

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

3 6 3 5 9

COMPANY NAME

BASIC ENERGY CORPORATION AND
SUBSIDIARIES

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

7th Floor, Basic Petroleum Buil-
ding, C. Palanca Jr. Street,
Legaspi Village, Makati City

Form Type

1 7 - A

Department requiring the report

CRMD

Secondary License Type, If Applicable

N / A

COMPANY INFORMATION

Company's Email Address

basic@basicenergy.ph

Company's Telephone Number

(632) 817-8596 & 98

Mobile Number

N/A

No. of Stockholders

6,587

Annual Meeting (Month / Day)

6/27

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Alain S. Pangan

Email Address

aspangan@basicenergy.ph

Telephone Number/s

817-8596

Mobile Number

0999-227-8352

CONTACT PERSON'S ADDRESS

709 Coronado St., Hulo, Mandaluyong City

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

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



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Basic Energy Corporation and Subsidiaries
7th Floor, Basic Petroleum Building
C. Palanca Jr. Street, Legaspi Village
Makati City

Opinion

We have audited the consolidated financial statements of Basic Energy Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to this matter.

Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Accounting for Investments in Associates

On July 2, 2018, the Group acquired interests in Vintage EPC Co. Ltd. (VEPC) and VTE International Construction Co. Ltd. (VINTER) for a total consideration of ₱145.05 million. The Group has determined that it exercises significant influence over VEPC and VINTER, hence, accounts for these investments as associates using the equity method. As of December 31, 2018, the carrying value of these investments in associates amounted to ₱217.14 million, while the equity in net losses of these associates for the period from July 2, 2018 to December 31, 2018 amounted to ₱5.08 million. We consider the accounting for this acquisition as a key audit matter due to the transaction's financial significance to the Group and the significant management judgment involved in the determination of the existence of significant influence. The equity accounting for these investments was considered a matter of most significance to our audit due to the manual nature of the calculations supporting equity accounting.

The relevant disclosures are presented in Note 11 to the consolidated financial statements.

Audit response

We obtained an understanding of the transaction through discussions with management and our review of the Share Purchase Agreement. We also reviewed management's accounting for the business acquisition, including the purchase price allocation, and the assessment of significant influence in accordance with Philippine Accounting Standards (PAS) 28, *Investments in Associates and Joint Ventures*. We involved our internal specialist in the review of the methodology and assumptions used in the purchase price allocation. We evaluated management's assessment of the acquisition date and performed procedures to check the results of operations commencing from the acquisition date. We also evaluated the presentation and the disclosure of the transaction in the consolidated financial statements.

We obtained an understanding of the Group's process in recognizing its equity in net losses of its associates, including the understanding of the associates' business transactions. We recalculated the Group's equity in net losses of associates based on the associates' audited financial statements. In addition, our audit procedures included, among others, coordinating and instructing the statutory auditors of the associates to perform an audit on the relevant financial information of VEPC and VINTER for the purpose of the Group's consolidated financial statements. We considered the risk assessment, audit strategy of the statutory auditors, as well as any significant developments about the associates. We further evaluated management's considerations regarding the impairment indicators of the investments in associates by reviewing the associates' results of operations as well as the associates' ability to declare dividends.

Valuation of Investment Properties at Fair Value

The Group accounts for its investment properties, which consist of parcels of land, using the fair value model. The Group engaged an appraiser in 2018 to estimate the fair values of the investment properties as at December 31, 2018. The determination of the fair values of these investment properties involves significant management judgment and consideration of various inputs to the estimation. The valuation also requires the assistance of professionally qualified external appraiser whose calculations also depend on certain assumptions such as sales and listing of comparable properties registered within the vicinity and adjustments to sales price based on internal and external factors. Furthermore, the investment properties represented 21% of the consolidated total assets as at December 31, 2018. Accordingly, we considered the valuation of investment properties as a key audit matter.

The Group's disclosures about investment properties are presented in Note 12 to the consolidated financial statements.



Audit response

We considered the competence, objectivity, capabilities of the external appraiser given its qualifications, experience and reporting responsibilities. We involved our internal specialist in the review of the methodology and assumptions used in the valuation of the investment properties. We assessed the methodology adopted by referencing to common valuation models, and evaluated key inputs used in the valuation, specifically size, characteristics of lot, location and quality as well as listings of comparable properties by reference to historical data and comparable properties. We inquired from the external appraiser the basis of adjustments made to the sales price. We also reviewed the disclosures relating to investment properties.

Recoverability of Deferred Exploration Costs

Under PFRS 6, *Exploration for and Evaluation of Mineral Resources*, the Group's deferred exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceed the recoverable amounts. The ability of the Group to recover its deferred exploration costs depends on the success of exploration for and evaluation of geothermal and other renewable resources in the specific area. Deferred exploration costs amounted to ₱123.04 million as at December 31, 2018, which pertains to the Group's participating interests in geothermal and other renewable resources service contracts. The Group recognized additional allowance for impairment of deferred exploration costs amounting to ₱2.98 million in 2018. We considered this as a key audit matter in view of the materiality of this account and the significant management judgment required when performing an impairment assessment.

Information about the Group's deferred exploration costs are presented in Note 13 to the consolidated financial statements.

Audit response

We obtained management's assessment on whether there is any indication that deferred exploration costs may be impaired. We obtained and reviewed the summary of the status of each exploration project as at December 31, 2018, as certified by the Group's drilling and logistics manager, and compared it with the disclosures submitted to the regulatory agency. We also inspected service contracts and the relevant joint operations agreement for each of the exploration projects to determine that the period for which the Group has the right to explore in the specific area has not expired or is not expiring in the near future. We also read the minutes of the meetings of the Group's Board of Directors for the discussion of management plans and significant developments on the service contracts or of any concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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



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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's



report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is
Leovina Mae V. Chu.

SYCIP GORRES VELAYO & CO.

Leovina Mae V. Chu

Leovina Mae V. Chu
Partner

CPA Certificate No. 99910

SEC Accreditation No. 1712-A (Group A),

October 18, 2018, valid until October 17, 2021

Tax Identification No. 209-316-911

BIR Accreditation No. 08-001998-96-2018,

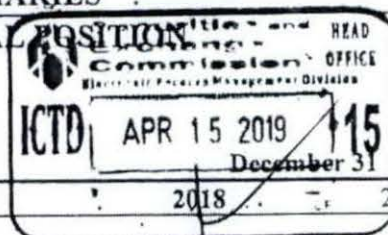
February 2, 2018, valid until February 1, 2021

PTR No. 7332629, January 3, 2019, Makati City

March 28, 2019



BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



ASSETS

Current Assets

Cash and cash equivalents (Note 6)	P42,093,952	P75,029,384
Receivables (Notes 7 and 12)	127,372,857	2,687,022
Refundable deposits (Note 8)	16,183,711	171,429,108
Prepayments and other current assets (Note 9)	12,888,673	11,864,021
Total Current Assets	198,539,193	261,009,535

Noncurrent Assets

Financial assets at FVOCI (Note 10)	44,336,517	-
Available-for-sale (AFS) financial assets (Note 10)	-	46,051,128
Investments in associates (Note 11)	217,136,156	-
Investment properties (Note 12)	160,879,000	275,380,505
Deferred exploration costs (Note 13)	123,042,519	114,658,256
Property and equipment (Note 14)		
At revalued amount	23,302,327	25,593,527
At cost	17,730,064	20,479,445
Other noncurrent assets	3,372,320	9,080,247
Total Noncurrent Assets	589,798,903	491,243,108

TOTAL ASSETS	P788,338,096	P752,252,643
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LIABILITIES AND EQUITY

Current Liabilities

Accounts payable and accrued expenses (Note 15)	P8,994,164	P6,979,960
Loan payable (Note 16)	50,000,000	50,000,000
Dividends payable	888,714	888,714
Income tax payable	216,908	11,800
Advances from stockholder (Note 19)	-	6,670,782
Total Current Liabilities	60,099,786	64,551,256

Noncurrent Liabilities

Deferred income tax liabilities - net (Note 22)	15,006,350	12,099,296
Accrued retirement benefits (Note 21)	7,867,346	3,059,130
Total Noncurrent Liabilities	22,873,696	15,158,426
Total Liabilities	82,973,482	79,709,682

(Forward)



	December 31	
	2018	2017
Equity Attributable to Equity Holders of the Parent Company		
Common stock (Note 17)	P703,848,178	P677,125,178
Additional paid-in capital (Note 17)	42,021,503	35,617,951
Equity reserve on acquisition of non-controlling interest (Note 17)	(53,945,929)	(53,945,929)
Other comprehensive income:		
Revaluation increment in office condominium (Note 14)	15,747,863	17,296,833
Net unrealized gains on changes in fair value of financial assets at FVOCI and AFS financial assets (Note 10)	1,183,379	2,897,990
Remeasurement gains on accrued retirement benefits (Note 21)	1,751,984	2,163,118
Cumulative translation adjustment (CTA)	(4,374,615)	(4,423,295)
Share in cumulative translation adjustments of associates (Note 11)	27,544,449	-
Retained earnings (deficit)	(15,810,752)	7,761,901
Equity Attributable to Equity Holders of the Parent Company	717,966,060	684,493,747
Equity Attributable to Non-controlling Interests (Note 17)	(9,361,446)	(8,710,786)
	708,604,614	675,782,961
Treasury stock - at cost (Note 17)	(3,240,000)	(3,240,000)
Total Equity	705,364,614	672,542,961
 TOTAL LIABILITIES AND EQUITY	 P788,338,096	 P752,252,643

See accompanying Notes to Consolidated Financial Statements.



BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2018	2017	2016
INCOME			
Excess in net assets acquired over cost of associate (Note 11)	P24,184,059	P-	P-
Fair value adjustment on investment properties (Note 12)	21,394,000	-	71,955,696
Realized foreign exchange gains - net	7,589,474	144,186	24,243
Management fee (Note 19)	2,967,471	-	-
Interest income (Note 18)	2,071,143	3,292,064	4,633,256
Unrealized foreign exchange gains - net	1,488,509	-	16,414,280
Reversal of allowance for impairment on receivables (Note 7)	590,941	-	-
Dividend income (Note 10)	1,280	3,625,953	4,820,629
Gain on sale of AFS financial assets (Note 10)	-	1,680,256	-
Gain on sale of property and equipment	-	-	1,611
	60,286,877	8,742,459	97,849,715
EXPENSES (CHARGES)			
General and administrative expenses (Note 20)	56,423,495	55,655,931	51,954,997
Loss on sale of investment properties (Note 12)	10,728,788	-	-
Share in net loss of associates (Note 11)	5,077,498	-	-
Goodwill impairment loss	3,757,602	-	-
Interest expense (Note 16)	3,415,799	444,792	-
Provision for impairment of deferred exploration costs (Note 13)	2,946,624	-	166,713,571
Unrealized foreign exchange loss - net	-	1,375,008	-
	82,349,806	57,475,731	218,668,568
LOSS BEFORE INCOME TAX	22,062,929	48,733,272	120,818,853
PROVISION FOR INCOME TAX (Note 22)			
Final	409,192	648,738	922,634
Current	216,908	11,800	7,424
Deferred	3,083,254	8,850,560	2,711,401
	3,709,354	9,511,098	3,641,459
NET LOSS	P25,772,283	P58,244,370	P124,460,312
NET LOSS ATTRIBUTABLE TO:			
Equity holders of the Parent Company	P25,121,623	P58,104,275	P75,648,092
Non-controlling interests (Note 17)	650,660	140,095	48,812,220
	P25,772,283	P58,244,370	P124,460,312
LOSS PER SHARE (Note 23)			
Basic/Diluted	P0.009	P0.022	P0.030

See accompanying Notes to Consolidated Financial Statements.



BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
NET LOSS	P25,772,283	P58,244,370	P124,460,312
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Unrealized loss on changes in fair value of:			
Financial assets at FVOCI (Note 10)	(2,214,611)	—	—
AFS financial assets (Note 10)	—	(2,740,758)	111,396
Share in cumulative translation adjustments of associates (Note 11)	27,544,449	—	—
Movement in cumulative translation adjustments	48,680	974,805	(4,693,215)
	25,378,518	(1,765,953)	(4,581,819)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) on retirement benefits liability (Note 21)	(587,334)	9,805,648	(194,960)
Income tax effect	176,200	(2,941,694)	58,488
	(411,134)	6,863,954	(136,472)
Unrealized gain on changes in fair value of financial assets at FVOCI (Note 10)	500,000	—	—
Revaluation increment in office condominium (Note 14)	—	—	10,802,318
Income tax effect	—	—	(3,240,695)
	—	—	7,561,623
	88,866	6,863,954	7,425,151
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	25,467,384	5,098,001	2,843,332
TOTAL COMPREHENSIVE LOSS	P304,899	P53,146,369	P121,616,980
TOTAL COMPREHENSIVE LOSS (INCOME) ATTRIBUTABLE TO:			
Equity holders of the Parent Company	(P345,761)	P53,105,883	P72,364,304
Non-controlling interest	650,660	40,486	49,252,676
	P304,899	P53,146,369	P121,616,980

See accompanying Notes to Consolidated Financial Statements.



BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Equity Attributable to Equity Holders of the Parent Company													
	Common Stock (Note 17)	Additional Paid-in Capital (Note 17)	Equity Reserve on Acquisition of Non-controlling Interest (Note 17)	Deposit for Future Stock Subscription (Note 17)	Revaluation Increment in Office Condominium (Note 14)	Net Unrealized Gain (Loss) on Changes in Fair Value of Financial Assets at FVOCI and AFS Financial Assets (Note 10)	Remeasurement Gain (Loss) on Accrued Retirement Benefits (Note 21)	Cumulative Translation Adjustment	Share in Cumulative Translation Adjustments of Associates (Note 11)	Retained Earnings (Deficit)	Subtotal	Equity Attributable to Non-controlling Interests (NCI) (Note 17)	Treasury Stock (Note 17)	Total Equity
Balances at December 31, 2015	P640,029,628	P32,699,360	P-	P-	P12,805,479	P5,527,352	(P4,564,364)	(P1,045,732)	P-	P138,443,999	P823,895,722	(P13,769,176)	(P3,240,000)	P806,886,546
Net loss	-	-	-	-	-	-	-	-	-	(75,648,092)	(75,648,092)	(48,812,220)	-	(124,460,312)
Other comprehensive income, net of tax	-	-	-	-	7,561,623	111,396	(136,472)	(4,252,759)	-	-	3,283,788	(440,456)	-	2,843,312
Total comprehensive income (loss)	-	-	-	-	7,561,623	111,396	(136,472)	(4,252,759)	-	(75,648,092)	(72,364,304)	(49,252,676)	-	(121,616,980)
Deposits for future stock subscriptions	-	-	-	13,941,078	-	-	-	-	-	-	13,941,078	-	-	13,941,078
Transfer of portion of revaluation increment realized through depreciation	-	-	-	-	(1,521,298)	-	-	-	-	1,521,298	-	-	-	-
Balances at December 31, 2016	640,029,628	32,699,360	-	13,941,078	18,845,804	5,638,748	(4,700,836)	(5,298,491)	-	64,317,205	765,472,496	(63,021,852)	(3,240,000)	699,210,644
Net loss	-	-	-	-	-	-	-	-	-	(58,104,275)	(58,104,275)	(140,095)	-	(58,244,370)
Other comprehensive income, net of tax	-	-	-	-	-	(2,740,758)	6,861,954	875,196	-	-	4,996,392	99,609	-	5,096,001
Total comprehensive income (loss)	-	-	-	-	-	(2,740,758)	6,861,954	875,196	-	(58,104,275)	(53,105,883)	(40,486)	-	(53,146,369)
Issuance of capital stock	26,204,083	-	-	-	-	-	-	-	-	-	26,204,083	-	-	26,204,083
Share issue cost	-	(131,020)	-	-	-	-	-	-	-	-	(131,020)	-	-	(131,020)
Conversion of deposit for future subscription to capital stock	10,891,467	3,049,611	-	(13,941,078)	-	-	-	-	-	-	-	-	-	-
Excess of acquisition cost over carrying value of non-controlling interest	-	-	(53,945,929)	-	-	-	-	-	-	-	(53,945,929)	54,351,352	-	405,623
Transfer of portion of revaluation increment realized through depreciation	-	-	-	-	(1,548,971)	-	-	-	-	1,548,971	-	-	-	-
Balances at December 31, 2017	677,125,178	35,617,951	(53,945,929)	-	17,296,833	2,897,990	2,163,118	(4,423,295)	-	7,761,901	684,493,747	(8,710,786)	(3,240,000)	672,542,961
Net loss	-	-	-	-	-	-	-	-	-	(25,121,623)	(25,121,623)	(650,660)	-	(25,772,283)
Other comprehensive income, net	-	-	-	-	-	(1,714,611)	(411,134)	48,680	27,544,449	-	25,467,384	-	-	25,467,384
Total comprehensive income (loss)	-	-	-	-	-	(1,714,611)	(411,134)	48,680	27,544,449	(25,121,623)	345,761	(650,660)	-	(304,899)
Issuance of capital stock	26,723,000	6,670,782	-	-	-	-	-	-	-	-	33,393,782	-	-	33,393,782
Share issuance cost	-	(267,230)	-	-	-	-	-	-	-	-	(267,230)	-	-	(267,230)
Transfer of portion of revaluation increment realized through depreciation	-	-	-	-	(1,548,970)	-	-	-	-	1,548,970	-	-	-	-
Balances at December 31, 2018	P703,848,178	P42,021,503	(P53,945,929)	P-	P15,747,863	P1,183,379	P1,751,984	(P4,374,615)	P27,544,449	(P15,810,752)	P717,966,060	(P9,361,446)	(P3,240,000)	P705,364,614

See accompanying Notes to Consolidated Financial Statements



BASIC ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	(P22,062,929)	(P48,733,272)	(P120,818,853)
Adjustments for:			
Excess of net assets acquired over cost of associate (Note 11)	(24,184,059)	—	—
Fair value adjustment on investment properties (Note 12)	(21,394,000)	—	(71,955,696)
Loss on sale of investment properties (Note 12)	10,728,788	—	—
Depreciation and amortization (Note 14)	5,242,050	5,421,968	3,586,931
Share in net loss of associates (Note 11)	5,077,498	—	—
Retirement expense (Note 21)	4,220,882	6,452,891	6,022,191
Goodwill impairment loss	3,757,602	—	—
Interest expense (Note 16)	3,415,799	444,792	—
Provision for impairment of deferred exploration costs (Note 13)	2,946,624	—	166,713,571
Interest income (Note 18)	(2,071,143)	(3,292,064)	(4,633,256)
Unrealized foreign exchange losses (gains) - net	(1,439,829)	1,375,008	(16,414,280)
Reversal of impairment loss on receivable (Note 7)	(590,941)	—	—
Dividend income (Note 10)	(1,280)	(3,625,953)	(4,820,629)
Gain on sale of AFS financial assets (Note 10)	—	(1,680,256)	—
Gain on sale of property and equipment (Note 14)	—	—	(1,611)
Operating loss before working capital changes	(36,354,938)	(43,636,886)	(42,321,632)
Increase in:			
Receivables	(3,208,671)	(761,717)	(40,046)
Prepayments and other current assets	(1,024,652)	(3,896,401)	(3,771,971)
Increase (decrease) in accounts payable and accrued expenses	2,014,204	(236,261)	2,566,861
Cash used in operations	(38,574,057)	(48,531,265)	(43,566,788)
Contributions to the retirement fund (Note 21)	—	(7,000,000)	(6,500,000)
Interest received	2,227,454	3,079,342	4,633,256
Income taxes paid	(420,992)	(656,162)	(2,042,065)
Net cash flows used in operating activities	(36,767,595)	(53,108,085)	(47,475,597)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investments in associates (Notes 8 and 11)	(32,235,151)	—	—
Receipt (payment) of refundable deposits (Note 8)	22,819,500	(171,712,161)	—
Additions to:			
Deferred exploration costs (Note 13)	(11,330,887)	(29,873,551)	(29,933,862)
Property and equipment (Note 14)	(179,098)	(3,249,645)	(180,029)
Dividends received	1,280	4,414,206	4,820,629
Proceeds from sale of:			
Investment properties	4,124,183	—	—
AFS financial assets	—	88,210,256	25,000,000
Property and equipment	—	—	10,780
Increase in other noncurrent assets	(3,037,566)	(1,865,043)	(467,714)
Net cash flows used in investing activities	(19,837,739)	(114,075,938)	(750,196)

(Forward)



	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of capital stock (Note 17)	P26,455,770	P26,073,063	P-
Loan availment (Note 16)	-	50,000,000	-
Advances from stockholder (Note 19)	-	6,670,782	-
Deposit for future stock subscription (Note 17)	-	-	13,941,078
Interest paid (Note 16)	(3,415,799)	(444,792)	-
Net cash flows from financing activities	23,039,971	82,299,053	13,941,078
NET DECREASE IN CASH AND CASH EQUIVALENTS	(33,565,363)	(84,884,970)	(34,284,715)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	629,931	288,473	(7,104,470)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	75,029,384	159,625,881	201,015,066
CASH AND CASH EQUIVALENTS AT END OF YEAR	P42,093,952	P75,029,384	P159,625,881

See accompanying Notes to Consolidated Financial Statements.



BASIC ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Authorization for the Issuance of the Consolidated Financial Statements

Corporate Information

Basic Energy Corporation (the Parent Company), a publicly listed corporation, and its subsidiaries (collectively referred to as the Group) were incorporated in the Philippines on September 19, 1968.

On August 10, 2007, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Parent Company's primary and secondary purposes, transforming the Parent Company into a holding company with diversified business interests in the different fields of renewable energy and alternative fuels, while pursuing its core business in oil and gas exploration and development.

The Philippine Stock Exchange (PSE) has issued a memorandum stating the sector and subsector reclassification of the Parent Company. From Oil subsector of the Mining and Oil Sector, it has been changed to Electricity, Energy, Power and Water subsector of the Industrial sector. This is the result of PSE's review of the Parent Company's plans and prospects, and in consideration of the Parent Company's recent developments and change in business activity. The reclassification took effect on October 24, 2016.

In April 10, 2018, SEC approved the amendment of Article Four of the Parent Company's Amended Articles of Incorporation for the extension of its corporate life for 50 years from and after September 19, 2018.

The Parent Company's registered business address is at 7th Floor, Basic Petroleum Building, C. Palanca Jr. Street, Legaspi Village, Makati City.

Authorization for the Issuance of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, were authorized for issue by the Board of Directors (BOD) on March 28, 2019.

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

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for quoted financial assets at fair value through other comprehensive income (FVOCI) and investment properties that have been measured at fair value and office condominium that has been measured at revalued amounts. The consolidated financial statements are presented in Philippine Peso (₱), which is the Group's functional currency. Amounts are rounded off to the nearest Philippine Peso unless otherwise indicated.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016.



Subsidiaries. Subsidiaries are entities over which the Parent Company has control.

The Parent Company controls an investee if, and only if, the Parent Company has:

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

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

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

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

Consolidated statement of income and each component of consolidated statement of comprehensive income are attributed to the equity holders of the Parent Company and to the non-controlling interest (NCI) even if this results in the NCI having a deficit balance.

The ownership of the Parent Company over the following subsidiaries as at December 31, 2018 and 2017 are as follows:

Subsidiaries	% of Ownership	County of Incorporation	Nature of Business
Basic Diversified Industrial Holdings, Inc. (BDIH)	100.00	Philippines	Investment holding
iBasic, Inc. (iBasic)	100.00	Philippines	Information technology
Basic Renewables, Inc. (BRI)	100.00	Philippines	Exploration, development and utilization of renewable energy resources
Basic Biofuels Corporation (BBC)	100.00	Philippines	Development of biofuels
Basic Geothermal Energy Corporation (BGE)	100.00	Philippines	Exploration and development of geothermal energy resources
Grandway Group Limited (Grandway)	100.00	Hong Kong	Investment holding
PT Basic Energi Solusi (PT BES)	95.00	Indonesia	Oil exploration
Southwest Resources, Inc. (SRI)	72.58	Philippines	Oil exploration and investment holding

NCI. NCI represents interest in a subsidiary that is not owned, directly or indirectly, by the Parent Company.



NCI represents the portion of profit or loss and the net assets not held by the Group. Transactions with NCI are accounted for using the entity concept method whereby the difference between the consideration and the book value of the share in net assets is recognized as an equity transaction.

NCI represents the 27.42% direct equity interest in the net assets of SRI and 5.00% indirect equity interest in the net assets of PT BES as at December 31, 2018 and 2017.

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

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

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions that are recognized in assets are eliminated in full.

Statement of Compliance

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

3. Changes in Accounting Policies and Disclosures

The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2018.

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

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

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

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



- PFRS 9, *Financial Instruments*

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

The adoption of PFRS 9 from January 1, 2018 resulted in changes in accounting policies, particularly on the accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach, but did not have a material impact on the consolidated financial statements. Also, the Group's financial assets previously classified as loans and receivables under PAS 39 are classified as financial assets at amortized cost under PFRS 9, while the investments in debt securities and equity securities previously classified as available-for-sale (AFS) financial assets under PAS 39 are classified as financial assets at FVOCI under PFRS 9. The adoption of PFRS 9 did not result to changes in the classification and measurement of financial liabilities. The Group has provided other required information in Note 27 to the consolidated financial statements.

The table below illustrates the classification and measurement of financial instruments under PFRS 9 and PAS 39 at the date of initial application.

	Original Measurement Category Under PAS 39	Original Carrying Amount Under PAS 39	New Measurement Category Under PFRS 9	New Carrying Amount Under PFRS 9
Financial Assets				
Cash and cash equivalents	Loans and receivables	₱75,029,384	Financial assets at amortized cost	₱75,029,384
Receivables	Loans and receivables	2,687,022	Financial assets at amortized cost	2,687,022
Refundable deposits	Loans and receivables	171,429,108	Financial assets at amortized cost	171,429,108
Investments in:				
Debt securities	AFS financial assets	39,839,205	Financial asset at FVOCI with recycling	39,839,205
Equity securities	AFS financial assets	6,211,923	Financial asset at FVOCI without recycling	6,211,923

- Amendments to PFRS 4, *Insurance Contracts*, Applying PFRS 9 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 were not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that applies 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.

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group adopted PFRS 15 using the modified retrospective method of adoption.

The Group undertook an analysis of the impact of the new revenue standard based on a review of the contractual terms of its management services agreement and assessed that the amount and timing of revenue recognized under PFRS 15 is the same as that under PAS 18.

Adoption of the standard did not have a significant impact on the consolidated financial statements.

- 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.

The adoption of these amendments did not have any impact on the consolidated financial statements.

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

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

Since the Group's current practice was in line with the clarifications issued, the adoption of these amendments did not have any significant effect on its consolidated financial statements.



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

Since the Group's current practice was in line with the clarifications issued, the adoption of these interpretations did not have any significant effect on its consolidated financial statements.

Standards Issued but not yet Effective

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

Effective Beginning on or after January 1, 2019

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

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

The amendments have no impact on the consolidated financial statements as the Group has no debt instrument with negative compensation prepayment feature.

- PFRS 16, *Leases*

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

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



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

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

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

The Group is currently assessing the impact of adopting PFRS 16.

- 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 Group is currently assessing the impact of this amendment on the consolidated financial statements.

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

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 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 Group is currently assessing the impact of adopting this interpretation.



- Annual Improvements to PFRSs 2015–2017 Cycle

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

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

These amendments are currently not applicable to the Group but may apply to future transactions.

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

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

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs*, Borrowing Costs Eligible for Capitalization

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

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

The amendments are not applicable to the Group as it has no borrowings intended to develop a qualifying asset.



Effective Beginning on or after January 1, 2020

- Amendments to PFRS 3, Definition of a Business

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

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

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

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

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

Effective Beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

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

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



Deferred Effectivity

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

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

4. Summary of Significant Accounting Policies

Presentation of Consolidated Financial Statements

The Group has elected to present all items of recognized income and expense in two statements: a statement displaying components of profit or loss (consolidated statement of income) and a second statement beginning with profit or loss and displaying components of other comprehensive income (OCI; consolidated statement of comprehensive income).

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position 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 12 months after the end of the financial reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the end of the financial 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 end of the financial reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the end of the financial reporting period.

The Group classifies all other liabilities as noncurrent.

Fair Value Measurement

The Group measures financial assets at FVOCI, AFS financial assets and investment properties, at fair value at each end of the reporting period.



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

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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 consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business at the end of the financial reporting period.

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

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

An analysis of the fair values of financial assets at FVOCI and investment properties and further details as to how they are measured are provided in Note 26.



Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash in banks earn interest at floating rates based on daily bank deposit rate.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

Financial Instruments (Prior to Adoption of PFRS 9)

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date (i.e., the date that the Parent Company commits to purchase or sell the asset).

Initial Recognition and Measurement. The Group determines the classification of financial instruments at initial recognition and where allowed and appropriate, re-evaluates this designation at every end of the financial reporting period.

Financial instruments are recognized initially at fair value. Directly attributable transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments at fair value through profit or loss (FVPL).

- *Financial Assets.* Financial assets within the scope of PAS 39 are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and available-for-sale (AFS) financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.
- *Financial Liabilities.* Also under PAS 39, financial liabilities are classified as financial liabilities at FVPL, derivatives designated as hedging instruments in an effective hedge, or as other financial liabilities. The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

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

Subsequent Measurement. The subsequent measurement of financial assets and liabilities depends on their classification as follows:

- *Loans and Receivables.* Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, such financial assets are subsequently measured in the consolidated statement of financial position at amortized cost using the effective interest rate (EIR) method, less any provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of EIR. The losses



arising from impairment are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within 12 months from the financial reporting date or within the Parent Company's operating cycle. Otherwise, these are classified as noncurrent assets.

- *AFS Financial Assets.* AFS financial assets include investments in equity and debt securities. Equity investments classified as AFS financial assets are those which are neither classified as held for trading nor designated 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.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in the consolidated statement of comprehensive income in the "Net unrealized gain on changes in fair value of AFS financial assets" account until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated statement of income, or determined to be impaired, at which time the cumulative loss is reclassified to consolidated statement of income and removed from OCI.

The Group evaluated its AFS financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the AFS financial assets category, any previous gain or loss on that asset that has been recognized in equity is amortized to the consolidated statement of income over the remaining life of the investment using the EIR method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to consolidated statement of income.

- *Other Financial Liabilities.* Issued financial instruments or their components which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to 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.

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.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Other financial liabilities are classified as current liabilities when it is expected to be settled within 12 months from the end of the



reporting period or the Group does not have an unconditional right to defer settlement of the liabilities for at least 12 months from the end of the reporting period.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization shall be included in "Other income (charges) - net" in the consolidated statement of income.

Other financial liabilities are included in current liabilities if settlement is to be made within 12 months from the financial reporting date. Otherwise, these are classified as noncurrent liabilities.

Impairment of Financial Assets (Prior to Adoption of PFRS 9)

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred '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 observable data indicating 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 financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The present value of the estimated future cash flows is discounted at the financial assets' original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest income" in the consolidated statement of income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment loss was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.



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

AFS Financial Assets. For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. 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 consolidated statement of comprehensive income is removed from OCI and recognized in consolidated statement of income.

Impairment losses on equity investments are not reversed through consolidated statement of income while increases in the fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as a component of "Interest income" account in the consolidated statement of income. If, subsequently, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in consolidated statement of income, the impairment loss is reversed through consolidated statement of income.

Financial Instruments (Upon Adoption of PFRS 9)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Instruments: Financial Assets

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and fair value through profit or loss.

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

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

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

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



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

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

Financial assets at Amortized Cost (Debt Instruments). The Group measures financial assets at amortized cost if both of the following conditions are met:

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

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

The Group's financial assets at amortized cost includes "Cash and cash equivalents", "Receivables", and "Refundable deposits" in the consolidated statement of financial position.

Financial Assets at Fair Value through OCI (Debt Instruments). The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

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

For debt instruments at fair value through OCI, interest income is recognized in the consolidated statement of income while foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of comprehensive income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments.

Financial Assets at Fair Value through OCI (Equity Instruments). Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments*:

Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the



financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its investments in unquoted equity securities under this category.

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

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

Financial Instruments: Financial Liabilities

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

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

The Group's financial liabilities include "Accounts payable and accrued expenses", "Loan payable", "Dividends payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards).

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs under the "Interest expense" in the consolidated statement of comprehensive income.

Derecognition of Financial Assets and Financial Liabilities (Prior to Adoption of PFRS 9)

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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 consolidated statement of income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Investments in Associates

An associate is an entity over which the Group 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 Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.



The consolidated statement of income reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The financial statements of the associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the loss in the consolidated statement of income.

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

Prepayments and Other Current Assets

Prepayments. Prepayments are expenses paid in advance and recorded as assets before they are utilized. This account comprises prepaid rentals and insurance premiums and other prepaid items. The prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in consolidated statement of income when incurred. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets otherwise, these are classified as other noncurrent assets.

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

Investment Properties

Investment properties, consisting of parcels of land owned by the Group, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

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

Property and Equipment

Property and equipment, other than office condominium, are carried at cost less accumulated depreciation and amortization and any impairment in value.



Office condominium is carried at revalued amount less depreciation and any impairment in value charged subsequent to the date of the revaluation. Valuations are performed frequently enough to ensure that the fair value of revalued asset does not differ materially from its carrying amount.

Any revaluation increment is credited to the "Revaluation increment in office condominium" account in the equity section of the consolidated statement of financial position, net of the related deferred income tax liability. An annual transfer from the "Revaluation increment in office condominium" account to retained earnings is made for the difference between the depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost. Additionally, accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation increment relating to the particular asset sold is transferred to retained earnings.

The initial costs of property and equipment consist of their purchase price and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are recognized in the consolidated statement of income in the year in which costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. Major maintenance and major overhaul costs that are capitalized as part of property and equipment are depreciated on a straight-line basis over the shorter of their estimated useful lives, typically the period until the next major maintenance or inspection.

Depreciation and amortization is computed using the straight-line method to allocate the related assets' cost to their estimated useful lives. The annual rates of depreciation for each category are based on the following useful lives of related assets:

	Number of Years
Machinery and equipment	10
Transportation equipment	5
Building and building improvements	15
Office equipment, furniture and fixtures	3
Office condominium	15

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

Depreciation of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Fully depreciated assets are retained in the accounts until they are no longer in use.



Deferred Exploration Costs

All exploration and evaluation costs incurred in connection with the participation of the Group in the determination of technical feasibility and assessment of commercial viability of an identified resource are capitalized and accounted for under the "successful efforts method" [determined on the basis of each Service Contract (SC) or Geophysical Survey and Exploration Contract]. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

Once the legal right to explore has been acquired, costs directly associated with an exploration and evaluation are capitalized and amortized at the start of commercial operations. All such capitalized costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When an SC is permanently abandoned, all related capitalized exploration costs are written-off. SCs are considered permanently abandoned if the SCs have expired and/or if there are no definite plans for further exploration and/or development.

Impairment of Nonfinancial Assets

Deferred Exploration Costs. The Group assesses at each reporting period whether there is an indication that its deferred exploration costs and project development costs may be impaired. If any indication exists, or when an annual impairment testing for such items is required, the Group makes an estimate of their recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual item, unless such item does not generate cash inflows that are largely independent of those from other assets or group of assets or CGUs. When the carrying amount exceeds its recoverable amount, such item is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows to be generated by such items are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU.

Investment Properties, Property and Equipment and Other Noncurrent Assets. The Group assesses at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash generating unit (CGU) are written down to their estimated recoverable amounts. The estimated recoverable amount of an asset is the greater of the fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date 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 by a credit to current operations (unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the same asset) to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation) had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in consolidated statement of income unless the asset is carried at revalued



amount, in which case the reversal is treated as a revaluation increase. After such reversal, the amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on systematic basis over its remaining useful life.

Prepayments and Other Current Assets. The Group provides provision for impairment losses on nonfinancial prepayments and other current assets when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in provision for impairment losses would increase recorded expenses and decrease prepayments and other current assets.

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

Impairment losses are recognized in the consolidated statement of income.

Equity

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

Additional Paid-in Capital. When the shares are sold at a 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 Group, 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. Incremental costs that are directly attributable to the issuance of new shares are charged to this account.

Deposit for Future Stock Subscription. This pertains to the amount of cash and advances from stockholders as payment for future issuance of stocks. The Group classifies a deposit for future stock subscription as an equity instrument if it satisfies all of the following elements:

- the unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- there is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- there is stockholders' approval of said proposed increase; and
- the application for the approval of the proposed increase has been filed with the SEC.

If any or all of the foregoing elements are not present, the deposit for future stock subscription shall be recognized as a liability.

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



Retained Earnings. The amount included in retained earnings includes cumulative profit or loss attributable to the Parent Company's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Parent Company's BOD. Dividends for the period that are approved after the end of the financial reporting date are dealt with as an event after the financial reporting period. Retained earnings may also include the effect of changes in accounting policy as may be required by the accounting standard's transitional provisions.

Basic/Diluted Loss per Share

Basic Loss per Share. Basic loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year.

Diluted Loss per Share. Diluted loss per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares, excluding treasury shares.

Revenue Recognition

The Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Prior to 2018, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

Interest Income. Interest income from bank deposits is recognized as it accrues using the effective interest rate method.

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

Other Income. Other income, which normally includes sale of property and equipment, is recognized as revenue when earned and received.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or occurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are used or the expense arises while interest expenses are accrued in the appropriate financial reporting date.

Retirement Benefits

The net retirement benefits liability or asset is the aggregate of the present value of the retirement benefit obligation at the end of the financial reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling



is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Retirement benefit costs comprise the following:

- Service cost
- Net interest on the net retirement benefit liability or asset
- Remeasurements of net retirement 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 consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net retirement benefit liability or asset is the change during the period in the net retirement 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 retirement benefit liability or asset. Net interest on the net retirement benefit liability or asset is recognized as expense or income in consolidated 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 retirement benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements recognized in OCI after the initial adoption of Revised PAS 19, *Employee Benefits*, are not closed to retained earnings account. These are retained in OCI until full settlement of the liability.

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

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

Income Taxes

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



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

Deferred Income Tax. Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the financial reporting 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 income or loss;
- 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, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carry-over (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of unused tax credits and unused tax losses 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 income nor taxable income or loss;
- 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 income will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on the tax rate and tax laws that have been enacted or substantively enacted at the financial reporting date.

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

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.



Segment Information

The Group considers investment holding and geothermal energy projects as its primary activities. The Group has no geographical segmentation as the Group's operating business segments are neither organized nor managed by geographical segment.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the financial reporting period. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing as at the date of the initial transactions. Nonmonetary items measured at the fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. All differences are taken to "Other income - net" in the consolidated statement of income under "Unrealized foreign exchange gain (loss) - net" account.

Provisions

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

Contingencies

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

Events after the Reporting Date

Post year-end events that provide additional information about the Group's position at the end of the reporting period (adjusting events) are reflected in the Group's consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRSs requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The judgments and estimates used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of the changes will be reflected in the consolidated financial statements as they become reasonably determinable.

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

Judgments

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



Determination of the Group's Functional Currency. Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency has been determined to be the Philippine Peso. It is the currency that mainly influences the operations of the Group.

Determination of Significant Influence over an Investee Company. The Group has 15% interest each in VEPC and VINTER, which is below the 20% threshold where significant influence is presumed under PAS 28. The Group considers its 15% investments each in VEPC and VINTER as investments in associates as it concluded that it has significant influence over the operating and financial policies of its investments in associates due to the following:

- representation in the BOD;
- participation in policy-making processes, including participation in decisions about dividends and other distributions; and
- material transactions between the investor and investee.

Classification of Investment Property. The Group classifies its land as investment property or owner-occupied property based on its current intentions where it will be used. When the land is held for capital appreciation or when management is still undecided as to its future use, it is classified as investment property. The land which is held for rent are classified as investment property.

Capitalization of Exploration and Evaluation Costs. Careful judgment of management is applied when deciding whether the recognition requirements for exploration and evaluation assets relating to the Group's exploration projects have been met. Capitalization of these costs is based, to a certain extent, on management's judgment of the degree to which the expenditure may be associated with finding specific geothermal reserve. This is necessary as the economic success of the exploration is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the information available at end of each reporting period.

Contractual Cash Flows Assessment (Applicable upon adoption of PFRS 9). Beginning January 1, 2018, for each financial asset, the Group assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Evaluation of Business Model in Managing Financial Instruments (Applicable upon adoption of PFRS 9). Beginning January 1, 2018, the Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:



- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Estimates and Assumptions

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 asset and liabilities within the next financial year are discussed below:

Estimation of Allowance for Impairment of Receivables. The Group reviews its receivables at each reporting date to assess the adequacy of the allowance for impairment. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on factors such as, but not limited to, the length of the Group's relationship with the customer, customer's payment behavior and other known market factors.

Estimation of Provision for Expected Credit Losses (Upon Adoption of PFRS 9). The Group uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for each counterparty.

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the Group's receivables is disclosed in Note 27.

The carrying values of receivables amounted to ₱127.37 million and ₱2.69 million as at December 31, 2018 and 2017, respectively, net of allowance for impairment loss amounting to ₱2.14 million and ₱2.73 million as at December 31, 2018 and 2017, respectively (see Note 7).

Impairment of AFS Financial Assets. The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment.



The Group treats “significant” as 20% or more of the cost and “prolonged” as greater than 12 months for quoted equity securities.

Allowance for impairment on quoted investment in shares of stock amounted to ₱3.55 million as at December 31, 2017 (see Note 10).

As at December 31, 2017, the Group assessed that there were no impairment indicators on its financial assets at FVOCI. The carrying value of the Group’s financial assets at FVOCI amounted to ₱46.05 million as at December 31, 2017 (see Note 10).

Revaluation of Office Condominium and Investment Properties. The Group carries its investment properties at fair value with changes in fair value recognized in the consolidated statement of income, and carries its office condominium at revalued amount with changes in fair value recognized in the consolidated statement of changes in equity. The Group engaged an external appraiser to assess the fair value of its investment properties as at December 31, 2018.

For investment properties, a valuation methodology based on market approach was used, which is a comparative approach that considers the sales of similar or substitute assets and related market data and establishes a value estimate by processes involving comparison. In addition, it measures the office condominium at revalued amount, with changes in fair value being recognized in OCI. The market approach was used for the office condominium, which provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. The key assumptions used to determine the fair value of the properties are provided in Note 26.

Revaluation increase on office condominium recognized under OCI in 2016 amounted to ₱7.56 million, net of the applicable tax. Net book value of revalued office condominium amounted to ₱23.30 million and ₱25.59 million as at December 31, 2018 and 2017, respectively (see Note 14).

In 2018, the Group recognized fair value adjustment on its investment properties amounting to ₱21.39 million. The carrying value of investment properties amounted to ₱160.88 million and ₱275.38 million as at December 31, 2018 and 2017, respectively (see Note 12).

Impairment of Property and Equipment. The Group assesses impairment on property and equipment recorded at cost whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

As at December 31, 2018 and 2017, the Group assessed that there were no impairment indicators on its property and equipment. The carrying value of property and equipment, net of accumulated depreciation, amounted to ₱17.73 million and ₱20.48 million as at December 31, 2018 and 2017, respectively (see Note 14).

Impairment of Investments in Associate. The Group determines whether there is objective evidence that the investments in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss in the consolidated statement of income.



Impairment and Write-off of Deferred Exploration Costs. The Group assesses impairment on deferred exploration costs when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. Until the Group has sufficient data to determine technical feasibility and commercial viability, deferred charges need not be assessed for impairment.

Facts and circumstances that would require an impairment assessment as set forth in PFRS 6, *Exploration for and Evaluation of Mineral Resources*, are as follows:

- the period for which the Group has the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For deferred exploration costs, impairment is recognized when a SC where the Group has participating interest is permanently abandoned. Future events could cause the Group to conclude that these assets are impaired.

The Group recognized provision for impairment of deferred exploration costs amounting to ₱2.95 million, nil and ₱166.71 million in 2018, 2017 and 2016, respectively. The carrying amount of deferred exploration costs, net of allowance for impairment loss, amounted to ₱123.04 million and ₱114.66 million as at December 31, 2018 and 2017, respectively (see Note 13).

Estimation of Retirement Benefits. The cost of defined benefit pension plan as well as the present value of the defined benefit obligation is determined using actuarial valuation. The actuarial valuation involves making various assumptions which include the determination of the discount rates, future salary increases and mortality rates. 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. The assumptions made by the Group resulted in accrued retirement benefits amounting to ₱7.87 million and ₱3.06 million as at December 31, 2018 and 2017, respectively (see Note 21).

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.

Realizability of Deferred Income Tax Assets. Deferred income tax assets are recognized for all temporary deductible differences to the extent that it is probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Management has determined based on business forecast of succeeding years that there is no sufficient future taxable profits against which the deferred income tax assets will be utilized except for the deferred income tax assets related to the provision for impairment loss and some portion of NOLCO and MCIT.



The Group's deferred income tax assets amounted to nil and P3.39 million as at December 31, 2018 and 2017, respectively. Deductible temporary differences and MCIT for which no deferred income tax assets were recognized as at December 31, 2018 and 2017 are presented in Note 22.

Determination of Fair Value of Investment Properties. The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from variety of sources including:

- current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- discounted cash flow (DCF) projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The Group recognized a fair value adjustment on its investment properties amounting to P21.39 million in 2018 which was based on the latest appraisal reports in 2018 for the parcels of land in Bolinao, Pangasinan, Tanay, Rizal, and Gutalac, Zamboanga del Norte. The carrying value of the Group's investment properties amounted to P160.88 million and P275.38 million as at December 31, 2018 and 2017, respectively (see Note 12).

6. Cash and Cash Equivalents

	2018	2017
Cash on hand and in banks	P30,811,958	P11,180,736
Cash equivalents	11,281,994	63,848,648
	P42,093,952	P75,029,384

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

Interest income on the Group's cash in bank and cash equivalents amounted to P0.52 million, P1.09 million and P1.62 million in 2018, 2017 and 2016, respectively (see Note 18).

7. Receivables

	2018	2017
Accounts receivable (see Note 12)	P129,263,232	P4,713,731
Interest receivable	200,262	356,573
Advances to officers and employees	51,369	349,665
	129,514,863	5,419,969
Less allowance for credit/impairment losses	2,142,006	2,732,947
	P127,372,857	P2,687,022



Accounts receivable are short-term, noninterest-bearing receivables from third parties and are generally settled on a 90-day term. Interest receivable arises from the Group's cash equivalents and investments in debt securities.

Advances to officers and employees pertains to the advances made by the Group to its officers and employees for the administration of its operations. These types of advances are settled through liquidation and reimbursement.

The following table shows the movement in the allowance for impairment losses:

	2018	2017
At January 1	₱2,732,947	₱2,732,947
Reversal	(590,941)	-
At December 31	₱2,142,006	₱2,732,947

In 2018, the Group collected its receivable from a related party and reversed the related allowance for impairment loss previously recognized for the receivable.

8. Refundable Deposits

On October 26, 2017, the Parent Company's BOD approved the planned investments on various companies. The Parent Company paid refundable deposits to the following prospective investees which will form part of the Parent Company's investments in these companies subject to the satisfactory result of its due diligence audits.

	2018	2017
Innocent Biomass Power GK (IBP)	₱16,183,711	₱15,325,133
Vintage EPC Co. Ltd. (VEPC) and VTE International Construction Co. Ltd (VINTER)	-	133,284,475
Solmax Power Limited (Solmax)	-	22,819,500
	₱16,183,711	₱171,429,108

- a. 10% equity investment in IBP, a limited liability company incorporated and existing under the Laws of Japan - Under the signed investment term sheet, dated December 6, 2017, the intention of the parties is to enter into a binding Shareholders Agreement (SHA) between the Parent Company and IBP. The Parent Company intends to invest up to 10% of the total equity of IBP, with an option to increase to 20%, subject to discussion between the Parent Company and IBP after satisfactory results of the due diligence work on IBP and its 25MW Biomass Power Plant project located in Japan.

As of December 31, 2018, the due diligence work conducted by the Parent Company is still ongoing.

- b. Up to 15% equity investment in VEPC, and VINTER limited companies formed and existing under the Laws of Thailand, which are wholly owned and controlled by Meta Corp. Public Co. Ltd. (META; formerly Vintage Engineering Public Co. Ltd.) - The intention of the Parent Company and META is to enter into a binding Share Purchase Agreement (SPA). The Parent Company invested 15% each of the total equity of VEPC and VINTER, with an option to increase the interest up to 20%.



VEPC and Vinter are the first counter-parties of Green Earth Power (GEP) Myanmar for the supply and construction service requirements of the Engineering, Procurement and Construction (EPC) sub-contractor engaged for the 220MW solar power plant of GEP Myanmar.

On June 27, 2018, the Parent Company entered into a SPA with META to acquire 15% shareholding each in VEPC and VINTER for a total consideration of ₱145.05 million. Consequently, the Parent Company applied the refundable deposit amounting to ₱133.28 million as partial payment to the acquisition cost (see Note 11).

- c. 10% equity investment in Solmax, a limited company formed and existing under the laws of Hong Kong - Solmax initially identified two (2) solar power projects in Japan, namely; (1) 8MWdc Ibaraki Project and (2) 7MWdc Shimane Project, among other projects. The intention of the Parent Company and Solmax is to enter into a binding investment agreement (IA) upon satisfactory result of the due diligence audit.

On September 28, 2018, the Parent Company, upon mutual agreement with Solmax, withdrew the planned equity investment. In line with this, Solmax returned in full the refundable deposit to the Parent Company in December 2018.

9. Prepayments and Other Current Assets

	2018	2017
Input VAT	₱12,583,024	₱11,215,298
Prepaid expenses	305,649	648,723
	₱12,888,673	₱11,864,021

Input VAT represents VAT paid on domestic purchases of goods and services. Prepaid expenses mainly consist of prepayments of the Group on rent, membership dues, life and non-life insurance, and communication expenses.

10. Financial Assets at FVOCI and AFS Financial Assets

	2018	2017
Financial Assets at FVOCI		
Quoted debt securities	₱37,624,594	₱-
Quoted shares of stock	6,711,923	-
AFS Financial Assets		
Quoted debt securities	-	39,839,205
Quoted shares of stock - net of allowance for impairment losses amounting to ₱3.55 million	-	6,211,923
	₱44,336,517	₱46,051,128

Quoted instruments are carried at fair market value as at the end of reporting period.



The movements in financial assets at FVOCI and AFS financial assets are as follows:

	2018	2017
At January 1	₹46,051,128	₹135,321,886
Disposal	–	(86,530,000)
Unrealized losses	(1,714,611)	(2,740,758)
At December 31	₹44,336,517	₹46,051,128

The Group's investment in equity securities amounting to ₹86.53 million was sold in 2017.

Annual interest rates in 2018 and 2017 on these debt securities ranged from 4.50%–4.84%. Interest income earned on these securities amounted to ₹1.55 million, ₹2.20 million and ₹3.01 million in 2018, 2017 and 2016, respectively (see Note 18).

The movements in "Net unrealized gains on changes in fair value of financial assets at FVOCI and AFS financial assets" presented as a separate component of equity follow:

	2018	2017
At January 1	₹2,897,990	₹5,638,748
Unrealized valuation loss for the year	(1,714,611)	(4,421,014)
Realized gain on sale of AFS financial assets	–	1,680,256
At December 31	₹1,183,379	₹2,897,990

Dividend income earned from quoted equity shares amounted to ₹1,280, ₹3.63 million and ₹4.82 million in 2018, 2017 and 2016, respectively.

11. Investments in Associates

	VEPC	VINTER	Total
Acquisition cost:			
At July 2, 2018	₹131,137,160	₹13,914,930	₹145,052,090
Addition	–	25,433,056	25,433,056
At December 31, 2018	131,137,160	39,347,986	170,485,146
Accumulated equity in net earnings and OCI:			
Share in net loss for the period from July 2, 2018 to December 31, 2018	(4,114,968)	(962,530)	(5,077,498)
Excess in net assets acquired over cost	24,184,059	–	24,184,059
Cumulative translation adjustments	21,025,356	6,519,093	27,544,449
	₹172,231,607	₹44,904,549	₹217,136,156

On July 2, 2018, the Group acquired a 15% interest each in VEPC and VINTER, companies incorporated under the laws of Thailand, which are engaged in the engineering, procurement and construction services. The investments are accounted for using the equity method in the consolidated financial statements. VEPC's and VINTER's principal place of business is located at 128 Soi Liang Muang Nonthaburi 10, Tambon Bangkasor, Amphur Muang Nonthaburi, Nonthaburi, 11000, Thailand.



The following table shows the summarized financial information of VEPC and VINTER as at December 31, 2018 and for period from July 2, 2018 to December 31, 2018:

	VEPC	VINTER
Current assets	P3,762,412,640	P868,579,457
Noncurrent assets	79,293,500	—
Current liabilities	2,933,613,619	645,459,830
Equity	P908,092,521	P223,119,627
Revenue	P458,228,533	P84,647,229
Cost of sales	424,518,328	83,798,925
Administrative expenses	34,656,762	6,526,735
Finance cost	32,237,915	738,433
Income tax benefit	5,751,350	—
Net loss	27,433,122	6,416,864
Share in net loss of associates	4,114,968	962,530

The associate had no contingent liabilities or capital commitments as of December 31, 2018. As at December 31, 2018, the undistributed earnings of the associates in the Group's retained earnings are not available for distribution to the shareholders unless declared by the associates.

12. Investment Properties

	2018	2017
At January 1	P275,380,505	P275,380,505
Disposal	(135,895,505)	—
Fair value adjustment	21,394,000	—
At December 31	P160,879,000	P275,380,505

The Group engaged an independent firm of appraisers to determine the fair values of the following properties in 2018 and 2017:

Location	Highest and Best Use	Area in Square Meters	Appraisal Dates		Appraisal Value	
			2018	2017	2018	2017
Bolinao, Pangasinan	Residential or recreational	403,836	December 5, 2018	June 25, 2016	P145,381,000	P129,228,000
Tanay, Rizal	Agro-industrial development	33,485	December 12, 2018	June 24, 2016	10,046,000	5,023,000
Gutalac, Zamboanga del Norte	Agricultural	218,095	December 19, 2018	August 14, 2016	5,452,000	5,234,000
San Fabian, Pangasinan	Residential or recreational	182,981	—	June 25, 2016	—	135,895,505
					P160,879,000	P275,380,505

The fair values were estimated through the market approach that considers the sales of similar or substitute assets and related market data and establishes a value estimate by processes involving comparison. Records of recent sales and offerings of similar land are analyzed and comparison made for such factors as size, characteristics of the lot, location, quality and prospective use.

In 2018, the Group sold its investment property located at San Fabian, Pangasinan for a consideration of P125.22 million, a portion of which is still outstanding as at December 31, 2018 which is lodged under "Receivables" in the consolidated statement of financial position (see Note 7).



Direct operating expenses related to the investment properties include real property taxes paid in 2018 and 2017 amounting to ₱0.28 million and ₱0.26 million, respectively.

The Group has no restriction on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancement.

13. Deferred Exploration Costs

	2018				Total
	Geothermal SC 8 - Mabini	Other Geothermal SCs	Indonesia Oil Project	SC 53 Onshore Mindoro	
At January 1	₱73,160,130	₱23,038,577	₱147,933,884	₱80,426,093	₱324,558,684
Additions	9,482,608	1,848,279	-	-	11,330,887
	82,642,738	24,886,856	147,933,884	80,426,093	335,889,571
Less allowance for impairment loss	-	2,946,624	147,933,884	61,966,544	212,847,052
At December 31	₱82,642,738	₱21,940,232	₱-	₱18,459,549	₱123,042,519

	2017				Total
	Geothermal SC 8 - Mabini	Other Geothermal SCs	Indonesia Oil Project	SC 53 Onshore Mindoro	
At January 1	₱45,961,931	₱20,363,225	₱147,933,884	₱80,426,093	₱294,685,133
Additions	27,198,199	2,675,352	-	-	29,873,551
	73,160,130	23,038,577	147,933,884	80,426,093	324,558,684
Less allowance for impairment loss	-	-	147,933,884	61,966,544	209,900,428
At December 31	₱73,160,130	₱23,038,577	₱-	₱18,459,549	₱114,658,256

The full recovery of the deferred exploration costs amounting to ₱123.04 million and ₱114.66 million as at December 31, 2018 and 2017, respectively, incurred in connection with the Parent Company's participation in the acquisition, exploration and development of geothermal energy and natural gas resources is dependent upon the discovery of steam and natural gas and other renewable resources in commercial quantities from the respective contract areas and the success of future developments thereof.

The accumulated costs incurred in connection with the exploration contracts are shown under "Deferred exploration costs" account in the consolidated statement of financial position. The full recovery of these deferred exploration costs is dependent upon the determination of technical feasibility and commercial quantity of an identifiable resource.

In 2018, the Group recognized allowance for impairment amounting to ₱2.95 million for West Bulusan geothermal service contract. In 2016, the Group recognized in full allowance for impairment amounting to ₱16.22 million, ₱2.56 million and ₱147.93 million for deferred costs pertaining to SC 47, HSCs and Indonesia Oil Project, respectively.

Details of the projects are discussed below.

Oil and Gas Service Contracts (SCs)

The Parent Company is a party, together with other companies and the Philippine Government, through the Department of Energy (DOE) (collectively "the consortium"), to SC 53 (Onshore Mindoro) for the exploration, development and exploitation of the contract area situated in onshore Mindoro.



SC 53 (Onshore Mindoro). Contract Status SC 53 was awarded by the DOE on July 8, 2005, for a ten-year exploration period. It covers 6,600 sq. km. of the onshore areas of Mindoro Island which is within the Northwest Palawan region. Past exploration efforts in the area prior to issuance of SC 53 included the acquisition of 2,000 kilometers of 2D land seismic data and the drilling of four exploration wells. Hydrocarbons zones were reported but were of non-commercial quantity.

Under SC 53 Sub-Phase 1 was carried out by Pitkin Petroleum Ltd. (Pitkin) under a Farm-In Agreement approved by DOE on June 11, 2008. Magnetotelluric (MT) survey was acquired in May 2010 and over 200 kilometers of 2D land seismic data. The exploration works was designed to delineate and assess the hydrocarbon potential of the Progreso-1X in San Jose, Mindoro Occidental and the Sablayan, Mindoro Occidental. Sub-Phase 1, which was to end March 6, 2012 was fulfilled with the completion of the 200 kilometers of seismic data. Sub-Phase 2 commitment involve two (2) wells and a financial commitment of US\$2,000,000. The consortium agreed to drill Progreso-2 to fulfill one of the 2 well obligations and the planned geology and geophysical works will be negotiated as fulfilment of the second well. The consortium approved a firm budget of US\$8,400,000 and the contingent budget amounts to US\$6,140,000.

On October 24, 2016, the DOE approved the transfer of 70% interest and Operatorship of Pitkin Petroleum to Mindoro Palawan Oil and Gas Inc. under a purchase agreement.

The project was placed under a moratorium since May 29, 2012 with effectivity on March 6, 2012 when DOE approved the consortium's notice to enter Sub-Phase 2 in May 9, 2012. Sub-Phase 2 will start only upon the resolution of the Indigenous People (FAMATODI) case and the issuance of the Certificate of Pre-Condition by the National Commission on Indigenous Peoples (NCIP). The FAMATODI case was dismissed in December 2018. As of December 31, 2018, the NCIP is yet to issue the Certificate of Pre-Condition to the Parent Company.

Deferred exploration costs pertaining to SC 53 amounted to ₱18.46 million as at December 31, 2018 and 2017.

Indonesia Oil Project. In 2013, the Group embarked on the Indonesia Oil Project, as it had passed all the financial criteria for a project as set by the BOD, upon recommendation of Management, and had the potential of generating immediate cash flow in less than a year after drilling. The Group entered into a joint venture arrangement with Petrosolve Sdn Bhd (Petrosolve), a company registered in Malaysia, which was engaged in the business of developing oil fields and held a technology for enhanced chemical oil recovery. The joint venture established Grandway Group Limited in Hong Kong, which is 70% owned by the Parent Company and 30% owned by Petrosolve, as the corporate vehicle of the joint venture for the management and operation of oil wells. The joint venture then established PT Basic Energi Solusi (PT BES) as its operating arm in Indonesia with a 95% ownership interest. In 2017, Grandway became a wholly owned subsidiary of the Parent Company (see Note 17).

PT BES, as a sub-contractor, entered into a cooperation agreement with PT Ekamaro for the management and operation of ten (10) oil wells located in the Dadangilo and Wonocolo areas in East Java, Indonesia. These wells are part of the wells covered by cooperation agreements between PT Ekamaro and KUD Sumber Pangan and KUD Usaha Jaya Bersama, both of which had production agreements with Pertamina, the entity vested by the Indonesian Government with the authority to manage old oil wells in Indonesia.

PT BES drilled five (5) of the aforementioned ten (10) wells. However, production was low at only an estimated total of 20,772 barrels compared to projections at the start of the project of 269,346 barrels, while the buying price of Pertamina steadily dropped, from IDR4,160/liter (or USD73.50/barrel) at the start of the project, to IDR2,718/liter (or USD 34.57/barrel) by the 1st quarter of 2015. Calculated



project internal rate of return (IRR), which was at 85.88% at the start of the project, had become negative. During this time, some miners moved for upward adjustments in their revenue sharing, which entailed negotiations with PT Ekamaro, the KUDs, and the miners concerned. Before negotiations could be finalized, Pertamina instituted changes in the framework for the operation of old oil wells and eventually suspended its contracts with the KUDs and designated a new temporary body, the Paguyuban, to handle logistics.

By the middle of 2015, the project was placed on hold until Pertamina is able to finalize the organizational structure of local miners in said areas. These miners are slated to handle the management and operation of oil wells in said areas and with whom PT BES and/or PT Ekamaro shall enter into new co-operation agreements. Since 2015, Pertamina has not yet designated a new organization of local cooperatives or miners groups to supervise the oil operations from old oil wells in the area.

Deferred exploration costs pertaining to the Indonesia Oil Project amounted to ₱147.93 million as at December 31, 2018 and 2017, which was fully provided with allowance for impairment.

Geothermal Service Contracts (GSCs)

The Parent Company is likewise involved in the exploration, development and production of geothermal energy. It has been awarded service contracts for various areas by the DOE, which prescribes the periods and programs for these service contracts, pursuant to Presidential Decree No. 87 for the Mabini GSC and pursuant to Republic Act (RA) No. 9513 (Renewable Energy Act of 2008) for the subsequent GSCs.

GSC 8. GSC 8, which is the Mabini, Batangas GSC, was awarded to the Parent Company on July 10, 2008. The contract area is approximately 32.5 square kilometers and covers the Calumpán Peninsula. The contract period for exploration is five (5) years, and was extended up to 2015, subdivided in three (3) Phases. In September 2015, DOE confirmed a one (1) year extension for its exploration.

In June 2017, the Parent Company submitted its Contract Year (CY) 10 proposal to DOE. The primary focus and objective of the work program for CY 10 is to resolve the cease and desist order issued by the Local Government Unit (LGU) of Mabini, Batangas to GSC 8 by conducting a comprehensive Information, Education and Communication (IEC) campaign together with DOE representatives.

In December 2017, the Parent Company carried out its IEC campaign on five (5) Barangays that were affected by the series of earthquakes that hit the Municipality of Mabini in April 2017. The IEC was supplemented by Lakbay-Aral in the Makiling-Banahaw Geothermal Fields which provided information to Mabini residents on the benefits of geothermal energy. The IEC campaign was completed on May 5, 2018 and the cease and desist order was lifted on June 7, 2018.

Other GSCs. The Parent Company was also awarded the service contracts from the DOE in February 2013, covering four (4) geothermal projects, namely: Iriga Geothermal Power Project, Mariveles Geothermal Power Project, the East Mankayan Geothermal Power Project and the West Bulusan Geothermal Power Project, all carrying a maximum exploration period of five (5) years. These projects are undergoing permitting and coordination with the local government units involved and evaluation of data derived from recently conducted Controlled Source Magnetotelluric surveys.



The East Mankayan Geothermal Power Project lies immediately east of the Cervantes, Ilocos Sur geothermal block of Pan Pacific Power Phils, Inc. and south of the Bontoc-Sadanga block which is operated by Magma Energy Resources. Immediately south is the Daklan block operated by Clean Rock Energy. The area actually covers the 3 provinces of Benguet, Mountain Province and Ifugao. The proposed area is surrounded by lots of known thermal manifestations, e.g. hot springs and thermally altered grounds.

The Mariveles Geothermal Power Project, in Bataan is situated along the West Luzon Volcanic Arc which starts from Mt. Pinatubo in the north and extends farther south across the Manila Bay towards Batangas and northeastern Mindoro.

The Iriga Geothermal Power Project in Camarines Sur is bounded to the north by Isarog geothermal block of Philippine National Oil Company - Renewal Corporation and to the east by the highly productive Tiwi geothermal service contract area of AP Renewables Inc. The areal landscape is dominated by Iriga or Asog Volcano, a relatively in stratovolcano immediately southwest of Lake Buhí in southern Luzon.

In a Farm-in Agreement executed between Desco, Inc. and the Parent Company on January 22, 2016, the Parent Company assigned to Desco, Inc. an 80% participating interest in the Iriga project. The assignment was approved by the DOE in a letter received by the Parent Company on November 8, 2016. Desco, Inc. is now the operator of the Iriga project.

In 2017, Desco, Inc. commissioned 3JTech, a company incorporated in Taiwan, to conduct a Magneto MT Survey in the Iriga Block. The interpretation works identified resistivity anomaly in the area. Desco, Inc. undertook further geophysical reprocessing of the MT for refinement of the possible drilling anomaly. As at December 31, 2018, preparation is underway to drill one (1) exploration well to establish the geothermal resource in the area. Permitting works and other LGU coordination are ongoing for the drilling preparation.

The West Bulusan Geothermal Power Project is situated in the municipalities of Juban, Magallanes, Irosin, Bulan, Matnog, Santa Magdalena, and Bulusan, in the province of Sorsogon. It is bounded on the northeast by the geothermal contract area of SKI Construction Group, Inc. and is in close vicinity to Mount Bulusan, an active volcano and a declared Natural Park by virtue of Proclamation No. 421 on 27 November 2000. The DOE estimates the project site to have a potential installed capacity of 50 megawatts. The area has previously been explored by the PNOC-Energy Development Corporation in the 1980's. Data gathered from this study is the take-off point for the feasibility study undertaken by the Parent Company. The Parent Company had requested the DOE to suspend the financial and other obligations of the Parent Company for this project in view of difficulties encountered in securing the resolutions of support for the project from the local government units involved.

In December 2017, the DOE terminated the West Bulusan Geothermal service contract. Accordingly, the Group recognized impairment of the related deferred exploration costs amounting to ₱2.95 million in 2018. However, the Parent Company has filed a motion for DOE to reconsider its decision to terminate the said contract.

Deferred exploration costs pertaining to GSCs amounted to ₱104.58 million and ₱96.21 million as at December 31, 2018 and 2017, respectively.



14. Property and Equipment

At Cost

	2018				
	Machinery and Equipment	Transportation Equipment	Building and Building Improvements	Office Equipment, Furniture and Fixtures	Total
Cost					
At January 1	P18,825,539	P8,016,840	P5,283,338	P10,001,113	P42,126,830
Additions	-	-	62,098	117,000	179,098
At December 31	18,825,539	8,016,840	5,345,436	10,118,113	42,305,928
Accumulated Depreciation					
At January 1	2,196,313	5,586,767	4,222,298	9,642,007	21,647,385
Depreciation (see Note 20)	1,882,553	595,120	220,855	229,951	2,928,479
At December 31	4,078,866	6,181,887	4,443,153	9,871,958	24,575,864
Net Book Values	P14,746,673	P1,834,953	P902,283	P246,155	P17,730,064

	2017				
	Machinery and Equipment	Transportation Equipment	Building and Building Improvements	Office Equipment, Furniture and Fixtures	Total
Cost					
At January 1	P18,825,539	P5,041,240	P5,283,338	P9,727,068	P38,877,185
Additions	-	2,975,600	-	274,045	3,249,645
At December 31	18,825,539	8,016,840	5,283,338	10,001,113	42,126,830
Accumulated Depreciation					
At January 1	313,759	4,882,578	4,011,793	9,308,787	18,516,917
Depreciation (see Note 20)	1,882,554	704,189	210,505	333,220	3,130,468
At December 31	2,196,313	5,586,767	4,222,298	9,642,007	21,647,385
Net Book Values	P16,629,226	P2,430,073	P1,061,040	P359,106	P20,479,445

At Revalued Amount

	Office Condominium	
	2018	2017
Revalued Amount		
At January 1 and December 31	P28,649,000	P28,649,000
Accumulated Depreciation		
At January 1	3,055,473	763,973
Depreciation (see Note 20)	2,291,200	2,291,500
At December 31	5,346,673	3,055,473
Net Book Value	P23,302,327	P25,593,527

Revaluation of Office Condominium. The Group engaged an independent firm of appraisers, to determine the fair value of its office condominium as at August 25, 2016. The fair value is determined using the generally accepted market approach. The date of the appraisal was September 5, 2016.

Revaluation increment in office condominium as at December 31, 2018 and 2017 amounted to P15.75 million and P17.30 million, respectively, which is presented under the "Revaluation increment in office condominium" account in the consolidated statements of financial position and consolidated statements of changes in equity.



If the office condominium was measured using the cost model, the carrying amount as of December 31, 2018 and 2017 would be as follows:

	2018	2017
Cost	P1,730,010	P1,730,010
Accumulated depreciation	(1,268,674)	(1,153,340)
	P461,336	P576,670

The cost of the Group's fully depreciated assets still in use amounted to P13.96 million and P12.66 million as at December 31, 2018 and 2017, respectively.

15. Accounts Payable and Accrued Expenses

	2018	2017
Accounts payable	P6,675,075	P4,758,483
Accrued expenses	1,944,996	1,719,565
Withholding tax payables	305,598	423,108
Government payables	68,495	78,804
	P8,994,164	P6,979,960

The Group's payables consists of short-term and noninterest-bearing trade payables to the Group's local suppliers with an average credit term of 30 days.

Withholding tax payable consists of withholding tax on compensation and expanded withholding tax. Government payables are liabilities to various government agencies generally payable within 30 days. Others are payables for professional fees and condominium dues.

16. Loan Payable

On November 29, 2017, the Parent Company obtained an unsecured short-term loan amounting to P50.00 million from a local bank which was renewed for another three (3) months on October 31, 2018. The loan bears an annual fixed interest rate ranging from 5.875% to 8.25% and 5.25% in 2018 and 2017, respectively. Interest expense on this bank loan amounted to P3.42 million and P0.44 million in 2018 and 2017, respectively.

17. Equity

Capital Stock

The details of the capital stock are as follows:

	2018		2017	
	No. of Shares	Amount	No. of Shares	Amount
Authorized - P0.25 par value	10,000,000,000	P2,500,000,000	10,000,000,000	P2,500,000,000
Unissued	(7,986,580,343)	(1,996,645,086)	(8,093,472,343)	(2,023,368,086)
Issued	2,013,419,657	503,354,914	1,906,527,657	476,631,914
Subscribed	2,646,848,057	661,712,014	2,646,848,057	661,712,014
Subscription receivable	(1,844,875,000)	(461,218,750)	(1,844,875,000)	(461,218,750)
	801,973,057	200,493,264	801,973,057	200,493,264
Issued and outstanding	2,815,392,714	P703,848,178	2,708,500,714	P677,125,178



In 2018, the Parent Company issued 106,892,000 shares at par value of ₱0.25 to META for a total consideration of ₱26.72 million. Share issue costs incurred related to the issuance amounting to ₱0.27 million was charged against "Additional paid-in capital".

In 2017, the Parent Company issued 148,382,202 common shares at ₱0.25 par value to META for a total consideration of ₱40.15 million. As a result, VTE applied the deposit for future stock subscription it paid in 2016 amounting to ₱13.94 million and remitted additional cash amounting to ₱26.21 million. Share issue costs incurred related to the issuance amounting to ₱0.13 million was charged against "Additional paid-in capital".

Below is the Parent Company's track record of registration:

- a. On January 26, 1973, the SEC authorized the Parent Company to sell to the public 617.50 million shares out of its unissued capital stock as of December 31, 1972 within one year from order date, unless extended by the SEC. As of December 31, 1973, the Parent Company's authorized capital stock is 1.50 billion shares with par value of ₱0.01.
- b. On September 8, 1973, the Parent Company applied with the Manila Stock Exchange and Makati Stock Exchange for the listing of its capital stock as of September 8, 1973 (495 million fully paid-up shares and with respect to 1.0 billion shares, upon full payment and issuance of the corresponding stock certificates). The applications for listing were approved by the Board of Governors of both the Manila Stock Exchange and Makati Stock Exchange on September 30, 1973 and September 13, 1973, respectively. Said listing was duly approved by the SEC on October 16, 1973.
- c. On October 17, 1974, the SEC approved the increase in the Parent Company's authorized capital stock from ₱15.0 million (consisting of 1.5 billion shares) to ₱40.0 million (consisting of 4.0 billion shares) at the same par value of ₱0.01. The SEC also approved the 60% stock dividend (₱9.0 million) declaration to stockholders of record as of August 15, 1974.

The Parent Company granted to stockholders of record as of November 15, 1974 the right to subscribe at par of ₱0.01 per share to the unissued and unsubscribed portion of the increased capital stock amounting to ₱16.0 million (1.60 billion shares), at the ratio of 2 shares of stock for every three (3) shares of stock registered in the stockholders' name.

On October 23, 1974, the SEC authorized the listing of the additional 2.50 billion shares of the Parent Company's increased capital stock (900.0 million fully paid-up shares representing the 60% stock dividend, and with respect to 1.60 billion shares, upon full payment and issuance of corresponding stock certificates) in the Manila Stock Exchange, Makati Stock Exchange, Inc. and Metropolitan Stock Exchange, Inc. The listing took effect on November 6, 1974.

- d. On February 4, 1976, the SEC approved the increase in authorized capital stock from ₱40.0 million (₱24.0 million or 60% Class A and ₱16.0 million or 40% Class B) to ₱100.0 million (₱60.0 million or 60% Class A and ₱40.0 million or 40% Class B) both with a par value of ₱0.01 per share. The Parent Company also granted pre-emptive rights to stockholders of record as of October 31, 1975 to subscribe at par value of ₱0.01 per share to ₱20.0 million (₱12.0 million Class A and ₱8.0 million Class B) at the ratio of one share for every two shares held. The right was exercisable on or before January 15, 1976 with a 25% down payment and the balance payable upon call by the BOD.



On December 22, 1975, the SEC issued to the Parent Company a "Certificate of Permit to Offer Securities for Sale" covering the said capital increase of ₱60.0 million (₱36.0 million Class A and ₱24.0 million Class B). On February 26, 1976, the listing of the shares representing the said ₱60.0 million increase in authorized capital stock of the Parent Company in the stock exchanges was approved.

- e. On November 13, 2007, the SEC approved the increase in the capital stock of the Parent Company for ₱500.0 million consisting of the 2.0 billion shares to ₱2.50 billion consisting of 10.0 billion shares. Pursuant to this increase, 537.5 million shares to the subscribers to the capital increase were issued on January 10, 2008.
- f. On May 28, 2009, the Parent Company issued 120,853,182 shares to a new investor, ZN Biofuels, Inc., the registration of which was exempt and confirmed as such by the SEC.
- g. On September 22, 2009, the Parent Company issued 31,818,182 shares to Shouk Financial Services Ltd., the registration of which was exempt and likewise confirmed as such by the SEC.
- h. On September 8, 2011, the SEC approved the Stock Option Plan of the Parent Company granting directors, members of the advisory board, officers and employees of the Parent Company options to purchase, at the par value of ₱0.25 per share, a total of 500 million shares. Out of these shares, 26.7 million have been paid and listed in the Philippine Stock Exchange on January 21, 2013 which was classified as deposit for future stock subscription as of December 31, 2012. On July 24, 2013, the PSE approved the listing of the remaining 473 million shares.

Stock Options Plan (SOP)

On July 11, 2007, the Parent Company's BOD and stockholders approved the SOP. On September 8, 2011, the SEC approved the SOP.

The basic terms and conditions of the SOP are as follows:

- The SOP covers up to 500 million in favor of directors, officers and employees of the Parent Company.
- The agreement provides for an exercise price of ₱0.25 per share.
- These options will be settled in equity once exercised.
- All options are exercisable on the third (3rd) year after the approval of the SOP by the stockholders which will therefore expire on July 11, 2010.

On June 18, 2010, the stockholders approved the extension of the exercise period to July 11, 2013. In 2013, a total of seventeen directors, and the chairman and a member of the advisory board and certain officers of the Parent Company have exercised the stock option plan and subscribed for the total of 500.0 million shares at the exercise price. Weighted average exercise price amounted to ₱0.25 per share. Out of these shares, 26.7 million have been paid and listed in the PSE on January 21, 2013 which was classified as deposit for future stock subscription as at December 31, 2012. On July 24, 2013, the PSE approved for listing the remaining 473.0 million shares. As of December 31, 2018 and 2017, 117.63 million SOP shares were listed with the PSE.

Deposit for Future Stock Subscription

On October 5, 2016, a Memorandum of Agreement (MOA) was executed between the Parent Company and META. Under the MOA, META will subscribe to 435.66 million shares of the Parent Company. Earnest money in the amount of ₱13.94 million was received by the Parent Company through actual remittance on October 19, 2016.



A subscription agreement was executed by the parties on February 24, 2017, which states that the Parent Company agrees to issue to META and META agrees to subscribe to and purchase from the Parent Company, 43.57 million common shares of the Parent Company at a value of P0.32 per share or a total subscription price of P13.94 million. On March 24, 2017, 43.57 million common shares were issued to META.

Treasury Stock

The treasury stock represents 18.0 million shares of the Parent Company costing P3.24 million which are held by BGEC as at December 31, 2018 and 2017.

Non-controlling Interests

In 2013, the Parent Company entered into an agreement with Petrosolve SDN BHD (Petrosolve), a Malaysian corporation engaged in the business of oil fields services, to incorporate Grandway, in which the Parent Company has 70% equity interest. The Parent Company, through Grandway, incorporated PT BES to carry out its oil well business in Indonesia.

On May 10, 2017, the Parent Company entered into a share purchase agreement with Petrosolve, whereby Petrosolve transferred and ceded to the Parent Company its entire shareholdings in Grandway for a consideration of HK\$3,000, thereby giving the Parent Company 100% of the shares of Grandway and 95% of the shares of PT BES. As a result, the Parent Company recognized equity reserve on the acquired non-controlling interest amounting to P53.95 million.

The Group owns 95% equity interest in PT BES in 2018 and 2017, and owns 72.58% equity interest in SRI in 2018 and 2017.

The summarized financial information of SRI and PT BES are provided below. This information is based on amounts before intercompany eliminations.

2018	SRI	PT BES
Non-controlling interests	27.42%	5.00%
Financial Position		
Total current assets	P6,067	P655,673
Total current liabilities	472,438	185,321,520
Total capital deficiency	P467,371	P184,665,847
Non-controlling interests	P128,153	P9,233,293
Financial Performance		
General and administrative expenses	P63,377	P980,848
Other charges	—	11,684,784
Net loss	P63,377	P12,665,632
Net loss attributable to non-controlling interests	P17,378	P633,282
2017	SRI	PT BES
Non-controlling interests	27.42%	5.00%
Financial Position		
Total current assets	P6,067	P627,015
Total current liabilities	410,061	172,627,230
Total capital deficiency	P403,994	P172,000,215
Non-controlling interests	P110,775	P8,600,011



2017	SRI	PT BES
Financial Performance		
General and administrative expenses	P56,593	P1,076,777
Other charges	—	1,414,771
Net loss	P56,593	P2,491,548
Net loss attributable to non-controlling interests	P15,518	P124,577

18. Interest Income

The source of the Group's interest income for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017	2016
Interest income on:			
Financial assets at FVOCI /			
AFS financial assets - debt securities (Note 10)	P1,552,472	P2,197,123	P3,008,473
Cash and cash equivalents (Note 6)	518,671	1,094,941	1,624,783
	P2,071,143	P3,292,064	P4,633,256

19. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

Advances from Stockholder

In 2017, in relation to the MOA executed between the Parent Company and META, the Parent Company has excess cash received from VTE amounting to P6.67 million which will be reimbursed by the Parent Company to META or will be applied to future subscription of META subject to the terms and conditions provided in the MOA. In 2018, the Group and META agreed that the excess cash would form part as consideration of the shares issued in 2017 (see Note 17). Accordingly, the advances from stockholder was closed to "Additional paid-in capital".

Transactions with Retirement Benefit Fund

- The Parent Company's retirement benefit fund is in the form of a trust being maintained by a trustee bank.
- The carrying amount and fair value of the retirement benefit fund (the Fund) as at December 31, 2018 and 2017 amounted to P22.07 million and P26.23 million, respectively (see Note 21).



- c. The assets and investments of the retirement benefit fund as at December 31, 2018 and 2017 are as follows:

	2018	2017
Investments in bonds	₱13,440,684	₱12,934,896
Investment in unit investment trust fund	7,108,781	7,817,037
Investment in stocks	1,150,680	1,235,450
Special savings deposits	277,121	4,153,154
Accrued payables	(19,278)	(21,992)
Others	116,793	115,940
	₱22,074,781	₱26,234,485

- d. In 2018 and 2017, the Parent Company contributed nil and ₱7.00 million, respectively, to the retirement benefit fund (see Note 21).

Compensation of Key Management Personnel

- a. Shares of stock of the Parent Company held by members of the BOD aggregated to 125,807,247 as at December 31, 2018 and 2017.
- b. Compensation of key management personnel consists of short-term employee benefits and post-employment benefits. Short-term employee benefits amounted to ₱11.96 million, ₱12.21 million and ₱11.40 million in 2018, 2017 and 2016, respectively, while, post-employment benefits amounted to ₱3.58 million, ₱4.95 million and ₱4.73 million in 2018, 2017 and 2016, respectively.

Directors' remuneration consists only of per diems for attendance at the BOD and Committee meetings. In 2018, 2017 and 2016, total per diems received by the members of the BOD amounted to ₱2.15 million, ₱2.36 million and ₱1.80 million, respectively. There is no existing compensatory plan or arrangement for directors of the Parent Company.

Remuneration of existing officers of the Group are covered in their employment contracts and, except for retirement benefits under the Group's retirement plan, there are no existing compensatory plans or arrangements for officers of the Group.

A SOP for directors and officers covering 500.0 million shares was approved by the stockholders on July 11, 2007, and the exercise period was extended to July 2013. The SEC issued on September 8, 2011 a resolution exempting the SOP from the registration requirements under the Securities Regulation Code. As of December 31, 2016, the entire 500.0 million shares were subscribed of which 117.6 million shares have been paid.

Transactions with Associates

In 2018, the Parent Company entered in a Management Service Agreement (MSA) with VEPC and VINTER where the Parent Company would render managerial and administrative services to VEPC and VINTER. The Parent Company recognized income from this MSA amounting to ₱2.97 million in 2018. The related receivable amounting to ₱2.97 million as at December 31, 2018 is presented as part of "Accounts receivable" under "Receivables" account in the 2018 consolidated statement of financial position.



20. General and Administrative Expenses

	2018	2017	2016
Personnel:			
Salaries and wages	P19,594,444	P19,559,371	P18,368,157
Retirement expense (see Note 21)	4,220,882	6,452,891	6,022,191
Other employee benefits	4,003,993	5,652,864	5,013,012
Taxes and licenses	6,681,708	1,132,767	1,204,403
Depreciation and amortization (see Note 14)	5,242,050	5,421,968	3,586,931
Transportation and travel	4,515,025	5,336,868	5,243,019
Representation and entertainment	3,954,140	4,621,892	4,497,613
Professional fees	2,162,561	1,604,128	1,969,836
Communication	1,049,180	1,063,243	1,091,396
Utilities	963,668	915,944	925,155
Annual stockholders meeting	532,958	650,719	599,210
Office supplies	369,489	524,234	541,204
Trainings and seminars	246,155	257,376	60,092
Association and membership dues	205,823	187,807	218,850
Repairs and maintenance	65,980	195,105	181,624
Others	2,615,439	2,078,754	2,432,304
	P56,423,495	P55,655,931	P51,954,997

21. Retirement Benefits

The Group maintains a funded, noncontributory defined retirement benefit plan covering all qualified employees.

The Fund is administered by a trustee bank under the supervision of the Board of Trustees (BOT) of the plan. The BOT is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The BOT delegates the implementation of the investment.

RA No. 7641 ("Retirement Pay Law") an Act amending article 287 of Presidential Decree (PD) No. 442 ("Labor Code of the Philippines"), requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's 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 following tables summarize the components of retirement expense recognized in the consolidated statements of income, the remeasurement effects recognized in the consolidated statements of comprehensive income and the amounts recognized in the consolidated statements of financial position.



The components of the retirement expense recognized in the consolidated statements of income are as follows:

	2018	2017
Current service cost	P4,274,982	P5,875,145
Net interest cost (income)	(54,100)	577,746
	P4,220,882	P6,452,891

Remeasurement gain (loss) recognized in other comprehensive income follow:

	2018	2017
Actuarial gain on defined benefit obligation	P1,950,932	P9,604,142
Return on assets excluding amount included in net interest cost	(2,538,266)	201,506
	(P587,334)	P9,805,648

Accrued retirement benefits recognized in the consolidated statements of financial position as at December 31, 2018 and 2017 are as follows:

	2018	2017
Present value of defined benefit obligation	P29,942,127	P29,293,975
Fair value of plan assets (see Note 19)	(22,074,781)	(26,234,845)
	P7,867,346	P3,059,130

Changes in the present value of the defined benefit obligation follow:

	2018	2017
At January 1	P29,293,975	P32,381,310
Current service cost	4,274,982	5,875,145
Interest cost on defined benefit obligation	1,289,098	1,505,910
Benefits paid	(2,964,996)	(864,248)
Actuarial loss (gains) due to:		
Changes in financial assumptions	(1,940,688)	(4,737,084)
Changes in demographic assumptions	3,194	(661,245)
Experience adjustments	(13,438)	(4,205,813)
At December 31	P29,942,127	P29,293,975

Changes in the fair value of plan assets follow:

	2018	2017
At January 1	P26,234,845	P18,969,423
Interest income included in net interest cost/income	1,343,198	928,164
Return on assets excluding amount included in net interest cost/income	(2,538,266)	201,506
Contribution	-	7,000,000
Benefits paid	(2,964,996)	(864,248)
At December 31	P22,074,781	P26,234,845



Changes in the accrued retirement benefits recognized in the consolidated statements of financial position as at December 31 are as follows:

	2018	2017
At January 1	₱3,059,130	₱13,411,887
Retirement expense	4,220,882	6,452,891
Actuarial loss (gain) recognized for the year	587,334	(9,805,648)
Contribution	-	(7,000,000)
At December 31	₱7,867,346	₱3,059,130

The major categories and fair values of the Group's plan assets are disclosed in Note 19.

The principal assumptions used in determining the pension liability for the Group's pension plan as at December 31 are as follows:

	2018	2017
Discount rate	7.27%	5.75%
Future salary increase rate	6.00%	6.00%

The Group expects to contribute ₱5.25 million to the Fund in 2019.

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as at end of the financial reporting date, assuming all other assumptions were held constant:

		Increase (decrease) in the present value of defined benefit obligation	
		2018	2017
Discount rate	Increase (decrease)		
	+100 basis points	(₱1,099,192)	(₱1,556,619)
	-100 basis points	1,238,424	1,792,326
Future salary increase rate	+100 basis points	1,427,803	1,942,996
	-100 basis points	(1,296,867)	(1,718,905)

The Group does not expect any changes on the other assumptions aside from the above.

The weighted average duration of the benefit payments as at December 31, 2018 and 2017 is approximately 12.00 years and 16.02 years, respectively.

The average expected future service years at the end of the reporting date is seven (7) years. Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018:

	2018	2017
One year or less	₱15,658,245	₱13,749,760
More than one year to five years	8,962,093	7,613,679
More than five years to 10 years	12,174,226	10,670,297
More than 10 years to 15 years	25,327,576	33,741,430
More than 15 years to 20 years	9,682,540	17,087,248
More than 20 years to 10 years	22,079,073	41,310,442
Total expected benefit payments	₱93,883,753	₱124,172,856



22. Income Taxes

Current income tax in 2018, 2017 and 2016 pertains to MCIT. Provision for income tax consists of:

	2018	2017	2016
Current:			
Final tax	P409,192	P648,738	P922,634
Income tax	216,908	11,800	7,424
	626,100	660,538	930,058
Deferred	3,083,254	8,850,560	2,711,401
	P3,709,354	P9,511,098	P3,641,459

Being engaged in petroleum operations in the Philippines, the Parent Company and SRI are entitled to certain tax incentives under PD No. 87, as amended. Under PD No. 87, contractors are exempt from all taxes, except income taxes.

The reconciliation of the tax computed at the statutory tax rate to the provision for income tax as shown in the consolidated statements of income follows:

	2018	2017	2016
Income tax at 30% statutory rate	(P6,618,878)	(P14,619,982)	(P36,245,656)
Adjustments to income tax resulting from:			
Nontaxable income	(13,673,801)	(1,087,786)	(23,032,898)
Movement in unrecognized deferred income tax assets	13,191,470	12,380,698	63,370,547
Nondeductible expenses	7,712,435	3,584,724	16,809
Derecognition of deferred tax assets	2,399,858	-	-
Expired NOLCO and MCIT	910,421	10,486,949	-
Interest income already subjected to final tax	(621,343)	(1,491,696)	(1,389,977)
Final taxes paid and others	409,192	258,191	922,634
Provision for income tax	P3,709,354	P9,511,098	P3,641,459

The components of net deferred income tax liabilities recognized by the Group as at December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred taxes recognized in the consolidated statements of income:		
Deferred income tax assets on:		
Accrued retirement benefits	P-	P1,844,790
MCIT	-	917,845
Unamortized past service cost	-	624,452
	-	3,387,087
Deferred income tax liabilities on:		
Revaluation increment on office condominium	6,749,084	7,412,928
Unrealized foreign exchange gains	7,506,416	7,146,405
	14,255,500	14,559,333
Deferred income tax liability related to accrued retirement benefits recognized as OCI	750,850	927,050
	P15,006,350	P12,099,296



As at December 31, 2018, the Group has NOLCO and MCIT that can be utilized as deduction from future taxable income and income tax due, respectively, as follows:

Year Incurred	Expiry Year	As at December 31, 2017	Additions	Expired	As at December 31, 2018
NOLCO					
2015	2018	P485,845	P-	P485,845	P-
2016	2019	44,521,585	-	-	44,521,585
2017	2020	41,229,661	-	-	41,229,661
2018	2021	-	36,647,226	-	36,647,226
		P86,237,091	P36,647,226	P485,845	P122,398,472
MCIT					
2015	2018	P910,421	P-	P910,421	P-
2016	2019	7,424	-	-	7,424
2017	2020	11,800	-	-	11,800
2018	2021	-	216,908	-	216,908
		P929,645	P216,908	P910,421	P236,132

As at December 31, 2018 and 2017, the Group has deductible temporary differences and carryforward benefits for which no deferred income tax asset was recognized as management expects that it is not probable that sufficient future taxable profit will be available against which deferred income tax asset can be utilized. Details are as follows:

	2018	2017
NOLCO	P122,398,472	P86,237,091
Allowance for impairment on:		
Deferred exploration costs	212,847,052	209,900,428
Financial assets at FVOCI / AFS financial assets	3,550,935	3,550,935
Receivables	2,142,006	2,732,947
Retirement benefits	10,370,182	-
Unamortized past service cost	1,850,228	-
MCIT	236,132	11,800

23. Loss per Share

The following reflects the loss and share data used in the basic and diluted loss per share computation:

	2018	2017	2016
Net loss attributable to shareholders of the Parent Company (a)	P25,121,622	P58,104,275	P75,648,092
Weighted average number of outstanding common shares (b)	2,740,079,047	2,592,792,915	2,560,118,512
Basic and diluted loss per share (a/b)	P0.009	P0.022	P0.030

There have been no other transactions involving common shares or potential common shares between the end of financial reporting period and the date of issuance of these consolidated financial statements. There are no potential dilutive shares as of December 31, 2018, 2017 and 2016.



24. Segment Information

The primary segment reporting format is determined to be divided into business segments for which the Group's risk and rate of return are affected predominantly by differences in the products produced. The operating businesses are organized and managed separately through the Parent Company and its subsidiaries according to the nature of the products provided, with each segment representing a strategic business unit that offers different products to different markets.

As at December 31, 2018 and 2017, the Group has two main business segments - investment holding and renewable energy and natural gas exploration.

The Group's operating business segments remain to be neither organized nor managed by geographical segment.

The following table presents certain segment results, assets and liability information regarding the Group's business segments:

	2018			
	Investment Holding	Renewable Energy and Natural Gas Exploration	Eliminations	Consolidated
Financial Performance				
Income (Loss) before interest and taxes	P18,888,398	(P39,606,671)	P-	(P20,718,273)
Interest income	-	2,071,143	-	2,071,143
Interest expense	-	(3,415,799)	-	(3,415,799)
Provision for income tax	-	(3,709,354)	-	(3,709,354)
Net income (loss)	P18,888,398	(P44,660,681)	P-	(P25,772,283)
Financial Position				
Segment assets	P202,482,107	P885,211,373	(P460,234,384)	P627,459,096
Investment properties	139,187,942	21,691,058	-	160,879,000
Total assets	P341,670,049	P906,902,431	(P460,234,384)	P788,338,096
Total liabilities	P230,345,452	P267,991,780	(P415,363,750)	P82,973,482
Other Segment Information				
Additions to:				
Deferred exploration costs	P-	P11,330,887	P-	P11,330,887
Property and equipment	-	179,098	-	179,098
Depreciation and amortization	-	5,242,050	-	5,242,050
	2017			
	Investment Holding	Renewable Energy and Natural Gas Exploration	Eliminations	Consolidated
Financial Performance				
Loss before interest and taxes	(P570,024)	(P51,010,520)	P-	(P51,580,544)
Interest income	-	3,292,064	-	3,292,064
Interest expense	-	(444,792)	-	(444,792)
Provision for income tax	-	(9,511,098)	-	(9,511,098)
Net loss	(P570,024)	(P57,674,346)	P-	(P58,244,370)



2017				
	Investment Holding	Renewable Energy and Natural Gas Exploration	Eliminations	Consolidated
Financial Position				
Segment assets	P191,291,512	P740,792,432	(P455,211,806)	P476,872,138
Investment properties	119,819,824	155,560,681	-	275,380,505
Total assets	P311,111,336	P896,353,113	(P455,211,806)	P752,252,643
Total liabilities	P218,616,154	P272,104,964	(P411,011,436)	P79,709,682
Other Segment Information				
Additions to:				
Deferred exploration costs	P-	P29,873,551	P-	P29,873,551
Property and equipment	-	3,249,645	-	3,249,645
Depreciation and amortization	-	5,421,968	-	5,421,968
2016				
	Investment Holding	Renewable Energy and Natural Gas Exploration	Eliminations	Consolidated
Financial Performance				
Earnings (loss) before interest and taxes	P42,847,512	(P168,299,621)	P-	(P125,452,109)
Interest income	-	4,633,256	-	4,633,256
Provision for income tax	-	(3,641,459)	-	(3,641,459)
Net income (loss)	P42,847,512	(P167,307,824)	P-	(P124,460,312)
Financial Position				
Segment assets	P189,419,271	P694,574,572	(P438,332,416)	P445,661,427
Investment properties	119,819,824	155,560,681	-	275,380,505
Total assets	P309,239,095	P850,135,253	(P438,332,416)	P721,041,932
Total liabilities	P216,275,464	P194,187,478	(P388,631,654)	P21,831,288
Other Segment Information				
Additions to:				
Deferred exploration costs	P-	P29,933,862	P-	P29,933,862
Property and equipment	-	180,029	-	180,029
Depreciation and amortization	-	3,586,931	-	3,586,931

25. Changes in Liabilities Arising from Financing Activities

2018				
	At January 1	Cash flows	Application to APIC	At December 31
Dividends payable	P888,714	P-	P-	P888,714
Loan payable (see Note 17)	50,000,000	-	-	50,000,000
Advances from stockholder (see Note 19)	6,670,782	-	(6,670,782)	-
Interest payable	-	(3,415,799)	-	-
Net income (loss)	P57,559,496	(P3,415,799)	(P6,670,782)	P50,888,714



	2017		
	At January 1	Cash flows	At December 31
Dividends payable	P888,714	P-	P888,714
Loan payable (see Note 17)	-	50,000,000	50,000,000
Advances from stockholder (see Note 19)	-	6,670,782	6,670,782
Interest payable	-	(444,792)	-
Net income (loss)	P888,714	P56,225,990	P57,559,496

26. Fair Value Measurements

Fair Value

Fair value is defined as 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. Fair values are obtained from quoted market prices.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments, investment properties and office condominium for which it is practicable to estimate such value:

Cash and Cash Equivalents, Receivables, Refundable Deposits, Accounts Payable and Accrued Expenses, Loan Payable, Advances from Stockholder and Dividends Payable. Due to the short-term nature of these accounts, their carrying values were assessed to approximate their fair values.

Financial Assets at FVOCI / AFS Financial Assets. Financial assets at FVOCI / AFS financial assets in quoted equity instruments and quoted debt instruments are carried in the consolidated statement of financial position at fair value, which is determined by reference to quoted market prices at the close of business on the reporting date.

Investment Properties and Office Condominium. Investment properties are carried in the consolidated statements of financial position at fair value, which reflects market conditions at the reporting date.

Fair Value Hierarchy

The following table presents the level of hierarchy of the Group's financial assets at FVOCI debt and equity instruments, investment properties and office condominium as at December 31, 2018 and 2017:

		2018			
		Fair Value Measurement Using			
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets at FVOCI:					
Quoted debt securities	December 31, 2018	P37,624,594	P37,624,594	P-	P-
Quoted equity securities	December 31, 2018	6,711,923	6,711,923	-	-
Investment properties	Various dates in 2018	160,879,000	-	-	160,879,000
Office condominium	August 25, 2016	23,302,327	-	23,302,327	-



2017					
Fair Value Measurement Using					
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
AFS Financial assets:					
Quoted debt securities	December 31, 2017	P39,839,205	P39,839,205	P-	P-
Quoted equity securities	December 31, 2017	6,211,923	6,211,923	-	-
Investment properties	June 25, 2016	275,380,505	-	-	275,380,505
Office condominium	August 25, 2016	25,593,527	-	25,593,527	-

Fair value of quoted debt and equity securities financial assets at FVOCI is derived from quoted market prices in active markets.

During the reporting years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

There are no financial liabilities measured at fair value as at December 31, 2018 and 2017.

Valuation Techniques Used to Derive Level 3 Fair Values

The table below presents the following for each class of the Group's investment properties and office condominium:

- The fair value measurements at the end of the reporting period;
- The level of the fair value hierarchy (e.g., Level 2 or Level 3) within which the fair value measurements are categorized in their entirety;
- A description of the valuation techniques applied;
- The inputs used in the fair value measurement; and
- For Level 3 fair value measurements, quantitative information about the significant unobservable inputs used in the fair value measurement.

2018				
Class of Property	Fair Value as at December 31, 2018	Valuation Technique	Key Unobservable Inputs	Range (Weighted Average)
Land	P160,879,000	Market Approach	Price per square meter External factor (adjustment to the price per square meter) Location Size	P20-P2,000 -5% to -40% -15% to 5% -20 to 5%
Office condominium	23,302,327	Market Approach	Price per square meter Remaining economic life	P70,000- P114,000 14-40 years



2017				
Class of Property	Fair Value as at December 31, 2017	Valuation Technique	Key Unobservable Inputs	Range (Weighted Average)
Land	P275,380,505	Market Approach	Price per square meter External factor (adjustment to the price per square meter) Location Size	P20-P1,700 -5% to -10% 10% to 20% -5%
Office condominium	25,593,527	Market Approach	Price per square meter Remaining economic life	P70,000-P114,000 14-40 years

Sensitivity Analysis to Significant Changes in Unobservable Inputs within Level 3 of the Hierarchy

Investment Properties. Significant increases (decreases) in price per square meter in isolation would result in a significantly higher (lower) fair value measurement.

27. Financial Risk Management Objectives and Policies

The Group's financial instruments consist of cash and cash equivalents, receivables, refundable deposits, financial assets at FVOCI, accounts payables and accrued expenses, loan payable, advances from stockholder and dividends payable. Cash and cash equivalents, refundable deposits, financial assets at FVOCI, loan payable and advances from stockholder are used for investment purposes, while receivables, accounts payable and accrued expenses, and dividends payable arise from operations. The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk and liquidity risk. The Group has no significant exposure to interest rate risk as at December 31, 2018 and 2017. The Group's overall risk management program focuses on minimizing the potential adverse effects on the Group's financial performance due to unpredictability of financial markets.

The Group's exposures to these risks are managed through close monitoring by the Group's key management and BOD through the Finance and Investments Committee.

Foreign Currency Risk

Foreign currency risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial statements. Fluctuations in exchange rates can have significant effects on the Group's reported results. The Group is exposed to foreign exchange risk arising from its foreign-currency-denominated cash and cash equivalents, refundable deposits and financial assets at FVOCI accounts. The Group's policy is to minimize economic and material transactional exposures arising from currency movements against the Philippine Peso.

The Group's foreign-currency-denominated exposures comprise significantly of its exposure in its US\$, Indonesian Rupiah (IDR) and Japanese Yen (JPY) financial assets.



The Group's significant foreign-currency-denominated financial assets as at December 31, 2018 and 2017 are as follows:

	2018		2017	
	Original Currency	Peso Equivalent	Original Currency	Peso Equivalent
Loans and Receivables				
Cash and cash equivalents:				
US\$	US\$694,876	P36,536,580	US\$358,145	P17,882,180
IDR	IDR47,160,602	169,778	IDR36,677,892	135,518
Refundable deposits:				
US\$	US\$—	—	US\$2,621,871	133,284,475
JP¥	JP¥34,063,800	16,183,711	JP¥84,063,800	38,144,633
Financial Assets at FVOCI and AFS Financial Assets				
Quoted equity investments - US\$	US\$3,200	168,256	US\$3,200	159,776
		P53,058,325		P189,606,582

For purposes of translating the foreign-currency-denominated monetary assets and liabilities as of December 31, the exchange rates applied were as follows:

	2018	2017
US\$	P52.58 to US\$1	P49.93 to US\$1
IDR	P0.0036 to IDR1	P0.0037 to IDR1
JP¥	P0.4751 to JP¥1	P0.4538 to JP¥1

The following table summarizes the impact on the consolidated financial statements of reasonable possible changes in the exchange rates of foreign currencies against the Philippine Peso as at December 31, 2018 and 2017 until the Group's next financial reporting date:

	Change in US\$ rate	Increase (decrease) in income before income tax	Change in JP¥ rate	Increase (decrease) in income before income tax	Change in IDR rate	Increase (decrease) in income before income tax
2018	+1.12%	P411,094	+1.76%	P284,833	+1.75%	P2,971
	-1.32%	(484,504)	-1.34%	(216,862)	-1.60%	(2,716)
2017	+1.28%	P1,936,978	+2.75%	P1,048,977	+1.57%	P2,128
	-2.55%	(3,858,824)	-3.04%	(1,159,597)	-1.72%	(2,331)

There is no other effect on the Group's equity other than those already affecting the consolidated loss before income tax.

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to equity securities price risk because of investments held by the Group, which are classified on the consolidated statements of financial position as financial assets at FVOCI. The Group employs the service of a third-party stock broker to manage its investment in shares of stock.



The following table presents the effect on the consolidated financial statements of reasonable possible changes in market prices of financial assets at FVOCI as of December 31, 2018 and 2017 until the Group's next financial reporting date:

	Change in Quoted Prices of Investments Carried at Fair Value	Increase (Decrease) in Equity
2018	+ 4.00%	₱1,773,461
	- 4.00%	(1,773,461)
2017	+ 4.45%	₱2,049,935
	- 4.45%	(2,049,935)

The effect on the Group's equity in relation to equity price risk already excludes the effect of the transactions affecting profit or loss.

Credit Risk

Credit risk is the risk that the Group will incur a loss because its counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by doing business only with recognized, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group does not have any collateral held as security and other credit enhancements on its financial assets as of December 31, 2018 and 2017. Therefore, the Group's maximum exposure to credit risk is equal to the carrying amount of its financial assets as at December 31, 2018 and 2017.

It is the Group's policy to maintain the receivables at a low level except for one-time non-trade transaction which the Group classifies as collectible or not impaired because the parties have no history of default especially on transactions as agreed on the contract.

The following table provides information regarding the credit quality by class of financial assets (amounts gross of allowance for credit losses) based on the Group's credit rating system:

	2018	
	Neither Past Due nor Impaired	Past Due and Impaired
		Total
Loans and Receivables		
Cash and cash equivalents*	₱42,090,286	₱—
Receivables:		
Accounts receivable	127,121,226	2,142,006
Interest receivable	200,262	—
Advances to officers and employees	51,369	—
Refundable deposits	16,183,711	—
	185,646,854	2,142,006
Financial Assets at FVOCI		
Quoted debt securities	37,624,594	—
Quoted equity investments	6,711,923	3,550,935
	44,336,517	3,550,935
	₱229,983,371	₱5,692,941
		₱235,676,312

* Excluding cash on hand.



	2017		
	Neither Past Due nor Impaired (High Grade)	Past Due and Impaired	Total
Loans and Receivables			
Cash and cash equivalents*	P75,027,407	P—	P75,027,407
Receivables:			
Accounts receivable	1,980,784	2,732,947	4,713,731
Interest receivable	356,573	—	356,573
Advances to officers and Employees	349,665	—	349,665
Refundable deposits	171,429,108	—	171,429,108
	249,143,537	2,732,947	251,876,484
AFS Financial Assets			
Quoted debt securities	39,839,205	—	39,839,205
Quoted equity investments	6,211,923	3,550,935	9,762,858
	46,051,128	3,550,935	49,602,063
	P295,194,665	P6,283,882	P301,478,547

*Excluding cash on hand.

The credit quality of the financial assets was determined as follows:

Financial instruments classified as “high grade” are those cash and cash equivalents transacted with reputable local and multi-national banks and receivables with some history of default on the agreed terms of the contract. Financial assets at FVOCI are considered “high grade” since these are invested in blue chip shares of stock. The past due and impaired receivables amounted to P2.73 million as of December 31, 2017.

Concentrations of credit risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. There are no significant concentrations of credit risk within the Group arising from financial assets since these are not directly affected by changes in economic or other external conditions.

Applicable for the Year Ended December 31, 2018

The Group has the following financial assets that are subject to the ECL model:

General Approach

- **Cash and Cash Equivalents.** As of December 31, 2018, the ECL relating to the cash and cash equivalents of the Group is minimal as these are deposited in reputable entities which have good bank standing and is considered to have lower credit risk.
- **Financial Assets at FVOCI.** Consisting of quoted debt and equity securities, probability of default is expected to be lower as these are blue chip shares of stock.
- **Refundable Deposit.** Refundable deposit is deposited with a third party which have good credit standing and are considered to have lower credit risk, hence, probability of default is expected to be less likely.



Simplified Approach

- **Receivables.** The Group applied the simplified approach under PFRS 9, using a 'provision matrix', in measuring ECL which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. The Group has identified the Gross Domestic Product and inflation rate to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

As of December 31, 2018, the allowance for impairment losses pertain only to individually impaired accounts amounting to P2.14 million.

The table below shows the financial assets per stage of allocation and by credit risk rating grades as at December 31, 2018:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
High grade	P102,610,514	P251,631	P—	P102,862,145
Standard grade	—	127,121,226	—	127,121,226
Default	—	—	2,142,006	2,142,006
Gross carrying amount	102,610,514	127,372,857	2,142,006	232,125,377
Loss allowance	—	—	(2,142,006)	(2,142,006)
Carrying amount	P102,610,514	P127,372,857	P—	P229,983,371

Liquidity Risk

Liquidity risk is defined as the risk that the Group would not be able to settle or meet its obligations on time or at a reasonable price. Management is responsible for liquidity, funding, as well, as settlement management. Management also ensures that the Group will maximize its gain on trading of marketable securities to finance future capital-intensive projects. The Group manages its liquidity risk on a consolidated basis based on business needs, tax, capital or regulatory considerations, if applicable, through numerous sources of finance in order to maintain flexibility.

The Group manages its liquidity profile to be able to finance its working capital requirements and capital expenditures and service due and maturing debts. To cover its financing requirements, the Group intends to use internally generated funds. The BOD closely monitors the Group's financial position during its regular meetings.



The table below summarizes the maturity profile of the financial instruments of the Group based on remaining contractual undiscounted cash flows:

	2018				Total
	On demand	Less than 3 months	More than 3 months up to one year	More than one year	
Financial Assets					
Cash and cash equivalents	P42,093,952	P-	P-	P-	P42,093,952
Receivables:					
Accounts receivable	127,121,226	-	-	-	127,121,226
Interest receivable	-	200,262	-	-	200,262
Advances to officers and employees	51,369	-	-	-	51,369
Refundable deposits	16,183,711	-	-	-	16,183,711
Financial assets at FVOCI	44,336,517	-	-	-	44,336,517
	229,786,775	200,262	-	-	229,987,037
Financial Liabilities					
Accounts payable and accrued expenses*	-	8,329,299	-	-	8,329,299
Loan payable	-	50,343,750	-	-	50,343,750
Dividends payable	888,714	-	-	-	888,714
	888,714	58,673,049	-	-	59,561,763
Net Financial Assets (Liabilities)	P228,898,061	(P58,472,787)	P-	P-	P170,425,274

* Excluding statutory liabilities.

	2017				Total
	On demand	Less than 3 months	More than 3 months up to one year	More than one year	
Financial Assets					
Cash and cash equivalents	P75,029,384	P-	P-	P-	P75,029,384
Receivables:					
Accounts receivable	1,980,784	-	-	-	1,980,784
Interest receivable	-	356,573	-	-	356,573
Advances to officers and employees	349,664	-	-	-	349,664
Refundable deposits	171,429,108	-	-	-	171,429,108
AFS financial assets	46,051,128	-	-	-	46,051,128
	294,840,068	356,573	-	-	295,196,641
Financial Liabilities					
Accounts payable and accrued expenses*	-	6,478,048	-	-	6,478,048
Loan payable	-	50,218,750	-	-	50,218,750
Advances from stockholder	6,670,782	-	-	-	6,670,782
Dividends payable	888,714	-	-	-	888,714
	7,559,496	56,696,798	-	-	64,256,294
Net Financial Assets (Liabilities)	P287,280,572	(P56,340,225)	P-	P-	P230,940,347

* Excluding statutory liabilities

28. Capital Management

The objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. No changes were made on the objectives, policies or processes during the years ended December 31, 2018 and 2017.



Management of working capital focuses on short-term decisions relating to cash and cash equivalents and other current assets and liabilities. The goal of working capital management is to ensure that the Group is able to continue its business operations and that it has sufficient funds to satisfy maturing current liabilities and operating expenses.

The table below summarizes the total capital considered by the Group:

	2018	2017
Capital stock	₱703,848,178	₱677,125,178
Additional paid-in capital	42,021,502	35,617,951
Retained earnings (deficit)	(15,810,751)	7,761,901
	₱730,058,929	₱720,505,030

As at December 31, 2018 and 2017, the Group is not subject to any externally imposed capital requirements.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
Basic Energy Corporation
7th Floor, Basic Petroleum Building
C. Palanca Jr. Street, Legaspi Village
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Basic Energy Corporation and its subsidiaries (the Group) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated March 28, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Leovina Mae V. Chu

Leovina Mae V. Chu
Partner
CPA Certificate No. 99910
SEC Accreditation No. 1712-A (Group A),
October 18, 2018, valid until October 17, 2021
Tax Identification No. 209-316-911
BIR Accreditation No. 08-001998-96-2018,
February 2, 2018, valid until February 1, 2021
PTR No. 7332629, January 3, 2019, Makati City

March 28, 2019



BASIC ENERGY CORPORATION AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES

- Schedule I : Supplementary schedules required by Annex 68-E
- Schedule II : Reconciliation of Retained Earnings Available for Dividend Declaration
(Part 1, 4C; Annex 68-C)
- Schedule III : Map of the relationships of the companies within the group (for investments
houses that are part of a conglomerate; Part 1, 4H)
- Schedule IV : Schedule of all effective standards and interpretation (Part 1, 4J)
- Schedule V : Schedule showing financial soundness indicators

SCHEDULE I

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED (2011)
DECEMBER 31, 2018

Schedule A. Financial Assets

Financial assets at FVOCI

Description	Beginning balances	Disposals at cost	Additions at cost	Increase (decrease) in fair value, net	Ending balances
Quoted debt securities	P39,839,205	P-	P-	(P2,214,611)	P37,624,594
Quoted equity investments	6,211,923	-	-	500,000	6,711,923
	P46,051,128	-	P-	(P1,714,611)	P44,336,517

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED (2011)
DECEMBER 31, 2018

Schedule B. Amounts Receivable from Directors, Officers, Employees, and Principal Stockholders (Other than Related Parties)

Name and designation of debtor	Beginning balances	Additions	Amounts collected	Amounts written off	Current	Not current	Ending balances
Advances to Officers and Employees	P349,664	P1,108,031	P1,406,326	P-	P51,369	P-	P51,369

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED (2011)
DECEMBER 31, 2018

Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements

Name and designation of debtor	Beginning balances	Additions	Amounts collected	Amounts written off	Current	Not current	Ending balances
BRI	P-	P54,718	P-	P-	P54,718	P-	P54,718
BDIHI	22,007,066	108,254	-	-	22,115,320	-	22,115,320
BBC	6,029,576	98,063	-	-	6,127,639	-	6,127,639
iBasic	4,120,420	142,081	-	-	4,262,501	-	4,262,501
BGEC	-	4,718	-	-	4,718	-	4,718
SRI	365,060	62,877	-	-	427,937	-	427,937
Grandway	191,546,824	12,355,221	-	-	203,902,045	-	203,902,045

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED (2011)
DECEMBER 31, 2018

Schedule D. Intangible Assets - Other Noncurrent Assets

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other charges additions (deductions)	Ending balance
Goodwill	P3,757,602	P-	P-	P-	(P3,757,602)	P-
Accounting software	206,700	28,000	(22,371)	-	-	212,329
Non-propriety club shares	200,000	-	-	-	-	200,000
Total	P4,164,302	P28,000	(P22,371)	P-	(P3,757,602)	P412,329

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED (2011)
DECEMBER 31, 2018

Schedule E. Long-term Debt

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption 'Current position of long term debt' in related statement of financial position	Amount shown under caption 'Long Term Debt' in related statement of financial position

- Not applicable -

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED (2011)
DECEMBER 31, 2018

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

<u>Name of related party</u>	<u>Balance at beginning of period</u>	<u>Balance at end of period</u>
	- Not applicable -	

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED (2011)
DECEMBER 31, 2018

Schedule G. Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the Group for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by a person for which statement is filed	Nature of guarantee
- Not applicable -				

ASIC ENERGY CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES UNDER ANNEX 68-E
PURSUANT TO SRC RULE 68, AS AMENDED (2011)
DECEMBER 31, 2018

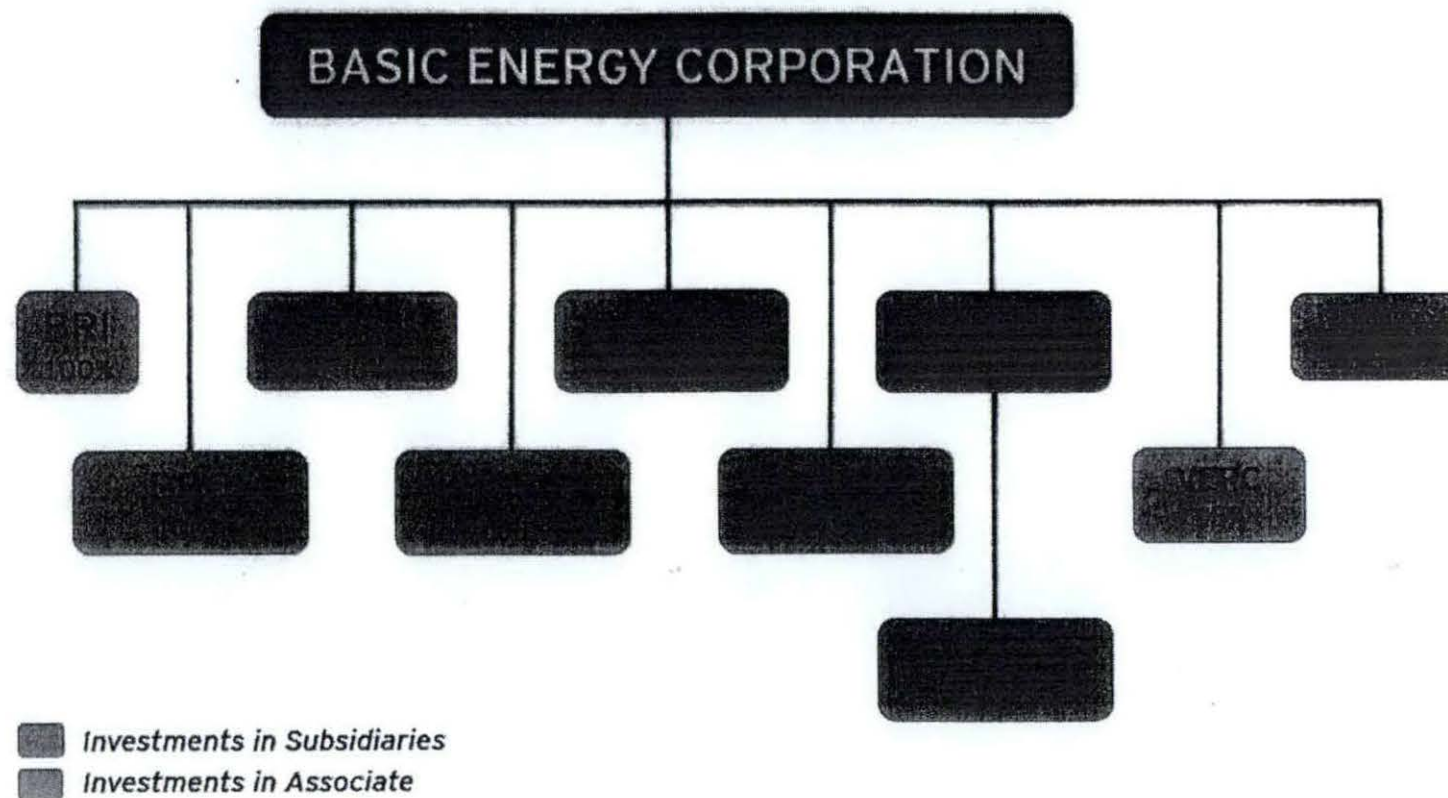
Schedule H. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related financial condition caption	Number of shares reserved for options, warrants, conversion and other rights	No of shares held by		
				Employees	Directors and Officers	Others
Common shares	10,000,000,000	2,708,500,714	—	2,500,000	144,292,842	2,025,000

BASIC ENERGY CORPORATION AND SUBSIDIARIES**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS****AVAILABLE FOR DIVIDEND DECLARATION (Part I, 4C; Annex 68-C)****DECEMBER 31, 2018**

Items	Amount
Unappropriated Retained Earnings, Beginning	P7,761,901
Adjustments	
Fair value adjustment on investment properties	(71,955,696)
Deferred income tax assets	(3,387,087)
Deficit, as Adjusted, Beginning	(67,580,882)
Net Loss Based on the Face of AFS	(25,772,283)
Less: Non-actual/Unrealized Income Net of Tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	809,898
Unrealized actuarial gain	-
Fair value adjustment (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain	-
Adjustment due to deviation from PFRS/GAAP-gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	24,184,059
Deferred income tax assets that reduced the amount of provision for income tax	-
Add: Non-actual Losses	
Depreciation on revaluation increment (after tax)	1,548,970
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
Net Loss Actual/Realized	(49,217,270)
Add (Less)	
Dividend declarations during the period	-
Appropriations of Retained Earnings during the period	-
Reversals of appropriations	-
Effects of prior period adjustments	-
Treasury shares	(3,240,000)
TOTAL DEFICIT	(P120,038,152)

BASIC ENERGY CORPORATION AND SUBSIDIARIES
MAP OF THE RELATIONSHIPS OF THE COMPANIES
WITHIN THE GROUP (PART 1, 4H)



BASIC ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE OF ALL EFFECTIVE STANDARDS
AND INTERPRETATIONS (PART 1, 4J)
AS OF DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Applicable
Effective as of December 31, 2018			
Philippine Financial Reporting Standards			
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards		✓
PFRS 2	Share-based Payment	✓	
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions	✓	
PFRS 3	Business Combinations	✓	
PFRS 4	Insurance Contracts		✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts		✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations		✓
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓	
PFRS 7	Financial Instruments: Disclosures	✓	
PFRS 8	Operating Segments	✓	
PFRS 9	Financial Instruments	✓	
PFRS 10	Consolidated Financial Statements	✓	
PFRS 11	Joint Arrangements		✓
PFRS 12	Disclosure of Interests in Other Entities	✓	
PFRS 13	Fair Value Measurement	✓	
PFRS 14	Regulatory Deferral Accounts		✓
PFRS 15	Revenue from Contracts with Customers	✓	
Philippine Accounting Standards			
PAS 1	Presentation of Financial Statements	✓	
PAS 2	Inventories		✓
PAS 7	Statement of Cash Flows	✓	
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓	
PAS 10	Events after the Reporting Period	✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRSs)
AND INTERPRETATIONS
 Effective as of December 31, 2016

				Not applicable
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs			✓
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective January 1, 2010		Adopted	Not Applicable
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease		✓
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds		✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment		✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies		✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✓	
Philippine Interpretation IFRIC-12	Service Concession Arrangements		✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓	
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation		✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners		✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments		✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine		✓
Philippine Interpretation IFRIC-21	Levies		✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓	
Philippine Interpretation SIC-7	Introduction of the Euro		✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities		✓

PHILIPPINE FINANCIAL STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018					Not Applicable
Philippine Interpretation SIC-15	Operating Leases—Incentives				✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders				✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease				✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures				✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs				✓

Note: Standards and interpretations tagged as "Not Applicable" are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2018.

SCHEDULE V

BASIC ENERGY CORPORATION AND SUBSIDIARIES
SCHEDULE SHOWING FINANCIAL SOUNDNESS INDICATORS
PURSUANT TO SRC RULE 68, AS AMENDED (2011)
DECEMBER 31, 2018

	2018	2017
Profitability ratios:		
Return on assets	(0.00%)	(0.00%)
Return on equity	(0.00%)	(0.00%)
Net profit margin	0%	0%
Solvency and liquidity ratios:		
Current ratio	3.30:1	4.51:1
Debt to equity ratio	0.12:1	0.11:1
Quick ratio	2.82:1	4:30:1
Asset to equity ratio	1.12:1	1.11:1