receivables are non-interest bearing and are normally on 30-60 days' term. Accounts due from affiliates are interest-bearing and either on-demand or long-term advances extended by the Company. Other receivables mainly represent unsettled claims due from various third parties.

6. Other Current Assets

	2017	2016
Prepaid expenses	**₱925,824,060**	₱780,806,639
Input VAT	**7,875,577**	7,992,920
Others	**1,775,586**	2,811,555
	₱935,475,223	₱791,611,114

Prepaid expenses consist of unapplied rent and tax costs for which payments have been made.

7. Investments in Subsidiaries

Subsidiaries	Nature of Business	Percentage of Ownership 2017 Direct	2017 Indirect	2016 Direct	2016 Indirect
AEV Properties, Inc. (API)*	Real Estate	**100.00**	–	100.00	–
AEV International Pte. Ltd (AEV International) and Subsidiaries**	Holding	**100.00**	–	100.00	–
Archipelago Insurance Pte. Ltd (AIPL)**	Insurance	**100.00**	–	100.00	–
AboitizLand, Inc. (AboitizLand) and Subsidiaries	Real Estate	**100.00**	–	100.00	–
Pilmico Foods Corporation (PILMICO) and Subsidiaries	Food Manufacturing	**100.00**	–	100.00	–
Cebu Praedia Development Corporation (CPDC)***	Real Estate	**100.00**	–	100.00	–
Aboitiz Power Corporation (AP) and Subsidiaries	Power	**76.88**	–	76.88	–
AEV Aviation, Inc. (AVI)***	Service	**73.31**	**26.69**	73.31	26.69
Apo Agua Infrastructura, Inc. (Apo Agua)*	Infrastructure	**22.22**	**47.78**	23.21	46.79
Aboitiz Infracapital, Inc. (Aboitiz Infracapital)	Infrastructure	**100.00**	–	100.00	–
PETNET, Inc. (PETNET)	Financial Services	**51.00**	–	51.00	–
Weather Solutions, Inc. (WSI)***	Services	**100.00**	–	–	–

** No commercial operations*
*** Incorporated in Singapore. All other companies are incorporated in the Philippines.*
**** The 2017 and 2016 financial statements of these subsidiaries were audited by other independent auditors. All other companies were audited by the principal auditors*

The details of the Company's investments in subsidiaries accounted for under the cost method follow:

	2017	2016
AP	**₱11,172,872,837**	₱11,172,872,837
AboitizLand	**5,991,000,000**	5,731,000,000
PILMICO	**1,658,885,002**	1,658,885,002
CPDC	**1,266,546,023**	1,266,546,023
PETNET	**1,003,684,410**	1,003,684,410
AEV International	**1,278,542,554**	878,693,254
AVI	**685,159,000**	709,350,000
Aboitiz Infracapital	**671,000,000**	62,500,000
Propriedad del Norte, Inc.	**650,000,000**	650,000,000
Apo Agua	**99,143,100**	95,300,100
API	**25,000,000**	25,000,000
AIPL	**21,739,130**	21,739,130
WSI	**2,500,000**	–
	24,526,072,056	23,275,570,756
Advances from subsidiaries	**(25,781,300)**	(25,804,115)
	₱24,500,290,756	₱23,249,766,641

Capital infusion to AboitizLand
In December 2017, the Company made additional capital infusion to AboitizLand amounting to ₱260.0 million.

Capital infusion to AEV International
On various dates in 2017, the Company made additional capital infusions to AEV International amounting to ₱400.0 million.

Capital infusion to WSI
In December 2017, the Company infused ₱2.5 million capital into WSI. WSI is a newly formed corporation that provides services and products in the field of data processing, collection, storage and analysis and design programming, and operates internet-based products, particularly, but not limited to the field of weather information services.

Redemption of preferred shares
On June 1, 2017 and July 11, 2016, AVI redeemed portions of its preferred shares amounting to ₱24.2 million and ₱41.1 million, respectively.

Capital infusion to Aboitiz Infracapital
In 2016, the Company infused capital to Aboitiz Infracapital amounting to ₱62.5 million. Aboitiz Infracapital is the Group's investment vehicle for all future infrastructure-related investments.

In 2017, the Company made additional infusion to Aboitiz Infracapital amounting to ₱608.5 million.

Capital infusion to CPDC
On October 7, 2016, the Company made additional capital infusion to CPDC amounting to ₱60.0 million.

Sale of Aseagas shares
On March 31, 2016, the BOD of the Company approved the sale of its equity interest in Aseagas to Aboitiz Renewables, Inc. (ARI), a wholly-owned subsidiary of AP. On July 4, 2016, the sale was completed after the closing conditions for the sale were met. AEV sold its entire shareholdings in Aseagas comprising of 72,710,000 common shares and 654,300,000 redeemable preferred shares at a price per share of ₱0.83 or for a total purchase price of ₱605.0 million. Loss generated from this sale amounted to ₱122.0 million.

Investment in Apo Agua
Apo Agua is a 70:30 partnership between AEV and J.V. Angeles Construction Corporation (JVACC), respectively. In March 2015, Apo Agua signed the contractual agreement and bulk water purchase agreement (BWPA) with Davao City Water District (DCWD) to supply treated bulk water of up to 300 million liters per day to DCWD from a facility that will be powered by a hydroelectric power plant, a renewable energy facility. Construction is scheduled to start in the second quarter of 2016.

AEV's 70% beneficial interest in Apo Agua is accounted for as an investment in a subsidiary.

In 2017, the Company made additional infusion to Apo Agua amounting to ₱3.8 million.

Acquisition of 51% of PETNET
On June 1, 2015, the Company acquired 51% stake in PETNET from Amon Trading Corporation, Strongview Inc. and various individual shareholders for a total consideration of ₱1.0 billion. PETNET is a Philippine money remittance business with a national footprint of around 2,500 locations through a mix of own units and business partner agreements, and is the largest Western Union agent network of the Philippines. PETNET has a large growth and development potential with the continued increase in remittances from overseas Filipino workers and with a large opportunity to distribute complementary products through an extensive network of outlets.

The Company's 51% ownership in the equity share capital of PETNET is treated as an investment in a subsidiary.

8. Investments and Advances

	Nature of Business****	Percentage of Ownership 2017	2016
AEV CRH Holdings, Inc. (AEV CRH)	Holding	**60.00**	60.00
Cebu District Property Enterprise, Inc. (CDPEI)*	Real Estate	**50.00**	50.00
Union Bank of the Philippines (UBP)**	Banking	**48.83**	48.83
CRH Aboitiz Holdings, Inc. (CRH Aboitiz)	Holding	**45.00**	45.00
Accuria, Inc. (Accuria)***	Holding	**49.54**	49.54
Jardine Aboitiz Insurance Brokers, Inc. (JAIB)***	Insurance Brokerage	**49.00**	49.00

** The Company owns 50% of the non-voting, participating and non-cumulative preferred shares of CDPEI.*
*** The 2017 and 2016 financial statements of this associate were audited by another independent auditor. All other companies were audited by the principal auditors.*
**** No commercial operations and fully written off in 2016.*
***** All companies are incorporated in the Philippines.*

The details of the Company's investments in and advances to associates and a joint venture accounted for under the cost method follow:

	2017	2016
AEV CRH	**₱23,573,714,090**	₱23,573,714,090
UBP	**10,050,228,196**	10,050,228,196
CDPEI	**1,350,000,000**	1,350,000,000
CRH ABOITIZ	**169,056,131**	169,056,131
	₱35,142,998,417	₱35,142,998,417

Acquisition of UBP shares
The Company purchased additional 9.1 million shares in UBP for a total consideration of ₱586.9 million and 5.7 million shares for ₱320.9 million in June 2016 and December 2015, respectively. As a result, its ownership in UBP increased from 47.97% to 48.83% in 2016 and from 47.43% to 47.97% in 2015.

The fair value of the investment in UBP for which there is a published price quotation amounted to ₱44.8 billion and ₱38.6 billion as of December 31, 2017 and 2016, respectively.

Acquisition of the Philippine Business of Lafarge S.A.
On September 15, 2015, the Company and CRH PLC (CRH), through their investment vehicles, AEV CRH and CRH ABOITIZ, closed the acquisition of Lafarge S.A. Philippine assets. The Company acquired its interest in AEV CRH and CRH ABOITIZ for a total consideration of ₱23.7 billion. Simultaneously, AEV CRH purchased 99.09% of Republic Cement and Building Materials, Inc. (RCBMI) and 100% of Luzon Continental Land Corporation (LCLC) shares, while CRH ABOITIZ acquired 100% of the outstanding common shares of Republic Cement Services, Inc. (RCSI).

RCBM is a publicly-listed company engaged in the manufacture, development, exploitation and sale of cement, marble and all other kinds and classes of building materials, and the processing or manufacture of materials for any industrial or commercial purposes. It owns 99.63% of Republic Cement Mindanao, Inc. (RCMI) and 94.63% of Republic Cement Iligan, Inc. (RCII).

LCLC was incorporated primarily to acquire, develop and operate land, quarries and other properties used for mining, and to process all kinds of ore and cement materials. LCLC currently leases its land to RCBM and supplies RCBM with certain raw materials.

RCSI is engaged in providing technical, professional and management services to businesses involving cement manufacturing, distribution and quarrying. It provides management services to LCLC, RCBM, RCMI, and RCII in respect of their non-nationalized business activities.

The Company holds 60% of the equity shares of AEV CRH. Management assessed that since the Company does not have the ability to direct the relevant activities which most significantly affect the returns of the subsidiaries of AEV CRH, it cannot consolidate AEV CRH group. This is a result of the contractual arrangements that give the other partner the power to direct the relevant non-nationalized activities of these subsidiaries. Consequently, the Company recognizes AEV CRH as an associate that is accounted for using the equity method in the AEV consolidated financial statements. AEV owns 45% of the outstanding shares of CRH ABOITIZ, and likewise treats it as an investment in an associate.

9. Accounts Payable and Accrued Expenses

	2017	2016
Accrued expenses	**₱42,937,290**	₱211,332,775
Accrued interest (see Note 12)	**194,301,577**	194,216,587
Withholding taxes payable	**36,008,994**	59,139,303
VAT output payable	**28,380,304**	38,683,035
Others	**1,389,875**	1,794,220
	₱303,018,040	₱505,165,920

Accrued expenses include payroll, travel and transportation expenses and subscription liabilities.

10. Related Party Disclosures

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

In the normal course of business, the Company enters into transactions with related parties, principally consisting of the following:

a. Interest-bearing short-term and long-term advances granted to certain affiliates. Annual interest rates, which are determined on arm's length basis, range from 2.50% - 6.43% in 2017, 2.50% - 5.03% in 2016, and 0.50% - 4.60% in 2015.

b. Management and other professional and technical fees charged to related parties at arm's length basis.

c. Rentals paid at current market rates to CPDC for the use of CPDC's properties by the Company's officers and employees.

d. Aviation service fees paid at an arm's length basis to AVI for the use of aircraft during travel of the Company's officers and employees.

e. Cash deposits and money market placements with UBP. At prevailing rates, these fixed-rate investments earned interest income amounting to ₱90.2 million, ₱33.9 million and ₱11.4 million in 2017, 2016 and 2015, respectively. Outstanding balances amounted to ₱8.9 billion and ₱540.5 million as of December 31, 2017, and 2016, respectively.

The above transactions are settled in cash.

The parent company balance sheets and statements of income include the following accounts resulting from these related party transactions (amounts in thousands):

Due from Affiliates

	Interest Income (Expense)			Outstanding Balance			
	2017	2016	2015	**2017**	2016	Terms	Conditions
Subsidiaries							
Davao Light & Power Corporation (DLP)	**₱49,519**	₱16,279	₱–	**₱–**	₱2,540,000	On demand; interest-bearing	Unsecured; no impairment
CPDC	**18,352**	5,484	19	**130,000**	420,000	Payable in 7 years; interest-bearing	Unsecured; no impairment
PFC	**5,284**	–	–	**290,000**	–	Payable in 5 years; interest-bearing	Unsecured; no impairment
Advent Energy, Inc.	**6,125**	–	–	**300,000**	–	On demand; interest-bearing	Unsecured; no impairment
AVI	**–**	–	(1)	**–**	–	On demand; interest-bearing	Unsecured; no impairment
Cotabato Light & Power Corporation (CLP)	**1,122**	11	–	**–**	19,500	On demand; interest-bearing	Unsecured; no impairment
Co-subsidiary							
Aboitiz Construction, Inc.	**1,426**	–	–	**69,000**	–	On demand; interest-bearing	Unsecured; no impairment
	₱81,828	₱21,774	₱18	**₱789,000**	₱2,979,500		

Revenues - Management, Professional and Technical Fees

	Revenue			Accounts Receivable (Payable)			
	2017	2016	2015	**2017**	2016	Terms	Conditions
Parent Company							
ACO	**₱10,867**	₱8,975	₱8,835	**₱227**	₱–	30-day; interest-free	Unsecured; no impairment
Subsidiaries							
PILMICO	**286,536**	274,584	433,996	**–**	–	30-day; interest-free	Unsecured; no impairment
Visayan Electric Co., Inc.	**103,876**	104,033	90,392	**99,759**	123,447	30-day; interest-free	Unsecured; no impairment
AP	**88,603**	87,169	102,608	**1,525**	24,063	30-day; interest-free	Unsecured; no impairment
DLP	**35,599**	27,744	21,187	**32,533**	3,340	30-day; interest-free	Unsecured; no impairment
AboitizLand, Inc.	**28,812**	26,923	22,618	**5,113**	6,473	30-day; interest-free	Unsecured; no impairment
Therma Visayas, Inc.	**21,827**	16,266	21,266	**4,536**	–	30-day; interest-free	Unsecured; no impairment
Therma South, Inc.	**22,579**	16,258	26,917	**3,769**	2,118	30-day; interest-free	Unsecured; no impairment

(Forward)

	Revenue			Accounts Receivable (Payable)			
	2017	2016	2015	**2017**	2016	Terms	Conditions
Therma Luzon, Inc.	**₱5,699**	₱9,288	₱10,012	**(₱820)**	₱6,092	30-day; interest-free	Unsecured; no impairment
Hedcor, Inc.	**7,109**	8,350	7,288	**2,543**	34	30-day; interest-free	Unsecured; no impairment
Pilmico Animal Nutrition Corporation	**13,724**	7,915	6,785	**1,438**	(895)	30-day; interest-free	Unsecured; no impairment
Aseagas	**2,391**	5,525	5,414	**–**	1	30-day; interest-free	Unsecured; no impairment
Hedcor Sibulan, Inc.	**3,449**	4,098	3,016	**795**	298	30-day; interest-free	Unsecured; no impairment
Therma Mobile, Inc.	**3,852**	3,690	3,205	**297**	710	30-day; interest-free	Unsecured; no impairment
Therma Marine, Inc.	**7,908**	3,568	2,987	**839**	476	30-day; interest-free	Unsecured; no impairment
Therma Power, Inc.	**1,071**	3,076	968	**90**	–	30-day; interest-free	Unsecured; no impairment
PETNET	**5,061**	3,045	40	**595**	902	30-day; interest-free	Unsecured; no impairment
AVI	**2,066**	2,373	1,973	**–**	1	30-day; interest-free	Unsecured; no impairment
AP Energy Solutions, Inc.	**2,315**	2,097	2,261	**36**	286	30-day; interest-free	Unsecured; no impairment
Apo Agua	**3,145**	1,995	194	**1,031**	615	30-day; interest-free	Unsecured; no impairment
Aboitiz Infracapital, Inc.	**11,249**	–	–	**3,096**	–	30-day; interest-free	Unsecured; no impairment
Luzon Hydro Corporation	**1,947**	1,589	1,689	**387**	(19)	30-day; interest-free	Unsecured; no impairment
CPDC	**2,195**	1,528	1,166	**8**	12	30-day; interest-free	Unsecured; no impairment
Aboitiz Renewables, Inc.	**73,640**	–	–	**43,211**	–	30-day; interest-free	Unsecured; no impairment
AP Renewables, Inc.	**15,576**	1,479	11,801	**(791)**	(1,741)	30-day; interest-free	Unsecured; no impairment
Subic Enerzone Corporation	**11**	27	–	**2,619**	13,088	30-day; interest-free	Unsecured; no impairment
Mactan Enerzone Corporation	**65**	–	–	**297**	3,247	30-day; interest-free	Unsecured; no impairment
Associates and Joint Ventures							
AEV CRH Holdings, Inc.	**–**	–	–	**3**	–	30-day; interest-free	Unsecured; no impairment
RCBMI	**298,609**	327,203	85,800	**67,193**	66,339	30-day; interest-free	Unsecured; no impairment
RCMI	**69,780**	76,462	19,450	**15,701**	15,497	30-day; interest-free	Unsecured; no impairment
RCII	**45,418**	49,767	13,650	**10,219**	10,086	30-day; interest-free	Unsecured; no impairment
SN Aboitiz Power - Magat, Inc.	**3,651**	5,785	1,531	**326**	177	30-day; interest-free	Unsecured; no impairment
SN Aboitiz Power - Benguet, Inc.	**2,025**	5,613	1,692	**308**	177	30-day; interest-free	Unsecured; no impairment
Manila-Oslo Renewable Enterprise, Inc.	**2,810**	2,762	2,037	**445**	595	30-day; interest-free	Unsecured; no impairment
UBP	**981**	738	540	**613**	211	30-day; interest-free	Unsecured; no impairment
Other Related Parties	**59,595**	64,895	42,532	**1,656**	10,213	30-day; interest-free	Unsecured; no impairment
	₱1,244,041	₱1,154,820	₱953,850	**₱299,597**	₱285,843		

Rental and Aviation Services (see Notes 16 and 17)

	Expense			Accounts Payable			
	2017	2016	2015	**2017**	2016	Terms	Conditions
Subsidiaries							
AVI	**₱25,363**	₱26,468	₱21,063	**₱–**	₱–	30-day; interest-free	Clean; no collateral
CPDC	**7,607**	7,353	7,826	**–**	338	30-day; interest-free	Clean; no collateral
	₱32,970	₱33,821	₱28,889	**₱–**	₱338		

Cash Deposits and Placements

	Interest Income			Outstanding Balance			
	2017	2016	2015	**2017**	2016	Terms	Conditions
UBP	**₱90,206**	₱33,886	₱11,371	**₱8,894,406**	₱540,487	90 days or less; interest-bearing	No impairment

The Company's retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by ACO under the supervision of the Board of Trustees (BOT) of the plan.

The Fund has a carrying amount and a fair value of ₱771.8 million and 732.5 million as of December 31, 2017 and 2016, respectively (see Note 18). The assets and investments of the Fund are as follows (amounts in thousands):

	2017	2016
Cash and fixed-income investments	**₱361,523**	₱204,058
AFS investments	**479,344**	529,211
	₱840,867	₱733,269

Fixed-income investments represent money market placements and investment in bonds and preferred shares with maturities ranging from less than a year up to five years. AFS investments mainly comprise quoted equity securities which are carried at their fair values.

The Company's retirement benefit fund for its employees has investments in the equities of the Company and one of its subsidiaries. The carrying values of these investments as of December 31, 2017 and 2016 and the gains of the Fund arising from such investments for the years then ended are as follows (amounts in thousands):

	2017		2016	
	Carrying Value	**Gains**	Carrying Value	Gains
AEV common shares	**₱77,795**	**₱20,959**	₱200,465	₱6,756
AP common shares	**192,261**	**12,506**	91,523	7,982

The above investments of the Fund were approved by the BOT. The voting rights over these equity securities are exercised by the chairman of the BOT.

Compensation of Key Management Personnel

	2017	2016	2015
Short-term benefits	**₱305,641,866**	₱239,476,741	₱213,606,767
Post-employment benefits	**20,260,738**	15,435,788	14,555,861
	₱325,902,604	₱254,912,529	₱228,162,628

11. Property and Equipment

December 31, 2017

	Transportation Equipment	Office Equipment, Furniture and Fixtures	Leasehold Improvements	Computer Equipment	Total
Cost:					
At January 1	**₱69,322,944**	**₱93,279,053**	**₱190,604,901**	**₱171,981,762**	**₱525,188,660**
Additions	**24,482,219**	**6,170,880**	**1,100,531**	**33,584,504**	**65,338,134**
Disposals	**(21,747,595)**	**(554,520)**	**(1,243,979)**	**(5,339,250)**	**(28,885,344)**
At December 31	**72,057,568**	**98,895,413**	**190,461,453**	**200,227,016**	**561,641,450**
Accumulated Depreciation and Amortization:					
At January 1	**40,562,080**	**62,244,078**	**55,558,519**	**129,687,043**	**288,051,720**
Depreciation and amortization	**13,911,237**	**12,757,036**	**7,834,697**	**24,829,052**	**59,332,022**
Disposals	**(15,161,035)**	**(403,050)**	**(380,340)**	**(4,855,796)**	**(20,800,221)**
At December 31	**39,312,282**	**74,598,064**	**63,012,876**	**149,660,299**	**326,583,521**
Net Book Value	**₱32,745,286**	**₱24,297,349**	**₱127,448,577**	**₱50,566,717**	**₱235,057,929**

December 31, 2016

	Transportation Equipment	Office Equipment, Furniture and Fixtures	Leasehold Improvements	Computer Equipment	Total
Cost:					
At January 1	₱56,697,780	₱83,799,018	₱184,117,955	₱148,899,025	₱473,513,778
Additions	15,857,535	10,760,467	6,782,571	24,851,508	58,252,081
Disposals	(3,232,371)	(1,280,432)	(295,625)	(1,768,771)	(6,577,199)
At December 31	69,322,944	93,279,053	190,604,901	171,981,762	525,188,660
Accumulated Depreciation and Amortization:					
At January 1	33,425,405	44,764,002	49,841,050	106,742,651	234,773,108
Depreciation and amortization	9,859,745	18,758,344	5,900,806	24,686,094	59,204,989
Disposals	(2,723,070)	(1,278,268)	(183,337)	(1,741,702)	(5,926,377)
At December 31	40,562,080	62,244,078	55,558,519	129,687,043	288,051,720
Net Book Value	₱28,760,864	₱31,034,975	₱135,046,382	₱42,294,719	₱237,136,940

As of December 31, 2017 and 2016, no property and equipment are used to secure the Company's long-term debts (see Note 12).

As of December 31, 2017 and 2016, there are no fully depreciated property and equipment in use.

12. Long-term Debts

2015 Retail Bonds - ₱24.0 billion

In August 2015, the Company issued a total of ₱24.0 billion bonds, broken down into ₱10.5 billion 5-year, ₱8.5 billion 7-year and ₱5.0 billion 12-year bonds at fixed interest rates ranging from 4.47% to 6.02%.

2013 Retail Bonds - ₱8.0 billion

In November 2013, the Company issued a total of ₱8.0 billion bonds, broken down into ₱6.2 billion 7-year and ₱1.8 billion 10-year bonds at fixed interest rates ranging from 4.41% to 4.62%.

The 2015- and 2013-issued retail bonds have been rated PRS Aaa by the Philippine Rating Services Corporation (PhilRatings).

The principal amount of the above bonds shall be payable on a lump sum basis on the respective maturity date at its face value. These bonds may be redeemed in advance by the Company based on stipulated early redemption option dates and on agreed early redemption price. As of December 31, 2017 and 2016, deferred financing costs amounted to ₱184.3 million and ₱229.0 million, respectively.

The loan agreements on long-term debt of the Company provide for certain restrictions with respect to, among others, incurrence of additional debts, payment of dividends, investment and guaranties, mergers or consolidations or other material changes in ownership, corporate set-up or management, disposition of mortgage of assets and maintenance of financial ratios.

These restrictions and requirements were complied with by the Company as of December 31, 2017 and 2016.

13. Capital Stock and Redeemable Preferred Shares

Information on the Company's authorized capital stock follows:

	Number of Shares
Authorized capital stock:	
Common shares, ₱1 par value	9,600,000,000
Preferred shares, ₱1 par value	400,000,000

Outstanding capital stock is as follows:

	Number of Shares	
	2017	2016
Common shares issued	**5,694,599,621**	5,694,599,621
Less treasury shares	**60,807,064**	60,807,064
Balance at end of year	**5,633,792,557**	5,633,792,557

On November 16, 1994, the Company listed with the Philippine Securities Exchange (PSE) its 3,650,385,204 common shares with a par value of ₱1.00 per share to cover the initial public offering (IPO) of 821,486,204 common shares at an offer price of ₱5.70 per share. Gross proceeds from this issuance of new shares amounted to ₱4.6 billion. Transaction costs incidental to the IPO totaling ₱528.0 million were charged against "Additional paid-in capital" in the parent company balance sheet.

On May 23, 1995 and August 30, 1996, the Company distributed 20% stock dividend equivalent to 730.08 million shares and 30% stock dividend equivalent to 1.31 billion shares, respectively. Both stock dividends were issued at ₱1.00 per share. At the end of 1996, common shares issued totaled 5.69 billion.

The preferred shares are non-voting, non-participating, non-convertible, cumulative re-issuable and redeemable and may be issued from time to time by the BOD in one or more series and fixed before issuance thereof, the number of shares in each series, and all designations, relative rights, preferences and limitations of the shares in each series. Preferred shares that are redeemed by the Company may be re-issued.

There were no preferred shares issued as of December 31, 2017 and 2016.

As of December 31, 2017, and 2016, the Company has 9,002 and 9,177 shareholders, respectively.

Treasury Shares
As of December 31, 2017 and 2016, treasury shares held by AEV totaled 60.8 million with corresponding acquisition cost of ₱521.1 million. In 2016, 79.5 million shares costing ₱544.5 million were sold for ₱5.9 billion while 15.7 million shares costing ₱112.8 million were sold for ₱885.3 million in 2015.

14. Retained Earnings

On March 7, 2017, the BOD approved the following:

a. Declaration of a regular cash dividend of ₱1.33 per share (₱7.49 billion) to all stockholders of record as of March 21, 2017. These dividends were paid on April 10, 2017.

b. Reversal of ₱1.095 billion retained earnings appropriations for funding of additional capital infusions into the following investees (amounts in thousand pesos):

Investee	Project to be Funded	Board Approval Date	Estimated Project Start Date	Estimated Project Completion Date	Appropriation	Status of Capital Infusion as of December 31, 2017
AboitizLand, Inc. and Subsidiaries	Land acquisition	July 2013	First quarter of 2014	End of fourth quarter of 2017	₱500,000	Deferred
Aseagas, Inc.	Plant construction	March 2015	August 2014	Start of third quarter of 2016	345,000	Executed
PETNET, Inc.	Business expansion	May 2015	June 2015	December 2016	250,000	Executed
Total					₱1,095,000	

On March 8, 2016, the BOD approved the following:

a. Declaration of a regular cash dividend of ₱1.06 per share (₱5.89 billion) to all stockholders of record as of March 22, 2016. These dividends were paid on April 19, 2016.

b. Appropriation of ₱2.72 billion of the retained earnings as of December 31, 2015 for the funding of the estimated ₱1.0 billion purchase price adjustment on the acquisition of the Philippine business of Lafarge S.A. and for additional capital infusion into the following investees to finance their respective business expansion projects or ongoing plant construction (amounts in thousand pesos):

Investee	Project to be Funded	Board Approval Date	Estimated Project Start Date	Estimated Project Completion Date	Appropriation
AboitizLand, Inc. and Subsidiaries	Land acquisition	July 2013	First quarter of 2014	End of fourth quarter of 2017	₱500,000
Apo Agua Infrastructura, Inc.	Plant construction	December 2015	July 2016	Start of first quarter of 2019	622,000
Aseagas, Inc.	Plant construction	March 2015	August 2014	Start of third quarter of 2016	345,000
PETNET, Inc.	Business expansion	May 2015	June 2015	December 2016	250,000
Total					₱1,717,000

On March 10, 2015, the BOD approved the declaration of a regular cash dividend of ₱1.11 per share (₱6.15 billion) to all stockholders of record as of March 24, 2015. These dividends were paid on April 20, 2015.

15. Cost of Services

	2017	2016	2015
Salaries and wages (see Note 17)	**₱433,478,987**	₱406,115,303	₱387,902,125
Professional fees	**48,103,124**	58,201,626	41,379,889
Employees' benefits (see Notes 17 and 18)	**38,545,800**	37,683,386	23,142,296
Depreciation (see Note 11)	**34,632,335**	36,881,068	41,147,219
Rent (see Note 10)	**32,459,440**	32,950,855	36,824,897
Repairs and maintenance	**20,083,682**	14,303,305	11,937,099
Communication, light and water	**13,864,658**	12,854,355	13,606,684
Office supplies	**5,671,808**	5,815,025	3,884,528
Amortization of computer software	**877,090**	420,217	1,465,607
	₱627,716,924	₱605,225,140	₱561,290,344

16. General and Administrative Expenses

	2017	2016	2015
Salaries and wages (see Note 17)	**₱309,156,045**	₱245,819,506	₱157,309,129
Transportation and travel (see Note 10)	**67,391,849**	63,605,958	52,252,632
Bank charges	**48,227,274**	57,261,386	92,914,665
Training and development	**40,606,775**	25,188,412	22,401,396
Employees' benefits (see Notes 17 and 18)	**39,407,635**	36,521,604	19,868,054
Professional fees	**34,307,019**	35,229,145	16,781,126
Insurance	**31,054,986**	27,345,771	29,214,016
Outside services	**30,760,845**	28,178,347	24,840,167
Depreciation (see Note 11)	**24,699,687**	22,323,921	16,686,770
Rent (see Note 10)	**23,149,985**	19,944,983	14,933,902
Entertainment, amusement and recreation	**18,887,957**	13,587,984	8,061,464
Communication, light and water	**16,203,300**	13,954,645	10,961,782
Repairs and maintenance	**14,323,628**	8,657,717	4,840,949
Taxes and licenses	**11,197,594**	13,760,362	13,882,896
Advertising	**7,126,066**	4,582,247	13,584,876
Office supplies	**4,045,118**	3,519,805	1,575,324
Amortization of computer software	**625,539**	254,355	594,359
Donations and contributions	**30,000**	560,000	710,500
Provision for doubtful accounts (see Note 5)	**–**	–	67,000,000
Others	**64,318,829**	45,707,132	46,628,497
	₱785,520,131	₱666,003,280	₱615,042,504

"Others" include legal expenses, books and periodicals, freight and handling, and miscellaneous expenses that do not have specific account classification.

17. Personnel Expenses

	2017	2016	2015
Salaries and wages (see Notes 15 and 16)	**₱742,635,032**	₱651,934,809	₱545,211,254
Employees' benefits (see Note 18)	**77,953,435**	74,204,990	43,010,350
	₱820,588,467	₱726,139,799	₱588,221,604

18. Pension Benefit Plan

Under the existing regulatory framework, Republic Act (RA) 7641, otherwise known as *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. It further states that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Company has a funded, noncontributory, defined benefit pension plan ("Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered fund. This Fund is in the form of a trust being maintained and managed by ACO, under the supervision of the BOT of the Plan. The BOT, whose members are also officers of the Company, is responsible for the investment of the Fund assets. Taking into account the Plans' objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the parent company statements of income and the funded status and amounts recognized in the parent company balance sheets for the Plan.

Net benefit expense

	2017	2016	2015
Retirement expense recognized in the statements of income:			
Service cost	**₱58,570,785**	₱49,165,299	₱43,056,700
Net interest cost	**1,637,985**	5,998,481	(15,968,350)
	₱60,208,770	₱55,163,780	₱27,088,350
Remeasurement effects recognized in other comprehensive income:			
Actuarial gain (loss) on defined benefit plan	**₱100,483,565**	(₱47,355,890)	(₱57,927,502)
Return on assets excluding amount included in net interest cost	**48,402,195**	54,842,054	(87,023,920)
	₱148,885,760	₱7,486,164	(₱144,951,422)

Pension liability (asset)

	2017	2016
Present value of obligation	**₱713,211,994**	₱762,576,132
Fair value of plan assets	**(771,834,207)**	(732,521,355)
Pension liability	**(₱58,622,213)**	₱30,054,777

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

	2017	2016
At January 1	**₱762,576,132**	₱638,474,443
Net benefit costs in parent company statements of income:		
Current service costs	**58,570,785**	49,165,299
Interest cost	**41,560,399**	32,689,892
	100,131,184	81,855,191
Benefits paid	**(12,751,274)**	(5,488,240)
Transfers	**(36,260,483)**	378,848
Remeasurements in other comprehensive income:		
Actuarial gain (loss) due to experience adjustments	**(41,278,108)**	59,832,247
Actuarial loss due to changes in demographic and financial assumptions	**(59,205,457)**	(12,476,357)
	(100,483,565)	47,355,890
At December 31	**₱713,211,994**	₱762,576,132

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

	2017	2016
At January 1	**₱732,521,355**	₱521,316,613
Interest income included in net interest cost	**39,922,414**	26,691,411
Actual return excluding amount included in net interest cost	**48,402,195**	54,842,054
Benefits paid	**(12,751,274)**	(5,488,240)
Transfers	**(36,260,483)**	378,848
Actual contributions	**–**	134,780,669
At December 31	**₱771,834,207**	₱732,521,355

Changes in pension liability (asset) recognized in the balance sheets are as follows:

	2017	2016
At January 1	**₱30,054,777**	₱117,157,830
Retirement expense for the year	**60,208,770**	55,163,780
Actuarial gain recognized for the year	**(148,885,760)**	(7,486,164)
Contribution to retirement fund	**–**	(134,780,669)
At December 31	**(₱58,622,213)**	₱30,054,777

The fair value of plan assets by each class at the end of the reporting period are as follows:

	2017	2016
Cash and fixed-income investments	**₱361,522,860**	₱204,057,936
Equity instruments:		
Holding	**77,795,342**	200,464,607
Power	**192,261,351**	91,523,369
Financial institution	**–**	27,975,746
Others	**209,287,581**	209,246,991
Liabilities of the fund	**(69,032,927)**	(747,294)
Fair value of plan assets	**₱771,834,207**	₱732,521,355

All equity instruments held have quoted prices in the active market. The remaining plan assets do not have quoted market prices in active market.

The principal assumptions on December 31, 2017, 2016 and 2015 used in determining the net pension asset for the Company's plan are shown below:

	2017	2016	2015
Discount rate	**5.14%**	5.45%	5.12%
Salary increase rate	**6.00%**	6.00%	6.00%

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2017 and 2016, assuming all other assumptions were held constant:

		2017	2016
	Increase (decrease) in basis points	**Effect on defined benefit obligation**	Effect on defined benefit obligation
Discount rates	100	**(₱22,763,428)**	(₱34,062,104)
	(100)	**26,016,060**	39,717,425
Future salary increases	100	**₱28,912,464**	₱42,969,004
	(100)	**(25,953,724)**	(37,721,695)

The Company's defined benefit plan is funded by the Company.

The Company expects no contribution to the retirement fund in 2018.

The average duration of the defined benefit obligation as of December 31, 2017 and 2016 is 12.0 years and 16.7 years, respectively.

The BOT reviews the performance of the plans on a regular basis. It assesses whether the retirement plans will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Group (to which the Company belongs) also reviews the solvency position of the different member companies on an annual basis and estimates, through the actuary, the expected contribution to the Plan in the subsequent year.

19. Income Tax

The "Provision for (benefit from) income tax" account consists of:

	2017	2016	2015
Current:			
Corporate income tax	**₱25,179,797**	₱21,446,199	₱13,918,860
Final tax	**33,356,616**	33,711,792	22,689,070
	58,536,413	55,157,991	36,607,930
Deferred	**(87,206,141)**	3,739,219	384,938
	(₱28,669,728)	₱58,897,210	₱36,992,868

The current provisions for income tax in 2017, 2016 and 2015 represent MCIT.

The deferred income tax assets represent the tax effects of the following:

	2017	2016
Deferred tax recognized in parent company net income:		
Deferred income tax assets:		
Unrealized foreign exchange loss	**₱82,047,377**	₱42,215
MCIT	**–**	9,890,020
	82,047,377	9,932,235
Deferred tax liabilities:		
Pension asset	**(31,422,066)**	(46,513,065)
	50,625,311	(36,580,830)
Deferred income tax asset related to retirement benefit obligation recognized as other comprehensive income	**36,183,635**	80,849,363
	₱86,808,946	₱44,268,533

In computing for deferred income tax assets and liabilities as of December 31, 2017 and 2016, the rate used was 30%, which is the rate expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled.

As of December 31, 2017, the Company has the following NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deduction against future income tax liabilities:

NOLCO

Period of Recognition	Availment Period	Amount	Applied	Expired	Balance
2014	2015-2017	₱365,396,733	₱–	₱365,396,733	₱–
2015	2016-2018	743,124,166	–	–	743,124,166
2016	2017-2019	1,087,461,544	–	–	1,087,461,544
2017	2018-2020	966,340,684	–	–	966,340,684
		₱3,162,323,127	₱–	₱365,396,733	₱2,796,926,394

MCIT

Period of Recognition	Availment Period	Amount	Applied	Expired	Balance
2014	2015-2017	₱9,890,020	₱–	₱9,890,020	₱–
2015	2016-2018	13,918,860	–	–	13,918,860
2016	2017-2019	21,446,199	–	–	21,446,199
2017	2018-2020	25,179,797	–	–	25,179,797
		₱70,434,876	₱–	₱9,890,020	₱60,544,856

The Company did not recognize deferred income tax asset on NOLCO and a portion of MCIT since management believes that the carryforward benefits of NOLCO and MCIT will not be utilized prior to their expiration.

The reconciliation of the provision for income tax on income before income tax computed at the statutory tax rate to the provision for income tax reported in the parent company statements of income follows:

	2017	2016	2015
Provision for income tax at the statutory tax rate of 30%	**₱2,539,061,020**	₱3,187,169,274	₱3,197,331,438
Add (deduct) income tax effects of the following:			
Unrecognized deferred tax assets on:			
NOLCO	**289,902,205**	326,238,463	222,937,250
MCIT	**25,179,797**	21,446,199	13,918,860
Loss on sale of investments	**–**	28,999,836	–
Nondeductible interest expense	**27,112,494**	17,621,286	12,318,113
Nondeductible representation and rent expense	**744,791**	–	–
Expired MCIT	**9,890,020**	4,602,559	8,359,784
Interest income already subjected to final tax at lower rate	**(48,802,458)**	(19,686,044)	(14,638,546)
Nondeductible write-off (nontaxable reversal) of impairment on investments and advances, project costs and other assets	**19,119,684**	(23,533,423)	285,436,654
Nontaxable dividend income	**(2,890,877,281)**	(3,483,960,940)	(3,688,670,685)
	(₱28,669,728)	₱58,897,210	₱36,992,868

RA No. 10963

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 balance sheet 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 parent company financial statement balances as of the balance sheet date.

20. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash in banks and cash equivalents, AFS investments and long-term debts. The main purpose of these financial instruments is to raise finance for the Company's operations and its investments in existing subsidiaries and associates and in new projects. The Company has other financial assets and liabilities such as trade and other receivables and accounts payable and accrued expenses which arise directly from operations.

The main risks arising from the Company's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding long-term loans; credit risk involving possible exposure to counterparty default on its cash and cash equivalents and AFS investments; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign-currency-denominated placements.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company's credit risk on its cash in banks and short-term investments, accounts receivables and advances to subsidiaries and associates pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these assets. With respect to short-term investments, the risk is mitigated by the short-term and/or liquid nature of its short-term investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. With respect to accounts receivables and advances to subsidiaries and associates, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Company's policy that all debtors who wish to trade on credit terms are subject to credit procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company has no significant concentration risk to a counterparty or company of counterparties.

As of December 31, 2017 and 2016, none of the Company's financial assets are past due nor impaired and the credit quality is considered to be of high grade as these are expected to be collectible without incurring any credit losses.

The Company trades with related parties and recognized, creditworthy third parties.

Counterparty risk
The Company's counterparty risk encompasses issuer risk on investment securities and credit risk on cash in bank. The Company manages its counterparty risk by transacting with counterparties of good financial condition and selecting investment grade securities.

The Company's maximum counterparty exposure is related to its cash and cash equivalents accounts which have a balance of ₱15.4 billion and ₱13.5 billion as of December 31, 2017 and 2016, respectively.

Liquidity risk
Liquidity risk is the potential of not meeting obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Company maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations. The Company, in general, matches the appropriate long-term funding instruments with the general nature of its equity investments.

In managing its short-term fund requirements, the Company's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term borrowings. With regards to its long-term financing requirements, the Company's policy is that not more than 35.0% of long-term borrowings should mature in any 12-month period. There are no debts maturing in less than one year from December 31, 2017 and 2016.

The following table summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments (amounts in thousand pesos):

December 31, 2017

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and accrued expenses	₱303,018	₱407,239	₱–	₱407,239	₱–	₱–
Long-term debts	31,815,744	39,893,658	–	1,553,542	31,965,076	6,375,040
Total	₱32,118,762	₱40,300,897	₱–	₱1,960,781	₱31,965,076	₱6,375,040

December 31, 2016

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and accrued expenses	₱505,166	₱407,344	₱–	₱407,344	₱–	₱–
Long-term debts	31,770,998	41,447,200	–	1,553,542	22,134,347	17,759,311
Total	₱32,276,164	₱41,854,544	₱–	₱1,960,886	₱22,134,347	₱17,759,311

Market risk
The Company's activities expose it primarily to the financial risks of changes in interest rates. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Company's exposure to market risk for changes in interest rates relates primarily to its long-term debts obligations. To manage this risk, the Company determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities.

As of December 31, 2017 and 2016, 100% of the Company's long-term debts are with fixed rates, ranging from 4.41% to 6.02%, in both years.

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are non-interest bearing, are not subject to interest rate risk. Derivative assets and liabilities are subject to fair value interest rate risk.

Foreign exchange risk
The foreign exchange risk of the Company is mainly with respect to its foreign-currency-denominated cash and cash equivalents. To mitigate the risk of incurring foreign exchange losses, foreign currency holdings are matched against the potential need for foreign currency in financing equity investments and new projects.

	2017		2016	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Financial assets				
Cash and cash equivalents	**$286,301,077**	**₱14,295,012,754**	$1,384,571	₱68,840,894

The exchange rate for December 31, 2017 and 2016 is ₱49.93 and ₱49.72 per US$1, respectively. As a result of the translation of these foreign currency denominated assets, the Company reported net unrealized foreign exchange loss of ₱68.2 million in 2017 and net realized foreign exchange gain of ₱176.6 million in 2016.

The following table demonstrates the sensitivity to a reasonable possible change in the US dollar exchange rates, with all other variables held constant, of the Company's income before income tax as of December 31, 2017 and 2016:

	Increase (decrease) in US dollar rate against the Peso	Effect on income before income tax
2017		
US dollar denominated accounts	**US Dollar strengthens by 5%**	**₱714,750,639**
	US Dollar weakens by 5%	**(714,750,639)**
2016		
US dollar denominated accounts	US Dollar strengthens by 5%	₱3,442,044
	US Dollar weakens by 5%	(3,442,044)

Capital Management
Capital includes equity attributable to the equity holders of the parent company. The primary objective of the 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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016.

The Company is required to maintain a certain level of equity under its bond trust agreement (see Note 12).

The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Company's policy is to keep the gearing ratio at 70% or below. The Company determines net debt as the sum of bank loans and long-term debts less cash and short-term deposits.

Gearing ratios of the Company as of December 31, 2017 and 2016 are as follows (amounts in thousand pesos):

	2017	2016
Long-term debts	**₱31,815,744**	₱31,770,998
Cash and cash equivalents	**(15,398,128)**	(13,472,401)
Advances to related parties	**(789,000)**	(2,979,500)
Net debt (a)	**15,628,616**	15,319,097
Equity	**46,079,808**	44,970,723
Equity and net debt (b)	**₱61,708,424**	₱60,289,820
Gearing ratio (a/b)	**25.33%**	25.41%

21. **Financial Instruments**

Fair Value of Financial Instruments
Fair value is defined as the amount at which the financial instrument could be sold in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price.

Set out below is a comparison by category of carrying amounts and fair value of all of the Company's long-term debts whose fair value is different from its carrying amount (amount in thousand pesos):

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liability:				
Other financial liability:				
Long-term debts:				
Fixed rate	**₱31,815,744**	**₱30,708,861**	₱31,770,998	₱32,600,554

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade and other receivables, and accounts payable and accrued expenses

The carrying amounts of cash and cash equivalents, trade and other receivables and accounts payable and accrued expenses approximate their fair value due to the relatively short-term maturity of these financial instruments.

Fixed-rate borrowings

The fair values of fixed rate interest bearing loans are based on the discounted value of future cash flows using the applicable rates for similar types of loans ranging from 4.79% to 7.29% and 4.35% to 6.31% in 2017 and 2016, respectively.

AFS investments

The fair value of AFS investments are based on quoted market prices.

Fair Value Hierarchy

The Company uses the following hierarchy for determining 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, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2017 and 2016, the Company held the following financial instruments that are measured and carried or disclosed at fair value (amounts in thousand pesos):

December 31, 2017

	Total	**Level 1**	**Level 2**	**Level 3**
Carried at fair value:				
AFS investments	**₱317,428**	**₱317,428**	**₱–**	**₱–**
Disclosed at fair value:				
Long-term debts - fixed rate	**30,708,861**	**–**	**–**	**30,708,861**

December 31, 2016

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
AFS investments	₱122,609	₱122,609	₱–	₱–
Disclosed at fair value:				
Long-term debts - fixed rate	32,600,554	–	–	32,600,554

During the years ended December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

22. Notes to Statements of Cash Flows

The following are the cash flow movements of the Company's financing liabilities in 2017:

			Non-cash Change	
	January 1, 2017	Net cash flows	Amortized deferred financing costs	December 31, 2017
Non-current interest-bearing loans	₱31,770,998,493	₱–	₱44,745,092	₱31,815,743,585

23. Events After the Reporting Period

a. To comply with the requirements of Section 43 of the Corporation Code, on March 8, 2018, the BOD approved the following:

- Declaration of a regular cash dividend of ₱1.28 per share (₱7.21 billion) to all stockholders of record as of March 22, 2018. These dividends will be taken out of the unrestricted retained earnings as of December 31, 2017, and will be paid on April 12, 2018. Said declaration is in compliance with the Company's policy of distributing a regular dividend equivalent to at least 33% of previous year's consolidated net income.

- Appropriation of ₱4.2 billion of the retained earnings as of December 31, 2017 for the additional capital infusion into Aboitiz Infracapital, Inc. to finance its capital infusion into Apo Agua Infrastructura, Inc. for the funding of the construction of a bulk water treatment facility, as follows:

Investee	Project to be Funded	Board Approval Date	Estimated Project Start Date	Estimated Project Completion Date	Appropriation (in thousands)
Apo Agua Infrastructura, Inc.	Plant Construction	January 2018	2nd quarter of 2018	1st quarter of 2021	₱4,200,000

- Reversal of ₱1.622 billion retained earnings appropriation that was set up in 2016 for the funding of the ₱1.0 billion purchase price adjustment for the acquisition of the Philippine business of Lafarge S.A. and the ₱622 million capital infusion into Apo Agua Infrastructura, Inc.

On February 9, 2018, AEV signed a Share Purchase Agreement for the sale of its 51% stake in PETNET to City Savings Bank, Inc. (CitySavings) and Union Properties, Inc. for a cash consideration of ₱1.2 billion. The sale and the resulting consolidation of all of AEV's existing interests in banking and financial services will unlock shareholder value from the synergies between the core businesses of CitySavings and PETNET.

24. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued RR 15-2010, requiring additional tax disclosures on the notes to the financial statements that will be submitted as an attachment to tax returns.

The Company reported and/or paid the following types of taxes in 2017:

Value-added tax (VAT)

The 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 12.0%.

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns for 2017

	Net Sales/ Receipts	Output VAT
Taxable sales:		
Sale of goods	₱12,306,149	₱1,476,738
Sale of services	1,436,347,958	172,361,755
	1,448,654,107	173,838,493
Zero-rated sales	179,094,902	–
Exempt directors' fees	165,062,057	–
	₱1,792,811,066	₱173,838,493

Zero-rated sales of goods and services consist of those rendered to persons or entities whose exemptions are provided under special laws or international agreements to which the Philippines is a signatory.

b. Input VAT claimed per 2017 VAT Returns

Balance at January 1	₱8,981,586
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	2,827,424
Capital goods subject to amortization	7,030,452
Capital goods not subject to amortization	–
Services lodged under cost of services sold and other accounts	36,422,702
	55,262,164
VAT input applied against VAT output	43,921,589
Balance at December 31	₱11,340,575

Other Taxes and Licenses for 2017

Taxes and licenses, local and national, include real estate taxes, licenses and permit fees for 2017:

Included in Operating Expenses:	
License and permits fees	₱8,593,138
Documentary stamps taxes	2,361,097
Fringe benefits taxes	98,266
Others	243,359
	₱11,295,860

Withholding Taxes

Final withholding taxes	₱417,161,284
Withholding taxes on compensation and benefits	212,228,348
Expanded withholding taxes	19,917,521
	₱649,307,153

Tax Assessments and Cases

The Company has no pending tax cases outside the administration of the BIR.