

RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and AFS investments. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as receivables, accounts payable and accrued expenses, dividends payable and technical assistance fees payable which arise from normal operations.

Risk management structure

All policy directions, business strategies and management initiatives emanate from the BOD which strives to provide the most effective leadership for the Group. The BOD endeavors to remain steadfast in its commitment to provide leadership, direction and strategy by regularly reviewing the Group's performance. For this purpose, the BOD convenes at least once a month and should the need arise.

The Group has adopted internal guidelines setting forth matters that require BOD approval. Under the guidelines, all new investments, any increase in investment in businesses and any divestments require BOD approval.

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The main risks arising from the Group's financial instruments are liquidity risk, market risk, and credit risk. The Group also monitors the market price risk arising from all financial instruments.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through collection of receivables and cash management. Liquidity planning is being performed by the Group to ensure availability of funds needed to meet working capital requirements.

Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt to give financing flexibility while continuously enhancing the Group's business.

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments. The Group manages market risks by focusing on two market risk areas such as foreign currency risk and equity price risk.

Foreign currency risk

Exposure to currency risk arises from sales and purchases in currencies other than the Group's functional currency. Foreign currency risk is monitored and analyzed systematically and is managed by the Group. The Group ensures that the financial assets denominated in foreign currencies are sufficient to cover the financial liabilities denominated in foreign currencies.

Equity price risk

The Group's exposure to equity price pertains to its investments in quoted shares of the Parent Company's which are classified as AFS investments in the consolidated statements of financial position. Equity price risk arises from the changes in the level of equity indices and the value of individual stocks traded in the stock exchange.

The effect on equity (as a result of a change in fair value of equity instruments held as available-for-sale at March 31, 2018 and 2017) due to a reasonably possible change in equity indices is not material to the consolidated financial position of the Group.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss. With respect to credit risk arising from financial assets of the Group, which comprise of cash and cash equivalent, receivables, AFS investments and other assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the instrument.

The Group manages credit risk by assessing the creditworthiness of its counterparties. The Group trades only with recognized, creditworthy third parties. It is the Group's practice that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

As of March 31, 2016, the Group does not hold collateral or other credit enhancement for cash and cash equivalents, AFS investments, receivables and refundable Meralco deposits (included in other assets). Thus, carrying values represent maximum exposure to credit risk. In 2017, the Group acquired credit insurance for its domestic trade receivables, which covers both fully secured and partially secured receivables. Other than for domestic trade receivables, the Group's maximum exposure to credit risk is equivalent to the carrying value of the Group's financial assets as of March 31, 2018 and 2017.

Capital Management

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

Fair Value Management

The methods used by the Group in estimating the fair value of its assets and liabilities follow:

Cash and cash equivalents, receivables and other assets

Carrying amounts of cash in banks, cash equivalents and receivables maturing within twelve (12) months are assumed to approximate their fair values. This assumption is applied to liquid assets and the short-term elements of all other financial assets.

AFS investments

Fair values are based on quoted prices published in the markets. For investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Investment properties

The fair value of the investment properties has been determined by an independent appraiser using market data (or direct sales comparison) approach. This approach relies on the comparison of recent sale transactions or offering of similar properties which have occurred and/or with close proximity to the subject property.

The Group has determined that the highest and best use for the investment properties is its current use.

Accounts payable and accrued expenses

Carrying amounts of accounts payable and accrued expenses approximate their fair values due to the short-term nature of transactions.

Finance lease liability

Fair value was estimated using the discounted future cash flow methodology using the Group's current incremental borrowing rates for similar borrowing with maturities consistent with those remaining for the liability being valued.